

DIARY

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Monday  
February 1, 1937  
11:00 a.m.

1

Operator: Mr. Lochhead -  
Archie  
Lochhead: Hello?

HMJr: Hello, Archie?

L: Yes, sir

HMJr: How's the bond market?

L: The bond market's fine.

HMJr: It is?

L: Yes, there was very -at the beginning, for about fifteen or twenty minutes it was a little bit hard for the dealers to decide on a price. That was more because I don't think they had any orders. And the market now is possibly about one or two thirty-seconds off, although you've one or two cases where the bonds are up practically from the last sale. For instance, the two and a half closed on Saturday at 101.8 and there was a sale this morning at 101.10.

HMJr: Well, there's nothing to worry about.

L: There's not a thing to worry about and the notes are also just about the same, about one thirty-second off. The market seems to absorb it very quietly.

HMJr: How about the stock market?

L: The stock market is steady - it's a little bit - we haven't had any actual items on it yet but it looks as if it's steady and it may be fractionally one way or the other but no, there's nothing important. And commodities - well, wheat is a little bit up and cotton is a little up.

HMJr: And - sterling?

L: Sterling is about 489 and 5/8 or 3/4 - just a shade easier and Francs were just a little bit stronger.

HMJr: Good

L: But they're - all in all it's an extremely quiet market.

HMJr: Did you have your meeting this morning?

L: Yes, we had the meeting this morning and the three went over everything and we're meeting again of course at twelve-thirty. And I'm keeping them informed of anything in the stock market.

HMJr: All right, Archie. Well, the way I'll leave it, if the thing goes I'm not going to call again today.

L: Right

HMJr: And if the thing should turn, why you talk it over with Mrs. Klotz and if you think it's important enough why then, with her, then have her call me. Otherwise I'll not call back again today.

L: Fine, that's all - that's O. K. And, as I say, I'll take it up with Mrs. Klotz if I consider it necessary and leave it up to her.

HMJr: Mrs. Morgenthau is standing here and she just congratulated me.

L: Well, I certainly think you should be. And, I say, I hope you get a whole week without any disturbances at all.

HMJr: Well, you talk it over with her and if the two of you think it's important enough call me. Otherwise I'll call back tomorrow morning.

L: Fine - all right, sir.

HMJr: Goodbye.

L: Goodbye. (Hangs up.)

Mrs.

Klotz: Yes, sir

HMJr: Hello -

K: Yes - hello?

HMJr: Hello?

K: Who do you want to talk to?

HMJr: I don't hear - I hardly hear you.

K: Uh huh - who do you want to talk to?

HMJr: Two more people, Taylor and Magill.

K: Yes

Treas.

Operator: Hello

K: Taylor and Magill

Treas.

Operator: Thank you.

T.O.: Mr. Taylor - go ahead.

W. C.

Taylor: Hello -

HMJr: Hello, Wayne?

T: Yes, hello, Henry.

HMJr: Have you got anything you want to tell me?

T: No, nothing definite enough yet.

HMJr: Yes

T: Of course, the last time I talked to Archie - I assume you've talked to him already -

HMJr: I just talked to him.

T: Yes

HMJr: Is everything else all right?

T: Everything else is all right. I've started some work on that business of that's all mixed up.

HMJr: Good - Well, I won't call up again today, Wayne.

T: How's the sun?

HMJr: No sun -

T: Well, you've left just at the wrong time, we've got one here today.

HMJr: Well, hang on to it.

T: Yes - good luck. Goodbye.

Treas.  
Operator: Hello? - Mr. Magill?

Yes

T.O.: Dr. Magill -

Roswell  
Magill: Hello -

HMJr: Hello, Roswell?

Magill: Yes, sir

HMJr: How are you?

Magill: Pretty good - I'm sorry I didn't get a chance to wish you a good trip. I hope you had one.

HMJr: Yes, it was all right.

Magill: That's fine.

HMJr: Is everything all right?

Magill: Everything's all right. I've been talking to George Haas and Arthur Kent this morning about the legislative situation .

HMJr: Good

Magill: And I'm going to get started with some of the boys on the administrative business this morning.

HMJr: Fine - anything you want to ask me?

Magill: I don't think so. Everything seems to be all right.

HMJr: Good

Magill: Well, go on and have a good rest.

HMJr: I'm going to.

Magill: Well, I'll - well, you'll be calling - we'll talk to you, I suppose, every day?

HMJr: I'll call up, it's a little earlier usually.

Magill: Yes - I don't think there's anything this morning. It seems to be all right.

-5-

HMJr: All right, Roswell.

Magill: Good luck. - goodbye. (Hangs up.)

Mrs  
Klotz: Hello

HMJr: Miss Stein -

K: Yes

Joe Wolfe

February 1, 1937

Undated memo from FDR "Joe Wolfe to get his job back".

February 16, 1937

Upham's memo - Senator Lundeen wants five minutes with HM, Jr about Joe Wolfe. Farley told Gibbons that what Lundeen wants is to have Wolfe named Collector of Internal Revenue. Farley does not want Secretary to commit himself until after Farley's return.

February 18, 1937

HM, Jr's telephone conversation with Senator Lundeen in which he told the Senator Farley had asked him to wait for about ten days until he got back to Washington.

February 19, 1937

HM, Jr again told Lundeen nothing would be done until Farley gets back.

February 23, 1937

Diary entry of HM, Jr's conference with the President when, among other things, he told the President Congressman Murphy of Minn had been in and had given him an affidavit that Wolfe had been selling post offices and HM, Jr suggested nothing be done until investigation could be made. President agreed.

February 23, 1937

HM, Jr's acknowledgment of Congressman Elmer J. Ryan's letter with documents about Joe Wolfe. HM, Jr is having complete investigation made.

2-15-37  
7

to Mr. J.

THE WHITE HOUSE  
WASHINGTON

Jan Wolf Dept. Sec.  
per track.

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Int. Sec.



IN REPLYING  
ADDRESS THE SURGEON GENERAL  
U. S. PUBLIC HEALTH SERVICE  
AND REFER TO

## TREASURY DEPARTMENT

PUBLIC HEALTH SERVICE

WASHINGTON

February 1, 1937

### Daily Report to the Secretary on Flood Work - U.S. Public Health Service

Sixteen medical officers and fifty-nine sanitary engineers of the Public Health Service have been assigned to the flood area for the following duties:

1. To cooperate with and aid State and local health authorities in the prevention and control of communicable diseases under emergency conditions.
2. To assist in providing safe water and food supplies and sanitary measures of sewage disposal under emergency conditions.
3. To aid in the restoration of water and sewerage systems and other measures for the prevention and control of disease as fast as conditions make possible.
4. To serve as liaison officers between the Red Cross and Public health agencies.
5. To serve as liaison officers between the W.P.A. and public health agencies.

All of the medical officers and 21 of the sanitary engineers are members of the Regular Commissioned Corps.

Thirty-eight of the sanitary engineers have been secured from various State and local health departments throughout the country and given temporary appointments in the Public Health Service during the period of greatest need.

The headquarters of personnel are as follows:

	<u>Medical Officers</u>	<u>Sanitary Engineers</u>
<u>West Virginia</u>		
Charleston	1	3
Wheeling		3
Parkersburg		1

Daily Report to the Secretary on Flood Work - - - - Page 2.

	<u>Medical Officers</u>	<u>Sanitary Engineers</u>
<u>Ohio</u>		
Columbus	1	9
Cincinnati		2
Chillicothe		1
		5
<u>Kentucky</u>		
Louisville	1	14
Paducah	1	2
Campbell County	1	
Maysville	1	
Ashland	1	
Henderson and Owensboro		2
Frankfort		1
Vanceburg		2
Augusta		1
Uniontown		1
Cloversport and Hawesville		1
Eddyville and Kattawa		1
<u>Indiana</u>		
Evansville	1	
Indianapolis		5
<u>Illinois</u>		
Chicago (for travel throughout State)		7
<u>Missouri</u>		
St. Louis	1	
Malden	1	
Charleston	1	
Sykeston		1
<u>Tennessee:</u>		
Memphis	1	
Nashville		1
<u>Arkansas</u>		
Little Rock	1	1

Daily Report to the Secretary on Flood Work - - - - Page 3.

A telegraphic reporting system for communicable diseases throughout the flood area is being organized at Indianapolis.

The public water supply at Cincinnati is still out of operation. Reserve and imported water supplies are being heavily chlorinated. A post-flood cleanup is being planned by cooperative efforts of the Public Health Service, W.P.A. and city authorities. Health conditions are good.

Doctors McCormack and Olesen report satisfactory health conditions in Louisville and vicinity. All needs are supplied.

Ninety per cent of inhabitants of Maysville, Kentucky have been inoculated against typhoid.

Doctor K. E. Miller at St. Louis has been appointed Red Cross Medical Director at request of Red Cross in addition to other duties.

Doctor Holle at Charleston, West Virginia reports disease conditions normal in flooded area that State.

Cooperation between all agencies dealing with flood work in Washington is excellent. Noonday meetings at Red Cross will continue for the present.

Surgeon General Parran will arrive in Memphis at 7:26 A.M. February 1 for inspection of flood area in company with Red Cross and other Government officials.

*Harvey F. Drape*  
Acting Surgeon General

1 February, 1937

COAST GUARD OPERATIONS IN FLOOD AREA

Coast Guard operations are proceeding smoothly throughout the flood area, and Service resources are being found ample to meet demands as they are arising.

Captain LeRoy Reinburg, Commander, Coast Guard Relief Force, has transferred his base from Evansville to Memphis.

As the need for boats in the upper Ohio diminishes, they are being moved, as found advisable, farther down the River to more critical points.

Large-scale operations involving transfer of refugees to places of safety are being carried out particularly in the region of Hickman, Paducah, Cairo, and Helena, Ark.

-----

The Coast Guard Relief Force totals 25 major (seagoing) units; ten planes, approximately 400 boats and 2000 personnel, with a comprehensive radio communication setup throughout the entire flood zone.

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General Water Level Conditions.

Crest below Evansville, Indiana. Cairo 59.4', rising slowly, crest of 60-60.5' expected February 3-4. River rising slowly at Memphis, Helena, and Vicksburg.

elf

# TREASURY DEPARTMENT

12 ✓

INTER OFFICE COMMUNICATION

DATE February 1, 1937

TO Secretary Morgenthau

FROM Mr. Haas 

On Sunday afternoon, January 31, 1937, you called and asked if I had secured the material on military expenditures of foreign governments which you had requested. I told you a memorandum had been submitted to you I thought on Friday, in which I had indicated that the figures which were submitted were incomplete, but that they were the best we could get from published sources. I also indicated that possibly the State Department had more complete figures, but that I did not wish to ask for State Department files without consulting with you. You suggested that we should examine all the material the State Department has and also such material as the War and Navy Departments might have. You indicated that you were anxious to get this material as soon as possible.

FEDERAL RESERVE BANK  
OF NEW YORK

*Mr. L. W. Kneke* 13

OFFICE CORRESPONDENCE

DATE February 1, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Kneke

BANK OF FRANCE.

I telephoned Mr. Cariguel at 11:30 today. I told him that the announced increase in the reserve requirements which came out over the weekend seemed, at least so far, to have been accepted by the markets without much change in the quotations. Governments, as a matter of fact, after declining fractionally at the opening, were now a little better than Saturday. High grade domestic bonds seemed about unchanged and the stock market irregular, with probably a trifle up. Foreign exchange markets were very quiet.

Reporting on the Paris markets, Cariguel then stated that the franc was better today than last week but, nevertheless, still unsatisfactory. His intervention had been necessary on a small scale only. So far, he had had to sell \$70,000 compared with \$3 1/4 million a week ago. Unfortunately, foreign securities had been strong today on the Paris Bourse, with the result that arbitrage interests had bought sterling to pay for sterling securities in the London market for sale in Paris. Generally speaking, he thought business was picking up a little.

Cariguel then asked me about the General Motors strike here and explained his interest by pointing out that this strike might conceivably change the trend of the movement of French capital to America. He promised to call me in a few days or so, when he expected the Paris foreign exchange market would be more interesting because, by then, one would be in a better position to see how the loan had affected the franc quotations.

LWK:EMC

RB

GRAY

London

Dated February 1, 1937

Rec'd 5:05 p. m.

Secretary of State

Washington.

43, February 1, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Such comment as has appeared British press regarding the conclusion of the London banking credit to France has not been favorable. The FINANCIAL NEWS after pointing out that the amount was reduced, that the interest rate was a half a per cent higher than last year, and that the British banks were unwilling to grant the credit for a full twenty months, criticises the French authorities for not lowering the value of the franc to its legal limit and concludes "the sole result of the transaction is that it enables the French Government to postpone facing realities". The STATIST makes a point which is reiterated in the city: "If it is to succeed the credit must be more than a stop gap; it must do more than help a hard pressed government over a lean and difficult period. If the credit is to attain its objective it must appear to the French people as such a token of our confidence in their Government and its finances that they will follow where

RB

-2-#43, February 1, 7 p. m. from  
London

where we shall have led. The value of this credit will lie in its psychological as much as in its more practical and immediate aspects. Unless it succeeds in this wider objective the operation will have been worthless. It will merely have postponed by few months a further reduction in the Bank of France's gold reserve and perhaps a serious further depreciation in the exchange value of the franc." Even the TIMES emphasizes that the credit "will not solve the financial and monetary difficulties of the French Government."

It will be noted that the organizers of the syndicate include Morgan Grenfell and Rothschild as well as Lazards. This was due to the fact that whereas Lazards are the French Government bankers in this market Rothschild and Morgan Grenfell traditionally have the call on French railway finance. And it so happened that without the influence of all three of these houses it would probably have been impossible to place all the £40,000,000; whereas the credit of last year for the same amount was placed in a morning, this operation was only accomplished after much effort.

ATHERTON

LMS

SMS

RB

GRAY

Paris

Dated February 1, 1937

Rec'd 4:32 p. m.

Secretary of State

Washington.

138, February 1, 5 p. m.

FOR TREASURY.

The exchange market today gave the impression of being tired and apparently only immediate requirements were concerned in the limited transactions which took place. There was little change in the dollar rate. Pounds were dealt in around 105.04 and we understand from our market contact that the exchange fund did not intervene. Other currencies were almost stationary.

Under the circumstances forward rates are surprisingly resistant, the pound being quoted at about 80 centimes for one month and 2.50 francs for three months. The rate for the dollar for one month is about 18 centimes and about 55 centimes for three months.

While the security market showed some activity and strength rentes were weak and lost from 65 centimes to 1.20 francs. A feature of the trading was a decline of about ten per cent in quotations for the Young bonds as the result,

apparently

RB

-2-138, February 1, 5 p. m. from  
Paris

apparently of the announcement by Hitler that he intended to abolish the statutes of the railways and place them under the sovereignty of the German Government.

To judge from the comment of the financial press the public does not seem to be entirely convinced that the British credit itself will prove adequate for the needs of the Treasury for a very long period and that it is not only vital to halt the outflow of capital but that repatriation of French funds must take place on a large scale if the financial situation is to be restored. AGENCE ECONOMIQUE today expressed the hope that the Government "will find qualified specialists to assist usefully the authorities in an undertaking which promises to be both delicate and difficult". The financial editor of LE TEMPS observes that obviously the respite afforded by the credit can only be temporary and that in order that it should prove really useful the Government should profit by the period of tranquillity which it should afford to reassure public opinion. There are indications in the press today that the French financial situation is giving rise to preoccupation not only amongst the minority in Parliament but also amongst the majority. In this respect the appearance of the Minister of Finance before the Chamber Finance Committee on Wednesday is awaited with some impatience and it is said

that

RB

-3-#138, February 1, 5 p. m. from  
Paris

that within the next few days the Government will be called upon to explain its financial stewardship before the Chambers. It seems reasonable to assume that under the circumstances it will not be easy for the Minister of Finance to provide a convincing and reassuring picture of the situation.

The announcement appears in the financial press of today that the foreign exchange market at Amsterdam is completely freed again. It will be recalled that before the fall of the guilder when the guilder was under heavy pressure the Netherlands Bank asked for an undertaking from private (\*) Bank of France not to execute orders for foreign exchanges in the futures market if these orders were not based on pure commercial transactions.

BULLITT

(\*)apparent omission

CSB

FEDERAL RESERVE BANK  
OF NEW YORK

*M. Crockett* 19

OFFICE CORRESPONDENCE

DATE **February 2, 1937.**

CONFIDENTIAL FILES

SUBJECT: **TELEPHONE CONVERSATION WITH**

**L. W. Knoks**

**BANK OF ENGLAND.**

I called Mr. Bolton at 10:30 today. I mentioned that we were sending him a cable today requesting that they make three further gold shipments of \$10,000,000 each per President Roosevelt on February 6, Manhattan on February 11 and President Harding on February 16. I then referred to the latest British loan to the French railways and asked what he could tell me with regard to the terms. Bolton replied that the amount was £40,000,000, interest at 3 1/2%, for a total of ten months. The sterling went to the French Treasury and the loan was guaranteed by it. The form of guarantee, he said, was practically the same as that covering last year's loan, with just a little different dress-up. I asked him would the loan help and he replied that obviously it was only a stop-gap; the plan had not been particularly well received in the market; that although the franc had been quite steady yesterday it was turning weak again today, so that it looked as though the French had had a respite of only one day. The demand for dollars was not as evident today any more as it had been, and the quotation had eased off to 4.89 13/16 and 4.89 7/8.

*LW*  
LWK:KMC

RECEIVED  
FEB 4 1937  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF COMMERCE  
CONFIDENTIAL

RB

GRAY

Paris

Dated February 2, 1937

Rec'd 4:30 p. m.

Secretary of State  
Washington.

146, February 2, 5 p. m.

FOR TREASURY.

It would seem from today's transactions on the foreign exchange market that the tendency has once more turned against the franc. The turnover in pounds was substantial. The rate fell to 105 in early dealings but is now 105.08 with the exchange fund selling sterling on a fairly large scale according to our market contact. The dollar is firm at 21.45 with a fair amount of business being transacted at this rate. The other currencies are practically unchanged.

The forward rates moved upwards, the one month rate for the pound being 87 centimes, and 2.75 francs for three months. The one month rate for the dollar is 18 centimes, and 60 centimes for three months.

On the security market domestic issues were irregular. On the other hand internationals showed strength. Young bonds recovered three points.

The

RB

-2-146, February 2, 5 p. m. from  
Paris

The carryover rate for the month end settlement published yesterday was  $6\frac{1}{2}$  per cent on the official market compared with  $5\frac{1}{2}$  per cent at January 15. The rate was  $10\frac{1}{2}$  per cent on the outside market compared with  $9\frac{1}{2}$  per cent at the end of December.

The price of bread in Paris will be increased by 10 centimes per kilo dating from February 4.

The Committee of Economic Restoration in a letter made public today sharply criticises the Minister of Finance with respect to the situation of the public finances. Special reference is made to the British credit and to the guarantee attached to this credit, and surprise is expressed that the Government has not thought fit to offer similar security for domestic loan issues. The letter states: "For several months disorder has been increasing in all domains and especially in public finance. Agitation is not a sign of prosperity. You have succeeded in letting loose speculation but you have not restored confidence."

The Committee in question is composed of outstanding members of French commerce and industry of conservative views.

AGENCE ECONOMIQUE ET FINANCIERE once more shows  
preoccupation

RB

-3-#146, February 2, 5 p.m. from  
Paris

preoccupation about the competency of those responsible of the policy of the French Treasury and it stresses the view that if the tripartite monetary arrangement could lead the French authorities to adopt certain methods which have been employed with success in London and in New York the country could envisage with much less anxiety the numerous pressing financial problems which now face the Government.

The explanations which the Minister of Finance is expected to furnish tomorrow to the Parliamentary Finance Committees are being awaited with much interest. Furthermore in this respect Deputy Fernand Laurent yesterday announced his intention to interpellate the Minister of Finance on his financial policy, the situation of the Treasury, the relations of the state with the Bank of France, and the conditions under which the recent British credit was arranged. It appears that the date of this interpellation will be fixed by the Chamber on Friday morning.

It is stated in the press that the first eight million pounds of the credit arranged in London is to be paid over to the French Treasury today. The London FINANCIAL NEWS understands that with respect to security for the credit the Bank of France has again undertaken to keep at the

Bank

RB

-4-//146, February 2, 5 p. m. from  
Paris

Bank of England gold or sterling securities equivalent to the amount of the credit outstanding. The view is expressed that this credit is even more water tight than in last year's transaction when the credit was secured only through a gentlemen's agreement that the Bank of France should keep in the name of the Bank of England gold or sterling equivalent to the outstanding portion of the credit.

There has been some speculation in the press regarding the possible method that will be adopted in transferring the proceeds of the credit and it is thought that what might be done is that the French Treasury will buy gold with the sterling proceeds and sell it to the Bank of France which would keep it in London as an unofficial security to the credit. The franc equivalent of the gold would be credited to the account of the Treasury either by reducing its advances or by increasing its deposits with the Bank of France. These changes would have to be indicated in the Bank's weekly statement and it has been suggested that the French authorities will probably prefer to avoid this. If the sterling were sold to the stabilization fund the latter could release a corresponding amount of its franc assets to the Treasury. Alternatively the

fund

RB

-5-//146, February 2, 5 p. m. from  
Paris

fund could sell the sterling provided that there is a renewed selling pressure on the franc which would make such operations possible.

The JOURNEE INDUSTRIELLE this morning gives some notice to a report from New York that the Export Import Bank has advanced funds to pay for American exports of cotton to Italy. In this respect it is recalled that the Johnson Act prohibits loans to governments which have not settled their debts towards the United States and that Italy is included in this list. However, it is pointed out the initiative of the Export Import Bank is equivalent to the granting of a credit to Italy for cotton purchased in the United States. This, it is observed, is not only a precedent but the first step of the kind as concerns Italy.

Some notice is also being given in the press to the apparent indication in the speech of Hitler that he intends to withdraw the representative of the Reichsbank from the B.I.S. and it is remarked that such a measure would be nothing more than normal in view of the negative attitude which the German Government has taken vis-a-vis the League of Nations. However, it does not seem to be thought here that Schacht ~~will be withdrawn~~ as it is pointed out that he is personally ~~very~~ <sup>very</sup> much attached to the institution at Basel.

BULLITT

SMS NPL



IN REPLYING  
ADDRESS THE SURGEON GENERAL  
U. S. PUBLIC HEALTH SERVICE  
AND REFER TO

## TREASURY DEPARTMENT

PUBLIC HEALTH SERVICE

WASHINGTON

February 2, 1937

Report for the Secretary, on Flood Relief by U.S. Public Health Service.

Health conditions throughout the flood area are satisfactory. The disease incidence, as far as reports have been received, remains about at the normal rate. There may be a slight increase in pneumonia, mostly among elderly people and those debilitated by chronic illnesses.

Doctors McCormack and Olesen, at Louisville, report satisfactory conditions in that area and state that there is an abundance of medical and biological supplies.

The lower Mississippi valley situation seems favorable. Weather conditions throughout the country are the most favorable yet reported. The danger point is Cairo, but if this city does become flooded there will be no loss of life as all people have been moved out except those who are working on the levees.

The total number of public water supplies reported out of service is 63. 4 have been restored -- Parkersburg and Huntington, W. Va., Frankfort, Ky., and Osgood, Ind.

A telephone report was received from Surgeon General Parran at 8:00 P.M. on February 1. He had held conferences with the health authorities of Tennessee, Arkansas, and Missouri, and had visited a portion of the flooded area in the vicinity of Memphis, including a number of refugee camps. Doctor Parran reported the number of counties flooded in each of these States, the number of persons out of their homes, and submitted an estimate of the public health personnel that would be required in the rehabilitation program which is expected to extend over the 6 months' period following the return of the people to their homes.

The quarantine restrictions reported in the newspapers at Louisville, Ky., are not due to the prevalence of disease but have been instituted for the purpose of keeping curious visitors out of Louisville, and also for preventing the refugees from returning to their homes until conditions are safe. The enforcement of the quarantine is being carried out by the Army. It was established by the State and local health departments.

WFD:AMM

*Harmon S. Draper*  
Acting Surgeon General

Regraded Unclassified

## TREASURY DEPARTMENT

26

FOR IMMEDIATE RELEASE

Washington

FLOOD MEMORANDUM NO. 5.

February 2, 1937.

Water systems in 94 cities and towns with a combined population of 1,421,756 people, are entirely out of commission, by being submerged by water in States affected by floods, today's report to the U.S. Public Health Service disclosed.

In 21 other cities and towns with total populations of 207,000, the water systems have been restored to operation, under the supervision of U.S. Public Health sanitary engineers and local health officers.

In cities where water systems are out commission, drinking water is being supplied from tank cars or trucks or is being pumped from wells that have been chlorinated under supervision of medical officers and sanitary engineers.

The Surgeon General of the U.S. Public Health Service now has at work in seven States of the flood area, 150 Public Health specialists -- medical officers, sanitary engineers and sanitarians. This force is working closely with those <sup>of</sup> other Federal and State cooperating agencies. Among those on duty in various relief centers are 40 Sanitary Engineers recruited from State Departments of Health and 79 Sanitarians from Works Progress Administration projects.

Health conditions throughout the flood area continue to be very satisfactory, all of today's reports indicated. Disease incidence remains about normal. A slight increase in pneumonia, reported from some districts, prevails mostly among elderly people or as a result of chronic illness.

-2-

Medical preventive programs now being carried forward rapidly in all flood districts, through the vaccination of entire populations of affected cities and towns to combat the dangers of typhoid, smallpox, diphtheria and other diseases, is expected to keep the disease rate at a low mark.

On the basis of medical experience gained in previous floods, through similar disease-prevention measures, it is not anticipated that there will be any serious disease outbreaks of communicable type.

Medical units in all centers are being supplied with abundant shipments of vaccines, anti-toxins and serums. Shipments of biologic products have been moving into the flood states by plane and rail sufficient to meet all requirements.

ooOooo

2 February, 1937  
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

Coast Guard operations are proceeding smoothly throughout the flood area, and Service resources are being found ample to meet demands as they are arising.

Captain LeRoy Reinburg, Commander, Coast Guard Relief Force, has transferred his base from Evansville to Memphis.

As the need for boats in the upper Ohio diminishes, they are being moved, as found advisable, farther down the River to more critical points.

Large-scale operations involving transfer of refugees to places of safety are being carried out particularly in the region of Hickman, Paducah, Cairo, and Helena, Ark.

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Coast Guard Relief Force totals 25 major (seagoing) units; ten planes, approximately 400 boats and 2000 personnel, with a comprehensive radio setup throughout the entire flood zone.  
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General Water Level Condition.

Crest is now approaching Cairo where it is expected to reach a peak of 60.60.5' on February 3 or 4; Memphis 46.7' rising slowly; Vicksburg 46' rising slowly.

## BUREAU OF INTERNAL REVENUE

Office of

Chief, Intelligence Unit

February 2, 1937.

MEMORANDUM FOR MR. MCREYNOLDS:

In re: Collector of Internal Revenue  
C. E. Moore,  
Assistant Collector of Customs  
G. W. Pollock,  
Secret Service Operative in Charge  
Wm. G. Harper,  
Cleveland, Ohio.

In accordance with instructions of the Secretary, further investigation has been made with respect to the above-named officers of the Treasury Department and their relations with Famous Brands Ohio, Inc., of Cleveland, Ohio.

There is attached a report of Special Agent in Charge Mack, dated February 1, 1937, in which it is shown that neither of these officers has paid any moneys back into the Famous Brands nor to any charity organization, as directed in the instructions of the Secretary. Further than this the report shows that the wife of Collector Moore, who was a stockholder, and Messrs. Pollock and Harper have each received additional sums of money in the way of dividends since the instructions of the Secretary were issued.

E.L.I.

Enc.

## TREASURY DEPARTMENT

Internal Revenue Service

Washington, D. C., February 1, 1937.

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Chief, Intelligence Unit,  
Bureau of Internal Revenue,  
Washington, D. C.

In re: Collector of Internal Revenue  
C. E. Moore,  
Assistant Collector of Customs  
G. W. Pollock,  
Secret Service Operative in Charge  
Wm. G. Harper,  
Cleveland, Ohio.

A final report was submitted in the above entitled case, under date of August 27, 1935, outlining the investigation made with respect to the interests of the officials named above in the Ohio Sales Syndicate, later incorporated under the name of the Famous Brands Ohio, Inc., Cleveland, Ohio. This company was a sales agency in the State of Ohio for the American Distilling Company, New York, New York.

As the result of the investigation a hearing was had before the Secretary of the Treasury during the latter part of August or the early part of September, 1935, and the above named officials were afforded an opportunity to explain their connection with this liquor sales agency. On September 12, 1935 letters were written to Collector Moore and Secret Service Operative in Charge Harper, by the Secretary of the Treasury, stating that he had reached the conclusion that they should sever their connections with the Treasury Department unless they and all members of the immediate family immediately gave up all association with the liquor sales agency, and unless they forthwith made satisfactory arrangements to pay into the Federal Treasury the full amount of all sums received by them or any members of their immediate family from such companies, and that their decision in the matter should be communicated not later than September 20, 1935.

The file does not indicate that a similar letter was sent to Assistant Collector of Customs Pollock, and it was learned during this inquiry, as will be related in this report, that he states that he received notice from Commissioner of Customs Moyle, about

December 21, 1935, concerning the decision of Secretary Morgenthau in this matter.

