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June 1, 1936

HM, Jr. told the President that Vlosca's name is going to be recommended as District Attorney of New Orleans and that under no circumstances should he, the President, send his name up for confirmation.

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June 1, 1936

Mr. Bewley came in and handed Mr. Morgenthau a letter from the Ambassador.

The following is a stenographic transcript of the conversation between Mr. Bewley and Secretary Morgenthau:

Mr. Bewley: I have various messages to give you. First, the general lines of the British monetary policy havenot changed since the monetary conference of 1933. The ultimate aim of the British Government is to go back to the gold standard, but they would like to get back to a reformed gold standard. As regards the time, the view of the British Government is still that each country must make up its own mind as to the time when it can afford to go back to the gold standard.

The Chancellor thinks Great Britian should keep interest rates low and keep trade conditions stable.

Following that idea, the British Government concedes that if any other country feels similarly and it finds that in order to accomplish this it has to lower the value of its currency, nobody else can have any grievance, but each country should keep its own currency stable.

The equalization fund is being used to iron out major fluctuations in the exchange rate, but not used to depreciate sterling in any way.

The view of the British Government is that they don't know what is going to happen exactly to the Gold Bloc or whether they are going to be able to maintain their present parity on gold. They would hope the Gold Bloc could carry on without devaluation, but particularly without applying exchange restrictions of the type which would interfere seriously with the movement of trade. But if the Gold Bloc is forced to devalue, the British Government would hope to base its position on the value of gold rather than on the value of the French currency. That is to say, that if there is no substantial fall in gold prices, I mean commodity prices, in terms of gold that the British pound would continue to be held steady in terms of gold irrespective of what the French franc does. That is to say, if the dollar continues, for the purpose of this

discussion we may assume, to be held steady, the parity between the pound and the dollar would remain unaltered.

As far as I understad it, there are two main points which make it impossible for the British Government to speak with absolute certainty on this. One is that, as I said, there might be a big fall in gold prices and, if so, the British Government would be very loath to face the resulting deflation in prices. What steps they would take, they have not made up their mind.

And the other uncertainty is the very large amount of French money abroad and it is impossible for the British Government to say definitely what the results might be if there flowed back very violent amounts. I don't think they particularly foresee either eventuality, but the fact that there are two eventualities makes it impossible for them to speak with absolute certainty.

HM,Jr: Does that conclude your message?

Mr. Bewley: That concludes what I had to say to you regarding the currency problem. Then I was to give you two other messages. One was to explain to you that the Chancellor of the Exchequer, how anxious the Chancellor is for closer cooperation. And the other thing was to explain to you that if you thought it would be useful, they would be very glad for me to come back to England to express your views in greater detail and to find out what theirs are.

HM,Jr: I see.

Mr. Bewley: I think that concludes my visit.

HM,Jr.: Well, I want to digest this and, may I say this: that I wish you would send word to the Chancellor that I am very much pleased with this message.

Mr. Bewley: Yes; I will, Sir.

HM,Jr: That's the first. This is June. Certainly for the next couple of weeks, this situation is so critical that for the moment my first reaction is that

you had better stay here and let's go through this situation of the forming of the French cabinet and let's get by that first, because once I get used to a person I like to work with a person and it takes me a long time and I am beginning to get used to you, and so I think I would like to go through this ..

Mr. Bewley: Yes; of course.

HM, Jr: And see what happens. I wish you would be thinking about this. As long as this question of currency stabilization is in the hands of the Treasury, I think it is better -- I have not discussed this with anybody -- but I think it better that I deal with the Treasury than through the two Central Banks. It is either between the two Central Banks or the Treasury and my feeling is it is better between the two Treasurys.

Mr. Bewley: I was talking on questions of policy, as regards the regular working of the thing.

HM, Jr: If, for instance, we buy gold, we have an agent. Our agent is the Federal Reserve of New York and they do business with your agent, which is the Bank of England. When it comes to policy -- this is my feeling -- I think I had better confine our conversations between the two Treasurys.

Mr. Bewley: I think he would certainly agree as regards policy.

HM, Jr: Because always, up to now, anything on policy has been discussed between George Harrison and Norman. That used to be the way, and then since 1933 the thing has just dropped and I think as far as I am concerned we had better just drop it.

Mr. Bewley: I feel sure that the British people would agree with you on that.

HM, Jr: In this thing, which is different from any other diplomatic thing, it's just like this -- (snapped fingers, indicating things happen speedily.) I want to get from the President authority on just how we can act. I may want to call your people up on the telephone

and ask you to come down here and sit while I call them up. So you see what I mean? But sometimes things happen so fast, by the time you code a cable and decode

Mr. Bewley: And go through diplomatic channels, I don't believe you can do it on a thing like that.

HM, Jr: I never move, I might say, unless I have complete approval of the President, but once I get it then I move and move very freely. But I might want to, on some of these things I can call Mr. Chamberlain right up on the telephone if this thing should get serious, you see. These things happen so fast. We get here at 9 o'clock. Lockheed rushes in here and says, Will you or won't you buy or sell 25,000,000 of this or that, and you can't wait for a message. By the time the message is coded, the thing is too late. I don't know how it is with you, but we can't decode in less than five hours.

Mr. Bewley: If it is a message of any length. And also if we send off a message at 11, it's late in England. It's the following day.

HM, Jr: But if we can get this thing -- suppose there is a large amount of dollars bought and sold in this market in the afternoon after you close, and that's when we begin to operate after you are through. Suppose there is a sudden selling of dollars here. I would like to call up and say, There are 5, or 10 or 25 millions of dollars being offered here by London. Can you tell me what it is? Do you see what I mean. These things have happened two or three times.

Mr. Bewley: The only thing I question is -- I don't know how much the Treasury will know. I think the Bank of England will know more about it, but that is a question of arrangement.

HM, Jr: But I checked again. I think I am correct. The man who does it is Phillips.

Mr. Bewley: As I understand it, Phillips is the person who does it and he certainly communicates to the Bank of England (and the Bank of England -- on policy,) the Bank of

-5-

England applies the Treasury policy, but when it comes to actual buying or selling the Bank acts without consulting the Treasury.

HM, Jr.: After all, your fund is set up -- you have two Treasury people and one Bank of England.

Mr. Bewley: I am not certain.
not

HM, Jr.: I am thinking of the normal long-term operations. A week is a long time for us. A cable is all right. But I am thinking of emergency happenings and I don't know whether your people use the telephone as freely as we do.

Mr. Bewley: They do internally, but not across the Atlantic.

HM, Jr.: But they telephone to Harrison.

Mr. Bewley: Yes, they ring up Harrison.

HM, Jr.: And before I came they used to call him up a lot, almost daily between Harrison and Norman.

But this is a move in the direction that I have been hoping for. Let me digest this thing. I happen to be lunching with the President in five minutes. I want to think about it.

Mr. Bewley: I am at your disposal any time you want me.

HM, Jr.: Are you going to tell the State Department about this? Taylor, I think you should.

Mr. Bewley: I know the Ambassador told Phillips in the most general terms.

HM, Jr.: Taylor, will you tell Mr. Phillips, so that takes care of this. You tell Phillips so he knows what the message is.

Then let me kind of digest this thing, because France isn't the only problem of currency. We have some other problems.

Mr. Bewley: Yes, I think that's true. I don't want you to think I am making up any difficulties about ringing up the Treasury. My only idea is that I don't know how much they know or how much the Bank knows -- whether there will be delay.

HM, Jr: I would rather you would not transmit that thought, about telephoning. I don't want to move too quickly. Just hold that for a day or two. Let it rest for a day or two. Let me digest this and then we can start the cables and maybe if it works then we will raise the point with Mr. Norman that in case of emergency and he wants to telephone and needs an answer in five minutes, to whom should be telephone. Let that rest for a day or two.

Mr. Bewley: Oh, yes.

HM, Jr: But I wouldn't ask that question yet, because I am not certain myself. But that's that! And I think that's fine. My regards to the Ambassador.

Mr. Bewley: He's away for the moment, but I will give them to him upon his return.

2F

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.

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BRITISH EMBASSY,
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.C. Lindsay

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.

Monday
June 1, 1936

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Senator
Alben

Barkley: Yes, sir, how are you?

HMjr: Oh, pretty well. I had lunch with the President, Senator, and he said he thought the next twenty-four hours that you and I ought to work very closely together on tactics on the tax bill as to what's going to happen on the floor and the Minority Report and all that sort of thing.

B: Well, I just had a conference with Garner and Black and Joe Robinson -

HMjr: Yes

B: - about the matter.

HMjr: Yes

B: I talked to the President the other night for a moment -

HMjr: Yes

B: - about it. And I went by and saw Pat Harrison this morning.

HMjr: Yes

B: And we have - I have concluded and Garner and Robinson both agree and so does Pat --

HMjr: Yes

B: -- that if we could put any substitute over - like Black's or like anything we might work out -

HMjr: Yes

B: - on a roll call it would be all right, of course if we make the effort. But if we can't do it we'll be in a worse position to try it and have a roll call and get licked than if we don't try it at all.

HMjr: Well, what --

B: Because in conference - in conference, you see Pat isn't going to be able to be on the conference.

HMjr: No

B: And with King and George and Walsh and Couzens and

Keyes on the Conference Committee a roll call feeding a substitute would certainly stiffen their backbones in holding out against the House.

HMjr: Well when does that decision have to be made?

B: Well, it doesn't have to be made by any particular time but we've been talking about it with a view to try to determine what's the best course to pursue before the thing is reached and the bill is out of consideration.

HMjr: Well, I mean will it come out today?

B: No, no, it won't be today.

HMjr: Will it be tomorrow?

B: It may be tomorrow.

HMjr: What would be a good time to call you tomorrow morning?

B: Well -

HMjr: Or shall I call you again tonight?

B: I expect maybe tonight would be- suppose you try - I don't know that there is anything further that will develop this afternoon.

HMjr: Well, why not leave it this way, if something does would you mind calling me? If not I'll call you in the morning?

B: Surely, yes

HMjr: Now, what you say sounds like good horse sense to me.

B: Well, I haven't any doubt about the wisdom of that course. Garner and Robinson both coincide with that view and so does Harrison.

HMjr: Well, if anything occurs this afternoon you'll call me, otherwise I'll make it my business to get in touch with you?

B: All right. Here's what I'm anxious about, I don't want these Senate conferees who are unfriendly anyhow --

HMjr: Yes

B: - to our viewpoint -

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, June 1, 1936.
5-29-36

Press Service
No. 7-45

Secretary of the Treasury Morgenthau is today offering for subscription, at par and accrued interest, through the Federal Reserve banks \$600,000,000, or thereabouts, of 15-18-year 2-3/4 percent Treasury bonds of 1951-54, and \$400,000,000, or thereabouts, of 5-year 1-3/8 percent Treasury notes of Series B-1941. The holders of 1-1/8 percent Treasury notes of Series E-1936 maturing June 15, 1936, and 3-1/4 percent Treasury notes of Series A-1936 maturing August 1, 1936, are offered the privilege of exchanging such notes either for the Treasury bonds or the Treasury notes, the exchange to be made par for par, with an adjustment of accrued interest as of June 15, 1936, on notes of Series A-1936, and to the extent such exchange privilege is availed of, the offering of bonds or of notes may be increased.

The Treasury bonds of 1951-54 now offered for cash, and in exchange for Treasury notes maturing June 15 and August 1, 1936, will be dated June 15, 1936, and will bear interest from that date at the rate of 2-3/4 percent per annum payable semiannually. They will mature June 15, 1954, but may be redeemed at the option of the United States on and after June 15, 1951.

The Treasury notes of Series B-1941, also offered for cash, and in exchange for Treasury notes maturing June 15 and August 1, 1936, will be dated June 15, 1936, and will bear interest from that date at the rate of 1-3/8 percent per annum payable semiannually. They will mature June 15, 1941, and will not be subject to call for redemption before that date.

The Treasury bonds and the Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds and Treasury notes, respectively, now outstanding. These provisions are specifically set forth in the official circulars issued today.

The Treasury bonds will be issued in two forms, bearer bonds with interest coupons attached, and bonds registered as to both principal and interest; both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The Treasury notes will be issued only in bearer form with coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Applications will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. With respect to cash subscriptions for either the Treasury bonds or the Treasury notes, applications from banks and trust companies for either issue for their own account will be received without deposit but will be restricted in each case and for each offering to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied, if for \$5,000 or less by payment in full; and, if for more than \$5,000, by payment of 10 percent of the amount applied for, but not less than \$5,000. With respect to exchange subscriptions for either bonds or notes, subscriptions should be accompanied by a like face amount of 1-1/8 percent Treasury notes of Series E-1936 or of 3-1/4 percent Treasury notes of Series A-1936, tendered in payment.

Subject to the reservations set forth in the official circulars, cash subscriptions for amounts up to and including \$5,000 will be given preferred allotment, cash subscriptions for amounts over \$5,000 will be allotted on an equal percentage basis, but not less than the maximum preferred

allotment, and exchange subscriptions will be allotted in full.

Payment for any bonds or notes allotted must be made or completed on or before June 15, 1936. If Treasury notes maturing August 1, 1936, are tendered, coupon due August 1, 1936 must be attached to the notes, and accrued interest on such notes to June 15, 1936, will be paid following their acceptance.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice, either for the Treasury bonds or the Treasury notes and with respect to the cash offering or with respect to the exchange offering of either.

In order to provide an equitable allotment and distribution of securities to all classes of subscribers, all banking institutions and others concerned are urged to cooperate in making effective the procedure outlined in Department letter of May 27, 1936, addressed to the President of each of the twelve Federal Reserve banks and made public at that time.

Interest on the public debt to the amount of about \$116,000,000 is payable on June 15, 1936. The amount of Treasury notes of Series E-1936 maturing on June 15, 1936, is \$686,616,400, and of Series A-1936 maturing on August 1, 1936, is \$364,138,000.

The texts of the official circulars follow:

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UNITED STATES OF AMERICA

2-3/4 PERCENT TREASURY BONDS OF 1951-54

Dated and bearing interest from June 15, 1936

Due June 15, 1954

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER JUNE 15, 1951

Interest payable June 15 and December 15

1936
Department Circular No. 561
Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 1, 1936.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2-3/4 percent bonds of the United States, designated Treasury Bonds of 1951-54. The amount of the offering is \$600,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series E-1936, maturing June 15, 1936, or Treasury Notes of Series A-1936, maturing August 1, 1936, are tendered in payment and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated June 15, 1936, and will bear interest from that date at the rate of 2-3/4 percent per annum, payable semiannually, on December 15, 1936, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1954, but may be redeemed at the option of the United States on and after June 15, 1951, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of

redemption designated in any such notice, interest on the bonds called for redemption shall cease.

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

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

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

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

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied, if for \$5,000 or less by payment in full; and, if for more than \$5,000, by payment of 10 percent of the amount of bonds applied for, but not less than \$5,000. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, cash subscriptions for amounts up to and including \$5,000 will be given preferred allotment; cash subscriptions for amounts over \$5,000 will be allotted on an equal percentage basis, but not less than the maximum preferred allotment; and subscriptions in payment of which Treasury Notes of Series E-1936 or Treasury Notes of Series A-1936 are tendered will be allotted

in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted on cash subscriptions must be made or completed on or before June 15, 1936, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district. Treasury Notes of Series E-1936, maturing June 15, 1936, will be accepted at par in payment for any bonds subscribed for and allotted. Treasury Notes of Series A-1936, maturing August 1, 1936, with coupon dated August 1, 1936, attached, will be accepted at par with an adjustment of accrued interest as of June 15, 1936, in payment for any bonds subscribed for and allotted. Payment through surrender of Treasury Notes of Series E-1936 or of Series A-1936 should be made when the subscription is tendered.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

1-3/8 PERCENT TREASURY NOTES OF SERIES B-1941

Dated and bearing interest from June 15, 1936

Due June 15, 1941

Interest payable June 15 and December 15

1936
Department Circular No. 562
Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 1, 1936.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 1-3/8 percent notes of the United States, designated Treasury Notes of Series B-1941. The amount of the offering is \$400,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series E-1936, maturing June 15, 1936, or Treasury Notes of Series A-1936, maturing August 1, 1936, are tendered in payment and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated June 15, 1936, and will bear interest from that date at the rate of 1-3/8 percent per annum, payable semiannually, on December 15, 1936, and thereafter on June 15 and December 15 in each year. They will mature June 15, 1941, and will not be subject to call for redemption prior to maturity.

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

3. The notes will be accepted at par during such time and under such rules

and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

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

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

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied, if for \$5,000 or less by payment in full; and, if for more than \$5,000, by payment of 10 percent of the amount of notes applied for, but not less than \$5,000. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public

interest; and his action in any or all of these respects shall be final. Subject to these reservations, cash subscriptions for amounts up to and including \$5,000 will be given preferred allotment; cash subscriptions for amounts over \$5,000 will be allotted on an equal percentage basis, but not less than the maximum preferred allotment; and subscriptions in payment of which Treasury Notes of Series E-1936 or Treasury Notes of Series A-1936 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted on cash subscriptions must be made or completed on or before June 15, 1936, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district. Treasury Notes of Series E-1936, maturing June 15, 1936, will be accepted at par in payment for any notes subscribed for and allotted. Treasury Notes of Series A-1936, maturing August 1, 1936, with coupon dated August 1, 1936, attached, will be accepted at par with an adjustment of accrued interest as of June 15, 1936, in payment for any notes subscribed for and allotted. Payment through surrender of Treasury Notes of Series E-1936 or of Series A-1936 should be made when the subscription is tendered.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 2, 1936.
6/1/36

Press Service
No. 7-47

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2-3/4 percent Treasury bonds of 1951-54 and of 1-3/8 percent Treasury notes of Series B-1941 closed at the close of business Monday, June 1, for the receipt of cash subscriptions.

Cash subscriptions for either issue placed in the mail before 12 o'clock midnight, Monday, June 1, will be considered as having been entered before the close of the subscription books.

The subscription books for both issues will close at the close of business Wednesday, June 3, for the receipt of subscriptions in payment of which Treasury Notes of Series E-1936, maturing June 15, 1936, or Treasury Notes of Series A-1936, maturing August 1, 1936 are tendered. Exchange subscriptions for either issue if placed in the mail before 12 o'clock midnight Wednesday, June 3, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of cash subscriptions and the bases of allotment will probably be made on Thursday, June 4.

on/on

Monday
June 1, 1936

W. R.
 Burgess: Hello, sir
 HMjr: Good morning
 W. R.
 Burgess: Good morning

HMjr: How are things opening?

B: Well, you can't tell yet, the reception is pretty good.

HMjr: I thought -

B: I've talked to a couple of dealers --

HMjr: I thought we got an excellent press. Hello -

B: Yes, I thought they did very well with it.

HMjr: I thought particularly the New York Tribune.

B: Yes - that was all right.

HMjr: Yes

B: And I thought they've handled this matter very well. They had a number of things saying it was - it was entirely justified and all right.

HMjr: Yes - I liked the press. Of course it's too early - when - in another hour could you tell?

B: I think so, yes.

HMjr: Another hour?

B: I think so.

HMjr: Well -

B: As soon as I get anything ^{definite} /I'll call you, shall I?

HMjr: Will you, please?

B: Yes

HMjr: I'm - you know I'm like an actor that goes on for the first time - each bond issue is the first time and I'm nervous until it's over.

B: I know, I feel the same way.

HMjr: Thank you.

B: Goodbye.

Monday
June 1, 1936

HMjr: Hello -

Operator: Hello -

HMjr: Hello -

Operator: Dr. Burgess -

HMjr: Please

Operator: Go ahead.
W. R.

Burgess: Hello -

HMjr: Yes

B: Well, you can stop worrying.

HMjr: What's that?

B: You can stop worrying.

HMjr: So early?

B: Yes

HMjr: Well, for heaven's sakes!

B: It's all O. K.

HMjr: It's all O. K.?

B: Well, the best of it is rather ripe for selling.

HMjr: Yes

B: The rights have jumped about a quarter of a point.

HMjr: The rights have what?

B: - have jumped about a quarter of a point.

HMjr: One quarter?

B: Yes - now the - they were selling, the June rights were selling last Friday at par twenty-eight to thirty.

HMjr: Yes

B: They are now selling one hundred and one seven to ten.

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HMjr: Yes

B: That is they've jumped over a quarter of a point.

HMjr: Oh, the rights - I had heart failure, I thought they were down to one quarter of a point.

B: (Laughs) No -

HMjr: You mean, they're up one quarter ?

B: Yes, they've jumped a quarter.

HMjr: So you mean it's worth a quarter more?

B: That's right - than it was last Friday.

HMjr: Bell says it's disgusting.

B: Isn't it? It's too rich - we were too damn generous.

HMjr: Yes - well, how did we know that Hitler wouldn't march into Russia?

B: Well, how did we know that there would be this reaction? - the rights - the restrictions to selling - that's right.

HMjr: Well --

B: It's all right.

HMjr: Is that on both the June and the August, or just the June?

B: Well, there - the June is selling at a hundred and one seven ten -

HMjr: Yes

B: And the August is selling a hundred and one nine twelve.

HMjr: Yes

B: That's about the same when you make allowance for the difference of entrance between now and June fifteenth.

HMjr: Well, - I'll begin to put the Champaign on ice.

B: That's right.

HMjr: All right.

B: All right

HMjr: Goodbye

B: Goodbye.

Monday
June 1, 1936

HMjr: - Hello

Operator: The Attorney General

HMjr: Thank you.

Operator: Go ahead.

HMjr: Hello

Homer

Cummings: Hello

HMjr: Homer?

C: Yes, Henry -

HMjr: Good morning

C: Good morning

HMjr: How are you?

C: Grand, I hope you are well.

HMjr: Well, I'm keeping going. Homer, we've got a bill which has passed the House and is in the Senate Finance Committee, known as "The Treasury Agency Service", it's H - you got a pencil?

C: Yes

HMjr: H. R. 12556

C: 1 -

HMjr: 12 -

C: 556

HMjr: 12556

C: Yes

HMjr: And the bill consolidates the various police agencies in the Treasury into one agency.

C: Yes

HMjr: I don't know whether you know anything about it or not.

C: Oh, I know quite a lot about it and my recollection

is that it was sent over here and we - we said we had no objection to it.

HMjr: Well, here is the trouble, Harrison and King somehow or other have gotten the idea that you're opposed to it.

C: Who?

HMjr: Senator Harrison and --

C: Oh yes - How is Harrison, is he out?

HMjr: Well, I was going to call up this morning. Would it be agreeable to you for me to say that I had spoken to you and that you have no objections to this bill?

C: Absolutely

HMjr: And if I say if they want to check up on me they can call you if that's necessary.

C: O. K.

HMjr: Because it's purely within the Treasury.

C: I know and it's perfectly all right with me.

HMjr: Thank you very much.

C: All right, Henry. Oh, by the way --

HMjr: Yes

C: Are you going to put through that Executive Order on Countervailing duties pretty soon are you?

HMjr: Yes

C: Do you or do you not want an opinion on the subject?

HMjr: Well, if I could get one it would be perfectly grand.

C: Now, I don't know of any reason why if it would help you any I couldn't report what we've concluded in the written form.

HMjr: Well, very confidentially I'm going to do it Wednesday night.

C: Yes

HMjr: And if between now and Wednesday we could have a written opinion it would be a tremendous help.

C: Yes - all right, I'll - I'll check up with my people.

HMjr: Well, would you let me know?

C: I'll let you know later.

HMjr: Today?

C: Yes

HMjr: Thank you very much.

C: All right.

HMjr: It would be very helpful.

C: All right, Henry.

HMjr: Thank you.

C: Goodbye.

Monday
June 1, 1936

HMjr: How's she going?
W. R.
Burgess: Oh, fine.

HMjr: Fine, huh?

B: We are beginning to get the subscriptions trickling in.

HMjr: Yes

B: The - these rights are continuing to sell at about the levels I showed you, perhaps just a shade easier, perhaps a thirty-second off.

HMjr: How much?

B: Perhaps a thirty-second lower than the figures I gave --

HMjr: The last I had - the maturing notes were up nine thirty-seconds to eleven thirty-seconds.

B: Yes, that's right, that's all right.

HMjr: Is that all right?

B: Yes, yes

HMjr: What?

B: Yes, that's fair enough.

HMjr: In other words they're worth a quarter of a - at least a quarter of a point more than they were Friday.

B: That's right, they're still there.

HMjr: Yes

B: And some of the have moved up a little.

HMjr: Yes - now, I wish you'd be thinking this over, I've postponed my Press Conference to five o'clock tonight which is six your time.

B: Yes

HMjr: Now, if she looks O. K. and I want to talk to you before then if you don't mind waiting.

B: Yes

HMjr: I'd like to announce to-night that we'll close Wednesday night.

B: Well, you mean on cash?

HMjr: No - no, no - close cash - on conversions.

B: Oh, close on conversions?

HMjr: Yes

B: And close cash tonight?

HMjr: Close cash tonight and conversions Wednesday night.

B: Yes, yes

HMjr: I - I always give two days notice.

B: Yes

HMjr: And what's the use of taking a chance - how do we know what's going to happen?

B: That's right, yes.

HMjr: What?

B: Yes

HMjr: If they get two day's notice, isn't that plenty?

B: We've given them a week before, haven't we?

HMjr: No, we've always made it Thursday night.

B: I thought it was Friday - Thursday --

HMjr: No, I think if you'll look it up you'll see last time it was Thursday night.

B: Yes, yes

HMjr: Think it over --

B: All right.

HMjr: It seems to me if they have two day's notice - after all this is all in the hands of the financial institutions, isn't it?

B: Well, I'm not sure - we - we ought to look up and see how much we've got in. Well - that wouldn't tell

I was thinking how much came in the last time.

HMjr: No - last time I think you'll find/^{it}was Thursday night.

B: Yes, I think so.

HMjr: What?

B: Yes, I'll look it up.

HMjr: I have certain reasons why I'd (Laughs) like to get it over with.

B: I see.

HMjr: I mean with all this Congress business and everything else -

B: Yes

HMjr: It makes me uncomfortable.

B: Yes, yes

HMjr: See? And how do I know what's going to happen?

B: Yes, yes

HMjr: So - you think it over.

B: All right - all right.

HMjr: I mean - I mean, after all, if they're going to adjourn, I mean, if we give these people forty-eight hours notice I think it's time enough. I just don't want to strain my luck too much.

B: No - no - although you're pretty safe on this, you --

HMjr: I know, but I --

B: You have a big margin of safety.

HMjr: Yes, but if they give them forty-eight hours it ought to be enough. But think it over.

B: All right.

HMjr: Thank you.

B: All right, first rate.

Monday
June 1, 1936

W. R.
Burgess: Hello, sir

HMjr: Hello, Burgess

B: Yes, sir

HMjr: You've heard the terrible news?

B: (Laughs) Well, what figures have you got?

HMjr: A billion nine and a billion three

B: A billion nine and a billion three - that was two-thirty wasn't it?

HMjr: Well, I just got it this minute.

B: Yes, well I'm figuring for three forty - I raised forty seven for the notes and a billion eighty-six for the bonds.

HMjr: Well, this is a billion nine hundred million.

B: Oh, a billion nine hundred million on the bonds?

