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February 14th

The President told me that Vincent Astor said that Moley's contract expires in November. Moley has been getting \$25,000 a year and that Vincent Astor seems to be fed up with Moley.

In discussing this tax matter with the President I told him that I felt that Pat Harrison and Doughton might be willing to let the present tax bill stand as is but they wanted to know whether the President would demand new taxes to pay for the new legislation which he sent up and which is not included in the budget. So the President said, "Well supposing, Henry, you and I agreed that the total excess of expenditures outside of the budget would not exceed one hundred million dollars for new legislation and that we would then not ask for any new taxes. You could give that message to Harrison and Doughton". So I said, "Mr. President, before I do that I want to make awfully sure that you can stay within those figures." He said, "That is right. We have already spent 50 million dollars for seed loan". I said, "Let me check it with Dan Bell and go over it with you on Monday because you certainly do not want to have me give them a figure and then have to change it within two weeks".

I said, "How about if our receipts exceeded our estimates? Would you add those to the 100 million or would you subtract them?" He said, "I would tell nobody anything about them and we would just try and save them". I said, "In other words, if our receipts exceeded our estimates by 25 million dollars and you spent an extra 100 million for new legislation the net expenditure would really only be 75 million". He said, "That is right".

I told him that Pat Harrison was willing to wait until after the 15th of March before he did anything on taxes and I told him that Bob Doughton was going right ahead and will introduce a bill to extend for another year all the miscellaneous taxes which expired. I told him that Pat Harrison thought that Doughton should wait and the President said, "No, Doughton is right - he should go right ahead".

I told him about our proposed meeting with Eccles and Landis on Monday and that I was going to try and get through some legislation at once. I do not think he quite grasped the idea because he did not give me time enough, but I got the impression that he liked it. He then said, "How about including in this legislation the right for us to register foreign holdings?" I told him that that was a double-edged sword because we already had an inquiry from France asking us to do this very thing on a reciprocal basis and that if we did it say for the Italians and Germans the chances are the Germans and Italians

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would seize the securities in America of their citizens and, I think, we ought to think twice before we do anything of this kind.

I found the President in a perfectly grand humor. He said, "Is it not a scream the way they are building me up as a Dictator"? I made no comment.

Secretary's notes  
made at Cabinet  
Feb. 12, 1937.

THE WHITE HOUSE  
WASHINGTON

Miscell tax extended  
for more than one year

---

Buchanan in hospital

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Wan Bell list  
of institutions which  
Jones will rate  
motivation -  
Farley  
Cummings

February 12, 1937

The attached material went to the White House today  
by a messenger.

2798  
2-12 6

My dear Jimmie:

I am enclosing a memorandum for the President in accordance with your request of February 9.

Sincerely,

Enclosure.

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

LW:pk

R.W.

swB mml

MEMORANDUM FOR THE PRESIDENT OF THE PROPOSED HOUSING BILL

I have looked over the confidential print of the new Wagner bill and am sending you the "horseback" opinion you request. You will appreciate that I have had little time to examine the details, and that therefore I have omitted some comments which I might otherwise want to make.

In general the bill provides that the Federal Government shall make loans to public housing agencies and shall then contract to pay itself the interest and principal of the loans; the public housing agencies will construct and manage low-rent housing projects. Put another way this means that the Federal Government will donate the capital cost of the projects but, in order to leave itself a ready in the event of breach of contract, will dole out its subsidy over a period of 60 years. The bill also provides for loans but not grants to limited dividend corporations and for direct Federal construction of projects.

The money for grants is to be obtained by appropriation. It is provided that the proposed Housing Authority may enter each year into contracts of grant which provide for annual contributions of \$10,000,000 a year for 60 years. Congress is therefore making now an appropriation in perpetuity - \$10,000,000 this year; \$20,000,000 next year and so on until in 1998 it reaches a potential sum of \$600,000,000 per year. I think it would be better if the Authority were required to come to Congress each year for permission to enter into NEW contracts.

The money for loans is to be obtained by the sale of Housing Authority bonds guaranteed, principal and interest, by the U. S. I feel very strongly that this is the wrong procedure. The Treasury should be authorized to advance funds to the Authority for lending purposes; it would then be at liberty to find the money in whatever manner conformed to its current financial plan. The present program calls for loans of one billion dollars over the next four years; apart from the amount, which seems to me rather high, I should prefer a method permitting Congress to pass annually on the estimates. If, however, continuing appropriations are decided on, I should prefer the financing provisions to follow section 3 (b) of the Rural Electrification Act of 1936 (copy attached) which authorizes an appropriation for each year of the corporation's life.

For the rest I offer the following comments:

(1) I should like to see the management of the plan entrusted to the proposed Department of Public Works instead of to a corporation. This would keep

the whole program under the scrutiny and control of Congress and the Executive.

(2) I think the revolving fund provided in section 18 should be eliminated. The principle should be rigorously observed that no money should be available to an Executive agency without specific appropriation by Congress.

(3) I question the policy of limiting to limited dividend corporations. They could hardly bring their rents down low enough to meet the purposes of the bill.

(4) It seems to me that in studying this subject careful consideration should also be given to the following points:

- (a) The effect on the private building program. Statistics compiled by the F.H.A. indicate that 400,000 to 450,000 dwelling units will be built during the calendar year, 1937, an increase of at least 50 per cent over 1936. A continued revival of building will produce serious competition for labor between the government and private industry.
- (b) The effect on bonds of the Home Owner's Loan Corporation. Any substantial movement of families from homes mortgaged by the H.O.L.C. to low-rent housing projects will require the U. S. to make good on its guarantee of principal and interest.
- (c) The effect on the debentures of the Mutual Mortgage Insurance Fund. If families move from homes insured by the F.H.A. to low-rent housing projects the U. S. will likewise have to make good on its guarantee.

These are my "horseback" thoughts. If, in the circumstances, you wish to have a housing bill at this session of Congress and if you desire the Treasury to give detailed advice, Bell and I will be glad to sit down with Senator Wagner and try to work out as sound a financial plan as possible.

## NEED FOR SUBSIDIES

I. WHAT THE POOR FAMILY IN AMERICA CAN AFFORD TO SPEND  
FOR RENT (BASIS: 5-1/2 ROOMS FOR THE AVERAGE FAMILY)

<u>Number of Families</u>	<u>Annual Family Income</u>	<u>Rent Per Month Per Room (At Top of Class)</u>
<u>1929</u>	<u>1929</u>	
6,000,000 (21% of total)	Less than \$1,000.	\$5.00
10,000,000 (35% of total)	Less than \$1,250.	\$6.00
12,000,000 (42% of total)	Less than \$1,500.	\$7.50
<u>1936</u>	<u>1936</u>	
18,000,000 (60% of total)	Less than \$1,000.	\$5.00

II. PRESENT COST OF DECENT SAFE AND SANITARY DWELLINGS.

<u>Type and Location of Housing</u>	<u>Rent Per Month Per Room</u>
Completed project of F. H. A.	\$ 12.50
Average limited dividend housing in large cities	11.00
Best results yet obtained through private housing in large cities	9.50
Best results obtained through private housing in smaller cities and suburban areas	7.50

III. RESULTS OBTAINABLE THROUGH ANNUAL CONTRIBUTIONS  
 COVERING PORTION OF INTEREST CHARGES ON PUBLIC  
 AND PRIVATE LOANS.

(Assuming a capital cost of from \$1,000 to \$1,500 per room or \$3,500 to \$5,250 per family dwelling - \$1,500 per room and \$5,250 per family dwelling would be the average in large cities - and allowing for maintenance, operation, insurance, reserves and vacancies, but making no allowance for taxes). Sixty Year amortization period.

Net Interest Rate on Public and Private loans after deducting Annual Contribution.	Rent Per Month Per Room \$1,000 Capital Cost	Rent Per Month Per Room \$1,300 Capital Cost	Rent Per Month Per Room \$1,500 Capital Cost
	5%	\$8.96	\$ 10.35
4%	8.20	9.37	10.18
3%	7.49	8.44	9.08
2%	6.85	7.61	8.11
1%	6.28	6.86	7.25
S.O.	5.79	6.23	6.52

IV. RESULTS OBTAINABLE THROUGH ANNUAL CONTRIBUTIONS  
 (AS ABOVE) PLUS CAPITAL GRANT (IN FORM OF RELIEF  
 LABOR OR OTHERWISE) OF THIRTY PERCENT.

Net Interest Rate on Public and Private Loans after Deducting Annual Contribution, with 50% Grant.	Rent Per Month Per Room \$1,000 Capital Cost	Rent Per Month Per Room \$1,250 Capital Cost	Rent Per Month Per Room \$1,500 Capital Cost
5%	\$ 7.57	\$8.38	\$ 9.19
4%	7.04	7.72	8.40
3%	6.54	7.10	7.65
2%	6.09	6.55	6.97
1%	5.69	6.05	6.37
S.O.	5.35	5.60	5.86

## PROPOSED FOUR YEAR PROGRAM FOR LOW-RENT-HOUSING.

Fiscal Year	Family Dwelling Units Constructed	Total Capital Cost (At \$4,000 per family Unit)	Non-Federal Loans (Estimated)	Federal Loans Authorized	Annual Contributions through Federal Appropriations.
1938	50,000	\$200,000,000	0	\$200,000,000	0
1939	75,000	300,000,000	\$ 50,000,000	250,000,000	\$ 6,250,000
1940	100,000	400,000,000	150,000,000	250,000,000	15,625,000
1941	150,000	600,000,000	300,000,000	300,000,000	28,125,000
	375,000	1,500,000,000	\$500,000,000	\$1,000,000,000	\$ 50,000,000

The features of the above program are as follows:

(a) Gradual and planned program. The rate of building is accelerated by degrees, rising from 50,000 family units next year to 150,000 in 1941.

(b) Federal participation through loans, in relation to the total volume of the program, is gradually scaled down. It is recognized that the states and localities are not immediately able to float loans for housing. But such local loans are expected to finance a large portion of the housing program once it is gotten under way. The impetus in this direction is created by the fact that the federal loans as authorized constitute 100 percent of the total program contemplated for the first year, 83-1/3 percent for the second year,

82-1/2 percent for the third year, and only 50 percent for the fourth year. Over the whole four year program, one-third of the loans necessary for the full development of the program would have to be raised by the states and localities. But this is accomplished by limiting the Federal loans and by providing incentives to local loans, not by requiring local loans; for the latter course might hold up the program entirely.

(c) Federal loans safeguarded. The bill provides that federal loans for low-rent housing shall be adequately secured as first liens upon the property, and shall bear at least the going federal rate of interest. In low-rent-housing projects, which are almost always filled to capacity, and which have the benefits of subsidy, full repayment of practically all loans is justifiably to be anticipated. The money for the Federal loans is to be raised by a bond issue by the Federal Authority, to be guaranteed as to principal and interest by the United States. The bill provides that the money raised through this bond issue shall be used only for secured loans, and not for grants. Thus the financial position of the Federal Government is kept intact and unthreatened.

(d) Federal grants held to minimum. The bill provides no capital grants whatsoever. It contemplates a fixed annual contribution contracted for in advance, and provided for by annual appropriations on a pay as you go basis. Thus each generation will bear the cost of its own assistance to low-rent-housing. This form of aid keeps Federal appropriations very low. No contributions would be required for 1938. Only \$6,250,000 would be required for 1939, and only \$28,125,000 annually would be required when the \$1,500,000,000 housing program is in full swing. A \$50,000,000 appropriation would cover the whole program for the first four years. In summation, the total annual cost to the United States would be less than the annual amount spent by the City of New York alone for rent relief.

[CONFIDENTIAL COMMITTEE PRINT]

FEBRUARY 5, 1937

75TH CONGRESS  
1ST SESSION

S.

IN THE SENATE OF THE UNITED STATES

FEBRUARY —, 1937

Mr. WAGNER introduced the following bill; which was read twice and referred to the Committee on Education and Labor

A BILL

To provide financial assistance to the States and political subdivisions thereof for the elimination of unsafe and insanitary housing conditions, for the provision of decent, safe, and sanitary dwellings for families of low income, and for the reduction of unemployment and the stimulation of business activity, to create a United States Housing Authority, and for other purposes.

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

FINDINGS AND POLICY

4 SECTION 1. There exist in urban and rural communi-  
5 ties throughout the United States slums, blighted areas, or  
6 unsafe, insanitary, or overcrowded dwellings, or a combina-  
7 tion of these conditions, accompanied and aggravated by an

1 acute shortage of decent, safe, and sanitary dwellings within  
2 the financial reach of families of low income.

3 These conditions are inimical to the general welfare of  
4 the Nation by (a) encouraging the spread of disease and  
5 lowering the level of health, morale, and vitality of large  
6 portions of the American people; (b) increasing the hazards  
7 of fires, accidents, and natural calamities; (c) subjecting the  
8 moral standards of the young to bad influences; (d) increas-  
9 ing the violation of the criminal laws of the United States  
10 and of the several States; (e) impairing industrial and agri-  
11 cultural productive efficiency; (f) lowering the standards of  
12 living of large portions of the American people; (g) neces-  
13 sitating a vast and extraordinary expenditure of public funds,  
14 Federal, State, and local, for crime prevention, punishment,  
15 and correction, fire prevention, public-health service, and  
16 relief.

17 The failure to remedy the acute dwelling shortage has  
18 also produced stagnation of business activity in the con-  
19 struction, durable goods, and allied industries, thus impeding  
20 business activity throughout the Nation and resulting in  
21 widespread, prolonged, and recurring unemployment with its  
22 injurious effects upon the general welfare of the Nation.

23 Private industry alone has been and now is unable to  
24 overcome the obstacles in the way of relieving the shortage  
25 of decent, safe, and sanitary dwellings for families of low

1 income, or to prevent the widespread, prolonged, and recur-  
2 ring unemployment resulting from the persistence of such  
3 obstacles, and the several States and their political subdivi-  
4 sions have been and now are unable adequately to aid in  
5 remedying this condition without financial assistance. The  
6 legislatures of many of the States have expressly declared the  
7 need for assistance along the lines set forth in this Act in  
8 order to remedy the aforesaid conditions.

9 It is hereby declared to be the policy of the United  
10 States to promote the general welfare of the Nation by em-  
11 ploying its funds and credit, as provided in this Act, to assist  
12 the several States and their political subdivisions to alleviate  
13 present and recurring unemployment and to remedy the  
14 unsafe and insanitary housing conditions and the acute short-  
15 age of decent, safe, and sanitary dwellings for families of low  
16 income that are injurious to the health, safety, and morals  
17 of the citizens of the Nation.

#### 18 DEFINITIONS

19 SEC. 2. When used in this Act—

20 (1) The term "low-rent housing" means decent, safe,  
21 and sanitary dwellings within the financial reach of families  
22 of low income, and developed and administered to promote  
23 serviceability, efficiency, economy, and stability, and em-  
24 braces all necessary or desirable appurtenances thereto, in-  
25 cluding administrative, educational, recreational, commercial,

1 and other lands, buildings, and facilities. Low-rent housing  
 2 as defined in this Act shall be available solely for any family  
 3 whose net income does not exceed six times the rental (in-  
 4 cluding the cost or value of heat, light, water, and cooking  
 5 fuel) of the quarters to be furnished such family.

6 (2) The term "families of low income" means families  
 7 who cannot afford to pay enough to induce private enter-  
 8 prise in their locality or metropolitan area to build an ade-  
 9 quate supply of decent, safe, and sanitary dwellings for  
 10 their use.

11 (3) The term "slum" means any area where dwellings  
 12 predominate which, by reason of dilapidation, overcrowding,  
 13 faulty arrangement or design, lack of ventilation, light, or  
 14 sanitation facilities, or any combination of these factors are  
 15 detrimental to safety, health, or morals.

16 (4) The term "slum clearance" means the demolition  
 17 and removal of buildings from any slum area, and may  
 18 embrace the adaptation of such area to public purposes,  
 19 including parks or other recreational or community facilities.

20 (5) The term "development" means any or all under-  
 21 takings necessary for planning, financing (including payment  
 22 of carrying charges), land acquisition, demolition, and con-  
 23 struction and equipment activity not beyond the point of  
 24 completion. Construction activity in connection with a low-  
 25 rent-housing project may be confined to the reconstruction,

1 remodeling, or repair of existing buildings. The develop-  
 2 ment of a low-rent-housing project may include slum clear-  
 3 ance. The development of a slum-clearance project may be  
 4 confined to demolition and removal.

5 (6) The term "administration" means all undertakings  
 6 necessary for management, operation, and maintenance.

7 (7) The term "demonstration project" means any  
 8 project owned or administered by the Authority, whether  
 9 or not developed pursuant to section 11.