The file in this case shows an exchange of correspondence between Collector Moore, Mr. Harper, and the Office of the Secretary, with the result that on December 16, 1935 Collector Moore wrote a letter to the Secretary of the Treasury stating that he proposed to return to the company such profits as he realized from this transaction when and as he is able to do so. Mr. Harper wrote a letter to Mr. W. H. Moran, former Chief, Secret Service, under date of January 2, 1936, stating that he would undertake to return the profits which resulted from his connection with the Famous Brands Ohio, Inc., to that company for the benefit of either the Cleveland Community Chest or the American Red Cross. Mr. Pollock, Assistant Collector of Customs, wrote a letter to Honorable J. H. Moyle, Commissioner of Customs, under date of December 26, 1935, likewise agreeing to contribute to charity as able, the profits received, under the same arrangement made by Collector Moore.

The file shows further that the Famous Brands Ohio, Inc., wrote to the Secretary of the Treasury, under date of December 20, 1935, stating that they were agreeable to the suggestion that any monies returned by Mr. Moore to this corporation be turned over to the Cleveland Community Fund, and on January 9, 1936 extended the agreement to handle any payments from Mr. Pollock and Mr. Harper on the same basis.

At your request I called to see Mr. Wm. H. McReynolds, Administrative Assistant to the Secretary, who directed that investigation be made as to the present status of this matter at Cleveland, Ohio. The facts concerning each of the individuals will be set forth separately.

Collector of Internal Revenue C. E. Moore

As outlined in the final report of this case, dated August 27, 1935, the Ohio Sales Syndicate was formed by agreement dated April 18, 1934, and that when the Famous Brands Ohio, Inc., was incorporated December 15, 1934, stock was issued in accordance with the interests of the syndicate members. Collector Moore's interest in the syndicate was the same as that of Messrs. Pollock and Harper. Shares of stock were issued in accordance with the interests of the members of the syndicate, Messrs. Pollock and Harper receiving 18 shares each, but the 18 shares based upon Collector Moore's interest were issued to Mrs. Elizabeth P. Moore, his wife. An examination of the records of Famous Brands Ohio, Inc., shows that dividends of \$900.00 each were paid to her on September 30 and December 20, 1935, also January 30, 1936. Her certificate was

anceled December 14, 1936, according to the notation on its face, and a new certificate for 18 shares was issued to Dr. H. P. Wells under date of January 10, 1936. The records show that Dr. H. P. Wells received dividends of \$720.00, \$450.00, \$900.00 and \$720.00 on April 30, June 29, September 28 and November 30, 1936, and that the checks covering all but the last dividend payment were endorsed by H. P. Wells and bore the second endorsement of Elizabeth P. Moore, also the notation indicating that such checks were deposited in her account with the National City Bank.

Dr. H. P. Wells was interviewed at the offices of Margo Inc., dealers in perfumery, 1030 Euclid Avenue, Cleveland, Ohio, and he advised that he paid Mrs. Moore an amount slightly less than \$5,000 for the 18 shares of stock which was held in the Famous Brands Ohio, Inc., and that the manner of payment consisted of canceling her indebtedness to him in that amount. He explained that he is the father of Mrs. Moore and resides with Collector and Mrs. Moore at 2960 Morley Road, Cleveland, Ohio, and that he had advanced his daughter, Mrs. Moore, \$3,500 on one occasion, \$1,000 on another occasion, and an amount in excess of \$400 at another time, to provide funds to assist in purchasing their home. When he was advised that the checks covering the payments of \$720.00, \$450.00 and \$900.00, issued to him on April 30, June 29 and September 28, 1936 as dividends on the 18 shares of Famous Brands Ohio, Inc. stock after he acquired it, showed that such checks were endorsed over to Mrs. Moore, he advised that he had done so to provide further loans to her.

I was advised by Mr. Louis Campbell, Assistant Collector of Internal Revenue, Cleveland, Ohio, that Mr. Moore was operated on during the early part of last month for the removal of a kidney, and that he had just returned home from the hospital; also that his condition is such that he will not be back at the office for at least another month. For this reason I did not interview Mr. Moore. I had occasion however to talk with Mr. Gardner Abbott, President of Famous Brands Ohio, Inc., and he informed me that neither Mr. Moore nor Messrs. Pollock or Harper have made any payments to Famous Brands Ohio, Inc., and that this company is in the process of liquidation, a certificate of dissolution having been filed December 21, 1936. He explained further that all stockholders have endorsed their stock over to him for the purpose of liquidation.

Assistant Collector of Customs C. W. Pollock

The records of Famous Brands Ohio, Inc., show that certificate No. 3 for 18 shares issued to Mr. C. W. Pollock, December 28, 1934, was transferred to his wife, Leila B. Pollock, December 20, 1935; that certificate No. 9 for 18 shares was then issued to Leila B. Pollock, December 21, 1935, and transferred to Charles

Michel, Jr., April 21, 1936; and that certificate No. 17 for 18 shares was then issued to Charles Michel, Jr., which certificate bears an endorsement in blank with the notice of cancellation on its face December 14, 1936. The record of dividends shows that payments of \$900 each were made to Mr. C. W. Pollock on September 30 and December 20, 1935, and that a dividend in the amount of \$900 was paid to his wife, Mrs. Leila B. Pollock, on January 30, 1936. Thereafter dividends of \$720.00, \$450.00, \$900.00, and \$720.00 were paid to Mr. Charles Michel, Jr., on April 30, June 24, September 28 and November 30, 1936.

Mr. Michel was interviewed and he stated that he had purchased this stock from Mrs. Pollock as the result of negotiations had with Mr. Pollock about two or three weeks before payment was made by his check of April 24, 1936 in the amount of \$720.00, which check was exhibited by him. He explained that he paid \$40.00 per share for the stock although Mr. Pollock wished a price in excess of \$100.00 per share. Mr. Michel's attention was called to the fact that his check for \$720.00, dated April 24, 1936, issued to Mrs. Pollock in payment of this stock, was not charged against his account until May 5, 1936, and that a dividend check in the same amount, \$720.00, was issued to him by Famous Brands Ohio, Inc., April 30, 1936 and deposited May 4, 1936, or one day before the check which he had issued in payment of the stock was charged to his account. He insisted that this was merely a coincidence and that he did not know there was to be a dividend paid by the corporation in an amount equal to the price which he agreed to pay Mr. Pollock. The three succeeding dividends paid to Mr. Michel were checked as deposits in his bank account and all of the canceled checks against such account were verified, but there was no record of any payments having been made to Mr. or Mrs. Pollock. He denied emphatically that there was any understanding that he would act as holder of record for the benefit of Mr. and Mrs. Pollock, and insisted that it was an outright bona fide transaction; also that he retained the full amount of all dividends paid after he acquired the stock. It developed during the interview with Mr. Michel that he has known Mr. Pollock for about twenty-five years and has been his next door neighbor.

Mr. Pollock was interviewed and he explained, as will be noted from his affidavit (Exhibit 1), that during the month of December 1935 he donated his stock in Famous Brands Ohio, Inc., to his wife, Mrs. Leila B. Pollock, and that after the Bureau of Customs Circular No. 130, dated March 10, 1936, was received, directing that no Treasury officer or employee should have any interest, directly or indirectly, in an alcoholic beverage business that he then suggested to Mrs. Pollock that she dispose of this stock, which she succeeded in doing during April of 1936 when it was sold to Mr. Charles Michel at \$40.00 per share. He stated that he had not returned any of his profits in Famous Brands Ohio, Inc.,

and pointed out that his letter of December 26, 1935 stated that he would contribute, if and when able to do so. He stated further that he has spent the profits received from this venture; that his liabilities exceed his assets; and that his only means of returning such profits at the present time would be from his salary which is required for his ordinary living expenses. When asked as to why he had continued to receive dividends after he had been put on notice during early September 1935 that association with this liquor agency was considered improper, he offered the explanation that he did not receive official notice in writing to dispose of his stock until he was called to Washington, D. C., by Commissioner of Customs Moyle, about December 21 or 22, 1935. He stated that he transferred his stock to Mrs. Pollock when he received notice to go to Washington as he presumed the request for his appearance might be in connection with this matter, and that the next dividend paid on January 30, 1936 was received by his wife.

Secret Service Operative in Charge Wm. G. Harper

The records of Famous Brands Ohio, Inc., show that certificate No. 4 was issued to Mr. Harper on December 28, 1934 and transferred to his wife, Ruth Harper, February 21, 1936, but bears the notation on its face "canceled January 10, 1936"; that certificate No. 11 for the same number of shares (18) was then issued to Mrs. Ruth Harper January 10, 1936, and on April 17, 1936 this certificate was canceled and a new certificate No. 16 for the same number of shares was issued to Marc J. Wolpaw. This certificate was endorsed in blank and the notation appears on the face of the certificate "canceled - transferred December 14, 1936". Dividends of \$900.00 each were received by Mr. Harper on September 30 and December 20, 1935, also on January 30, 1936. Thereafter dividends of \$720.00, \$450.00, \$900.00, and \$720.00 were paid to Mr. Wolpaw on April 30, June 24, September 28 and November 30, 1936, the endorsements on the dividend checks to Mr. Wolpaw indicating that the first three were deposited by him in the Society for Savings Bank, and the last one deposited by him in the Central United National Bank.

Mr. Harper was interviewed and at my request he prepared a brief memorandum (Exhibit 2) which states, in substance, that he has been unable to return any of the profits realized from the Famous Brands Ohio, Inc., venture; also that the conditions relative to demands upon his income are such at the present time that, until conditions adjust themselves, he would be unable to do anything further than he has done in the past. Because of the vagueness of this statement Mr. Harper was questioned further to obtain a definite expression concerning his intentions, and he then advised that he has turned over to his wife such profits realized from this venture as he has been able to retain, and that he does not feel as though he should ask her for the money in order that he might return the profits as directed. He stated

that his income is insufficient to enable him to make any payments. When asked as to why he had signed the letter agreeing to return profits but had failed to take any action whatever pursuant to his agreement, he then stated that he was advised by his former chief, Mr. W. H. Moran, to sign such a letter and that it would close the entire matter.

Mr. Marc J. Wolpaw is a former Assistant District Attorney, now practicing law at Cleveland, and upon making inquiry at his office it was learned that he is in California at the present time and not expected back in Cleveland for at least two weeks, therefore, it was not possible to obtain his explanation as to the purchase of the Famous Brands Ohio stock from Mrs. Harper.

#### Summary

Mr. Gardner Abbott, President of Famous Brands Ohio, Inc., advised that neither Collector Moore, Assistant Collector Pollock nor Secret Service Operative in Charge Harper have made any return to that corporation of profits realized from their association with it, and that this corporation filed a certificate of dissolution December 21, 1936.

As related in this report, subsequent to the hearing at the Office of the Secretary of the Treasury during the latter part of August or early September, 1935, dividends of \$2,700 were paid to Collector Moore's wife based upon her ownership of 18 shares of stock of Famous Brands Ohio, Inc., and covering the period from September 30, 1935 to January 30, 1936. Thereafter \$2,070 was paid to her father, Dr. H. P. Wells, who resides with Collector and Mrs. Moore since his acquisition of her stock January 10, 1936. It will be noted that although he acquired this stock on January 10, 1936 that the dividend paid January 30, 1936 was made to Mrs. Elizabeth P. Moore. Collector Moore was not interviewed because of his illness resulting from a recent operation, and since my return from Cleveland, Ohio, information has been received that he has requested permission to be absent from his district and to have his assistant, Mr. Campbell, designated Acting Collector as he proposes to take a boat trip to Panama leaving February 9, 1936, and expects to be away about two or three weeks.

The same situation exists with respect to Assistant Collector of Customs Pollock in that three dividends of \$900.00 each were paid from September 30, 1935 to January 30, 1936, the first two being paid to Mr. Pollock and the last one to his wife. He states that he has not returned any profits from this venture and that there is no immediate prospect of his ability to do so because the profits have been spent and his only income is his salary.

Secret Service Operative Harper received three dividends of

\$900.00 each during the period from September 30, 1935 to January 30, 1936. His explanation is that he personally does not have any of the profits from the Famous Brands Ohio, Inc., venture but stated that he turned over such profits to his wife and that he does not feel that he should be required to ask her for the money in order to return the profits as directed; also that he does not see any immediate prospect for returning such profits.

Attention is invited to the fact that the Famous Brands Ohio, Inc., is now in process of liquidation and the sales agent of the American Distilling Company for Ohio is Mr. Joseph Scobell of Cleveland, Ohio.

There is returned herewith the correspondence pertaining to the instructions issued to each of these officials by the Secretary of the Treasury, and their responses to such communications.

It is recommended that this report be referred to Mr. Wm. H. McReynolds, Administrative Assistant to the Secretary, in response to his request that inquiry be made to determine the present status of this matter.

/s/ Clifton E. Mack

Clifton E. Mack,  
Special Agent in Charge.

January 28 1937

C W POLLOCK, Assistant Collector of Customs, Cleveland, Ohio, being duly sworn according to law deposes and says:

Mr Mack, in our discussion of the matter you have inquired as to the present status of the Famous Brands Ohio transaction, the subject of a letter to me from the Commissioner of Customs dated December 21 1935 in answer to which (in a letter dated December 26 1935) I agreed to contribute, if and when able, profits realized from my interest in the Famous Brands Ohio Inc. to the Community Chest or the American Red Cross.

Some time during the month of December 1935 I donated my interest (stock) in the Famous Brands to my wife, Mrs Leila B Pollock. This gift incidentally was formally declared by me to the Internal Revenue Department on its Form 710 which was filed along about March 15 1936, even though the estimated value was considerably less than \$5,000. Since December 1935 my income has consisted primarily of my salary from the Government and consequently in maintaining my past standard of living I have been unable to make any contributions excepting my annual donation of \$20.00 or \$25.00 to the Community Fund which has been my practice for the past eight or ten years.

In compliance with the instructions of the Secretary of the Treasury contained in Bureau of Customs Personnel Circular No 130 dated March 10 1936, which in effect precludes any Treasury officer or employee from having any interest, directly or indirectly, in any business which consists of production, sale, distribution, etc, of alcoholic beverages, I suggested to Mrs Pollock that she dispose of the 18 shares of stock which she held in Famous Brands. This she succeeded in doing in April 1936 when it was sold to Mr Charles Michel Jr of 2500 Euclid Heights Boulevard, Cleveland Heights, Ohio, at, I believe, \$40.00 per share. We thus divested ourselves of any interest whatsoever in the concern in question. The total proceeds received from this sale, amounting to \$720.00, was retained by my wife and I did not benefit therefrom in any manner.

I am mindful of the arrangement made with respect to contributing to the Community Chest but since my income has been reduced to approximately my Federal salary, I am unable to make pay-ments at this time but will do so in the event my financial condition will permit.

In accordance with your suggestion please find appended copy of a self-explanatory letter dated March 19 1936 from me to Mrs Bernice Pyke, Collector of Customs, together with her notations thereon.

Subscribed and sworn to before me                    /s/ C. W. Pollock  
this 28th day of January 1936.

/s/ Clifton E. Mack, Dep. Coll. of Md.                    (Exhibit #1)

C O P Y

## TREASURY DEPARTMENT

Field Force

SECRET SERVICE DIVISION

Cleveland, Ohio  
January 28, 1937

Wm. G. Harper makes the following statement:

On September 29, 1936, I wired Mr. W. H. Moran, at the request of the then Acting Assistant Chief, Mr. Frank J. Wilson, as follows:

"Supplementing my letter 28th by reason of demands on me to assist and support relatives I have been unable to make payments in accordance with understanding of January Second but as soon as possible will comply with that promise Stop My ability to make payments was definite consideration of my pledge."

I believe the above is self explanatory. Conditions are the same today, and until conditions adjust themselves, I will be unable to do anything further than I have done in the past.

Of course, I have complied with your request as to the sale of Famous Brands stock, as well as the beer stock which I owned. I might add that it is my understanding that the Famous Brands of Ohio has been dissolved, but I have had no connection with same since January 10, 1936. The stock was sold at that time for exactly what I paid for it, \$5.00 per share.

Respectfully,

/s/ Wm. G. Harper

Wm. G. Harper

(Exhibit #2)

C O P Y

September 12, 1935.

Dear Collector Moore:

I have given very careful consideration to the matter of your connection with the liquor sales agency known as Famous Brands, Inc. (later known as Famous Brands Ohio, Inc.), and I have come to the conclusion that you should sever your connection with the Treasury Department unless you and all members of your immediate family will immediately give up all association with the companies concerned, including your financial interests in such companies, and unless you will forthwith make satisfactory arrangements to pay into the Federal Treasury the full amount of all sums received by you or any member of your immediate family from such companies. You will, of course, be privileged to deduct from such sums the amount of any Federal or State income taxes paid thereon.

Your decision as to the alternative you elect to take in this matter should be communicated to me not later than September 20, 1935.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.,  
Secretary.

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

TREASURY DEPARTMENT  
Internal Revenue Service  
Cleveland, Ohio

COPY

September 19, 1935

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

Dear Mr. Morgenthau:

I have received with very considerable surprise your letter of September 12th, as it would seem that you do not yet clearly understand the facts in respect to this matter. You speak of my connection with Famous Brands, Inc., which was a Michigan company, and its "successor", Famous Brands Ohio, Inc., which was an Ohio company. If you will examine the statements and reports given to you, you will see that I had no connection whatever with Famous Brands, Inc., of Michigan, and that Famous Brands Ohio, Inc., was not a successor to the Michigan company, but was successor to a syndicate called Ohio Sales Syndicate.

My only connection was with the Ohio Sales Syndicate in an advertising capacity. I received fees for such advertising work and counsel by way of a percentage of net profits of this Syndicate. This was in line with my regular business since 1915, as I have been engaged in advertising and sales promotion.

I never owned any stock of Famous Brands Ohio, Inc., which company succeeded the Ohio Sales Syndicate about January 1, 1935. Mrs. Moore purchased 18 shares of this stock, paying for the same with her own money. She still owns the stock.

The Ohio Sales Syndicate was managed by Mr. Gardner Abbott and Mr. John Lane. The Syndicate was the representative of The American Distilling Company in Ohio. As stated in the report, the Ohio Sales Syndicate employed Famous Brands, Inc., of Michigan, as its agent for conducting the business of the Syndicate in Ohio. This agent had its office in Detroit, Michigan, operating from that city, having no office in Ohio, but employing and paying its own employees in Ohio.

You state in your letter that I should pay into the Federal Treasury all fees and compensation received by myself, as well as the full amount received in the way of dividends by any member of my immediate family. There appears to be no justifiable reason of any sort for such payment. To make such payment would be an admission that in some way the Treasury Department of the United States had been defrauded or had failed to receive moneys

which should have been paid to it. This is not the case.

You give in your letter as an alternative that I should sever my connection with the Treasury Department. As you well know, I have violated no Federal law nor have I disregarded or disobeyed any department rule or regulation. My connection in this matter has been strictly ethical. When I assumed the office of Collector of Internal Revenue of the 13th Ohio District I asked my immediate superior in the Bureau whether it was necessary under the rules to sever my own personal business connections. I was told it would not be necessary so long as such personal business did not interfere with my administrative duties as Collector. You have been advised of this fact. You have also been advised by my superior that my administration as Collector has been excellent and that the record of my collection district has been completely satisfactory, which shows clearly that my personal business interests have not been permitted to interfere with my official duties. Consequently I cannot understand any reason for my severing my connection with the Bureau of Internal Revenue.

You further suggest in your letter that "you and all members of your immediate family will immediately give up all association with the companies concerned, including your financial interest in such companies." You already know that I have no connection with any such company and that I own no stock or other financial interest, so it manifestly is impossible for me to give up something which I do not possess. However, as stated above, Mrs. Moore still owns 18 shares of stock in Famous Brands Ohio, Inc. I will comply with your request by urging her to dispose of her stock.

It would seem to me, however, if I may take the liberty of making a suggestion, that this sort of matter could be disposed of in a much more simple manner by the issuance of a Treasury Department regulation governing the ownership of stock or other financial interest by all officials or employees of the Treasury Department, in any company or other arrangement involving the manufacture, production, distribution or sale of alcoholic beverages.

Sincerely yours,

/s/ C. E. Moore

CEM/W

COPY

October 1, 1935.

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

Sir:

I have your reply of September 19th to Secretary Morgenthau's letter of September 12th. The reply is obviously not a satisfactory answer to the Secretary's letter. However, I shall await his return before taking action.

Very truly yours,

(Signed) T. J. Coolidge,  
Acting Secretary.

FCR:dvt

C O P Y

COLLECTOR INTERNAL REVENUE  
CLEVELAND

December 16, 1935

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

Dear Sir:

In reply to your last letter on the matter of my late association with a liquor agency, I note that you do not find it consistent to make any immediate general regulation on this subject applicable to all Treasury Department officials.

Under these circumstances I agree with my legal counsel that to return any profits to the United States Treasury would be a confession of wrong doing. I am sure from our correspondence you have no intention of putting me in that situation.

I know you understand that I still believe that all I have done was entirely proper. Nevertheless I do not want to leave the possibility of doubt in your mind as to the ethics of my conduct, and I therefore propose to return to the company such profits as I realized from this transaction when and as I am able to do so.

Very truly yours,

/s/ C. E. Moore

C. E. MOORE

CEM/W

C O P Y

January 2, 1936

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

Dear Mr. Moore:

I have your letter of December 16, 1935, in reply to mine of November 29, which I take to be an undertaking on your part and in behalf of your family to dispose forthwith of all interest in Famous Brands Ohio, Inc., and to turn over to it all dividends, payments and profits which are the result of your respective connections with that company or its predecessor syndicate. Upon that assumption, I have written to Famous Brands Ohio, Inc., a letter, copy of which I enclose.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

CVO:BJ 12/30/35

c.c. Mrs. Forbush  
Com. Helvering

Cleared with Sen. Bulkley

C O P Y

COLLECTOR INTERNAL REVENUE  
CLEVELAND

January 7, 1936

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

Dear Sir:

I have your letter of the 2nd inst.  
and assure you that I will comply with the terms  
of my letter to you of December 16, 1935.

Very truly yours,

/s/ C. E. Moore

C. E. MOORE

CEM/W

C O P Y

September 12, 1935.

Mr. William G. Harper,  
Secret Service Operative in Charge,  
Cleveland, Ohio.

Sir:

I have given very careful consideration to the matter of your connection with the liquor sales agency known as Famous Brands, Inc. (later known as Famous Brands Ohio, Inc.), and I have come to the conclusion that you should sever your connection with the Treasury Department unless you and all members of your immediate family will immediately give up all association with the companies concerned, including your financial interests in such companies, and unless you will forthwith make satisfactory arrangements to pay into the Federal Treasury the full amount of all sums received by you or any member of your immediate family from such companies. You will, of course, be privileged to deduct from such sums the amount of any Federal or State income taxes paid thereon.

Your decision as to the alternative you elect to take in this matter should be communicated to me not later than September 20, 1935.

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

McR:flr

(Copies to Harper & Moran 9-13-35)

COPY

## TREASURY DEPARTMENT

Field Force

Cleveland, Ohio District      Division of Secret Service

September 19, 1935

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

Sir:

I have before me your letter of September 12, 1935 relative to eighteen shares of stock of the Famous Brands of Ohio, Inc. which I purchased in January of this year. I am willing to comply with your request to dispose of stock that I now hold in the Famous Brands of Ohio, Inc. when instructed to do so. However, I went it understood I would dispose of such stock with no thought with no thought that I have violated any law, departmental rule or regulation, or regulation of the Civil Service Commission, or because of any unethical actions on my part in the purchase of the above-mentioned stock. My connections with this company and the Ohio Sales Syndicate were purely an investment and it was clearly understood at all times that I was to take no active interest in the management or sale of articles handled by the above-mentioned companies.

I see no justifiable reason for paying into the Treasury of the United States any profits I made in the Ohio Sales Syndicate or Famous Brands of Ohio, Inc. Not one cent of dividends or commissions was made because of any efforts on my part in sale of liquor or the management of either of these firms; nor have I used any time belonging to the government in the promotion of the Ohio Sales Syndicate or the company known as the Famous Brands of Ohio, Inc.

My first thought at all times has been the Service, and my Chief who appointed me. My record will show I have never deviated from that position and no proof can be offered to the contrary.

Respectfully,

/s/ Wm. G. Harper

Wm. G. Harper  
Operative in Charge

TREASURY DEPARTMENT  
office of the Secretary  
Secret Service Division

C O P Y

MEMORANDUM

January 2, 1936.

To Mr. McReynolds

From Chief Moran

I enclose herewith the pledge of Operative William G. Harper that he will comply with the Secretary's order to return the profits he has made through his connection with Famous Brands Corporation to that company, with the understanding that it will be contributed to the Cleveland Community Chest or the American Red Cross.

/s/ W. H. Moran

O P Y

Secret Service Division

TREASURY DEPARTMENT

Office of the Secretary

Cleveland, Ohio

January 2, 1936.

Mr. W. H. Moran,  
Chief, Secret Service,  
Washington, D. C.

Dear Chief:

Replying to the memorandum addressed to you by Mr. Wm. H. McReynolds, Administrative Assistant to the Secretary of the Treasury, under date of December 17, 1935, I will undertake to return the profits I have made resulting from my connection with the Famous Brands Corporation to that company for the benefit of either the Cleveland Community Chest or the American Red Cross.

Respectfully,

/w/ Wm. G. Harper

Operative in Charge,  
Cleveland District.

COPY

MEMORANDUM

September 11, 1935.

The matter of the action to be taken with respect to Secret Service Operative in Charge William G. Harper, Collector of Internal Revenue C. E. Moore, Assistant Collector of Customs C. W. Pollock and Secret Service Operative in Charge Bert C. Brown, has been under consideration in the light of the charges made against them that they received sums in excess of \$9,000 each in connection with the operation of the sales agency known as Famous Brands, Inc. (later Famous Brands Ohio, Inc.).

The evidence on which these charges is based has been carefully reviewed and it is my decision that:

1. Collector Moore should be advised that he will be required to sever his connection with the Federal Service unless he and all members of his immediate family immediately give up all association with the companies concerned, including their financial interests in such companies, and unless he forthwith makes satisfactory arrangements to pay into the Federal Treasury the full amount of all sums received by him or any member of his immediate family from such companies.
2. Secret Service Operative Harper should be advised to the same effect as Collector Moore.
3. Assistant Collector of Customs Pollock should also be advised to the same effect as Collector Moore unless as a result of the hearing in his case in connection with unrelated charges against him more drastic action is indicated.
4. Secret Service Operative Brown should be separated from the service with prejudice.

When the foregoing officers have made their election as to what action they propose to take, a statement of the action finally taken should be prepared for release.

Secretary

## TREASURY DEPARTMENT

United States Customs Service

Cleveland, Ohio

December 26 1935

Honorable J H Moyle  
Commissioner of Customs  
Treasury Department  
Washington D C

Sir:

The receipt is acknowledged of your letter of the 21st instant informing me that the Secretary of the Treasury has approved an arrangement made by Mr C E Moore, Collector of Internal Revenue in this city, to turn over to his distilling company all profits he has realized from his interest in the Famous Brands Ohio, Inc, and its predecessor syndicate, and the agreement of the corporation to donate the funds so turned in as they are received to either the Community Chest or the American Red Cross. You have given me the alternative of entering into a similar arrangement or sever my connection with the service.

I have violated no law nor Treasury regulation in owning stock in the Famous Brands Ohio, Inc, nor have I injured or jeopardized the government in the least, but rather than sever my connection with the Customs Service I agree to contribute to charity, as I am able, the profits I have received under the same arrangement made by Collector Moore.

Respectfully

/s/ C. W. Pollock

C W POLLOCK  
Assistant Collector of Customs

AMERICAN DISTILLING COMPANY  
1110 Marshall Building

Cleveland, Ohio

FAMOUS BRANDS OHIO, Inc.  
Distributor

December 20, 1935

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

Dear Sir:

This is to confirm the statement which I understand Senator Bulkley made to you in the matter of C. E. Moore, Collector of Internal Revenue for this District, to the effect that I had suggested that any sums of money repaid to Famous Brands Ohio, Inc. by Mr. Moore in accordance with his understanding with Senator Bulkley would be forthwith paid by Famous Brands Ohio, Inc. to the Cleveland Community Fund, representing many Cleveland charities.

I have been familiar with this matter and have seen no impropriety in Mr. Moore's receiving the payments made. Naturally in this situation neither Famous Brands Ohio, Inc. nor its stockholders are entitled to retain the money which Mr. Moore may repay, and consequently the suggestion made to Senator Bulkley will be carried out as above outlined.

Very truly yours,

FAMOUS BRANDS OHIO, INC.

By /s/ Gardner Abbott

President

C O P Y

January 4, 1936

Famous Brands Ohio, Inc.  
Cleveland, Ohio.

Att. Mr. Gardner Abbott, President

Dear Sir:

With further reference to the subject matter of your letter to Secretary Morgenthau dated December 20th and his reply to you of January 2nd, 1936, Mr. C. W. Pollock and Mr. Wm. G. Harper, who were associated with Collector Moore in this matter, have now indicated their desire to make an arrangement similar to that which was made between your Company and Collector Moore with the assistance of Senator Bulkley.

Will you be good enough to inform me whether your Company will be willing to accept installment payments from Messrs. Pollock and Harper, turning such payments over to the Cleveland Community Fund in the same manner as you have undertaken to do in the Moore case?

Very truly yours,

/s/ Wm. H. McReynolds

Wm. H. McReynolds  
Administrative Assistant  
to the Secretary

McR:gmc

COPY

AMERICAN DISTILLING COMPANY  
1110 Marshall Building

Cleveland, Ohio

FAMOUS BRANDS OHIO, Inc.  
Distributor

January 9, 1936

The Secretary of the Treasury  
Washington, D. C.  
ATTENTION - Wm. H. McReynolds,  
Administrative Assistant

Dear Sir:

I have your letter of January 4th, also letter from Mr. Morgenthau, Jr. under date of January 2nd, both of which were addressed to Famous Brands Ohio, Inc., Cleveland, Ohio. There was delay in delivery, both letters reaching me January 7th. The correct address of this company is 1110 Marshall Building, Cleveland, Ohio.