HMjr: Yes, and on the notes one billion three hundred million.

B: That's swell.

HMjr: Three hundred and fifty million -

B: That's swell, isn't it?

HMjr: Yes, it's a knockout.

B: Say, let me make one suggestion, may I, without being fresh?

HMjr: (Laughs)

B: Don't tell them you're delighted just tell them that it was satisfactory.

HMjr: Why? -

B: Why ---

HMjr: I mean, please, may I say this before I get into it?

B: (Laughs) Yes

HMjr: My dear Burgess, your suggestions are always welcome.

B: (Laughs) All right, I thought so.

HMjr: Now, on that basis, please.

B: Yes - Well, I wouldn't appear to be too much over-joyed. I'd take it a little more as a matter of course.

HMjr: I get you.

B: I think it looks just a little more dignified.

HMjr: Yes - My God, are you going to try to dignify me now?

B: (Laughs) Yes

HMjr: I see, you're going to have me wear^a morning coat and striped trousers next.

B: It'll make you the greatest Secretary of the Treasury since - Will Woodin. (Laughs)

HMjr: Now listen you can go one better than that.

B: (Laughs) I think so.

HMjr: O. K., all right. Now, all right on that. Now let me ask you though on this Wednesday night business --?

B: I lean towards Thursday night.

HMjr: Oh ----

B: But I - I don't feel terribly strongly about it.

HMjr: Well now listen old man, have you ever had an issue in the last week of Congress and the week before a national convention - political convention?

B: Oh, we've had everything.

HMjr: What?

B: We've had everything.

HMjr: You've had everything?

B: Yes - but if you feel strongly about Wednesday I don't think there's anything -

HMjr: Well, I just think it's an unnecessary risk. We can get it out on the radio and everything else and close it up. Now this stuff about the fellows out in the 'sticks' not knowing it, you know they'll know it.

B: Yes, yes

HMjr: What?

B: I don't feel very strongly about it but if you'll put it on the the basis of the margin loan just as the issue alone I would say Thursday.

HMjr: No, I - listen, unfortunately I have hunches which turn out right.

B: Yes

HMjr: Now, I've got a hunch I want to do it Wednesday night.

B: Well go to it and God bless you.

HMjr: O. K. Then I think I'll do it Wednesday night and I'll - we'll make every - Bell's waiting now for the wires and we'll announce the close of this issue and the close of the other Wednesday night.

B: Well, I think the main point is giving them forty-eight hours.

HMjr: Well, that's - that's what you fellows have always drilled into me. Now we'll do that now.

B: Yes, yes

HMjr: What?

B: That's the essential point.

HMjr: O. K.- Now are you going to stick around a while or not?

B: Oh, yes, I'll be here a while.

HMjr: All right, I'll tell Bell to get the telegrams ready.

B: Fine

HMjr: Thank you.

B: Very good.

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Monday
June 1, 1936

George
Harrison: - to congratulate you.

HMjr: Is it time?

H: Well, I don't know, it looks to be going pretty well.

HMjr: Yes, yes

H: And - no, I think it's very favorably received, don't you?

HMjr: Well, I thought we got a swell press this morning.

H: Oh, I thought the press was very good.

HMjr: And particularly the New York Tribune.

H: Yes, they did a good job.

HMjr: Yes - and I think it's all right. I'm - and -
I always like to wait until the end.

H: Yes, well that's all right.

HMjr: Let me ask your advice, George. I don't know whether Burgess spoke to you, but if - I haven't got a - I have a Press Conference at five which is six your time. I'd like to announce, if the thing continues to roll in as well, that we are going to close the conversions Wednesday night. That gives them two days notice. Do you think that's too fast?

H: Well, I don't know. Burgess told me you might do that and my only reaction was that I saw very little to be gained by it and that I didn't think I'd do anything unusual. Usually you would give them until Thursday anyway.

HMjr: Yes

H: That was my only reaction. He said he hadn't thought it through yet so I don't think he's made any definite - formed any definite opinion about it.

HMjr: Yes

H: But my thought was I don't know very much about it but my thought was just to do the thing in the usual way but I wouldn't see any point in closing it Wednesday if you usually would normally close it on Thursday.

HMjr: Yes

H: And - it's pretty quick for fellows that are out in the 'sticks'.

HMjr: I see.

H: That's my reaction.

HMjr: Well --

H: Unless you've got some reason that I don't know about for doing it.

HMjr: No, no - no, I'm just - well, after all, this is the last week of Congress and the Republican Convention starts next Monday and I'm a little nervous.

H: Yes, well, I know - but there's no difference between Thursday and Wednesday in that regard.

HMjr: No

H: However, I don't think it's a very important thing -

HMjr: Yes

H: Except you don't want to do anything to be charged by the fellow out in the country that you've hurried it up unnecessarily.

HMjr: Well, he's got - - well, I - Burgess has been checking.

H: Burgess is checking and I'd rather have him give you his judgment than mine which is - I admit is nothing but a snap judgment.

HMjr: I see. All right, well thanks very much for calling, George.

H: All right, - well, I - I'm delighted it's gone as well as it has and I don't think there's any trouble about it now.

HMjr: -Well, thank you very much.

H: All right.

HMjr: Thank you.

H: Goodbye.

Tuesday
June 2, 1936

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HMjr: Henry to you
Senator
Barkley: Yes

HMjr: I just want to check up on where we're at on this tax bill now.

B: Yes

HMjr: I mean, is there anything new on - whether you are going to vote on the Black Minority Report or not?

B: Why, the last thing yesterday that I could gather is that none of us over here have been able to dissuade Black from offering his substitute.

HMjr: Well, will it be offered on the floor?

B: It will be offered on the floor.

HMjr: And it will be voted on?

B: It will be voted on and - unless somebody can persuade him not to do it it will be voted on and there is no way to avoid a roll call.

HMjr: You think it's a mistake?

B: I do. And so does John Garner and so does Joe Robinson and so does Pat Harrison.

HMjr: Yes

B: Now, unless the President would feel disposed to call Black and call LaFollette too -

HMjr: Yes

B: - and suggest the 'unwisdom' of it I don't know that any of us over here can do anything with him.

HMjr: Well, Alben, I am going to talk to the President in two minutes, that's why I called you.

B: Yes

HMjr: And if he has any message will you be in your office for the next fifteen minutes?

B: Yes, I'll stay here.

HMjr: Well, I'll call you - I'll call you back one way or the other.

B: Here's the situation - I explained it yesterday.

HMjr: Yes

B: We can't carry that - if we could carry the substitute of course I'd be for it.

HMjr: Yes

B: Because that would put the Senate closer to the House -

HMjr: Yes

B: But here's the advantage of that thing -

HMjr: Yes, sir

B: Of course this Black plan is not the President's plan.

HMjr: No

B: I mean by that he has never suggested the details of any plan.

HMjr: Correct

B: And if it's voted on and beaten as it will be why the papers are going to say that the Senate has repudiated the President.

HMjr: Right

B: And it doesn't do us any good, it doesn't do the conferees any good.

HMjr: Or the Party

B: And there isn't any question at all about the wisdom of not offering it, but I think the President is the only man who can influence him and I don't know whether he can or not.

HMjr: Well, I'll -

B: But I think it's worth trying.

HMjr: I'll call the President and I'll call you if I have luck, sometimes I don't get him -

B: Yes

HMjr: - but if - I'll let you know either way between
now and nine-thirty.

B: All right.

HMjr: Thank you.

B: All right.

Tuesday
June 2, 1936

HMjr: Henry to you
Senator
Barkley: Yes

HMjr: I just want to check up on where we're at on this tax bill now.

B: Yes

HMjr: I mean, is there anything new on - whether you are going to vote on the Black Minority Report or not?

B: Why, the last thing yesterday that I could gather is that none of us over here has been able to dissuade Black from offering his substitute.

HMjr: Well, will it be offered on the floor?

B: It will be offered on the floor.

HMjr: And it will be voted on?

B: It will be voted on and - unless somebody can persuade him not to do it it will be voted on and there is no way to avoid a roll call.

HMjr: You think it's a mistake?

B: I do. And so does John Garner and so does Joe Robinson and so does Pat Harrison.

HMjr: Yes

B: Now, unless the President would feel disposed to call Black and call LaFollette too -

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B: - and suggest the 'unwisdom' of it I don't know that any of us over here can do anything with him.

HMjr: Well, Alben, I am going to talk to the President in two minutes, that's why I called you.

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B: Here's the situation - I explained it yesterday.

HMjr: Yes

B: We can't carry that - if we could carry the substitute of course I'd be for it.

HMjr: Yes

B: Because that would put the Senate closer to the House -

HMjr: Yes

B: But here's the advantage of that thing -

HMjr: Yes, sir

B: Of course this Black plan is not the President's plan.

HMjr: No

B: I mean by that he has never suggested the details of any plan.

HMjr: Correct

B: And if it's voted on and beaten as it will be, why the papers are going to say that the Senate has repudiated the President.

HMjr: Right

B: And it doesn't do us any good, it doesn't do the conferees any good.

HMjr: Or the Party

B: And there isn't any question at all about the wisdom of not offering it, but I think the President is the only man who can influence him and I don't know whether he can or not.

HMjr: Well, I'll --

B: But I think it's worth trying.

HMjr: I'll call the President and I'll call you if I have luck, sometimes I don't get him -

B: Yes -

HMjr: - but if - I'll let you know either way between now and nine-thirty.

B: All right.

HMjr: Thank you.

B: All right.

Tuesday
June 2, 1936

HMjr: Hello

Operator: Senator Barkley

HMjr: Hello, Alben

Senator

Barkley: Yes

HMjr: This being a go-between ain't all it's cracked up to be.

B: (Laughs) No

HMjr: (Laughs) You know that.

B: I know it.

HMjr: I just talked to the President and he said if he's to be consistent -- hello -- hello?

B: Hello

HMjr: If he's to be consistent and say that he isn't dictating on how to write the bill how can he call up LaFollette and Black and say he doesn't like their plan - they shouldn't bring it up.

B: Well, of course there's something to be said for that.

HMjr: He said if he's going to be consistent and he has to be and he said he thinks it's up to the leader, the Democratic leader to try to stop it.

B: Yes, well we had a session yesterday for an hour - two or three others later. And you know how it is -

HMjr: I know.

B: Both Black and LaFollette are hard to stop when they get an idea in their heads.

HMjr: Well he thinks it would be a mistake for him/^{to}check the at this time.

B: Yes

HMjr: Now he says this, that - he wants me to tell you this, that if the bill passes the way it is in the Senate he can't accept it.

B: Well, of course we wouldn't expect it would go to him in that shape.

HMjr: Yes

B: But, what I'm trying to do is to avoid an impasse between the conferees of the two Houses.

HMjr: I know.

B: And avoid a misinterpretation of the result of this substitute.

HMjr: And I - I got word to him/you said that if they vote on this thing then it's very difficult for a Senator to change his position.

B: Yes

HMjr: Subsequently - He's got it and he's worried about it.

B: Yes, I understand -

HMjr: And he wants me to work just as closely as you'll let me work with you.

B: All right, well I'll tell you we'll just let -- we'll take the thing up today and see how things go along.

HMjr: Yes, and if you don't mind --

B: And I'll call you if anything develops that - that I think you ought to know.

HMjr: Thank you very much.

B: All right.

HMjr: Thank you.

TREASURY DEPARTMENT

12

INTER OFFICE COMMUNICATION

DATE June 2, 1936

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Comments on Revenue Estimates of Senate Majority Bill, as Contained in the Committee's Report to the Senate

1. The majority report asserts that the Treasury estimates, where available, indicate that the yield of the Senate Committee Bill will be \$751 millions, as compared with the \$303-million yield of the House Bill; and that Treasury experts did not take into consideration factors which the majority believed would add a total of \$78 millions to the yield of the Senate Bill, boosting it to a total of \$829 millions.

2. The Treasury has not yet submitted a complete estimate of the yield of the Senate Bill as finally reported. Official preliminary estimates on certain portions of the final Senate Bill have been submitted, but estimates for other portions, as reported by the Committee, were not made by us and do not agree with our own estimates.

3. The differences between the estimates contained in the majority report and the Treasury estimates may best be revealed by tabular comparison:

Source of revenue increase	: Majority Committee : estimate	: Treasury : estimate
	(In millions of dollars)	
Graduated normal tax on corporate incomes	215	217
7 percent surtax on undistributed earnings	217	218
Normal tax on dividends received by individuals	90	90
Provision respecting liquidating distributions	33	33
Provision respecting nonresident aliens	4	4
Windfall tax	82	82
Strengthening Section 102 of existing law	40	0
Limiting surtax on profits of individuals from sale of oil and gas properties	10	0
Import taxes on certain oils	10	10 1/2
Increased individual surtaxes	50	29
General increase because of Treasury conservatism	<u>78</u>	<u>0</u>
Total	829	683
Deduction for exempting from death taxes up to \$1,000,000 of insurance policies carried for death tax purposes	<u>0</u>	<u>0 in 1936 2/</u>
Total	<u>829</u>	<u>683</u>

1/ This figure is not a Treasury estimate and is accepted only pending computation of an official Treasury estimate.

2/ The insurance exemption from estate taxes will cause no loss in revenue in 1936 and a loss of only \$12 millions in the calendar year 1937, because estate tax returns are filed fifteen months after death. Once the exemption becomes fully applicable, however, in 1938 and thereafter, the annual loss in revenue is not likely to be less than \$42 millions and may be greater.

LHS:stm

Comparison of House, Senate Majority and Senate Minority Proposals

Description	House Bill	Senate Majority Report	Senate Minority Report
1. Tax on statutory net income	0	1 1/2-12 percent, graduated by income brackets of existing law.	Present graduated normal rates of 1 1/2-12 percent.
2. Tax on undistributed corporate earnings	Effective rates graduated from 0 to 4 1/2 percent in accordance with proportion of total earnings retained.	Flat surtax of 7 percent on earnings retained.	0 on first \$15,000, and 0 on next 20 percent of adjusted net income, withheld; 20 percent on next 20 percent of adjusted net income withheld; and 30 percent on remainder of adjusted net income withheld.
3. Effective transfer tax on intercorporate dividends	0, except for certain classes of income and higher-degree holding companies.	1.55 to 1.8 percent.	No change from present law.
4. Special provision for small corporations	Rate schedule for corporations with net income of \$10,000 and under approximating one-third to 70 percent of the rates applicable to corporations with large incomes.	Lower normal bracket rates on the first \$40,000 of corporate income.	Lower normal bracket rates on first \$40,000 of corporate income.
5. Special provision for banks, insurance companies, etc.	Flat 15 percent tax with no tax on undistributed earnings.	Graduated normal corporation income tax rates with no surtax.	Subject to present graduated normal rates, but exempt from surtax.
6. Dividends	Earnings used or retained for debt retirement, contractual arrangements, or to make up capital deficits, subject to 2 1/2 percent rate, corporations in receivership subject only to 15 percent flat rate on earnings.	Corporations under contract not to pay dividends are exempt from surtax.	Corporations under contract not to pay dividends are exempt from surtax.
7. Yield of windfall tax provisions	\$100 millions.	\$82 millions.	\$82 millions.
8. Yield of import duties on oils	0	\$10 millions 1/2	0
9. Dividends	Subject to individual normal tax.	Subject to individual normal tax.	Subject to individual normal tax.
10. Capital stock and excess profits	Reduced from \$1.40 to 70 cents per thousand, with appropriate excess profits taxes, to expire in one year.	Retained at \$1.40 per thousand, with present excess profits taxes.	Retained at \$1.40 per thousand, with present excess profits taxes.
11. Increases in individual surtax rates	0	Increase of 1 percent in each surtax rate applicable to surtax net incomes of \$5,000-\$50,000.	0
12. Personal holding companies	Repealed Section 351 but included substance of it in Section 102.	Retains both Sections 102 and 351 with stronger language; increase from 3 to 4 years in statute of limitations under Section 102 to allow Commissioner longer time to levy penalties; rates lowered in Section 351 by 7 percent to avoid double surtax; small loss companies exempted from Section 351.	Presumably same as Majority report.
13. Capital gains and losses	No change.	On gains resulting from the sale of oil and gas wells the tax is limited to 30 percent of the selling price.	0
14. Estate taxes	No change.	Exemption of \$1 million of insurance carried for death taxes from Federal estate taxes.	0
15. Other miscellaneous provisions	Special provision for liquidating distributions, and non-resident aliens.	Same as House Bill.	Same as House Bill.

Revenue Estimates

Permanent Revenue

From changes in corporation and individual taxes

\$ 590 millions

\$ 596 millions 2/3

\$ 596 millions

From import tax on oils

0

10 millions 1/2

0

Quasi-permanent Revenue

From provisions respecting liquidating distributions

33 millions

33 millions

33 millions

Temporary Revenue

180 millions

83 millions

83 millions

\$ 803 millions

\$ 689 millions

\$ 681 millions

This figure is not a Treasury estimate, and is computed only pending completion of our own estimate. Beginning in 1936, a reduction of \$42 millions annually from this figure may be expected (on the basis of 1935 conditions) by reason of a provision in the Majority Bill exempting from death taxes life insurance policies up to \$1 million carried for the payment of estate taxes. There will be no revenue loss by reason of this provision in the calendar year 1936 and a loss of only \$12 millions in the calendar year 1937, because estate tax returns take place fifteen months after death.

Tuesday
June 2, 1936

HMjr: Hello - hello -
R. F.
Wagner: Hello
HMjr: Henry Morgenthau, Junior -
W: Yes, sir, this is Robert F. Wagner, Senior -
HMjr: (Laughs)
W: Henry -
HMjr: Yes
W: You know that I'm to be the Chairman of the Platform
Committee - ?
HMjr: No, I -
W: And that I am doing some work - I don't know whether
you've submitted anything to the President yet or not -
HMjr: I have not.
W: Well, he has gotten - he has thrown the thing in my
lap more or less and I've got to get some help.
HMjr: Yes
W: And I thought on the - on the financial end of it -
HMjr: Yes
W: - don't you know, the Budget, the and all
that sort of business -
HMjr: Yes
W: I'd just want to lean on you for something.
HMjr: Well, I'll do the best I can, Bob.
W: Well- and who else - there's nobody else to
do it.
HMjr: No
W: And - do you think I could get some suggestions within
the next four or five days about that?
HMjr: Oh yes, I'll - I'll - we'll - I mean, I didn't
know that it was coming, but I'll call the people to-
gether and we'll go right at it.

W: Yes, I wish you would, Henry, because you know if they leave things until the last minute then there is a regular scramble and uncertainty and all that. And I know the President's idea is to have something ready! And I think there are some others that are trying a hand at it with him a little but he said he's going to make some suggestions but somebody's got to just begin to assemble all this stuff, you see?

HMjr: Well, I'm this kind of fellow, if you're Chairman and you tell me that you want me to do it I'll do it and when I'm ready I'll call you and come and see you, how's that?

W: Well, that's fine.

HMjr: I mean if you say you're - you want to rely on me on the financial end we'll go right ahead.

W: All right, exactly. And then I'll just rest easy on that until I hear from you.

HMjr: Yes, well - I'll say that not later than Monday I'll have something.

W: Well, that's fine.

HMjr: Yes

W: Thank you very much.

HMjr: Not at all, Bob -

W: Goodbye.

June 2, 1936

Mr. Phillips came in to assist in the preparation of reply to the British Ambassador. Also present were Dr. Viner, Dr. Haas, Mr. Taylor and Mr. Lochhead.

With very few minor changes from the original draft, all agreed on the final form of the letter.

The following discussion then took place:

HM, Jr.: The English stabilization fund is made up of two Treasury people and one Bank of England and the information which we have is that Mr. Phillips, the Under-secretary of the Treasury in England, is the man who fixes the policy and gives the Bank of England their orders. Inasmuch as it is the Treasury here and not a central bank, if I could keep it as between the Treasuries and not as between myself and Norman, it would be better because everybody tells me Norman is so fixed in his ideas that it would be very difficult to break it down.

Phillips: You think on quick decisions that the Treasury will act?

HM, Jr.: I don't know. What I thought was, when we come to that, I would say to them, 'Will you please let them decide?' Now, Mr. Bewley, on a matter of split seconds' decisions, whom do we communicate with?' They may say they would like the Federal Reserve Bank of New York to communicate with the Bank of England and if they do, it's all right with me. If they say, Let's leave it the way it is, have your foreign exchange people of the Federal Reserve in New York call our people, that's all right with me. It's just like last night; we got a cable at about 6:30 or 7 from Sze asking a question which we just don't understand; that they have spent \$17,000,000 in two days and should they draw on the Federal Reserve Bank of New York or should the money be transferred from Chase and National City. The cable did not make sense. The money was on deposit with the Federal and right there and then we sent an additional cable to Buck to please find out if this money was for stabilization or to pay for something else, because their currency hasn't moved and it just does not make sense and that was the great advantage of having Chen over here. I have confidence in Chen. I think he is

-2-

an honorable person, but I can't get awfully warmed up to Dr. Kung.

To answer your question as to how we do it on quick communication, I would ask them that question and ask them the thing to suggest or if they say, let it continue between the Federal Reserve of New York and the Bank of England, it's all right with me.

They have paraphrased my language in the release on the Chinese agreement -- only through such exchange of information -- "only through full and frank exchange of views."

Phillips: I congratulate you on the most important diplomatic step that has been taken. We have been working on this for three years.

HM, Jr.: You flabbergast me! Do you really mean it?

Phillips: Yes, it is very gratifying. You see, it touches our trade agreement program; it touches everything.

HM, Jr.: I have said this to the President: the one Department I can work with is the State Department. We have our little differences, but not very important, but when we get through it's a common front. I can't always say that of some of the other Departments.

16
X

June 2, 1936.

My dear Mr. Secretary:

I am sending you herewith a copy of my conversation with Mr. Bewley. I would appreciate it if you would keep this in your confidential file and show it to no one except Mr. Phillips as I consider the information contained in this memorandum ultra-confidential.

After reading the same if either you or Mr. Phillips have any suggestions to make I would be delighted to receive them.

Sincerely yours,

The Honorable,

The Secretary of State.

DRAFT

June 2, 1936.

Will you please transmit for me to the Chancellor of the Exchequer my most sincere and grateful appreciation of his very welcome message which was handed to me in person by Mr. Bewley.

I am happy glad to learn that we are in agreement that full and frank communication between the two Treasuries may well prove to be urgently needed if the currency troubles of a disordered world are to be satisfactorily overcome, and I feel confident that the establishment of a convenient and speedy channel of communication between Mr. Chamberlain and myself will facilitate the attainment of this purpose.

I will be happy, therefore, to avail myself, whenever the occasion arises, of the proffered services of your Mr. Bewley as Liaison Officer between the two Treasuries.

June 2, 1936

Letter to British Ambassador in reply to his of May 29.

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Filed in Stabilization Folder under date of June 2, 1936.

June 2, 1936

HM, Jr. called the President.

The President said, "Your financing went very well." HM, Jr.'s response was, "Yes; it went beautifully. I thought the papers were very fair."

HM, Jr. told the President, "I just got through talking to Senator Barkley. The situation is that he, Garner, and Pat Harrison think that Black should not offer his resolution on the floor, because it will be voted on and there is no way to avoid a roll call, and they will get licked. Then the papers will say that this is your plan and you got licked. You have never told them just what details you wanted and that the so-called Black - La Follette minority report is not close enough to the House bill to do any good. Their advice is that it is a mistake and the only person who can stop Black and La Follette is yourself." The President said, "That is the same old buck passing. I think you ought to tell Barkley that I have not taken any position and, therefore, I should not call it off." HM, Jr. agreed with the latter statement and said, "If you have not taken a position, then you would be consistent if you said you would not call it off." The President then remarked, "It's their responsibility and not mine."

The Secretary also said to the President, "If you call up Black and La Follette and ask them to stop it, they will not stop it any way. I imagine that the leaders do not want to be rebuffed. As long as they have gone so far, let La Follette and Black offer the resolution on the floor. I am going to tell them that you feel you have not tried to write the bill and have not taken a position and it is up to them to take a position and stop it."

HM, Jr. then discussed with the President the most recent development with China. He said, "I cannot make out the Chinese. They have used up the \$13,000,000 and want some of the money that they have on deposit here. It is their money and they can have it, but I have sent a cable to Buck today to make sure that they want to use this money for stabilization purposes and not to buy aeroplanes. I am following it very closely. (Copies of these two messages are attached.) The Japanese are making it just as hot as they can for the Chinese."

-2-

Continuing, the Secretary told the President, "The State Department, as an argument against putting on countervailing duties, claim it would hurt them in South America. Yesterday Sumner Welles said the only way he can stop the Brazilian-German treaty from going through is to tell the Brazilians in the strictest confidence that if they did this thing they would find themselves out on the end of a limb because we were going to carry out Section 303."

COPY

The following cablegram has been received at the Chinese Embassy from Dr. H. H. Kung, dated Shanghai June 1, 1936, transmitting a message from the Central Bank of China to the Federal Reserve Bank of New York:

"Since May 14, 1936, three government banks have sold equivalent USA dollar thirteen million in all currencies including USA dollar four million today. Owing to continuing demand for foreign exchange for ready delivery chiefly pound sterling caused by payment for goods smuggled into North China and speculative forward buying from commercial banks due to uneasiness over Sino-Japanese situation we may be obliged utilize credit balance Federal Reserve Bank of New York and credit against silver. If so there would be considerable number of items large and small. Would they (you?) prefer to handle themselves (yourselves) or in order to save them (you?) bother to have us draw relatively large sum and transfer same to Chase and/or National City Bank to meet our requirements. All drawings would be to protect our currency which is already contracting with consequent stiffening of money rates and increasing discount for forward foreign exchange."

COPY

June 2, 1936

TO PROFESSOR BUCK.

Following is substantially message to Federal Reserve Bank from Central Bank of China transmitted to us from Kung through Chinese Embassy:

Quote Since May fourteenth Government banks have sold equivalent U S dollars thirteen million all currencies including four million today Stop Owing continued demand for foreign exchange chiefly pound sterling caused by payment smuggled goods north China and speculative buying commercial banks due uneasiness over Sino-Japanese situation may be obliged utilize credit balance Federal Reserve Bank and credit against silver Stop As considerable number items will they prefer handle themselves or have us draw lump sums and transfer to Chase or City? All drawings to protect our currency which is already contracting with consequent stiffening money rates and increasing discount for forward exchange Unquote

(1) Why was this message not forwarded through you instead Embassy?

(2) What is real use that this money will be put to? Seems incredible thirteen million dollars used in such short time for purpose mentioned.

(3) Assurance should be given that money not used for any other than currency stabilization purposes.

(4) It may be well for Kung to issue instructions that Chen proceed by airplane direct on his arrival in Europe probably by Dutch Line to Singapore.

(Signed) Morgenthau.

June 2, 1938

At the 9:30 group meeting, the following were present: McReynolds, Upham, Bell, Roche, Haas, Seltzer, McLeod, Gaston, Taylor and Oliphant.

The Secretary told the group that "'good until cancelled' the President has designated me to work with Barkley. I talked this morning to the President and he refused to ask Black and La Follette not to offer their amendment. The President said that if the bill passes the way it is, he will veto it."