10 (8) The term "acquisition cost" means the acquisition  
 11 cost to the Authority or to a housing agency, as the case  
 12 may be. ✓

13 (9) The term "going Federal rate of interest" means,  
 14 at any time, the annual rate of interest specified in the then ✓  
 15 most recently issued bonds of the Federal Government having  
 16 a term of ten years or more.

17 (10) The term "public housing agency" means any  
 18 State, county, municipality, or other governmental entity  
 19 or public body (excluding the Authority), which is author-  
 20 ized to engage in the development or administration of low-  
 21 rent housing or slum clearance.

22 (11) The term "consumers' housing society" means  
 23 any association, cooperative, or corporate body organized  
 24 solely to promote and administer low-rent housing, whose  
 25 members are persons of low income in need of such housing,

1 whose officers and directors are the freely chosen representa-  
 2 tives of such members, which is operated, without possibil-  
 3 ity of direct or indirect financial profit, and which submits  
 4 its records to the inspection of the Authority to the extent  
 5 necessary to carry out the provisions of this Act.

6 (12) The term "limited-profit housing agency" means  
 7 any association, cooperative, limited-dividend corporation,  
 8 or other corporate body organized to develop or administer  
 9 low-rent-housing projects, whose dividend rates, if any, capi-  
 10 tal structure, interest payments, and rental charges are  
 11 regulated or limited by law or subject to the supervision  
 12 and control of the Authority and which submits its records  
 13 to the inspection of the Authority to the extent necessary  
 14 to carry out the provisions of this Act.

15 (13) The term "housing agency" means any public  
 16 housing agency, consumer housing society, or limited-profit  
 17 housing agency.

18 (14) The term "State" includes the States of the  
 19 Union, the District of Columbia, and the Territories, de-  
 20 pendencies, and possessions of the United States.

21 (15) The term "Authority" means the United States  
 22 Housing Authority created by section 3 of this Act.

23 UNITED STATES HOUSING AUTHORITY

24 SEC. 3. (a) There is hereby created a body corporate  
 25 of perpetual duration to be known as the United States

1 Housing Authority, which shall be an agency and instru-  
 2 mentality of the United States.

3 (b) The management of the Authority shall be vested  
 4 in a board of directors (hereinafter referred to as the board)  
 5 composed of five members appointed by the President, by  
 6 and with the advice and consent of the Senate, and removable  
 7 by the President upon notice and hearing for neglect of duty  
 8 or malfeasance in office, but for no other cause. One of the  
 9 five original members shall serve for a term of one year, one  
 10 for a term of two years, one for a term of three years, one for  
 11 a term of four years, and one for a term of five years, but  
 12 their successors shall be appointed for terms of five years  
 13 each, except that any individual chosen to fill a vacancy  
 14 shall be appointed only for the unexpired term of the  
 15 member whom he shall succeed. The President shall desig-  
 16 nate one member to serve as chairman and executive officer  
 17 of the board.

18 (c) A vacancy in the board shall not impair the right  
 19 of the remaining members to exercise all the powers of the  
 20 board, and three members of the board shall at all times  
 21 constitute a quorum.

22 SEC. 4. (a) Each member of the board shall receive a  
 23 salary of \$10,000 a year, shall be eligible for reappointment,  
 24 and shall not engage in any other business, vocation, or em-  
 25 ployment. No officer or employee of the Authority shall

1 participate in any manner in the deliberation upon or the  
2 determination of any question affecting his personal interests  
3 or the interests of any corporation, partnership, or association  
4 in which he is directly or indirectly interested.

5 (b) The Authority is authorized, subject to the civil-  
6 service laws and the Classification Act of 1923, as amended,  
7 to appoint and fix the compensation of such employees as may  
8 be necessary for the proper performance of its duties under  
9 this Act; except that the Authority may, without regard to  
10 the civil-service laws, employ such officers, attorneys, and  
11 experts and hire such skilled and unskilled labor as may be  
12 necessary for such purposes.

13 (c) The Authority may accept and utilize such volun-  
14 tary and uncompensated services and with the consent of the  
15 agency concerned may utilize such officers, employees, equip-  
16 ment, and information of any agency of the Federal, State,  
17 or local governments as it finds helpful in the performance of  
18 its duties. In connection with the utilization of such serv-  
19 ices, the Authority may make reasonable payments for nec-  
20 essary traveling and other expenses.

21 (d) The President may at any time in his discretion  
22 transfer to the Authority any agency, bureau, division, or  
23 other unit of any department or agency of the Federal  
24 Government that is engaged in low-rent-housing or slum-  
25 clearance activities, including all its assets, equipment,

1 records, and employees, and the Authority may continue  
2 such activities, and shall succeed to the powers of such  
3 agency, bureau, division or other unit, subject to the pro-  
4 visions of this Act. The President may likewise transfer  
5 to the Authority any housing or slum-clearance projects  
6 undertaken by any department or agency of the Federal  
7 Government, including all contracts and other property held  
8 in connection with such projects, and any unexpended  
9 balance of funds allocated to such department or agency  
10 for such projects; and the Authority may continue such  
11 projects. In the event of any transfer pursuant to this  
12 paragraph, the employees of the agency, bureau, division,  
13 or other unit so transferred shall thereupon be subject to the  
14 Classification Act of 1923, as amended. No employee shall  
15 acquire by any such transfer a permanent or civil-service  
16 status, but within ninety days after such transfer the  
17 Authority may certify to the Civil Service Commission  
18 the names of such transferred employees as it desires to  
19 retain and as are required to be under the civil-service laws  
20 by the provisions of section 4 (b) of this Act. Upon such  
21 certification, said Commission shall provide for the inclusion  
22 within the civil service of all such transferred and certified  
23 employees who pass a noncompetitive examination given by  
24 the Commission.

1       Sec. 5. (a) The principal office of the Authority shall  
2 be in the District of Columbia, but it may establish branch  
3 offices or agencies in any State, and it may meet and exercise  
4 any of its powers at any place within the United States.  
5 The Authority may, by one or more of its officers or em-  
6 ployees or by such agents or agencies as it may designate,  
7 conduct hearings or negotiations at any place.

8       (b) The Authority shall sue and be sued in its own  
9 name, and all suits shall be brought in the Federal courts  
10 except where the Authority consents specifically to a dif-  
11 ferent forum. Attorneys appointed by the Authority may,  
12 at the direction of the Authority, appear for and represent  
13 the Authority in any case in court.

14       (c) The Authority shall have an official seal, which  
15 shall be judicially noticed.

16       (d) The Authority shall be granted the free use of the  
17 mails in the same manner as the executive departments of  
18 the Government.

19       (e) The Authority, including but not limited to its  
20 franchise, capital, reserves, surplus, loans, income, assets,  
21 and property of any kind, shall be exempt from all taxation  
22 now or hereafter imposed by the United States or by any  
23 State, county, municipality, or local taxing authority.

24       Sec. 6. (a) The Authority may make such expend-  
25 itures for the acquisition and maintenance of adequate

1 administrative agencies, offices, vehicles, furnishings, equip-  
2 ment, supplies, and books, for attendance at meetings, for  
3 instruction, for traveling expenses, and for such other  
4 facilities and services as it may from time to time find neces-  
5 sary for the proper administration of this Act. The Au-  
6 thority shall determine and prescribe the manner in which  
7 its obligations and expenses shall be incurred, allowed, and  
8 paid, and the manner in which accounts shall be audited.  
9 Vouchers approved by the Authority for expenditures of  
10 its funds shall be final and conclusive upon all officers of  
11 the Government; except that all financial transactions of the  
12 Authority shall be examined by the General Accounting  
13 Office at such times and in such manner as the Comptroller  
14 General of the United States may by regulation prescribe.  
15 Such examination shall be for the sole purpose of making a  
16 report to the Congress and to the Authority of expenditures  
17 in violation of law, together with such recommendations  
18 thereon as the Comptroller General deems advisable.

19       (b) The provisions of section 3709 of the Revised  
20 Statutes (U. S. C., title 41, sec. 5) shall apply to all con-  
21 tracts of the Authority for services and to all of its purchases  
22 of supplies except when the aggregate amount involved is  
23 less than \$300.

24       (c) The use of funds made available for the purposes of  
25 this Act shall be subject to the provisions of section 2 of

1 title 3 of the Treasury and Post Office Appropriation Act  
 2 for the fiscal year 1934 (47 Stat. 1489), and to make  
 3 such provisions effective every contract or agreement of any  
 4 kind pursuant to this Act shall contain a provision identical  
 5 to the one prescribed in section 3 of title 3 of such Act.

6 SEC. 7. (a) The Authority may engage in research,  
 7 studies, surveys, experimentation, and experimental construc-  
 8 tion and may publish and disseminate information pertinent  
 9 to the various aspects of housing.

10 (b) In January of each year the Authority shall make  
 11 an annual report to Congress of its operations, including  
 12 loans and grants made or contracted for, low-rent-housing  
 13 and slum-clearance projects undertaken, and the assets and  
 14 liabilities of the Authority. Such report shall include oper-  
 15 ating statements of all projects under the jurisdiction of or  
 16 receiving the assistance of the Authority, including sum-  
 17 maries of the incomes of occupants, sizes of families, rentals,  
 18 and other related information.

19 SEC. 8. The Authority may from time to time make,  
 20 amend, and rescind such rules and regulations as may be  
 21 necessary to carry out the provisions of this Act.

22 ASSISTANCE TO LOCAL LOW-RENT-HOUSING AND SLUM-  
 23 CLEARANCE PROJECTS

24 SEC. 9. (a) The Authority may make grants and loans  
 25 to public-housing agencies to assist the development, ac-

1 quisition, or administration of low-rent-housing projects by  
 2 such agencies.

3 (b) The grant for any such project shall be paid in  
 4 the form of fixed and uniform annual contributions, over a  
 5 fixed period not exceeding sixty years. The Authority shall  
 6 embody the provisions for such grant in a contract of grant  
 7 guaranteeing such fixed and uniform annual contributions  
 8 over such fixed period. Such annual contributions shall be  
 9 contracted for <sup>in</sup> the amounts and for the period necessary,  
 10 in the determination of the Authority, to assure the low-rent  
 11 character of the housing project involved: *Provided*, That the  
 12 fixed contribution payable annually under any such contract  
 13 of grant shall not exceed a sum equal to 1 per centum plus  
 14 the going Federal rate of interest (at the time such contract  
 15 of grant is made) upon the development or acquisition cost  
 16 of such project.

17 (c) All payments of annual contributions pursuant  
 18 to this section shall be made out of any funds available to  
 19 the Authority when such payments are due, except that  
 20 its capital and its funds obtained through the issuance of  
 21 obligations pursuant to section 20 (including repayments  
 22 of the principal of loans made out of such capital and funds)  
 23 shall not be available for the payment of such annual  
 24 contributions.

(d) In any one fiscal year the Authority shall not enter into contracts of grant which provide for annual contributions aggregating more than \$10,000,000 per year exclusive of any annual contributions payable under contracts of grant made by it in prior fiscal years. The faith of the United States is solemnly pledged to the payment of all annual contributions contracted for pursuant to this section, and there is hereby authorized to be appropriated in each fiscal year, out of any money in the Treasury not otherwise appropriated, the amounts necessary to provide for such payments.

(e) The loans for any low-rent-housing project pursuant to this section shall bear interest at such rate not less than the going Federal rate at the time the loan is made, be secured in such manner, and be repaid within such period, not exceeding sixty years, as may be deemed advisable by the Authority. The total of such loans outstanding for any such project shall not exceed the development or acquisition cost of such project, less the total amounts outstanding on loans made by third parties, senior to the loans of the Authority, and secured by such project.

SEC. 10. The Authority may make loans to limited-profit housing agencies to assist the development or acquisition of low-rent-housing projects: *Provided*, That not more than \$25,000,000 shall be so loaned in any one fiscal year.

Such loans shall bear interest at such rate not less than the going Federal rate at the time the loan is made, be secured in such manner, and be repaid within such period, not exceeding sixty years, as may be deemed advisable by the Authority. The total of such loans outstanding for any such project shall not exceed 85 per centum of the development or acquisition cost of such project, less the total amounts outstanding on loans made by third parties, senior to the loans of the Authority, and secured by such project.

#### DEMONSTRATION PROJECTS

SEC. 11. (a) The Authority may develop and administer low-rent-housing and slum-clearance demonstration projects in order to demonstrate to localities the benefits to be derived therefrom. No such demonstration project shall be commenced in any locality without the consent of either the local governing body or a public housing agency covering the locality.

(b) As soon as practicable the Authority shall sell its demonstration projects or divest itself of their management through leases.

(c) The Authority may sell a low-rent-housing demonstration project only to a public housing agency. Any such sale shall be for a consideration, in whatever form may be satisfactory to the Authority, equal at least to the amount which the Authority determines to be the fair value of the

1 project for housing purposes, less such allowance for depre-  
 2 ciation as the Authority shall fix. Such project shall then  
 3 become eligible for a grant and loans pursuant to section 9.  
 4 Any obligation of the purchase accepted by the Authority  
 5 as part of the consideration for the sale of such project shall  
 6 be deemed a loan pursuant to section 9.

7 (d) The Authority may lease any low-rent-housing  
 8 demonstration project in whole or in part to a public housing  
 9 agency or a consumers' housing society: *Provided, That*  
 10 the tenant eligibility for a project leased to a consumers'  
 11 housing society shall not be limited to the members of such  
 12 society. The provisions of section 321 of the Act of June  
 13 30, 1932 (U. S. C., Supp. VIII, title 40, sec. 303 (b)),  
 14 shall not apply to any such lease. The lessee of any such  
 15 project shall assume and pay all management, operation, and  
 16 maintenance costs, together with payments, if any, in lieu  
 17 of taxes, and shall pay to the Authority such annual sums  
 18 as the Authority shall determine are consistent with main-  
 19 taining the low-rent character of such project.

20 (e) In the administration of any low-rent-housing  
 21 project pending sale or lease, the Authority shall fix the  
 22 rentals at the amounts necessary to pay all management,  
 23 operation, and maintenance costs, together with payments,  
 24 if any, in lieu of taxes, plus such additional amounts as the  
 25 Authority shall determine are consistent with maintaining  
 26 the low-rent character of such project.

GENERAL POWERS OF THE AUTHORITY

1 SEC. 12. (a) In connection with the development or  
 2 administration of any low-rent-housing or slum-clearance  
 3 project pursuant to this section, the Authority may acquire  
 4 real or personal property or any interest therein by purchase,  
 5 eminent domain, gift, devise, lease, or otherwise. In the  
 6 acquisition of any land or site the provisions of section 355  
 7 of the Revised Statutes, as amended, shall not apply, but the  
 8 Authority may avail itself of the services of the Attorney  
 9 General acting in accord with his powers under such section  
 10 to procure information relating to the state of title. The  
 11 Attorney General shall, upon the application of the Au-  
 12 thority, institute condemnation proceedings in its name.  
 13 The practice and procedure governing such proceedings by  
 14 the United States shall be followed, and the Authority shall  
 15 likewise be entitled to proceed in accordance with the pro-  
 16 visions of an Act of Congress approved February 26, 1931  
 17 (46 Stat. 1421), and an Act of Congress approved March  
 18 1, 1929 (45 Stat. 1415). The Authority may enter into  
 19 agreements to reimburse any State or political subdivision  
 20 thereof, or any housing agency, for expenses incurred in the  
 21 acquisition, by condemnation or otherwise, of property to  
 22 be conveyed to the Authority for the development of a low-  
 23 rent-housing or slum-clearance project.

1 (b) The Authority may foreclose on any property or  
 2 commence any action to protect or enforce any right conferred  
 3 upon it by any law, contract, or other agreement. The  
 4 Authority may bid for and purchase at any foreclosure by any  
 5 party or at any other sale or otherwise acquire any low-rent-  
 6 housing project which it previously owned or in connection  
 7 with which it has made a loan or grant pursuant to section 9  
 8 or a loan pursuant to section 10.

9 (c) The acquisition by the Authority of any real prop-  
 10 erty pursuant to this Act shall not deprive any State or politi-  
 11 cal subdivision thereof of its civil and criminal jurisdiction  
 12 in and over such property or impair the civil rights under  
 13 the State or local law of the inhabitants on such property;  
 14 and, insofar as any such jurisdiction may have been taken  
 15 away or any such rights impaired by reason of the acquisition  
 16 of any property transferred to the Authority pursuant to  
 17 section 4 (d), such jurisdiction and such rights are hereby  
 18 fully restored.

19 (d) The Authority may enter into agreements to pay  
 20 annual sums in lieu of taxes to any State or political sub-  
 21 division thereof with respect to any real property owned by  
 22 the Authority. The amount so paid for any year upon any  
 23 such property shall not exceed the taxes that would be paid  
 24 to the State or subdivision, as the case may be, upon such  
 25 property if it were not exempt from taxation thereby.