With reference to the matter of C. W. Pollock and William G. Harper, referred to in your letter of January 4th, please be advised that I will treat any payments made by either of these two gentlemen to Famous Brands, Inc. in the same manner as any payments made by Mr. C. E. Moore, that is, the same when received will be paid over to the Cleveland Community Fund, representing many Cleveland charities. These payments to the charities will be made for the same reasons as stated in my letter to the Secretary of the Treasury.

From time to time as such payments are received and paid over by me I will advise the Treasury Department.

Very truly yours,

/s/ Gardner Abbott

President

(copy to Moran &amp; Gibbons 1/13/36)

C O P Y

September 24th, 1936.

Famous Brands Ohio, Inc.,  
Cleveland, Ohio.

Attention: Mr. Gardner Abbott

Gentlemen:

On January 9th, 1936, you advised the Secretary that installment payments would be accepted by your Company from Messrs. Wm. G. Harper, C. E. Moore, and C. W. Pollock of sums received by them from their interest in the Famous Brands Ohio, Inc. These payments were in turn to be given to Cleveland charities.

To date, we have no record of any such payments having been made by these gentlemen. Will you please advise us in this regard?

By direction of the Secretary:

Very truly yours,

/s/ Wm. H. McReynolds

Wm. H. McReynolds  
Administrative Assistant  
to the Secretary

(Addressed to  
Mr. Abbott  
Amer. Distilling  
Co. address)



DEPARTMENT OF STATE  
WASHINGTON

Tokyo 56 a/bles  
2/3/37  
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In reply refer to  
FE 894.00/688

February 3, 1937

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses, for the confidential information of the Secretary of the Treasury, a copy of telegram No. 36 of February 2, 7 p.m., from the American Ambassador at Tokyo, in regard to the formation of a new Cabinet in Japan.

Enclosure:  
From Embassy Tokyo  
No. 36, February 2,  
7 p.m.

RECEIVED  
FEB 4 1937  
TREASURY DEPARTMENT  
Office of the Secretary  
Technical Assistant to the Secretary.

RECEIVED  
FEB 2 1937  
Sigs

Department of State

BUREAU  
DIVISION

FE

ENCLOSURE  
TO

Letter drafted .....

ADDRESSED TO

Treasury.

U

Tokyo

Dated February 2, 1937

Rec'd 10:55 a.m.

Secretary of State

Washington

36, February 2, 7 p.m.

Embassy's 34, January 30, 5 p.m.

One. Hayashi Cabinet installed this morning. Members are as follows: Premier (concurrently Foreign Minister and Education Minister) General Senjuro Hayashi; War, General Kotaro Nakamura; Navy, Admiral Mitsu Yonai; Home Affairs, Kakichi Kawanada; Finance and concurrently Overseas Affairs, Toyotaro Yuki; Justice, Suyehiko Shiono; Agriculture and Forestry and concurrently Communications, Tatsunosuke Yamasaki; Commerce and Industry and concurrently Railways, Admiral Takuo Goto.

Two. According to the latest information available to the Embassy, Hayashi has not yet approached any one to become Minister for Foreign Affairs. Ambassador Sato at Paris and Ambassador Saito at Washington have both been prominently mentioned but Foreign Office officials have informed the Embassy that no telegram to Saito has passed through the Foreign Office. It is generally assumed that some of the other portfolios being held

U -2- #36, Feb. 2, 7 p.m. from Tokyo

held concurrently will be abolished or amalgamated with others in the process of administrative reform.

Three. Inform Treasury. The reaction to the new Cabinet in Japan is generally favorable. It was expected that the Hayashi Cabinet would show decided Fascist trends but the appointment of ministers of known moderate tendencies has greatly relieved public apprehension. In particular the appointment of Yuki as Finance Minister has served to quiet the fears of economic circles. He is a practical banker of many years experience and the general opinion is that he will not follow the "irresponsible" finance of Baba. It is believed that he will not permit governmental expenditures to outrun economic advance and cause dangerous inflation but it is thought that it will be necessary for him to exercise some measure of control over industry and finance in order to accomplish this end.

Four. Analysis will follow later.

Repeated to Peking.

RECEIVED

GREW

FOR THE DIRECTOR  
 U.S. DEPARTMENT OF THE TREASURY  
 WASHINGTON, D.C.

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France.

date; February 3, 1937, 8 p.m.

No: 153 FOR TREASURY.

Pressure on the franc increased today and we are told by our market contact that the exchange fund paid out considerable sterling. The pound opened at 105.09 and is now quoted at 105.12. The dollar is firm at 21.45 1/4. The florin also showed strength.

Forward rates again moved up one month sterling being quoted at 1.25 and three months 3 francs. The dollar is quoted at 27 centimes for one month and 65 centimes for three months.

Of the security market there was a slight improvement in rentes. However, other French securities were down. On the other hand internationals were strong and active.

The following is strictly confidential:

Reliable information has come to us that the pressure on the franc yesterday - and which is continued today - is largely due to a resumption of capital flight from this country.

In this connection, the unsatisfactory situation which exists is indicated by sure information which we have that the question of exchange control has been under consideration recently and that discussion of it is still being carried on. We understand that the Governor of the Bank of France is favorable to such action. However, we have

- 2 -

been informed that Blum is very unhappy about the possibility of resorting to such a measure and that recommendations of some of his advisers in this respect are being opposed by Blum.

END SECTION ONE.

BULLITT.

EA:LWW

MED

GRAY

PARIS

Dated February 3, 1937

Received 5:16 p.m.

Secretary of State

Washington

153, February 3, 6 p.m. (SECTION TWO)

The financial press of today publishes an official communique by the Minister of Finance "denying rumors circulated on the Bourse that the Government envisages the putting into operation of different measures notably the institution of a system of exchange control".

"AGENCE ECONOMIQUE" observes that while it is true that different stories were in circulation it fails to see any justification for making them the subject of an official announcement and that the Minister is suffering more or less from nerves. This paper recalls that Auriol has several times solemnly declared that he intends to maintain in France the liberal principles applied successfully by Great Britain and the United States. The "AGENCE ECONOMIQUE" asks "what could possibly happen to the tripartite arrangement if France permits itself to be led to adopt regulations such as have been set up by dictatorial regimes." It recommends the Government to let the market follow its

its

HEED - 2 - #153, February 5, 6 p.m. from Paris

its course and not to form an opinion based on the tendencies of one or two market sessions.

It is apparent that comment which has appeared in the London financial papers on the French financial situation has not tended to reassure opinion here. Particular notice has been taken of the statement which has appeared in the FINANCIAL TIMES that "one or two of the principal British banks rejected the offer to participate in the French credit on the grounds that they doubted whether the amount involved would bring the required amelioration or whether the authorities in France were in a position to take steps to improve the financial situation".

It is pointed out in this respect that it is obvious that if the amount of the present credit must be retrieved in sterling by the end of the year in order to avoid repayment in gold, the flow of capital funds must be altered. It is also pointed out that as the French commercial balance is not capable of bringing in foreign currencies there must be a sufficient repatriation of French funds to do this.

The LONDON FINANCIAL NEWS today announces that British customs returns for the four days ending February 1 show a further import of pounds 4,997,995 of gold

from

MED - 3 - #153, February 3, 6 p.m. from Paris

from France. It is suggested that some of this gold may represent part of the security for the British credit concluded on January 29.

It is also stated in the London financial press that some of the participants in the British credit have apparently ceded surplus requirements to French banks and that this partly accounted for substantial amounts of sterling purchased yesterday. (END OF MESSAGE)

BULLITT

NPL:EMB

RECEIVED

FEB 4 1947

TREASURY DEPARTMENT  
Office of the Director  
International Finance Section

**Interstate Commerce Commission**

BUREAU OF FINANCE

Washington

February 3, 1937.

Hon. Roswell Magill,  
Undersecretary of the Treasury,  
Washington, D. C.

Dear Mr. Magill:

There is enclosed a copy of the draft of letter prepared by the Chairman of the Interstate Commerce Commission for transmittal to the President. This is the communication to which Mr. Boles and I referred during our conversation with you yesterday.

Very respectfully,

*Olin E. Sweet*  
Director.

Attach.

Jan  
Kieley - 19

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Y

January 26, 1937.

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

My dear Mr. Secretary:

When the chairman of the Commission talked with you recently in regard to certain comments which appeared in our recent Annual Report with respect to the undistributed earnings tax, imposed by the Revenue Act of 1936, he agreed that a representative of the Commission would confer with you in regard to this matter at an early date. Subsequently, the Commission decided that I should be its representative for this purpose, presumably because I am chairman of its Legislative Committee.

You were good enough to send to our chairman a copy of the letter which you wrote to the President upon this subject on January 12, 1937, and we have studied it carefully. We were also informed that at a press conference the President indicated that he was expecting from us a reply to that letter. Before communicating with you in regard to the proposed conference, therefore, I thought it well to prepare a draft of such a reply as, on the information now available, it seems to me should be made. I am sending you a copy of that draft herewith. If, after reading it, you feel that a conference would be desirable, I am at your service at any time this week that may be convenient to you, if you will advise me. However, with your permission, I should like to

bring Commissioner Mahaffie with me, because of his great experience with these financial matters. If you feel that a conference is unnecessary, please notify me accordingly, and we shall then send our reply to the President.

Respectfully yours,

*Joseph B. Eastman*

Encl.

E-B

(COPY LEFT)

(draft)

Honorable Franklin D. Roosevelt,  
President of the United States,  
The White House.

Dear Mr. President:

The Secretary of the Treasury has been good enough to send me a copy of the letter which he wrote to you on January 12, 1937, in regard to certain comments which appeared in our recent Annual Report with respect to the undistributed earnings tax, imposed by the Revenue Act of 1936. We have given this letter careful consideration, and it appears that the Secretary is laboring under certain misunderstandings or wrong impressions in regard to this matter, as I shall now endeavor to make clear.

The letter indicates that the Secretary is under the impression that we have recommended "vital and far-reaching changes in the undistributed earnings tax, imposed by the Revenue Act of 1936, as it affects railroad corporations coming within the jurisdiction of the Commission", and also that this recommendation was "prepared and published without the courtesy of consultation with the Treasury Department". The facts are, we believe, quite otherwise.

We did not, as we see it, recommend "vital and far-reaching changes in the undistributed earnings tax". All that we did was to recommend that the situation of steam railroads under the Revenue Act of 1936 be given further

consideration with a view to encouraging railroads with weak financial structures and those just emerging from bankruptcy or receivership to use their earnings, to the extent authorized and approved by the Commission, "to build up and improve their property, retire their funded debt, and create corporate surpluses in amounts sufficient to meet emergency needs, support their borrowing power, and afford insurance against obsolescence".

The Revenue Act of 1936, Section 14(d), specifically exempts from the surtax certain corporations, including banks, insurance companies, joint stock land banks organized under the Federal Farm Loan Act, and corporations which for any portion of the taxable year are insolvent and in receivership. The corporations exempted are those having semi-public functions or those in difficulty. The railroads are public service corporations, and those which the Commission suggests be given relief from the full operation of the surtax are those chronically in distress because of their poor financial structures or those just emerging from bankruptcy or receivership proceedings.

The surtax is imposed on the undistributed net income. Under the provisions of Section 14(a) of the Revenue Act, in arriving at the undistributed net income, certain deductions, including the credit provided in Section 26(c), are allowed. The credit provided in Section 26(c) is for amounts paid out or reserved for retiring funded debt or

withheld from stockholders under written contracts of a certain kind executed prior to May 1, 1936. We think consideration should be given to the desirability of extending this provision to amounts paid out under similar contracts executed after April 30, 1936, under requirements imposed by the Commission.

Further precedent for what we suggested is found in the provisions of Section 14(a) (1)(C) and (D) of the Revenue Act, under which there may be deducted from net income, in arriving at the undistributed net income, in case of a holding company affiliate, the amount allowed as a credit under Section 26(d), and in case of a National Mortgage Association created under Title III of the National Housing Act, the amount allowed as a credit under Section 26(e). The credit allowed in case of a holding company affiliate is the amount of the earnings or profits which the Board of Governors of the Federal Reserve System certifies to the Commissioner (of Internal Revenue) has been devoted by such affiliate during the taxable year to the acquisition of readily marketable assets other than bank stock in compliance with Section 5144 of the Revised Statutes. The credit allowed in case of National Mortgage Associations created under Title III of the National Housing Act is the amount of earnings or profits which the Federal Housing Administrator certifies to the Commissioner has been devoted by such Associations

during the taxable year to the acquisition of such reserves as the Administrator may require under the provisions of Section 303 of that Act. This seems to us to be a precedent for the suggestion that the railroads be encouraged to build up their surplus for purposes consistent with the public interest, to the extent that we may authorize.

In the light of the above, we do not feel that we suggested "vital and far-reaching changes in the undistributed earnings tax". Nor is it correct that the suggestion was made "without the courtesy of consultation with the Treasury Department". The duty of preparing for the consideration of the Commission a chapter for the Annual Report on sinking funds and other reserve funds was delegated to C. E. Boles, assistant director of our Bureau of Finance. Before undertaking to prepare the draft, he spoke informally to Mr. King, Special Deputy to the Commissioner of Internal Revenue, about the objections railroads were making to setting up sinking funds because of the effects of the undistributed earnings tax. Mr. King suggested that Boles speak to the head of the Legislative Division of the General Counsel's Office, Bureau of Internal Revenue. Boles' account of what then transpired is as follows:

-5-

After the draft of the chapter on sinking funds and other reserve funds was completed, I submitted it, under instructions from Commissioner Meyer and the Director of this Bureau, as evidenced by the attached copy of the Director's memorandum of October 21, 1936, to the Legislative Division of the General Counsel's Office, and it was checked by the assistant head of that Division and by other employes who were called in to take part in our discussion. It was generally agreed by those with whom I conferred that there should be no objection to making such changes in the Revenue Act as were suggested, as the provisions necessary to relieve weak carriers and those emerging from receiverahip and bankruptcy would be similar to those provisions to which I have called specific attention above. Neither they nor I considered that the changes necessary to produce the desired result would be inconsistent with the major objectives of the undistributed earnings tax or the principles upon which the President's message to Congress under date of March 3, 1936, were based.

At their suggestion I inserted in the draft after the word "encouraged" (page 19, line 5, of the Commission's Annual Report) the words "to use their earnings, to the extent authorized or approved by us". As originally drawn, the chapter concluded: "It is recommended that such changes be made in the Revenue Act as will be conducive to that end". Representatives of the Bureau of Internal Revenue suggested no changes in this language. The Commission, however, substituted for this conclusion the one used in the Annual Report, namely, "We suggest that the situation of the steam railroads under the Revenue Act of 1936 should have the further consideration of Congress".

There was certainly no intent to make any recommendation contrary to the principles upon which the President's message to Congress under date of March 3, 1936, was based, or to make recommendations for any vital or far-reaching changes in the undistributed earnings tax, or for any changes contrary to the major objectives of the undistributed earnings tax. We were under the impression that we were taking the proper steps

to see that our recommendations would be in line with the major views of the Administration on taxation.

We would, of course, have been glad to consult the Secretary of the Treasury in regard to the matter also, but the need for such consultation was at no time suggested by the Legislative Division of the General Counsel's Office, Bureau of Internal Revenue. In all of the circumstances it did not occur to us that we ought to bother the Secretary with such a consultation.

The statements in the third paragraph of the Secretary's letter to you summarize in substance what we said as to the effect of the provisions of the Revenue Act on railroads required to set up sinking funds and other reserve funds, with this exception: Our report shows that the surtax would apply adversely not only to weak roads reorganized subsequent to April 30, 1936, but to all weak railroads required to set up sinking funds or other reserve funds subsequent to April 30, 1936, for the purpose of retiring a part of their funded debt or improving their property.

Beginning at the bottom of page 2 of the Secretary's letter, he sets forth some "important considerations", numbered (1) to (4), which he says our report "does not mention". The first of these appears to have no bearing on the questions that we discussed. The exemption referred

-7-

to is provided in Section 14(d) of the Revenue Act, and has been mentioned above. It applies only to corporations which for any portion of the taxable year were in bankruptcy under the laws of the United States, or were insolvent and in receivership. As we understand this exemption, it applies only to a corporation while it is in bankruptcy, or is insolvent and in receivership, and for such portion of the taxable year as is unexpired when bankruptcy or receivership proceedings terminate. It does not apply to such a corporation after reorganization, except during the remaining portion of the taxable year in which it was in bankruptcy, or insolvent and in receivership. Except for the very limited period stated, the corporation upon termination of bankruptcy or receivership is no longer entitled to exemption. We are not interested in sinking funds and reserve funds for corporations in bankruptcy or receivership. Our interest is in the gradual improvement of the financial structures of such corporations after they emerge from such proceedings, and in the gradual improvement of the financial structures of weak railroads that have barely avoided them, in many instances only with the aid of the Reconstruction Finance Corporation.

With reference to the second consideration, which the Secretary states our report does not mention, we have

been unable to find any provision in the Revenue Act exempting reserves for improvement of property or retirement of debt, other than such reserves as were required to be set up under contracts entered into prior to May 1, 1936. The attention of Mr. Boles was not called to any such provisions during his conference with representatives of the Bureau of Internal Revenue. Section 23 of the Act does allow deductions for obsolescence and depreciation, and for that reason the reference to "insurance against obsolescence" on page 19 of our report should have been omitted, or limited to obsolescence for which no provision has been made in the past, as contrasted with currently accruing obsolescence. With this possible exception, such allowances are in no way pertinent to the matters which we discussed. They serve merely to enable the carriers to set aside part of their gross income to reflect the cost of property that is currently being worn out or otherwise losing its value, and really are part of the operating expenses that must be considered in arriving at net income for tax purposes. The problem which we were considering was not so much the proper maintenance of property of the carriers, but rather the improvement of their financial structure, where needed, through retirement of a part of their funded indebtedness or by building up property

-9-

out of earnings without the issue of any securities, whether stocks or bonds.

With reference to the third consideration, which the Secretary mentions, this is to the effect that carriers may reduce their funded indebtedness through withholding their earnings for that purpose and paying dividends in preferred stock to their common stockholders, or by using their earnings for that purpose and reimbursing their treasury through the issue of securities offered to common stockholders for subscription. The Chesapeake & Ohio Railway Company resorted to a preferred stock dividend to escape surtax, authority to issue \$15,315,500 of preferred stock having been authorized by the Commission, Division 4, on December 3, 1936, in Finance Docket 11429. Similar action was authorized by Division 5 in the case of the Greyhound corporation.

The requirements of weak carriers for retiring funded debt could seldom be met through the issue of stock to be sold stockholders, because stockholders of such companies are not likely to subscribe for additional stock. The method suggested of withholding earnings and declaring preferred stock dividends, as was done by the Chesapeake & Ohio, one of the strongest carriers in the United States, would be objectionable in case of weak carriers, for two reasons. First, many

of the weak carriers are overcapitalized, and substitution of stock for funded debt will not cure this defect. The only way to do it is to reduce the total amount of securities outstanding, preferably funded debt securities, or build up the property out of earnings without issuing any securities. Second, under well established principles followed by us during the last 17 years, railroads are not permitted to issue securities, whether stocks or bonds, in excess of their total capitalizable assets. If weak carriers, which as a rule have little if any surplus, and many of which show deficits in their surplus accounts, are permitted to capitalize all their capitalizable assets through the issue of stock, no margin will be left upon which they may base an issue of bonds in times of trouble, and at such times it would be impossible for them to issue stock of any kind.

The fourth consideration which the Secretary states our report does not mention, namely, the fact that instead of a flat rate of 15 $\frac{1}{2}$  percent, the present law admits corporations to a gradual rate from 8 percent to 15 percent, does not appear to have any application to the matters which we discussed. The question under discussion in our report was the applicability of the undistributed earnings tax, which may be avoided by certain

-11-

carriers required to set up sinking funds, and can not be avoided by other carriers required to set them up. In passing, it should be noted that the 15 percent rate mentioned by the Secretary applies to net income in excess of \$40,000 per year. The benefits of the graduated rate would be a very small matter in most cases as compared with the heavy burden imposed by the surtax, which often would amount to about 21 percent of the undistributed net income. See Section 13(b) and Section 14(b) of the Revenue Act.

With reference to the statement in the first paragraph on page 4 of the Secretary's letter, that it is inaccurate to describe the tax as a penalty: Whatever the correct description, the tax would in effect throw a burden on financially weak railroads required by us to set up sinking funds out of their earnings, whereas this burden could easily be avoided by the strong carriers. There is no reason why these corporations should not receive preferred treatment under the law, as well as corporations in receivership and bankruptcy, which do receive preferred treatment under the law. It is merely a matter of degree. In case of corporations in bankruptcy and receivership, the bondholders are benefitted to the extent that earnings of the corporation are not subject to the surtax,

whereas in case of weak carriers, if they were exempted in certain circumstances, as we suggested, stockholders as well as bondholders would be benefitted. Furthermore, the corporation itself would not be forced to pay a tax that stronger corporations may lawfully escape.

Summarizing the matter, we are not persuaded, after reviewing the Secretary's letter, that we erred in the suggestion which we made in our Annual Report. Nor do we feel that we can justly be convicted of lack of courtesy to the Treasury Department. It remains to consider one further general criticism that the letter contains. That is to the effect that we should have taken this question up with the National Emergency Council before including the suggestions in our Report.

Section 21 of Part I of the Interstate Commerce Act directs the Commission to make and transmit an annual report to Congress, which "shall contain such information and data collected by the Commission as may be considered of value in the determination of questions connected with the regulation of commerce, together with such recommendations as to additional legislation relating thereto as the Commission may deem necessary". The law contains no direction that we shall take such matters up with the National Emergency Council before making this annual report. As a matter

-13-

of courtesy, we would have no objection to taking them up with the Council, but our annual report is quite a bulky document and we doubt the practicability of such procedure. Nor did we know that it was desired.

Finally, we are unable to believe that the submission to Congress by the Commission of the views which the law directs it to submit can be prejudicial to the cause of good and efficient government. If the views are unsound, they will not long stand up under attack. If they are sound, they should be of benefit to Congress. The free expression of honest opinion by informed bodies is, it seems to us, eminently desirable.

Respectfully yours,

Chairman of the Commission.



IN REPLYING  
ADDRESS THE SURGEON GENERAL  
U. S. PUBLIC HEALTH SERVICE  
AND REFER TO

TREASURY DEPARTMENT  
PUBLIC HEALTH SERVICE  
WASHINGTON

February 3, 1937.

REPORT FOR THE SECRETARY - Flood work, U. S. Public  
Health Service.

Disease conditions throughout the flood area in general remain about normal. There is a widespread incidence of minor influenza, a slight increase in cases of pneumonia but little else.

Dr. Parran telephoned from Cairo this morning. He has visited a number of refugee camps and says that there is necessarily considerable overcrowding. It will be perhaps two or three months before all of these people can be returned to normal living conditions in their homes. He anticipates there may be a widespread incidence of influenza. He gave detailed instructions as to assignment of personnel and the like. His address this afternoon will be U. S. Engineers Boat, Paducah, Kentucky. He will report his future locations by wire or telephone.

Summarized detailed reports received from field offices this morning are as follows:

Cincinnati, Ohio. Dr. Applewhite. Medical and nursing needs adequately met. Supply of biologics ample. Many cases of mild colds; a few cases of scarlet fever, diphtheria and pneumonia; no diseases of epidemic proportions.

Louisville, Ky. Dr. Olesen. Usual lines of communication over state irregular and unreliable. 200 cases of influenza and 20 cases of pneumonia reported Eddyville Penitentiary. Otherwise disease conditions in the state are apparently favorable.

Ashland, Ky. Dr. Hornibrook. People returning to their homes and stores. A few cases of scarlet fever and one each of diphtheria and meningitis. Dozens of cases of influenza.

Indianapolis, Ind. Dr. Harvey. Disease conditions about normal.

Charleston, W. Va. Dr. McClue. Disease conditions about normal.

Maysville, Ky. Dr. Fraser. Health situation satisfactory except at Vanceburg where there is considerable influenza and some pneumonia.

- 2 -

Sikeston, Mo. Dr. Tomlinson. Some mild respiratory infections and a few cases of pneumonia. No other communicable diseases reported. Smallpox and typhoid immunizations practically completed.

Charleston, Mo. Dr. Gordon. 2600 refugees have received typhoid inoculations. No communicable diseases reported.

Forrest City, Ark. Dr. Carley. No unusual disease incidence in any section of the Arkansas flood area. Slight increase in pneumonia.

*Walter H. Draper*  
Acting Surgeon General .

WFD:MTL

3 February, 1937  
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

Coast Guard operations proceeding smoothly throughout flood area, and Service resources being found ample to meet the demands as they arise.

As the need for boats in the Ohio diminishes, they are being moved, as found advisable, down the River to more critical points.

The water at Evansville has receded from the streets; Paducah and vicinity most affected area at present time; conditions at Cairo improving; conditions at Memphis good - work being done on levees there. At noon today there was freezing weather in the Mississippi Valley which is expected to cause less drainage to the Mississippi River.

- - - - -

The Coast Guard Relief Force totals 25 major (seagoing) units; ten planes, approximately 400 boats and 2000 personnel, with a comprehensive radio setup throughout the entire flood zone.

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General Water Level Condition.

Crest just above Cairo - 59.6' slowly rising; Memphis 48.7', forecast 49.7' to 50' by February 9th; Vicksburg 46.8', forecast 52' by February 19th; Helena 57.6'.



TO THE SECRETARY  
OF THE PUBLIC HEALTH SERVICE  
AND HEADQUARTERS

## TREASURY DEPARTMENT

PUBLIC HEALTH SERVICE

WASHINGTON

February 4, 1937

Report for the Secretary on

Flood Work, U. S. Public Health Service.

Surgeon General Parran telephoned from Cairo, Ill., at 10:15 this morning and said that the levees were holding and that the Army engineers were very optimistic that the crest had been reached.

Dr. Parran visited Paducah yesterday. Most of the city is flooded and 80 percent of the population has been evacuated to various concentration points in the back country, even as far away as Nashville. Few of the refugees are under tents. Most of them are being cared for in buildings such as school houses and the like. Sanitary and health conditions among the refugees are reported to be good. Of the 8 western Kentucky counties which are flooded, 7 have full-time health units with adequate supplemental help at the present time.

Dr. Parran states that the Illinois sanitation program is well organized, both for present emergency supervision and for the clean-up campaign. Full agreement has been reached with the State and Works Progress Administration forces.

Dr. Parran is leaving today by automobile for Evansville, arriving this afternoon. He expects to go to Louisville by overnight plane tonight and will spend February 5th at Louisville. According to his present plans he will be in Cincinnati on Saturday and return to Washington possibly Sunday or Monday.

Detailed reports from our Public Health Service medical officers and sanitary engineers throughout the flood area indicate that no serious conditions in regard to the prevalence of disease exists. The immunization programs are being well carried out and all needs for biologics and medical supplies have been met.

-2-

There continues to be a rather widespread prevalence of influenza and a somewhat higher than normal incidence of pneumonia, mostly confined to the aged and infirm. Adequate medical and nursing services are everywhere available. The sanitary engineers are continuing to assist in the restoration of public water supplies as rapidly as possible.

There were 9 deaths in Louisville on February 2d, including 1 from pneumonia. On February 3d there were 7 deaths with 3 from pneumonia. This is about the normal expectancy.

Telegraphic reports of communicable disease incidence in several of the States have been received and tabulated.

*Warren F. Draper*  
Acting Surgeon General

WFD:AMM

February 3, 1937

Mr. James Roosevelt,  
Administrative Assistant to the President,  
The White House,  
Washington, D. C.

Dear Mr. Roosevelt:

In accordance with your note of January 26, I have to submit the following preliminary report as to the need of the Public Health Service for additional government work as the aftermath of the flood.

Surgeon General Parran, who is now making an inspection of the flood area, reports that the situation from the health standpoint will continue to be very serious for some months to follow. The necessity for malaria control measures will be especially urgent in a number of the States. The destruction of property, the rusting out of screens and the like will require the careful attention of health authorities and many replacements if a tremendous increase in the incidence of malaria is to be avoided.

While it is impossible at this time to furnish for each community in the flood area specific data on the health needs during the period of rehabilitation, most of the counties which have suffered from the flood will be in urgent need of outside assistance for public health work, in addition to that which can be provided by the State health authorities. In a large number of communities, where efficient full-time health service has not existed heretofore, it will be highly desirable to establish a complete health service during the period of rehabilitation. In other communities, which already have a certain amount of health service, it will be desirable to supplement the activities.

-2-

To date it is reported that 185 counties have suffered from the flood. It is probable that additional health work will have to be performed in each one of these counties. While the needs in some communities will be greater than in others, it is estimated that on the average the sum of \$5,000 per county will cover the need for aid from the Public Health Service during the remainder of the current Federal fiscal year. This sum for each county should be considered entirely exclusive of expenditures that may be made by the Works Progress Administration and other agencies.

The Public Health Service is without funds to finance such a program and an additional emergency appropriation would be needed. It is recommended, therefore, that consideration be given to a request for an appropriation of \$925,000 for the Public Health Service for the remainder of the fiscal year 1937.

Very sincerely yours,

(Signed) W. F. Draper

Acting Surgeon General

WFD:AMM

COPY

THE WHITE HOUSE

WASHINGTON

January 28, 1937

Dear Doctor Farran:

The President has asked me to act as a clearing house for collection of data relative to additional Government work caused by the aftermath of the flood, which cannot be done without additional appropriation for this specific purpose.

Is there any likelihood of your Administration needing such help and if so, could you give me a preliminary report by next Wednesday - February third as to your possible needs, so that I may fit this in with the entire picture.