The Secretary asked for a memorandum which would show a comparison of the House, the Senate Majority and the Senate Minority proposals and he will discuss it with the President when he calls on him tomorrow morning.

HM, Jr. asked Mr. Bell whether the letter to the heads of the Departments and Agencies, asking them to use every means to economize on expenditure of public funds, particularly with reference to the unobligated balances on May 31, had been sent out and Bell answered that they would go out this week. He wanted to give further thought to the letter.

The Secretary told the group that he was seriously considering asking Colonel Schwarzkopf to come to the Treasury to take a position similar to Commander Thompson's.

Tuesday
June 2, 1936

Secretary of Labor

Frances Perkins: I brought the matter up and the President asked to have it killed - held in Committee -

HMjr: Yes

P: But it wasn't.

HMjr: Yes

P: It couldn't be done, I mean it was just one of those things where the Lobby is very very strong.

HMjr: Yes

P: Now this is a bill upon which Mr. Ickes, in whose Department the Bureau is located, and the Secretary of Labor both appeared before the Committee and said that it was not within the financial policy of the Government.

HMjr: Yes

P: It's more than that as far as I am concerned. I mean it's not within either the financial or the labor policy or the social policy.

HMjr: Yes, mam

P: As far as I see it, but -- and I think they've spent their money very fairly. But I want to tell you what it is. This is a bill that is called the George DeAN Bill, introduced by Senator George -

HMjr: Yes

P: And it provides a - an appropriation of twelve million dollars a year permanently in addition to the present seven million dollars a year which they have for vocational education.

HMjr: Yes

P: So it's just a great big steal.

HMjr: Yes

P: And this lobbyist who is a fellow named Dennis has been - he has an office here, he carries on a regular propaganda to get all the money possible for vocational education. He carries on a propa-ganda, he has ^{or}ake flood of letters and telegrams

come in. And I've just got a copy of a letter he sent out telling them all to wire the President and just what to say to him - what kind of influence to use on the President -

HMjr: Yes

P: - to make him sign it. Now, don't you think that's a pretty bad procedure?

HMjr: Well, it sounds bad.

P: Everybody in the Cabinet who knew anything about it including Roper and Wallace all popped up and said yes, it was bad, it was a ruinous kind of a procedure and the bill shouldn't be signed.

HMjr: Has -

P: What?

HMjr: Has the Treasury taken any part, one way or the other?

P: Well, not the Treasury, but the Director of the Budget has. I mean the Director of the Budget told them it was outside of the financial policy of the Government and if the President asked him what to do he would advise him not to sign it. But the political pressure is going to be very very heavy.

HMjr: Well, he said to tell the President not to sign it.

P: Well, I think he should tell him - he will tell the President not to I am sure if the President consults him.

HMjr: Yes

P: But I thought that you might speak with Dan yourself -

HMjr: Yes

P: and perhaps stiffen up the objection.

HMjr: Well, if it --

P: - Politically it won't mean a thing to the President I am certain of that. I mean all the votes that it will make he will have anyhow.

HMjr: Well - if it's not in the Budget -

P: It's not in the Budget.

HMjr: Well then you can be very sure that Bell will write a memo recommending it ---

P: But you see, this does - this money - this does not appropriate money, it authorizes appropriations.

HMjr: Oh yes

P: Which means that next year - what they always do is to say, 'We have to appropriate this - we are obliged to appropriate twelve million dollars.

HMjr: Has it got a number, Frances?

P: Yes, it's got a number, it's the George Deen Bill, number - House number 12120.

HMjr: 12120?

P: Yes

HMjr: HR?

P: Yes - George Deen

HMjr: I'll tell Bell to give --

P: It's the worst - it's the rottenest kind of steal - we could all go forward and do things like that, you know?

HM jr: Well, when you say it's the rot - the 'worst steal' that's saying something awful.

P: Well, what I mean is the worst kind of steal - to go and get these authorizations, see?

HMjr: Well, Frances, I'll be --

P: Twelve million dollars a year without any - without any program announced, no proof that it's needed or no proof that anybody in authority wants the work done, you know?

HMjr: Yes, the minute I am through talking I'll call up Bell and tell him what you said.

P: All right and I am going to - I'm going to run in and speak to the President about it and I think he just should veto it or kill it somehow.

HMjr: O. K.

P: All right, thank you old man. I think your old Treasury thing went pretty swell.

HMjr: Yes, it didn't go badly.

P: It was pretty grand.

HMjr: Yes

P: I think that's wonderful when you think how (Laughs) how many long faces there were.

HMjr: That's right.

P: That was pretty good, really. It's fine, Henry, congratulations.

HMjr: Thank you.

P: All right, goodbye.

June 2d

A financial meeting was held in Secretary Morgenthau's office at 3 o'clock to-day. Those present were:

Dr. Jacob Viner
Mr. Archie Lochhead
Mr. Wayne Taylor
Mr. George Haas

Dr. Viner: We all think that Bewley's statement should be recorded as thoroughly satisfactory, as informative, important, frank and honest and it ought to fit in with the policy of the American government. It is substantially what you should have wished them to say to you and they say in it more than you had reason to expect that they would. They tell you that in the absence of unforeseen circumstances such as a tremendous run for cover to gold or a tremendous run of French funds back to France, which would involve them if they took no action, that they are satisfied even in the face of a devaluation by the gold bloc both with the relationship between sterling and gold and sterling and the dollar. There is nothing better that you could ask for. We think that you having invited this communication it is incumbent upon you to make an equally frank and honest statement to them what your policy has been and is and will be in the light of developments. This is not the letter but an oral statement which should be first carefully drafted and then have someone read it to Bewley in the same way.

Dr. Viner: Now there is one thing that I think you should raise and that is the importance of this exchange. What you have to say to them and what they say to you will be increased 100%. Its full value will not be realized unless the Chancellor of the Exchequer or you disclose a substance of this conversation to the French as soon as they form their new government because they will feel they have solid ground to jump into. The situation may thereby be cleared up more quickly with much less nervous strain all around. Your own forecast will be substantially what the English is.

Mr. Morgenthau: Well at first blush - I mean I think we can get along with them but nobody can answer that but the President. Don't forget the history of the English on this thing that after the London Conference they said they never would talk to anybody on stabilization or anything that had to do with stabilization except the President himself. Now they made that statement.

Dr. Viner: That's all past history.

Mr. Morgenthau: I know but I wouldn't make any statement and couldn't make any unless the President wanted to go along with it. I want to get a statement. Number one, I would like to have you fellows prepare a draft of an answer to the letter.

Dr. Viner: I have a rough draft but find it hard to find the correct words.

Mr. Morgenthau: What time does your train go?

Dr. Viner: 4:35. If you like I will get it now.

Mr. Morgenthau: Well let's wait a couple of minutes.

Note: At this point Secretary Morgenthau told McHugh that he was going to see the President in the morning and he wished to take with him the draft of his answer to the Ambassador and also a clean copy of his conversation with Mr. Bewley.

Mr. Morgenthau: When I see him (the President) in the morning he never gives me less than three quarters of an hour or an hour.

Mr. Taylor: He and you have got to be in a position to be willing to answer in kind with all the hedges in the world that you want to put on them.

Dr. Viner: Make it a ⁱⁿ meaningful statement or else don't make it. You started this.

Mr. Haas: I think the situation is this; that the British are very shrewd in handling international relationship. Now the situation in Europe - the monetary situation and political situation is distinctly to their benefit to go through with it. It is distinctly to ours. It will be a stimulus to our business in a good many ways.

Mr. Morgenthau: I don't often say I did it but this time I say I did it. I always lean over backwards about taking credit for anything.

Dr. Viner: Now you have caught a big fish.

Mr. Morgenthau: And I am scared.

Dr. Viner: Now don't decide that you have not intended to go fishing.

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Mr. Morgenthau: I was out for a sea bass and I caught a sailfish. The President thinks the Chinese situation has forced their hand.

Mr. Lochhead: I don't.

Mr. Taylor: A frank exchange of views.

Mr. Morgenthau: They absolutely paraphrased my statement.

Dr. Viner: In Cochran's dispatch there is a summary of an editorial of January 18 which is urging the British government to do precisely what they do to come to an understanding with the United States - prepared to meet any emergency that may arise out of a gold bloc.

Mr. Morgenthau: As far as there being any rush, it must be pretty nearly a month.

Mr. Taylor: I think about.

Mr. Morgenthau: If I give them an answer and then take over the week-end to prepare the memorandum that is not taking too long because it is terribly hard to get the President to sit down and work this thing out and he is so like stalking a deer when you start to tie him down to any monetary policy. But I agree with you, Viner, that the importance is increased two fold if you could tell the French about it.

Dr. Viner: But you can't without their permission.

Mr. Taylor: That will be one of the suggestions in your answer.

Dr. Viner: And there time is important you see.

Mr. Morgenthau: Well let's see if we can fix up that letter.

Note: At this point Dr. Viner left to get the draft he had prepared.

Note: At this point McHugh also left to get a photostat copy of Sir Ronald Lindsay's letter to Secretary Morgenthau. He got this from Mrs. Klotz and returned to the meeting.

Mr. Morgenthau: If Congress adjourns Monday night I will be sitting around here Saturday and Sunday with nothing to do.

Dr. Viner: Read the draft he had prepared. Then he read it again.

Mr. Morgenthau: Give it to Bob.

Note: Dr. Viner then dictated it to McHugh and McHugh was requested to read it back to the group three times while they digested it and changed it here and there. Finally Mr. Morgenthau told McHugh to go out and write it up in draft form. He did this and returned with a copy for each of the group.

Dr. Viner: I wouldn't count on it too strongly but that should not affect our behavior.

Mr. Taylor: How that came around does not make any difference.

Mr. Morgenthau: How is the Yen to-day?

Mr. Lochhead: The Yen is steady - the currencies are holding steady.

Dr. Viner: I think you are in a position now where you invite them to talk and you have to answer.

Mr. Haas: It does not have to time itself.

Dr. Viner: What should the Secretary want to say if you gave him the right opportunity and I should say, with this French thing in the offing, it should be a pretty good exchange of the two countries.

Mr. Taylor: We have to be willing to make a statement from our standpoint as they have. They have hedged theirs. We can avoid doing the same thing.

Dr. Viner: My guess is that we would never be willing to make that statement first.

Mr. Haas: It would be unwise. If they hadn't made this statement the situation would look poorly to me.

Mr. Taylor: The greatest trading position you can be in would be to make the other fellow talk first.

Mr. Morgenthau: Well we have done that. That has been my policy since I have been here.

Mr. Taylor: Well she does talk and we have to be willing to talk back to her. It is the last chance we will get.

Mr. Morgenthau: Oh no, it is the first chance.

Mr. Taylor: I mean on this particular basis.

Mr. Morgenthau: I have asked for this three times.

Dr. Viner: The important thing was to break that London ice so that they should show their hand to some extent so that the world would know where it is. Now they presumably would adhere to what they said there even if we don't talk and the important thing now is not what reassurance your statement may make to them but the important thing is to get from them permission to let the French know what the situation is. They will go ahead as they are now. We know where they are but the French don't know where they are.

Mr. Taylor: And neither one of them know where we are.

Dr. Viner: Well the French sort of know in a vague way. The Secretary has spoken to the French some time back. The very unfortunate thing is that it does not take 10 countries to work this out if 3 can do it.

Note: At this point Secretary Morgenthau called Secretary Hull and the Operator could be heard very distinctly to say that Secretary Hull had not come back yet.

Note: Upon hanging up the receiver Secretary Morgenthau told McHugh that that would be all.



Office of the Attorney General
Washington, D.C.

June 2, 1936

The Honorable,

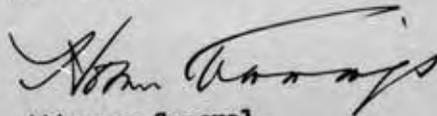
The Secretary of the Treasury.

My dear Mr. Secretary:

If you approve, I should like to have published, in accordance with U. S. C., Title 5, Sec. 305, my opinion to you of June 2, 1936, transmitted herewith, concerning the imposition of countervailing duties on certain German imports into this country.

I shall appreciate it if you will let me know at your early convenience whether you have any objection to the publication of this opinion.

Respectfully,


Attorney General.



Office of the Attorney General
Washington, D.C.

June 2, 1956

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

Responding to your request for my opinion as to a Treasury Decision which you propose to issue giving notice of the imposition under Section 505 of the Tariff Act of 1930 of countervailing duties on certain imports from Germany, I have given careful consideration to the matter in the light of the statute, the draft of the proposed Decision and of the other documents received from you, including the opinion of the General Counsel for the Treasury Department, which reaches the conclusion that the statute requires that the proposed action be taken. You state also that you are satisfied, under the circumstances, that you have no choice other than to follow that course. The legal conclusions at which I arrive are based upon a somewhat complicated factual situation which it is necessary to set forth in some detail.

Section 305 of the Tariff Act of 1930 (Act of June 17, 1930, c. 497, 46 Stat. 590, 687; U. S. C., Sup. VII, Title 19, Sec. 1305) provides as follows:

Whenever any country, dependency, colony, province, or other political subdivision of government, person, partnership, association, cartel, or corporation shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article or merchandise manufactured or produced in such country, dependency, colony, province, or other political subdivision of government, and such article or merchandise is dutiable under the provisions of this Act, then upon the importation of any such article or merchandise into the United States, whether the same shall be imported directly from the country of production or otherwise, and whether such article or merchandise is imported in the same condition as when exported from the country of production or has been changed in condition by remanufacture or otherwise, there shall be levied and paid, in all such cases, in addition to the duties otherwise imposed by this Act, an additional duty equal to the net amount of such bounty or grant, however the same be paid or bestowed. The Secretary of the Treasury shall from time to time ascertain and determine, or estimate, the net amount of each such bounty or grant, and shall declare the net amount so determined or estimated. The Secretary of the Treasury shall make all regulations he may deem necessary for the identification of such articles and merchandise and for the assessment and collection of such additional duties.

Briefly, the question is whether Germany, by reason of the use of certain procedures or devices, must be held under this section of the Tariff Act of 1930 to "pay or bestow,

directly or indirectly, any bounty or grant upon the manufacture or production or export" of certain dutiable articles or merchandise manufactured or produced in that country. If so, the Act provides that upon importation of such articles into the United States "there shall be levied and paid, in all such cases, in addition to the duties otherwise imposed by this Act, an additional duty equal to the net amount of such bounty or grant, however the same be paid or bestowed." The Act requires that "the Secretary of the Treasury shall from time to time ascertain and determine, or estimate, the net amount of each such bounty or grant, and shall declare the net amount so determined or estimated," empowering him to make all regulations which he may deem necessary for identifying such articles and assessing and collecting such additional duties. It will thus be observed that the duties of the Secretary of the Treasury under the Act are mandatory. Therefore, if in fact Germany does "pay or bestow, directly or indirectly, any bounty or grant" upon the manufacture or production or export of such articles, the Secretary must levy and collect "an additional duty equal to the net amount of such bounty or grant, however the same be paid or bestowed." The inquiry is whether the practices being pursued by Germany respecting exports to this country constitute bounties or grants within the statute, the comprehensive language of which has just been indicated

by underscoring. It is obvious from the language itself that the scope of the Act is very broad. The Supreme Court has said of the same language in the Tariff Act of 1913 (Act of October 3, 1913, c. 16, 38 Stat. 114):

The statute was addressed to a condition and its words must be considered as intending to define it, and all of them—"grant" as well as "bounty"—must be given effect. If the word "bounty" has a limited sense the word "grant" has not. A word of broader significance than "grant" could not have been used. Like its synonyms "give" and "bestow," it expresses a concession, the conferring of something by one person upon another. And if the "something" be conferred by a country "upon the exportation of any article or merchandise" a countervailing duty is required by Paragraph E. (Nicholas & Co. v. United States, 249 U. S. 54, 59.)

It is plain from the statute itself that it was intended to anticipate as inclusively as possible all practices and devices which might be resorted to or invented to circumvent it by obscuring or concealing their purposes as bounties or grants. The history of the Act fully corroborates its purposes to make impossible its evasion by indirection or disguise. See Nicholas & Co. v. United States, 7 Ct. Cust. Appls. 97. In that case Great Britain paid certain amounts as "compensation" in addition to the remission of inland revenue taxes upon exportation of liquor to the United States. Countervailing duties equal to the net amount of the "compensation" were imposed and the imposition was sustained by the Supreme Court,

which after using the language quoted above said:

We have the fact of spirits able to be sold cheaper in the United States than in the place of their production, and this the result of an act of government because of the destination of the spirits being a foreign market. For that situation Paragraph E was intended to provide. (pp. 39-40.)

In the decision of the Court of Customs Appeals in the same case (Nicholas & Co. v. United States, 7 Ct. Cust. Appls. 97), that court, after commenting upon the clarity of the language and purpose of the statute, said:

There is nothing obscure, abstruse, mystic, or even ambiguous about this language, which has been, as to the particular words, a part of all our tariff acts from 1897 to and including the present act. Section 5, tariff act of 1897 (30 Stat. L., 151), section 6, tariff act of 1909 (36 Stat. L., 11), paragraph E of section 4, tariff act of 1913 (38 Stat. L., 114). Its plain, explicit, and unequivocal purpose is: Whenever a foreign power or dependency or any political subdivision of a government shall give any aid or advantage to exporters of goods imported into this country therefrom whereby they may be sold for less in competition with our domestic goods, to that extent by this paragraph the duties fixed in the schedule of the act are increased. It was a result Congress was seeking to equalize regardless of whatever name or in whatever manner or form or for whatever purpose it was done. The statute interprets itself as a member of an act calculated to maintain an accorded protection, incidental or otherwise, as against payments or grants of any kind by foreign powers, resulting in an equalization thereof to any extent directly or indirectly. Wherefore, in obedience to that obvious purpose, the court does not feel at liberty to adopt any constrained or technical

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definitions of the words "bounty" or "grant" suggested, but to vouchsafe the paragraph a meaning, well within its language, that will best effectuate the unquestioned congressional purpose. (p. 106.)

In reply to the contention that the "compensation" was a reimbursement of extra costs imposed on the goods by British excise regulations, the Court of Customs Appeals said:

The fact that the payment made by the foreign government was estimated or calculated upon a certain basis or in consideration of extra burdens imposed by domestic excise laws, or for any other reason of domestic government or policy commending itself to the wisdom of Parliament, is not controlling with our courts. The sole inquiry is, do the results of such acts stimulate exportation or give a special advantage by affording aid from the public treasury whereby such goods may when exported be sold in competition with ours for less.

With this construction of the Act in mind, it remains to determine whether the practices and operations of the German government with respect to exports to this country constitute bounties or grants requiring the imposition of countervailing duties. The proposed Decision of the Secretary of the Treasury after stating that "official reports and other data in the files of the Department establish to its satisfaction that bounties and/or grants are paid and/or bestowed, directly or indirectly," on exports from Germany to the United States of certain described dutiable articles, gives notice that

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"countervailing duties equal to any bounty and/or grant found to have been paid and/or bestowed will be collected" thirty days after publication of the notice, and that at that time the liquidation of all entries covering such articles shall be suspended pending the declaration of the "bounty and/or grant determined or estimated to have been paid and/or bestowed, and the net amount of countervailing duties to be collected," a deposit of estimated countervailing duties being required at the time of entry. It will be observed from the words indicated by underscoring that even if the proposed Treasury Decision is issued, a finding that a bounty or grant in fact has been paid or bestowed still remains to be made with respect to any particular importation before declaration of the amount of the bounty or grant determined or estimated to have been paid and of the amount of countervailing duty therefore to be collected.

The Treasury Department states that it has evidence that direct cash bounties are being paid by German industrial associations. Clearly if such a cash bounty is paid in connection with any exportation from Germany, the law requires imposition of a countervailing duty and no further discussion on this point is necessary, only a question of fact being involved. The proposed Treasury Decision would be appropriate in its present form to meet any such cash bounties, since under

it a determination that such a cash bounty in fact has been paid on any particular shipment is still necessary.

The Treasury Department describes certain scrip and bond procedures, which may be summarized briefly as follows: German debtors are required to pay the interest and amortizations of the principal on certain foreign-owned German securities to a conversion bank (Konversionkasse) which then pays to the owner of the security in currency one half of the amount due thereon, and the remaining one half in so-called "scrip" which theoretically is redeemable at its face value at some time in the future, both the date and the probability of ultimate redemption being uncertain. The Gold Discount Bank, which is an agency of the German government, maintains a bid of fifty per cent of the face value of the "scrip". Because of the uncertainty of redemption, the foreign owners of the "scrip" usually prefer to sell it to the Gold Discount Bank for fifty per cent of its face value rather than risk a full loss by holding it for ultimate redemption.

German exporters who otherwise would be unable to sell goods in the United States except at a loss are allowed, under special permits issued by German exchange control authorities, to use part of the proceeds received from particular export transactions to purchase "scrip" from the Gold Discount Bank at a discount somewhat less than fifty per

cent. Thereupon the particular exporter may present the "scrip" to the conversion bank and receive its full face value. The German authorities grant such special permits only if the current policy of the German government deems exportation of the goods desirable; and the amount of "scrip" so allowed to be purchased and redeemed in connection with a particular export transaction is measured by the loss in the export sale which is intended to be off-set by this procedure.

Similarly, the German exchange control authorities, when satisfied that an exporter will otherwise sustain a loss in a particular export sale, grant the exporter special permission to have part of the foreign exchange proceeds of the sale used for the purchase in the United States of German dollar bonds at the prevailing market price. Because of the disability of the foreign owners of such bonds respecting sale or redemption of them in Germany, such bonds sell at substantial discounts. However, when they are acquired as just indicated for the account of the German exporter, the bonds are redeemed at par by the conversion bank in Germany which handles the entire transaction of purchasing and redeeming the bonds. This procedure, likewise, is permitted only if the German exchange control authorities deem the particular exportation desirable and only such amount of bonds is permitted to be purchased as

such authorities find to be necessary to off-set the loss on the export sale.

The Treasury Department's position is that such "scrip" and bond transactions constitute grants to the German exporter by the German government because of the exportation of the German goods to the United States, and that the concession has a value which can be ascertained exactly in terms of United States currency. It asserts that the value of such concession is not paid for by the American purchaser and that it enables the German exporter to sell his goods more cheaply in the United States in competition with our domestic goods. It, therefore, concludes that such procedures constitute the bestowal of an indirect bounty or grant which the statute requires to be countervailed.

The Treasury Department also describes certain currency manipulations which may be summarized briefly as follows: All German marks are of one class, having a nominal exchange value in American currency at the present time of approximately forty cents. However, large sums in marks are held in Germany in mark accounts which bear different names according to the origin of the funds. The characteristic of all such accounts for present purposes is the same,—they are "controlled", "frozen" or "blocked" accounts. It will be sufficient to mention here two of such accounts, known respectively

as "Aski mark accounts" and "Barter mark accounts" and comprised of funds paid by German importers into blocked or frozen accounts. Regulations were put into effect in Germany by virtue of which all imports into that country are controlled under a licensing system. The funds in Aski mark accounts consist of payments for essential raw materials imported into Germany under general or special permits—in trade with the United States they arise chiefly from sales of cotton by shippers from this country. Barter mark accounts arise from sales to Germany of non-essential goods. The funds in such accounts cannot be used for any purpose whatsoever without special permission of the German exchange control authorities. Hereafter for convenience the marks in all such accounts will be referred to as "controlled marks" to distinguish them from uncontrolled marks in free circulation in Germany. The principal use of controlled marks is for payment for goods exported from Germany, the controlled funds being held in Germany for foreign account and the disposition and use of them by their foreign owners being restricted. However, it must continually be borne in mind that there is only one type of mark in Germany, whether it be in a controlled account or in free circulation.

By reason of the control exercised by the German government over such controlled mark accounts and its restriction over the disposition and use of them by their foreign

owners, the market value of such marks has greatly depreciated. When a German exporter finds that he cannot meet competition in our markets under existing currency exchange conditions, he may apply to the exchange control authorities of Germany for permission to accept payment for particular exportations in whole or in part in controlled marks. If the authorities consider the particular exportation to be in accord with the current policy of the German government, the requested permission is granted. The American importer of German goods purchases controlled marks at their reduced values. The German exporter then receives either in full or part payment (as the German exchange control authorities determine) controlled marks—whereupon such marks immediately become released from the control and are of the value of marks in free circulation in Germany.

The Treasury Department gives the following example to illustrate the device and effect of German export transactions involving use of the controlled mark: If the price to be received by the German exporter is one hundred marks and he has no permission from the German exchange control authorities to receive controlled marks in payment, the cost to the American importer will be approximately forty dollars, the value of the free mark being forty cents.

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If, however, the German exporter can compete advantageously in our market only if he is in a position to sell the goods for twenty eight dollars and the German authorities determine that a sale at that price should be facilitated, the German exporter may be permitted to receive full payment for the goods in controlled marks obtainable by the American importer for twenty eight cents per mark; or in the more usual case, permission may be granted to the exporter for the acceptance by him, say, of seventy five controlled marks obtainable by the American importer at twenty four cents per mark, and the balance of twenty five marks will be received by the German exporter in free marks costing the American importer forty cents each. Since the controlled marks immediately become free marks in the hands of the German exporter, it is obvious that on final settlement the German exporter receives one hundred marks of the uniform value of forty cents each. In either case the American importer has paid twenty eight dollars for the goods and the German exporter has received one hundred marks worth forty dollars in our currency.

The Treasury Department asserts in respect of the above example that the only factors intervening between the American importer and the German exporter to effect this addition of value to the purchase between the payment and the receipt thereof are the acts of the German government;

that by these acts there is granted to a favored exporter of privileged German goods, because of their exportation to the United States, a concession valued in our money at twelve dollars, which enables the German exporter to sell his goods more cheaply in the United States in competition with our domestic products; and that the case is squarely within the purview of the law requiring the application of additional duties to countervail the grant bestowed upon the German exporter by the German government on exportation of the German goods. It is pointed out that generally speaking, these various devices appear to be operated in such a way as to enable the German exporter to sell his goods abroad at prices prevailing in the foreign markets in terms of the national currencies of those markets, which he is not able to do except on the basis of depreciated marks.

It seems obvious that the scrip, bond and currency manipulation procedures or devices are all for the benefit of German exporters and enable them to export their goods so as to be in a position to compete with our domestic products, instead of exporting their goods to this country at a loss. Export transactions are completely controlled by the German government which permits only such exports as it deems to be in the German interest, and the devices described are means by which the German government enables the German exporters

to export without incurring loss. In reality the assistance which the German exporter receives seems to be financed by levies upon capital and income collected from foreign creditors of German debtors by the German government and paid over by it to the favored German exporters. It is true that the funds so used to aid the German exporters may not be transmitted through the German treasury, but I do not deem that material. I may add that it appears that the German authorities also completely control imports into Germany, permitting only those which are deemed for the benefit of that country. The Treasury Department states that to some extent the aid to German exporters is financed by levies collected from German importers. The whole policy indicates a desire to encourage exports from and discourage imports into Germany.