1 (e) The Authority may procure insurance against any  
 2 loss in connection with its property and other assets (includ-  
 3 ing mortgages), in such amounts, and from such insurers,  
 4 as it deems desirable.

5 (f) The Authority may dedicate land for parks, play-  
 6 grounds, and other recreational facilities; for sewers, for the  
 7 opening or widening of streets; for incidental improvements,  
 8 or for any other public purpose, and may grant licenses  
 9 and easements upon such terms as it deems reasonable.

10 (g) The Authority may sell or exchange at public or  
 11 private sale, or lease, any real property (except low-rent-  
 12 housing projects, the disposition of which is governed else-  
 13 where in this Act) or personal property, and sell or  
 14 exchange any securities or obligations the retention of which  
 15 is not desirable in performing its functions under this Act,  
 16 upon such terms as it may fix. To facilitate the sale of  
 17 such securities or obligations any other securities or obliga-  
 18 tions retained by the Authority may be subordinated to  
 19 those sold.

20 SEC. 13. Subject to the specific limitations or standards  
 21 in this Act governing the terms of sales, rentals, leases,  
 22 loans, grants, annual contributions, or agreements, the  
 23 Authority may, whenever it deems it necessary or desirable  
 24 in the fulfillment of the purposes of this Act, consent to the  
 25 modification, with respect to rate of interest, time of pay-

1 ment of any installment of principal or interest, security,  
2 amount of annual contribution, or any other term, of any  
3 contract or agreement of any kind to which the Authority  
4 is a party or which has been transferred to its pursuant to  
5 this Act. Any rule of law contrary to this provision shall be  
6 deemed inapplicable.

#### 7 STANDARDS

8 Sec. 14. In making any loan or contract of grant for  
9 the development or acquisition of a project pursuant to sec-  
10 tion 9, or any loan for the development or acquisition of a  
11 project pursuant to section 10, and in undertaking any  
12 demonstration project pursuant to section 11, the Authority  
13 shall be guided by these considerations:

14 (1) In the case of a low-rent-housing project, that there  
15 exists in the locality or metropolitan area concerned a short-  
16 age of decent, safe, and sanitary dwellings within the finan-  
17 cial reach of families of low income which is not being  
18 remedied adequately by private enterprise;

19 (2) In the case of a slum-clearance project, or a low-  
20 rent-housing project which includes slum clearance that the  
21 dispossessed inhabitants will be provided for by the develop-  
22 ment of sufficient low-rent housing, within their financial  
23 reach, either upon the site to be cleared or in some other  
24 suitable locality, unless the clearance of the area will not  
25 make it difficult for the inhabitants thereof to secure equiva-  
26 lent dwellings elsewhere at no higher cost to them;

1 (3) That the project conforms to a general program  
2 formulated by the Authority to distribute the benefits of  
3 this Act as widely as practicable throughout the United  
4 States, consistent with the needs of the several States and  
5 their political subdivisions;

6 (4) That the form of assistance to the project is an  
7 appropriate means of carrying out the purposes of this Act  
8 in the particular case, and that the amount of financial  
9 assistance to be afforded such project by the Authority  
10 will not be in excess of the amount necessary for such  
11 purposes;

12 (5) That the site on which the project is or shall be  
13 developed has been selected primarily for its present and  
14 continued suitability for its intended use; that its location  
15 and planning are consistent with a logical development of  
16 land uses in the locality or metropolitan area concerned; and  
17 that it has been or will be purchased for a reasonable price;

18 (6) The assistance, if any (in the form of partial financ-  
19 ing, annual grants, land in whole or in part, partial or com-  
20 plete remission of taxes), given to the project by the State or  
21 political subdivision in which it is located;

22 (7) That the advice has been sought, where available,  
23 of such planning commission or board (created under charter,  
24 statute, or ordinance) as may exist in the locality of the  
25 project.

1     Sec. 15. In order to insure that the low-rent character  
 2 of housing projects will be preserved, and thus to protect  
 3 private industry from the competition that would exist either  
 4 if such projects were made available to families able to  
 5 afford decent, safe, and sanitary dwellings without public  
 6 assistance, or if such projects were withdrawn from the  
 7 financial reach of families of low income, it is hereby pro-  
 8 vided that—

9     (1) When a loan is made pursuant to section 9 or  
 10 section 10, the Authority shall retain the right, in the event  
 11 of a substantial breach of the covenant (which shall be em-  
 12 bodied in the loan agreement) to maintain the low-rent  
 13 character of the housing project involved or in the event  
 14 of the acquisition of such project by a third party in any  
 15 manner including a bona-fide foreclosure under a mortgage  
 16 or other lien held by a third party, to increase the interest  
 17 payable thereafter on the balance of said loan then held  
 18 by the Authority to a rate not in excess of the going Federal  
 19 rate (at the time of such breach) plus 2 per centum per  
 20 annum or to declare the unpaid principal on said loan due  
 21 forthwith.

22     (2) When a contract of grant is made pursuant to sec-  
 23 tion 9, the Authority shall retain the right, in the event  
 24 of a substantial breach of the covenant (which shall be  
 25 embodied in such contract of grant) to maintain the low-

1 rent character of the housing project involved, to reduce  
 2 or terminate the annual contributions payable under such  
 3 contract of grant. In the event of the acquisition of such  
 4 project by a third party in any manner including a bona-  
 5 fide foreclosure under a mortgage or other lien held by a  
 6 third party, such annual contributions shall terminate.

7     (3) When a lease of a low-rent-housing project is made  
 8 pursuant to section 11, the Authority shall retain the right  
 9 to terminate such lease in the event of a substantial breach  
 10 of the covenant (which shall be embodied in such lease) to  
 11 maintain the low-rent character of such housing project.

12     (4) The Authority may also insert in any contract of  
 13 loan or grant, lease, mortgage, or any other agreement or  
 14 instrument made pursuant to this Act, such other covenants,  
 15 conditions, or provisions as it may deem necessary in order  
 16 to insure the low-rent character of the housing project  
 17 involved.

18     Sec. 16. In order to protect labor standards—

19     (1) The provisions of the Act of August 30, 1935,  
 20 entitled "An Act to amend the Act approved March 3, 1931,  
 21 relating to the rate of wages for laborers and mechanics  
 22 employed by contractors and subcontractors on public build-  
 23 ings" (49 Stat. 1011), and of the Act of August 24, 1935,  
 24 entitled "An Act requiring contracts for the construction,  
 25 alteration, and repair of any public building or public work

1 of the United States to be accompanied by a performance  
 2 bond protecting the United States and by an additional bond  
 3 for the protection of persons furnishing material and labor  
 4 for the construction, alteration, and repair for the said public  
 5 buildings and public works" (U. S. C., Supp., 1934 edition,  
 6 title 40, sec. 270 (a) to (d), inclusive), shall apply to  
 7 contracts in connection with the development or administra-  
 8 tion of low-rent-housing or slum-clearance projects owned  
 9 by the Authority and the furnishing of materials and labor  
 10 for such projects: *Provided*, That suits shall be brought in  
 11 the name of the Authority and that the Authority shall  
 12 itself perform the duties prescribed by section 3 (a) of the  
 13 Act of August 30, 1935, and section 3 of the Act of August  
 14 24, 1935.

15 (2) Any contract for a loan, grant, sale, or lease pur-  
 16 suant to this Act shall contain a provision requiring that  
 17 the wages prevailing in the locality, as determined or adopted  
 18 (subsequent to a determination under applicable State or  
 19 local law) by the Authority, shall be paid to all laborers  
 20 and mechanics employed in the development or adminis-  
 21 tration of the low-rent-housing or slum-clearance project  
 22 involved; and the Authority may require certification as to  
 23 compliance with the provisions of this paragraph prior to  
 24 making any payment under such contract.

1 (3) The Act entitled "An Act limiting the hours of  
 2 daily services of laborers and mechanics employed upon work  
 3 done for the United States, or for any Territory, or for the  
 4 District of Columbia, and for other purposes", as amended  
 5 (37 Stat. 137), shall apply to contracts of the Authority  
 6 for work in connection with the development and adminis-  
 7 tration of low-rent-housing or slum-clearance demonstration  
 8 projects.

9 (4) The benefits of the Act entitled "An Act to pro-  
 10 vide compensation for employees of the United States suf-  
 11 fering injuries while in the performance of their duties, and  
 12 for other purposes" (39 Stat. 742), shall extend to officers  
 13 and employees of the Authority.

14 (5) The provisions of sections 1 and 2 of the Act of  
 15 June 13, 1934 (U. S. C., title 40, sec. 276 (b) and (c)),  
 16 shall apply to any low-rent-housing or slum-clearance proj-  
 17 ect financed in whole or in part with funds made available  
 18 pursuant to this Act.

19 (6) Any contractor engaged on any project financed  
 20 in whole or in part with funds made available pursuant to  
 21 this Act shall report monthly, and shall cause all subcon-  
 22 tractors to report in like manner (within five days after the  
 23 close of each calendar month, on forms to be furnished by  
 24 the United States Department of Labor), as to the number  
 25 of persons on their respective pay rolls, the aggregate

1 amount of such pay rolls, the total man-hours worked, and  
 2 itemized expenditures for materials. Any such contractor  
 3 shall furnish to the Department of Labor the names and  
 4 addresses of all subcontractors on the work at the earliest  
 5 date practicable.

6 FINANCIAL PROVISIONS

7 SEC. 17. The Authority shall have a capital stock of  
 8 \$1,000,000, which shall be subscribed by the United States  
 9 and paid by the Secretary of the Treasury out of any avail-  
 10 able funds. Receipt for such payment shall be issued to the  
 11 Secretary of the Treasury by the Authority and shall evi-  
 12 dence the stock ownership of the United States of America.

13 SEC. 18. There is hereby authorized to be appropriated,  
 14 out of any money in the Treasury not otherwise appro-  
 15 priated, the sum of \$51,000,000 for the fiscal year ending  
 16 June 30, 1938, of which \$1,000,000 shall be available to  
 17 pay the subscription to the capital stock of the Authority.  
 18 Such sum, and all receipts and assets of the Authority, shall  
 19 be available for the purposes of this Act until expended.

20 SEC. 19. (a) Any funds available under any Act of  
 21 Congress for allocation for low-rent housing or slum clear-  
 22 ance may, in the discretion of the President, be allocated  
 23 to the Authority for the purposes of this Act.

24 (b) Any unallocated funds now in the hands of the  
 25 Federal Emergency Administration of Public Works, or

1 hereafter received by it, which are derived from the sale of  
 2 securities acquired pursuant to Title 2 of the National  
 3 Industrial Recovery Act or the Emergency Relief Appro-  
 4 priation Act of 1935, may, in the discretion of the President,  
 5 be allocated to the Authority for the purposes of this Act.

6 SEC. 20. (a) The Authority is authorized to issue obli-  
 7 gations, in the form of notes, bonds, or otherwise, which  
 8 it may sell to obtain funds for the purposes of this Act.  
 9 The Authority may issue such obligations in an amount  
 10 not to exceed \$200,000,000 on or after July 1, 1937, an  
 11 additional amount not to exceed \$250,000,000 on or after  
 12 July 1, 1938, an additional amount not to exceed \$250,-  
 13 000,000 on or after July 1, 1939, and an additional amount  
 14 not to exceed \$300,000,000 on or after July 1, 1940.

15 Such obligations shall be in such forms and denomina-  
 16 tions, mature within such periods not exceeding sixty years  
 17 from date of issue, bear such rates of interest not exceeding  
 18 4 per centum per annum, be subject to such terms and  
 19 conditions, and be issued in such manner and sold at such  
 20 prices as may be prescribed by the Authority, with the  
 21 approval of the Secretary of the Treasury.

22 (b) Such obligations shall be exempt, both as to  
 23 principal and interest, from all taxation (except surtaxes,  
 24 estate, inheritance, and gift taxes) now or hereafter imposed

1 by the United States or by any State, county, municipality,  
2 or local taxing authority.

3 (c) Such obligations shall be fully and unconditionally  
4 guaranteed upon their face by the United States as to the  
5 payment of both interest and principal, and in the event that  
6 the Authority shall be unable to make any such payment  
7 upon demand when due payment shall be made to the holder  
8 by the Secretary of the Treasury with money hereby author-  
9 ized to be appropriated for such purpose out of any money  
10 in the Treasury not otherwise appropriated. To the extent  
11 of such payment the Secretary of the Treasury shall succeed  
12 to all the rights of the holder.

13 (d) Such obligations shall be lawful investments and  
14 may be accepted as security for all fiduciary, trust, and public  
15 funds the investment or deposit of which shall be under the  
16 authority or control of the United States or any officer or  
17 agency thereof. The Secretary of the Treasury is likewise  
18 authorized to purchase any such obligations, and for such  
19 purchases he may use as a public-debt transaction the pro-  
20 ceeds from the sale of any securities hereafter issued under  
21 the Second Liberty Bond Act, as amended, and the purposes  
22 for which securities may be issued under such Act, as  
23 amended, are extended to include any such purchases. The  
24 Secretary of the Treasury may at any time sell any of the

1 obligations acquired by him pursuant to this section, and all  
2 redemptions, purchases, and sales by him of such obligations  
3 shall be treated as public-debt transactions of the United  
4 States.

5 (e) Such obligations may be marketed for the Author-  
6 ity at its request by the Secretary of the Treasury, utilizing  
7 all the facilities of the Treasury Department now authorized  
8 by law for the marketing of obligations of the United States.

9 SEC. 21. (a) Any money of the Authority not other-  
10 wise employed may be deposited, subject to check, with the  
11 Treasurer of the United States or in any Federal Reserve  
12 bank, or may be invested in obligations of the United States  
13 or used in the purchase or retirement or redemption of any  
14 obligations issued by the Authority.

15 (b) The Federal Reserve banks are authorized and  
16 directed to act as depositories, custodians, and fiscal agents  
17 for the Authority in the general exercise of its powers, and  
18 the Authority may reimburse any such bank for its services  
19 in such manner as may be agreed upon.

20 (c) The Authority may be employed as a financial  
21 agent of the Government. When designated by the Secretary  
22 of the Treasury, and subject to such regulations as he may  
23 prescribe, the Authority shall be a depository of public  
24 money, except receipts from customs.

## PENALTIES

1  
2     SEC. 22. All general penal statutes relating to the larceny,  
3 embezzlement, or conversion or to the improper handling,  
4 retention, use, or disposal of public moneys or property of  
5 the United States shall apply to the moneys and property  
6 of the Authority and to moneys and properties of the United  
7 States entrusted to the Authority.

8     SEC. 23. Any person who, with intent to defraud the  
9 authority or to deceive any director, officer, or employee  
10 thereof or any officer or employee of the United States, makes  
11 any false entry in any book of the Authority or makes any  
12 false report or statement to or for the Authority shall, upon  
13 conviction thereof, be fined not more than \$1,000 or im-  
14 prisoned for not more than one year, or both.

15     SEC. 24. Any person who shall receive any compensa-  
16 tion, rebate, or reward, or shall enter into any conspiracy,  
17 collusion, or agreement, express or implied, with intent to  
18 defraud the Authority or with intent unlawfully to defeat  
19 its purposes, shall, upon conviction thereof, be fined not more  
20 than \$1,000 or imprisoned for not more than one year, or  
21 both.

22     SEC. 25. Any person who induces or influences the  
23 Authority to purchase or acquire any property or to enter  
24 into any contract and willfully fails to disclose any interest,  
25 legal or equitable, which he has in such property or in the

1 property to which such contract relates, or any special bene-  
2 fit which he expects to receive as a result of such contract,  
3 shall, upon conviction thereof, be fined not more than \$1,000  
4 or imprisoned for not more than one year, or both.

5     SEC. 26. No individual, association, partnership, or cor-  
6 poration shall use the words "United States Housing Author-  
7 ity", or any combination of these four words, as the name,  
8 or part thereof, under which he or it shall do business. Any  
9 such use shall constitute a misdemeanor and shall be pun-  
10 ishable by a fine not exceeding \$1,000.

11     SEC. 27. Notwithstanding any other evidences of the  
12 intention of Congress, it is hereby declared to be the con-  
13 trolling intent of Congress that any provision of this Act,  
14 or the application thereof to any person or circumstances, is  
15 held invalid, the remainder of this Act, or the application of  
16 such provision to persons or circumstances other than those  
17 as to which it is held invalid, shall not be affected thereby.

18     SEC. 28. This Act may be cited as the United States  
19 Housing Act of 1937.

[CONFIDENTIAL COMMITTEE PRINT]

FEBRUARY 5, 1937

76TH CONGRESS }  
1ST SESSION }

S.

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## A BILL

To provide financial assistance to the States and political subdivisions thereof for the elimination of unsafe and insanitary housing conditions, for the provision of decent, safe, and sanitary dwellings for families of low income, and for the reduction of unemployment and the stimulation of business activity, to create a United States Housing Authority, and for other purposes.