Many thanks.

Very sincerely yours,

(Signed) JAMES ROOSEVELT  
Administrative Assistant  
to the President

Dr. Thomas Farran, Jr.,  
Bureau of Public Health Service,  
19th Street and Constitution Ave.,  
Washington, D. C.

4 February, 1937  
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

Coast Guard boats in the Ohio Valley, which have completed their mission of rescue and assistance, are being concentrated at certain specified points, prepared to move instantly to the Mississippi Valley if the Red Cross needs their services.

All seagoing units which were ordered from the Atlantic and Gulf coasts have arrived in the flood zone, and are now operating in the Mississippi Valley.

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Commander, Coast Guard Relief Force, reported conditions somewhat improved at Hickman, Cairo, and Evansville, and no need for additional craft at Memphis.

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Coast Guard Relief Force totals 25 major (seagoing) units; ten planes, approximately 400 boats and 2000 personnel, with a comprehensive radio setup throughout the entire flood zone.

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General Water Level Conditions.

Ohio River falling at all points above Cairo. Crest is slightly above Cairo, but no material rise above prevailing height is expected at Cairo. There has been no precipitation during last 24 hours. Arkansas River is receding which will relieve somewhat the situation in the Mississippi.

full

U

GRAY

Paris

Dated February 4, 1937

Rec'd 12:45 p.m.

Secretary of State

Washington

159, February 4, 1 p.m.

FOR TREASURY.

The following is a summary of the information furnished by the Minister of Finance to the Parliamentary Finance Committees yesterday as published in *AGENCE ECONOMIQUE*:

In the first place the Minister protested against false rumors in circulation and announced his determination to punish the authors.

He then recalled the "disguised" borrowing of the preceding government from the Bank of France and stressed that such practices had now ceased and that advances were clearly shown in the weekly statement.

At December 30, 1936, advances by the bank totalled 5,400,000,000 and 8,939,000,000 of Treasury bonds were outstanding.

From June 23 to December 31, 1936, the resources of the Treasury amounted to 15,445,000,000 francs and expenditures to be met totalled 15,222,000,000 francs.

For the whole year the expenditures of the Treasury amounted

U -2- #157, Feb. 4, 1 p.m. from Paris

amounted to 27,700,000,000 francs not counting the reimbursement of the exceptional discounts at the Bank of France. Of this total 1,800,000,000 francs could be laid to laws voted by the present Government.

Actually no limit had been exceeded and no margin of authorization had been exhausted. The finance law had fixed the limit of issue of ordinary Treasury bonds at 23,000,000,000; the cumulated total of bonds and advances from the bank was under 13,400,000,000 leaving a margin available to the Treasury of 9,600,000,000.

Astronomic figures had been put forward regarding Treasury requirements for 1937 to be met by borrowing. However total direct charges of the state to be met by Treasury totalled 20,485,000,000. Adding special charges of 3,370,000,000 and advances to collectivities of 12,272,000,000 the total was 36,127,000,000. (END SECTION ONE)

BULLITT

RB

GRAY

Paris

Dated February 4, 1937

Rec'd 5:20 p. m.

Secretary of State  
Washington.

159, February 4, 1 p. m. (SECTION TWO)

As concerned loan issues to cover these requirements, taking into account the recent London credit, and the national defense loan of December 17, 1936, total borrowing would thus be reduced from 36 billions to 28 billions (for the state 20 billions and for the collectivities 8 billions). This was not more than for previous years when borrowing varied between 24 and 27 billions.

To criticism that the money market could not respond to such calls upon it, the Government appealed to the country, which was reviving economically and which could furnish the money. Evidently the first few months would be the most difficult, and all unnecessary expense must be stopped.

The Minister looked for more enthusiastic purchasing of Treasury bonds in view of the increased interest rate, and he was also pressing for settlement of unpaid taxes between 1934 and 1936. Furthermore, he had requested the departments

RB

-2-, 159, February 4, 1 p. m. from  
Paris (SECTION T70)

Departments and communes to provide for their own financial needs.

It had offered a three year loan repayable at 140 francs and it made public all of its accounts. It was inadmissible that speculative operations should continue to hamper the security and produce markets, and for this reason the Bank of France had decided to raise the discount rate. Furthermore, the rate of two per cent was too low for the Paris market. It had been proved that it was not high enough to encourage the renewal of Treasury bonds.

In conclusion, the Minister expressed his gratitude to those French citizens who had shown their confidence as indicated by the constant progression of increased deposits over withdrawals.

The Finance Committee of the Chamber then proceeded to ask three direct questions. The first was whether it was possible to fix the value of the franc at 43 milligrams of gold without breaking the tripartite agreement and without running the risk of further devaluation by another country.

In reply, the Minister pointed out that the three Governments concerned had declared "their intention to use appropriate available resources so as to avoid as far

as possible

RB

-3-//159, February 4, 1 p. m. from  
Paris (SECTION TWO)

as possible any disturbance which may affect the new bases of the exchanges resulted from readjustment of the franc" and the Minister added that it had been understood that necessary consultations would be assured to this end between the two other Governments and between the banks of issue.

The second question was whether if the franc were stabilized at 43 milligrams of gold the profit should not be used to repay advances from the Bank of France to the state.

The Minister replied that as far as he was concerned the question did not arise.

He would simply refer it to the terms of the convention dated September 25, 1936 which provided that "the proceeds of the additional revaluation which must eventually be carried out following the fixation of the new gold content of the franc will be attributed to the state under conditions which will be made the object of an ulterior convention. These proceeds as well as the proceeds of the liquidation of the exchange equalization fund can only be applied to the amortization of the public debt".

Finally the Committee asked whether the whole of the 1,030,606, 297 francs set aside in October last for the repayment of the British credit arranged in February last had been

RB

-4-/159, February 4, 1 p. m. from  
Paris (SECTION TWO)

had been entirely used.

The Minister replied that about one billion francs of the money had been so used.

In reply to a supplementary question the Minister stated that the guarantee clause of the recent British credit was in all respects similar to that agreed upon for the operation arranged by his predecessor in February of last year. The Minister described as follows the mechanism of the guarantee: "The Bank of France would deposit to its account at the Bank of England an amount of gold or of currencies equal to that of the credit which would serve as a guarantee and should be recovered immediately upon reimbursement of the credit".

The Minister went on to say that if it was established that a syndicate of French bankers had taken part of the French credit in London it was abominable. He intended to open an inquiry in this respect, he said.

The Minister repeated in reply to further questions that the exchange equalization fund still possessed "a substantial amount of gold and currencies" and that contrary to rumors in circulation "it was far from being exhausted".

The Minister afterwards appeared before the Senate Finance Commission when it is said he furnished the same information.

RB

-5-#159, February 4, 1 p.m. from  
Paris (SECTION TWO)

information. At the conclusion of the hearing this body issued the following communique to the press:

"The Senate Finance Commission has listened to the explanations of M. Auriol relating to the Treasury situation. The Commission, taking note of the Minister's declaration that he is resolutely hostile to a further devaluation and to exchange control, considers that under present circumstances the Treasury problems present particular importance and has therefore decided to follow developments attentively".

BULLITT

SMS

EMB

RB

GRAY

Paris

Dated February 4, 1937

Rec'd 4:05 p. m.

Secretary of State  
Washington.

169, February 4, 11 p m. (SECTION THREE).

The exchange market was very feverish today and considerable business was done in pounds and in dollars. The pound is quoted at 105.11 with the exchange fund supporting the franc and the dollar is at 21.46 $\frac{1}{8}$ . Other currencies are firm.

Forward rates again moved upwards the one-month dollar being quoted at 27 centimes and 67 centimes for three months. The one-month rate for the pound is 1.25 francs and for three months 3.15 francs.

On the security market French variable revenue securities were steady but rentes are down 30 to 65 centimes. Internationals were very strong.

We are told by our market contact that Auriol's statement before the Parliamentary Finance Committee yesterday made a poor impression on the Bourse.

The Bank of France statement dated January 28th published today shows a loss in the gold reserves of three billion francs. The commercial portfolio increased  
by one

RB

-2- 159, February 4, 1 p. m. from  
Paris (SECTION THREE)

by one thousand five hundred one millions. Loans to the state under ten billion franc advance authorization increased four hundred millions. Note circulation increased by one thousand one hundred and forty three millions. Deposits are down one thousand five hundred forty millions. The rates of gold cover is 54.67% compared with 57.42%.

Irritation established in the financial press regarding reports that a part of the London sterling credit has been taken by French banks. Referring to the necessity for the latter to go to London to obtain an increased rate of  $3\frac{1}{2}\%$ , JOURNEE INDUSTRIELLE stresses the anomaly of such an operation especially as it has been made possible for London to reduce its lending rate through the inflow of foreign capital and particularly French capital. This paper seized the opportunity to utter a warning note in putting forward the contention that there exists more than 400,000,000 pounds sterling of sight money in London. In this respect it points to the danger such a condition represents ~~for~~ <sup>to</sup> the London market and for the exchange stabilization funds, in the event that foreigners suddenly withdrew funds. ~~It concludes~~ <sup>It concludes</sup> that London would not have sufficient gold ~~to meet~~ <sup>to meet</sup> its obligations in such an event.

(END MESSAGE)

BULLITT

CSB

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: February 4, 1937, 8 p.m.

NO.: 48

FROM BUTTERWORTH FOR TREASURY.

The following is strictly confidential.

I had a conversation with Le Norcy, who is Acting French Financial Attaché, on his initiative. Monick is staying in Paris, although he is still holding the office in name at present.

The position in France was briefly summarized by Le Norcy as follows:

(1) Some spending had begun due to the termination of the policy of deflation, the consumer industries having consequent beneficial effects.

(2) There was likewise considerable disruption in the heavy industries because of the armament program and some other public works.

(3) The French have largely dissipated the adverse effects of the conflicts over social legislation. Large-scale strikes were over. The "disappearing smoke after a large fire" was all that remained.

The position of France financially was frankly far from favorable. Le Norcy, speaking confidentially and wholly personally, deprecated the delay in effecting the loan from the British. He said the loan in itself was not large enough to be technically a bulwark. A large part

- 2 -

part of its value lay in its psychological effect, but the flow of funds from Paris to London since the loan was negotiated shows that in that regard it had not achieved its object. He also was of the opinion that it was unfortunate that the report of Auriol to the financial Committees of the Senate and Chamber, which indicated (according to the British press) that during the present year the equivalent of a further 280,000,000 pounds would have to be raised, had received publicity just at the time when in Paris and London there were so many rumors about further franc depreciation.

The Acting Financial Attaché told me that he could give assurances that the French authorities had no intention of lowering the franc's value at the present time. He implied that the French had considered the possibility of occasionally pushing the rate up to about 104 to show that ~~XXXXXXXXXXXXXXXXXXXX~~ the present level was not the lowest figure for the rate. He admitted on questioning that the basic trouble was not speculative operations, but was really the lack of confidence on the part of citizens of France with their savings.

He did not try to conceal the fact that he was pessimistic about the possibility of action being taken to allay fears and restore confidence within his country. He implied that for Auriol to adopt a "policy" was difficult -  
for

- 3 -

for to undertake procedures to ward off potential dangers of to obtain potential advantages was to imply that his past plans had failed. Also, Le Norcy said it was difficult for Auriol to get support for any new moves unless urgent necessity therefore could be shown. Three courses seemed open to the French; First, to borrow further abroad, probably in the Netherlands; second, reduction further of the value of the franc within the limit allowed by law; third, to get authority to increase the equalization fund to such an extent as to impress the French public with the firmness of the Government's intention to hold the position they now have.

Le Norcy's opinion was that the first course would have no more effect than the loan from the British had had. Therefore he favored a combination of the second and third; i.e., depreciation of the franc to about 110 to the pound and augmentation of the equalization fund either by taking in principle a provision in Bank of France or by making 105 the minimum devaluation limit and taking the resulting profit on the gold reserve or both. At the present moment, however, he felt that the financial authorities in France were "too touche" to receive such a recommendation. Le Norcy, incidentally, believed

believed

- 4 -

believed that such a development would not be opposed by the British - however, I gathered that he had not discussed this question with the British. Also he assumed - without encouragement from me - that there would be no objection on the part of the American Treasury.

With regard to the above, and in connection with the statements by Sir Frederic Phillips strongly favoring early franc depreciation to its maximum legal limit - reference; my telegram No. 33 of January 28, 6 p.m. - I venture to mention that, according to information which Monick gave me shortly after conclusion of the tripartite arrangement, in September the British had made every effort to persuade the French to devalue to a fixed limit, following the action of Belgium. The French refused to do this since it would leave the British in the same favorable position they had held previously; i.e., able to operate off the franc while (omission) committed to a definite sterling level.

If and when the level of the French franc is moved to 112 will not the British view have in fact been substantially upheld?

I am not making the suggestion that at this time there is any desire to indulge in currency depreciation or to take  
advantage

- 5 -

advantage of the franc or the dollar. Taking into consideration the European political situation it seems most unlikely that the relations between the French and British authorities will grow less cordial - not to mention the attitude of the British towards our own country. Cooperation in the exchange sphere has become easy and effective, with both Great Britain and the United States in an inflationary stage of recovery development. If and when circumstances require one party to undertake a change of policy before the internal situation of the other may demand similar treatment, it is quite possible that important difficulties may come up.

ATHERTON.

RECEIVED

FEB 2 1937

TREASURY DEPARTMENT  
Office of the Director  
International Finance and Trade

EA:LWW

5 February, 1937  
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

The need for Coast Guard boats in the upper Ohio Valley has practically ended, and they are standing by for any contingency which might require their services in the Mississippi Valley.

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Four boats and eight men from the Lighthouse Service, which were operating with the Coast Guard Force, are being returned to their station at Detroit.

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The Coast Guard Relief Force totals 25 major seagoing units (in Mississippi Valley); ten planes, approximately 395 boats and 2000 personnel, with an extensive radio setup throughout the entire flood zone.

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General Water Level Condition.

Crest of flood between New Madrid and Memphis, the level being 47.8' at the latter place. River receding at Cairo, and rising slowly at Memphis and points to the southward.

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## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 5, 1937

TO The Secretary  
FROM Mr. Taylor

Mr. Bewley called this morning at ten o'clock to give us the impressions of the British Treasury on the Japanese developments. He mentioned that the first comments which he had given you represented the opinions of the British nation in Tokyo and that the comments today represented the additional opinion of the British Treasury itself.

The British believe that the outcome of the currency stringency depends entirely upon internal political developments; that an accumulation of year-end requirements amounting to 200 or 300 million yen had forced the Japanese to impose the restriction measures of January 8th. These measures were somewhat rigorous but there is now some improvement in the situation and permits are being granted with increasing freedom for essential imports.

The British Treasury believes that the present level of the yen can be held until the export season commences and that the Japanese will be willing to go as far as exporting gold to attain this end. In closing, the British reemphasize the fact that the political situation dominates all technical considerations.

Bewley mentioned again the difficulties which have arisen in connection with our attempts to tax hedging transactions dating back several years. We have now two sides memoires from the British as well as communications from the Swiss and Canadian Governments. I explained to him our situation and assured him that we were investigating matters fully.

He also told me that he had not as yet received a reply to our message on earmarking and had assumed that there was no hurry and therefore had sent the information by mail, and he assumed that the representatives of the other countries had done likewise. He indicated that he thought the answer would be "yes" on reciprocity, and that it would be unlikely if we obtained any comments on the desirability of extending transfer privilege to non-members other than to say that it was a matter entirely up to us.

ue J.

RB

GRAY

London

Dated February 5, 1937

Rec'd 5:22 p. m.

Secretary of State

Washington.

49, February 5, 9 p. m.

FOR TREASURY FROM BUTTERWORTH.

The flow of funds from Paris to London continues unabated. French control is believed to have lost about six million pounds of gold today despite the alleviation given by the offering of dollars which were also in demand on Paris account.

The attitude of the city recalls Waley's phrase, reported in my 33, January 28, 6 p. m., characterizing the French situation at the present time as "hopeless but not serious", in that it is generally thought (one) that no steps of any importance will be taken by the French authorities in the very near future; (two) that although the French authorities could hold the present position for some time the drain will continue irresistibly; (three) that even if the French authorities took their courage in both hands and lowered the value of the franc to its maximum

legal

RB

-2-~~7~~49, February 5, 9 p. m. from  
London

legal limit and abolished the penalties on hoarded gold and funds abroad it is more than likely it would not now have the desired effect of reestablishing confidence within France. The concern which was evident in Philipps' and Waley's remarks referred to above is also reflected in the Foreign Office and is now becoming more general in the city. This seems to be due: (one) to the realization that if the French situation should over a period of time continue to deteriorate, a further devaluation of the franc beyond the legal limit might result, which contingency has recalled to some Schacht's speech of September 30 in which he predicted that by the tripartite monetary arrangement "instability had been increased"; (two) to the belief that any farther weakening of France, such as another internal crisis would entail, might well tempt Hitler to chance a surprise action.

Castellane reports to Bankers Trust Company here that his confidential information is that French political authorities are frankly puzzled by present situation and that non-political officials in French Treasury favor depreciating franc to lower limit and paying market value for gold, et cetera. He is also inclined to believe that

the taking

RB

-3-#49, February 5, 9 p. m.  
from London

the taking of some action cannot be postponed very long.

The British press had today carried very full stories regarding Auriol's remarks and Bank of France statements; two comments are worthy of note: (one) Einsig's unconfirmed allegation in the FINANCIAL NEWS that a Dutch credit of two milliard francs has been negotiated with the Mendelssohn group; (two) the TIMES: "The French capitalist has already suffered two devaluations and naturally wishes to avoid a third. Until the Finance Minister finds means by which he can remove the anxiety of the capitalist, small and large, he is likely to be confronted with the continuance of the pressure against the franc. Part of the abnormal increase in this week's Bank of England note circulation( five million pounds or twice that of last year) is to be attributed to French hoarding of banknotes \*\*\* but whether the anxiety of the French capitalist is justified or not on economic grounds, the Finance Minister can hardly expect success to attend his well meant efforts to restore confidence unless he decides to give whatever assurances necessary to the French capitalist to induce him to repatriate his capital. \*\*\* The British banking credit to France has eased the problem of the French Treasury and well strengthen considerably the exchange resources of the stabilization fund but the credit cannot be

RE

-4-#49, February 5, 9 p. m. from  
London

cannot be looked upon as a substitute for such modifications of policy as are clearly necessary if the confidence of the French capitalist in French securities is to be fully restored".

ATHERTON

SMS

NPL

HED

GRAY

PARIS

Dated February 5, 1937

Received 8 p.m.

Secretary of State

Washington

106, February 5, 5 p.m.

FOR TREASURY.

While the exchange market today was less agitated, a very large business was done in pounds and in dollars and the exchange fund was hard put to it to maintain the sterling rate at 105.14 after opening at 105.10. The dollar has been as high as 21.52 but is now quoted at 21.49 7/8 with the British control selling dollars, we are told by our market contact. Other continental currencies were strong in unison.

Regarding forward rates the dollar is quoted at 30 centimes for one month and three months at 71 centimes. The rate for the pound is 1.40 for one month and 3.35 francs for three months. The security market was weak including internationals. Rentes are down from 70 centimes to 1.20.

In an official communique accompanying the publication of the bank statement yesterday, the Finance Ministry explained that the exchange fund had merely taken out

of the

RED - 2 - #166, <sup>Sec. one.</sup> February 5, 5 p.m. from Paris

of the bank what it had put in before. The official statement reads as follows: "The statement of the Bank of France today records a reduction of three billion francs in the gold reserves. This levy was effected by the exchange fund which in virtue of Article Three of the monetary law of October 1, 1936, has always the right to buy gold from the Bank of France and to sell gold to it. By this transfer the fund has simply taken back from the bank <sup>(the?)</sup> to balance of the seven billions of gold which it had previously paid over (five billions on October 9, 1935, and two billions on October 23, 1936).

"Coming after the recent British loan this measure will have the effect of strengthening the ways and means possessed by the exchange fund and to still more increase the efficacy of its action on the exchange market".

During the discussion before the Chamber yesterday of the law relating to the opening and cancellation of credits for 1936, the financial policy of the Government was severely criticised by Deputies Fernand - Laurent and Paul Reynaud.

Deputy Fernand -Laurent quoted statistics to show that from the date of the arrival in power of the Popular Front Government to the end of 1936 the gold holdings have in effect been decreased by one third,

the

LED - 5 - #160<sup>Sec. One</sup>, February 5, 5 p.m. from Paris

the circulation had increased by seven billions and the ratio of gold cover had been reduced by nine per cent.

(to?)  
 This Deputy invited attention of of the decision to raise the discount rate (January 28) on the same day as the London credit was concluded and insisted that the explanation of these two developments was that the exchange fund was no longer in control of the market. Turning to needs for 1937, Fernand-Laurent referred to the estimate of fifty-five billions put forward by the Radical Socialist Deputy Potut but as Auriol had said yesterday that it was thirty-six billions he would take this figure as a minimum. He doubted that the French market would furnish the money required and insisted that while under normal conditions a foreign loan would bring gold to the Treasury the contrary was the case under present conditions. Another possibility of providing necessary funds was further devaluation, but the Minister had said that he would not do this. The last possibility, as Fernand-Laurent saw it, was inflation and this facility the Treasury was actually utilizing, he insisted, and after examining in detail the situation of authorization to borrow and the advance account at the Bank of France, suggested that the Treasury had gone beyond authorizations.

He

RED - 4 - #166, <sup>Sec one.</sup> February 5, 5 p.m. from Paris

He claimed that the only solution to the financial problem was to change the Government. Investors would not lend to the Popular Front Government as they had no confidence in it. The famous check "drawn on the future" which H. Blum talked of would, in his view, prove to be "a check without funds".

Reynaud referred at length to the necessity for France to borrow abroad four months after devaluation while for instance Switzerland was actually converting its interior loans. Speculation was not to blame for the financial troubles of the Government as Auriol claimed. The cause of the trouble was elsewhere. Reynaud congratulated Auriol for having given up the idea of "open market" operations as the result would have been, he thought, to provide speculators with francs with which to speculate against the franc. He dwelt at some length on the "costly" credit operation just concluded at London. He suggested that one half per cent was added to the interest rate because credit was negotiated in the name of the railways and not of the state and expressed particular concern about the resulting diminution of the gold reserves. In reality he pointed out these reserves will for the next few months include four billion francs "which really belong to the British".

He

JS -5- #166, February 5, 5 p.m. From Paris Sec. One.  
He agreed that the Government had taken office under difficult conditions but the London credit would only be justified if the Government changed its policy during the respite thus afforded. He feared that otherwise the Government would be forced to adopt exchange control but stressed that this was not possible "not" under the tripartite agreement. The better way not only inferred that the Government would not establish exchange control but furthermore "must grant the Government to pursue the liberal economic and financial policy." Reynaud warned the Chamber that exchange control would mean the rupture of the tripartite arrangement and added that "the consequences would not be of a financial order only." Reynaud then turned to rumors about possible legal stabilization of the franc and stressed the view that in the presence of a floating pound "which is the world currency" and in the presence of the uncertain economic,

END SECTION ONE.

BULLITT

SMS NPL

MED

GRAY

PARIS

Dated February 5, 1937

Received 8:20 p.m.

Secretary of State

Washington

166, February 5, 5 p.m. (Section Two).

"it would be a crime against the country to stabilize under present circumstances" simply in order to permit the Treasury to take over the stabilization fund and to appropriate the profit from revaluation of the gold stock.

At this point Auriol expressed entire agreement with Reynaud and the latter expressed satisfaction at the Minister's assurance.

Reynaud stated that he was definitely against further devaluation "which could only be of value if combined with a new policy".

The real problem Reynaud declared was the abstention of subscribers to Treasury bonds and this fact encouraged speculators to attack. Investors, he claimed, were influenced by the economic policy of the Government. French cost prices were already higher than British cost prices and this price problem was the vital problem, he emphasized, and provided striking evidences of disparities between France and Belgium in this respect.

Reynaud

MED - 2 - #166, <sup>Sec two.</sup> February 5, 5 p.m. from Paris

Reynaud then pointed to other sources of concern, such as fear that financial restrictions will be renewed and although Blum had declared for a liberal policy he hoped actions would prove the reality of the intention. In conclusion, he expressed keen regret that apparently France never carried out its financial, economic, and monetary policies more than half. He did not urge a change of government but a change of policy.

The Minister of Finance replied to these interpellations before the Chamber this morning. According to press accounts the Minister was brief and confined himself to recalling that it was only a month ago that he had provided complete information on the financial situation that the day before yesterday he had given to the parliamentary committees the necessary data relating to Treasury requirements for 1937 and had explained the plans of the Government; furthermore a communique had been published in this respect. Therefore, he did not consider that further detailed explanations would serve any purpose especially as the committees themselves should enlighten public opinion on the discussions which took place.

Finally, as concerns ways and means, he said he had

no



LMS

GRAY

Paris

Dated February 6, 1937

Rec'd 12:47 p. m.

Secretary of State,  
Washington.

173, February 6, 2 p. m.

FOR TREASURY.

The following is noted from the official report of the debate in the Chamber yesterday:

The Minister of Finance claimed that if tomorrow he asked for subscriptions to a loan issue and the people failed to respond the blame could not be placed on the Government which had done its duty "but on those who for political reasons and by egoism refuse their assistance". He pointed to progressive weekly increases of deposits over withdrawal in savings banks as proof that in the provinces small holders of capital at any rate showed renewal of confidence in the Government.

Stated that the railway can no longer sell their bonds and thus have to appeal weekly to the Treasury for advances. Furthermore, that the City of Paris has asked for authority to issue a loan of one billion "for public works" and that the Minister had agreed provided conditions of loan did not hamper state issues and that the Government would be consulted

LMS 2-No. 173, February 6, 2 p. m., from Paris.

consulted regarding date of issue.

The Minister made it clear as concerned repayment of the British credit that he was counting on increased receipts of foreign currencies during the Exposition period and also on increased exports. Thus (END SECTION ONE)

BULLITT

RR:CSB

LMS

GRAY

Paris

Dated February 6, 1937

Rec'd 12:46 p. m.

Secretary of State,  
Washington.

173, February 6, 2 p. m. (SECTION TWO)

It would be unnecessary to ask the Bank of France to cede the gold set aside as guarantee for the credit. He expressed confidence that "with the British credit, resumption of subscriptions to short term Treasury bonds and the payment of back taxes for 1933, 1934 and 1935, the Government could pass the critical period." The Treasury he said would have to find 30 billion francs for the rest of the year instead of 28 billions as he had put forward before the Finance Committees. He revealed that difficulty in placing short term Treasury bonds was causing considerable embarrassment to the Government. At present only  $4\frac{1}{2}$  billions of such bonds were in circulation which was out of all proportion to a note circulation of 86 billions. He failed to understand fear to buy long securities "as he had denied that he would inflate" and he "had pointed out the dangers of a new monetary reform". Furthermore, he would say "no" to exchange control - autarchy would follow such a decision. The Minister continued: "We will avoid anything

that

LMS 2-No. 173, February 6, 2 p. m., Sec. 2, from Paris.

that could break the happy monetary arrangement of the three great democracies and to which other countries have adhered. We will take care not to isolate ourselves when the interest of Europe and of the World and our own interest leads us and obliges us to maintain (END SECTION TWO)

BULLITT

RR:CSB

LMS

GRAY

PARIS

Dated February 6, 1937

Rec'd 1:45 p. m.

Secretary of State,  
Washington.

173, February 6, 2 p. m. (SECTION THREE)  
monetary economic and political solidarity". He continued that the government held to monetary and economic order and that "it would maintain strict contact with the two great countries which had never ceased to collaborate, with a constant friendship for which he would express from the floor of the House the grateful thanks of all". A currency or economy which resumed its independence, which separated itself from the others would be unfortunate for all. The Minister denied claim by Fernand Laurent on February 4 that needs of exchange fund had driven Government to simultaneously double discount rate and to conclude British credit. The fund he said had ceded 7 billion francs to the bank at the commencement and later had retaken 4 billions to repay the British credit and had now recovered the remaining 3 billions. Finally he believed, he said, that he had given satisfaction to all except as concerned Fernand Laurent who had asked for a change of Government and concluded significantly:

LMS 2-No. 173, February 6, 2 p. m., Sec. 3, from Paris.

cantly: "Gentlemen, I think you will all agree that these are dangerous words; not for the Government certainly but if really that is the motive of the tightening up of capital, and refusal to collaborate in the national defense, the problem would thus take on extreme gravity."

Paul Reynaud impressed upon the Government that without change of policy, coupling inflation with the devaluation that has already been made the Government was headed towards economic collapse. He outlined the problem as follows: There was a mortal contradiction (END SECTION THREE)

BULLITT

CSB

LMS

GRAY

Paris

Dated February 6, 1937

Rec'd 2:10 p. m.

Secretary of State,  
Washington,

173, February 6, 2 p. m. (SECTION FOUR)

between a liberal monetary policy (which happily the Government had adopted) and a policy of economic autarchy. The Government could not maintain the franc without exchange control and without further devaluation if it allowed French prices to outstrip world prices and thus aggravate the unfavorable commercial balance. It was true that world prices were rising but the rise was less than the rise in French prices."

With respect to indications that there has been French participation in the recent British credit an official statement is published in today's press by the Minister of Finance that nearly all of the credit was not placed with British and other foreign banks and that only the London branches of French banks operating on the London market with pounds have participated to an extent of less than 4% of the total credit.

The Paris Brckers Syndicate has given notice that no

new

LMS 2-No. 173, February 6, 2 p. m., Sec. 4, from Paris.

new transactions will be executed on the Bourse except in Treasury securities unless a deposit of 30% of the amount of the operation is made.