I have heretofore observed how broad is the language of the statute requiring imposition of countervailing duties. While it may be that when that Act was passed the Congress did not have in mind the particular procedures or devices under consideration, as I have observed the statute was plainly intended to anticipate as inclusively as possible all practices and devices which might be resorted to or invented to circumvent it by obscuring or concealing their purposes as bounties or grants. It has also been pointed

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out that the Supreme Court has noted the extent of its scope—"A word of broader significance than 'grant' could not have been used." Not only a direct bounty or grant, but one which is indirect is expressly comprehended by the statute, which in addition to referring to a bounty or grant directly or indirectly paid or bestowed, takes the precaution of adding "however the same be paid or bestowed."

I have no doubt that the scrip and bond practices and also the currency manipulations constitute the payment or bestowal, directly or indirectly, of bounties and grants upon German exports calling for the imposition by the Treasury Department of countervailing duties. It has been suggested that such practices are not within the Act because they are merely special forms of currency depreciation, and that currency depreciation whether complete or partial is not a bounty or grant. The difficulty with the latter position is that the practices are selective and discriminatory for the express purpose of enabling German exporters to sell their goods here at prices prevailing in our markets, which they are not able to do except on the basis of such procedures. The argument seems to be that since uniform depreciation or devaluation of German currency would not be within the Act, notwithstanding that it would stimulate exports from Germany to the United States to even a greater extent than the practices under

consideration, therefore partial, special or selective depreciation or devaluation, such as accomplished by the practices discussed, would not be within it. I do not believe that such conclusion follows from the premise upon which it is based. In the event of a complete or general depreciation or devaluation, there would be no discrimination between one exporter and another, or exporters as distinguished from importers, or other third parties.

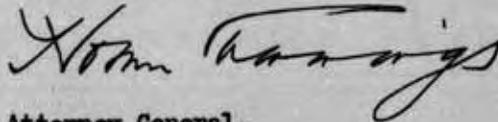
Under the scrip and bond practices and the partial, special or selective devaluation or depreciation practices (if the question is to be discussed in terms of currency devaluation or depreciation), the whole aim seems to be to vest in the German government absolute control over exports: the determination of whether the particular export is to the best interests of Germany, the determination of how much depreciated currency is required by the exporter in order to enable him to place his goods in this country in competition with similar goods here, and the necessary manipulation to accomplish the end desired. The procedures or devices under discussion seem to fall very precisely within the language quoted, supra, from the cases of Nicholas & Co. v. United States. The intent of the practices is to assist German exporters and the results carry out that intent. "However the same be paid or bestowed" it is plain that there is a

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bounty or grant paid or bestowed "directly or indirectly" by the German government which has established the machinery for the benefit of the German exporter and which assists him in the operation of it.

For the foregoing reasons it is my opinion that the Treasury Decision proposed to be issued by the Secretary of the Treasury is within the requirements of Section 305 of the Tariff Act of 1930, and its form is appropriate to carry out the mandate of that statute.

Respectfully,

A handwritten signature in cursive script, appearing to read "Horne", followed by a long, sweeping flourish that extends to the right.

Attorney General.

June 3, 1936

HM, Jr. reported to Secretary Hull that Phillips was very helpful in preparation of reply to Ambassador and that situation in Europe extremely bad; that Bank of England had called Federal Reserve of New York and were very much disturbed having temporarily lost control of the pound.

Filed in Stabilization Folder under date of June 3, 1936.

June 3, 1936

HM, Jr. talked to Knoke, of the Federal Reserve Bank of New York, over the telephone. Attached is transcript of the conversation.) Afterwards he called Secretary Hull.

The Secretary said to Mr. Hull, "Mr. Phillips was very helpful on the letter which he helped us to prepare in answer to the British Ambassador. Please tell him that the President made no changes and that Bewley is coming in here today at 12 and I will hand it to him."

He also said to Secretary Hull, "The situation in Europe is extremely bad and they have a tremendous flight of capital out of Shanghai. The Japanese have frightened them and the speculators are running out. The Bank of England called up the Federal Reserve and they really are quite disturbed. They said, 'We are fighting a rear guard action and we do not know how much longer we are going to be able to do it.'" He then gave Secretary Hull the gist of his conversation with Knoke.

He also informed Secretary Hull as follows: "The English have temporarily lost control of the pound and the Bank of England called up the Federal Reserve and asked what we could do here and the Federal Reserve, in turn, asked them what suggestions they could make."

Wednesday
June 3, 1936

HMjr: - this call from Paris, cut it off and I'll talk to Paris.

Operator: All right, sir

HMjr: And Knoke's talking, have them send a word that I want to talk to him.

Operator: All right.

HMjr: Please

Operator: All right.

HMjr: Hello

Operator: Mr. Knoke
L. W.

Knoke: Yes, Mr. Secretary

HMjr: Knoke -

K: Good morning

HMjr: Good morning, I have Taylor and Lochhead here with me and I thought you might give it to me fresh, first hand about your talk with Bolton.

K: Yes - Bolton - in order to keep in touch.

HMjr: B-o-l-t-o-n?

K: B-o-l-t-o-n

HMjr: Yes

K: Bolton - he said things were bad for Europe today, very bad for Europe.

HMjr: Yes

K: France so far had lost about between seven and eight million dollars to New York.

HMjr: Yes

K: About ten million dollars to the British -

HMjr: Yes

K: He added, - 'You know of course that we are just fighting a rear guard action.'

HMjr: Yes

K: 'What is the use of it after all?'

HMjr: Yes

K: Holland has lost today between five and six million dollars.

HMjr: Yes

K: Switzerland has lost between five and ten million dollars.

HMjr: Yes

K: He said, 'Between you and me, we are much closer a decision than we have ever been, and that goes particularly for the Swiss'.

HMjr: A decision?

K: Yes - some development.

HMjr: Yes

K: That goes particularly for the Swiss. He asked what was going on here. I said nothing. (Laughs)

HMjr: Yes

K: We are not doing - I don't know of anything that is being contemplated.

HMjr: Yes

K: I added if anybody wanted my personal opinion I didn't see what we could do - how anybody could make any suggestion, -

HMjr: Yes

K: - until things had happened in Europe.

HMjr: Yes

K: In other words I didn't see how anybody could determine on operating in sterling at this level or do anything.

HMjr: Yes

K: And - wait a second, - what else did he say? Oh, then I spoke to him about the - I said there were two sore spots in the world, the one was Paris, particularly again so because of the strikes -

HMjr: Yes

K: And the other one was Shanghai where I understood there was the sturdiest definite flight away - flight of capital underway.

HMjr: Yes

K: I discussed the details a little, I said it seemed to me what was happening was that one day the Chinese were - the Chinese authorities were selling sterling to the speculators who didn't want dollars but wanted sterling because of the discrepancy in the rate. The Chinese authorities evidently were carrying - were not carrying large sterling balances, as a result thereof - they were selling sterling to the speculators of one day and the following day they were buying the sterling back in the World's market. All of which just added to the criss cross of the movement.

HMjr: Yes - Well, that movement in Shanghai, I gather it takes quite large proportions. - ?

K: Well, as I told to Lochhead on that, confidentially today four million pounds was done today.

HMjr: Now, what did they do, buy or sell sterling?

K: The Chinese authorities sell the sterling.

HMjr: Sell it?

K: - in Shanghai to the speculators.

HMjr: And -

K: Then not having the sterling, having dollar balances only, they go into the London market and sell dollars there to get the sterling.

HMjr: Yes, but I wonder if - I'm just thinking whether -- I'm just trying to think - let's just say for instance they've got dollars here -

K: Yes

HMjr: Now just let's us think an arrangement out - sup-
posing we could arrange and we said to the British,
'Now, we'll sell you some gold' -

K: Yes

HMjr: And the British give us sterling - they pay for
that with dollars, don't they?

K: The British would pay for the gold in dollars, yes.

HMjr: Well, let's put it this way - supposing the
British bought the ten million dollars worth of gold
that the Chinese had here?

K: Yes

HMjr: Now, would that save an operation?

K: Well, that would - then the British I should imagine -
no, that wouldn't help because the operation the
British have to undertake is the purchase of dollars
in terms of sterling, which means they are selling
sterling in order to keep the rate down.

HMjr: Yes

K: Then, having purchased the dollar they convert those
dollars into gold.

HMjr: Yes - Yes, but look, if they want --

K: What they can do Mr. Secretary, of course they can do
this, -

HMjr: Yes

K: They can say to the Chinese, 'We will buy dollars from
you and give you sterling'.

HMjr: Yes, well that's what I mean. Well, that's the same
as buying their gold here, isn't it?

K: Well - only there's a - you see - no, they would
buy the dollar balances from the Chinese and then
they would have to convert those dollar balances into
gold.

HMjr: Right - well, it's the same thing - as if we would
give them new gold and I was suggesting giving them
this Chinese gold, here.

K: Well, only that of course they can do as is. There
would be no - there would be no reason why the
British today can't ask the Chinese to transfer the

gold to the name of the British - the Bank of England here. The Bank of England has it under earmark.

- HMjr: Yes, well, which gets back to my first suggestion, I think. And instead of doing that we - they transfer the ten million earmarked Chinese gold to the account of the British Bank of England.
- K: Well, the Bank - all right, yes, the Bank of England gives them sterling
- HMjr: Archie says I've got an idea.
- K: And the Bank of England gets new sterling, that's fine, yes.
- HMjr: Now let's go through this once more, because you're talking to you know a gentleman farmer you know who isn't supposed to know anything about foreign exchange.
- K: (Laughs)
- HMjr: Now let's just do this once more.
- K: Yes
- HMjr: What I am suggesting is - China has dollars and they want to sell dollars and get sterling, don't they?
- K: Yes
- HMjr: What?
- K: That's right.
- HMjr: All right. Now they've got - the English want to sell sterling in order to keep the pound down and they need dollars, don't they?
- K: Yes, that's right.
- HMjr: Now, we've got - the Chinese have here in New York both dollars and gold.
- K: Yes
- HMjr: So the English say to the Chinese, 'You want sterling, we'll sell you sterling for your dollars or for your gold'.
- K: That's right.

HMjr: '--- right in New York' -

K: That's right.

HMjr: 'And will it be agreeable if the United States Government should transfer that ten million dollars worth of earmarked for China, will you do the same for Great Britain?'

K: And that's right up to the very end, Mr. Secretary, because the last is not necessary. The -- well, they might want to -- The Chinese might probably add that that's true but we would be willing to transfer it to the Bank of England, -

HMjr: Yes

K: in our vault.

HMjr: Yes

K: No, that is a detail and anyway under your plan the British would have means of keeping sterling down.

HMjr: Yes

K: Because they would take the gold here in London and give the sterling to the Chinese who needed it.

HMjr: Not the gold in London.

K: Gold in New York

HMjr: Please

K: Yes

HMjr: Now say that -- they'd take it here or they can either take the gold here or they can take the dollar balances.

K: That's right.

HMjr: And it's -- in other words they'd operate through the Federal Reserve and take care of the Shanghai situation through New York.

K: That's right, to the extent of --

HMjr: And -- and -- to the extent of the amount of money they've got here.

K: That's right.

HMjr: But it's like all of those things, it keeps the Chinese out of the speculative market and puts it in the hands of the Central Banks and the Government.

K: That's right.

HMjr: And puts it under their control.

K: That's right.

HMjr: Right?

K: That's right.

HMjr: Now listen, you think this thing over and then call Archie back and you fellows thrash this thing out and see whether I haven't got an idea.

K: Fine, I'll do that.

HMjr: You see what I mean?

K: Yes

HMjr: That would take care of the situation which is driving sterling up.

K: Yes

HMjr: What?

K: Yes, absolutely

HMjr: Well, if they do four million pounds that's a hell of a lot of money.

K: Yes, because there's four million pounds another day and they'll all be shot to pieces again.

HMjr: Right

K: Well, Henry, I'll think it over -

HMjr: Think it over and call Archie back and see where - what's the matter with it.

K:5 Yes

HMjr: What?

K: All right.

HMjr: Now, on the European thing I don't - they've got to ask us for what they want us to do, that's what it amounts to.

K: Yes

HMjr: I mean he's the gold buyer for England, there's nothing that we can suggest. -- I've got a call in for Cochran at Paris now.

K: Yes - all right, sir, I'll talk to

HMjr: Talk to Archie and see if that's any good.

K: All right.

HMjr: Goodbye.

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Wednesday
June 3, 1936

HMjr: Hello

H. M.
Cochran: Hello, Mr. Morgenthau

HMjr: Good morning - hello?

C: Hello, Mr. Morgenthau

HMjr: Now Cochran, what we hear so far from abroad is not at all good today.

C: It's not been a good day.

HMjr: Now, I wondered if you could throw any light on it.

C: Yesterday when I cabled it looked as if the labor situation would clear up.

HMjr: Yes

C: Instead it got worse.

HMjr: Yes

C: So that strikes have spread through a number of industries in addition to the metallurgical industry with the result that there are about two hundred plants now involved. -- There are no serious troubles. Everything is orderly so far.

HMjr: Well, what are they striking for?

C: More wages, a forty hour week and so on. Principally more money and a forty hour week.

HMjr: Well, has that any connection with the change in Government?

C: No, it has not. The Government is somewhat - the new Government is somewhat embarrassed over its coming at this time.

HMjr: I see. Well now, has that got a - is that frightening people?

C: Yes, it is frightening people. The price of currency has - from the currency has increased today. I just saw Mr. - our friend at the bank - he said dollar sales have totaled nine million dollars --

HMjr: How many?

49A

C: Nine

HMjr: Nine million dollars?

C: That is not awfully big but still it's the biggest we have had for a while.

HMjr: But, Cochran --

C: Our friends across the Channel disbursing - to the extent of one hundred twenty-five billion francs today.

HMjr: Yes

C: At the control.

HMjr: Yes, but Cochran -

C: What it is?

HMjr: Hello - can you hear me?

C: Yes

HMjr: The strikes in Paris have nothing to do with the Dutch situation and the Swiss situation.

C: No

HMjr: And they're very bad also.

C: The - there is no reform on the devaluation. Many of the dollars which are sold here are for Swiss accounts you see?

HMjr: Oh

C: I mean most of the - are bought by the Swiss.

HMjr: Yes

C: Yesterday- the neighbor here, you know, the Guaranty?

HMjr: Yes

C: Sold about six million dollars, most of which were bought by Lombard or Swiss accounts.

HMjr: Oh

C: I mean there is a fear in all of these countries, you see?

HMjr: Yes

C:

HMjr: Yes

C: to the Netherlands and to a lesser degree from Switzerland.

HMjr: Yes

C: The Netherlands is losing gold ; Switzerland losing gold to France -

HMjr: Yes

C: France losing gold to the Swiss control, to British control and also to Belgium. But I don't look for anything to be done this week. may resign tonight or tomorrow.

HMjr: Who?

C: The government -

HMjr: I see.

C: This government turns in its resignation tomorrow.

HMjr: Yes

C: And the new government may be set up Friday or Saturday.

HMjr: Yes

C: But I do not believe it can get around to giving its declarations and so on -

HMjr: Yes

C: - before Tuesday.

HMjr: Before Tuesday?

C: The situation is bad enough, they might hurry it up.

HMjr: Yes

C: But most of the people with whom I talked anticipate no government declaration.

HMjr: Yes

C: - for the night and they look for no action of a monetary character before the government has given declarations and there is observed a reaction thereto.

HMjr: Yes - well now, I don't know why, but we get here the reaction of nervousness which I have never gotten before. I mean such acute nervousness.

C: I know the foreign banks are getting all manner of calls from their New York head offices.

HMjr: Yes, yes

C: They're nervous about the further interventions here to take gold, you see?

HMjr: Yes - well, if you --

C: I told you today that our friends at the Central Bank have offered to put trucks, their own trucks, at the disposal of the Guaranty.

HMjr: Yes

C: - to take gold to the ports.

HMjr: Yes

C: in transportation.

HMjr: Yes

C: That's the principal worry now - lest the transportation service become involved.

HMjr: Yes

C: metallurgy and automotion -

HMjr: Yes

C: The strike has spread to laundries and all manner of things.

HMjr: Now, has the French Press given us pretty good publicity on our bond issue?

C: Yes, they have, they gave rather good details and one or two papers so far have carried notice of the heavy over-subscription.

HMjr: Yes

C: Some papers should carry more.

HMjr: Yes

C: But they try to refer to it as the 'largest post-War Treasury issue.'

HMjr: Yes

C: And when I got your wire -

HMjr: Yes

C: - giving the details -

HMjr: Yes

C: I got out a circular -

HMjr: Yes

C: to the Paris American banks and also to most of my friends in the Central Bank.

HMjr: I see.

C: So with that being a holiday I got the information to them by Tuesday morning before they had the papers.

HMjr: So that was helpful?

C: Yes, now I had nice acknowledgments, including one from the Hanover Trust here -

HMjr: Yes

C: 'This information today has already been useful in answering the inquiries of several of our interested clients.'

HMjr: Fine - well then that's a legitimate way of giving them something in return for the information.

C: The Press never did give absolutely as much detail as you gave me.

HMjr: Good

C: Oh, it was just swell, really.

HMjr: Good - all right, Cochran, now don't hesitate to either telephone or cable if anything breaks.

C: All right, fine.

HMjr: Thank you.

C: All right, sir.

HMjr: Thank you.

C: Goodbye.

OFFICE CORRESPONDENCE

DATE June 3, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATIONM L. W. KnokeWITH BANK OF ENGLAND.

Mr. Bolton called me at 10:15 today. Europe had had a bad day today, France losing about \$7,000,000 to \$8,000,000 of gold to New York, about \$10,000,000 so far to London, Holland about \$6,000,000 and Switzerland between \$5,000,000 and \$10,000,000. Holland had raised its discount rate to 4 1/2%. As far as the British Fund's operations were concerned, Bolton said, that, as we of course knew, they were just fighting a rear-guard action. Over in Europe people were now expecting the "blow-up" in France on the ninth, that is, the day on which Blum presents his cabinet to the Chamber of Deputies. As his personal opinion, Bolton added that things have never been as close to a final decision as they were today and this went particularly for the Swiss. As regards the Dutch situation, he agreed with me that theirs was a noble battle but it was doubtful whether it was still worth the candle.

I referred to the flight of capital that was reported from China and to the exchange operations of the three government banks which were reported to have been very substantial during the last few days. I explained how matters looked to me, that is that the demand on the part of the Chinese speculators was for sterling rather than for dollars, that the three government banks, after supplying this demand, had to go into the market and convert dollars into sterling for delivery against their sales. As a result we had the extraordinary picture of the Chinese government banks selling sterling heavily on one day in Shanghai and, then, turning around the following day and buying it back in the world's markets. Bolton thought that that readily explained the substantial dollar

OFFICE CORRESPONDENCE

DATE June 8, 1936.

~~CONFIDENTIAL FILES~~

SUBJECT: TELEPHONE CONVERSATION

L. W. Knobe

WITH BANK OF ENGLAND

- 2 -

amounts recently offered in the London market by the Chase and other banks with Far Eastern connections. He wondered what the total was, so done. I replied I could only make a guess, which was in excess of £5,000,000 in the last few days.

Bolton asked whether we were doing anything and I told him we were only watching. This, it seemed to me, I added, was the only thing we could do until there were some clarification of the general situation in Europe. Bolton agreed, considering that we were thousands of miles away.

✓
LWK:KMC

June 3, 1936

Mr. Bewley came in and the Secretary handed him the letter to the British Ambassador. (Copy is attached.)

The Secretary said to Mr. Bewley, "The only other thing I might say, quite frankly, is that I have not had the time to continue the conversation we had the last time you were here." Bewley remarked, "I want to congratulate you on your financing. It is a great success. No doubt that has kept you busy." HM, Jr. answered, "That and the tax bill. I am giving very careful consideration to the message which you brought me. I do not quite understand now why the people abroad seem particularly nervous today and I want to tell you that there seems to be a flight of capital from Shanghai. One of the reasons for the rise in sterling is the heavy buying of sterling in London by China, but in quite huge amounts. I am just throwing this out to you -- whether or not we can be of any help due to the fact that the Chinese have balances here with us for stabilization purposes. I do not know and I am sort of throwing it at you. They do have dollar balances with us to be used for stabilization purposes." Bewley's response was, "I will ask them in London what their position is."

Continuing, HM, Jr. said, "They are heavy buyers of sterling and this could be one of the substantial reasons for the rise in sterling. It is 5.02 this morning." Bewley remarked, "They are afraid of trouble with Japan." HM, Jr.'s comment was, "That is the interpretation that the Chinese speculators give. What they are doing now is that they are going into your market and buying sterling and it is one of the things we talked about when you were here last. And that is, to put the brakes on the international speculators." Bewley stated, "I am quite ignorant of the situation and I will present it to my people."

The Secretary then told Bewley, "It is not a particular worry of ours, but it has been brought to our attention. Knowing the facts, it might be helpful. I am just giving it to you for what it is worth. I do hope that over the weekend, I will have a chance to digest the message which you brought to me."

Bewley then had the following to say: "There is one more point I should like to bring up at this time. I am

not instructed to press for an answer. I am just interested to know, -- whether the British Government could buy dollars in the United States and convert it into gold, the way other countries do which are on the gold standard. (Note: this is not verbatim, but the gist of what Mr. Bewley asked.) HM, Jr.'s reply was, "I cannot give you an answer now." Bewley stated, "I quite understand, but I would like you to consider it." The Secretary explained the following to Bewley: "You appreciate the kind of gold standard we are on. Those countries who are on gold can buy or sell gold, but the point has never been raised by any country except Sweden, in the same sort of informal manner, as to whether they could earmark gold for the Central Bank of Sweden. There is nothing in our law which would keep us from doing it. It is purely a policy matter and if we decided it was in the mutual interest of both countries it could be done immediately."

The Secretary then said to Mr. Bewley, "I do not quite understand why they are so nervous today all over Europe -- Do they know something that we do not know? -- for the amount of gold moving there is not enough to justify the nervousness. There must be something else. I hope over the week-end to have some time to do a little thinking."

The Secretary of the Treasury
Washington

June 2, 1938

My dear Mr. Ambassador:

Will you please transmit for me to the Chancellor of the Exchequer my sincere and grateful appreciation of his friendly message which was handed to me by Mr. Bewley.

I am glad to learn that we are in entire agreement that there should be full and frank communication between the two Treasuries.

I agree wholeheartedly with Mr. Chamberlain that the closest and most friendly contact between us is desirable and I will be happy, therefore, to avail myself, whenever the occasion arises, of the proffered services of Mr. Bewley.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury

His Excellency
The Honorable Sir Ronald Lindsay,
British Ambassador,
Washington, D.C.

THE SECRETARY OF THE TREASURY
WASHINGTON

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Secretary of the Treasury

His Excellency
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57D

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British Ambassador,
Washington, D. C.

Will you please transmit for me to the Chancellor of the Exchequer my most sincere and grateful appreciation of his very friendly message which was handed to me ~~in person~~ by Mr. Bewley.

I am glad to learn that we are in entire agreement that there should be full and frank communication between the two Treasuries. ~~This may well prove to be urgently needed if the currency troubles of a disordered world are to be satisfactorily overcome.~~ ^{highly desirable}

I agree wholeheartedly with Mr. Chamberlain that the closest and most friendly contact between ^{us} ~~the two~~ Treasuries is desirable and I will be happy, therefore, to avail myself, whenever the occasion arises, of the proffered services of Mr. Bewley.

all drafts

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I am glad to learn that we are in entire agreement that there should be full and frank communication between the two Treasuries. This may well prove to be ^{highly} ~~urgently~~ ^{desirable} needed if the currency troubles of a disordered world are to be satisfactorily overcome.

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~~6/1/36~~
~~6/1/36~~

D R A F T

June 2, 1936.

Will you please transmit for me to the Chancellor of the Exchequer my most sincere and grateful appreciation of his very welcome message which was handed to me in person by Mr. Bewley.

I am ~~happy~~ glad to learn that we are in agreement that full and frank communication between the two Treasuries may well prove to be urgently needed if the currency troubles of a disordered world are to be satisfactorily overcome, and I feel confident that the establishment of a convenient and speedy channel of communication between Mr. Chamberlain and myself will facilitate the attainment of this purpose.

+ insert
XX

and I will be happy, therefore, to avail myself, whenever the occasion arises, of the proffered services of your Mr. Bewley ~~as Liaison Officer between the two Treasuries.~~

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D R A F T

514
June 2, 1938.

Will you please transmit for me to the Chancellor of the Exchequer my most sincere and grateful appreciation of his very ^{friendly} welcome message which was handed to me in person by Mr. Bewley.

I am ~~happy~~ ^{quite} glad to learn that we are in agreement ^{that should be} and the closest and most friendly contact that full and frank communication between the two Treasuries. ^{and the closest and most friendly contact} This ^{may well prove to be urgently needed if the currency troubles} may well prove to be urgently needed if the currency troubles (of a disordered world) are to be satisfactorily overcome, and I feel confident that the establishment of a convenient and speedy channel of communication between Mr. Chamberlain and myself will facilitate the attainment of this purpose.

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51M

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THE SECRETARY OF THE TREASURY
WASHINGTON

June 2, 1950

My dear Mr. Ambassador:

Will you please transmit for me to the Chancellor of the Exchequer my sincere and grateful appreciation of his friendly message which was handed to me by Mr. Bowley.

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Sincerely yours,

Henry Maguire Jr.
Secretary of the Treasury

His Excellency
The Honorable Sir Ronald Lindsay,
British Ambassador,
Washington, D. C.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 8, 1886

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British Ambassador,
Washington, D. C.

THE SECRETARY OF THE TREASURY
WASHINGTON.

June 2, 1933

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June 2, 1936

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Will you please transmit for me to the Chancellor of the Exchequer my sincere and grateful appreciation of his friendly message which was handed to me by Mr. Bewley.

I am glad to learn that we are in entire agreement that there should be full and frank communication between the two Treasuries.

I agree wholeheartedly with Mr. Chamberlain that the closest and most friendly contact between us is desirable and I will be happy, therefore, to avail myself, whenever the occasion arises, of the proffered services of Mr. Bewley.

Sincerely yours,

Henry Maguthan Jr.
Secretary of the Treasury

His Excellency
The Honorable Sir Ronald Lindsay,
British Ambassador,
Washington, D. C.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 8, 1936

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June 3, 1936

Taylor, Lochnead and Haas asked to see the Secretary before Bewley arrived. They came in and HM, Jr. asked, "What's the latest worry?" Taylor answered, "Chinese. As far as this particular conversation, we don't think you ought to talk about it." And HM, Jr. wanted to know why. Taylor explained, "Because if you talk about that, it opens up the whole thing; in other words, if you are willing to do it on the Chinese, they can say, 'That's a nice thing, but it doesn't do us a helluva lot of good. Does that mean you are going to let us buy gold?'" HM Jr. asked Haas what he thought and Haas answered, "My view is -- I get the same answer that he does, but I go at it a little differently. They gave you this communication and they are in some difficulty this morning. Things are not going so well and they are waiting for a reply on general policy. Then I think if you mix them -- although the Chinese is a good proposition -- but if you mix it at this stage, I think you are liable to get confusion in the situation on this big question, which I think would be unfortunate. I think there is a possibility it might not, but there is the possibility and I think the other is too big to take any chances." HM, Jr. said, "All right."

Mr. Bewley came in and the Secretary handed him the letter to the British Ambassador. (Copy is attached.)