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By Mr. WAGNER

FEBRUARY —, 1937

Read twice and referred to the Committee on  
Education and Labor

*[Handwritten scribble]*

12 February, 1937  
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

The operations of the Coast Guard in flood relief work are now practically confined to the Mississippi River from Memphis to the southward, the force numbering approximately 22 seagoing units, 30 boats, and five planes, the planes at present basing at Baton Rouge, Louisiana.

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General Water Level Conditions.

River receding at Memphis and crest is now at Helena, Arkansas - 60.2'. Slight rise at Vicksburg and New Orleans.

*[Handwritten signature]*

Friday  
February 12, 1937  
4:12 p.m.

HMJr: Dan, the President has conceived the idea that he may want to appoint an honorary Board of Visitors for the various Federal institutions, the way he did in New York State. For instance, for every Marine Hospital, every prison, every prison farm - every institution that might have a Board of Visitors. He'd like you to prepare a list for him, see?

D. W. Bell: Yes

HMJr: Do you get the idea?

B: Well, you mean every medical institution?

HMJr: No, any kind of institute - any prison.

B: Prison, hospital -

HMJr: What else have we got? - Narcotic Farms -

B: Narcotic Farms - homes - soldiers' homes -

HMJr: Soldiers' homes - and soldiers' hospitals -

B: And some veterans' homes -

HMJr: Some veterans' homes -

B: Yes

HMJr: See?

B: Yes, I see. He wants the list of all of them, huh?

HMJr: Yes

B: Nothing to be done about it?

HMJr: Well, the list - sent over to him.

B: Just a list so that he can decide?

HMJr: Yes

B: All right, all right.

HMJr: Thank you.

February 12th

Thursday, yesterday, at 6:30 Bewley called on me at the house. He said he was all set to sail Saturday but could I not give him some idea of what we wanted. I said, no it was their problem and we would be glad to receive any suggestions from them. I again told him that it was distinctly worth his while to make the trip with the possibility that his government might have some suggestion.

I told the President about this and that Bewley was sailing on Saturday and that he would come back again to the United States.

RB

GRAY

Paris

Dated February 12, 1937

Rec'd 3:35 p. m.

Secretary of State

Washington.

197, February 12, 4 p. m. (SECTION ONE)

FOR TREASURY.

The trend was definitely against the franc in the exchange market today and the exchange fund was called upon to pay out a substantial amount of sterling which it first offered at 105 and gradually up to 105.12 the present rate. The dollar is steady at around 21.48 and other currencies are firm at higher rates than yesterday.

The forward rate also moved against the franc the dollar being quoted at about 22 centimes for one month and 59 centimes for three months. The one month rate for the pound is 1 franc and 2.70 francs for three months.

The security market showed weakness and irregularity and rentes declined from 30 to 45 centimes.

With reference to rumor that a change is imminent in the Bank of France, the financial press of this morning publishes a denial by the Havas Agency which reads as

follows:

RB

-2-<sup>1</sup>/197, February 12, 4 p. m. from  
Paris (SECTION ONE)

follows:

"Authorized circles declare that rumors that  
Monsieur Labeyrie will leave his post of Governor of  
the Bank of France have no foundation."

(END SECTION ONE).

BULLITT

KLP

SECTIONS TWO AND THREE. No. 197 of February 12, 1937, from the American Embassy, Paris.

Reliable information has come to us that while no decision has yet been taken, a change in the direction of the Bank is under consideration. It is said that Blum and Auriol are extremely dissatisfied with the results obtained by Labeyre, and are becoming seriously disturbed about confusion and lack of team work between Labeyre and the Treasury in the handling of exchange and the financial situation. Labeyre for instance we are told favors high interest rates and even urges exchange control, both of which are definitely opposed by Blum and Auriol. Blum is particularly dissatisfied with Labeyre, according to reports. We understand that in envisaging a change in the Bank's direction the Government is encountering some difficulty in fixing its choice on a personality of proved technical qualifications who is at the same time in sympathy with the Administration's policies. Baudouin meets these requirements, we are told, but he is hesitant notably because he is reluctant to risk failure, and for material reasons also. Another possible choice is Quesnay, but it is thought that there is little chance of his being given the position, and still less chance for Monick to get it. Discussion seems to have been given to Fournier, but apparently he is not considered to be sufficiently close

- 2 -

close to the Popular Front policies although he is looked upon as being a good technical man.

It was noted by careful observers of yesterday's movement of the exchange market that after rumors of a change in the Bank's direction became current the pressure on the franc noticeably subsided, but that after publication of the denial by Havas pressure was resumed - which, it was noted, was not very categoric. For example we learned from a good source that the exchange fund during the first part of the day was called upon only to the extent of about 200,000 pounds, and that it paid out about 1,000,000 pounds after the denial yesterday afternoon.

The exchange fund we understand very confidentially has been depleted so much that the situation in this regard is regarded with anxiety and misgiving by certain Bank officials. It was said that some confusion exists and lack of decision as to a definite line of conduct and policy is apparent among the higher officials of the Bank and of the Government itself.

We are told that the response to the national defense loan of December 17 has been most unsatisfactory as concerns gold subscriptions, although there has been less disappointment in subscriptions in the form of "Auriol" bonds.

END MESSAGE.

BULLITT.

EA:LWW

Friday  
February 12, 1937  
10:24 a.m.

Treas.  
Operator: He's not in either one of his offices. I'll try to find him.

HMJr: Thank you.  
(Pause)

HMJr: Hello

T.O.: Mr. Bell -

HMJr: Hello

T.O.: Go ahead.

HMJr: Hello

D. W. Bell: Yes

HMJr: Good morning

B: Good morning

HMJr: Dan, yesterday Harrison and Doughton were here - this is confidential - and, in the course of the conversation they said, "Well, if the President keeps sending up all this legislation, how much money does he expect to ask for new taxes?" See?

B: Yes

HMJr: So, I said, "Well, I don't know." So I saw the President this morning - where are you now?

B: In the Budget.

HMJr: Well, this is - you don't have anybody listen in, do you?

B: No

HMJr: So, I said, very confidentially, I said, "Well, what's your idea, Mr. President?" So he said, "Well, supposing you and I agree on a figure of a hundred million?" He said it shouldn't be in excess of a hundred million over and above the Budget estimates. Well I said, "That's all right, but," I said, "I wouldn't want to

-2-

coach you, because," I said, "it may exceed that." I said, "Now Bell told me that you sent up five things in the last two weeks that are all going to cost money." And I said, "I am going to ask Bell between now and Monday noon to give me a list of what he thinks the thing will cost that you've already sent up." See?

B: Yes

HMJr: So he said, "Well, that's fine." He said, "That's right," he said, "We've already spent fifty, haven't we, on seed loans?" - Hello?

B: Yes

HMJr: I said, "Yes." <sup>had</sup> So I said, "Well, now, what would you do if we/an excess of receipts?" I said, "Would you credit that to the hundred million or how would you treat that?" He said, "We'd just put that in our vest pocket and forget about it." He said, "That - we'd try to save that."

B: (Laughs)

HMJr: See?

B: Well, what does he mean, a hundred million? A hundred million expenditures in excess of the Budget?

HMJr: That's right.

B: Why in the heck should we do things like that?

HMJr: I don't know.

B: I mean, the Budget ought to be as complete as possible.

HMJr: What I'd like/<sup>you</sup>to do between now and noon on Monday is to give me a list of the legislation which would result from messages which he has sent - and how much - or legislation passed and how much we're already over-board, see?

B: Yes

HMJr: Do you get me?

B: Well, that's a little difficult to - -

HMJr: Well, do the best you can.

-3-

B: Of course, this report that he sent up on Public Works, - he didn't recommend any legislation on that. But he submits his five million dollars worth of Public Works which Congress can pick - well, it's an invitation - that when they pick those projects and put them into an authorizing bill he just can't turn them down, after he's once submitted them.

HMJr: Well, suppose - -

B: He can't veto them.

HMJr: Will you come to my office Monday at twelve?

B: Yes

HMJr: And let's go over this thing. And then let's keep him in mind from now on, how much these things that he keeps sending up and what the situation is - let's do it once a week.

B: All right.

HMJr: But, you have something for me at noon on Monday, see?

B: O. K.

HMJr: What?

B: All right, -

HMJr: But I told him that I wouldn't give Pat and Bob Doughton any such message until we've look - chance to go over it thoroughly and see where we stood.

B: Of course the President said that - no increase in taxes, -

HMJr: I know.

B: - other than the renewals -

HMJr: I know. Well -

B: Well, I think he's got to stick to that. Even though he goes over two or three hundred million.

HMJr: Well, he -

B: I think that's important.

HMJr: Well, this morning he says a hundred. Well - let -

B: Well, it's liable to go more than that when they get started, but -

HMJr: Well, let's meet at twelve o'clock on Monday, huh?

B: All right.

HMJr: And - Well, I've got somebody at twelve - it'll be five minutes, ten minutes - well, twelve-fifteen.

B: On Monday?

HMJr: Twelve-fifteen on Monday.

B: All right. Now, Mac and I want to see you some time today.

HMJr: You do?

B: Yes

HMJr: All right.

B: On this Joint Committee Clerkship.

HMJr: Twelve o'clock

B: Twelve o'clock today?

HMJr: Twelve o'clock

B: All right. Goodbye.

Copy for

Mr. A. L. Lochhead, Washington

26

WITH THE COMPLIMENTS OF

S. STERN

VICE PRESIDENT OF  
THE CHASE NATIONAL BANK  
OF THE CITY OF NEW YORK

Letter from PARIS dated February 15, 1957: KSA

"The slight recovery experienced in the franc and on the Rentes, the setback of foreign securities and the fall in forward premiums are all due to an endeavor to effect a change in the financial policies of the Government in order to reestablish confidence. No definite result has been obtained so far.

Mr. Blum has at long last realized that the Departments of Banque de France, of the Treasury and of the Finance Ministry had agreed to disagree once for all. Mr. Labeyrie is first and last a politician and his only idea is to 'Chastise speculation'. To this end he has refused to pay gold at its normal price and has repeatedly proposed to the Minister a plan of Exchange Control coupled with the requisition of foreign securities held by French Nationals. On the other hand Mr. Vincent Auriol is not a financier, but might be willing to consider proposals likely to lead to an improvement in the political and financial situation. Although Mr. Blum is opposed to letting his Finance Minister go, as this would weaken his political position considerably, he would entertain no such scruple in getting rid of Mr. Labeyrie, who has expressed on several occasions his desire to return to the Haven of the Court of Audits. Where to look for a suitable Governor, that is the question.

Mr. Baudoin, of Banque de l'Indochine has been approached, but he has set down a certain number of political and financial conditions to his acceptance: he demands that the franc be stabilized officially at around its present rate, that gold be paid immediately at the new price, and that the holders of gold who have brought it back to Banque de France at the old price of 18,960 francs per kilog, and who, he considers, have suffered a prejudice, should receive the balance representing the difference in price.

At the time of writing, the negotiations have not been brought to a conclusion, but they are not suspended, and the chances of seeing Mr. Baudoin Rue de la Vrilliere remain high. The weakness of the franc at the end of the week is due in part to the delay in the conclusion of the above mentioned tractations.

The essential point remains the reestablishment of confidence, 'through acts, not through words' as Mr. Reynaud puts it. The present situation can be modified only through the absolute freedom of dealings in gold, currencies and securities: that the situation daily grows worse is superabundantly proved by the decrease in the gold holdings of Banque de France, the straits in which the Exchange Fund is foundering, the insuccess of the last medium term loan, the increase in note circulation, the recourse to foreign loans, the agreement given by the Central Bank to the policy of credit expansion, the announcements of untold liberalities by Mr. Blum, and last but not least the staggering burden of the Treasury."

The Commissioner of Internal Revenue

28

February 13, 1937.

MEMORANDUM FOR THE SECRETARY:

There is attached a report on the case of Revenue Agent Hogan of New Jersey, whom you directed Mr. Ireby to have investigated.

*Guy J. Helving*

*File H.M.N.*



TREASURY DEPARTMENT  
WASHINGTON

29

OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO  
COMMISSIONER OF INTERNAL REVENUE  
AND REFER TO

February 13, 1937.

MEMORANDUM FOR THE COMMISSIONER:

You will recall the Secretary recently directed that an investigation be made of Vincent M. Hogan, a revenue agent in the Newark, New Jersey, District, who has been recommended for appointment to the position of Internal Revenue Agent in Charge. This matter has been given attention by Special Agent in Charge Mack, and his report dated February 11, 1937, is attached.

This report covers two phases of Hogan's history, - first, the matters which arose in connection with the investigation of the Waxey Gordon case, and, second, his general record since that time. There is not definite evidence of wrongdoing on the part of Hogan during the Gordon investigation, although his actions were such as to create considerable suspicion and doubt. Because of the lapse of a period of six years, it is rather difficult to reach a definite conclusion with respect to these matters at this time, and Special Agent Mack has recommended that no action be taken with respect to Hogan on these Waxey Gordon incidents. In regard to his subsequent record, nothing has been disclosed which appears to reflect on him. Hogan seems to be an agent of less than average ability. However, his income tax matters have been gone into, as have his credit standing and general conduct up to date, and nothing has been developed which would indicate that there is reason for disciplining him or separating him from the service.

This investigation has disclosed some matters with respect to Revenue Agent James N. Connolly, who was associated with Hogan at the time of the Gordon incidents. Connolly is at present assigned to duty at New Orleans, Louisiana, and is under investigation on charges of irregularities in connection with certain tax cases.

A copy of Mr. Mack's report is being forwarded to the agent now investigating Connolly.

Enc.



TREASURY DEPARTMENT  
INTERNAL REVENUE SERVICE

INTELLIGENCE UNIT  
(Boston)  
New York  
(Name of Division)

Washington, D. C., February 11, 1937.

SI-Special  
Unjacketed  
CEM:sem

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

In re: Vincent M. Hogan,  
Internal Revenue Agent,  
Newark, New Jersey.

This report relates to an investigation made concerning the character of the above named agent.

Mr. Hogan is 44 years of age, married, has one child, and resides at 760 Clifton Avenue, Newark, New Jersey. He was appointed a Narcotic Agent on March 1, 1918, at \$1,500 per annum, but resigned on June 1 of that year to enter the United States Army. He reentered the Service as a Deputy Collector on September 1, 1919, at \$1,800 per annum, and was assigned to duty in the District of Kansas, which position he continued until May 1, 1923 when he obtained an appointment as Revenue Agent (Sales and Miscellaneous Tax Division) at \$2,250. During 1926 he qualified for income tax work and was assigned to the New Orleans Division. He was transferred to the Louisville Division during the early part of 1927, but a few months thereafter was reassigned to Louisiana with post of duty at Shreveport. On February 1, 1928 he was transferred to the Dallas Division, and on November 18, 1928 he was transferred to the Newark Division where he has remained continuously to date. His grade and salary at the present time are CAF-12, \$4,600.

Inquiry has been made relative to certain incidents which occurred during 1931 and 1933 indicating irregularities on the part of Revenue Agent Hogan in the so-called Waxeey Gordon and Yonkers Brewery investigations, and investigation has likewise been made to determine whether there is any evidence of irregularities except in those specific instances.

In re: Vincent M. Hogan.

Special Agent Henry R. Sunball cooperated in this investigation and the results of his inquiries are incorporated in this report.

The specific instances of indicated irregularities will be commented upon separately as the circumstances were such as to cause suspicion of Mr. Hogan and resulted in Special Agent in Charge McQuillan, of the New York Division, directing that Revenue Agent Hogan be returned from special assignment with that division to regular duty with the office of the Internal Revenue Agent in Charge, Newark, New Jersey.

The first instance occurred during the early part of 1931 when Revenue Agent Hogan called to see Irving Wexler, better known as Waxey Gordon, under circumstances which appeared to be highly irregular. Waxey Gordon was a notorious racketeer who operated in the East for several years, referred to in the press as a public enemy. He was finally convicted on charges of evading income taxes and is now serving a ten-year sentence on those charges. During 1933 when Revenue Agent Hogan was called upon to testify before the Grand Jury in the Waxey Gordon case he failed to disclose that he had seen Gordon on two occasions, but referred only to one visit. During the trial of this case, which took place during the latter part of 1933, Hogan surprised the prosecuting officials by testifying for the first time that he had seen Gordon on two occasions. It also developed about that time that Max Greenberg, an associate of Waxey Gordon, also Max Hassell, were murdered in the Elizabeth Carteret Hotel at Elizabeth, New Jersey, and amongst the papers found on Greenberg's person was a memorandum of Hogan's name and residence telephone. Apart from the Waxey Gordon case there was another development during the latter part of 1931 which indicated that Revenue Agent Hogan had endeavored to communicate with "Frenchy" Dillon, a notorious racketeer connected with the illegal operation of the Yonkers Brewery, Yonkers, New York, and when this matter was reported to Mr. McQuillan, Special Agent in Charge of the New York Division, he directed that Mr. Hogan be released from special assignment and promptly returned to his own division. This investigation has established that the circumstances relating to the foregoing instance were indefinite and the testimony of the witnesses is controversial. It further appears that these instances occurred during a period of a few months time when Revenue Agent James N. Connolly was reputed to be closely connected with at least one member of the Gordon gang. Connolly is now employed as a Revenue Agent at New Orleans, Louisiana, having been transferred to the New Orleans Division from the Newark Division about a year ago, and a

In re: Vincent M. Hogan.

copy of this report will be referred to the Special Agent in Charge of the Dallas Division for the information of the Special Agent assigned to investigate SI-6765-C, which was jacketed January 25, 1937 because of information that Connolly had recently completed the construction of a residence costing approximately \$20,000, likewise due to indicated irregularities in connection with certain tax cases.