It is announced today that the Government intends to ask Parliament to authorize the extension of the guarantee of the French state to a loan of 600,000,000 francs by Czechoslovakia to be reimbursed in not less than ten years. The proceeds are intended to reimburse the Czechoslovak 5% 1932-1937 loan guaranteed by the French state maturing April 1, 1937.

Unofficial exchange transactions this morning were on a reduced scale. The exchange fund supplied pounds at 105.12 and the dollar was dealt in around 21.48½.

(END OF MESSAGE)

BULLITT

CSB

3146-173  
FEB 6 1937  
RECEIVED  
U.S. DEPARTMENT OF STATE  
WASHINGTON, D. C.



THE CLOISTER

SEA ISLAND  
GEORGIA5.00 P.M. Feb 6<sup>th</sup> 1937

Saturday

Called the Pres. He was all excited about his message in the Court. What did I think about it? (I avoided answering, as I have not made up my mind. First impression not so good.) He said everyone particularly people in New York were mad because they were taken by surprise. Said he only told Sen. leaders on the Hill the last minute so there would be no leaks. He seemed very pleased to hear from me.

Told him about confidential

and secret message from Chamberlain that W. Taylor had phoned down. I said I thought the most significant thing about it was that Chamberlain sent me a message more than what was in it. (2)

Pres. said every time French have a crisis they seem a little worse off. I said we were only talking about what we would do in case of war, but were doing nothing to try and stop war. I said I had a lot of time to <sup>down here</sup> think and <sup>wanted</sup> what to talk to him about the plan he had mentioned to me about he and I going possibly to Holland and and try and call in various leaders from various countries and try and talk sense to ~~from~~ them. (He mentioned this to me maybe a year ago.) What I did not say is that I feel the only way to stop war is to try and stop this mad ~~to~~ race to arm that is going on in Europe. after all we would have



THE CLOISTER

SEA ISLAND  
GEORGIA

nothing to loose and everything  
to gain. Everything points towards  
war in Europe and surely sooner  
or later we will be dragged into  
it. I am having prepared by the  
figures to show how much the  
10 leading countries have been spending  
to arm themselves during the last  
five years. The cost of arming <sup>is what</sup> ~~is~~  
is breaking down the Treasuries of  
the World. I hope the Pres. will  
let me help him work this out.  
I don't believe that Hull and  
Norman Davis ever will. They  
just don't have guts enough.  
The Pres. has the courage  
and I hope to be able to convince  
that of the World is to be saved the.

next move is up to him.



*[The following text is extremely faint and illegible due to bleed-through from the reverse side of the page. It appears to be a handwritten letter or report.]*

6 February, 1937  
1 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA



With the approval of the Red Cross, arrangements are now being made for the return, to their regular stations, of the boats and personnel which have been operating with the Coast Guard Force in the Ohio River Valley.

- - - - -

Coast Guard Relief Force totals 25 major (seagoing) units in Mississippi Valley; ten planes, approximately 395 boats and 2000 personnel, with an extensive radio setup through the entire flood zone.

- - - - -

General Water Level Condition

Crest now at Memphis - 49.8' and not expected to rise more than one-tenth of a foot; Vicksburg 45.7' and rising slowly; Natchez, Miss. 52.4' where a crest of about 56' is expected about February 20th. No precipitation last 24 hours and no indication of heavy precipitation in the Mississippi Valley.

Hills



IN REPLYING  
ADDRESS THE SURGEON GENERAL  
U. S. PUBLIC HEALTH SERVICE  
AND REFER TO

## TREASURY DEPARTMENT

PUBLIC HEALTH SERVICE

WASHINGTON

February 6, 1937

Report for the Secretary on

Flood Work, U. S. Public Health Service.

Reports from Louisville, Cincinnati, Columbus, and other places in the flood area indicate that there is no unusual incidence of communicable disease anywhere present with the exception of influenza, which continues to be rather widespread, and pneumonia, which is probably somewhat above normal.

The Medical Officers on duty in the flood area are continuing their assistance to State and local health authorities and the Red Cross, and the Sanitary Engineers are aiding in the restoration of public water supplies, which work is progressing as rapidly as possible.

Two of the Sanitary Engineers who were obtained from the States are returning to their homes, having completed the duties assigned to them.

*Harmon J. Cooper*  
Acting Surgeon General

WFD:AMM



U. S. PUBLIC HEALTH SERVICE  
 DEPARTMENT OF HEALTH  
 WASHINGTON, D. C.

TREASURY DEPARTMENT

PUBLIC HEALTH SERVICE

WASHINGTON

February 5, 1937

Report for the Secretary on

Flood Relief Work, U. S. Public Health Service.

Reports received this morning from all Public Health officers throughout the flood district indicate that there are no epidemics of disease and that the sickness and death rates remain about normal. The reports may be summarized very briefly as follows:

Louisville, Ky. General sickness and death rates favorable. Instructions have been prepared for householders as to sanitary procedures to be followed after returning to houses that have been submerged. The Army base hospital is caring for 300 patients and proving a valuable adjunct to the local civil hospitals. The U. S. Marine Hospital at Louisville is operating under practically normal conditions, except the electric power has not yet been restored.

Newport, Ky. General health conditions remain good. Organized program, including cooperation of Pure Food and Drug Administration, functioning well.

Public Health Service sanitary engineers are working in many smaller places throughout the State of Kentucky assisting the State and local authorities in the emergency chlorination of water supplies and other sanitation measures relating to the refugees.

Ashland, Ky. Doctor Hornibrook, of the Public Health Service is now serving as house physician in an emergency hospital.

Ohio. Reports indicate no undue amount of illness. The situation is well in hand with only minor problems of health and sanitation arising.

Feb. 5, 1937

Ironton, Ohio. The situation is well under control and the local health department is meeting the situation satisfactorily.

Sikeston, Mo. Dr. Tomlinson reports that medical relief activities are being well handled by the Red Cross and local physicians. The immunization program is being continued and there is no undue incidence of communicable disease.

Little Rock, Ark. Dr. W. B. Grayson, State Health Officer, reports no undue incidence of disease, with the exception of influenza which is occurring rather commonly. The number of cases of pneumonia, however, is rather small. The amount of illness among the refugees is considered remarkably low.

Charleston, W. Va. Dr. McClus, State Health Officer, reports disease conditions about normal.

Indianapolis, Ind. The State Board of Health reports no undue incidence of disease.

Memphis, Tenn. There are 883 patients in emergency hospitals. A 150-bed emergency hospital has been established for the care of Works Progress Administration workers and other emergency workers who may become ill.

*Warren D. Draper*  
Acting Surgeon General

WFD:AMM

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Tokyo, Japan

DATE: February 6, 1937, 1 p.m.

NO.: 24

Reference is made to your telegram of January 18,  
No. 9.

You are requested by the Treasury to cable a further report on the situation with particular reference to whether exchange is being cleared and whether permits are freely offered.

HULL.

EA:LWW

RECEIVED

FEB 6 1937

TREASURY DEPARTMENT

WASHINGTON, D. C.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 6, 1937

TO The Secretary  
FROM Mr. Taylor

I attended a meeting at the State Department this morning in Sumner Welles' office at which Mr. Caffery, our Ambassador to Cuba, Mr. Duggan, Chief of the Latin-American Division, and Dr. Feis were present. We reviewed briefly the existing currency situation and exchange position of Cuba and agreed that this is probably an opportune time to attempt to help the Cubans to work out a comprehensive plan.

At present silver peso certificates and silver pesos are circulating alongside with United States paper money. The amount of peso certificates is rapidly increasing, and in effect, Cuba is more than one-half on a silver certificate standard. Several Bills have been introduced into the Cuban Congress to increase the silver peso circulation by rather fantastic amounts. Also, many plans involving a Cuban bank of issue are in the air.

After considerable conversation it was agreed that Ambassador Caffery would indicate that we were willing to cooperate as we had in the Chinese situation to help them formulate plans for a monetary system. The Cubans in turn, if they desire to discuss the matter with us, will send a confidential mission consisting of one or more competent individuals to discuss the problem with you, more or less according to the ~~method~~ worked out in the Chinese negotiations.

After disposing of this matter I mentioned the probable effect of the proposed excise tax on sugar on Cuba and the Philippines, as after several additional discussions with Agriculture and our own group here I can only feel that the full burden of the tax will fall on these two countries unless the price to the consumer is raised by approximately the full amount of the new tax. In the discussion which ensued it appeared that the State Department was not in accord with the proposals of Agriculture and were not as yet in a position to support or oppose the proposed legislation. It seems to me that the Treasury position must be substantially what it was last year, namely, that we had no opinion to express, but that any program calling for additional expenditures should be accompanied by sources of revenue. If the program is altered it may be that we can be a little more enthusiastic about it.

u.s.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1937

TO Secretary Morgenthau

FROM Mr. Haas 

On Saturday morning, February 6, 1937 you called and asked that I send some one to New York on Monday, February 8, 1937 to interview Mr. William J. Baxter with regard to his analysis of the future outlook for American business; and to secure copies of his weekly letter from January 1, 1937 to date.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1937

TO Secretary Morgenthau

FROM Mr. Haas



On Saturday morning, February 6, 1937, you called and told me that next week you wanted to take up the matter of whether or not steps should be taken toward checking capital inflows, and that you wished me to be prepared to discuss the matter.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1937

TO Secretary Morgenthau

FROM Mr. Haas 

On Saturday morning, February 6, 1937 you called and told me that there was to be a meeting of the Open Market Committee on Tuesday, February 9, 1937, and you would like to have another memorandum containing our suggestions with regard to financing.

February 8, 1937

The Secretary telephoned to Graves on Friday, the 5th, and asked him to have ready on Monday a report on the international situation with respect to narcotics. He also asked Graves to cable Wait, in Paris, for a similar report to reach the Treasury by Monday. Following is a copy of the message to Wait:

"Please cable in Secretary's code directly to Secretary Morgenthau to reach him not later than Monday February eighth a summary of present narcotics situation in Europe as you see it, with any recommendations and suggestions which may occur to you, including comment upon proposition contained in my letter of January twenty-eighth to assign immediately additional agents to Europe to work exclusively on narcotics."

Copy of reply to this message, signed Butler, is attached.

Today the Secretary held a conference in his office at which were present Mr. Taylor, Mr. Gibbons, Mr. Gaston, Mr. McReynolds and Mr. Graves.

The Secretary read the memorandum prepared by Mr. Gorman and Mr. Anslinger (copy of which is attached) outlining the international situation with respect to narcotics drugs. He asked Mr. Taylor and Mr. Graves to prepare a letter to Secretary Hull advising him that three Customs agents had been assigned to Europe and will sail on February 17th accompanied by Commander Thompson who will remain for a brief period. (Copy of this letter is attached, signed by the Secretary. Also attached is copy of routine letter to the State Department, also dated today, signed by Assistant Secretary Gibbons.)



## TREASURY DEPARTMENT

BUREAU OF CUSTOMS

WASHINGTON

OFFICE OF DEPUTY COMMISSIONER  
INVESTIGATIVE UNITMEMORANDUM FOR THE SECRETARY  
(Through Mr. Graves) *GR*

In accordance with your directions there is set forth below a review of the international situation with respect to narcotic drugs:

In 1930 the United States was represented at the Opium Advisory Committee meeting at Geneva by Mr. John K. Caldwell of the Department of State. The Treasury Department was not represented. Mr. Caldwell asked the French Government to take action to stop smuggling of narcotics from France to the United States, and certain action was taken. The quota plan for limiting manufacture of narcotics was discussed by members other than the American delegate.

In 1931 the United States was represented by Mr. Caldwell of the Department of State, Mr. Anslinger of the Bureau of Narcotics, and Dr. W. L. Treadway of the Public Health Service. The State Department favored a quota plan, but the Treasury favored a convention limiting manufacture to medical needs and supervision of raw materials. The Treasury plan was accepted, as was control of opium. Secret Foreign Police Conferences were organized by a Treasury Representative, and have been held each subsequent year.

In 1932 the United States was represented by Mr. Stuart J. Fuller of the Department of State, and by Mr. Anslinger of the Bureau of Narcotics. A Black List of narcotic violators was decided upon by the League of Nations, and the Treasury Department's Black List has become the one relied upon by all nations. Publication of the Minutes of the Conferences of the Opium Advisory Committee was voted upon the insistence of the American Representative. A Model Code for preparing narcotic legislation was adopted by a number of nations. The American Representative urged speeding up the work relative to control of the cultivation of the Opium Poppy, and defeated a proposal to have consignments of narcotics marked with a number corresponding with the number of the export certificate.

In 1933 the United States was represented by Mr. Stuart J. Fuller of the Department of State, and by Mr. Anslinger of the Bureau of Narcotics. The American Representative urged that weaknesses in the laws of Japan be remedied to assist in prevention of smuggling of Japanese morphine into the United States. On facts presented by the Treasury Department, the American Representative showed that Western Europe was still a source of supply for the illicit traffic. The American Representative sharply criticized those responsible for narcotic conditions existing in Manchukuo.

-2-

In 1934 the United States was represented by Mr. Stuart J. Fuller of the Department of State, and by Mr. Anslinger of the Bureau of Narcotics. The American Representative submitted plans to control channels of distribution of narcotics by serial numbering of packages despatched by wholesalers; submitted facts which forced the closing of illicit drug factories in Bulgaria; disclosed imports into China of acid acetic anhydride used in manufacture of heroin; assisted in drafting proposals for collaboration between China and Treaty Powers; urged that dried opium poppy plants be considered and controlled as a raw material; and showed that the United States is in the lead of other nations in the matter of extradition treaties.

In 1935 Mr. Fuller of the Department of State and Dr. H. J. Wollner of the Treasury Department represented the United States. The institutions for cure of drug addiction in the United States; the problem of narcotic smuggling by air and in the mails; and the necessity for complete control of international movements of codeine; were presented by the American Representative.

In 1936 Mr. Fuller of the Department of State and Mr. Anslinger of the Bureau of Narcotics represented the United States. They presented facts showing organized smuggling from Japan to the United States; showing opium production and clandestine manufacture in China; relating to narcotic traffic on vessels; showing that Portugal maintains in Macao an opium monopoly which is a source of illicit traffic to the United States; and relating to violations of international narcotic obligations by Iran (Persia).

Information in the Department's files discloses that Japan, China, and Portugal have not carried out their treaty obligations; that Bulgaria and Turkey were not obligated by Conventions at the time of their shortcomings; and that Iran (Persia) is not yet obligated by Conventions.

Since 1929 there has been personal contact and direct communication by the Treasury Department with foreign police, all contact and communications having formerly been handled by the Department of State and Foreign Offices. This contact was maintained by the Bureau of Narcotics prior to your instruction of September 2, 1936 transferring control of all such matters to the Customs Agency Service.

Pursuant to your letter of September 2, 1936 a letter was addressed to the Secretary of State asking that all foreign administrations be notified of the changes directed therein. On October 3, 1936 another letter was addressed to the Secretary of State asking that consular officers be directed to furnish regular reports regarding narcotic matters, acknowledgement being made therein of the splendid cooperation of the Department of State and the consular officers in matters pertaining to liquor smuggling. Since the order of September 2, 1936 was signed by you, fourteen letters have passed between the Department of State and this Department in an endeavor to carry your order into effect. The net result is that in his letter of January 13, 1937 Acting Secretary of State R. Walton Moore in substance declined to take action on the requests made to carry your order into effect and expressed the view that the transfer of responsibility for narcotic smuggling investigations to the Customs Agency Service constituted a disregard for the stipulations of the Narcotics Limitation Convention of 1931.

In recommending ratification of the Convention, the American delegation stated that "the Convention drawn up by the Conference deals with two phases of the narcotics problem; (1) limitation of manufacture and (2) control of the distribution of manufactured drugs". In the Convention itself the purpose thereof is stated as a desire to supplement prior Conventions "by rendering effective by international agreement the limitation of the manufacture of narcotic drugs to the world's legitimate requirements for medical and scientific purposes and by regulating their distribution".

It is not considered that the "special administration" (Bureau of Narcotics) provided for in the Convention was intended to assume responsibility for prevention of smuggling, nor that any Article of the Convention supports such an interpretation. It is obvious that, had transfer of so important a responsibility as narcotic smuggling prevention from Customs administrations in each signatory country to "special administration" been intended definite mention thereof would have been made in the Convention. As a matter of fact such a proposition was never even discussed in the negotiations which led up to the Convention.

From the time of ratification of the 1931 Convention, the Customs Service in this country remained charged with the prevention of smuggling of narcotics into this country. This is important as showing that it was not within the contemplation of the Convention that the "special administration" should be charged with the entire responsibility for law-enforcement work relating to the narcotic traffic, including smuggling. It seems clear that work done by the Customs Service in relation to narcotic smuggling has never been regarded as being in violation of the terms of the Convention. It should be said also that from the time of the ratification of the Convention, the Customs Agency Service has, with the knowledge and acquiescence of the Department of State, maintained a representative (Nicholson) in the Orient charged almost exclusively with the conduct of investigations into narcotic matters. This arrangement for handling narcotic matters in the Orient by representatives of the Customs Agency Service is the precise arrangement which you have directed should be brought about in Europe, to which the State Department now takes exception on the ground that it would constitute a violation of the 1931 Convention.

It is believed that the opinion expressed by the Department of State that the change directed by you would violate the stipulations of the Convention could be arrived at only by a strained construction of the Convention itself and of the deliberations that led up to its adoption, and is without merit. It is further believed that this Government is complying fully with the obligations imposed upon it by the Convention, under the realignment ordered by you.

It might be added that the Treasury forces in Europe, under the realignment, are making eminently satisfactory contacts with appropriate foreign administrations, including Turkey, Bulgaria, Greece, Austria, and Czechoslovakia; that the difficulties apprehended by the Department of State have been found non-existent; and that successful accomplishment of the purposes of the realignment can safely be expected.

*John J. Harman*  
*H. H. H. H.*

February 8, 1937.

My dear Cordell:

Carrying out the policy described to you in my letter of September 9, 1936, I now find that the smuggling of narcotics into this country from European sources is so serious as to require that we augment at once the Customs Agency Service personnel in Europe by the assignment of additional officers. Three Customs agents with the necessary qualifications have been selected for this assignment, and they will leave New York for Paris on the SS. PRESIDENT ROOSEVELT, sailing February 17. They will be accompanied by Lieut. Commander B. M. Thompson, who will remain in Europe as my representative for a brief period. The names of the agents are being communicated to the State Department this date in the usual manner. I would appreciate it if you would personally see that your representatives abroad give to these men, as well as to the agents already assigned on narcotics investigations in Europe, such assistance and cooperation as they may properly request.

Sincerely,

Hon. Cordell Hull,  
The Secretary of State.

HNG/aff

COPY

February 8, 1937

The Honorable,  
The Secretary of State.

Sir:

In accordance with the established practice, I have the honor to advise you that it has been determined by this Department to augment temporarily the investigative staff of the Supervising Treasury Attache at Paris with the following officers from the Customs Service, viz:

Alvin F. Scharff  
Athanasius A. Christides  
Louis G. Stuhldreher

The above officers are tentatively scheduled to depart from New York aboard the SS. PRESIDENT ROOSEVELT on February 17, 1937, and while attached to the office of the Supervising Treasury Attache at Paris will be given the official designation of Acting Treasury Representative.

It may be further stated that Lieut. Commander B. M. Thompson, Special Assistant to the Secretary of the Treasury, will accompany the above officers abroad for the purpose of affording the Supervising Treasury Attache at Paris such assistance as may be necessary in coordinating the investigative work of his office with that of the Bureau of Customs in Washington.

By direction of the Secretary:

Very truly yours,

/s/ Stephen B. Gibbons

Assistant Secretary.



HEADQUARTERS

## TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

8 February, 1937

From: Spagent, Paris, France.  
To : Secretary of the Treasury.

Referring Gorman cable February fifth: Wait, now in Vienna, instructs me to say that it is difficult to enlarge the scope of European investigations, due to the attitude of local police. Nevertheless it is believed feasible to station investigators various ports for purpose of contacting informers. He stresses languages as essential qualification.

Butler.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: February 8, 1937, 6 p.m.

NO.: 48

Reference is made to telegram No. 24 of February 6, 1937, from the Department.

Permits for exchange are being issued gradually to cover contracts for business booked before inauguration of new regulations. Especial favor given to cotton importers. It is reported that most of the contracts of cotton importers up to April shipment from the United States have exchange permits to cover them. Complaint has been made by some importers of other lines that they can obtain no permits for business previously booked, but it is believed that technical difficulties are partly responsible for the delay. New minor restrictions upon the granting of permits are being imposed by the Ministry of Finance. These are causing further delay, and are giving the Government time slowly to bring the actual as opposed to the nominal exchange value of the yen to one shilling two pence, the announced rate.

The exchange market is much firmer than it was before January 8, as a result of the exchange control regulations.

No exchange permits for new business have yet been issued, as far as the Embassy can ascertain.

The

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The banks in a normal way are taking up exchange contracts once permits have been issued.

The Ministry of Commerce and Industry, in connection with the exchange control, has made announcement of the quantities that may be imported in 1937 of the following products: cotton, wool, rayon, pulp and crude rubber. These limitations, however, are not believed to be absolute, since Japanese industry and export trade might be restricted thereby. The more probable reason therefor is that the quantities set are intended to act as a measuring rod to determine how much exchange they will have to cover.

GREW.

EA:LWW

## GROUP MEETING

February 8, 1937  
12:00 Noon

Present: Mrs Klots  
Mr. McReynolds  
Mr. Upham  
Mr. Bell  
Miss Roche  
Mr. Haas  
Mr. Gaston  
Mr. Taylor  
Mr. Gibbons  
Mr. Opper  
Mr. Lochhead  
Mr. Magill

Magill: I think I have nothing particular to report. There is to be a conference some time this week, now that you are back, we expect, with the Chairmen of the two financial committees of Congress. Senator Harrison wanted such a conference, but didn't want it until you got back.

H.M.Jr: Well, the thing that I'd like to clean up first, the thing that I put number one on my calendar, was this question of foreign investments.

Magill: We have been working on that, but....

H.M.Jr: And I've about made up my mind that if we are to get anywhere we'll have to go ahead and make up our own mind what we think is right and then ask the other fellows.

Magill: That's what we have - we are now doing. George and I have had two or three discussions about it.

H.M.Jr: Would you be ready tonight?

Haas: Oh, we can, but the - I don't think Mr. - or Ross will have his own mind made up on a tax proposal yet.

Magill: It will be pretty hard to do it by tonight.

H.M.Jr: I don't mean final.

Haas: I think it would be well to meet as soon as you can and lay the thing out.

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H.M.Jr: I can meet tonight.

Magill: Well, let's meet tonight.

H.M.Jr: I mean I don't know what the - I could meet tonight and have Haas tell me what his study is.

Magill: You mean tonight after dinner some time?

H.M.Jr: Yes.

Magill: Sure, we can do that.

H.M.Jr: 8:30, and tell me what he has. He's had three months on it now. Pretty close.

Haas: Don't expect too much, even with the time.

H.M.Jr: But seriously, you've got to begin to educate, and I'd like to get that thing so I understand it and make up our own mind this week. I mean I'd like to do it this week, spend enough time on it this week so that...

Magill: Where do you want to see us?

H.M.Jr: At the house.

Magill: All right, we'll be there.

H.M.Jr: Now, I'd like to start on that. Huh?

Haas: Yes, fine.

H.M.Jr: Now, who's in on that?

Haas: Mr. Taylor.

H.M.Jr: Have you (Taylor) got a social engagement tonight?

Taylor: (Nods no)

H.M.Jr: You're in on it, Archie.

Lochhead: (Nods yes)

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H.M.Jr: Have you (Magill) got a social engagement?  
Magill: (Nods no)  
H.M.Jr: You (Haas)?  
Haas: (Nods no)  
H.M.Jr: Does Bell get in on this?  
Bell: I don't think so.  
Haas: The legal people.  
H.M.Jr: Well, you (Oppen) tell Mr. Oliphant - when does he get back?  
Oppen: About one; he's just about back now.  
H.M.Jr: Are you in on it?  
Oppen: I've been sitting in on some of these conferences. You'd like to have Oliphant?  
H.M.Jr: And you, if you can do it.  
Oppen: (Nods yes)  
H.M.Jr: Are you (Upham) in on this? You better come, because it's a liaison with Federal Reserve.  
Upham: Yes.  
H.M.Jr: Dan, this isn't....  
Bell: I haven't been in on it. I don't know a thing about it.  
H.M.Jr: Do you care about it?  
Bell: Oh, interested; but I've got enough to do to keep me busy.  
H.M.Jr: All right. Well then, let's meet on it tonight and get started, huh? And have a - not to muddle me up; you tell me what your study shows, what you think we should do. Forget what the other people say. Let's

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approach it from that angle. What do you say?

Magill: Well, that's exactly what we've been outlined to do.

H.M.Jr: All right. See?

Haas: I'll do the best I can that way. I mean you may want to find....

H.M.Jr: I mean tomorrow night I may have something and Taylor may have something, but let's begin to go places on this.

Haas: All right. There's two definite sides; one's the monetary and one's the tax.

H.M.Jr: Well, let's - who else in your shop is in on it?

Haas: Well, the two people that have been doing most of the work are Zucker on the tax and White on the monetary. And Seltzer has been in on some of it. But those two.

H.M.Jr: All right. Herbert, you interested?

Gaston: I'm interested.

H.M.Jr: Well, would you like to come?

Gaston: Yes, I think I'd like to come.

H.M.Jr: Fine. Now - I mean that gets that started. Now, Pat Harrison....

Magill: He hasn't called up again. I think we'll have to get in touch with him. You've got this railroad pension legislation that you spoke of.

H.M.Jr: Yes.

Magill: And you've got that, haven't you, Opper, now?

Opper: Yes. I just heard - it's all right - Justice made a little change in it and extended it to the end of the next fiscal year, instead of just this year.

H.M.Jr: How pressing is that?

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Magill: Pretty necessary.

Opper: Ought to be passed before the 28th of February.

H.M.Jr: When do you (Magill) want to get that?

Magill: As soon as Opper clears the legislation.

H.M.Jr: Well, will you tell Magill so we can have a meeting?

Opper: (Nods yes)

H.M.Jr: But you are not ready today.

Opper: Well, I wanted to speak to Oliphant.

H.M.Jr: But you don't want to say at this meeting that you are ready.

Opper: No, sir.

H.M.Jr: Is that right?

Opper: That's right.

H.M.Jr: That passes that up. Make a note, Mrs. Klotz, on this for when it's ready. Railroad Pension. Is that right?

Opper: That's right.

H.M.Jr: Railroad Pension.

Magill: I've talked to Senator Harrison and also Mr. Doughton, and they wanted to get started at it right away. Now, Harrison wants a meeting with us. He wants a meeting. He isn't thinking in terms of this. He is thinking of tax legislation generally. He'd like to know what we want and give us their attitude.

H.M.Jr: Well, do you - should I call him up and find out when he wants a meeting?

Magill: I think it might be well to combine it with this Railroad Pension business, whenever Opper and Mr. Oliphant clear that.

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Opper: This afternoon.

H.M.Jr: Well, let's give him a ring when we're ready. You'll let me know.

Magill: I'll let you know.

H.M.Jr: The way I'm going to try to do the thing, I'm going to try to make appointments to see "visiting firemen" from 10 till 12, and do my mail from 12 to 1, and then keep the afternoon for conferences. See? I mean if you want an hour or so for something like this, keep it for the afternoon, see?

Magill: I've got a couple matters I'd like to speak to you about this - some time this afternoon.

H.M.Jr: This afternoon is mail; I haven't done my mail today yet. I'm late. So you'll have to come in on the 10 to 12 tomorrow.

Magill: All right.

H.M.Jr: Do you want time tomorrow?

Magill: One of them is about as bad as this Railroad Pension business.

H.M.Jr: How much time do you want on it? 10 to 10:30?

Magill: Settle it with you in five minutes.

H.M.Jr: 15 minutes?

Bell: By the way, isn't there an Open Market tomorrow?

Upham: At 11.

H.M.Jr: Yes, 11. Put Dr. Magill down for 10.

Mrs Klotz: Don't you want to do it this afternoon?

H.M.Jr: He wants...

Magill: Needless to say, I want you to answer your mail this afternoon. This is a half million dollars we want to reach out and get; if we want to get it, we want to move fast.

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H.M.Jr: All right, 4 o'clock.

Magill: In fact, it's \$680,000 to be exact.

H.M.Jr: All right, 4:30.

Magill: 4:30?

H.M.Jr: Yes, 4:30. Herbert?

Gaston: I assume we'll hold the conference at 4 o'clock; is that right?

H.M.Jr: Yes, sir.

Gaston: The United Press calls our attention to the fact that the Governor of the Bank of Japan has resigned; that an industrialist is going to succeed him; and wants to know if we can give him any guidance on that, what that means. I told him I didn't know. But they'll probably ask that.

H.M.Jr: I talked to the President Saturday afternoon. He asked me what I thought about his message and I said, "Well, Mr. President, I'd love to answer you, but Steve Early instructed me not to make any comments."

Mrs Klotz: Did they tell you about it?

H.M.Jr: Three people told me.

McReynolds: Be sure you knew.

H.M.Jr: There is a record of my conversation with the President. And you (Taylor) are going to send me a memorandum.

Taylor: I have.

H.M.Jr: Is it in the shop?

Taylor: It should be.

Mrs Klotz: On what?

H.M.Jr: His conversation with me.

Mrs Klotz: I've got it.

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Gaston: There's a new film which the Coast Guard helped to make - it's mostly about the Coast Guard - called "Sea Devils," being shown to the Board of Review here at 4:30, and maybe you'd like to see it some time. Hasn't yet been released.

H.M.Jr: Well, let's have it some time; show it at 9:30 in the morning.