The Secretary said to Mr. Bewley, "The only other thing I might say, quite frankly, is that I have not had the time to continue the conversation we had the last time you were here." Bewley remarked, "I want to congratulate you on your financing. It is a great success. No doubt that has kept you busy." HM, Jr. answered, "That and the tax bill." I am giving very careful consideration to the message which you brought me. I do not quite understand now why the people abroad seem particularly nervous today and I want to tell you that there seems to be a flight of capital from Shanghai. One of the reasons for the rise in sterling is the heavy buying of sterling in London by China, but in quite huge amounts. I am just throwing this out to you -- whether or not we can be of any help due to the fact that the Chinese have balances here with us for stabilization purposes. I do not know and I am sort of throwing it at you. They do

have dollar balances with us to be used for stabilization purposes." Bewley's response was, "I will ask them in London what their position is."

Continuing, HM, Jr. said, "They are heavy buyers of sterling and this could be one of the substantial reasons for the rise in sterling. It is 5.02 this morning." Bewley remarked, "They are afraid of trouble with Japan." HM, Jr.'s comment was, "That is the interpretation that the Chinese speculators give. What they are doing now is that they are going into your market and buying sterling and it is one of the things we talked about when you were here last. And that is, to put the brakes on the international speculators." Bewley stated, "I am quite ignorant of the situation and I will present it to my people."

The Secretary then told Bewley, "It is not a particular worry of ours, but it has been brought to our attention. Knowing the facts, it might be helpful. I am just giving it to you for what it is worth. I do hope that over the week-end, I will have a chance to digest the message which you brought to me."

Bewley then had the following to say: "There is one more point I should like to bring up at this time. I am not instructed to press for an answer. I am just interested to know, -- whether the British Government could buy dollars in the United States and convert it into gold, the way other countries do which are on the gold standard. (Note: this is not verbatim, but the gist of what Mr. Bewley asked.) HM, Jr.'s reply was, "I cannot give you an answer now." Bewley stated, "I quite understand, but I would like you to consider it." The Secretary explained the following to Bewley: "You appreciate the kind of gold standard we are on. Those countries who are on gold can buy or sell gold, but the point has never been raised by any country except Sweden, in the same sort of informal manner, as to whether they could earmark gold for the Central Bank of Sweden. There is nothing in our law which would keep us from doing it. It is purely a policy matter and if we decided it was in the mutual interest of both countries it could be done immediately."

The Secretary then said to Mr. Bewley, "I do not quite understand why they are so nervous today all over Europe. -- Do they know something that we do not know? -- for the amount

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of gold moving there is not enough to justify the nervousness. There must be something else. I hope over the week-end to have some time to do a little thinking."

HM.Jr.: Mr. Hoey, I think the easiest way is to get down to brass tacks. I told you what it was about.

Mr. Hoey: Yes.

HM.Jr.: Now, just let me read right from this summary. You and I have known each other long enough. I will read you what it is and you can tell me what the explanation is because sometimes when these cases are typewritten they are not as easy to understand as when they are explained.

"On December 7, 1935 warrants of distraint were issued by Collector Higgins, Third New York District, in the Schmelling case for 1932 and 1933 for \$121,919.02 and \$22,311.28, including interest, advised on warrants recorded by revenue agents of the Third New York District representing the disallowance of all expenses claimed on the Schmelling returns for 1932 and 1933, no proof or records having been submitted to the agents in support of the expenditures claimed, therefore arbitration disallowed."

HM.Jr.: That does not affect you as I understand the agents in making this original thing.....

Mr. Helvering: Together with the receipts. Took gate receipts.

HM.Jr.: And gate receipts are out. That is the way they arrived at the \$121,919.02. I ask this, is it customary to disallow? Why didn't they at that time ask for details?

Mr. Hoey: I think I can answer that. I have learned since that the reason they disallowed it was because they did not bring in their books to substantiate deductions. They just arbitrarily refused to allow the deductions. I presume with the idea that eventually the taxpayer would come in.

Mr. Irey: It was understood that this would not be the final amount in tax.

Mr. Hoey: Lacking proof they disallowed deductions.

HM.Jr.: No question on that?

Mr. Irey: That is true.

HM.Jr.: Continuing reading: "On December 12, 1935 a certificate of compliance was issued to Max Schmelling by Collector James J. Hoey, Second New York District, authorizing them to leave this country. Schmelling sailed on December 14, 1935."

HM. Jr.: Somewhere it comes in later on that he sailed without giving the usual bond, and as I understand he sailed and all you had was the verbal assurance of his Manager.

Mr. Hoey: No, I had more than that. As a matter of fact, Mr. Secretary, I had no authority to stop Schmelling under any circumstances. I have no authority. There is no authority in the law for me to stop an alien from sailing.

HM. Jr.: But as I understand it, it is your responsibility, or you have taken the responsibility, that when these people sail who haven't cleared up their income tax--I don't know what the technical language is but you give them a clearance or not.

Mr. Hoey: No, we give them a sailing permit.

HM. Jr.: Yes, but don't you make them put up a bond?

Mr. Hoey: But Schmelling took the attitude that he owed no money; that if any money was owed it was owed by Jacobs; that he had paid the income tax which they certified was due. He refused to do anything and I had no authority to compel him to do anything thereupon the best I could do was to deal with those who represented him and I got from him a power of attorney designating the Jacobs Bros. to represent him but they contended that the tax was no where near the amount that had been assessed.

HM. Jr.: But the Jacobs Bros., the only thing you got from them was a verbal agreement?

Mr. Hoey: A verbal agreement and power of attorney from Schmelling for them to act for him.

HM. Jr.: But no bond.

Mr. Hoey: I made demand for a bond but none was forthcoming. He refused to have anything to do with it; he said he would not come back unless the tax was cleared up. We made demand for security which we ordinarily do. He said he owed no money; would put up no money; would have nothing to do with the Jacobs matter. I said this assessment is in your name. If you have nothing to do with it, how could you give them power of attorney to act for you?

HM. Jr.: But just let me put it this way, isn't it usual that when a fellow sails where the Government claims he owed them he doesn't sail unless he puts up a bond?

Mr. Hoey: I will cite you a little example. One man was sailing who had just won \$150,000 on the sweepstakes and I told Schoeneman about it, he 'phoned the Commissioner or someone in the Commissioner's office and got a jeopardy assessment and we went up to the boat but he sailed. We can't enforce anything at all against these aliens if they don't want to come near us. They can sail.

HM.Jr.: But supposing you refused to give them the sailing permit?

Mr. Hoey: They would sail without it.

Mr. Helvering: Can he do it?

Mr. Hoey: Sure, that's why I asked to have an amendment to the law so that no man could purchase a ticket without showing a certificate of compliance of having paid his tax. That is why I asked you to do that. If we did not have men at the boats stopping these fellows they would never come near the customs office.

HM.Jr.: But you can't enforce it?

Mr. Hoey: I can't stop anybody. Mr. Irey's men came down with the mistaken impression that I had some authority and asked, why didn't you stop Schmelling. I said I can point out in the law where I have no authority to stop any alien.

HM.Jr.: Well, if you haven't any authority, all you can do is throw a good bluff.

Mr. Hoey: That is what I tried to do and in this case I shifted it over to the Jacobs Brothers because I said somebody has to represent you. We are not going to let you go out of the country.

HM.Jr.: That is that point which is not here and if that law is not there I certainly think we should have something that aliens can't sail if they owe the Government money because, my God! I tied up a whole Japanese steamer in the Port of San Francisco for three days until we collected \$750,000.

Mr. Irey: That is the point. It is in the legislative section of the Legal Division.

Mr. Hoey: Sure and on my recommendation too! I sent the suggestion to Mr. Helvering twice. Everybody agreed that in addition you would save a lot of money because we would take our men off the docks.

HM.Jr.: I am approaching this thing in a friendly attitude and I was under the impression that you had authority to stop the fellow.

Mr. Hoey: No authority. You know that is right, don't you?

Mr. Irey: That's right.

HM.Jr.: That is point No. 1. "February 5, 1936 Revenue Agent Welsh of the Second New York District, was assigned, at Collector

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Higgins' request, to cooperate with Deputy Commissioner Cosgrove of the Second New York District, in a re-examination of the tax liability of Schmelling. Revenue Agent Reisch did not complete his investigation and Deputy Commissioner Cosgrove thereupon arrived at the revenue tax liability approximating \$8,800."

HM.Jr.: I don't see anything in that paragraph.

Mr. Hoey: With respect to that matter, Jacobs said that he would guarantee the amount of the tax but that the amount assessed against him was exaggerated. He proposed to put up a bond or to do something in the way of securing it and in order to ascertain whether the statements he had were correct, for instance, he said, "I have a receipt from Mrs. Hearst for \$10,000 which was her portion of the funds from the fight. I have that receipt." Now that \$10,000 certainly should be exempted and etc. etc." So in order to find out whether there was any merit and whether we should accept less than \$140,000 I asked Mr. Krigbaum to assign a man and I sent a man to see if there was any truth in the statement that the tax was exaggerated.

Mr. Irej: I want to explain that point. The tax had been determined. This was two months after the sailing and it was fixed by the Commissioner at around \$140,000. No field officer could then reopen the case and determine further tax liability without authority from the Commissioner. If the Commissioner gave authority he would give it to the District which had previously determined the tax liability, which was the Third District.

Mr. Hoey: But you understand that I have the exclusive issuing of permits in the Metropolitan District and that I had been notified by the Third District that an alien was sailing and therefore it was my duty to try and collect the tax from him so that when it came to the question of security whether I should insist upon \$140,000 or a bond of twice that amount, which is not unusual, it was my duty to find out whether there was any merit to the suggestion that the tax was less and it was for that purpose that my men went up there and incidentally Mr. Schmelling's representatives were told that I had no authority to lessen the amount of the tax; that that was a matter they had to take up with Washington.

Mr. Irej: Just continuing. As I say, no field agents would be authorized to reopen a case that had been settled by the Commissioner without authority from the Commissioner and on that account no further effort would be made by the proper district to determine the true tax liability in the case. Since the question came up, the Commissioner has authorized the Upper New York District to determine tax liability and they have determined what is concluded to be the correct tax liability but in no case have we seen there was any examination in the Second District to review the tax liability.

Mr. Hoey: Do you think it my duty when an alien presents himself for sailing to go in and check up to see if the statements he makes are

correct if I am looking to get a reasonable amount of security to guarantee the tax? Am I to sit back and say, you present a bond for \$48,000, which was impossible, or should I take into consideration the statements made by these people that the tax was very much lower and I will give you a \$25,000 bond which will secure you?

Mr. Irey: Was there a proposal to furnish a bond?

Mr. Hoey: Sure!

Mr. Irey: Wouldn't it have been proper to ask the Commissioner to reopen the case?

Mr. Hoey: Now I know my duty and you might do it differently but it was my duty to get as much security out of Jacobs to secure the tax and incidentally Schmelling said he would not come back until the matter was disposed of and so I wanted the bond but I was willing to accept the bond in a less amount because it was a hardship, they could not furnish a bond in twice the amount.

HM.Jr.: Now let me get this straight, if an alien sails, under the present law all that the collector of the lower district can do is to see if he has paid his tax or hasn't; if he hasn't---let us say the fellow comes from Texas and not, say an adjoining district,---I take it the collector in the lower district does not send his men into Texas; he takes the word of the collector for Texas that either the man has paid or hasn't. Isn't that the way it is done?

Mr. Helvering: Yes.

HM.Jr.: Otherwise, with the whole United States pouring through the Lower District he would be examining the returns of everybody who sailed for Europe and I don't know how many people sail.

Mr. Hoey: We are examining them with very great profit to the Government with our very limited force.

HM.Jr.: But I think there is an overlapping of authority and as I read it.....

Mr. Hoey: The question was not one of the tax.

HM.Jr.: It was a question of bond?

Mr. Hoey: They could not supply a bond in twice the amount of the tax but they did offer to supply a bond of a lower amount and I wanted to know if there was any merit in their contention that the tax would be very much less. I was checking up some of these things that they had to substantiate.

HM.Jr.: But I think for future cases, I think it ought to be put down very carefully in black and white that when an alien or anybody

I don't know whether it applies to American citizens or not---

Mr. Hoey: No.

HM. Jr.: But when an alien sails that the collector of the lower district--that is, the Second District is responsible as to whether the man should sail. What should he do? Should he take the evidence of the collector of another district before he determines the bond or should he have the right to determine the bond, or should he take the findings of the other collector and determine whether these findings are reasonable or not.

Mr. Hoey: You don't have to do that if you pass the amendment I suggested two years ago.

HM. Jr.: But pending this, I think it should be a clearout regulation.

Mr. Helvering: The law makes it incumbent upon the taxpayer. If a man comes from Texas and has claims in Texas, we can't do anything but grant a sailing permit.

Mr. Hoey: I do more than that; I would question him about his income.

HM. Jr.: This tax was \$121,000 somewhere down the line it was said that he would give assurance that he would not have to pay more than \$10,000. Now let us say that you were wrong and the security is proved to be \$121,000 and they had only to give a bond for \$10,000 then you would be in "dutch"; you would be in "hot water."

Mr. Hoey: I will take full responsibility for any act of mine, I will use my best judgment.

HM. Jr.: I appreciate that, but I am not satisfied as the discussion goes along.

Mr. Hoey: But I should not accept a \$10,000 bond before I make some inquiries.

HM. Jr.: Now wait a minute. I think you are assuming more responsibility than you can handle because what you are saying is that you are going to assume the responsibility as to what is the tax liability of any alien who sails from the Port of New York and I don't think we should hold you to that.

Mr. Hoey: I am doing pretty well; we are collecting a lot of money.

HM. Jr.: But I am going to say to you, Mr. Hoey, that pending legislation, I am not satisfied with that and I would like you to work out with Mr. Helvering and his staff a clearout regulation.

Mr. Helvering: We can't change the regulation under the present law. A year and a half ago we sent a memorandum to the Legislative Division.

HM.Jr.: But I can't get a law through in three days and Congress will not be here until January and until then--I don't know what happened to Mr. Helvering's memorandum. I differ with Mr. Hoey. I think if I were in his place, I would most likely make as good a showing as I could but he opens himself to criticism like this that if he makes a partial examination and he slips and some fellow gets out through the net, through his fingers, and he has made only a partial examination the way he did in this case and the fellow does not return and then I say why did you let this fellow get out of the country? You said you took the responsibility.

Mr. Hoey: I had no authority to stop him.

HM.Jr.: True, but you did assume the responsibility when you go into another man's department and look at this fellow's returns and say it is not \$121,000 it is only \$10,000 and this fellow can sail because his manager has given his verbal assurance that he will pay up to \$10,000.

Mr. Hoey: There are thousands of aliens who come to the Port of New York from all over this country without getting, as the Commissioner has said, a certificate of compliance from their own collector. They come without anything from anybody and they ask for a sailing permit. We ask if they paid income tax and we find they haven't and so we put them on the witness stand and we cross-examine and ask them how much money they made and all that sort of thing and as far as we can we try to get the truth out of them and then we collect the money from them.

HM.Jr.: But look! Lacking this law the Bureau of Internal Revenue and the Treasury proper, from what I have learned in reading this report and what you tell me, I say they are doing it in a slipshod manner.

Mr. Hoey: Well, I wouldn't agree to that.

Mr. Irey: The collector cites where they have not paid the tax and where you determine the tax and get it from them, but this is different.

Mr. Hoey: But the point I am making is that in all cases I should make the fullest examination possible in order to determine if I can the amount of the bond. I could not get a bond in the full amount but if I could get a bond in a lesser amount I have the responsibility, as the Secretary says, if I take too low a bond I will be wrong so I have to check up to see if there is any merit in their statements and then in order to get as much security as possible, I will say I will take \$50,000.

HM. Jr.: If I were sitting in your seat what I would do is when this fellow comes up or when a case like this comes up and I am not sure I would send a wire down to Washington and ask, does this fellow get a clearance or does not. I would not take the responsibility sitting in New York with only the records of the taxpayers in the Third District. I would place the responsibility on the Collector of Internal Revenue in Washington, D. C. and if I did not get a clearance from Washington.....

Mr. Hoey: I could not stop anybody.

HM. Jr.: But I would not assume the responsibility; I would place it in Washington.

Mr. Hoey: If I were to call up Washington I could never accomplish anything. This Bureau was full of graft and corruption and I made a report on it to Mr. Helvering. I said you put it under me and I think we can increase the revenues of the country and we can stop this grafting. He had made an investigation and they recommended it. They knew it was crooked from the beginning. I took hold of it and in 16 months I collected a million dollars as against \$327,000 for the 32 months preceding.

HM. Jr.: You mean back taxes?

Mr. Hoey: I mean revenues from these aliens who were leaving the country.

HM. Jr.: I say its a swell record.

Mr. Hoey: I just happened to pick up a report for May as I came out. They collected last year \$45,000 in May; this year \$83,000 and the year before----This is just for the month of May---in 1954 the amount collected was \$14,000.

Mr. Ireys: That was for the Second District.

Mr. Hoey: Yes. But they were collecting for all three districts the same as they are now because we have men assigned from the other districts. They collected \$14,000 and I collected last year \$45,000 in the month of May and this year \$83,000.

HM. Jr.: Let me go on. I am learning a lot. I will put it this way. From what you have told me I think you are doing the best you can under the circumstances, but I think you are taking unnecessary responsibility and exposing yourself to something you shouldn't, because you are assuming the responsibility for every alien out of every district when you take his bond that it is what it should be.

Mr. Hoey: We don't have to take a bond very often. We bluff them into thinking that if they don't pay the tax they are not going to leave and in 9 cases out of 10.....

Mr. Helvering: This thing we are talking about was recommended to me sometime ago - a year and half ago any way.

HM. Jr.: Well, but nothing happened. Was it on my desk?

Mr. Ireys: I spoke to Schoensman yesterday. It was referred to the Legislative Committee and objections were raised that there would be undesirable aliens who would want to leave and it would prevent their leaving and that the State Department would raise objections.

Mr. Hoey: You mean if the law was that they had to display a permit the alien would get the benefit of it?

Mr. Ireys: That is not my argument.

Mr. Hoey: It is a silly argument.

HM. Jr.: (resumed reading) - "February 15, 1936, Collector Hoey wrote to Supervisor in Charge, Swift, New York City (Exhibit 2 - A) requesting transfer of the Schmelling assessment to the Second District and stating further that Schmelling was permitted to sail without taking any security of any kind by Schmelling's manager and the promoters of the proposed bout in June 1936 gave a personal (oral) guarantee that they would withhold from the gate receipts the correct amount of the tax liability; also that a reaudit had been made indicating that the correct tax will be in a sum less than \$10,000.

"On April 14, 1936, Joe Jacobs, Schmelling's manager, and Robert Jackson appeared at the Bureau in an effort to settle Schmelling's tax liability for 1932 and 1933 and represented that the correct tax liability had been established at \$8,800. The records of the Mayflower Hotel show that Collector Hoey arrived on April 10, 1936 at 5:16 P.M. and left April 11, time of departure not shown, and that he also checked into the same hotel on April 16 at 5:25 P.M., checking out at 9:53 A.M. April 17, 1936. There is no record of Collector Hoey's notification that he intended to be in Washington on those dates, as required by regulations."

Mr. Hoey: I don't recall ever having been here at the Mayflower Hotel. Was there any public event or dinner on? Was that during the Jackson day dinner? Was that Jackson day? I came here for the Jackson day dinner.

Mr. Ireys: April 10 and April 16.

Mr. Hoey: Of this year? I went to Hot Springs over the Easter Holidays with my sister. I drove through here and stopped at the hotel and picked up my sister, Jane, who is here at the Social Security and drove to Hot Springs and came back.

HM. Jr.: The point is that there is some rule in the Internal Revenue that you are not supposed to leave your District without notifying the Commissioner in Washington.

Mr. Hoey: Is that the rule when I go away for two or three days, if I have six weeks coming to me, without asking your permission, when the regulations provide that in my absence the Deputy is the Acting Collector?

Mr. Helvering: He has to be designated under the regulations.

Mr. Hoey: He is designated for me and acts in my absence.

Mr. Helvering: The regulations provide a man should ask for annual leave and designate a man.

Mr. Hoey: What are they trying to insinuate by that?

HM. Jr.: That you were here at the time that Schmelling's manager was here and Jackson was here trying to get this thing settled.

Mr. Hoey: I had no knowledge of their being here although I told them that the thing to do was to come here. But I had no knowledge of it and had nothing to do with them. I only saw Jacobs twice in my life and I assisted them in no way and had nothing to do with it. I came through going to Hot Springs, drove down there and came back at the end of the week and drove on.

HM. Jr.: That is the insinuation.

Mr. Hoey: The insinuation is absolutely unfounded. I had nothing to do with them and never tried to help them. When the point was raised that it was a Third District matter I sent it back and washed my hands of it.

HM. Jr.: You did not suggest to Schmelling's manager that he retain Jackson?

Mr. Hoey: No, I told him to go to Washington and to send their lawyers down to Washington to check it up with the men in charge but I never had any idea who their lawyer was, nor did I suggest anybody.

HM. Jr.: You knew Robert Jackson?

Mr. Hoey: I knew him as a member of the National Committee but I have not seen him in five years.

HM. Jr.: But the inference was made.

Mr. Hoey: Well, the inference was absolutely erroneous.

HM. Jr.: Well, I will take your word for it.

Mr. Hoey: Well.

HM. Jr.: But I would do this in the future, please, as long as our rules.....

Mr. Hoey: I am not so sure that you are absolutely right on this subject. I can go away for two or three days from my office with the Deputy in charge. Suppose I was ill, the Deputy, the Assistant has been designated by me to represent me in my absence?

Mr. Helvering: There is no general rule to designate somebody, irrespective.....

Mr. Hoey: In my absence?

Mr. Helvering: When you are going away the regulations provide that you shall.....

Mr. Hoey: All right, perhaps you are right. I did not think it was necessary.

HM.Jr.: I have not prepared this statement, it was given to me.

Mr. Hoey: It may be correct. It may be that I went away without complying with rules and regulations but the rest of it is absolutely erroneous.

HM.Jr.: O.K.

Mr. Hoey: And as far as I am concerned I stand on my record down there. If I go away for two or three days I have damn well earned it. Whether I write to the Commissioner or not is another thing.

HM.Jr.: (Again reading). "On April 14, 1936, the Commissioner authorized a reexamination of Schmelling's tax liability for the years 1932 and 1933 and additional tax of \$14,659.23 was established for both years which was put together with interest of \$2,524.25 on May 20, 1936, which would indicate that when I was checking up to see whether or not I could accept the bond in less than twice the amount of the tax, that I was correct that I was assuming that I could accept a \$25,000 bond or an amount smaller than that and protect the Government because you settled \$121,000 assessing for \$16,000."

HM.Jr.: Well, of course, no bond is given.

Mr. Hoey: What I was trying to get was some bond and in an amount that would protect the Government.

HM.Jr.: (reading) - "The difference between the different taxes of \$14,659.23 arrived by Revenue Agent Muhstock of the Third New York Division and approximately \$8,800 arrived at by Deputy Collector Cosgrove, Second New York District, is due to the fact that the Revenue Agent making the authorized reexamination used the constituent of disallowing 40% claimed on Schmelling's returns for 1932 and 1933 where the proof was incomplete, whereas the Deputy Collector who made a re-examination at the request of Collector Hoey disallowed a barring proportion of but a few of such items.

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"Collector Hoey's contention is that he did not direct Revenue Agent Reisch of the Second New York District and Deputy Collector Cosgrove to make a redetermination of the tax liability but he requested an inquiry to assist him in determining the proper amount of security to be obtained from the Jacobs. This explanation is inconsistent with his letters to Supervisor in Charge, Swift, and Collector Higgins (Exhibition 2-A and 2-C), which refer to a "reaudit" and a "determination" of the tax liability for those years. Please note that Schmelling sailed December 14, 1935 whereas the reexamination was not commenced until February 5, 1936.

HM.Jr.: Getting back to this question where it says, "The explanation is inconsistent." I would like to read that again and get Mr. Hoey's explanation.

HM.Jr.: (Read Excerpt).

Mr. Hoey: I made no reaudit. I told the taxpayer and his representative that I had no authority to make a reaudit. I am perfectly conscious and aware of my responsibilities and duties and the authority I have. I have no authority to make a reaudit and if you want to spell into my language some suggestion that I was reauditing, it is an absolutely mistaken one because I understand that I have no authority and so advised the taxpayer. What I was trying to do was to find out whether or not I could accept a bond in a less sum because nobody in these days could get a bond of \$440,000. If you went to a Surety Company you would have to put up collateral equal to the amount of bond. What I was trying to do was to get security and find out whether or not I could accept the bond in less amount. Have you a copy of the letter to Supervisor Swift? I think there is a letter to Swift which was dictated by the Chief Field Deputy and signed by me. I am not putting anything over on him but you know how it is. You don't read those letters as carefully as those you dictate yourself.

Mr. Ireys: That is your letter to Mr. Swift. There were no initials on that.

Mr. Hoey: I had no authority to make a reaudit. I advised the taxpayer to go to Washington to see the Commissioner because it was the Bureau who rejected the deductions.

HM.Jr.: May I sum up this thing this way, unless you want to say something first.

Mr. Helvering: I just want to say this. Hoey is right in contending he can't arrest a man under the law and prevent him from going. That is true and that is what we have been discussing. From this investigation, reading the report, I gained this idea that Hoey endeavored to follow the records in redetermining the tax that had already been assessed. While that was an erroneous assessment it was based on gate receipts, the percent Schmelling was sup-

posed to receive which was 40 or 50% and on that the collector who examined it asserted his tax. We never did contend that the tax was the correct amount because we knew there were certain deductions which he would probably take, but having determined that tax, there was nothing to do in Hoey's district about it after he allowed the man to sail.

Mr. Hoey: He sailed conditionally.

HM. Jr.: I am not a technical person. All I can use around here is my horse sense and that is what I am going to apply. In the first place, there is nothing that has ever been brought to my attention since Mr. Hoey went into office which is not absolutely on the level in his District. Nobody has ever brought me anything. I say that in this particular case if Mr. Hoey is given the job of trying to carry out a law which does not exist and assumes this responsibility, I think he is assuming more responsibility than he should, either for himself in his official capacity or for the Bureau. He is trying to enforce a law which does not exist. Now pending a law, I don't think there is any question that we ought to have the thing drawn up and have the thing put in the next session of Congress. But pending that I want the Bureau to draw up some rules and regulations which we can follow, in the first place, so that we don't ourselves break the law when we demand this or that or withhold a shipping permit so that we will be in the position that we have a law suit on our hands and we do have regular rules and regulations. What can Mr. Hoey do pending this law or what assistance can he be given through other districts or from Washington if he questions that the tax is so far in excess that he can't ask for a bond--so that this thing can be done in an orderly manner? A man may sue for a million dollars because we did not let him sail.

I do think this that as long as there are rules and regulations, that for Mr. Hoey's sake and for general discipline I do wish that if there are rules and regulations, that he live up to them even though they may be petty and annoying. I think red tape saves us a lot of trouble in the long run. If there are regulations which say you have to fill out blanks before you leave town, I wish you would do it. But I do think for the sake of discipline you ought to do that. But outside of that I can't---I am perfectly willing--- As a matter of fact I read this thing three times and the days that Hoey was here in Washington on April 10 and 11 and April 16 and 17 and Jacobs was here on the 14th---

Mr. Hoey: I was in Hot Springs.