In accordance with your instructions inquiry has been made independently of the specific instances related above to obtain information as to the conduct and living conditions of Revenue Agent Hogan, likewise a survey of his tax returns to determine whether there is any evidence of irregularities. The Waxey Gordon and Yonkers Brewing Company investigations were inquired into further insofar as they relate to Revenue Agent Hogan, in order that a clear explanation of these matters may be included in this report as well as the information pertaining to general inquiries.

- (a) Alleged irregularities of Revenue Agent Hogan in connection with Waxey Gordon investigation.

During the early part of January 1931 Mr. Joseph Frayne, then a Special Agent of the Prohibition Bureau, supervised the seizure of the so-called "Wallington Distillery", alleged to have been owned and operated by Waxey Gordon. A few days thereafter William Brady, of Hackensack, New Jersey, was murdered, and in his death bed statement Brady implicated members of the Gordon gang as being responsible for his murder, naming Solly and Willie Moretti. It developed that Brady was a "fixer" and had received a large sum of money from the owners of the Wallington Distillery for protection payments to Federal officials but did not in fact make the payments, therefore, when the still was seized it was realized by the owners that they had been double-crossed by Brady and he was murdered.

In the course of the investigation which followed the homes of the Moretti brothers were searched, and at Willie Moretti's home a black book was found which contained several entries indicating substantial financial transactions in an account with the Second Bank and Trust Company, of Hoboken, New Jersey, in the name of "James Henderson". Mr. Frayne had information at that time that Willie Moretti was Waxey Gordon's representative in that district, and concluded that the Henderson account was one of the many bank accounts maintained by Gordon in fictitious names. He,

In re: Vincent M. Hogan.

Accordingly, orally requested that the office of this Unit at New York City institute an income tax investigation of Gordon. It is related further by Mr. Frayne that Special Agent Baldwin and Revenue Agent Hogan were assigned to the case during the latter part of January 1931, and it was arranged that the three of them should go to the bank for the purpose of examining the James Henderson account. It is Mr. Frayne's recollection that they went to the Second Bank and Trust Company, Hoboken, New Jersey, to look at the Henderson account on January 23, 1931, and that Revenue Agent Hogan prepared a subpoena at the request of the cashier before the records pertaining to the Henderson account were made available for their examination. Mr. Frayne explained that it was the purpose of Special Agent Baldwin and Revenue Agent Hogan to request a jeopardy assessment if the balance in the account at the time of their visit was sufficient to warrant such action, but that the balance approximated only \$4,500, consequently no further action was taken in the matter at that time.

Special Agent Baldwin confirmed the testimony of Mr. Frayne, which is related above, and added that thereafter, or about May of 1931, Mr. Hogan inadvertently mentioned to Special Agent Baldwin and Revenue Agent Rutt that he had seen Waxey Gordon. Special Agent Baldwin stated that he was greatly surprised to hear that Hogan had seen Gordon and asked him the circumstances. Hogan then stated to Special Agent Baldwin that he had met Gordon the day after the examination of the Henderson account at the Second Bank and Trust Company, of Hoboken, New Jersey, on January 24, 1931, and when Special Agent Baldwin reminded Hogan that he assumed that it was the understanding of all the agents working on the case that none of them knew Waxey Gordon, Hogan then told Special Agent Baldwin that on the day following the visit to the bank one Geissler, an accountant for the Union City Brewery Company, Union City, New Jersey, had called him on the phone and advised him that he was aware of the visit to the Second Bank and Trust Company and wanted to talk to him about the Henderson account. Special Agent Baldwin stated that Mr. Hogan advised further that he met Geissler by arrangement at the Hudson and Manhattan Tubes, Hoboken, New Jersey, and from there they went to a warehouse in Hoboken, New Jersey, where Geissler introduced him to Blacky Cohen, one of Waxey Gordon's lieutenants; that subsequent to the introduction to Blacky Cohen, Cohen informed Hogan that he was there at a good time and could talk to the boss; and that Blacky Cohen then introduced Hogan to Waxey Gordon. Special Agent Baldwin advised that he asked Revenue Agent Hogan why he had not informed Mr. J. P. Jensen, then Revenue Agent in Charge at Newark, New Jersey, or himself about this meeting with Waxey

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Gordon, and Hogan replied that he did not know why he had not told either of them adding that it did not occur to him to do so. Special Agent Baldwin explained that when he later mentioned this incident to Mr. Frayne, that Mr. Frayne then recalled that a boot-legger had told him that both Revenue Agents Hogan and Connolly had been to see Gordon at the beer barrel washing place on Madison Avenue, Hoboken, New Jersey, a day after the visit to the bank. Mr. Frayne was questioned as to this incident and he stated that it is his recollection that someone had told him Revenue Agents Hogan and Connolly were at the Madison Avenue address the day after the visit to the bank, but that he did not report this matter as he presumed they were there in an official capacity. He was unable to recall his source of information in this respect, stating that it might have been any one of several people.

When Revenue Agent Hogan was interviewed his explanation was obtained concerning this incident, and it will be noted from page 2 of the transcript of his testimony (Exhibit 1) transmitted herewith, that he states Mr. Jensen, former Revenue Agent in Charge, directed him to go ahead with the Waxey Gordon tax case after Hogan had reported the visit to the bank. Hogan stated that he arranged the meeting with Waxey Gordon through Carl Geisler, bookkeeper for the Union Brewery Company, whom he had met prior to that time. He explains further (page 3) that his second visit to Gordon was prompted because of his intention to take annual leave and Mr. Jensen told him that he wished the case closed before he went on leave, and that he should again call upon Gordon to see if he would be willing to work out his tax liability on a percentage basis; also whether Gordon would present all his bank accounts and records in order that they might be considered. He stated that he called on Gordon the second time at the same address, which was at a warehouse in Hoboken, New Jersey, and that he then told Gordon of Mr. Jensen's directions, whereupon Gordon replied that he had no books, records or bank accounts, and that if he owed any tax it would be up to the Government to prove it as he (Gordon) felt that he had paid all taxes due. He then returned to the office, reported the matter to Mr. Jensen, and turned the case back to him. It will be noted that Mr. Hogan explains (page 2, Exhibit 1) that on the occasion of his first visit his conversation with Gordon related primarily to the ownership of the James Henderson account. Efforts to locate and interview Carl Geisler developed that he died about two years ago. Mr. Jensen died about 1933 and there is no means of corroborating Revenue Agent Hogan's story that he went to see Gordon on both occasions during the Spring of 1931 at the direction of Mr. Jensen, who was then Internal Revenue Agent in Charge at Newark, New Jersey.

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Shortly after Mr. Hogan returned the case to Mr. Jensen it was referred to this Unit and the investigation was then carried on under the direction of Special Agent Walter P. Murphy of the New York Division, with the result that a substantial tax liability was established and Gordon was successfully prosecuted for conspiracy to evade the payment of taxes and the evasion of tax. On December 1, 1933 he was sentenced to ten years in the penitentiary and fined \$30,000. The Grand Jury hearings were held during the Spring of 1933 and Revenue Agent Hogan was an important witness in view of the fact that on the occasion of his first visit to Gordon during the Spring of 1931, when he was alone, Gordon had indicated in his conversation that the James Henderson bank account was a collection account; further because Revenue Agent Hogan was the only Government agent who had seen and talked with Waxe Gordon up to the time prosecution was commenced. Hogan was questioned on several occasions by the Assistant United States District Attorneys assigned to the case, also by Special Agent Murphy, and his explanation was that he had seen Gordon before on one occasion. When the case was called for trial November 20, 1933, Mr. Hogan was listed as a witness and upon being called to the stand testified that he had met Gordon on two occasions. This was surprise testimony to Assistant United States Attorney Thomas E. Dewey, and he expressed his feelings in the matter strongly in his summation when he refers to Hogan in the following language (page 2534 of the transcript of the record in the Gordon case): "Do you remember that comparatively dumb but apparently absolutely honest Revenue Agent Hogan, another man who has been in the Government service for many years?" Transcripts of the Grand Jury minutes of this case were obtained confidentially and reference will be made to Revenue Agent Hogan's testimony concerning his meeting with Gordon. The Grand Jury minutes show that Hogan was called as a witness on March 1, 1933 and questioned by Assistant United States Attorney Tarbell, Jr. It will be noted from the transcript of his testimony before the Grand Jury (Exhibit 2) that a juror questioned him concerning his visit to Gordon and the following questions and answers appear:

- Q: "You were just trying to connect him with the Henderson account?"
- A: "The Henderson account might not have been Gordon's."
- Q: "Did you have any subsequent conversations with him?"
- A: "No."

Q: "Either on the telephone or in person?"

A: "No."

It will be noted from the transcript of Mr. Hogan's testimony before the Grand Jury on April 6, 1933 (Exhibit 3) that he was somewhat uncertain as to his identification of Gordon, and it does not appear that he was questioned specifically as to any meetings beyond the first one. During the trial Revenue Agent Hogan testified as follows in response to Assistant United States Attorney Dewey's direct examination (page 1501 of the transcript of the Gordon case, Exhibit 4):

Q: "Did you go back again?"

A: "Yes, sir. Made one more visit."

Q: "Where?"

A: "The same place."

Q: "Whom did you find there that day?"

A: "The same people."

Q: "Did you have a conversation?"

A: "Yes, sir."

Q: "With whom?"

A: "The same man."

When Revenue Agent Hogan was questioned as to why he had given inconsistent testimony in the Gordon case, stating prior to trial that he had interviewed Gordon but once but testifying during the trial that he had actually called to see him two times, Mr. Hogan claimed (page 4, Exhibit 1) that he had told the Grand Jurors of the second visit to Gordon. His testimony is as follows:

"The visits and the Grand Jury investigation took place several years ago. It was my recollection that in reply to a question of one of the Grand Jurors as to whether I had communicated with Gordon at another time, my answer was 'yes', and while at the trial I testified that I had visited Gordon twice, and explained each

visit in detail. Information brought out at the trial relative to the second visit, in my mind, would have a tendency to weaken the Government's case, because Gordon had stated that if he owed any tax he was willing to pay it, and if I answered to the contrary at the Grand Jury investigation, although I was never asked in detail, as I see it now, it was only with the main intention of not giving any evidence which would in any way weaken the case of the Government and not to any intention on my part to withhold any evidence or any information that would be helpful to the Government."

Revenue Agent Hogan was questioned relative to a memorandum found on the person of Max Greenberg, an associate of Wasey Gordon, after Greenberg's murder at Elizabeth, New Jersey, during 1933, which memorandum bore the notation of Hogan's name and residence telephone number. The evidence that such a memorandum was found consists of the testimony of Special Agent Walter P. Murphy and Revenue Agent Edward Cogan. Mr. Cogan informed me that he accompanied Special Agent Murphy to Elizabeth, New Jersey, at the time of the murder and made copies of all papers found on Greenberg, and that he later learned from Special Agent Murphy, to whom he turned over his copies, that one of the notations bearing the name Hogan and a telephone number referred to Revenue Agent Hogan, and that the telephone number was Hogan's residence phone. Special Agent Murphy's recollection of the incident confirms Revenue Agent Cogan's story. Revenue Agent Hogan's testimony in this regard (page 4, Exhibit 1) is as follows:

"I am unable to give any explanation of how or why my number should be found on the person of Max Greenberg, as I never in my life had any contact whatsoever by 'phone, personal contact, in any way possible with Max Greenberg. ----- Sometime after the finding of my telephone number on the person of Max Greenberg, Special Agent Baldwin in discussing the case told me that apparently my number didn't appear in the telephone directory of the City of Newark. The only explanation I can offer for this is the fact that my telephone number was changed and the change was made too late to appear in the next issue; whether that is the case or not, I can't answer, but it was not an unlisted number, and never has there been a request by me to the Telephone Company to not list my number."

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(b) Alleged irregularities in connection with the Yonkers Brewing Company investigation involving Revenue Agent Hogan.

The investigation of the evasion of income taxes by the Yonkers Brewing Company, involving "Frenchy" Dillon and James Culhane, was also referred to this Unit by Special Prohibition Agent Joseph A. Frayne. Special Agent Baldwin was assigned to this investigation with Revenue Agents Hogan, James M. Connolly and Jonas M. Rutt. Subsequent investigations verify the fact that Messrs. Dillon and Culhane, cohorts of Waxey Gordon, were owners of this brewery.

Special Agent Baldwin stated that it was assumed by the agents working on this case that none of them knew or had ever seen Dillon or Culhane, and for this reason he was very much surprised when he was informed by Revenue Agent Rutt, during June or July 1931, that while he (Rutt) was accompanying Hogan on an official matter at a Wall Street address, New York City, Hogan and a stranger exchanged greetings, and that Hogan told him that the man in question was "Frenchy" Dillon. Mr. Baldwin advised that when he questioned Hogan about this matter, Hogan explained that he had met Dillon during a tax examination of Frank Dunn, a Hoboken, New Jersey, bootlegger, several years before who had since been slain in a gang war.

Special Agent Baldwin advised further that just about the time Revenue Agent Rutt had told him that Hogan knew Dillon, that a former Assistant United States Attorney, Mr. Moses Polakoff, who was then representing Messrs. Dillon and Culhane in their tax matter, advised him confidentially that Revenue Agents Hogan and Connolly were meeting his clients outside the office, specifying the Edison Hotel, New York, New York, as one of the meeting places, and that Revenue Agents Hogan and Connolly had taken money from Messrs. Dillon and Culhane because of their representations that they would see to it in writing the revenue agents' report that no fraud case was developed against them. This matter was reported to Special Agent in Charge McQuillan by Special Agent Baldwin and he was instructed to keep Revenue Agents Hogan and Connolly under close supervision. The next development, according to Special Agent Baldwin, occurred after he had written Mr. Dillon a letter requesting him to appear at the Special Agent's office, New York, New York, for a conference on the tax matter during the afternoon of August 14, 1931. The development was

that shortly after 9:00 a.m. on August 14, 1931, Revenue Agent Hogan advised Special Agent Baldwin that he was going to the office of Down and Heffernan, 250 West 57th Street, New York, New York, as the result of a telephone call he (Hogan) had received from Mr. Down. Mr. Baldwin states that he insisted upon accompanying Hogan despite the latter's reluctance, and that when they arrived at Mr. Down's law office they found present Mr. Down, "Frenchy" Dillon, also Revenue Agent Bussey. Revenue Agent Bussey was told by Special Agent Baldwin that his presence was not required as the interview had nothing to do with Mr. Bussey's prior examination of Mr. Dillon's tax liability. Mr. Baldwin explained that when Mr. Down learned that he was a Special Agent he (Down) became greatly disturbed and said that he couldn't understand what was going on, and continued to say that he didn't know why Revenue Agent Hogan had insisted upon seeing Mr. Dillon prior to the latter's appearance before Special Agent Baldwin that afternoon. When Special Agent Baldwin turned to Revenue Agent Hogan and asked if he had communicated with "Frenchy" Dillon as stated by Mr. Down, Hogan emphatically denied that he had done so. Special Agent Baldwin's recollection is that Down continued in his statements to say, in substance, that Revenue Agent Hogan had communicated with Mr. Dillon after Special Agent Baldwin had sent the letter to Dillon requesting his appearance, and that Hogan told Dillon Special Agent Baldwin would ask him numerous questions about his income tax affairs, and that he (Hogan) wanted to see Dillon beforehand in order to prepare him for the questioning. Special Agent Baldwin states further that when Hogan denied this allegation Mr. Down then said that he had a telephone conversation on the previous afternoon with Revenue Agent Hogan after he had learned from Mr. Dillon that Hogan wished to see him before he (Dillon) appeared at Special Agent Baldwin's office, and that it was for this reason he (Down) insisted that any conferences between Hogan and Dillon be held at his law office when he could be present. It was also brought out at this meeting, according to Special Agent Baldwin, that Revenue Agent Hogan admitted knowing Dillon but that Dillon said he had never met Hogan before in his life. Special Agent Baldwin stated that he immediately reported the matter to Special Agent in Charge McQuillan in the presence of Revenue Agent Hogan, and that a few days thereafter Mr. McQuillan released Hogan from the special detail with this Unit and returned him to the Newark Division.