Mrs Klotz: That's fine.

H.M.Jr: Anything else, Herbert?

Gaston: No, that's all.

Lochhead: Nothing.

H.M.Jr: What? Are you all right?

Lochhead: O.K.

Gibbons: There was a - Coast Guard got a message on Saturday; Mac cleared it through Secret Service - in which Bartelt asked for a supply of ammunition and guns to protect his people against an onslaught out there in Seattle.

H.M.Jr: Bartelt?

McReynolds: Bartelt didn't ask for them.

Gibbons: It came from the Seattle office of - Bartelt's outfit in Seattle.

Bell: One of the disbursing officers asked for protection from some Communistic interests and - because he had heard some rumors that they were going to attack and rob the office. He asked for four pistols and four machine guns and necessary ammunition, and didn't ask for any guards. So I thought it was rather peculiar I called Mac and then we decided we'd turn it over to Wilson.

H.M.Jr: I'm sorry, I didn't get that.

Bell: I said I talked to Mac and we decided it would be better to turn it over to Wilson; wasn't a Coast

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Guard matter as long as on land. And he telephoned out there immediately to his operative, who got in touch with this disbursing officer, who apparently was a little excited about nothing. But he did go over and assure him.

McReynolds: They didn't give him any guns.

H.M.Jr: I'll bet Buzzie Dall would have had a great time there.

Say listen, you (Gibbons) wait until Herman Oliphant gets back. Can't you even meet him at Jacksonville, fly the poor man down to Key West?

Gibbons: Hasn't asked me for anything.

H.M.Jr: Didn't he ask through you?

Gibbons: Didn't say anything. I thought he was going by train. He left here and shook hands with me and said, "Goodbye."

H.M.Jr: You wait. He was going to be met at Jacksonville and never was met. Isn't that right, Opper?

Opper: I didn't know about that, but I can see there won't be any Coast Guard matters cleared now, until.....

Gibbons: No, he didn't say a word to me.

Mrs. Norton, Congresswoman from New Jersey, head of a Committee, local Committee here, is introducing a racing bill. Anslinger suggested we ought to put something in there, if the bill goes through, on control of narcotics effects; would want somebody to....

H.M.Jr: Put what in it?

Gibbons: Put in this racing bill - there's a bill up now before Congress to permit racing here in the District, and in that bill there should be something....

H.M.Jr: Dan, sit over here.

Bell: That's all right, thanks.

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Gibbons: Question of policy whether we should talk to somebody up on the Hill about putting that in.

H.M.Jr: Well, have you made up your mind about it?

Gibbons: I think it would be a good idea for the Federal Government; we're trying to control these race tracks. They're doping horses continuously.

H.M.Jr: Do you know what they want to put in?

Gibbons: Yes. Has a memorandum herewith.

H.M.Jr: I would submit that to Mr. Oliphant's office first. When it's cleared, bring it back and just read it to the 9:30 group and clear it that way.

Gibbons: O.K.

H.M.Jr: What?

Gibbons: It's just a question of matter of policy whether we should proceed on it or not.

H.M.Jr: Well, do you first want to clear it through the legal and then bring it?

Gibbons: I wanted to get your reaction before doing that.

H.M.Jr: I think it's all right.

Gibbons: Now, I want to discuss some time with you.... (goes up to Secretary and confers with him inaudibly)

H.M.Jr: When you talk to me, remember I want to - possibly we might put him in where the magician died.

Gibbons: Oh, Jim told me by all means he wants to talk to you about that. He called me from New York.

H.M.Jr: Well, you might slip this fellow in there by sleight-of-hand. Or is there another magician that goes in there? What was that magician?

Upham! Register.

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H.M.Jr: Did you write a nice letter?  
Gaston: There hasn't been any letter written yet, no.  
Gibbons: Ten o'clock tomorrow morning.  
H.M.Jr: But remember now, sleight-of-hand.  
Gibbons: Yes  
Mrs Klotz: Swell time.  
Gibbons: I think it's only about half the salary though.

(Above conversation referred to  
vacancy left by decease of  
W. W. Durbin, Register of Treasury)

H.M.Jr: Wayne? Cuba?  
Taylor: Cuba, Brazil, etc. Sumner Welles wants to see you  
this afternoon. I think you ought to do it.  
H.M.Jr: No, I won't do it. Sumner Welles - it's good for  
him to wait. His chest may get out three inches  
if he waits.  
Taylor: It's right down there.  
H.M.Jr: well, why can't he wait until tomorrow morning at  
10:30?  
Taylor: I think that's all right.  
H.M.Jr: What?  
Taylor: That's all right.  
H.M.Jr: Couldn't he wait until... You're (Gibbons) at ten?  
Gibbons: I'm at ten.  
H.M.Jr: Why don't you (Taylor) come at 10:15 and explain it  
to me and then let those boys come in at 10:30  
tomorrow. (To Mrs Klotz) Taylor at 10:15. You  
explain it to me and then those boys come in at 10:30.

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Taylor: That's all right. The thing he wants to talk about - one of them - I don't know what he's got in his mind, but I think I can guess.

H.M.Jr: Well, we can chin anyway.  
George?

Haas: I've got a few things that you asked me about. Tell you what the status of them is. One is this man in New York that you asked me to get in touch with. He's out at the Pacific Coast, will call when he gets back. We've asked to have his material sent down here.

H.M.Jr: Yes

Haas: The other one, on this question.....

H.M.Jr: I wonder if I've got his stuff for January. Which gave me an idea, George. I wish that any article which is written which is critical of the fiscal or monetary policy of this Administration - I'd like to have it analyzed. See? Anything.

Haas: O.K.

H.M.Jr: Have the librarian watch for critical articles which say we are going in the wrong direction. See?

Haas: O.K. It won't be such a big job now as it was.

Taylor: You might start with Henry Wallace today.

H.M.Jr: Why? What did he do?

Upham: Made a speech.

H.M.Jr: What?

Upham: Too much gold coming in.

H.M.Jr: What?

Upham: Too much gold coming in.

H.M.Jr: When did he say that?

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Upham: Got out a long statement that he released to the British papers. He wrote an article for the London Telegraph.

H.M.Jr: Well, that went through our shop, didn't it? He talked to us about it, and then after he saw a man by the name of White, he decided that he wouldn't release it. I tell you, George, you get the article and then talk to White, because everybody was out at Chicago and Wallace sent somebody over here and he saw White and then Wallace said after seeing White he was convinced that he wouldn't release the article. That was to have been a New Year's statement. But is it in the papers today?

Taylor: New York Times, very full account of it.

H.M.Jr: Well, all I can say is that it was in the shop and then they agreed not to - he agreed not to write it. He agreed not to. (Looks at New York Times of Feb. 8) "Wallace, writing for London paper, opposes sending abroad..... Why Should Sensible Americans Lend to Defaulting Nations?" I'll have to read it. I'll have to read that. Will you see how near that is? We've got the original article. We must have it.

Mrs Klotz: I think we have the whole thing.

H.M.Jr: Look it up and then give it to Haas, and then will you (Haas) bring it up again tomorrow? He did submit it and he told me definitely he would not do it, and I told him I was very glad he wasn't going to do it.

Haas: It is conceivable....

H.M.Jr: What?

Haas: ...conceivable that he did take some of it out of the original.

H.M.Jr: Well, we have the original here. Because the original was full of mistakes, and he said he'd written it himself.

Mrs Klotz: We may have returned it, I don't know. I'll look.

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H.M.Jr: What else do you have, George?

Haas: You asked for some additional data on expenditures of foreign countries.

H.M.Jr: Yes.

Haas: We've got some from the War Department; some is coming from the Navy Department, and also State, but it hasn't arrived.

H.M.Jr: When will you have that?

Haas: Well, I don't - the Navy has said theirs would be in Saturday, but probably it'll be in today.

H.M.Jr: How are you trying to get it through the Navy?

Haas: That man you contacted.

H.M.Jr: Puleston?

Haas: Uh-huh. And a Colonel somebody over in Military - War.

H.M.Jr: Lincoln.

Haas: And the State - Wayne was handling that for me.

H.M.Jr: Well, I'm very, very anxious to get all that. I'm going to ride you hard on it.

Haas: All right.

H.M.Jr: What?

Haas: Fine. We'll put the pressure on them.

H.M.Jr: I mean I'm warning you I'm going to ride you hard on it.

Haas: We'll ride them.

H.M.Jr: Have you got anything on it?

Haas: Yes. All we've got - we've got the published picture, which you have got.

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H.M.Jr: Yes.

Haas: I presume you took it down.

H.M.Jr: Well, they forwarded no mail to the South.

Haas: Oh.

H.M.Jr: I'll get it this afternoon at three.

Mrs Klotz: We held everything.

H.M.Jr: Mrs. Klotz did a swell job. She held it up here.

Haas: She should be congratulated for not sending anything down.

The other thing you asked me was to see Goldenweiser and I did, and I'll have a paragraph in the memorandum giving his views on it.

H.M.Jr: Well, we meet tomorrow at 11 on that, don't we?

Haas: Uh-huh. You wanted a memorandum tonight?

H.M.Jr: Yes, send it up to the house.

Haas: All right, I'll send it up.

H.M.Jr: Anything else? On that foreign stuff, I'm very keen to get that.

Haas: I think you should be. You won't make up your mind at all tonight, but you - because it is a very important move - but I think you should go at it, get into it, as soon as you can.

H.M.Jr: Is that...

Haas: That's all.

H.M.Jr: Is Mac disinfecting your new quarters for you?

Haas: Yes. He didn't say they were lousy, but almost everything else.

H.M.Jr: Well, Mac and Mrs. Klotz and I expect a party when you move in. Especially after all the walls of fear that Mac built up. He started four times down that

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corridor before he could get to the Comptroller's office. - - Of course, I called him and - called him back each time. But he did start down.

McKeynolds: Jefty called me, told me that you had telephoned him and thanked him for it. Very puffed up about it.

H.M.Jr: Well, God help anybody else that wants any more space after that, on this floor.

Haas: Well, thank you very much.

H.M.Jr: Dan? You going to have a memorandum for me for tomorrow?

Bell: Yes, I guess so. Maybe late tonight, but...

H.M.Jr: Tomorrow morning.

Bell: All right.

H.M.Jr: Did you stay home Saturday and Sunday?

Bell: Well, I stayed home Sunday. Not Saturday. I'll have - there are some things that I'd like to talk to you about tomorrow.

H.M.Jr: What?

Bell: I say there are some things that I'd like to talk about.

H.M.Jr: How long do you want?

Bell: Oh, a half hour.

H.M.Jr: All right, at three o'clock tomorrow.

Bell: All right.

H.M.Jr: Three o'clock.

How's your (Opper) shop?

Opper: One of the two cases involving Constitutionality that the Supreme Court had before it was decided last Monday - that is, that the Treasury was interested in.

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That was the one involving the joint resolution that withheld payments to Germans out of the alien property money while Germany was in default. The resolution was drawn against all the pressure, and the Constitutionality of it was attacked. The attack was sustained in the Court of Appeals in the District, but the Supreme Court reversed, so the flag is still flying.

Bell: Go back to neutrality.

H.M.Jr: On what building is the flag flying?

Opper: Well, I don't know. I suppose on the Department of Justice.

H.M.Jr: I see. All right.

Opper: They have had a good deal of work in the case.

H.M.Jr: Has this fellow Egmont, or whatever his name is - has he gone to Bellevue?

Opper: I didn't know about that phase, that he was slated to...

McReynolds: Committed on Friday.

H.M.Jr: To Bellevue?

McReynolds: Yes, by order of the court.

H.M.Jr: I think, Herbert, you might give a little something out on that. Get the story, see?

Gaston: Yes

H.M.Jr: Find out about it, will you? Make a note.

McReynolds: Larry can tell you.

H.M.Jr: Who?

McReynolds: Larry Bernard. He was the one that took care of it.

H.M.Jr: That's this fellow who's forged my name on this Red Cross contract. We were all going up this week, and now he's been committed to Bellevue.

Miss Roche?

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- Roche: Dr. Parran returned this morning or last evening; reports that everything in the flood district is proceeding very smoothly, and very efficient and effective work has been done, with cooperation of the State and county health officers. He said that had it not been for the Social Security money which has been made available to the counties and the States, it would have been a very serious situation, because of the additional personnel and the work that had been started. He feels that things are going along very well.
- There is, of course, a very grave threat coming of malaria, dysentery, and flu, etc., but they are laying the groundwork, he said, very satisfactorily.
- He also reported, sent over a letter that he had received from Colonel Roosevelt asking - James Roosevelt....
- H.M.Jr: Do they call him Colonel?
- Roche: They always have to me.
- H.M.Jr: What? Is that what they say?
- Roche: Well, I mean Mr. James Roosevelt, saying - asking him to send in for the Health Service the estimates as to additional money that would be needed the balance of this year up to July on emergency health work, and Dr. Parran's letter which he sent to him direct, didn't clear through you; a copy of it shows a request for \$925,000 as an emergency appropriation, and he also very strongly wants to urge that the '38 Budget - that there be an additional figure of about that amount added to continue this work when it stops with the emergency funds in July, as it will be a long time health program and in these 135 counties many of them have no permanent county health set-up.
- H.M.Jr: Bell, as Assistant to the Secretary of the Treasury, would you mind looking up Executive Orders as to estimates and how they should go up out of the Treasury.
- Bell: The Executive Order is law.
- H.M.Jr: What does the law say?

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- Bell: It says it should be submitted to the Director of the Budget, who shall prepare a recommendation for transmission to Congress by the President.
- H.M.Jr: I can't help it if he breaks the law.
- Bell: Well, that letter has gone out pretty generally.
- Roche: Yes.
- Bell: Those organizations, certainly, that are working in the flood district - several of them are quite worried about it.
- H.M.Jr: Who?
- Bell: Several of the organizations, particularly the War Department, which has had a big job out there. The War Department feels that all of its personnel should be on flood relief work and not be confined to making up estimates of expenditures in the flood area, at least for another two months. Now, they've gotten this request and they don't quite know how to handle it and they are just standing by for the time being and letting it rock along.
- And I have relayed that information to McIntyre, confidentially, and he said, "All right, just let it stand for the time being." He'd take care of it.
- H.M.Jr: Who'd take care of it?
- Bell: McIntyre. I got from him the intimation that he would try to head some of this off quietly. So I don't think there is anything to do but just....
- Roche: But if anything's going to be headed off, it ought to be before people get themselves committed on programs and go in and spend money they haven't got.
- Bell: Well, you certainly can't commit yourselves to any expenditures for which there is no appropriation.
- H.M.Jr: Well, he certainly knows that writing to Jimmy Roosevelt doesn't give him anything.
- Roche: This is what we call the dry money. We've gotten the wet money, and now the flood is receding we need the dry money.

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H.M.Jr: Well, Dr. Parran ought to be dry behind the ears by now.

Roche: He understands, I think, that there isn't any...

H.M.Jr: I certainly - a letter like that doesn't give you one dollar.

Roche: I think he realizes that, but my remark was just in connection with what Mr. Bell...

H.M.Jr: I very carefully asked Bell as Assistant to the Secretary and not as - because as Director of the Budget he is responsible for the Budget. So - I mean - but if Bell isn't worried, I'm not going to worry. What does the Director of the Budget say?

Bell: Well, I'm not worried about it for the time being. I think that it will straighten itself out in time.

H.M.Jr: But Miss Roche - he's new on the job - I'm telling you you'd better not spend any money that you haven't got.

Roche: You needn't worry, we won't.

H.M.Jr: Well, if the Director of the Budget isn't worried, I'm not going to worry. Anything else?

Roche: (Nods no)

Upham: Whom do you want at 11 in the morning? Just Harrison from out of town?

H.M.Jr: This is really - you'd better call up Eccles - this is really an Open Market Committee, and he may want to put somebody on the train from Chicago, I don't know. As soon as you get out, I wish you'd call him. This is really a formal meeting of the Open Market Committee which is taking place in the Treasury. Of the Executive Committee.

Upham: The Executive Committee; that's right.

H.M.Jr: This is a formal meeting of the Executive Committee of the Open Market Committee. And the minute you go out, I think you'd better get him.

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Upnam: All right, sir.

McReynolds: You asked for a report on the Famous Brands story. Fellows haven't paid. Couldn't get it. They said that the reports we got were unsatisfactory, so I had Ireys' men to investigate this report. We'll get a statement.

H.M.Jr: Would you do for me, so I can show it to the President when I have lunch with him, a timetable, see? I mean tomorrow, not today. I want to show just what we did, the letters we wrote, and the whole business, see, with this Collector of Internal Revenue. I want them very definitely tomorrow. See?

McReynolds: Yes, sir.

H.M.Jr: Can you have it ready for me at 9:30?

McReynolds: First thing in the morning.

H.M.Jr: At 9:30?

McReynolds: Yes, sir.

H.M.Jr: I want that so I can go in to the President and say, "Now, here's what I've done with this fellow. This is what we've started. It's the whole business." I mean most of this you can boil down to sentences, see.

McReynolds: Yes, sir.

H.M.Jr: I want to be able... It's a presidential appointment. I want him to say to me that I can see to this fellow. Well, if I was the President, I would - the fellow would be fired; but I don't know what he wants to say, see? Did none of them pay?

McReynolds: No.

H.M.Jr: No?

McReynolds: See, they've been dragging. They thought he was going to get away with it and they were going to get away with it. It looks very bad in every case.

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Mrs Klotz: Didn't they get more money out of the companies?

McReynolds: Yes, all three of them got two more dividends after you had...

H.M.Jr: Well, Mac, if you'll....

McReynolds: All right.

H.M.Jr: If you will get that, see, we can take it up tomorrow morning at 9:30.

McReynolds: Yes.

H.M.Jr: But have the thing very much condensed, you see.

McReynolds: It'll be done very briefly.

H.M.Jr: And if you need any out of my diary...

McReynolds: I don't see - think so.

H.M.Jr: I mean I want to know that when I make this move now - I want to know beforehand that the President will say, "All right." Then that ends it. I mean I can't - Presidential appointment - I can't say - I mean if it was my own I'd simply say that they're through, finished. I wouldn't give them five minutes. But I've got to be able to have the President say to me, "You can do so and so." Then I know where I'm at.

And also whether I should first tell Bulkley or not. Discussed it with me a number of times and as I remember - I want to refresh my memory - Bulkley guaranteed that these fellows would pay it.

Mrs Klotz: We have it in the diary.

McReynolds: Well, I make these references, say you've got it in your file.

H.M.Jr: If you're going to see Mrs. Klotz, see her between two and three on it, will you? And I'd like to do it at lunch tomorrow.

McReynolds: Moore recently had an operation on him, kidneys removed; and he's now on a boat on a trip out of the country recuperating, and won't be back for three weeks.

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H.M.Jr: Where is he?

McReynolds: Down in Panama.

H.M.Jr: You can't do it when he's away, can you?

Gibbons: No.

H.M.Jr: Then take it - do it this week, and when it's ready....  
He won't be back until three weeks?

McReynolds: He's due back three weeks from tomorrow.

H.M.Jr: All right. Well then, have it ready for me for next  
Monday. I mean let's say that you'll have it - give  
you time - let's say you have it for me Thursday  
morning at 9:30. That gives you more time, huh?

McReynolds: All right.

H.M.Jr: Thursday. What else?

McReynolds: I don't think there's anything else.

H.M.Jr: Anybody who's interested and has anything to do with  
narcotics and Harold Graves - I wish them to stay,  
because I want to clean up this sending people abroad  
now. So if anybody's got anything to do with it, why,  
if you'll stay. The rest of you....

MEETING AT 2201 R STREET ON  
RESTRICTION OF FOREIGN CAPITAL INFLOW

February 8, 1937  
8:30 P.M.

Present: Mr. Lochhead  
Mr. Gaston  
Mr. Magill  
Mr. Haas  
Mr. Oliphant  
Mr. Taylor,  
Mr. Kent  
Mr. Opper  
Mr. White  
Mr. Upham  
Mr. Zucker  
Mr. Seltzer

H.M.Jr: All right, Professor Haas.

Haas: "Proposals to restrict inflow of foreign capital.

"I. Is it desirable to take some course of action to discourage the flow of foreign capital into the United States?

"II. And, if desirable, what form should this action take?

"III. Conclusions.

I.

"Arguments advanced in favor of imposing some restriction on the inflow of foreign capital:

"(1) Gold inflows create an unnecessary cost to the Treasury without benefitting American industry.

"Capital inflows in the next couple of years will probably take the form chiefly of gold rather than goods or services. Hence, if no restrictions are imposed on capital inflows, it is likely that the Treasury will incur the cost of sterilizing from one-half to several billion dollars more of gold by the end of 1939. The cost of sterilization is not only recurring but substantially increases--because of rising short-term interest rates--at the very time when it would be especially dangerous to add to our monetary gold stock.

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"The incoming capital does not now add to the productivity of American industry nor is it likely to do so in the near future.

- "(2) The addition to our volume of deposits makes more difficult subsequent control of the internal credit situation.
- "(3) While not helping the United States, the large gold flow might operate to aid recovery were it to go to or stay in countries that need it more than we do.
- "(4) According to the Securities Exchange Commission research staff, capital inflows widen the range of fluctuations of security prices, and thereby intensify the instability of the security market. The volume of trading for foreign account is much larger than the net purchases."

H.M.Jr: Excuse me, George, what does that mean? "The volume of trading for foreign account is much larger than the net purchases."

Haas: Oh, if you add the purchases and sales together - I mean the trading would include purchases and sales, and in order to buy, say, a billion dollars, the transaction may be 20 billions.

H.M.Jr: I see.

Haas: "Trading for foreign account represents an average of approximately 20 percent of all stock trading (exclusive of member trading) and is moreover concentrated over a relatively narrow range of securities.

- "(5) Securities Exchange Commission control of the security market is less effective when non-resident aliens can trade in American securities on more favorable terms than United States citizens, either in American or foreign markets. Further, Americans can avoid restrictions by trading in foreign markets or by trading in American markets through foreign intermediaries.
- "(6) The present system of taxes discriminates in favor of non-resident aliens. Under present arrangements, non-resident aliens with no place of business in the United States pay no capital gains tax at all.

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"(7) The introduction of some approach to equality of taxation as between residents of the United States and non-resident aliens would yield additional revenue. How much revenue would result depends on the scale and effectiveness of the taxes imposed.

"The arguments against the restriction of capital imports are:

- "(1) The difficulties of effectively administering a capital gains and transfer tax on foreign trading in American securities are great. Unless very cumbersome administrative apparatus is developed, the ease of evasion would render the attempt ineffective.
- "(2) Any interference with the free movement of capital among nations seems to reduce national incomes and makes more difficult a return to international equilibrium.
- "(3) It is possible that by checking the flow of foreign capital into our security market the funds would be diverted into either commodities or foreign security markets with results that might be adverse to our recovery in the long run.
- "(4) Some of the trading in American securities for foreign account which now is done in New York will be transferred to foreign security markets. Owing to the diminution of trading, American brokers lose some commissions.
- "(5) Retaliation by some foreign governments against American capital abroad might follow.

## II.

"If it is desirable to restrict further capital inflows, what instruments should be employed?

"The following measures have emerged from our discussions to date:

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Oliphant: Who is "our"?

Haas: That means that group that the Secretary asked to work on it - the Securities and Exchange Commission and the Federal Reserve.

Oliphant: It doesn't mean Treasury; just the whole group.

Haas: That's right, yes.

- "(1) Increase of tax on dividends and interest payments.
- "(2) Institution of a moderate flat capital gains tax on all non-resident aliens.
- "(3) Institution of a small transfer tax on the purchase and sale of American securities by non-resident aliens. The transfer tax makes it less attractive to shift short-term balances into short-term investments.
- "(4) Possibly the introduction of a nominee system, by which non-resident alien traders in American securities would do business through resident nominees who are licensed by the Treasury and are to be held responsible for the payment of taxes. A nominee system would render evasion more difficult. In the event the nominee system is adopted and where non-resident aliens do not use nominees, the taxes recommended in (1), (2), and (3) should be substantially increased.

### III.

#### Conclusion

"Our net conclusion is that it would be desirable to discourage further capital inflows, provided this can be accomplished by methods that do not involve serious risk of unfavorable international repercussions, and provided further that the methods themselves do not involve excessive administrative machinery. It is not necessary that the methods first adopted insure a perfect or nearly perfect exclusion of foreign capital. There is indeed, on the contrary, much to be said in

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favor of proceeding cautiously to determine the full effect of such measure of restriction as is at first achieved. There is ample justification on grounds of equity alone to frame the first method of discouraging further capital inflows in terms of increasing the tax burden upon foreign investors to a level more nearly equal to that imposed upon domestic investors.

"There is also much to be said in favor of legislation giving the Federal Reserve Board the power to prescribe reserve requirements up to one hundred percent against deposits of foreign funds in member banks.

"If these measures do not prove to be adequately effective, more drastic measures may then be considered."

That is very brief. We thought we could supplement it orally.

H.W.Jr: It's a good memorandum, though, because it is brief.

I'd like to hear the argument first, if anybody can argue on this side first: What good can the United States get out of continuing to permit these funds to flow here for investment? Who wants to argue on that side?

Opper: If nobody else will advance it, I'll be glad to advance an argument without necessarily saying that it is my belief that it is sound.

It seems to me one theoretical advantage is the existence here of foreign capital in the event that for any reason trading advantages grow out of those relationships. For example, we know that England sets up trading areas, and because of the fact that she has capital invested there, she gets trading advantages.

To put the thing negatively, if the capital is not permitted to enter here, it is driven into other countries, and if, for example, you had a war with a cash-and-carry neutrality policy adopted here,

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other countries where the capital has been invested and can be converted into war merchandise might benefit because of the fact that capital had not been permitted to enter here.

Now, of course, that argument becomes stronger or weaker depending on the question of volume, and one thing that I at least don't gather from these proposals is the extent to which anything which makes it less advantageous to invest money here would also create a flight from investment in this country. In other words, if it is unfavorable for a foreigner to have an investment here when he makes a new one, why isn't it just as unfavorable for him to keep it here?

- Oliphant: Your point is that measures to prevent more from coming here would be effective to prevent what is here from staying here.
- Opper: Tax measures, at least.
- Oliphant: Cause it to fly - to flee.
- H.M.Jr: What is the best estimate of how much foreign capital is here?
- Haas: Seven billion two hundred million.
- H.M.Jr: How much?
- Haas: Seven billion two hundred million.
- Taylor: Between seven and eight.
- H.M.Jr: Can you break that down, George, as to how it is invested?
- Haas: I think there's three and a half billion in securities. Check me, Harry, if I.... And about a billion in short term banking.
- White: Billion and a half.
- Haas: Billion and a half. What's the fixed - the balance?
- White: There's about a billion called other investments, which

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includes trust funds, etc., and the remainder is direct investments.

H.M.Jr: Pull up closer.

Oliphant: Now, direct investments means plants outright owned and things like that?

White: Plants outright owned.

H.M.Jr: How much in securities?

White: About three and a half to four billion. Closer to four, with the additions that have taken place this last year.

H.M.Jr: Well now, give me the other picture. What are aliens - what taxes do they pay on securities, profits, and interest?

White: Well, we'll let.....

Kent: In case of non-resident alien individuals, they pay ten percent on interest dividends, rents, and royalties.

H.M.Jr: Flat?

Kent: Flat tax. On non-resident foreign corporations, they pay fifteen percent on everything but dividends. Under the new treaty with Canada, residents or corporations chartered in Canada will pay only five percent on dividends; the other rates remain the same as I have stated them.

H.M.Jr: Fifteen on corporations?

Kent: Fifteen on corporations and ten on individuals, on interest, rents, and other sources of income.

H.M.Jr: And what's the five?

Kent: The five is on dividends.

Oliphant: With treaty countries.

Magill: But if not doing business in this country, no tax on securities profits at all.

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Kent: That's right.

H.M.Jr: What's that?

Magill: If the non-resident is not doing business in the United States, there is no tax on the profits at all.

Oliphant: Now, our tax of ten percent on the individual doesn't take account of his other income. That is, he might be a small fellow, who, if he were living here, would pay, say, four percent or six percent; and on the other hand, he might be a big fellow who if living here would pay forty percent. We don't take any account of his other income; we merely tax him a flat ten percent on what he gets here.

H.M.Jr: Look, let me tell you what Archie's and my problem is. I mean let's put it from the standpoint of the Stabilization Fund. Our immediate problem is every morning we have put on our desk the figures of the net purchases and sales of foreign securities, and those are big enough that they dominate the price of sterling, don't they?

Lochhead: Yes, on the exchanges this last couple of weeks they have.

H.M.Jr: Well, it's more than that, Archie.

Lochhead: Yes, but I mean very decidedly in the last week or two.

H.M.Jr: But I mean it's been going back.

Lochhead: Yes. You could trace pretty closely - pretty well guess the exchange rates by these figures. It throws the balances.

H.M.Jr: It throws the balances. So that is our immediate problem, and that is what influences largely this - may I use the word "extra" - flow of gold. Is that all right?

Seltzer: Yes.

H.M.Jr: What?

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Seltzer: Very much so.

H.M.Jr: And that is what we're worrying about right now. Now, I haven't made a profound study and I'm just thinking of the thing that we have to deal with right now and also thinking of the fact that Congress will be here until the first of July. I wonder if we couldn't get through something very simple, as the first bite, that might take care of just these fellows who were sending their money over here to buy our stocks, and not try to take in the bigger field, the people who either have short time deposits or home plants and all that business. Just the fellows who are speculating in our securities and who are driving our securities up.

White: Mr. Secretary, they are the larger part during this last year; they constitute two-thirds.

H.M.Jr: All right, then that would be that much more effective.