HM. Jr.: And Hoey was not here at that time. I read this thing over three times. He was not here. I know his sister and I know she is here. That is the way I feel.

Mr. Hoey: I resent very much the attempt to impeach my character in this thing. When Mr. Irey's men came in to my office without coming to me first for an explanation, I felt that the Secretary of the

Treasury did not have much confidence in me because the first thing I thought he would do, knowing me as long as he did, was to ask me about it. But I have told you the whole story.

HM.Jr.: I sent for you to ask you.

Mr. Hoey: The inference in there is most unfair. I came to Washington stopped over night, and came back at the end of the week. Mr. Ireys can check up at the Homestead to find out that I was there on the 14th. The inference that I was helping Jacobs, they have to have a very good imagination.

HM.Jr.: I am fair.

Mr. Hoey: I expect you to be fair.

HM.Jr.: Is that right?

Mr. Hoey: That is right.

HM.Jr.: As far as I am concerned this is purely a Treasury matter and the thing is closed and I am satisfied.

Mr. Hoey: May I, Mr. Secretary, while we are on the subject of graft and corruption, may I call your attention to the fact that since I have been down in the Collector's office, I took occasion to go back and check up the taxes that had been marked off as uncollectible over a period of six years and that I collected either the cash or restored to a collectible status nearly one-half million dollars that had been marked off----corporations having evaporated, etc. with offices in New York par San Francisco and Atlantic City, doing business all over the world but our fellows could not find them and they marked off the taxes and I went back and collected or restored to collectible basis one-half million dollars. Where are Mr. Ireys's men about that? There is evidence of graft and corruption and a record of it. I can tell them where to go to find things.

HM.Jr.: Any information you have I would like to have.

Mr. Hoey: It is of record in the Department.

HM.Jr.: Well, it is not pleasant for any of us but as far as I am concerned this thing is closed.

Mr. Hoey: Thank you. It is the first time anybody has suggested anything with respect to my official conduct and I don't know whether I have the letter---Yes, I have the letter. Here is the letter from Higgins sending the matter to me for my attention, transferring the responsibility to me to try to collect this tax.

HM.Jr.: As far as I am concerned there is no use in going on with it.

Mr. Helvering: You want a memorandum drawn up on just what the status is under this law?

HM.Jr.: That is what I am asking for. This thing will be written up and pending a law I want this thing done. A regulation or some kind of rules and regulations set down so I don't have to go over the whole thing again. I want the Bureau to fix up some rules or regulations so that Mr. Hoey is not put in a position where he can be sued for holding up a man from sailing when he has not the authority to do it. A man might say, "I had a million dollar deal - he held me up two weeks and I lost it. I am going to sue the Government. You had no authority to hold me up." On the other hand, if this fellow appears and some collector in some district said this fellow owes us \$200,000 and Hoey questions it, there should be a way that Hoey can satisfy himself what the bond should be.

Mr. Helvering: This is a practical matter. We have to fight the State Department on this.

HM.Jr.: Listen, Guy! When I held this Japanese steamer for three days and they hired every smart lawyer they could and got the State Department and pounded me for three days and I held the boat for three days, at the end of the three days I got \$750,000 and for years before in previous regimes a Japanese boat always thumbed its nose at the U. S. Government and we got the money.

June 2, 1936.

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Memorandum in re Collector James J. Hoey.

On December 7, 1935, warrants of distraint issued by Collector Higgins, 3rd N. Y. District, in the Schmelling case for 1932 and 1933 for \$121,919.02 and \$22,311.28, including interest, based on assessments recommended by revenue agents of the 3rd N. Y. District representing the disallowance of all expenses claimed on Schmelling's returns for 1932 and 1933, no proof or records having been submitted to the agents in support of the expenditures claimed, therefore arbitrarily disallowed.

On December 12, 1935, a certificate of compliance was issued to Max Schmelling by Collector James J. Hoey, 2nd N. Y. District, authorizing him to leave this country. Schmelling sailed on 12/14/35.

2/5/36, Rev. Agt. Reisch of the 2nd N. Y. Division was assigned, at Collector Hoey's request, to cooperate with Dep. Coll. Cosgrove of the 2nd N. Y. District in a reexamination of the tax liability of Schmelling. Rev. Agt. Reisch did not complete his investigation and Dep. Coll. Cosgrove thereupon arrived at a revised tax liability approximating \$8,800.

2/15/36, Collector Hoey wrote to Supervisor in Charge Swift, New York City (Exhibit 2-A), requesting transfer of the Schmelling assessment to the 2nd District and stating further that Schmelling was permitted to sail without taking any security of any kind but Schmelling's manager and the promoters of the proposed bout in June 1936 gave a personal (oral) guarantee that they would withhold from the gate receipts the correct amount of the tax liability; also that a reaudit had been made indicating that the correct tax will be in a sum less than \$10,000.

On April 14, 1936, Joe Jacobs, Schmelling's manager, and Robert Jackson appeared at the Bureau in an effort to settle Schmelling's tax liability for 1932 and 1933 and represented that the correct tax liability had been established at \$8,800. The records of the Mayflower Hotel show that Collector Hoey arrived on April 10, 1936 at 5:16 P.M. and left April 11, time of departure not shown, and that he also checked into the same hotel on April 16 at 5:25 P.M., checking out at 9:55 A.M. April 17, 1936. There is no record of Collector Hoey's notification that he intended to be in Washington on those dates, as required by regulations.

On April 14, 1936 the Commissioner authorized a reexamination of Schmelling's tax liability for the years 1932 and 1933 and additional tax of \$14,659.23 was established for both years, which was paid together with interest of \$2,524.35 on May 20, 1936.

The difference between the additional taxes of \$14,659.23 arrived at by Rev. Agt. Muhlstock of the 3rd N. Y. Division, and approximately \$8,800 arrived at by Dep. Coll. Cosgrove, 2nd N. Y. District, is due to the fact that the revenue agent making the authorized reexamination used the consistent method of disallowing 40% of expense items claimed on Schmelling's returns for 1932 and 1933 where the proof was incomplete, whereas Dep. Coll. Cosgrove who made a reexamination at the request of Collector Hoey, disallowed a varying proportion of but a few of such items.

Collector Hoey's contention is that he did not direct Rev. Agt. Reisch of the 2nd N. Y. District and Dep. Coll. Cosgrove to make a re-determination of the tax liability but that he requested an inquiry to assist him in determining the proper amount of security to be obtained from the Jacobs. This explanation is inconsistent with his letters to Supervisor in Charge Swift and Collector Higgins (Exhibits 2-A and 2-C) which refer to a reaudit and a "determination" of the tax liability for those years. Please note that Schmelling sailed December 14, 1935 whereas the reexamination was not commenced until Feb. 5, 1936.

Collector Hoey states in his letter to Collector Higgins of March 9, 1936 (Exhibit 2-C) that Joe and Mike Jacobs "felt that when the proper deductions for expenses etc. were allowed the tax could not exceed approximately \$10,000". In Collector Hoey's letter of Feb. 15, 1936 to Supervisor in Charge Swift (Exhibit 2-A) it is stated in part, "a reaudit was made which indicates that the correct amount of the tax will be in a sum less than \$10,000".



TREASURY DEPARTMENT

WASHINGTON

June 3, 1936.

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AK
W. H. C.

MEMORANDUM FOR THE SECRETARY:

Reference is made to the conference held in your office this morning with Collector Hoey, concerning the recent investigation made by agents of the Intelligence Unit of the handling of the Schmelling case in the Collector's district.

I am convinced, after listening to his explanations, that Collector Hoey has not been guilty of any dishonesty or intentional wrongdoing in the handling of the Schmelling case. He did unquestionably violate the rules of procedure in force in the Bureau of Internal Revenue in going into this matter as he did. He was without authority to reaudit or redetermine the tax liability in this case. I feel, however, that as a result of the statements made to him by you we may reasonably expect his adherence to the rules of the Bureau in the future.

James S. Hoey

Wednesday
June 3, 1936

69A

HMjr: Hello

Straus: Hello

HMjr: Mr. Straus?

S: Yes, sir

HMjr: Henry Morgenthau, Jr. -

S: Hello, Mr. Secretary, how are you?

HMjr: How are you?

S: Fine, thank you -

HMjr: Mr. Straus, one of our very best --

S: - I didn't get that.

HMjr: One of our very best men from New York is down here.

S: Yes

HMjr: And it seems that he feels fairly confident that an employee of Macey's has been guilty of bribing one of our Customs people.

S: What!?

HMjr: Yes

S: That's awful!

HMjr: (Spoken to Mr. Manning who is sitting in the Secretary's office: Isn't that right?)
Wait a minute - he says splitting with a Customs broker.

S: What?

HMjr: Splitting with a Customs broker that's what he says.

S: One of our employees, what does he mean, splitting?

HMjr: Well, I -

S: What does he mean by that?

HMjr: Wait a minute and I'll ask him. (Spoken to Mr. Manning: What does that mean?)

HMjr: The point is what I want to do is I'd like Mr. Manning who is our head lawyer up there to have a chance to see you and explain the whole thing to you.

S: Well, I wish you would. I can't imagine anybody doing anything of that kind up here.

HMjr: And -- because I felt that if you knew the facts that we'd get the full cooperation and that's why I'm calling you.

S: Why certainly. Do you mean to say that somebody --?

HMjr: He means, as I understand it, that some of the goods were undervalued, is that the explanation? - And that the broker - ? The broker got paid for it by Macey's to get this goods undervalued and then they split a certain - (Spoken to Mr. Manning: What?) They split the savings and your man got part of the savings.

S: Who was the man?

HMjr: (Spoken to Mr. Manning: What's the man's name?) He says he'll give it to you when he comes up to see you.

S: Well now when will he come to see me?

HMjr: (Spoken to Mr. Manning: When do you want to see him?) What time Friday?

S: I'm - not in my office.

HMjr: No, well suppose --

S: Now, wait a minute, now let me think - can you hold the wire a minute?

HMjr: Surely

S: I have to go into my office for just a second.

HMjr: I'm sorry.

(Pause)

S: Hello -

HMjr: Yes

S: Ah - - I can see him any time - I have - the only appointment I have on Friday is a luncheon appointment at about half past three.

HMjr: Well -

S: I can see him any time Friday morning.

HMjr: (Spoken to Mr. Manning: What time, Manning?)

S: Hello -

HMjr: Just a moment, please. - Would eleven o'clock be all right?

S: Eleven o'clock will be all right with me.

HMjr: Manning, M-a-double n- i-n-g

S: M-a-double n-i-n-g?

HMjr: Yes - Mann-ing

S: All right, sir.

HMjr: And he'll have the proper credentials to identify himself.

S: He will?

HMjr: Yes

S: All right, and then he'll tell me all about it here?

HMjr: He'll tell you all about it, the whole -- he'll tell you everything that we know. He'll tell you all the facts.

S: If I could get some clue - I'd like to be able to get some - to have the people ready who will tell me more about it.

HMjr: Well, I think, if you don't mind - I mean I'd rather --

S: All right, if you don't want to.

HMjr: I'd rather have him tell you personally -

S: Yes

HMjr: And we know that we'll get your cooperation - that's why I'm calling you.

S: Well I appreciate your calling me up.
HMjr: Thank you.
S: And I'll be very glad to see him. How have you been?
HMjr: Pretty well
S: It must be pretty hot down where you are.
HMjr: It's hot and busy.
S: Yes, I imagine.
HMjr: I hope to see you soon.
S: O. K., thank you.
HMjr: Thank you.

June 3, 1936

The attached was prepared at the Secretary's request to be discussed with the President when he saw him at 9:15 this morning.

June 2, 1936

Secretary Morgenthau**Mr. Haas**

Subject: Comments on Revenue Estimates of Senate Majority Bill, as Contained in the Committee's Report to the Senate

1. The majority report asserts that the Treasury estimates, where available, indicate that the yield of the Senate Committee Bill will be \$751 millions, as compared with the \$803-million yield of the House Bill; and that Treasury experts did not take into consideration factors which the majority believed would add a total of \$78 millions to the yield of the Senate Bill, boosting it to a total of \$829 millions.

2. The Treasury has not yet submitted a complete estimate of the yield of the Senate Bill as finally reported. Official preliminary estimates on certain portions of the final Senate Bill have been submitted, but estimates for other portions, as reported by the Committee, were not made by us and do not agree with our own estimates.

3. The differences between the estimates contained in the majority report and the Treasury estimates may best be revealed by tabular comparison:

Secretary Morgenthau - 6/2/36 - 2

Source of revenue increase	Majority Committee estimate	Treasury estimate
	(in millions of dollars)	
Graduated normal tax on corporate incomes	215	217
7 percent surtax on undistributed earnings	217	218
Normal tax on dividends	90	90
Provision respecting liquidating distributions	33	33
Provision respecting nonresident aliens	4	4
Windfall tax	82	82
Strengthening Section 102 of existing law	40	0
Limiting surtax on profits of individuals from sale of oil and gas properties	10	0
Import taxes on certain oils	10	10 1/
Increased individual surtaxes	50	29
General increase because of Treasury conservation	<u>78</u>	<u>0</u>
Total	829	683
Deduction for exempting from death taxes up to \$1,000,000 of insurance policies carried for death tax purposes	<u>0</u>	<u>0 in 1936 2/</u>
Total	<u>829</u>	<u>683</u>

1/ This figure is not a Treasury estimate and is accepted only pending computation of an official Treasury estimate.

2/ The insurance exemption from estate taxes will cause no loss in revenue in 1936 and a loss of only \$12 millions in the calendar year 1937, because estate tax returns are filed fifteen months after death. Once the exemption becomes fully applicable, however, in 1938 and thereafter, the annual loss in revenues is not likely to be less than \$42 millions and may be greater.

LHS:etm

Comparison of House, Senate Majority and Senate Minority Proposals

Description	House Bill	Senate Majority Report	Senate Minority Report
1. Tax on statutory net income	0	1 1/2-1 1/2 percent, graduated by income brackets of existing law.	Present graduated normal rates of 1 1/2-1 1/2 percent.
2. Tax on undistributed corporate earnings	Effective rates graduated from 0 to 4 1/2 percent in accordance with proportion of total earnings retained.	Flat surtax of 7 percent on earnings retained.	0 on first \$15,000, and 8 on next 30 percent of adjusted net income, withheld; 30 percent on next 30 percent of adjusted net income withheld; and 30 percent on remainder of adjusted net income withheld.
3. Effective transfer tax on intercorporate dividends	0, except for certain classes of second- and higher-degree holding companies.	1.50 to 1.8 percent.	No change from present law.
4. Special provision for small corporations	Rate schedule for corporations with net incomes of \$10,000 and under approximating one-third to 70 percent of the rates applicable to corporations with large incomes.	Lower normal bracket rates on the first \$40,000 of corporate income.	Lower normal bracket rates on first \$40,000 of corporate income.
5. Special provision for banks, insurance companies, etc.	Flat 15 percent tax with no tax on undistributed earnings.	Graduated normal corporation income tax rates with no surtax.	Subject to present graduated normal rates, but exempt from surtax.
6. Deductions	Earnings used or retained for debt retirement, contractual arrangements, or to make up capital deficits, subject to 20 1/2 percent rate, corporations in receivership subject only to 15 percent flat rate on earnings.	Corporations under contract not to pay dividends are exempt from surtax.	Corporations under contract not to pay dividends are exempt from surtax.
7. Field of windfall tax provisions	\$100 millions.	\$80 millions.	\$62 millions.
8. Field of import duties on oils	0	\$10 millions 1/2	0
9. Dividends	Subject to individual normal tax.	Subject to individual normal tax.	Subject to individual normal tax.
10. Capital stock and excess profits	Reduced from \$1.40 to 70 cents per thousand, with appropriate excess profits taxes, to expire in one year.	Retained at \$1.40 per thousand, with present excess profits taxes.	Retained at \$1.40 per thousand, with present excess profits taxes.
11. Increases in individual surtax rates	0	Increases of 1 percent in each surtax rate applicable to surtax net incomes of \$5,000-\$25,000.	0
12. Personal holding companies	Repealed Section 151 but included substance of it in Section 102.	Retains both Sections 102 and 151 with stronger language; increase from 3 to 4 years in statute of limitations under Section 102 to allow Commissioner longer time to levy penalties; rates lowered in Section 151 by 7 percent to avoid double surtax; small loan companies exempted from Section 151.	Presumably same as Majority report.
13. Capital gains and losses	No change.	On gains resulting from the sale of oil and gas wells the tax is limited to 30 percent of the selling price.	0
14. Estate taxes	No change.	Exemption of \$1 million of insurance carried for death taxes from Federal estate taxes.	0
15. Other miscellaneous provisions	Special provision for liquidating distributions, and non-resident aliens.	Same as House Bill.	Same as House Bill.

Revenue Estimates

Permanent Revenues

From changes in corporation and individual taxes	\$ 550 millions	\$ 558 millions 2/3	\$ 506 millions
From import tax on oils	0	10 millions 1/2	0
<u>Special-provision Revenues</u>			
From provisions respecting liquidating distributions	33 millions	33 millions	33 millions
<u>Temporary Revenues</u>	140 millions	82 millions	82 millions
	\$ 805 millions	\$ 673 millions	\$ 621 millions

This figure is not a Treasury estimate, and is accepted only pending computation of our own estimate. Beginning in 1934, a reduction of \$42 millions annually from this figure may be expected (on the basis of 1936 conditions) as a result of a provision in the Majority Bill exempting from death taxes life insurance policies up to \$1 million carried for the payment of estate taxes. There will be an revenue loss by reason of this provision in the calendar year 1936 and a loss of only \$13 millions in the calendar year 1937, because estate tax returns take place fifteen months after death.

Senate Finance Committee Proposals vs Principles of the President's Suggestions

Description	Senate Committee Proposals	President's Objectives
1. Normal tax on corporation income.	The Senate Committee Bill raises corporation income taxes from present rates of 12-15 percent to rates of 15-16 percent, retaining existing brackets; thereby increasing the tax burdens of all corporations, large and small, and regardless also of their dividend policies. The normal tax on the smallest corporations is increased by 34 percent; the increase for the largest corporations amounts to only 20 percent. The tax burden upon the small stockholder in particular is greatly increased. The 15-16 percent normal tax that would be paid on his share of corporate earnings is a rate that, under the individual income tax schedule, is paid by <u>no</u> individual whose net income is less than \$36,000.	The fundamental objective of the President's suggestions was to obtain the needed additional revenues by removing existing sources of tax inequality and tax avoidance, rather than by imposing new or heavier taxes. An increase in the normal corporation income tax rates hurts the little fellow more than the big fellow; and it is not the little fellow who is now avoiding his due share of taxation by use of the corporate form of business. It adds to the burdens of business as a whole, and increases the taxes of virtually all stockholders in the country, the vast majority of whom are already paying their fair share or more of taxes.
2. Tax on undistributed corporate earnings.	The flat tax of 7 percent on undistributed earnings largely fails either to stimulate additional dividends, or to compensate the Treasury for the loss of revenue caused by withholding corporate earnings. The effectiveness of even the 7 percent flat rate as an encouragement to dividend distribution is reduced, moreover, by the imposition of the normal tax of 4 percent on dividends received by individuals. Thus, the really effective rate of tax on withheld corporate earnings is reduced to 3 percent, and the increase in individual surtax rates reduces it further.	The President's suggestion was for a just graduation of the rates on undistributed earnings, in order to promote equality in the burden of taxation. Under such a rate schedule, corporations which distributed a substantial proportion of their earnings to stockholders, thereby subjecting these earnings to our individual income taxes, would pay relatively small taxes; whereas corporations which retained a large portion of their earnings, thereby enabling their stockholders to avoid individual income surtaxes, would pay higher rates to compensate the Treasury for the loss of individual income tax revenues. The Senate Committee provisions, in contrast, are wholly inadequate in this connection, and the Bill as a whole would accentuate existing inequalities in the burden of taxation.
3. Imposition of normal tax on dividends.	The Senate Committee Bill not only increases the tax burdens of the small stockholder by raising all corporation income tax rates, but it further adds to the burden of the small investors by subjecting dividends to the normal individual income tax.	It would be inconsistent with the President's objective of promoting greater equality in taxation to subject dividends to the normal tax on individual incomes if the existing normal corporation income taxes are retained or increased. If the small stockholder is to pay a substantial normal tax on his share of the corporate earnings indirectly through the corporation, it would be manifestly unfair to subject these earnings to another normal tax when they are distributed as dividends.
4. Increase in individual surtax rates.	The Senate Committee Bill provides for increasing the surtaxes of all individuals reporting surtax net incomes of more than \$5,000. Only \$29 millions, it is estimated, would be added to the revenues from this increase, which would affect about 256,000 persons. It is estimated, for the calendar year 1935.	It has been emphasized that no increase in income taxation can be justified until the very large sources of tax avoidance in the existing law are removed. Relatively few persons, perhaps 60,000, are now enjoying a substantial measure of income tax exemption by reason of the withholding of large amounts of corporate earnings. It is inequitable to add to the taxes of 256,000 persons, to raise \$29 millions of revenue, when our revenue requirements could be met merely by making the existing rates more fully effective.
5. Revenue yield.	The additional revenue that would result from the changes in corporate and individual income taxation discussed above, as proposed by the Senate Committee, are estimated at \$554 millions.	Under each of several proposals that more adequately incorporate the principles recommended by the President, the estimated additional revenue would be substantially greater than from the comparable provisions of the Senate Committee Bill. Thus, under one of these proposals, \$650 millions of additional revenues would result, it is estimated, if: (a) the present corporation income taxes were retained but not increased; (b) the present exemption of dividends from normal tax were retained; (c) no increases were made in individual surtaxes; (d) an exemption of \$15,000 from the undistributed earnings taxes were granted to every corporation (thereby, in effect, completely exempting from these taxes about 86 percent of all corporations expected to report net incomes in 1936); and (e) graduated rates ranging from 15 to 40 percent were imposed on the undistributed earnings after deductions for all other taxes, dividends paid, and the \$15,000 flat exemption. This proposal, like the Senate Committee Bill, contemplates the retention of the present capital stock and excess profits taxes.

Senate Finance Committee Proposals vs Principles of the President's Suggestions

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Description	Senate Committee Proposals	President's Objectives
1. Normal tax on corporation income.	The Senate Committee Bill raises corporation income taxes from present rates of 12½-15 percent to rates of 15½-18 percent, retaining existing brackets; thereby increasing the tax burdens of all corporations, large and small, and regardless also of their dividend policies. The normal tax on the smallest corporations is increased by 2½ percent; the increase for the largest corporations approximates only 20 percent. The tax burden upon the small stockholder in particular is greatly increased. The 15½-18 percent normal tax that would be paid on his share of corporate earnings is a rate that, under the individual income tax schedule, is paid by no individual whose net income is less than \$36,000.	The fundamental objective of the President's suggestions was to obtain the needed additional revenues by removing existing sources of tax inequality and tax avoidance, rather than by imposing new or heavier taxes. An increase in the normal corporation income tax rates hurts the little fellow more than the big fellow; and it is not the little fellow who is now avoiding his due share of taxation by use of the corporate form of business. It adds to the burdens of business as a whole, and increases the taxes of virtually all stockholders in the country, the vast majority of whom are already paying their fair share or more of taxes.
2. Tax on undistributed corporate earnings.	The flat tax of 7 percent on undistributed earnings largely fails either to stimulate additional dividends, or to compensate the Treasury for the loss of revenue caused by withholding corporate earnings. The effectiveness of even the 7 percent flat rate as an encouragement to dividend distribution is reduced, moreover, by the imposition of the normal tax of 4 percent on dividends received by individuals. Thus, the really effective rate of tax on withheld corporate earnings is reduced to 3 percent, and the increase in individual surtax rates reduces it further.	The President's suggestion was for a just graduation of the rates on undistributed earnings, in order to promote equality in the burden of taxation. Under such a rate schedule, corporations which distributed a substantial proportion of their earnings to stockholders, thereby subjecting these earnings to our individual income taxes, would pay relatively small taxes; whereas corporations which retained a large portion of their earnings, thereby enabling their stockholders to avoid individual income surtaxes, would pay higher rates to compensate the Treasury for the loss of individual income tax revenues. The Senate Committee provisions, in contrast, are wholly inadequate in this connection, and the Bill as a whole would accentuate existing inequalities in the burden of taxation.
3. Imposition of normal tax on dividends.	The Senate Committee Bill not only increases the tax burdens of the small stockholder by raising all corporation income tax rates, but it further adds to the burden of the small investor by subjecting dividends to the normal individual income tax.	It would be inconsistent with the President's objective of promoting greater equality in taxation to subject dividends to the normal tax on individual income if the existing normal corporation income taxes are retained or increased. If the small stockholder is to pay a substantial normal tax on his share of the corporate earnings indirectly through the corporation, it would be manifestly unfair to subject these earnings to another normal tax when they are distributed as dividends.
4. Increases in individual surtax rates.	The Senate Committee Bill provides for increasing the surtaxes of all individuals reporting surtax net incomes of more than \$6,000. Only \$29 millions, it is estimated, would be added to the revenues from this increase, which would affect about 256,000 persons. It is estimated, for the calendar year 1936.	It has been emphasized that no increase in income taxation can be justified until the very large sources of tax avoidance in the existing law are removed. Relatively few persons, perhaps 60,000, are now enjoying a substantial measure of income tax exemption by reason of the withholding of large amounts of corporate earnings. It is inequitable to add to the taxes of 256,000 persons, to raise \$29 millions of revenue, when our revenue requirements could be met merely by making the existing rates more fully effective.
5. Revenue yield.	The additional revenues that would result from the changes in corporate and individual income taxation discussed above, as proposed by the Senate Committee, are estimated at \$594 millions.	Under each of several proposals that more adequately incorporate the principles recommended by the President, the estimated additional revenues would be substantially greater than from the comparable provisions of the Senate Committee Bill. Thus, under one of these proposals, \$630 millions of additional revenues would result, it is estimated, if: (a) The present corporation income taxes were retained but not increased; (b) the present exemption of dividends from normal tax were retained; (c) no increases were made in individual surtaxes; (d) an exemption of \$15,000 from the undistributed earnings taxes were granted to every corporation (thereby, in effect, completely exempting from these taxes about 66 percent of all corporations expected to report net incomes in 1936); and (e) graduated rates ranging from 15 to 60 percent were imposed on the undistributed earnings after deductions for all other taxes, dividends paid, and the \$15,000 flat exemption. This proposal, like the Senate Committee Bill, contemplates the retention of the present capital stock and excess profits taxes.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 5, 1936

TO Secretary Morgenthau
FROM Herman Oliphant

The Senate Finance Committee's effort to avoid imposing an effective tax on undistributed earnings by attempting to strengthen Section 102 has resulted in a provision which, in my judgment, greatly weakens the section and will seriously handicap the Government in future litigation. The Senate Committee would provide that a corporation retaining over 40% of its "special adjusted net income" or more than \$15,000, whichever is greater, "shall include in its return (hence under oath) a statement setting forth the reasons for accumulating the earnings or profits."