Revenue Agent Jones Rutt was interviewed and he stated that he recalled reporting to Special Agent Baldwin that Hogan had exchanged greetings with "Frenchy" Dillon, and he further recalled that the day before the meeting at Mr. Down's office that Hogan

was working with him in a bank at Hoboken, New Jersey, and left for a few minutes stating that he had to make a telephone call. It will be noted above that Mr. Down stated that Hogan had called him on the afternoon before the meeting at his office, which fact Hogan denied.

Mr. Joseph A. Down was interviewed concerning this incident and he stated that during the Spring of 1931 "Frenchy" Dillon communicated with him and stated that a Revenue Agent by the name of Hogan was trying to arrange an appointment with him to discuss his tax liability, whereupon Down insisted that Dillon should not speak to any agent except at his office. Mr. Down explained that he then called the Special Agent's office and asked for Mr. Hogan but was informed that Hogan was away from the office due to illness. He then talked with Special Agent Baldwin on the telephone and claims he stated that Revenue Agent Hogan had requested to see Dillon and that on his (Down's) advice the appointment would be held at his office. Mr. Down advised that nothing further developed until the time set for the interview at his office, but he is somewhat vague as to just how the appointment was arranged to be held at his office at the time they met. He explained that Special Agent Baldwin and Revenue Agent Hogan appeared at his office and that "Frenchy" Dillon, Revenue Agent Hussey, and he were present. It then developed that Mr. Down had filed delinquent returns for "Frenchy" Dillon and paid about \$30,000 tax; also that Revenue Agent Hussey had examined the delinquent returns filed, recommending no change. (Revenue Agent Hussey was removed from the Service because of misconduct.) It further appears that Mr. Down had used considerable persuasion to convince Mr. Dillon of the advisability of filing delinquent tax returns, and considered the matter a closed incident after the returns had been examined by Revenue Agent Hussey. Mr. Down stated that he couldn't understand the reason for the visit of the agents; that he considered Mr. Dillon's tax liability to be a closed incident; and that when Mr. Dillon told him Revenue Agent Hogan was trying to communicate with him to arrange an appointment relative to a tax investigation he became greatly incensed. It was for this reason, according to Mr. Down, that he mentioned the matter before Special Agent Baldwin. Mr. Down was asked as to whether Dillon had told him that Hogan wanted to see him before the time scheduled for the appointment at Special Agent Baldwin's office in order that Dillon could be advised as to the proper answers to give in order to avoid tax liability. Mr. Down was very evasive on this point and finally stated that he couldn't recall anything specific along these lines but felt that something "funny" was going on, and that it was for this

reason he decided to have the meeting at his office. Down then continued in his explanation to state that so far as he had been able to learn from Dillon the prime mover in this matter and the man "behind" Hogan was Revenue Agent Connolly. He then stated that Revenue Agent Connolly was arrested by Prohibition Administrator Tutt at Newark, New Jersey, while Connolly was trying to deliver liquor to Mr. Jensen, then Revenue Agent in Charge, and that in connection with this incident someone had communicated with the Dillon group. In this regard it was stated by Special Agent Baldwin that Mr. Moses Polakoff, who was also retained to represent Dillon and Culhane in their tax matter, had informed him (Baldwin) confidentially that Revenue Agent Connolly had asked "Frenchy" Dillon to help him in this difficulty because Dillon was supposed to have influence with Prohibition Administrator Tutt. This will be commented upon further later in this report. Mr. Down also advised that Dillon's life had been threatened by gangsters with the result that he became mentally deranged and was confined to an insane asylum for a period of several months but that he has been normal since his release. He advised further that Dillon was expected at the office within a short time, and I, accordingly, waited for him.

When "Frenchy" Dillon arrived at Mr. Down's office I questioned him concerning Revenue Agent Hogan. He stated that he did not wish to discuss the matter but finally after some preliminary conversation, during which time the name of Revenue Agent Connolly was mentioned, Dillon then asked "Are these men still employed by the Government?" His attorney then interposed the remark that both Hogan and Connolly are employed in the Government at the present time whereupon Dillon refused to make any comment. After a general discussion Revenue Agent Hogan's name was again mentioned and Dillon then made the statement "Hogan didn't know what it was all about. There was a smarter fellow than Hogan behind all this and I doubt very much if Hogan knew what he was going." At this point I asked him his opinion of Revenue Agent Connolly and his reply was "Now there is a smart fellow", but he refused to state whether Connolly had any part in arranging the interview between Hogan and himself relative to the tax case. Dillon indicated a willingness to talk but claimed that he realized that if he gave any testimony that none of the others would back him up and that he would be standing alone; also that he had no desire to hurt anybody. He also made the remark that he didn't know himself just what was being attempted but whatever the objective might have been, nothing was actually accomplished.

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Mr. Moses Polakoff was interviewed and he was extremely evasive. He stated that if he has been quoted as giving confidential information to Special Agents Baldwin or Keyes to the effect that Revenue Agent Connolly and Hogan were meeting Dillon and Culhane on the "outside" at the Edison Hotel, New York, New York, and had obtained money from them, that his remarks must have been misinterpreted as he did not intend to convey this thought. He admitted, however, that there may have been some story passed along to him by various bootleggers, whom he represented, to the effect that Revenue Agent Connolly had sought Dillon's help with Prohibition Administrator Tutt at the time Connolly had trouble at the Robert Treat Hotel, but could not remember passing this information along to anyone else. He informed me that Culhane is in Europe at the present time and not available for interview. Special Agent Keyes likewise denies any recollection that Polakoff stated Revenue Agents Connolly and Hogan were taking money from Dillon and Culhane, but believed that Polakoff had made some comment during 1931 indicating that Revenue Agents Connolly and Hogan had met Dillon and Culhane outside of the office. Special Agent Baldwin on the other hand is very definite in his recollection that Polakoff did make a statement to the effect that Revenue Agents Connolly and Hogan not only met Dillon and Culhane but accepted money from them. In the final analysis the primary witnesses as to what actually happened are Dillon and Culhane. Dillon is reluctant to make a complete disclosure, and Culhane is in Europe. When Revenue Agent Hogan was interviewed concerning the above incidents he testified (pages 5 and 6, Exhibit 1) as follows:

"At the suggestion of Special Agent Keyes, Agent Rutt and myself appeared at the office of the Internal Revenue Agent in Charge, at 57th Street, requesting to see returns filed by one Frenchy Dillon. We were advised by the Assistant Agent in Charge that Agent Hussey was familiar with the case but was not in at that time and if we would call back the following day that Agent Hussey would give us the desired information. Agent Rutt was assigned to other duties the next day, and on instructions by Mr. Keyes, I called on Mr. Hussey, Internal Revenue Agent, and was advised by him that one Mr. Downes had represented Mr. Dillon in tax matters and that copies of the returns could be found in his office, and with Mr. Hussey I called on Mr. Downes and explained the purpose of my visit, that we would like to have copies of the returns. Mr. Downes

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said at that time he was not at liberty to give us copies but if we would call back in a few days he would advise us as to whether we would be permitted to copy the returns or not. Shortly thereafter, a call came to the Special Agent in Charge's office in New York, from Mr. Downes, advising that the information we desired was ready. As Mr. Rutt was still assigned to other duties, I requested Special Agent Baldwin to visit Mr. Downes' office with me. Upon arriving at Mr. Downes' office he (Downes) seemed very much perturbed and he immediately made remarks and suggestions towards me that I was using influence to remove him from the case in preference to another representative. He made certain remarks that I was attempting to contact Mr. Dillon, but he didn't say for what purpose. As the whole thing came to me as such a shock I was really at a loss as to what he was driving at, or offer an explanation, as I had made no contacts with anyone nor made any suggestions relative to the tax case of Mr. Dillon. Mr. Baldwin questioned Mr. Downes about certain items relative to the investigation and certain other information he wanted from Mr. Downes. At the instigation of myself, Revenue Agent Hussey called at Mr. Downes' office, and when questioned by me as to whether I had made any suggestion as to changing the accountant, his answer was 'no' that I had made no suggestions to him whatsoever relative to this man's tax case."

It will be noted that Revenue Agent Hogan insists that he requested Special Agent Baldwin to accompany him to Mr. Downes' office. It is significant however (page 6, Exhibit 1) that Revenue Agent Hogan admits visiting Connolly at the Hotel Edison on several occasions during 1931 after office hours, but denied that they met any bootleggers or other representatives on those occasions, or that Connolly obtained any information from him concerning cases upon which he (Hogan) was engaged. Attention is also invited to Revenue Agent Hogan's testimony (page 7, Exhibit 1) which states, in substance, that Connolly was very friendly with a man by the name of Murphy (first name unknown) from Trenton, New Jersey, who was reputed to be connected with the Gordon gang, and that this man was one of the party who went to the dock at New York City upon the occasion of a West Indies boat trip which Mr. Connolly took during 1932.

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(c) General inquiries.

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Inquiry at the Credit Reporting Company, Newark, New Jersey, developed that their report as to the credit responsibility of Revenue Agent Hogan is very satisfactory. The report, which is dated February 17, 1936, shows his residence address as 760 Clifton Avenue, Newark, New Jersey, and described his family as consisting of a wife and one child, and it is stated that he owns no real estate and that his rent is under \$45.00 per month; also that he has been with the Internal Revenue Department since prior to 1920. Inquiry by the Credit Agency established that he pays his rent promptly and is well regarded by the landlord. At the time of the credit report his home is described as "first floor of a two family house, moderate section, house well kept, good living condition". There is also a record of a conditional sales agreement, dated May 18, 1931, covering the purchase of a new Chevrolet automobile from the Crawford Chevrolet Company at \$848.00 - terms \$557.00 at \$47.00 a month. It also appears that inquiry as to suits and judgments developed that his record in this regard was clear as of February 17, 1936.

Mr. Hogan filed tax returns for each of the years from 1931 to 1935, inclusive, and they report his salary from the Government, also nominal income from interest and dividends which total \$110.00 for 1931, nothing for 1932, profit on stock \$46.70 in 1933, nothing in 1934, and \$10.00 interest income in 1935.

In each case the witnesses who were questioned concerning the instances of irregularities were asked whether they had any information which would indicate misconduct on the part of Revenue Agent Hogan, except as to those instances related in this report which occurred back in 1931 and in one case extended to 1933 because of the Gordon trial. No evidence indicating other irregularities was obtained and on the contrary the consensus of opinion seemed to be most, if not all, of Hogan's troubles which occurred during a period of several months back in 1931 could be properly attributed to his association with Revenue Agent James N. Connolly, now located at New Orleans, Louisiana, who is under investigation at the present time.

Revenue Agent Connolly was reputed to have numerous associations with politicians and bootleggers. His post of duty was at Trenton, New Jersey, but during 1931 he was assigned to fraud work at New York City with Hogan and other agents from the Newark Division. It will be recalled from Revenue Agent Hogan's testimony that he refers to one Murphy of Trenton, New Jersey, alleged

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to be a member of the Waxey Gordon gang, with whom Connolly was understood to be very friendly. Connolly is described as a very keen and bold type, whereas Hogan appears to be easy going, and affable. The foregoing, of course, would not excuse any wrongdoing on the part of Hogan, but this is mentioned inasmuch as the evidence is very controversial and indicates that there may have been explanations affecting instances related in this report concerning which Hogan had no knowledge about.

With regard to Hogan's meetings with Waxey Gordon, his explanation is that he was directed to do so by Mr. Jensen, now deceased, who was at that time his Revenue Agent in Charge. Carl Geissler, the account for Gordon, with whom Hogan arranged the interview, is dead and it is not possible to verify Hogan's story of his talk with Geissler. It has been the experience of this Unit that Mr. Jensen frequently took official action in cases, where criminal action was indicated, without requesting the cooperation of a Special Agent, sometimes with unfortunate results. For example, on one occasion he endeavored to handle the investigation of a bribe case involving a Revenue Agent without communicating with this Unit, and as a consequence the agent became suspicious of the arrangements planned by Mr. Jensen, avoiding apprehension. Just recently this same Revenue Agent was apprehended by Special Agents of this Unit in attempting to obtain a bribe and was successfully prosecuted. It therefore is possible, in the absence of any direct evidence to the contrary, that Mr. Jensen did direct Revenue Agent Hogan to call to see Waxey Gordon alone although Special Agent Baldwin was assigned to the case. In view of all the circumstances, it is believed that the doubt should be resolved in favor of Revenue Agent Hogan.

Concerning Revenue Agent Hogan's failure to testify before the Grand Jury or to advise the Special Agents or Assistant United States Attorneys that he had seen Waxey Gordon on more than one occasion is difficult to understand, as he testified to two meetings when he appeared as a witness at Gordon's trial. His explanation is that the comments made by Gordon on the occasion of his second visit if testified to would weaken the Government's case, and that if he had offered inconsistent testimony the foregoing must have been the reason for it. Mr. Hogan informed me that he was so upset when he was before the Grand Jury that he didn't know what he testified to and may have made an unintentional error. This explanation is hardly plausible but it was very significant that during the interview had with Revenue Agent Hogan that he cried several times and became

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confused easily. I am informed by Special Agent Walter P. Murphy that when he questioned Revenue Agent Hogan prior to the Gordon trial that Hogan was very much upset, appeared to be "scared to death", cried, and at all times showed an emotional nature when under examination. Special Agent Baldwin also informed me that during the period Hogan was assigned to work with him on fraud cases, he recalls at least one occasion when Hogan asked for someone to go to a bank with him to obtain a bootleggers account, giving as his reason that "it was a gangster case" and wished to protect himself. This characteristic is most surprising as he presents a very friendly appearance and gives the impression of being at ease under ordinary circumstances, but when upset changes his manner and loses composure almost immediately. Mr. Hogan mentioned to me that he had received a warning about the time of the Gordon case to the effect that he would be harmed if he testified against Gordon. It is possible that he may have become confused to some extent, but he was questioned so many times about the same matter it is hardly believable that he unintentionally failed to disclose the second meeting with Gordon. Along these lines it was learned during this investigation that Mr. Jensen, former Revenue Agent in Charge at Newark, New Jersey, during 1931 was reputed to be friendly with one of the members of Waxey Gordon's gang and met him socially.

With reference to the memorandum found on the person of Max Greenberg, associate of Waxey Gordon, after the murder of Greenberg, which memorandum showed the name of Hogan and his residence telephone number, it is believed that this fact in itself does not justify the conclusion that Hogan had any knowledge concerning it. In this connection I was informed by Special Agent Murphy, who handled the Waxey Gordon investigation, that one of the witnesses at the Gordon trial told him confidentially that he was present with other members of the Gordon gang prior to trial when Murphy's residence phone number was obtained and a discussion was had between them as to the advisability of telephoning his home to harass his family with a view to disturbing him. Mr. Murphy stated that there were telephone calls made to his home shortly prior to the trial by some unnamed man, and the person questioned his wife relative to the time he left in the morning, the subway route used, and such information, obviously for the purpose of upsetting her.

Concerning the meeting at Mr. Down's office and the alleged attempt on the part of Revenue Agent Hogan to communicate with "Frenchy" Dillon prior to the latter's appearance at the Special Agent's office, the testimony is very conflicting. Each witness

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interviewed concerning this incident has given a different version, no doubt largely due to the fact that the meeting occurred about six years ago. Dillon is an ex-bootlegger and Down was indicted some years ago in connection with the organization of a corporation under which name a brewery was operated. I gained the definite impression that there is considerable feeling between Dillon and Culhane, also Down and Polakoff. Polakoff, a former Assistant United States Attorney, was associated with Down in representing Messrs. Dillon and Culhane in their tax case, with the result that Dillon was obliged to pay about \$7,500 in taxes because of his refusal to disclose the identity of certain members of the syndicate which operated the Yonkers Brewing Company. He expressed the opinion that Culhane and Polakoff gave him a "raw deal" in the tax case by making him assume the burden for the undisclosed principals. It appears from the evidence in this case that Down induced Dillon to file delinquent returns, paid about \$30,000 in taxes, which returns were examined by Revenue Agent Hussey, and subsequently the investigation was taken up by Special Agent Baldwin, and Revenue Agents Hogan, Connolly and Rutt. It was about that time Revenue Agent Connolly was arrested by Prohibition Administrator Tutt at Newark, New Jersey, for attempting to deliver liquor to Mr. Jensen at the Robert Treat Hotel, Newark, New Jersey. Special Agent Baldwin stated that Mr. Polakoff told him confidentially Revenue Agent Connolly endeavored to obtain "Frenchy" Dillon's help in this matter because of Dillon's alleged influence with Tutt, but Polakoff was very vague in his recollection of this incident. It is not unreasonable to conclude that Connolly, in his effort to obtain Dillon's help, might have made representations to Dillon indicating that in return he would request Hogan to favor him in the tax investigation then pending, which may have been either with or without Hogan's knowledge. On the basis of the evidence as it now stands with regard to this incident, it is believed that there are not sufficient facts to warrant the conclusion that Revenue Agent Hogan did attempt to "fix" Dillon's tax case.