Now, let me ask you tax fellows what is the most effective from the standpoint - from every standpoint; from the administrative, in every way. If I ask you what tax you recommend that will be a deterrent to the Englishman and the Dutchman and the Frenchman who is every day, pretty near, buying our securities, our stocks - now, what is the most effective tax as a deterrent? That's all I'm asking.

Oliphant: Before that question is answered, I'd like to ask a preliminary question. That is, are these - you say 60 percent of it now is these....

White: 66 last year.

Oliphant: Are they moving here from war fright, fear of war abroad, or are they coming here because of a real chance to make money?

White: Your guess is as good as mine. I'd say the latter is a more important motive in the investment securities.

H.M.Jr: Now wait. Do you mind letting - who is - are you (Kent) the man?

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- Kent: Well, I'm simply stating my judgment, Mr. Secretary. I feel that the most moderate and yet I believe what would be relatively effective way of starting in on the thing, would be by a considerable increase in the present taxes on interest and dividends, plus possibly a transfer tax on transfers of securities to foreign account.
- H.M.Jr: Well now, just - there are two different things. Let's take the one first, the increase in the tax on interest and dividends. What is that now?
- Kent: That is ten percent on dividends now and fifteen percent on interest; ten percent on dividends and interest to individuals, ten percent on dividends to foreign corporations, and fifteen percent on interest to foreign corporations.
- H.M.Jr: Do you mind saying that again?
- Kent: Ten percent on dividends and interest.
- H.M.Jr: Ten percent on dividends and interest.
- Kent: Ten percent on dividends and interest to foreign individuals.
- H.M.Jr: To foreign individuals.
- Kent: And ten percent on dividends to non-resident foreign corporations, fifteen percent on interest to non-resident foreign corporations.
- H.M.Jr: I see. And the transfer tax?
- Kent: The transfer tax...
- H.M.Jr: You don't have that now.
- Magill: Very moderate.
- Kent: We have just the uniform stock transfer tax, which applies without regard to whether it is an American or foreigner.
- H.M.Jr: Well, if you had a transfer tax, wouldn't that encourage the fellows to do that dealing on the other side?

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- Kent: It would undoubtedly have some effect in that direction.
- H.M.Jr: Wouldn't we go up against exactly what Oliphant and I did? If we put in a transfer tax, immediately we'd have all the stock exchange fellows and their friends on our neck.
- Kent: That's right.
- H.M.Jr: Which wouldn't happen if we just increased the tax on dividends and interest.
- Magill: From the Treasury's point of view, I think the increase in the withholding is unquestionably the easiest to administer. As to whether it would have a discouraging effect on foreign investments here is more doubtful. It would also - you notice another thing there, that you evidently do have a considerable number of foreigners who have what you might call permanent investments in securities. That is, they really are investors and not speculators. And, of course, to use that kind of a weapon is going to hit them just as hard as the speculator.
- Oliphant: The Dutch, for instance, own Union Pacific and have owned it for generations.
- Taylor: You can't differentiate at all.
- Magill: No, you don't differentiate at all. You use a bludgeon and hit the investors as well as the speculators.
- White: Speculator isn't affected as much because he can get out from under. That is another point; he's in and out.
- H.M.Jr: I'm going to school here myself - I mean quite obviously - as I always do at these meetings. But this schedule which you gave does not - is not effective in the so-called treaty countries?
- Kent: Yes, it is effective with respect to all countries other than this one relaxation in the case of dividends that would be made under the Canadian treaty.
- H.M.Jr: But as I understand Mr. Hull's treaty, if you make the concession in one treaty, it is effective with all countries.

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- Kent: Not in this case.
- Magill: That isn't true in this case. I think you can forget that for your purpose. That is just as to Canada and - it's contiguous countries.
- H.M.Jr: Oh. It isn't part of his reciprocal trade treaties.
- Oliphant: It's a new type of treaty authorized by our Revenue Act.
- Magill: That's right.
- H.M.Jr: Well, as I understand it - this is very much in the room - as I understand it, Mr. Runciman's trip here was to make the Canadians sort of double their benefits to the Empire, and that would break down our trade treaty. Now, I wonder, is that at all related to these tax features?
- Kent: No, no.
- Magill: I think this is the way to bring it out. The Revenue Act itself provides that this rate can be lowered as to the residents of contiguous countries in this particular way.
- H.M.Jr: It's just contiguous countries?
- Magill: Yes, it says so. I think you can forget that.
- White: With this exception, Mr. Secretary; the principle of giving contiguous countries more favorable treatment is a violation of the most-favored nation principle, but it is a violation that is frequently indulged in. But it does constitute a violation.
- H.M.Jr: Except where narcotics and customs agent are concerned. George, one thing; if you will make a note; tomorrow I'd like you to get on just one piece of paper these taxes that we have been talking about now. Could you (Kent) give those to Haas?
- Kent: Yes, I'll give that to him.
- H.M.Jr: One sheet, quite simply.

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Kent: I'll be glad to.

H.M.Jr: What?

Kent: I'll be glad to.

H.M.Jr: But keep it on one sheet. Well now, let me just go along a minute...

Taylor: Excuse me, there's another point, that if you have a differentiation between Canada and Mexico and some other country, it will simply mean that your security transactions are routed through there.

H.M.Jr: Well, like all those things... Was that differentiation given Canada at the time we signed the trade treaty?

Taylor: Under the Revenue Act.

Oliphant: No, it was done under a treaty negotiated pursuant to the Revenue Act.

H.M.Jr: It wasn't a part of a trade treaty?

Oliphant: No connection.

H.M.Jr: Who got that through?

Oliphant: It came over to us from the State Department and Arthur handled it in our shop.

Kent: I may say that there is practically no danger under the present structure of rates of - no material danger of evasion through Canada. If the rates generally were boosted much above their present level, then there would be more of an incentive to try to handle these transactions through Canadian nominees.

H.M.Jr: Well now, Kent, supposing we - what would be on dividends; it's ten percent?

Kent: Yes

H.M.Jr: There's been some talk of raising it to twenty, hasn't there?

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Kent: That's right.

H.M.Jr: What is it, now, for our own solution?

Kent: Well, that depends entirely on income brackets in which they fall.

Oliphant: It depends on his income.

Kent: Both normal and surtax.

Magill: Ten percent is roughly on a \$25,000 income.

H.M.Jr: So if you went, say, from ten to twenty on dividends, and how much on....

Kent: It has been suggested that the interest rate be boosted by five percent.

H.M.Jr: And the interest rate is now fifteen.

Kent: The interest rate is ten now in the case of individuals, and fifteen in the case of foreign corporations.

H.M.Jr: I see.

Haas: The difficulty there is - I mean to answer your question directly, theoretically the type of tax you'd want to get the man who is coming over here to speculate in our securities would be a capital gains tax. I mean really that would pick him out and wouldn't interfere with these old-time investments in the United States. But our difficulty there is working the machinery to operate that type of tax.

H.M.Jr: You don't think it could be done, Wayne?

Taylor: (Nods no)

H.M.Jr: Well, this kind of tax would be withheld at the source, wouldn't it?

Taylor: That's the only one I think will work.

H.M.Jr: Withheld at the source.

Taylor: (Nods yes)

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- H.M.Jr: It looks like all these things - you start these things; you don't have to go far at the beginning. You make a start.
- What would England do to us? What does she do to us?
- Zucker: She withholds 22½ percent.
- Magill: She withholds. You see, England has a normal tax rate - it is a little better than 22½.
- Kent: 23¾.
- Magill: Is that what it is?
- Kent: Yes
- Magill: Well, anyway, that's her normal tax rate.
- (Upham comes in)
- Upham: Mrs. Morgenthau would like to speak to you.
- H.M.Jr: She would? Well, that settles that argument.
- (Secretary leaves and returns)
- H.M.Jr: Mrs. Forbush's mother died. Did you (Gaston) know it?
- Gaston: Cy was just telling me.
- H.M.Jr: Well, let me get what the English do, Roswell.
- Magill: Well, the English rate organization is similar to our own. That is, they have a normal tax and surtaxes. But their normal tax is very much higher than ours. It was 22½ percent and Arthur Kent says it's 23½ or something.
- Kent: 23¾.
- H.M.Jr: On dividends?
- Magill: Yes. Now, the essence of the English system is withholding from a great variety of classes of income. They collect most of their tax in that way, instead of having returns made, as in this country.

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H.M.Jr: By withholding?

Magill: They collect by withholding. So my understanding of their scheme is that they withhold this 23½ percent, if that's what it is, from interest and dividend payments to non-residents.

H.M.Jr: Well, if we did 20, we'd have the argument "Well, we're not nearly as stiff as the English."

Magill: Of course, bear in mind, as I think you do, that your 20 percent rate is relatively high as far as our own nationals are concerned.

H.M.Jr: What does that presuppose?

Magill: About a \$50,000 income.

H.M.Jr: Well, has anybody made estimates of how much more it would give to the Treasury if we deducted that?

Zucker: Well, the nearest - I haven't made any estimates, but the nearest approach is by what we are getting. Under the four percent tax which was effective until the 1936 year, our best collection was in 1928, when we collected approximately seven million; and for 1933 we collected about three million from all the non-resident alien taxes. Under the present tax law, with the ten percent withholding, the Bureau estimates that they will probably collect around fifteen million dollars.

H.M.Jr: Fifteen million?

Zucker: Fifteen million. So if we raised it another ten, it would be about another fifteen millions. The general estimate was that, if we can cope with the evasion problems that may come up, it would probably be around 25 million.

Oliphant: I think in that connection, Oppen, you ought to mention that point you just made to me, that the Second Liberty Loan Act provides.... Go ahead.

Oppen: There is a provision in there, tax exemption clause, which applies to all obligations of the - issued under the Act, which exempts foreigners from all taxes; that is, bonds, notes, and so on, issued under the Act in

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the hands of a foreigner are totally exempt.

H.M.Jr: Say that again, Clarence.

Opper: I'm talking now about the Government bonds issued under the Second Liberty Loan Act. They are totally exempt, both as to principal and income, in the hands of a foreigner.

H.M.Jr: And the stuff that I issue now. Is that under the Second Liberty Loan Act?

Opper: That's right.

Oliphant: I doubt if the yield - the yield might drop - might very well be a rush into Governments and out of this other stuff.

Haas: Well, you could fix that up.

Opper: You could fix it up with respect to everything you haven't issued.

H.M.Jr: Well, you could fix it up with anything new.

Oliphant: Yes, from now on.

Kent: Of course, another fly in the ointment is that if you make taxable investments too unattractive through high tax rates, there is a whole field at stake in local obligations which, so far as I am able to see, we are up against it on under any of the things that have been proposed.

Haas: Yes, but this question of Government bonds, etc., bonds as a total class, particular bonds, are not a problem here.

H.M.Jr: Well, I've talked to a few people and this is the kind of general running impression I've got. I've talked to some people, particularly, who went over to England to study this situation, and the impression I get is that they feel that the boom in England, which is greater than anything we had in '29, is over, and they are selling out in England - the smart boys - and they are going to send the money over here because

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they realize that we've got that much further to go; and these people are speculators.

Now, frankly, I've got the bull by the horns on this sterilization of gold. My eyes were open; I asked for it; we've got it.

I can't see that there can any good come to America to continue to have this money come over here to be invested in our stocks and bonds. And I can see a lot of harm, because it is giving, I think, a - well, it is a constant pressure on our stock market.

And there is always the danger that if for some other reason it should be withdrawn - because they want to buy war materials, or whatever it is, or if, say, foreign securities were seized by the government in which they were and they wanted to convert them into war materials or wanted to bring them home.... We are asking all those...

I can't see, at this stage of American recovery, any good for America in continuing to let these funds come in this way, at the rate that they are coming. I don't say they shouldn't come, but at the rate they are coming; and I feel we ought to do something as a beginning to slow up this process. I mean as a deterrent, as an indicator, just the way the Federal Reserve - I mean they began to increase their reserve requirements. If we just indicate our attitude - and I wouldn't want to - I want to make it as simple and effective as possible. I'd like to do it now, if we could get everybody to agree to it, so if we make a mistake we still have Congress here to change it.

But every single morning Archie comes in and plunks down this thing. Some days - one day there was what?

Lochhead: Six million.

H.M.Jr: And you double that, don't you?

Lochhead: You double that.

H.M.Jr: It always runs from five to fifteen million dollars a

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day.

White: About 55 million, I think, up to now.

H.M.Jr: For January.

White: Up to now. About 50 through January.

H.M.Jr: And I can't see that it does us any good whatsoever, and I think it exposes us to unnecessary danger. I mean I'm - I've had a week to think things over quietly. And, as you fellows know, I bothered you very little for once and sent Herman Oliphant in code messages that he didn't get, and tried to get him on the telephone and it didn't work; went down to Kingston.

Oliphant: The whole town knew about it.

H.M.Jr: The whole town knew about it. Kingston, what?

Oliphant: Yes, that was funny.

H.M.Jr: And I am frankly in the frame of mind that I'd like to make a start, and I think the thing to do is - I'm not going to rush anybody, I never do; I like to let people argue if I'm wrong. But if we could all agree as near as possible, so we could then call in these other fellows and say, "This is what the Treasury thinks is the best," and so forth and so on, and "Now you fellows try to pull it."

But I certainly won't go the whole way or I won't do transfer on account of experience we had on the silver tax, where they - I mean fourteen fellows who dealt in silver - I mean it sounded like fourteen million. And I have seen these New York stock exchange fellows organized and come down here with two fellows from each town and two fellows from each state and fussing at everybody, and I don't think it would be worth it.

And the other thing is - I mean I think there would be some of these stock exchange men who would be good enough Americans, would tell us something about these corporations, these busted corporations in England which have been bought up as - by Americans as false fronts to operate under; I think we'll get some of that.

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I know that that has been done. They have bought practically down-and-out English corporations, and Americans use them as a basis to operate, and I think some of these stock exchange firms will be good enough Americans to tell us how it's done.

Oliphant: Well, I'd like to say, if I may.....

H.M.Jr: One second. I mean I just want to give you my philosophy. My mind hasn't crystallized on the thing; I'm open to argument. But I'd like to see if the Treasury can't have a united front on this thing. I've sort of tried to philosophize in my own mind on it. I'm frankly worried about it. I'd like to handle this thing. I think we'd have very little trouble. I can't pull the Japanese story this time, but I can pull some other one out of my hat when I go up on the Hill, and I think I'd have very little trouble, independent of any other tax legislation, to get this thing through and get it through quick. I think I could get it through independently and we - by just pulling some good story like the Japanese one - and we'll get this thing through. All right, Mr. Oliphant.

Oliphant: Well, I think on your general objective, that you don't see how it is doing this country any good for more of this stuff to come, probably the group is generally agreed; certainly they are except so far as what bearing this whole thing has on our long term position as creditor nation.

But the second question is, now, how to do it. Well, just to be sure that we are sweeping the floor clean in our discussion as we go along, I want to call attention to the fact that we conceivably - theoretically there's two ways to do it. One way to do it is by taxes; another way to do it is by a licensing system. And the licensing system has its difficulties.

But there is one general consideration in connection with the tax system that I want to bring out. As I watch the Bureau operate since we came over here, I have become increasingly disturbed at the danger of our breaking down the Bureau as the mechanism for raising our revenues by loading on to it all sorts of jobs that haven't anything to do with revenue.

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Now, nobody in the wildest moments of his imagination would ever conceive of this measure as a method for raising revenue. It is as foreign to raising revenue as Landis's proposal that we put the screws on Associated Gas in order to compel them to register under the Utilities Act is foreign to the revenue.

H.M.Jr: Herman, you didn't say which method.

Oliphant: To do it by taxing; to regulate the flow of capital by means of taxing. It is just the purpose; the objective of it is just as foreign to raising revenue as anything can well be. And if you watch the curve at which Congress has been moving, you will see that over recent years, and particularly the most recent years, there has been a large increase in the number of cases where, if we can't do a thing one way, why, we say, "Well, we'll regulate it by imposing a tax," and we throw the burden on the Bureau of Internal Revenue instead of trying to do it directly.

Now, there are tremendous difficulties about a direct licensing system; that is, the control of foreign exchange for these purposes. But over against those difficulties, however serious they may be, I think we ought to weigh the grave danger to which we are exposing the Bureau and our whole system for collecting revenue by loading onto our tax system extra jobs.

H.M.Jr: But my dear Herman, you've already got your ten percent. You've got your ten percent at the source now. And - what is it?

Kent: It's ten percent.

H.M.Jr: Whether it's ten percent or X percent, the work is no greater.

Oliphant: Well, if you try to institute...

H.M.Jr: I mean as I understand it - excuse me a minute - what we are doing, we are taking the existing system and proposing to increase it. Now, that doesn't....

Lochhead: That's only one half of it. You've got to decide the

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question whether it shall be on dividends or by a capital gains tax.

H.M.Jr: We weren't talking about capital gains tax. We're just talking about taking the present system and increasing it.

Lochhead: I don't think you're hitting the real ones. You're hitting the investors instead of the speculators.

Oliphant: That's the point. You're hitting the investors and you're not hitting the speculators. The speculator escapes this thing because he's in and out, and the burden of it falls on Dutch families which for generations have owned Union Pacific, as opposed to the tax hitting your speculator.

H.M.Jr: Well, let's just philosophize a minute further. I mean this is a cruel world.

Oliphant: Yes. Well, my point in mentioning that was to be sure we are sweeping the floor clean as we go along.

H.M.Jr: Well, it was useful to have the Dutch families finance the Santa Fe Railroad, and they were the biggest stockholders there were until recently in the Santa Fe. Well, the time has passed; we don't need the Dutch to build our railroads. And the Dutch also have changed, and they have become one of the big speculative centers of the world, second only to London. And there is many a day that Holland is almost up with England, aren't they?

Lochhead: Yes, on their purchases.

H.M.Jr: And, as I say, we owe them a debt of gratitude for what they did. But - but they are now trying to find some place where they can put their money where they won't be 30 minutes from....

Oliphant: Battlefront.

H.M.Jr: From the airplane bombers. I mean times have changed; when they gave us that money, we didn't have airplanes.

I don't - of course, I unfortunately believe that this

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thing is going to get worse; I mean in the sense that more money is going to come here and it's going to come here faster. Isn't that right, Archie?

Lochhead: Yes, there's no signs of its letting up.

H.M.Jr: What?

Lochhead: There's no signs it will let up.

H.M.Jr: Do you agree, White?

White: I agree with you. I think it will get worse.

H.M.Jr: I mean I haven't talked with anybody in this room; I'm just talking out loud. But I think it will get worse before it gets better and... But, to answer you (Oliphant), I'd rather leave a few sweepings and have a mechanism which is an easy one to work, than putting in something so complicated that we can't work it. And when you come to exchange control and all that thing, I shy away; I'm scared to death.

Taylor: That's where you go if you steer away.

Oliphant: I know.

H.M.Jr: After all, the Germans have 2400 clerks in...

Lochhead: In one city.

H.M.Jr: In one city?

Lochhead: In one city.

H.M.Jr: In - just in one city. I thought it was all Germany.

Lochhead: No, some fellows were over here about a year ago. They said it was one city - 2400. We thought of putting in exchange control to take care of the white collar W.P.A. fellows.

White: The situation isn't comparable. It isn't quite fair to compare an exchange licensing thing of this kind with real exchange control. However....

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- H.M.Jr: Well, anything that would even - sort of smells like it.
- White: Yes, I'm inclined to agree with you. I don't think that exchange....
- H.M.Jr: Now, if Oliphant or anybody else says they can give me a capital gains tax which can be organized and can be effective, swell; that is, for foreign fellows.
- Magill: I don't think this withholding is going to get you very much from the point of view of the Bureau. I think there is no doubt that it is the easiest to administer of any of these suggestions.
- H.M.Jr: Well, I'll tell you what it will get you, Roswell..... I'll wait until you are through; excuse me.
- Magill: The only other thing I had in mind - George, I know has done some work; I don't know what his conclusions are with respect to this transfer tax.
- Now, I don't think that a transfer tax on transfers to non-resident aliens is going to be effective, because a non-resident alien doesn't have to transfer into his own name as things stand at present. But suppose you put a relatively heavy transfer tax on any kind of a transfer; that is, don't aim it merely at non-resident aliens; aim it at everybody.
- H.M.Jr: Then you'll have your Wall Street boys down on your neck in large numbers. I don't understand it.
- Magill: Suppose you put... The fact of the matter is that the best reason for this particular proposition is that your stock transfer tax is a poor piece of work as it stands at present.
- H.M.Jr: I thought that was all state.
- Oliphant: No, Federal.
- H.M.Jr: Federal?
- Magill: Federal and State in New York.
- Haas: A man named Pell wrote to the President and told him - his suggestion is....

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- H.M.Jr: Who, Pell?
- Haas: He suggested the British tax, didn't he?
- Magill: Suppose you had a stock transfer tax of one percent on the value of securities transferred. Now, Pell says that will enable - or rather, it won't stop the investor from going on and buying if he wants to. On the other hand, the speculator will hesitate a good deal before he will buy with such a heavy impost on every turnover.
- H.M.Jr: What is it now?
- Magill: Oh, it's... What is it?
- Kent: Four cents to eight cents.
- Magill: It's four cents to eight cents; very hard to describe.
- Haas: It's based on the par value of the stock and not its actual value.
- H.M.Jr: Roswell, this is what I want to say, if I can. After Roosevelt made his statement that he was going to do something about foreign capital, I read very carefully - I read the English newspapers for two weeks; and after he made that, for at least two weeks the buying absolutely stopped. Is that right, Archie?
- Lochhead: Yes. It slowed down very considerably as soon as the talk came out.
- H.M.Jr: Just froze. Now, all of these things - as much psychological as anything else. If we did this thing - I mean as a quick move - and then did something else later on if we had the time.. If we did this thing and, say, increased it from ten to twenty and said the specific purpose of doing it was to discourage foreign capital....
- Seltzer: And if this didn't work we'd try something else.
- H.M.Jr: If this didn't work, we'd try something else. Archie, you look up for the people, and White can do it, the day the President made that statement, see, and then

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what happened to the flow of foreign capital for the following succeeding two weeks, see, and just show them what happened. Then they came along and they said, "Well... - they quoted me, something I said or other - they said, "Well, the President didn't mean what he said. O.K., boys, we'll go back again." And they went right back at it.

What I am thinking of, if you just did this and told Harrison's committee, "Now, we haven't had time to think of anything more except this, but we'll be back again in a couple of months. But we'd like for you to get this thing through. And we'll come back again; we'll have something else for you after the 15th of March. But we'd like to have - we'd like a statement from you, Harrison, why we are doing it, and that subsequent studies are coming along." I would think it would slow this thing up tremendously. And it would be perfectly scientific; I mean because whatever you did, you'd do this anyway, wouldn't you? And the thing that answers all criticism all the time is this idea that the foreigner shouldn't be getting a better deal than the American citizen.

Magill: Well, he's...

Lochhead: I'd rather personally see a capital gains tax to hit the - to really hit the speculator. Now, the question whether you can put through one that will work well - I mean I'm very doubtful on all these just how much work it takes to make it effective.

Magill: It's a practical impossibility to...

Lochhead: What you want is a warning. Even if you didn't catch much of it, maybe as a warning...

Magill: I don't think it would even warn them very much, because they know too well how to beat the game as it stands now.

Lochhead: Yes, they have beat the game; I mean I admit that. I have always said on something like that I'd rather be on the other side beating the laws than be on this side enforcing them.

- White: But on the other hand....
- H.M.Jr: Look at all the fun you've got, Archie, being policeman.
- White: On the other hand, the funds coming in are not necessarily speculative. Much of it remains, goes into the market, and a good portion of the incoming funds are the funds which are coming here mostly for investment. I mean there is an element of both. So that if your motive is to restrain or reduce the inflow of gold, you will be hitting them by the reduction in the attractiveness of the yield; you will be hitting a substantial portion of them.
- Magill: Well, that seems to be the major point, if you are right on that.
- White: Well, we don't know exactly whether we are. But it would seem that the reasonable thing would be to proceed in that direction. Supposing you raised this rate and supposing you find that the bulk of inflowing funds were coming here as a result of the desire to obtain higher yield; then we would see that reduced to small proportions. Then you would be justified in saying that was the only step that was necessary. If, on the other hand, after the imposition of this tax, you find that the flow continues either to the same extent or almost, then I think you are probably justified in assuming that a larger portion is coming in for the appreciation of capital, and therefore you'd have to take other steps. But it would seem that this is a preliminary step and the other could very well wait.
- Zucker: The first taxing device could be coupled with a withholding tax on the capital gains, to be adjusted later by the filing of a return, and thus we do away with the avoidances of the tax that are now so prevalent by foreigners. That has been suggested. It can be made a low rate; you can have an amount of probably two and a half or three percent withholding additional to cover the profit; and that would put the burden on the foreign investor to file a return here and readjust his tax due or if he doesn't do it we would have that much additional purely as a tax from the profit that he made as in-and-out transactions.
- H.M.Jr: Sort of a capital head tax, huh?

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- Magill: I don't get you. You mean withholding at 22 percent, but if he files a return then at 20?
- Zucker: No, you withhold your 20 percent on his fixed items.
- Magill: Yes
- Zucker: And then through the various brokers with whom they are buying and selling, withhold a portion of the proceeds to pay the Government the tax on the profit that they may have made, subject to adjustment to the true profit and true tax.
- Magill: Of course, the trouble with that is he doesn't have to deal through American brokers.
- H.M.Jr: That's awful complicated.
- Zucker: Well, we'd have to know that the trade is for a foreign account. It would be incumbent on the broker.
- Magill: You run again into the same machinery.
- H.M.Jr: May I ask what is the Federal Reserve advocating?
- Magill: Oh gosh!
- Haas: Federal Reserve - what we suggested there is just a....
- Magill: This (showing bulky document).
- Olipphant: What they suggest makes exchange control look simple.
- Haas: Among other things, they start out suggesting what we have been discussing here, this increase; they start - raise that. Then they work out a device for a capital gains tax in which they set up a nominee system. And then a transfer tax. Have all three. But Goldenweiser's staff probably, if they were sitting here and you put the proposition which you just made to them - they feel we should move cautiously, start and move cautiously - and it's perfectly possible that they'd be in entire sympathy with starting the way you suggested and seeing what happened, and on to the next....
- H.M.Jr: What about S.E.C.?

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Haas: S.E.C....

White: Divided.

Haas: Gourrich is sick and...

H.M.Jr: Divided?

Haas: Gourrich is sick.

Taylor: What's the division then?

Haas: Goldschmidt is the other half, and Gourrich would like to put very severe taxes on them. He'd like not only to stop it, he'd like to drive it out, but Goldschmidt doesn't.

H.M.Jr: Who's that, Gourrich?

Haas: Gourrich, but his assistant disagrees with him.

Kent: Gourrich was going to put an embargo on stock certificates going out of the country.

H.M.Jr: Well, I've only been in this thing a couple years, and the longer I'm in it the more I am for making these financial transactions just as easy as possible to flow back and forth. I mean I've come to that school as against - I think it's a great sign of weakness....

Helen? Anything to drink? Oh, I didn't see it; didn't even smell it. All right, won't some of you start?

(Group ceases discussion for drinks)

H.M.Jr: Gentlemen, can we continue, because I don't want to work you too late.

What I think we ought to do is this. I really would like to go somewhere on this thing. We've got so many people; I don't know how we'd work it. I'd like to concentrate on the Treasury people. Now, how can we divide this thing up and how can we work at it for

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another day or two so then I could meet with you again? I mean who's sort of heading this thing up? We've got lawyers and economists and financiers and farmers here, and publicists.

Oliphant: I think it needs a football player.

Upham: Better stop there.

Oliphant: May I ask this question? Was it in your mind that what you'd like to have is something now quick that would have the psychological effect - only more so than - as the President's statement, the idea being later to - to get something more detailed or definitive later?

H.M.Jr: Well, that's the way I feel tonight. Now, you men know who work with me - you know that sometimes you get kind of - you people get excited and I always stay calm. Isn't that right, Clarence? (Hearty laughter) We always end friends anyway.

But I think if - until we get - to use Oliphant's expression, sweep the floor clean, it's going to take too long, especially if we are going to sell it to these other two people. I think our position is much more tenable if we had something very simple, and personally my hunch is if we did something with the proper publicity, that that would be good for two or three months. I think from what I have seen, and you people - I mean they are scared to death of this thing - the Europeans - and I think it would be good for two or three months. And then we could keep letting little leaks out all the time that this and that was going to come.

And I may be wrong as to my interpretation of the Hill, but I don't think it would be very difficult if the thing was simple enough.

Now, I don't think, to answer Oliphant's thing - as I say, I'd rather get something now if we felt it was conservative and fairly effective, get it quickly, and then go ahead. Now, you take, for instance, this thing Magill was talking about, this one percent transfer tax. Well, the first thing that would come to my mind, what about the capital gains and loss tax? I mean what decision has the Treasury come to on that? And if we are going to keep that as it is plus the one

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percent transfer tax, aren't we going to make the stock market so frozen, so rigid, that if we do ever have a collapse, or recession rather, we'll have a collapse rather than a recession? We're going to make this thing too rigid.

Magill: That is a danger.

H.M.Jr: So when you take a one percent, I immediately ask you the other thing and you say, "I'm not ready to answer on that; I haven't had time." But I think we don't want to get the stock market so rigid that it can't fall and rise. What?

Taylor: As you say, it would to some extent.

H.M.Jr: Well, it certainly would slow up the velocity of the turnover in the market, wouldn't it?

Oliphant: It would cut your short interest in two at once.

H.M.Jr: What?

Oliphant: It would cut your short interest in the middle at once.

Taylor: Well, the thing that it would affect the most is floor trading.

Oliphant: Yes, floor trading, and of course those are part of the mechanism for easing it down - the floor trader.