It will be difficult to get the courts to go back of any such statements and decide with the Bureau that the real facts were otherwise, because such statements will have to be made under oath, made pursuant to statutory mandate, and will typically recite formal findings and resolutions by boards of directors. The probative value of such statements will be a novel legal question, but the courts will turn to the analogy of the probative value of discovery under oath pursuant to bill in equity for discovery, and will hold such statements of great probative value which it will be difficult to overcome by counter proof.

If this and other objectionable provisions like the Lonergan insurance amendment affecting estate taxes are to be eliminated, reliance will have to be placed upon the House members of the Conference Committee. For this purpose, we need to begin now to supply those members with the necessary material, and an appropriate channel of communication for this purpose should be opened. That might be a telephone talk by yourself with Doughton saying that there were details of the proposed tax legislation which technicians in the Department would like to discuss with him.

HO
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June 3, 1936

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Mr. Phillips came in to talk to the Secretary about the Italian debts.

HM, Jr. asked him, "Do you know about the message that the President got on this thing from Anna O'Hare McCormick? He got a message and he talked to me about it at the time. Anna O'Hare came back and said that the Italians had it in mind and one of the reasons that they want to do it is so that they can get the jump on England and France. Italy feels it is a great diplomatic move. The President hoped it would not come up before the election."

Mr. Phillips explained, "The situation is that we sent out, in the usual way to all of the Governments, the ordinary circular bills. We transmitted the Treasury statement and as a result of that comes a telegram from our Embassy reporting a conversation between the Minister of Finance and our Charge d'Affaires, the meat of which is as follows:

"I have just returned from the office of the Minister of Finance who asked me to call on him this afternoon. The Minister referred to conversation of Ambassador Long with Mussolini and Suvich on Italy's debt to the United States, and said that Suvich had transmitted to him the Department's notification to the Italian Embassy regarding June payments. He said that as it was impossible through lack of time to discuss the matter before the fifteenth of June, he considered that the usual negative reply must be sent. The Italian Government wishes, however, to enter into discussion with the Government of the United States with a view to ascertaining if some settlement could be agreed upon, and the Minister asked if it would be possible to let him know the views of the United States Government on how these conversations might be initiated and the place at which they might be held. I told the Minister that his inquiry would be communicated to you and that as soon as a reply was received, I would inform him of it.

"The conversation was brief and there was no discussion of any details. The Minister said that there were two principal groups of questions to be considered:

- (1) questions relating to the payments in default, and
- (2) questions relating to the entire indebtedness of

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Italy to the United States. He emphasized that it would be necessary to give due consideration to Italy's ability to pay and said that the matter of refunding at a lower interest rate the Italian commercial debts owed in the United States is a factor in considering the entire question. From my conversation with the Minister, I might add in conclusion that it appears that he does not intend, in replying to the Department's recent notification, to put forward at this time any proposals in regard to the payment of Italy's indebtedness, but that he wants you to know of the Italian Government's willingness to discuss the debt matter.

It is very hard for us to know whether that is any real change of attitude on the part of the Italians. All the Governments have replied in like manner, that is, that they recognize their indebtedness and, of course, are willing to discuss ways and means at the appropriate time. The draft which we propose to send was a rather routine one and did not give any indication that we were prepared to do more than listen to any proposal which they might care to submit through diplomatic channels. I put in the words "diplomatic channels" on purpose, because I did not want to wake up one morning and find that they were sending over a commission to discuss it with the Treasury. This was before your time, but they sent over Leith-Ross in 1933. It was very embarrassing. We felt it was desirable for the initiative to be held in diplomatic channels until the terms were such as to make negotiations possible. Then of course it becomes a Treasury matter exclusively.

HM, Jr. then told Mr. Phillips, "I did not argue with the President because I did not have any ideas on the matter. He had it so firmly in mind that he did not want to discuss any war debts and make an issue while the campaign was on. I appreciate that you say the President has seen it and asked you to discuss it with me. I do not know how you feel, but any such discussion would have to take place in Washington and you people feel as I do -- one country at a time, instead of sitting down with a whole group.

"The other thing which I do not understand -- the President mentions commercial debts. If this happened, would we want to do what we did with the Chinese? Keep these two things entirely separate. I do not feel it is the duty of the Treasury to go to the mat on the private

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debts of a country, but only on Government debts. I wonder if we understand each other. I feel very, very strongly that it is not the duty of the Treasury to try to get into the question of private debts and if they want to go into the private debts I would not want to be in on it. On a friendship basis, is my position correct?

Phillips answered, "Perfectly correct. On the other hand, if it is a Government debt, the Treasury is in on it. The Treasury is responsible for Congress."

HM, Jr. then remarked, "In discussing this thing, Mrs. McCormack said that they are quite conscious of the fact that Finland has done some financing. If they do what the President has in mind, they would just jump at it."

Mr. Phillips inquired of the Secretary, "If the President asks me what your attitude is, can I say it is all right?" and Mr. Morgenthau answered, "Yes."

The Secretary then told Mr. Phillips about his conversation with Bewley and Phillips remarked, "The European agitation does not affect this country very much."

Mr. Phillips departed and Mr. Morgenthau commented as follows: "If the Italians would come across and I knew what the formula was, I could put it across in two weeks. I think the State Department has put something over on me, but under the circumstances there is nothing that I can do because the President did not communicate with me direct and nobody but the President could tell the State Department that he wants the whole thing handled from the beginning by the Treasury and, therefore, there is only one thing left for me to do and that is to go along with Phillips and take him at his word that when the matter gets down to final negotiations, the Treasury will conduct the negotiations."

June 5, 1936

I handed the President the letter which I had written him in regard to McReynolds and I said, "Do you want to take it now?" and he said, "Yes. I really have not decided who I want to make Comptroller. I have not received very many good suggestions." He said, "Congressman Cochran, who is Chairman of the Committee on Expenditures in the House, has been suggested. You have suggested McReynolds." And then he said, "I am going to tell you who else has been suggested and you are the first person I have ever discussed it with." He said, "Harold Ickes. What do you think of that?" So I said, "I do not think he is particularly fitted for the job, but for your peace of mind I think it would be marvelous and, furthermore, it would save the Government hundreds of millions of dollars." He said, "What do you mean by that?" So I said, "As long as you brought up this question, I want to say that if you did not have the problem of trying to satisfy Ickes, Hopkins and Tugwell for the last 18 months, we would have saved at least \$500,000,000." The President said, "Not quite that much, Henry." So I said, "Darn near that." and I said, "Furthermore, you would not be trying all the time to do special things to satisfy the three of them." He said, "If I make Ickes Comptroller General, he is not a lawyer and, therefore, I would make him give me a letter in writing that on all legal questions he would ask for the opinion of the Attorney General." I said, "But, Mr. President, Ickes is a lawyer," and he then laughed loudly. Then the President said, "Because at the end of a year, Harold would be at swords' points with everybody in the Administration," and I said, "Why wait a year, Mr. President? He would arrive at that point at the end of a week." and again the President laughed sympathetically.

He said, "My problem would be to find a new Secretary of the Interior." I said, "You would not give that job to Charlie West?" and he said, "Under no circumstances. I just got a contract for the oil reserves in California, which got by both Ickes and West, which would permit the oil companies to draw out of the naval reserve fields in California twice as much oil as they are entitled to." I said, "If you give Ickes this job, you certainly will sleep better nights than you have in the past."

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Inasmuch as the President opened up the subject, it was my opportunity to let him have it between the eyes and I did, and much to my surprise he took it and liked it.

Had a long discussion with the President about the English. I showed the President my letter to the British Ambassador in answer to the one which was handed me by Bewley. He read it very carefully and approved of it as written. I told him that over the week-end I wanted to talk to him about how I should answer the British.

He then started on a long harangue that he thought we ought to have a secret commodity price index with which we would manage the dollar. He said that Sweden had been very successful with it and so had the English. He felt that his message to the Economic Conference, in July 1933, should be our text and bible. I told him that I felt that if we could indicate to France that both England and ourselves would not try to devalue further if France would make a clean-cut devaluation at this time, that it might assist France to make up her mind and accelerate action on her part and we might be able to bring about world stabilization between England, France and ourselves within a couple of weeks. He was quite excited and enthusiastic about the idea and realized fully its importance. However, I am going to have quite a time of it until I can pin him down, because every time I have brought up this subject of the discussion of stabilization with England, he always balks. See * on next page.

As I left the room, Charlie West came in and he said, "Glavis wants to get the income tax report of a large contributor to the Republican party. Can he see Irey?" I said, "No; he had better see me," and I said, "By the way, who is Glavis working for these days anyway?" So he said, "Well, he is doing this special work for the President, but shortly he will be transferred to a campaign investigating committee of the Senate and that is the way we have solved the Ickes-Ballou-Glavis fight. Don't you think that is swell?" And I said, "I really do not know." (Note: Before I give Glavis any access to our tax papers, I certainly want to know what he is doing.)

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The President said he had a little fever last night, but seems to be a little better today. He said he would not work this afternoon.

* The President asked me whether in our French trade agreement there was a provision made to take care of the French devaluation and I told him that there was. The President did not even know that.

IMPORTANT COLLATERAL PROVISIONS TO BE CHANGED IN CONFERENCE.

1. Lonergan amendment on estate tax insurance to be eliminated.
 2. Copeland Liquor Tax amendment to be eliminated.
 3. Review of Excise taxes by Board of Tax Appeals to be eliminated.
 4. Windfall tax (title III) - 30-day rebate provision to be eliminated.
 5. Preferential rate for sales of oil and gas properties (§ 104) to be eliminated.
 6. Preferential rate of tax for Canadians and Mexicans (§§ 211(a) and 231(a)) to be eliminated.
 7. Common trust provisions (§ 169) to be revised.
 8. Floor stock, etc., refunds, (§§ 601 and 602) - \$10 limitation to be restored.
 9. Title VII - Refunds of taxes under Agricultural Adjustment Act. \$10 limitation to be restored.
 10. Corporate Reorganization Amendment (§§ 112 and 113) not to be relaxed.
- Note - The following amendments do not concern Treasury Policy:
- a. Additional taxes on importation and processing of oils.
 - b. Tariff on sardine oil.
 - c. Extension of tax on imported lumber.
 - d. Provision for quota on imports of shingles.

about June 4.

Loneragan Amendment to Tax Bill Permitting Deduction from Gross Estate of Proceeds of Insurance Earmarked for Payment of Death Duties

Without legislation anybody can take out insurance to provide quick funds at death to pay estate taxes. But such funds would not be exempt from death duties, and should not be, any more than should funds accumulated for the same purpose in any other way, for example, in savings accounts or by purchase of Governments.

While the Lonergan amendment would result in no loss of revenue in 1936, it would cause an estimated loss of \$9,000,000 during 1937 and of \$2,000,000 yearly thereafter.

It would discriminate against small estates because as the estates increase the amount of the deduction increases and the tax decreases more than proportionately due to the fact that the rates on larger estates are higher. For example, on an estate of \$100,000, without the insurance deduction the tax would be \$9,280, and with the deduction \$8,198, a saving of \$1,082 or 11.6%. On an estate of \$1,000,000, without the deduction the tax would be \$222,600, and with the deduction \$158,724, a saving of \$63,876 or 28%. On an estate in the highest bracket the maximum saving would be \$95,000. Also inequities as between estates are possible because one taxpayer might be in a position to adjust his affairs to meet the amendment and thus obtain its full benefit, while other taxpayers might not be in a position to adjust.

No restrictions are placed on the type of insurance deductible or the period of time it must have been in force, and policies in amount up to \$50,000 are deductible. Because of the diversity of forms of insurance existing and the ingenuity of insurance agents in devising additional forms, various subterfuges which would enable both taxpayers and insurance companies to profit at the expense of the Government are possible.

The amendment might be prejudicial to states whose death taxes are so revised as to secure the maximum amount for which credit may be allowed against the 1926 Federal tax and might induce taxpayers to change their residences.

It will give preference to insurance over other classes of investments. Why should the proceeds of insurance policies be deductible from estate taxes and not other property, including Government bonds, when such other property is used, as it may be, to make estate tax payment immediately on death? This preference would tend to make Government securities less desirable and interfere with the Government's program of financing.

For all practical purposes, the general effect of the amendment would be a boom for insurance companies and agents; and a discount at a rate equal to the highest rate of tax applicable to each estate, or from 2% to 70% depending upon the size of the estate, will be allowed for prompt payment of death taxes with insurance proceeds. It is too high a price to pay.

The amendment would result in serious administrative difficulties.

1-A.

9. If it is desired to provide additional ways of meeting estate taxes by the "instalment payment" method, time should be given to the Bureau to develop such a plan, which might include instalment deposits with the Treasury prior to death and which would avoid the discriminations, loss of revenue, and other objections mentioned above.

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2. Copeland Liquor Tax Amendment.

This amendment provides for the collection of the liquor taxes from the retailers. It was attached to the FACA Bill last year and eliminated in conference.

The plan contained in the amendment is impractical and unworkable. It would greatly increase the administrative and enforcement work of the Bureau and would undoubtedly promote bootlegging and cause loss of revenue.

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3. Review of Excise Taxes by Board of Tax Appeals.

The Senate amendment giving the Board of Tax Appeals jurisdiction to review cases involving excise taxes should be eliminated.

Excise taxes are on a monthly return and collection basis, and the machinery of the Board of Tax Appeals is not adapted to handling this class of cases. The amendment is not adequately drafted to cover the extensive procedural changes in the law that would be necessary.

The Board of Tax Appeals is already far behind in its docket. No good reason is seen for dissatisfaction with the present method of handling excise tax cases or for loading this additional work on the Board. It may be noted that under existing law most of the excise taxes in question will automatically cease to be in force on July 1, 1937.

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4. Windfall Tax - 30-day Period for Rebates to Customers.

The Senate amendment giving taxpayers under Title III of the Bill a deduction for tax rebates to customers made within thirty days after the enactment of the Act should be eliminated, and the House provision should be restored, so that allowance will be made only for rebates made on or before March 3, 1936 or under a written contract existing on that date.

The Senate provision will stimulate taxpayers to build up good will by making these rebates to their customers and saving the 80 per cent tax. There is no real possibility of these rebates being passed along to the ultimate consumer who really bore the burden of the tax. The consequence is that the dealers who receive the rebates will become subject to the tax on unjust enrichment. This means that instead of having a few thousand taxpayers to deal with the Bureau may have in excess of a hundred thousand. This will multiply by several times the investigative work and litigation under title III, and in the end will probably mean the loss of most of the revenue under title III.

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5. Preferential Rate on Sales of Oil or Gas Properties
-- Sec. 104.

Section 104 of the Senate Bill granting preferential treatment to income from sales of oil or gas properties should be eliminated. This provision limits the tax attributable to such income to 30 per cent of the selling price of the property.

Prior to the Revenue Act of 1934 a similar provision appeared in the law. /See section 102 of the Revenue Act of 1932/. The elimination of this provision when the Revenue Act of 1934 was enacted apparently recognizes (1) that the oil industry is not today in a situation which calls for tax benefits to stimulate production, and (2) that the complete revision of the capital gains provision was a suitable occasion to drop the special provision. Under the old law gains on property held by a taxpayer for not more than two years were taxed as any other income, while gains from assets held more than two years were subject to a limitation that the tax could not exceed 12½ per cent. The Revenue Act of 1934 introduced a system of taxing such income upon a percentage basis graduated according to the length of time the property was held, and starting the preferential treatment at one year.

The arguments for section 104 of the Senate Bill are presumably that gains on this type of property are sudden and sporadic and that the business will be driven into the hands of corporations to escape the high surtaxes. The first argument is largely met by the new capital gains provisions, and the second argument is no more convincing with respect to oil or gas property than with respect to any other type of saleable asset.

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6. Preferential Rate to Residents and Corporations of Canada and Mexico - Secs. 211(a) and 231(a).

The preferential rate given to (1) income of nonresident aliens living in Canada or Mexico, and (2) dividends received by Canadian and Mexican Corporations (5% in lieu of the 10% rate generally applicable) should be eliminated from sections 211(a) and 231(a).

The State Department opposes this as a discrimination against other countries and there seems to be no reason for allowing such a low flat rate to nonresident aliens and foreign corporations.

7. Common Trust Provision - Sec. 169.

This provision (sec. 169 of the Senate Bill) taxes a "common trust" as a partnership of trusts. In effect, the provision will allow banks and trust companies to operate investment trusts under this exception rather than under the general rule. It is true that the regulations of the Federal Reserve Board at present restrict this activity, but the American Bankers' Association is attempting to have these restrictions relaxed.

The Senate amendment will give rise to distressing legal and administrative problems. The court decisions on the partnership provisions involved are in confusion, and it is undesirable to project these controversial questions into a new field.

Approximately the same results can be reached by a provision that common trusts shall be treated for income tax purposes as strict trusts. If the principle of the Senate amendment is to be retained, it is highly desirable that this alternative treatment be adopted.

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8. Title IV - Export, Charitable Delivery, and Floor Stocks Refunds - \$10 Limitation on Claims.

The provisions limiting allowance to claims for \$10 or more should be restored to sections 601 and 602, relating to refunds on exports and charitable deliveries and payments on floor stocks as of January 6.

The injustice which could result from this limitation is negligible. Not more than \$2,000,000 would be involved in claims for less than \$10 even if such claims were all filed, but the exclusion of these claims will save a vast and disproportionate amount of administrative labor.

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9. Title VII - Refunds of Taxes under Agricultural Adjustment Act - \$10 Limitation on Claims.

The retention of this title as adopted by the Senate is highly important, but for administrative reasons it would be desirable to restore the \$10 minimum limit on claims which was stricken out on the floor of the Senate.

10. Corporate Reorganization and Liquidation Provisions
(§§ 112 and 113).

This Senate amendment is acceptable, but it is important, if it is retained, that it be kept intact and that none of the safe-guards be eliminated.

EXCERPT FROM PRESS CONFERENCE OF JUNE 4, 1936,
CONCERNING IMPOSITION OF COUNTERVAILING DUTIES

(Mr. Gaston distributed the Treasury Press Release on
Countervailing Duties)

Q. Are the articles named?

HERBERT GASTON: Yes.

Q. You mean the German Government is subsidizing these articles
at a lower price than they would ordinarily be exported?

HENRY MORGENTHAU, JR.: May I just say this. If you will just
for a minute, bear with me, and this is absolutely off the
record. The first thing I want to say here is -- this is a
very complicated and intricate ruling and decision. Herbert
Gaston has prepared a memorandum for background for you
people which he will give you in his office. Mr. Johnson is
here from the Bureau of Customs to answer technical questions
and he is the head lawyer at the Bureau of Customs, and at
the office of the Attorney General there will be made avail-
able the ruling of the Attorney General, which was given to
me yesterday on which we felt that it was so important that
we did not want to simply make the move without getting the
opinion of the Attorney General. Now that is available but
I never give out his opinion. But I did ask him on the phone
and he said he would be glad to make his opinion available,
and then there is this memo for background.

Q. This goes into an investigation of "blocked" marks.

HENRY MORGENTHAU, JR.: The whole question of "blocked" marks.

It is a long job. Johnson is here to answer as many questions as you want and I am telling you it is a long intricate subject. What was your question Kintner?

KINTNER: I wondered what they meant by subsidized, whether they meant selling at a lower price than they ordinarily would?

JOHNSON: It means by Government regulations, aid is given to the German exporter for these commodities which enables them to sell goods in the United States for less than they could otherwise be sold for.

HENRY MORGENTHAU, JR.: Do you fellows want to sit down? I will get extra chairs if you want to?

JOHNSON: "Blocked" marks is one phase of the subsidy.

Q. Is it a big phase?

MR. JOHNSON: It is a very large phase.

Q. What might be called the principal phase? Was it the denouncement of the favored nation clause of the commercial treaty?

A. This is not related in any manner to the favored nation clause. That was in October 1934 and was effective in October 1935.

MR. GASTON: I will give you some of this background memo. It is not for direct quote but for paraphrase or otherwise. It is just that the thing is complicated.

Q. I don't see why that they picked these particular articles to subsidize? They don't look very important. How about things like steel?

JOHNSON: You will note from the Treasury release, the statement is made that this Treasury decision will be supplemented from time to time to change the rates or add commodities as further information may require. As the Secretary said, this is a very complicated procedure. Our investigations have progressed far enough to make this decision and to indicate that additions to the decision are very probable. I may say that if the commodities seem to be unimportant in German - American trade, appearances are deceptive. They are quite important items. Some, of course, much more so than others. Export figures can be obtained from the regular Department of Commerce statistics.

Q. Are shipping services involved in the investigation?

A. The Bureau of Customs is not concerned with shipping charges as a rule except as it may effect the legal valuation of the merchandise.

Q. What other countervailing duties are imposed? What is the range of them? Is there some means of telling what the new duty is?

A. In each case the amount of the bounty or grant must be determined for the particular importation. The amount of countervailing duties assessed will be the amount equal to

the net amount of the bounty or grant paid or bestowed in connection with the particular importation as determined or estimated by the Secretary of the Treasury.

Q. That is an extremely complex administrative ruling?

A. Very complex.

Q. Are these percentages given on the last page of the Treasury decision? -- Are those the approximate duty or duties now prevailing?

JOHNSON: Those are the rates of the additional estimated duties which will be required to be deposited over and above the ordinary rates of duty.

Q. Pending determination?

A. Pending final determination by the Secretary.

Q. What are the present rates approximately?

A. It is rather difficult to give them to you from memory.

Cameras as a rule 20%; china tableware 60 or 70% and in some cases an additional 10¢ per dozen additional pieces; cotton and rayon gloves range from 25 to 60%; leather gloves carry specific rates of duty. I prefer to give you those rates in my office. It ranges from about \$5.00 a dozen pairs up to possibly \$20.00 a dozen pairs. It is a very complicated schedule. Surgical instruments ---- ----

HENRY MORGENTHAU, JR.: May I interrupt. Do you men want to have a chance to study this and then go into Gaston's office, or

how would you like to do it? We would like to be as helpful as possible.

Q. I think we would like to get some off now and then come back.

HENRY MORGENTHAU, JR.: I have all the time. You work here just as long as you want and ask all the questions you want.

Q. I think we would like to get approximate rates of duty, then we can run with this.

JOHNSON: I have indicated somewhat the difficulties; in connection with leather gloves I am running into some more.

Q. But these are all additional?

JOHNSON: These are all additional to ordinary Customs duties payable.

Q. Is the purpose of this to protect the American manufacturers?

JOHNSON: The purpose is to execute the provisions of Tariff Act, Section 303 which has been in the law in substantially its present form since 1897.

Q. What is that statute? I am not familiar with it.

JOHNSON: The statute requires the payment of additional duties, equal to the amount of any bounty or grant paid or bestowed, privately or publicly, directly or indirectly on the manufacture, production or export in or from a foreign country of an article which is subject to duty under the

Tariff Act of 1930 and which is imported into the United States. That is a very short summary of the statute.

Q. Has this ever been applied to any other country besides Germany?

HENRY MORGENTHAU, JR.: There was one quite recently on bacon or ham from Ireland.

JOHNSON: We have just revoked that because our application of additional duties -- at least the Irish Government on May 11th of the current year ceased to pay bounties on shipments of pigs' products to the United States. I believe it was in February of this year that countervailing duties were imposed in that case. Another fairly recent case was Danish butter; Polish rye; duties are being currently paid on British whisky; artificial silk products from Great Britain; certain peas from the Netherlands, dried split peas, if my memory serves me.

Q. I think we will get this much off.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Thursday, June 4, 1936.
6-3-36.

Press Service
No. 7-52

A Treasury Decision was approved today which states that countervailing duties will be imposed on certain imports from Germany. The additional duties, imposed by Section 303 of the Tariff Act of 1930, will become effective as to these commodities following the expiration of thirty days after the publication of the Decision in the printed Treasury Decisions. It is expected to appear in the issue of Treasury Decisions of Thursday, June 11, 1936, and will be supplemented from time to time to change rates or to add new commodities to the list as further information may require.

Approval of the Treasury Decision followed receipt of an opinion by the Attorney General that the provisions of Section 303 of the Tariff Act are applicable to certain dutiable imports from Germany in view of the state of facts found by the Treasury Department.

As provided by Section 303, the amount of the countervailing duties to be imposed on the imported articles listed in the Decision will be the amount by which it is determined or estimated that the export of these articles is being subsidized through certain export control practices of the German Government. Pending determination of the exact amount of countervailing duty to be collected as to each particular shipment, deposits will be required at the time of entry at the percentage of the invoice value set forth in the Decision.

A copy of the Treasury Decision is annexed.

(T.D. 48360)

COUNTERVAILING DUTY ON CERTAIN GERMAN PRODUCTS

Collectors of customs instructed to suspend liquidation of entries covering certain merchandise imported directly or indirectly from Germany after thirty days after publication of this notice, pending declaration of the net amount of bounty and/or grant paid and/or bestowed on the merchandise and the amount of countervailing duty to be collected under section 303, Tariff Act of 1930. Deposit of estimated countervailing duties required.

TREASURY DEPARTMENT
OFFICE OF THE COMMISSIONER OF CUSTOMS
WASHINGTON, D.C.

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

Official reports and other data in the files of the Department establish to its satisfaction that bounties and/or grants are paid and/or bestowed, directly or indirectly, on the export to the United States of articles of the kinds named below, which are dutiable under the provisions of the Tariff Act of 1930.

Notice is hereby given that, pursuant to the provisions of Section 303 of the Tariff Act of 1930, countervailing duties equal to any bounty and/or grant found to have been paid and/or bestowed will be collected on articles of the kinds named below when imported directly or indirectly from Germany after 30 days after publication of this notice in a weekly issue of the Treasury Decisions.

The liquidation of all entries covering merchandise of the kinds named below imported directly or indirectly from Germany after 30 days after the publication of this notice in the weekly Treasury Decisions, shall be suspended pending the declaration of the net total amount of the bounty and/or grant determined or estimated to have been paid and/or bestowed, and the net amount of countervailing duties to be collected. A deposit of estimated countervailing duties shall be required at the time of entry in an amount equal to the percentage of invoice

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value stated below in connection with the name of the article.

The articles subject to this notice are as follows:

Article	Percentage of invoice value
Cameras	45%
China tableware	22 $\frac{1}{2}$ %
Cotton and rayon gloves	39%
Leather gloves	47%
Surgical instruments	56%
Calf and kid leather	25%
Glass tree ornaments	52%
Metal-covered paper	48%
Thumb tacks	31%
Toys, dolls, and toy figures	45%

The facts in regard to each importation within the purview of this notice shall be reported promptly and in full to the Bureau of Customs.

JAMES H. MOYLE

Commissioner of Customs.

APPROVED: June 4, 1936:

HENRY MORGENTHAU, JR.
Secretary of the Treasury.

June 4, 1936.

Memorandum as to Treasury Decision 48360

Treasury Decision 48360, approved June 4, 1936, relates to the imposition of countervailing duties under Section 303 of the Tariff Act of 1930 on certain dutiable imports from Germany into the United States. These countervailing duties will be imposed to offset export subsidies which are being provided through three methods:

- (1) Payments of direct cash bounties by German industrial associations;
- (2) Scrip and bond procedures;
- (3) Currency manipulation.