An examination of Revenue Agent Hogan's personnel file shows that he entered the service on March 1, 1918 as a Narcotic Agent, resigned to enter the military service during the World War, and upon his return reentered the Government service as a Deputy Collector. He was later promoted to the position of Revenue Agent and has remained in the service continuously to date. At the present time he is in the Conference Section at the Newark office. It is also noted that subsequent to his return to the Newark Division by Special Agent in Charge McQuillan, because of the suspicious circumstances connected with the instances related in this

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In re: Vincent M. Hogan.

report, that he was placed in charge of the fraud squad of the Newark Division and had the status of second assistant to the Revenue Agent in Charge, which position he held during the years 1933, 1934 and 1935. His personnel file also shows several commendatory letters from supervisory officials under whom he has been employed.

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It is noted particularly that the only indications of irregularities affecting this employee from the date of his appointment, March 1, 1918, to date, relate to that short period of a few months during 1931, and that his difficulty at the Gordon trial is an outgrowth of one of the 1931 instances. His record otherwise appears to be satisfactory and his style of living is commensurate with his income. As stated elsewhere in this report Revenue Agent James N. Connolly is now under investigation, SI-6765-C, and the information contained in this report will be made available to the Dallas Division for their use in that investigation.

Recommendation

It is recommended that the information contained in this report be considered in conjunction with your memorandum to the Secretary of the Treasury, dated January 12, 1937, returned herewith.

*Clifton E. Mack*  
Clifton E. Mack,  
Special Agent in Charge.

## BUREAU OF INTERNAL REVENUE

OFFICE OF  
SPECIAL AGENT IN CHARGE

Chief:

Re Rev. Agt. Vincent Hogan

The enclosed hastily dictated memorandum by Ed. Baldwin covers the principal experiences had with Agt. Hogan. Baldwin has been tied-up most of the day with the property assessment case against the old diamond dealer and concluded the memo after 6. P.M. Murphy, Keys and I are of the opinion that he is not above the average agent in ability. He is said to have previously been a narcotic agent in Kansas and is known to the Commissioner.

W. McQuillan

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THE WHITE HOUSE  
WASHINGTON

1/7

1 - Sen. Moore was in and wanted to know "whether the President got in touch with Sec. Morgenthau on the matter he (Sen. Moore) and Mayor Hague were in to see the President about.

"The President was going to get in touch with Sec. M. in connection with the Hogan matter at Newark."

January 12, 1937.

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MEMORANDUM FOR THE SECRETARY:

Joseph H. Baradal is Internal Revenue Agent in Charge at Newark, New Jersey. He was born in New York City, is 48 years of age, married, was appointed to the Bureau of Internal Revenue as an Auditor in January, 1919, and has served continuously in the Bureau since that date. Prior to his appointment, he was employed by the Public Service Commission of New York in the Bureau of Statistics and Accounts for a period of 11 years.

Since 1919 Mr. Baradal has been promoted through various positions having to do with accounting, succeeding to the position of Internal Revenue Agent in Charge at Brooklyn, New York, on November 16, 1928. He was transferred to Revenue Agent in Charge of the Second New York Division on September 1, 1932, and on April 1, 1935, was transferred to the same position at Newark, New Jersey, which position he now holds.

During the two or three years immediately preceding his transfer to Newark, Mr. Baradal was the target for considerable complaint of an indefinite nature, particularly by anonymous letter writers. The position which he held was one of the most difficult in the Service from this point of view. He had supervision of a group of officers who were inclined to be dissatisfied and critical. Numerous inquiries were made concerning the allegations against Mr. Baradal, but nothing was ever learned to justify a conclusion that he was conducting himself in an improper way. Since his transfer to the Newark Division, I have heard no complaints against him.

I have known Mr. Baradal officially for a number of years and have confidence in his integrity and ability to handle all classes of income tax cases. He is recognized as a good man on technical matters and it is my thought that his ability runs rather along this line than as an administrative officer.

Memo. for the Secretary.

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Vincent M. Hogan is 44 years of age, was born in Iowa and listed Kansas as his legal residence at the time of his entrance in the Service. He was appointed in March, 1918, as a Narcotic officer at Wichita, Kansas, but left on June 1 of the same year to enter the army. He reentered the service in September, 1919, as a Deputy Collector in Kansas, in which position he remained until May, 1923, when he became an Internal Revenue Agent assigned to work on sales and miscellaneous tax work. In 1926 he took an examination to qualify on income tax work and in November of that year was appointed an agent with assignment to that type of work at New Orleans, Louisiana.

After a short period in New Orleans, Mr. Hogan served in the Dallas, Texas Division, and in November, 1928, was transferred to the Newark, New Jersey Division, where he has since been employed. He was promoted through the various grades until June 1, 1936, when he received his present salary of \$4600 per annum. He is at this time employed under the direction of Revenue Agent in Charge Baradel at Newark, New Jersey.

Agent Hogan was assigned at various times to work in cooperation with special agents of this Unit on tax fraud cases. I have communicated with Special Agent in Charge McQuillan at New York, and have received the attached report of Special Agent Baldwin, with whom Mr. Hogan was principally employed in the investigation of certain cases of notorious gangsters in New York City, among them being Waxy Gordon, Max Hassell and Max Greenberg. During the course of the investigation in the Waxy Gordon case, Hogan inadvertently mentioned to Special Agent Baldwin that he had recently seen Waxy Gordon. As some of the investigating officers had ever admitted meeting or seeing Gordon, Hogan was questioned concerning the matter. He then stated that upon request of one Cassler, an accountant for the Union City Brewing Company, he went with him to a beer drop in Hoboken, where Cassler introduced him (Hogan) to one Blackie Cohen, Waxy Gordon's lieutenant, on which occasion Waxy Gordon was present. When Agent Hogan was questioned as to why he had not gotten in touch with Special Agent Baldwin or the Internal Revenue Agent in Charge, he stated he did not know. Hogan was questioned on a number of occasions concerning this instance prior to the trial of the Waxy Gordon case, and

Memo. for the Secretary.

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although he gave the District Attorney the same information he had given to Special Agent Baldwin, upon cross examination during the course of the trial in November, 1933, it was disclosed that Hogan had visited Gordon on two occasions and had discussed his income tax affairs with him. On April 12, 1933, when Max Hassel and Max Greenberg, associates of Waxey Gordon, were slain in Gordon's office at Elizabeth, New Jersey, there was found on the body of Greenberg a piece of paper containing Revenue Agent Hogan's name and telephone number. It was significant that Hogan's number was not at that time in the telephone book.

Special Agent Baldwin was also informed by attorneys Culhane and Dillon during the course of an investigation of the Yankers Brewing case, that Revenue Agent Hogan had contacted his client and had accepted money from him. Agent Hogan denied this charge, and while there is no definite evidence to prove the charge, there are certain circumstances indicating that he had at least been guilty of indiscretion.

There are other items of interest with respect to Mr. Hogan in the attached report of Mr. Baldwin.

Aside from the above, I am informed by several of the most reliable agents of this Unit that it is their opinion Agent Hogan is not above the average agent in ability.

*E. J. O.*

Enc.



INTELLIGENCE UNIT

New York

(Name of Division)

EAB:lac

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

New York, N. Y., Jan. 11, 1937.

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MEMORANDUM FOR:

Mr. Hugh McQuillan,  
Special Agent in Charge,  
New York, N. Y.

In re: Vincent M. Hogan,  
Internal Revenue Agent  
Newark Division,  
Newark, New Jersey.

Pursuant to your instructions with reference to the above-named Revenue Agent, the following information is submitted by me:

In connection with the investigation of Irving Daxler, alias Waxy Gordon, (SI-9740-F), Revenue Agent Hogan and I visited the Second Bank & Trust Company, Hoboken, N. J., on or about January 23, 1931, for the purpose of making inquiry as to the bank account operated by one James Henderson. Information had been received by us that James Henderson was an alias used by Waxy Gordon and that this was one of Gordon's beer accounts. Revenue Agent Hogan and I went to the Second Bank & Trust Company on the above-mentioned date, upon your instructions, and examined this account; we left the bank and made no return to it thereafter.

About four months later, Revenue Agent Hogan inadvertently mentioned to me that he had seen Waxy Gordon. As none of the investigating agents had ever admitted meeting or seeing Gordon, I immediately questioned Hogan as to when he had seen Gordon. His explanation was as follows:

He stated that on the day following our visit to the Second Bank & Trust Company, Hoboken, he had been called on the phone by one Cessler, whom he identified as the accountant for the Union City Brewing Company. Cessler advised him, he said, that he knew of our visit to the Second Bank & Trust Company on the day before, and that he wanted to speak to Hogan with reference

to the Henderson account. The Revenue Agent further advised that he met Accountant Cessler at the Lackawanna entrance to the Hudson & Manhattan tubes at Hoboken, and went with him to a beer drop in Hoboken where Cessler introduced him to Blackie Cohen, Waxy Gordon's lieutenant. He said that Waxy Gordon was present on this occasion and that Blackie Cohen introduced him (Hogan) to Waxy Gordon.

When Revenue Agent Hogan was asked by me why he had not gotten in touch with me before making this visit, or Internal Revenue Agent in Charge Jens P. Janson, his explanation was that he didn't know why he had not done so. He gave the same explanation when I asked him why he had withheld for such a length of time his meeting with Waxy Gordon and the circumstances attending same.

Prior to the trial of Waxy Gordon, I communicated this information to Special Agent Walter M. Murphy and I know that Agent Murphy, District Attorneys Dewey, Terbell and Sharpe, questioned Hogan on a number of occasions about this incident and that he then appeared before the Grand Jury. Although he gave the District Attorneys and Special Agent Murphy only the same information he had given me, cross-examination of Agent Hogan during the course of the Gordon trial, in November, 1933, developed from him the further fact that he had visited Gordon on two occasions and had discussed his income tax affairs with him.

On April 12, 1933, Max Bassell and Max Greenberg bootlegger associates of Waxy Gordon, were slain in Waxy Gordon's office on the 8th floor of the Elizabeth Cartaret Hotel, Elizabeth, N. J. There was found on the body of Max Greenberg, in his vest pocket, a piece of paper containing Revenue Agent Hogan's name and his telephone number. It is significant to note that Revenue Agent Hogan had moved and that his telephone number at this time was not carried in any telephone directory.

During the investigation of the Waxy Gordon case, in the Spring of 1931, Revenue Agents James Connolly, Jonas Nutt, Hogan and I were also making an income tax investigation of the Yonkers Brewery, which establishment, it subsequently developed, was owned by Patrick F. Dillon, alias "Frenshy Dillon" and James Culhane. During this investigation, we agents had discussed Dillon and Culhane and it was understood among us that none of the four of us had ever seen Culhane or Dillon or even knew what they looked like.

After this Yonkers Brewery investigation had been pending some time, Moses Polakoff, the attorney representing Messrs. Culhane and Dillon, advised me confidentially that Revenue Agents Connolly and Hogan had met his clients on the outside and had taken money from them, advising his clients that they would see to it in writing their report that no fraud case would be developed against them. With Mr. Polakoff's information in mind, I kept Agent Hogan's movements under closer observation. Some time thereafter, I sent a letter to Mr. Dillon to appear at this office on a certain afternoon. On the prior afternoon, Revenue Agent Hogan was working with Revenue Agent Rutt at the Stensack Trust Company in Hoboken, N. J. On the morning of the day in question, Revenue Agent Hogan advised me that he was going to the office of Down & Hefferman, 250 West 57th St., New York City, as the result of a telephone call that he had received from Mr. Down. Knowing that Messrs. Down & Hefferman were attorneys who had represented Culhane and Dillon in a number of bootlegging cases, I insisted on accompanying Revenue Agent Hogan to Mr. Down's office, although he was reluctant to have me go with him.

When Revenue Agent Hogan and I arrived in the lawyer's office, we found Mr. Down present with a client who later proved to be Mr. Dillon. Mr. Down, upon learning of my identity, became greatly disturbed and wanted to know from me why Revenue Agent Hogan had insisted upon seeing his client (Dillon) prior to Mr. Dillon's appearance before me that afternoon. Mr. Down stated that Mr. Hogan had contacted Mr. Dillon and told him that I was going to ask him a lot of questions about his income tax affairs and that he first wanted to see him in order to prime him as to the nature of my questions. When Revenue Agent Hogan denied this charge, Mr. Down stated that he had had a telephone conversation on the afternoon before with Revenue Agent Hogan, when he learned that Hogan wanted to see Mr. Dillon, and had arranged with Hogan that Mr. Dillon would be present in his (Down's) office on the morning of the next day. In confirmation of his charge, Mr. Down advised me that when Hogan called him up on this matter he told him that he was calling from a bank building over in Hoboken, N. J. At the time, I verified with Revenue Agent Rutt that while he and Hogan were working in the Stensack Trust Company at Hoboken, N. J. Revenue Agent Hogan left him for the purpose, as he stated, to make a telephone call.

During the discussion in Mr. Down's office, I asked Mr. Dillon if he knew Mr. Hogan. He said that he did, but Mr. Hogan denied this. Mr. Dillon then stated that he had first met Mr. Hogan when the Revenue Agent was making an investigation several

years before of Frank Dunne, a New Jersey bootlegger, who had been slain in a gang war. Mr. Dillon advised me that he had received my letter and had intended to come to my office that same afternoon, but that Mr. Hogan had called him up and had insisted that he should first see him (Hogan) before he (Dillon) appeared in my office. He said that he had instructed Mr. Hogan to call Mr. Down and that the appointment had been made for him to meet Hogan in Mr. Down's office.

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After this discussion in Mr. Down's office was concluded by us, we returned to Room 1, Old Post Office Building, and I reported the incident to you in the presence of Revenue Agent Hogan.

Several days later, Mr. Irey came to New York and at your request I again discussed this incident with him.

Shortly thereafter, and as a result of this incident, Revenue Agent Hogan was returned to his Division at Newark, New Jersey.



Edwin A. Baldwin,  
Special Agent.

Interview with Vincent M. Hogan,  
at Room 249, Old Post Office  
Building, Broadway and Park Row,  
New York, N. Y. on February 6,  
1939.

P R E S E N T:

Vincent M. Hogan, Revenue Agent,  
Newark, N. J.

Clifton E. Mack, Special Agent in  
Charge, Boston, Mass.

Henry R. Sunbail, Special Agent,  
Cleveland Division

Agnes Kalasubhin, Stenographer.

Questions: Mr. Mack

Answers: Mr. Hogan

- Q. Do you solemnly swear the testimony you give will be the truth, the whole truth, and nothing but the truth, so Help You God?
- A. I do.

Q. Will you please state your full name?

A. Vincent M. Hogan.

Q. Will you also please state for the record a brief history of your employment in the Government service?

A. I entered the Government service, I think, in February 1916; resigned in May to enter the Army; discharged from the Army in July 1919; re-entered the Government service in September 1919, as deputy collector; in 1920 I worked as deputy collector in Kansas; in 1922, 1923 and 1924 I was assigned to the Accounts & Collections Unit. I was made a revenue agent in 1923 and was assigned to the Accounts and Collections Unit, working out of Washington, until the latter part of 1929 when I was transferred to the Internal Revenue Agent's Office at New Orleans.