Haas: They help it down too.

H.M.Jr: But Wayne, I want to ask you did you - are you thinking along the line that I am thinking or are we thinking separately?

Taylor: Thinking right along those lines. Anything beyond that I am very skeptical of.

H.M.Jr: But do you agree with me that if we do this thing with the proper publicity that it would slow the thing up for a couple months?

Taylor: (Nods yes)

H.M.Jr: You check on that?

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Taylor: (Nods yes)

H.M.Jr: Can you see any.....

Taylor: No, I - in the first place, it is the simplest thing, something that you can collect. You'll get some revenue from it and it gets away from all the other complications.

H.M.Jr: I mean you and I are thinking - or I am along the same lines that you are. What?

Taylor: Anything beyond that you have - the four days that I'm away, you haven't got any proxies for anything else.

H.M.Jr: Well, what I want to get at, while you're away - that's what I want to ask - is there anything on this thing...

Taylor: As long as it is along those lines we've been talking tonight, that you are talking, it is absolutely...

H.M.Jr: You go along.

Oliphant: When are you leaving?

Taylor: Tomorrow night.

Lochhead: Is what you're thinking of the one percent?

Taylor: No, no, talking about changing the withholding rates, that's all.

H.M.Jr: On dividends and interest. Right?

Taylor: Yes.

Magill: That's in the treaty - the five percent rate. That's something to think about. This Canadian treaty has just been executed, hasn't it?

H.M.Jr: I know, but I never was consulted about it, was I?

Oliphant: Yes, it was cleared in the regular way.

H.M.Jr: I'd like to look up the initials. If there are not twelve initials on it, I'll question it.

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Zucker: It might have been the Acting Secretary.

Magill: The number of initials vary inversely with the importance of the matter.

H.M.Jr: I'll swear it didn't go across my desk. Maybe Miss Roche signed it. Do you (Oliphant) remember exactly when it went out?

Oliphant: It cleared in the regular way.

Kent: Yes

Oliphant: Communication for the Secretary.

Kent: For two or three days the State Department was calling for it and I phoned several times to find out what had happened on it, and they said, "Well, just waiting to get the letter to the Secretary of State in to the Secretary," and the next thing I heard was that the Secretary had signed it.

White: At the time that was being considered, the question was raised whether it would prejudice any action such as we are now contemplating, and the answer was no.

H.M.Jr: What's that, White?

White: I say we raised the question whether that would prejudice any other subsequent action, and the answer was no; not officially, but...

H.M.Jr: Well, if you didn't do it officially, look up our liquor case; ask Wayne Taylor. We thought we raised something like that in connection with the treaty with Canada on liquor, and the tax...

Oliphant: Pickaxe.

H.M.Jr: But I still say I wonder if we couldn't - what's our new study room? Room 196, is it?

Haas: 296 $\frac{1}{2}$ . We use 186 - that's a nice room - on the first floor.

H.M.Jr: What's the room on our floor?

Haas: 296.

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Oliphant: 296.

H.M.Jr.: Well now, who's got time to go into this thing and spend a - I think if you'd give it two half days.... I mean who can give it - who's ready to go in on this thing?

Haas: Roswell's already going.

H.M.Jr.: All right.

Kent: Of course, the drafting...

H.M.Jr.: No, no. No, just this much. I mean just as to principle. I haven't quite got this crowd sized up yet; I don't know who is which. Who can work tomorrow morning - or afternoon better? See, in the morning I've got this Open Market, you see. You sit in on that, Taylor, don't you?

Oliphant: Well, we have a conference with Yntema - some six months in the preparation - tomorrow morning.

H.M.Jr.: Well, why don't you fellows - tomorrow afternoon couldn't you fellows....

Oliphant: After that conference is over.

H.M.Jr.: Could you fellows start at two?

Oliphant: Three would be better, wouldn't it, under your (Kent) plan?

Kent: I think so.

(Secretary leaves and returns)

H.M.Jr.: Well, may I just say, do you people decide on three o'clock?

Oliphant: It seems to me we'll get through with those other conferences by then.

H.M.Jr.: How's that with you?

Magill: I think that's all right.

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H.M.Jr: Do you know of anything...

Magill: No.

H.M.Jr: Who's got anything they couldn't go in? That leaves you (Haas) free for me tomorrow on this Open Market, doesn't it?

Haas: All right.

Magill: What do you want us to be ready with at three?

H.M.Jr: What I'd like you to do at three o'clock would be this same group to meet and talk over what I have been talking about tonight and - I mean I've given you my thoughts. Where am I wrong? Is this the way to approach it? And then if you people can come to an agreement - tomorrow's Tuesday, I'll meet with you Wednesday, and then if I can agree with you fellows and vice versa, then I'll ask Thursday - I'll ask Landis and Eccles to meet with us, see? I mean that's moving about as fast as we can; I'll ask Eccles and Landis to meet with us Thursday. If not Thursday, Friday. But I'd like to get it cleaned up Thursday or Friday.

Gaston: Snell we start letting the story leak before Eccles starts letting it leak? We can stop the capital movements for a while by just letting a leak.

H.M.Jr: Well, Herbert, you've been with me what? - six, seven years now, haven't you? Follow the same policy that you have for the last six or seven years.

Haas: Always stay in the front.

H.M.Jr: That isn't what I was thinking of.

Haas: Isn't that it?

H.M.Jr: No.

Haas: Oh, I see.

H.M.Jr: No, you got it wrong. You got it wrong.

Olyphant: There's some questions that are seldom asked and if asked never answered.

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H.M.Jr: No, you got it wrong. Herbert and I have never planted a story against a person; we have never let a leak against a person. That right, Herbert?

Gaston: (Nods)

Upham: Says no, that isn't right.

H.M.Jr: What we could do, Herbert, is say we invited Landis and Eccles to come over and discuss this thing; that the Treasury had made up its mind what it was going to do.

Haas: I've heard that pattern before.

Gaston: I think any indications that the thing is coming to a head will have a little effect, don't you, Archie?

Lochhead: Oh yes.

H.M.Jr: Could you fellows that are going to meet with me on Open Market Committee stay for another five minutes? That's Haas' crowd. And the fellows - what we do is we excuse the lawyers.

*Hooley*

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**TREASURY DEPARTMENT**

INTER OFFICE COMMUNICATION

DATE February 8, 1937

to Secretary Morgenthau

from Mr. Haas

Subject: Proposals to restrict inflow of foreign capital

I. Is it desirable to take some course of action to discourage the flow of foreign capital into the United States?

II. And, if desirable, what form should this action take?

III. Conclusions.

I.

Arguments advanced in favor of imposing some restrictions on the inflow of foreign capital:

- (1) Gold inflows create an unnecessary cost to the Treasury without benefitting American industry.

Capital inflows in the next couple of years will probably take the form chiefly of gold rather than goods or services. Hence, if no restrictions are imposed on capital inflows, it is likely that the Treasury will incur the cost of sterilizing from one-half to several billion dollars more of gold by the end of 1939. The cost of sterilization is not only recurring but substantially increases--because of rising short-term interest rates--at the very time when it would be especially dangerous to add to our monetary gold stock.

The incoming capital does not now add to the productivity of American industry nor is it likely to do so in the near future.

- (2) The addition to our volume of deposits makes more difficult subsequent control of the internal credit situation.
- (3) While not helping the United States, the large gold flow might operate to aid recovery were it to go to or stay in countries that need it more than we do.
- (4) According to the Securities Exchange Commission research staff, capital inflows widen the range of fluctuations of security prices, and thereby intensify the instability of the security

Secretary Morgenthau - 2/8/37 - 2

market. The volume of trading for foreign account is much larger than the net purchases. Trading for foreign account represents an average of approximately 20 percent of all stock trading (exclusive of member trading) and is moreover concentrated over a relatively narrow range of securities.

- (5) Securities Exchange Commission control of the security market is less effective when non-resident aliens can trade in American securities on more favorable terms than United States citizens, either in American or foreign markets. Further, Americans can avoid restrictions by trading in foreign markets or by trading in American markets through foreign intermediaries.
- (6) The present system of taxes discriminates in favor of non-resident aliens. Under present arrangements, non-resident aliens with no place of business in the United States pay no capital gains tax at all.
- (7) The introduction of some approach to equality of taxation as between residents of the United States and non-resident aliens would yield additional revenue. How much revenue would result depends on the scale and effectiveness of the taxes imposed.

The arguments against the restriction of capital imports are:

- (1) The difficulties of effectively administering a capital gains and transfer tax on foreign trading in American securities are great. Unless very cumbersome administrative apparatus is developed, the ease of evasion would render the attempt ineffective.
- (2) Any interference with the free movement of capital among nations seems to reduce national incomes and makes more difficult a return to international equilibrium.
- (3) It is possible that by checking the flow of foreign capital into our security market the funds would be diverted into either commodities or foreign security markets with results that might be adverse to our recovery in the long run.
- (4) Some of the trading in American securities for foreign account which now is done in New York will be transferred to foreign security markets. Owing to the diminution of trading, American brokers lose some commissions.
- (5) Retaliation by some foreign governments against American capital abroad might follow.

Secretary Morgenthau - 2/8/37 - 3

## II.

If it is desirable to restrict further capital inflows, what instruments should be employed?

The following measures have emerged from our discussions to date:

- (1) Increase of tax on dividends and interest payments.
- (2) Institution of a moderate flat capital gains tax on all non-resident aliens.
- (3) Institution of a small transfer tax on the purchase and sale of American securities by non-resident aliens. The transfer tax makes it less attractive to shift short-term balances into short-term investments.
- (4) Possibly the introduction of a nominee system, by which non-resident alien traders in American securities would do business through resident nominees who are licensed by the Treasury and are to be held responsible for the payment of taxes. A nominee system would render evasion more difficult. In the event the nominee system is adopted and where non-resident aliens do not use nominees, the taxes recommended in (1), (2), and (3) should be substantially increased.

## III.

### Conclusion

Our net conclusion is that it would be desirable to discourage further capital inflows, provided this can be accomplished by methods that do not involve serious risk of unfavorable international repercussions, and provided further that the methods themselves do not involve excessive administrative machinery. It is not necessary that the methods first adopted insure a perfect or nearly perfect exclusion of foreign capital. There is indeed, on the contrary, much to be said in favor of proceeding cautiously to determine the full effect of such measure of restriction as is at first achieved. There is ample justification on grounds of equity alone to frame the first method of discouraging further capital inflows in terms of increasing the tax burden upon foreign investors to a level more nearly equal to that imposed upon domestic investors.

There is also much to be said in favor of legislation giving the Federal Reserve Board the power to prescribe reserve requirements up to one hundred percent against deposits of foreign funds in member banks.

If these measures do not prove to be adequately effective, more drastic measures may then be considered.

8 February, 1937  
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA



Within the next three days the majority of Coast Guard boats in the Ohio Valley will be returned to their regular stations.

There are operating in the Mississippi Valley from Cairo to New Orleans a force of 24 seagoing units and approximately 250 boats. The Commander, Coast Guard Flood Relief Force, at Memphis reports refugees are still being removed from the levees south of Cairo.

The Coast Guard emergency radio facilities are being removed from the Upper Ohio Valley except at several key points and shifted to the Mississippi Valley. Ten planes are in service between Louisville and Helena, Arkansas.

General Water Level Condition

Crest of flood now at Memphis (50'); Helena 59.5' and rising slowly all the way to New Orleans.

*file*

February 8, 1937

After reading newspaper accounts of Wallace's article appearing in the London Daily Telegraph, the Secretary today telephoned to Wallace and said, "I am disturbed about your releasing the article to the London Daily Telegraph because the last time you and I talked about that article you said that you had decided not to write it and I said that I was delighted and I then volunteered to tell you that I thought it was a mistake to write it and I only made this statement after you told me you had decided not to write it.

"Steve Early said that you had written him that you had cleared the article with the Treasury and the State Department. You are a free agent, but I think it is very unfortunate that you did it. I have asked Haas and White to analyze your article. We never saw the revised copy and I was under the distinct impression that you were not going to do it. At this time, when the Treasury and the State Department are having delicate negotiations with England, I think it is most unfortunate that you released your article.

"Early was under the impression it was cleared with us and, of course, it was not. You spoke to me about it originally along about January the first and you might be interested to know, if you will look up the last letter that Peek wrote to the President, that you followed the whole thought and figures in your article that Peek used in his letter to the President.

"As far as I am concerned, anything I have to say I say and it is between you and me. The press will come in at four o'clock and I will just shrug my shoulders. I will not make a public statement.

"After Haas and White have made an analysis, I will send it to you. I have not talked to the President and I will not talk to him, but I did talk to Early and Hull.

"White told me that you did not incorporate the principal suggestions which he made in connection with your first draft. I think if someone in Agriculture takes up something that belongs to the Treasury and the State Department, it is important enough for the three of us to sit down and talk it over and not bother the President.

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"I think it is a very delicate thing with this serious situation in Europe. I do not see the purpose of "punching England in the nose". I do not see what can be accomplished.

"When we have our facts, I will let you know and we can go over them with the State Department and with Commerce. Whether we fundamentally disagree or not, we think you are on the wrong track."

New York Times - February 8, 1937

## WALLACE OPPOSES U. S. LOANS ABROAD

Why Should Sensible Americans  
Lend to Defaulting Nations?

Secretary Asks

WRITES FOR LONDON PAPER

He Cites the Changed Status of  
Country From Debtor to Creditor  
and Curbs on Our Exports

Special to THE NEW YORK TIMES.  
WASHINGTON, Feb. 7.—Secretary Wallace, addressing himself directly to Great Britain, warned today that a renewal of the traditional lending policy of the United States was "unlikely until the question of defaults is settled."

In an article prepared especially for The London Daily Telegraph for tomorrow morning and made public simultaneously here, the Secretary put this question:

"Why should sensible American investors loan money in those countries that have defaulted on their obligations to us and whose nationals are now sending money for investment in the United States?"

The Secretary contrasted the position of this country in relation to the rest of the world as a creditor nation at the present time to that of a debtor nation formerly, and traced the high tariff sentiment in this country to its debtor position of former years.

"Today all this has been changed and the outside world owes us more than \$25,000,000,000," he continued. "Offsetting this, foreigners have investments in the United States amounting to at least \$7,000,000,000.

Of the \$19,000,000,000 apparent net international creditor position of the United States nearly \$15,000,000,000 is represented by governmental debts owed to our government and now in default.

"Of the nearly \$5,000,000,000 of American farmers and factory foreign securities held by private workers would result again in an American citizens, not quite \$2,000,000,000 are in whole or partial default. Some of the defaulted securities owed our private citizens will doubtless pay, but it would seem that there will be a loss of at least \$1,000,000,000, and probably more."

"Gold and silver shipments to the United States must apparently be relied on for some little time as the leading device to enable the outside world to live with a creditor nation in years of ordinary weather."

"Taking into account the total defaults, governmental and private, of nearly \$15,000,000,000 and taking into account the amount of foreign investments in the United States, it appears that the present net creditor position of the United States on current accounts represents a net capital investment abroad of not over \$5,000,000,000.

"But perhaps the least controversial and most realistic way to state the situation is to say that the United States in the year 1936 has probably received over \$350,000,000 more in interest and dividends and payments on war debts from the outside world than she has paid out to the outside world. This is just about half as much as was paid not annually on interest, dividend, and war-debt account to the United States during the last half of the decade of the Twenties. Each year since 1930 the net creditor position of the United States has lessened."

"The rest of the world, Mr. Wallace said, during the time that the United States has been a creditor nation, has adjusted itself to the situation in five ways:

1. By accepting fewer goods from the United States and shipping more goods here, and in some cases preventing the importation of goods coming from this country by rigid quotas and exchange controls.

2. By encouraging American tourists to spend more money in foreign lands.

3. By shipping gold and silver to the United States.

4. By borrowing money from the citizens of the United States.

5. By defaulting on obligations to the United States."

Discussing these five factors in greater detail, Mr. Wallace stated that while in 1936 American exports and imports nearly were balanced, the return of normal crop years and the great productive capacity of

the United States must apparently be relied on for some little time as the leading device to enable the outside world to live with a creditor nation in years of ordinary weather."

"With increased gold and silver mining going on all over the world it is quite probable that there will be sufficient gold and silver to make possible this type of adjustment as long as the United States is willing."

"If this is true, it would seem that after a time the people of the United States would find it necessary to think through to the realities of exporting indefinitely the labor and natural resources of this continent in exchange for nothing more usable than shining metal."

Some day the question will be asked as to what it all means in the long run for the standard of living of the American people."

"We have so far avoided facing in all their starkness the ultimate adjustments which must be made," he said in conclusion. "Whatever may develop with respect to facing these ultimate adjustments, it is clear that our agricultural production policy will of necessity be guided in considerable measure by the changing factors in the creditor position of the United States."

Experts Tourists to Spend More

Discussing these five factors in greater detail, Mr. Wallace stated that while in 1936 American exports and imports nearly were balanced, the return of normal crop years and the great productive capacity of

out will need every dollar they have and every dollar the Red Cross can possibly give them to provide the minimum necessities for living, bed, clothing, furniture, stove and everything else, and for the repair of their homes. This inevitably means that the diet of these people will suffer and ability to provide medical attention will be limited.

If a serious impairment to the public health from these several factors is to be avoided a considerable Public Health fund needs to be made available

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Feb. 8, 1937

TO Miss Roche

FROM Dr. Parran

The Public Health forces, both our own and the State and local, have been doing a grand job under tremendous handicaps in many places. The one thing which has made it possible for the health needs to be met has been the Social Security monies which these states got last year with which they had already set up a number of health organizations and had strengthened their staff with engineers, doctors, nurses.

In every state the trained health officers, nurses, engineers and inspectors were mobilized from the unflooded centers into the flooded centers. For example, in Arizona some 61 such persons had been thrown into the flood centers by the State Health Department.

There has been no undue prevalence of communicable disease as yet aside from the influenza which is prevalent in some parts of the flooded area as elsewhere in the country. The real health problem, however, is still ahead of us.

1. Typhoid fever. During the next few weeks (I am hopeful that this will be handled and that we shall not have any serious outbreak of typhoid.)
2. Dysentery, particularly in the camps some of which will need to be operated for another month or even two months further down the river.
3. Malaria will be a serious problem throughout this summer, both because of the added water and the rusting away of screening.
4. There is some danger of such diseases as meningitis, scarlet fever, measles, in the concentration camps during the immediate few weeks.

Of greatest concern is the fact that many of these flooded counties heretofore provided with a fair health service will be unable to finance their part of it. Moreover, the individuals whose homes have been flooded out will need every dollar they have and every dollar the Red Cross can possibly give them to provide the minimum necessities for living, bed, clothing, furniture, stove and everything else, and for the repair of their homes. This inevitably means that the diet of these people will suffer and ability to provide medical attention will be limited.

If a serious impairment to the public health from these several factors is to be avoided a considerable Public Health fund needs to be made available

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for work in these counties during the next six months or even a year. If that work is to be organized efficiently there will need to be some assurance of continuation, in other words, the most desirable arrangement would be for these additional funds to be followed up by added appropriations to the Social Security Act so that the work which we shall start now and which the people now welcome will not disappear at the end of six months. Gradually, of course, we shall expect the states and localities to take the larger share of the load as they recover.



TREASURY DEPARTMENT

WASHINGTON

February 8, 1937

*Handwritten initials*

TO THE SECRETARY:

Re: Treasury Financing

The following comments are submitted on Treasury financing for the next few months:

February 1 to June 30, 1937: After the discussions of last week on my estimates of the cash position for this period, I believe there was a feeling that the 30 million dollars a month allowed for inactive gold was insufficient and that this estimate should be increased to 50 million dollars a month. From information now available it is believed that 30 million dollars for the month of February will be just about right. I have, however, increased the other four months by 20 million dollars each. Furthermore, there was a feeling that the Treasury should not permit its balances to run as low as indicated in my estimates.

The following table shows the estimated Treasury balances at the end of each month, including sales of U. S. Savings Bonds and adding \$80,000,000 for inactive gold on the basis of (1) no new financing; (2) \$300,000,000 of new funds raised in April, in addition to the refunding of \$502,000,000 maturing notes. (This can be switched to March 15th.); (3) same as (2) but adding \$300,000,000 of Treasury bills to be issued between February 17th and March 24th, all to mature June 16-18 (this amount can be reduced to \$200,000,000 and stop issue on March 10th); (4) \$500,000,000 of new funds raised in April in addition to the refunding of \$502,000,000 of maturing notes (this can be switched to March 15th); (5) same as (4) but adding \$300,000,000 in Treasury bills to be issued between February 17th and March 24th, all to mature June 16-18th (this can be reduced to \$200,000,000 and stop issue on March 10th):

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End of Month	Treasury balances				
	Based on new financing in the amount of				
	No new financing (1)	\$300M of Treasury notes or bonds (2)	\$300M of T/N or bds. & \$300M bills (3)	\$500M of T/N or bds. (4)	\$500M of T/N or bonds and \$300M bills (5)
February	\$ 689 M	\$ 669 M	\$ 769 M	\$ 669 M	\$ 769 M
March	849	849	1,149	849	1,149
April	504	804	1,104	1,004	1,304
May	239	539	839	739	1,039
June	434	734	734	934	934

It is obvious that our balances under (1) above would run too low for comfort, and even under (2) and (3), while I believe we can get through with them, run considerably under what you have in the past contemplated. (4) or (5) is the safest course to pursue, and one under which you would feel more comfortable. It will be noted that the low points in the balances will be reached at the end of the months of February and May, but then we are, at these points, approaching heavy income tax payments and there is therefore no harm in letting the balances run down at these periods. Moreover, I feel that the time is approaching when a billion dollar working balance is too high for our needs, especially in view of the large anticipated receipts under the Social Security Act.

I would suggest, therefore, that you give consideration to (1) raising two or three hundred millions of new funds through additional issues of Treasury bills beginning February 17th and stopping either on March 10th or 24th, depending on the amount, all to mature June 16-18, for purposes of leveling off income tax payments at that time (later discussed), and (2) raising \$500,000,000 of new funds through the issuance of Treasury notes or bonds at the time and in connection with the refunding of \$502,000,000 Treasury notes maturing on April 15th. I prefer to see this major financing on April 15th rather than on March 15th for money market reasons (later discussed). While it gets away temporarily from our policy of financing on quarterly tax-payment dates, yet the new issue can be made to mature on a tax-payment date without any difficulty.

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Bonds or notes: As we approach a balanced budget, the Treasury will have to consider the problem as to whether it will want to continue to issue bonds. It was, of course, necessary to issue bonds during the time of deficit financing in order not to have too much debt maturing in the immediate future. We now have the problem of rearranging our debt program to meet the requirements of our sinking fund and investment accounts. Below is a statement showing the total debt maturing or subject to call (exclusive of regular Treasury bills) in each fiscal year 1937 - 1950 and the net total requirements of the sinking fund and Old Age Reserve account:

(In millions of dollars)

Fiscal Year	Total debt maturing or callable	Sinking Fund and Old Age Reserve requirements	Excess maturities	Shortage in maturities
1937	\$ 802	\$ 568	\$ 154	\$ -
1938	2,167	834	1,333	-
1939	2,832	1,384	1,448	-
1940	2,995	1,531	1,464	-
1941	3,287	1,432	1,855	-
1942	204	1,438	-	1,234
1943	454	1,459	-	1,005
1944	2,920	1,668	1,252	-
1945	1,037	1,646	-	609
1946	3,557	1,748	1,809	-
1947	-	1,841	-	1,841
1948	1,982	1,810	172	-
1949	-	1,889	-	1,889
1950	1,794	1,953	-	159
	\$24,031	\$21,301	\$9,467	\$6,737

NOTE: No allowance made in above figures for investments for account of Unemployment Trust Fund.

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A glance at this statement shows that in some years there is too much debt maturing, while in others there is not enough. An ideal situation from the standpoint of the Treasury would be to have about \$2,000,M maturing each year, about \$500M each tax-payment date. In 1942 and 1943 there is not sufficient maturity to meet the sinking fund requirements at that time, while in 1947 and 1949 there are no maturities. We can, of course, purchase securities in the market for the sinking fund provided we do not exceed an average of par, but the operation is much less disturbing if these requirements are met through maturing issues. This will also be true of the investment operations, where we are authorized to issue special securities to the investment accounts. In other words, to pay off maturing obligations with revenue coming in and to issue special securities to the investment accounts would represent an ideal investment arrangement.

There will be very little change in the amount of the sinking fund over the next few years, but the amounts available for investment under the Social Security Act will be problematical for some time to come. The Act not only has to run the gantlet of the Supreme Court, but will be subject to political attack for the next few years. An attempt is now being made in the Congress to eliminate the Old Age Reserve Fund. To offset this attempt, the Social Security Board has prepared amendments to the Act which will liberalize Old Age Assistance and thereby increase the costs to the Fund amounting in 1942 to more than \$380,000,000 without any corresponding increase in the taxes. The Treasury should now recognize that it can not build up the reserve of 40 or 50 billion dollars contemplated under the Act, but if it can hold the present arrangement until a reserve of, say, \$5,000,000,000, or better still, \$10,000,000,000 is available, then I believe it should agree to the principle of pay-as-you-go.

Effect of Treasury financing on money market: Prior to the period of huge excess reserves, it was always necessary for the Treasury to give consideration to the effect that its financing operations, including collections of revenues on quarterly income tax payment dates, would have on the money market and what steps were necessary to correct any adverse

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effects. The Treasury considered that it was its duty to so arrange its financing as to cause as little disturbance as possible to the market. Now that the Federal Reserve Board has taken definite action which will reduce excess reserves to about five or six hundred million dollars, it becomes important for the Treasury to again consider the effect of its major financing operations on the money market. So that you will be able to see the picture, the following table shows the estimated net amount of funds (after deducting estimated expenditures) that the Treasury will withdraw from the market on its next four income tax dates. The only public debt maturities included for the purpose of this statement are the Treasury bills in the amount of \$300,000,000 maturing March 16, 17 and 18.

(In millions of dollars)

Heavy income tax payment dates	March	June	Sept.	Dec.
8-14	\$ 66	\$ 46	\$ 52	\$ 56
15-20	123	271	223	235
21-23	32	29	23	21
Total:	\$ 221	\$ 346	\$298	\$ 312

The full effect of the Federal Reserve Board's action will not be felt until May first. During March there will still be substantial excess reserves and the withdrawal of \$221,000,000 from the market at that time should not therefore cause any disturbance. In order that the Treasury may be in a position to meet in part any disturbance that may occur, I suggest we permit our investment funds for Postal Savings and Federal Deposit Insurance Corporation to accumulate, which on March 15th should amount to between 50 and 60 million dollars and which can be increased by redeeming special 2% securities. If this does not entirely relieve the pressure I suggest we permit payment by credit in War Loan account of one or more Treasury bill issues.

6.

It is quite obvious that the Treasury can not expect to withdraw excess funds during the months of June, September and December in the net amounts above indicated, with only 500 or 600 million dollars in excess reserves, without disastrous effects on the money market. It seems to me, therefore, that it is important we should have Treasury bill maturities of not less than \$200,000,000 in June. It may be necessary to have maturities of bills also in September and December to meet a similar situation, although these can be discussed later in the year.

Action which the Treasury can take to offset large net withdrawals of cash from money market: The Treasury can by some action of its own meet almost every tight money market situation caused by its withdrawing from the money market more funds than it is putting back into the market. This can be accomplished in one or more of the following ways:

(1) Purchase outstanding Treasury notes or bonds for account of the sinking fund. (Authority now available to purchase up to \$300 million for this account at a price of not to exceed an average of \$101. If price is lower than or exceeds \$101, then the amount available will be correspondingly increased or reduced).

(2) Purchase outstanding Treasury obligations for investment accounts. (About \$45 million now available in cash which can be increased by redeeming special 2% securities amounting to \$200 million).

(3) Pay off maturing Treasury bills in cash without any issue of bills, or pay off maturing Treasury bills in cash and permit payment of issuing Treasury bills by credit in War Loan Account.

(4) Provide beforehand for Treasury bills or other public debt obligations to mature in these heavy income tax payment periods for the specific purpose of offsetting excess receipts.

(5) If there is a Treasury note or bond maturity during these periods of excess receipts, provide for refunding only part of it, paying balance in cash, thus offsetting effect on market of excess receipts. For example, in September there is a Treasury note maturity of \$317 million and there are estimated excess funds coming in of \$298 million. The Secretary would announce in his financing circular that the maturing notes would be accepted in

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exchange for any new issue offered up to only, say, seventy per cent of the amount of such maturing notes. This would leave thirty per cent, or \$245 million, to be paid off in cash. Such an operation as this would have to be handled with care as the maturing notes to be paid off in cash might come in faster than the excess receipts, in which case it might result in an overdraft at the Federal Reserve Banks. We could operate this in conjunction with (a) and (b) below.

(a) Deposit inactive gold with Federal Reserve Banks for a period of not to exceed seven days to cover overdraft, at the end of which the operations could be reversed. The amount deposited might be returned to the Treasury from day to day as the receipts come in. These temporary deposits would have no appreciable effect on the market.

(b) Sell through the Federal Reserve Banks as our fiscal agents, one to seven day certificates of indebtedness to large banks in money centers, redeeming the certificates as the excess receipts come in. Prior to the Banking Act of 1935, it was customary for the Treasury to run overdrafts at Federal Reserve Banks during the tax-payment periods, giving them a one-day certificate for the amount of such overdraft, the Federal Reserve Banks in turn selling to local banks participating certificates in our one-day obligation. Each day these certificates were redeemed and others issued in smaller aggregate amounts until finally wiped out by revenue receipts.

(c) Redeposit some of the income tax receipts in War Loan accounts of special depositories. We have authority to do this, but it is cumbersome unless confined to a relatively few banks.

*HWB*