It has been determined that, wherever cash bounties are paid to subsidize dutiable exports to the United States out of any funds created for that purpose, the provisions of Section 303 of the Tariff Act will apply.

More important with respect to exports to the United States in practice are the scrip, bond and currency methods of providing export subsidies. The scrip and bond procedures are as follows:

Interest and principal payments on certain foreign-owned German securities are required to be paid in full by the German debtors to a conversion bank (Konversionskasse). This bank pays to the owner of the security in currency one-half of the amount due him and the remaining half in special debentures, called "scrip". This scrip is theoretically redeemable at its face value at some future time, but the date and probability of ultimate redemption are uncertain. The Gold Discount Bank, an agency of the German Government, purchases the scrip for sums much less than its face value because the foreign owners usually prefer to realize part of the nominal value by selling the scrip rather than take the risk of getting more or less at some uncertain future time.

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Scrip is utilized in export transactions to the United States in this way:

Under special permits issued by German exchange control authorities, German exporters who would otherwise be unable to sell their goods in the United States except at a loss may be allowed to use part of the proceeds from a particular export transaction to purchase scrip from the Gold Discount Bank at a discount usually ranging up to slightly less than 50 per cent. The scrip may then be presented to the Konversionskasse, where it will be redeemed immediately at its full face value. The permits for this procedure are granted only if the exportation of the particular goods is deemed desirable from the point of view of the current policy of the German Government. The amount of scrip allowed to be purchased and redeemed in connection with one export transaction is measured by the loss in the export sale which the procedure is intended to offset.

In the bond procedure a German exporter who can satisfy the German exchange control authorities that, among other things, he would otherwise sustain a loss in a particular export sale is granted special permission to have part of the foreign exchange proceeds of the sale used for the purchase in the United States of German dollar bonds at the prevailing market price. These bonds sell at substantial discounts because of the legal disabilities of their owners with respect to their sale or redemption in Germany. But when acquired for the account of a German exporter, the bonds are redeemed at par by the bond debtor from sinking or amortization funds. The entire transaction of bond purchase and redemption is handled by a bank or other agency authorized by the German Government to transact such business, and the proceeds of redemption are paid to the exporter in marks on the basis of approximately two and one-half marks per dollar of the face value of the bonds. The bonds

are permitted to be purchased only to the amount determined by the exchange control authorities to be necessary to offset the loss which would otherwise be incurred in the export sale, and the procedure is permitted only if the exportation of the particular goods involved is deemed by the exchange control authorities to be desirable.

It has been determined that permission to the exporter to avail himself of either of these procedures in connection with the exportation of dutiable goods to the United States constitutes the bestowal of a bounty or grant to which the countervailing duty statute applies.

The third method of procedure employed in subsidizing German exports to the United States is accomplished through currency manipulation. In Germany all German marks are of one class, having a normal exchange value in American currency at the present time of approximately 40 cents. However, large sums in marks are held in controlled or "frozen" accounts which bear different names, according to the origin of the funds. They constitute in the main credits of foreigners which can only be liquidated under special conditions, notably for the purchase of German goods for export. Some of the representative controlled accounts are those which are called (in English) "old holding accounts", "security mark accounts", "note mark accounts", "credit mark accounts", "registered mark accounts" and "conversion mark accounts". There are also the so-called "barter" and "ASKI" mark accounts representing funds paid by German importers into blocked or "frozen" accounts to the credit of the foreign shippers. ASKI mark accounts represent the proceeds from the sale to Germany of essential goods. Barter accounts arise from the sale to Germany of non-essential goods.

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Because of the restrictions imposed by the German Government on the use of any of these controlled or blocked accounts by American exporters or others to whose credit they stand, the funds in them may be purchased at substantial and varying discounts. The principal use of these registered mark, ASKI and barter accounts is in payment for goods exported from Germany. When a German exporter finds that he cannot meet competition in a foreign market under existing currency exchange conditions, he may apply to the exchange control authorities for permission to accept payment for particular export shipments of his goods in whole or in part in controlled marks. If the exchange control authorities deem the particular export transaction to be in accord with the current exchange policy of the German Government, the requested permission is granted.

The effect of this procedure in transactions in which American merchants are involved is that the American seller of goods to Germany has been required to accept less than the nominal exchange value of the price of his merchandise, as expressed in marks, while the American buyer of German goods has obtained them at a price less than their normal selling price in Germany, the reduction being measured by the discount he has obtained on the controlled or blocked marks he has been permitted to acquire to make payment in Germany.

The marks, once they are received by the German exporter, are freed from control and have the same value as all other marks in Germany. The German exporter has thus received the full price for his product, which is made up in part by the actual cost to the American buyer and in part by a concession or subsidy granted through acts of the German Government, this concession or subsidy having been calculated and allowed by the German Government in the

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amount necessary to permit him to make the sale.

Transactions of this character, where the exported goods are dutiable upon entry into the United States, have been determined to be within the purview of the law requiring the application of additional duties to off-set the subsidy bestowed on the exporter.

The currency manipulation method, and the bond and scrip methods of promoting German exports are held to be devices by which favored German exporters of privileged German goods are given substantial financial aid, this aid being financed by capital and income levies collected from foreign creditors of German debtors, and to some extent from German importers, by the German Government and paid over by that Government to the favored German exporters without transmission of the funds through the German Treasury.

The following illustrations exhibit the methods of operation of these different forms of procedure in subsidizing German exports indirectly:

The scrip procedure:

"A" is the owner of ten \$1,000 bonds of a German municipality paying 7% interest and maturing in 1950. Each year the municipal debtor pays to the Konversionskasse free marks worth \$700, representing the annual interest on these 10 bonds. "A" receives from the Konversionskasse \$350 in dollars and a special debenture called "scrip" having a face value of \$350 but having no definite date for redemption. Being uncertain whether he ever will realize from the indefinite promise of redemption, "A" is willing to sell the scrip at

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a large discount, and it is purchased by the Gold Discount Bank at about 50% of its face value, or \$175. The transaction is handled through an American correspondent bank, which receives from the Gold Discount Bank the sum of \$175, plus a handling charge of, say \$5, and turns over the \$175 to "A".

"B" is a German exporter of leather who has received an offer of \$660 in foreign exchange, or 1,650 free marks, from an American importer for a shipment of such merchandise. However, it will cost "B" 2,062.5 marks (\$825) to manufacture the leather and pack it for shipment to the United States. He makes application to the proper German exchange control authorities, who authorize him to buy from the Gold Discount Bank the scrip sold to said bank by "A". "B" is permitted to purchase this scrip for the equivalent in free marks of \$185, (462.5 marks). He then presents the scrip to the Konversionskasse for redemption at face value, or 875 marks. His scrip subsidy, therefore, is 412.5 marks (\$165), which, added to the 1,650 marks received for his goods, enables him to close the transaction without losing money.

The bond procedure:

A German manufacturer of china tableware receives an offer of \$10,000 from an American importer for a shipment of his merchandise. If he accepts the order and ships the goods without aid from any of the devices arranged by the German Government, he will be required to deposit the dollars in a foreign exchange account under the control of the German Government, and he will receive the equivalent of the dollars in free marks, approximately 25,000 marks. However, it costs 32,500 marks in Germany to make and pack the shipment, and the manufacturer is accordingly unable to accept the order unless he can obtain some aid or subsidy.

The manufacturer applies to the German exchange control authorities for aid. After an examination of the facts, these authorities authorize the purchase of German dollar bonds held abroad with some of the dollars which will be received for the goods.

The tableware is shipped to the United States and the \$10,000 paid in American dollars is received under the control of the German exchange control authorities. An agent authorized by the German Government to handle such transactions then uses some of the dollars to purchase German bonds in the American market. Since the American owner of the bonds is unable to obtain unrestricted payments of the principal and interest, because of regulations of the German Government, the bonds sell in the United States at a substantial discount, and the agent is able to buy, say six \$1,000 bonds for \$3,000 in American currency.

The bonds are sent to Germany, where they are cashed by the bond debtor for the equivalent in free marks of their face value (approximately 15,000 marks). The German manufacturer then receives through the exchange control authorities the equivalent in free marks of the \$7,000 not used in the bond procedure (approximately 17,500 marks) and the 15,000 marks obtained through the bond procedure, or a total of 32,500 marks, having a value in American dollars at the nominal rate of exchange of \$13,000. His subsidy in the transaction is 7,500 marks (\$3,000).

Currency manipulation:

A German importer of American cotton applies to the German Import Control Board for permission to import into Germany a shipment of American

cotton at a purchase price of 1000 marks. A permit to import the cotton is issued with the condition that the purchase price must be paid to a designated German bank. That bank, upon receipt of the 1000 marks, opens a so-called ASKI account, which is the property of the American cotton exporter. The owner of the account may dispose of his interest in it to anyone who will buy it, but the marks in the account can be used only with the permission of the German exchange control authorities for particular purposes, the principal one of which is the purchase of German goods for export.

Because of the restrictions imposed by the German Government on the use of the marks in the "blocked" or "frozen" ASKI account, their owner, if unable to use them himself, may dispose of them only at a price substantially lower than the current rate of exchange for the free mark.

A German exporter of fabric gloves now appears who desires to export his product to the United States. The wholesale price in Germany for the gloves he sells would be 1200 marks. If these goods were sold to the United States for 1200 free marks, the American importer would pay approximately \$480. The German exporter learns, however, that he can not sell to the United States at a price higher than the equivalent of \$320. At this time the ASKI marks are selling in the United States at 24 cents per mark, as compared with 40 cents each for the free mark. The German exporter, therefore, applies to the German exchange control authorities for a permit to accept in payment for the gloves he desires to sell to the United States $5/6$ of the invoice price in ASKI marks, the balance to be paid in

foreign exchange or free marks.

Upon completion of the sale, the American importer will purchase 1000 marks from the above-mentioned exporter of the American cotton at the prevailing price of 24 cents per mark, or \$240. He purchases an additional 200 free marks at 40 cents per mark, or \$80, so the total cost of his German currency is \$320. The 200 free marks and ownership of the 1000 ASKI marks are then transferred to the German exporter in payment for the gloves, which are shipped to the United States. The German exchange control authorities release to the German exporter the 1000 marks from the "blocked" ASKI account, add them to the 200 free marks, and the German exporter then has 1200 marks which are no longer subject to the restrictions of the exchange control authorities and all have an equal value measured in American currency by the current rate of exchange for the free mark, 40 cents.

This procedure, whereby the \$320 paid by the American importer has been converted into \$480 worth of German free marks, results in a subsidy bestowed upon the German exporter by the acts of the German Government through its currency manipulations. The amount of the subsidy is \$160, the cost of which falls, not upon the German Treasury, but upon the American exporter of cotton, who realizes less for his cotton, or upon the German importer of the cotton, who pays more for the cotton if the American exporter knows before entering into the transaction that the proceeds of his sale will be "blocked" and worth considerably less than the current rate of exchange for the free marks.

SPEAKING OF GOVERNMENTS

A Final Recapitulation of the Financing

No matter how much one may disapprove of the fundamental policies of the Roosevelt Administration and no matter how much one may shudder at the dizzy heights of the national debt, one thing is undeniable—Secretary Morgenthau did a masterly job on this financing.

He broke a record in low interest rates; he set a peak in the volume of peace-time borrowing; he is establishing a precedent in closing the exchange books on a \$1,050,000,000 conversion in three days and with all these accomplishments, the issues are selling at heavy premiums in the open market with a large oversubscription absolutely assured.

Allotments on the securities, however, probably will be higher than in recent operations because of the restrictions on free riding. There is no doubt of the fact that these regulations were exceptionally effective psychologically as well as actually. A number of Stock Exchange firms, for example, which "played" the last financing for a quick turn kept clear of the whole transaction this time. Many of the marginal speculators were eliminated by the 10% deposit requirement and New York banks particularly were highly careful of the subscriptions of their clients.

Despite the premiums on the new issues, therefore, allotment estimates are ranging between 15% to 25%. The notes also were well over-bid, but interest in short-term obligations definitely is shifting into longer and longer maturities. This last significant trend should be confirmed in the exchange subscriptions which may be around 85% or 90% for the 2½s and only 10% or 15% for the 1½s.

So, this financing passes into history with the Secretary proudly stressing its marvelous reception and investors happily chewing on a bit of profit to tide them over the Summer months. This department still regrets the fact that the Treasury did not choose the 2½% coupon but this feat is only delayed until a future date. The public debt is at an all-time high, taxes are mounting and will continue to mount and excess reserves again are shaving the \$3,000,000,000 mark. As long as we keep our eyes on the road before us and do not attempt to gauge the ultimate result of all these "accomplishments," our faith in the Government bond market will persist for better or for worse.

The Federal Land Bank Operation

Within the next two weeks, the Federal Land Banks will be with us again, this time for a refunding of the \$83,000,000 4½s of July 1, 1936/38, trading now at a price of 101 bid, 101½ asked to yield a loss equivalent of 51/64. Judging from the strength in the Government market, the system should be able to convert these obligations with the greatest of ease.

Another 3% bond, due in 1956 and callable in 1946, appears perfectly logical at this time. The Land Banks may decide either to duplicate the maturity on the last issue of 3% maturing in May, 1956, or they again may lengthen the date a few months to July. The difference in maturity, however, should be only a few months on either side and this won't be very important to the success of the financing.

For the first time since the Land Banks began to offer 3% bonds in exchange for their high-coupon securities, they are in a position to price the liens at par. Assuming that a 3 is tendered at 100, it will compare with prices of 100½ bid on the already outstanding issues and yields of approximately 2.93%.

It is possible, of course, that the system may attempt a 2½% bond, but the necessity of shortening the maturity considerably and issuing it at a discount in this case, should prevent them from shooting for this record until the whole list has moved into much higher ground. And when that will happen is a moot question so far.

As for cash borrowing, the banks might ask for a few millions to bring the total up to the \$100,000,000 mark. Again, however, this is unnecessary according to the condition statements issued recently and if the banks do request

some new money it will be simply to tide them over until they really may come to the market in January, 1947.

If you are interested in Land Bank securities, this impending financing should be comparatively attractive. Not only will it be the last offering by the banks this year but the yield on the obligations is strikingly "sweet" when placed against the Treasury's sale this week.

In an intermediate market decline, Land Bank bonds undoubtedly will sink faster and more severely than "straight" Government liens, but by now one point at least should be proved—if Land Bank issues collapse, Government securities will do likewise; if Land Bank bonds are unseaworthy, Governments will follow the ship down to such an extent that the distinction will be more rhetorical than otherwise. During the last few years, the Land Banks and the Treasury have become so closely entwined that the difference in return between the securities issued by these two bodies more than makes up the greater risk that may be involved in the Federal Land Bank situation.

Until September

Ever since last October, this department has been bullish on the Government market. Week after week, month after month, it has emphasized the advancing trend, pointing out that any reactions that occurred were purely temporary and should not persist for more than $\frac{1}{2}$ of a point or so. Last week, it pointed out the remarkable coincidence between the Summer declines of 1934 and 1935, implying that the current market was working itself into almost the identical position. And now, with the Treasury's financing completed and the Federal Land Banks only a few days away, it repeats that the Government bond market is developing all the earmarks of a topping price trend.

Between now and June 15, the market should hit a new all-time high and as one well-known trader put it, the new $2\frac{1}{2}$ s should sell at 101-16/32 bid. It then may decline temporarily on some foreign news or domestic development and the $2\frac{1}{2}$ s may sink below 101. Perhaps again, it will touch new peaks after that drop—but if the pattern is completed, if the psychology of Government investors is as it should be, the trend from that point onward should be definitely and distinctly downward.

That is what happened in 1934 directly after the tremendously successful financing of the June $2\frac{1}{2}$ s which were oversubscribed 9.9 times. That is what occurred in 1935, following the conversion of the Liberties and the introduction of the auction system of financing. It may occur in 1936, on the heels of the record borrowing of the Treasury in $2\frac{1}{2}$ s of 1934/51 and $1\frac{1}{2}$ s of 1941.

Remember, it's a completely logical development. Politics will be rampant during the Summer, the Treasury will be free of refunding of new money borrowing; the market is at the top of a 10-month advance and needs a rest to give it life in September.

It's folly, of course, to predict any market movement so closely. It would be even more ridiculously omnipotent to guess the extent of the drop or what particular factor will set the ball rolling. Perhaps the drop will be around 3 or 4 points and perhaps a major change in the French monetary system will be used as an excuse. Whatever the stimulus that begins the fall, it will be an excuse and not a reason.

In September, \$514,000,000 of $1\frac{1}{2}$ s mature and the Treasury may ask for more cash. In December, \$358,000,000 of $2\frac{1}{2}$ s come due and the Treasury will refund its discount bills of that date. These future operations imply that the market still is a mighty important part of the Administration's program and in turn, this means that any decline which does occur will be sharp but short.

Where the Government market will be in October is, of course, unpredictable, but if these coming financings are as significant to the Treasury as they appear, and if the Secretary plans to begin on the conversion of the short into the long-term debt before the year is out, we may be sure it will not be far below—if at all—present prices. But October is not June and July and August are empty months.

We therefore suggest that any purchases made in the Government bond market recently and any investments made in Federal Land Bank securities in the next few weeks should be made with the understanding that these issues may show a loss for a few months. If speculation and a quick turn is the object, watch the market carefully for the signs of a "boiling point." If long-term holding is the policy, then look around for a nice place to play roll.

June 4, 1936

HM, Jr. called the Attorney General and said, "On our Treasury agency bill, the so-called Secret Service bill, which I call you up about the other day (H.R. 12556) Gibbons has been talking to Keenan. The bill was voted out and at the request of Keenan it was reconsidered and he stopped it from being voted out. Gibbons asked him if he knew of the conversation which you and I had and he said that he did not. Gibbons called him after we got word from Senator Barkley that Justice had made this request. He (Gibbons) did this because Keenan is a good friend of his."

He also said to the Attorney General, "The bill would have been reported out had Keenan not asked them to have it stopped. After I talked to you, the other day, I called Senator King and told him that the Department of Justice had no objections to the bill. The bill simply consolidates the agencies in the Treasury and does not touch anybody else. Would you please, if you don't mind, call Senator Barkley and tell Keenan that you are calling Senator Barkley and let the Senator know that you do not have any objections? Is that a fair request?"

The Attorney General explained that Senator Guffey had said to Keenan, 'Here is a bill that affects the Department of Justice and you had better look into it.' That was why Keenan objected, but he would immediately call Senator Barkley and let him know.

Mr. Boardman

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OFFICE CORRESPONDENCE

DATE June 4, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF FRANCE.

I called Mr. Cariguel at 11:48 a. m. today. The flight of capital was still in full swing, he said. Mr. Blum would probably go before the Chamber on Saturday or Monday and something might develop then although they at the Bank of France knew nothing at all about the monetary plans of the new government. Gold movements from France so far had taken place without any hitch. Today he had given the Guaranty as well as the City Bank more gold than they wanted (about \$11,000,000 in excess of their requirements of the day). This gold was to be shipped immediately and to be delivered to us for account of the Bank of France. This was to be looked upon as a kind of reserve they were building up because one never knew what might arise if there were a transport strike, for instance, and gold could not be moved. Hence the shipment now. I told Cariguel that we had plenty of space in our vaults to earmark it for them or ^{we could} sell it to the assay office according to their instructions.

Cariguel then asked me the following question unofficially and for me to answer it as a matter of courtesy rather than business: Did I think we (that is the Treasury) would buy gold from them against dollars, such gold to be earmarked for our account or to be shipped promptly? In other words, would we renew the arrangement we made last year but not for as large an amount, ^{but} say for instance, ~~but~~ \$25,000,000 to \$50,000,000? Earmark in their vaults for immediate shipment (as far as possible) would be equally satisfactory to him. They did not mind a bit shipping gold under earmark if shipment was requested and such a request would never be looked upon by them as a slight. He raised this question unofficially, he repeated because he wanted to provide for all eventualities and would hate suddenly

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE June 4, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF FRANCE.

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at the eleventh hour to trip over a mere technical point." I assured Cariguel that I thoroughly understood the unofficial character of his inquiry, that I would try very informally and privately to find out what the reaction was to this hint of his and that I would call him on the telephone to give him the answer. Cariguel said that tomorrow would be ample time but that he would prefer me not to cable him. If the reply were favorable, he would not consider it as a commitment on our part, by which I think he meant that he might then make formal request.

I then asked Cariguel a few questions about the much talked of so-called restrictions now applied to speculative transactions, which Cariguel explained as follows: There are no restrictions at all for bona fide business, spot or forward delivery. The only thing they are trying to guard against are new commitments of a speculative character for forward delivery or renewals of old commitments of a speculative character. Anybody who pays in cash can buy anything he pleases. The Bank of France took this matter up informally with the Bank of England which promptly promised its cooperation. The Bank of England in turn, he thought, had written to Switzerland and Holland and suggested that cooperation from those two countries would be very helpful. The Bank of France did not take the matter up officially with anybody but merely talked things over with London.

I asked him whether he had seen any evidence of substantial exchange orders from China and Cariguel answered that Shanghai had from

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DATE June 4, 1936.

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time to time bought and sold sterling in Paris on a substantial scale, partly against dollars and partly against francs. It seemed rather confusing to him and I explained to him what I thought might be the cause for this activity from Shanghai.

LWK:KMC

Thursday
June 4, 1936

H. M. Cochran: Yes, Hello, Mr. Morgenthau

HMjr: Yes - well now, what's new?

C: Things aren't any better, they're a little worse today.

HMjr: Yes

C: The strike is extending further, it involves the big trucks -

HMjr: What's that?

C: The petroleum -

HMjr: I don't hear you.

C:

HMjr: Yes

C: So there is difficulty getting deliveries on certain food stuffs, getting gasoline and so on.

HMjr: Yes

C: And the exchange market is quite nervous - at three-thirty, -

HMjr: Yes

C: At three-thirty --

HMjr: I don't hear you.

C: - Five million dollars -

HMjr: What's that?

C: National City about the same.

HMjr: I'm sorry, I don't hear you.

C: I say, at three-thirty o'clock -

HMjr: Yes

C: The Guaranty had sold about five million dollars.

HMjr: Yes

C: The National City about the same.

HMjr: Yes

C: And both are still quite active.

HMjr: Yes

C: The British control has been in and out at around 76.54.

HMjr: Yes

C: And I can't get the figures yet as to the day's feelings, it's too early.

HMjr: Yes

C: But it's certainly as active as yesterday.

HMjr: Yes

C: For which I gave you the figures. And the florin is still weak at the Dutch

HMjr: What's that?

C: - Raising their discount rates and so on.

HMjr: Yes

C: The Bank of France Statement came out today which is bad.

HMjr: Yes

C: The gold loss was only four hundred and thirty-eight million but discounts are up one billion four hundred fifty million and a circulation of one billion three hundred seventy million.

HMjr: Yes

C: That lowers the cover from two thirty-seven to sixty-one.

HMjr: Yes

C: So the market is quite uneasy, this labor thing is getting a little bit out of hand.

HMjr: Yes

C: But there's no riot on or anything like that, but

still it can't go on indefinitely, spreading as it is, without paralyzing communications and food stuffs and so on.

HMjr: Yes - (now let me ask you this --

C: - have not taken - the political leaders in the new set up have not taken a firm stand in their statement. They rather sympathize too much with the laborers' demands.

HMjr: Yes

C: With result that labor is going further and the conservative people think that real trouble might come.

HMjr: Yes - well now let me ask you this --

C: And - there wouldn't --

HMjr: Hello - won't you listen please?

C: - there'd be nothing left of the new government. The old government will resign - at five o'clock.

HMjr: When?

C: Tonight

HMjr: Yes

C: And they now hope that Blum will be able to present his new government before Parliament on Saturday instead of next week.

HMjr: I see.

C: But it's been the ninth all along, until last night they thought they might get around to it Saturday.

HMjr: You mean a new government Saturday?

C: this unhappy period.

HMjr: Now, will you let me talk, please?

C: Sir?

HMjr: Will you please listen, can you hear me?

C: Yes

HMjr: Do you know who the new Minister of Finance is going to be?

C: Yes, Auriol

HMjr: Have you had any talk with him?

C: No, I have not.

HMjr: I wish you would.

C: Yes

HMjr: Can you get to him?

C: I - I'm an not sure I can today. I think I could tomorrow, probably.

HMjr: I'd make an effort to do it today.

C: Yes

HMjr: And see if he's willing to talk and give you - I've got to be awfully careful over the phone - but if you can get any indication, see?

C: Yes

HMjr: See if you can find out what he's got in his mind.

C: I see.

HMjr: And tell him that you're not just on a fishing expedition, see?

C: Good

HMjr: Hello?

C: Yes

HMjr: I mean see if you can't find out what's in his mind.

C: I see.

HMjr: See?

C: Yes

HMjr: And - well I - I'd better not say any more over the phone, but you use - you use your head, will you?

C: I- I'll do the best I can to get in touch.

HMjr: Yes

C: He was in conference with Regnier yesterday.

HMjr: Yes

C: In which at that time said that within one week -

HMjr: Yes

C: - he would recommend several ^{financial} measures.

HMjr: Well, I want the contact with the Treasury rather than with the bank, see?

C: Rather than with the bank?

HMjr: Yes, I want you to make a contact with the French Treasury.

C: Yes, yes

HMjr: See?

C: You see I usually have the contact with the under man, the one in charge of the movement of funds?

HMjr: Yes

C: And I was waiting until tomorrow to see if there is a shift there. But I can go to the Treas - let me go to the Treasury first.

HMjr: Yes

C: I can go there this afternoon surely.

HMjr: Yes

C: And then I'll see what I can report from there.

HMjr: Yes

C: And sound out on the other side about getting in touch with the new man.

HMjr: Well, I con- - just take it from me that I consider it important that you contact him.

C: That what?

HMjr: I want you to get in touch with the new Secretary of Treasury there.

C: All right, fine.

HMjr: Will you?

C: Surely

HMjr: And do it still today.

C: I'll do my best, but --

HMjr: Well, do the best you can.

C: - meetings and so on it's not the easiest thing to get in because he's not in the building or anything of the sort.

HMjr: What's that?

C: I say he's not in the Treasury Building.

HMjr: Well, I think that you will find that if you send word that you want to see him -

C: Yes

HMjr: - and that you represent me personally -

C: Surely

HMjr: See?

C: Yes

HMjr: You can say that.

C: All right, fine.

HMjr: That you represent me personally.

C: Yes

HMjr: I think he'll see you.

C: All right, fine.

HMjr: See?

C: Surely, well I'll get busy right away.

HMjr: O. K.

C: Then is that all?

HMjr: Yes, that's all.

C: - I just have word.

HMjr: Please

C: called me just before you got me.

HMjr: Yes

C: And he said that he was just getting off a wire to you this afternoon -

HMjr: Yes

C: - proposing, subject to your approval, that these two Orientals -

HMjr: Yes

C: - leave on the Trans-Siberian Railway -

HMjr: Yes

C: - around Monday.

HMjr: I see.

C: So the wire will come to you Sunday.

HMjr: They think that's the way they are going to go?

C: Yes, that is what he told me.

HMjr: All right. Well -

C: I'll get busy on this other and I'll get you something yet tonight.

HMjr: Thank you.

C: All right.

HMjr: Goodbye.

C: Goodbye.