EXHIBIT. 1

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- A. I was transferred to the Texas District in the early part of 1928 and was later transferred to the Newark, New Jersey office, in November 1929 and since that time worked as a revenue agent there. During 1933, 1934 and 1935 I was in charge of the Fraud Squad, Newark Division and am at present in the Conference Section.
- B. The purpose of this inquiry is to obtain your detailed explanation of certain incidents. The first, relative to the so-called Waxey Gordon case and certain visits alleged to have been made by you to an address where you met Waxey Gordon. Will you please state the circumstances relating to this incident, which I understand took place along in the Spring of 1931?
- A. In the latter part of 1930 I was assigned a case known as "Waxey Gordon" with instructions from the Agent in Charge, Newark Division, to make the investigation. Due to other work, the investigation was not started until the early part of 1931. At the investigation of the killing of Brady at Hackensack, information was disclosed relative to the account "J. Henderson" alleged to be the account of Waxey Gordon. A transcript of this account was secured from the bank and when the information was presented to the Agent in Charge I was instructed to contact said taxpayer for the purpose of completing the investigation. At that time I told the Agent in Charge that Special Agent Baldwin was also interested in the case and I thought we should await further developments. The Agent in Charge, Mr. Jensen, replied that if we waited for special agents there would be too much delay on the case and to go ahead, contact him in any way possible, and try to close the case. Having met Carl Geissler, who was a later developed bookkeeper at the Union Brewery Company, he advised me that it was possible that he would be able to make arrangements whereby I could meet said Gordon. Having no other means of contact, I later got in touch with Mr. Geissler and an appointment was arranged for the meeting. At the time of the meeting, Mr. Geissler met me at the Tube Station at Hoboken, with a Mr. Black, who he stated was a representative of Mr. Gordon and that they would take me to his address. I accompanied Mr. Black and Mr. Geissler to an address at 801 Madison Street, Hoboken, where I was introduced to Mr. Gordon. I asked for the books and records and bank accounts and any other information he had relative to his income tax. He stated he had no books or records and that he had no bank accounts, and that he had filed his returns. I advised him that we had secured an account in the name of Henderson which we were of the opinion belonged to him. He stated that this might have been a collection account, but when asked further he denied the account was his. I advised

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EXHIBIT- /

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- A. him that we had certain information that it was his account and that I thought we would be able to prove it. He stated that he never had bank accounts and at that instance the conference ended and I returned to Newark. Some time later, having made application for annual leave, I advised the Agent in Charge in Newark that I was unable to do any more on the case at the present. He stated that he wished me to close the case before I took leave and I should again contact Gordon and see if he would be willing to work out his income tax liability on a percentage basis and that if he would present all his evidence, records and bank accounts, we would give it consideration. I again called on Gordon at the same address a few days later, at which time I explained to him what the Agent in Charge had suggested and he again stated he had no books, records or bank accounts, and that if he owed any tax it would be up to us to prove it; that he felt he had paid the tax that was due. The conference ended and I returned again to Newark, where I explained the situation to Mr. Jensen, who advised me to turn the case over to him. I might mention that before the second meeting Mr. Jensen suggested that I serve subpoenas on Gordon for his records and accounts. It was my suggestion that if such procedure were followed the Government would weaken its case if prosecution were necessary, and he decided to withdraw his request. During my absence on annual leave Mr. Jensen submitted the case to the Special Intelligence Revenue Agent in Charge, New York City. When I returned from my leave, I was advised I had been assigned to the Special Intelligence Unit for an indefinite period. When I was assigned to or when I reported to duty at New York I was assigned to work on the case of Dutch Schultz. Later, in discussing the Gordon case I told Mr. Baldwin I had made the both visits to Gordon's place. During the early part of 1933 I was called before the Federal Grand Jury on three different occasions, to give testimony in the case of Maxey Gordon. At that time I testified as to the first visit made to the place of Maxey Gordon and never was it brought out by the Grand Jury about the second visit, nor never did I have a chance to explain in detail relative to either visit.
4. Do you have a definite recollection as to whether or not you were questioned before the Grand Jury concerning the second visit to Mr. Gordon, Mr. Black or Mr. Geisler?
- A. My recollection was that I was asked by a member of the Grand Jury whether I had seen Gordon one other time, and my answer was "yes".

3.

EXHIBIT. /

- Q. Will you please continue with your explanation as to subsequent developments in the Gordon case affecting yourself?
- A. I did no more work on the Gordon case and when the trial of Haxey Gordon took place in New York I was called as a witness. At that time I testified in further detail and explained the both visits as they occurred.
- Q. I would like you to refresh your recollection, if you will, with respect to your testimony at the trial and the testimony given by you prior to the trial concerning the number of visits made to Gordon. Prior to the trial it appears that you testified that you had seen him but once and during the trial your testimony states that you saw him on two occasions. Can you clear up this matter?
- A. The visits and the Grand Jury investigation took place several years ago. It was my recollection that in reply to a question of one of the Grand Jurors as to whether I had communicated with Gordon at another time, my answer was "yes", and while at the trial I testified that I had visited Gordon twice, and explained each visit in detail. Information brought out at the trial relative to the second visit, in my mind, would have a tendency to weaken the Government's case, because Gordon had stated that if he owed any tax he was willing to pay it, and if I answered to the contrary at the Grand Jury investigation, although I was never asked in detail, as I see it now, it was only with the main intention of not giving any evidence which would in any way weaken the case of the Government and not to any intention on my part to withhold any evidence or any information that would be helpful to the Government.
- Q. Can you give any explanation of the incident which occurred along in 1933, at which time your telephone number was found on a slip of paper on the person of Max Greenberg, who was murdered with Max Hassel at Elizabeth Carteret Hotel in New Jersey?
- A. I am unable to give any explanation of how or why my number should be found on the person of Max Greenberg, as I never in my life had any contact whatsoever by 'phone, personal contact, in any way possible with Max Greenberg. In November of 1932 while living at 125 Grafton Avenue my telephone rang late at night on numerous occasions and when answering the 'phone certain remarks were made in broken English, about the boat would be ready or meet so and so at a certain place. Those conversations were never intelligent and I was never able to trace where they were coming from or to find out in any way just what or why they took place unless it was a cross wire or wrong number. In November of 1932 I moved from 125 Grafton Avenue to 760 Clifton Avenue, and after some difficulties

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EXHIBIT- /

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- A. In which I advised the Telephone Company of the numerous calls I didn't know anything about coming to me late at night, they agreed to change my telephone number. Some time after the finding of my telephone number on the person of Max Greenberg, Special Agent Baldwin in discussing the case told me that apparently my number didn't appear in the telephone directory of the City of Newark. The only explanation I can offer for this is the fact that my telephone number was changed and the change was made too late to appear in the next issue; whether that is the case or not, I can't answer, but it was not an unlisted number, and never has there been a request by me to the Telephone Company to not list my number.
- Q. Would you mind explaining the circumstance leading up to a visit made to the office of Mr. Downes, an attorney, during August, 1931; also, the substance of the conversation which took place at that time?
- A. At the suggestion of Special Agent Keyes, Agent Butt and myself appeared at the office of the Internal Revenue Agent in Charge, at 57th Street, requesting to see returns filed by one Frenchy Dillon. We were advised by the Assistant Agent in Charge that Agent Hussey was familiar with the case but was not in at that time and if we would call back the following day that Agent Hussey would give us the desired information. Agent Butt was assigned to other duties the next day, and on instructions by Mr. Keyes, I called on Mr. Hussey, Internal Revenue Agent, and was advised by him that one Mr. Downes had represented Mr. Dillon in tax matters and that copies of the returns could be found in his office, and with Mr. Hussey I called on Mr. Downes and explained the purpose of my visit, that we would like to have copies of the returns. Mr. Downes said at that time he was not at liberty to give us copies but if we would call back in a few days he would advise us as to whether we would be permitted to copy the returns or not. Shortly thereafter, a call came to the Special Agent in Charge's office in New York, from Mr. Downes, advising that the information we desired was ready. As Mr. Butt was still assigned to other duties, I requested Special Agent Baldwin to visit Mr. Downes' office with me. Upon arriving at Mr. Downes' office he (Downes) seemed very much perturbed and he immediately made remarks and suggestions towards me that I was using influence to remove him from the case in preference to another representative. He made certain remarks that I was attempting to contact Mr. Dillon, but he didn't say for what purpose. As the whole thing came to me as such a shock I was really at a loss as to what he was driving at, or offer an

- A. explanation, as I had made no contacts with any one nor made any suggestions relative to the tax case of Mr. Dillon. Mr. Baldwin questioned Mr. Downes about certain items relative to the investigation and certain other information he wanted from Mr. Downes, at the instigation of myself, Revenue Agent Hussey called at Mr. Downes' office, and when questioned by me as to whether I had made any suggestion as to changing the accountant, his answer was "no" that I had made no suggestions to him whatsoever relative to this man's tax case.
- Q. Is your memory definite that you asked Special Agent Baldwin to go with you to Mr. Downes' office, or did he ask to accompany you.
- A. My memory, as I recollect, I asked Baldwin to accompany me.
- Q. Do you recall what the circumstances were?
- A. No, only the fact that a memorandum appeared in the office, in which it stated that the information we wanted was available and Mr. Baldwin was interested in the case, as I had explained to him that I had been advised by Mr. Downes that tax returns had been filed by Mr. Dillon, and I stated it might be a good policy for him to look over the returns as well as myself.
- Q. Did you know Mr. Dillon before the meeting at Mr. Downes' office?
- A. My recollection is that during my visit to the Union Brewery Co., Union City, New Jersey, relative to securing information in regard to the Gordon case, that Mr. Dillon and Mr. Black appeared at the brewery. That is my only contact with Mr. Dillon prior to the meeting in Mr. Downes' office.
- Q. There is certain testimony to the effect that Revenue Agent James W. Connelly lived at the Hotel Edison during 1931 and that it was your habit to visit him frequently. Also, that Mr. Connelly and yourself had met Dillon, Culhane, and others in the bootlegging business, at Connelly's room. What was the situation in this regard?
- A. While Mr. Connelly was living at the Hotel Edison, I visited him on several occasions; mostly in the evening, after working hours, when I might spend an hour or two, and to the best of my knowledge I never visited Mr. Connelly in his room or in his hotel more than three times after seven o'clock, and that never, at any visit with Mr. Connelly in his hotel did I ever meet Culhane, Dillon, or any one connected with their organization, and that Mr. Connelly never suggested to me to meet any of said members there.
- Q. Did you and Mr. Connelly, either together or alone to your knowledge meet any bootleggers outside of office hours?

5. EXHIBIT- /

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- A. I can state definitely I met a man by the name of Murphy (I don't know his full name) from Trenton who I have heard did have some connection with the Gordon gang.
- Q. What was the nature of the meeting? When and where?
- A. I met this man at a dock in New York, upon the occasion of Mr. Connelly taking a West Indies boat trip. I can't give the exact date of this meeting as it has completely slipped my mind. This fellow was in no way friendly with me and had no contact with me whatsoever, and I met him through Mr. Connelly. I think it was about 1932.
- Q. Did Mr. Connelly ever inquire of you concerning tax cases on which you were engaged; specifically, the Yonkers Brewery investigation or any phases of the Gordon case?
- A. After Mr. Connelly returned to his Trenton post, from his assignment with the special agents, about August, 1931, I had very little contact with Mr. Connelly, and to the best of my recollection he did talk to me in a general way about certain cases but didn't ask for any details relative to any specific case or ask me to do or try to do anything regarding said cases.
- Q. Is there anything further that you would like to state at this time that has any bearing on the matters concerning which you have been questioned this morning?
- A. As this investigation started in 1930 and the trial was in 1933, I have tried to the best of my knowledge to answer all questions to the best of my memory. If there is any discrepancy it is no intention on my part to cover up any of my acts in investigations that have taken place, and no disposition on my part, nor has there been at any time, to work against the Government to the advantage of any taxpayer. I have been in the Government service for eighteen years and never in that time has there been any reflections on my character or work to my knowledge in any way. I have tried to conduct myself in my work in a way that there would be no reflection on the Government for any of my acts.
- \* \* \*

I have read the foregoing transcript of my testimony, pages 1 to 7, inclusive, and certify it to be true and correct.

EXHIBIT- /

UNITED STATES vs JOHN DOE

CONTINUED: MARCH 1st, 1933

APPEARANCE: G. S. TARBELL, JR.  
Ass't U. S. Attorney

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V I N C E N T M. H O G A N, called as a witness, having been first  
duly sworn, testified as follows:

BY MR. TARBELL:

Q. What is your business, Mr. Hogan? A. Internal Revenue Agent.

Q. Stationed where? A. Newark, New Jersey.

Q. How long have you been in the service? A. Since 1918.

Q. Did you make an income tax investigation of Irving Wexler?

A. The investigation was assigned to me.

Q. Will you tell the Grand Jury the circumstances under which  
it happened? A. The revenue agent in charge of Newark had picked  
up the name of Irving Wexler as being a racketeer, a large bootlegger.  
So, when authority from Washington come for the assignment, it was  
given to me. For several months, I was not able to find anything  
that would lead up to Wexler or Gordon.

Q. He is also known as Waxy Gordon? A. We got that from the  
papers. In 1931, January or February, a man was killed. At that  
time certain information was brought up connecting Wexler with the  
killing — through some checks. We went over the records and in going  
over the records, we found the name of Henderson in a little note

EXHIBIT- 2

book that the Prosecutor had. In it was a note mentioning some of these checks to Waxy. We took these notes and we traced a deposit going into the Henderson account, so we naturally thought that was Wexler's account. We went to Hoboken and took off the account from the bank. While the thing stopped there, we made certain investigations of the other banks and didn't find anything.

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Mr. Jackson, the agent in charge, sometime in March, called me in and said, "Unless you do something on this case, it is going to be transferred to 57th Street, New York. I want you to make an investigation and close it up." I told Mr. Jackson that it is rather a difficult case and I would advise sending it to New York. He said, "No, I want you to make the investigation." I told him that I met an accountant who said, "I understand you are working on the Gordon case." I said, "I am." He said, "If you ever want to get in touch with him, I think I can arrange." So he gave me a telephone number, with his first name. So I told that to Mr. Jackson. He said, "Call him up and make an appointment. So I called this man up and he said he would call me back when an appointment could be made.

Q. Will you give us his name? A. His name is Geissler. So he called me and made an appointment and met me at the Tubes in Hoboken.

Q. Can you fix, approximately, the date? A. I would say it is in March, the middle of March or the last of March.

Q. In the year of what? A. 1931.

EXHIBIT- 2

Q. Then what happened? A. So we got in a car and he drove down to a place. I don't know the streets in Hoboken. We came to a place that looked like a warehouse. On the way down, the accountant said you will have to talk to Mr. Black. We drove up in front of the warehouse. A man by the name of Black was standing out in front. He introduced me. He said the boss is here, you might as well talk to him.

We went in — into an office, and he introduced me — I don't recollect whether he introduced him as Gordon or the Boss. Anyway, he said, "I understand you are investigating me for income tax." I said, "That's right." He said, "What evidence have you?" I said, "We have an account we think it is yours." He asked me, "What makes you think so?" I said, "We have no information." He said, "Perhaps that is a collection account." I told him we are making an examination, not only our Department but a special agent, and Mr. Friend, Department of Justice. I said, "If we determine the account is yours, we are going to set a tax on it." He said, "McQuinlans' men are investigating me for a couple of years and furthermore, you will never find an account in my name, because I never had one."

Q. Now, give us a description of Mr. Wexler? A. Well, he was a rather short and stout man.

Q. What age? A. Looked to me like a man fifty years old.

Q. What nationality? A. I would say Jewish.

Q. Dark? A. No, neither dark or light, kind of medium.

Q. Thick set? A. Yes.

EXHIBIT- 2

Q. About how tall? A. I would not think he would be over five foot, five.

Q. Did you have any further conversation at that time? A. The only thing he said, "When you get your income tax work out, let me know and I will see what I will do about it." I said, "All right."

JUROR: What did he mean by that? A. When I find what the amount is, he will either agree or disagree.

Q. Did you discuss returns at that time? A. No, nothing was said about returns.

JUROR: You were just trying to connect him with the Henderson account? A. The Henderson account might not have been Gordon's.

Q. Did you have any subsequent conversations with him? A. No.

Q. Either on the telephone or in person? A. No.

Q. Did you ever have any conversation with Mr. Black? A. Never except that time.

Q. Give us a description of Mr. Black? A. Mr. Black, I would say, was a man about five foot, seven or eight, rather heavy set, a Jewish fellow, and he is not striking. You might see a half dozen men looking like him.

Q. How old? A. I would say between 40 and 45.

Q. Have you been in touch with the accountant Geissler at at time since that time? A. I think he called me one time and asked how the case was getting along, and I told him there was

EXHIBIT- 2

nothing further on it.

Q. I know show you a passport picture of Irving Wexler and ask you if that resembles the man who you saw on that day. A. Not very much. The man I saw had a hat on. It seemed to me he had a rather big chin.

Q. Then you can't identify that picture. A. I can't swear that is the man I met.

JUROR: What is Irving Wexler's business? A. All I know is from the newspapers that he is a racketeer and bootlegger.

(WITNESS EXCUSED)

EXHIBIT- 2

UNITED STATES VS. JOHN DOE, CONTINUED  
APRIL 6, 1933

.....  
VINCENT M. HOGAN, called as a witness, having first been duly sworn,  
testified as follows:

Q. You are an Internal Revenue Agent? A. Yes, sir.

Q. Attached to what office? A. Newark, N.J.

Q. As such, were you assigned during 1931 to make an examination of the income tax of one Irving Wexler? A. The assignment was in the name of Wax Gordon.

Q. Were you given such an assignment? A. Yes.

Q. When was it? A. I would say Oct. 1930.

Q. Whom did you first have any conversation with about this?

A. You mean outside our department?

Q. Yes. A. An accountant named Geissler.

Q. Where did you first talk to him and what was said at that time? A. I met this accountant on another case which involved a brewery in Union City and during the investigation of the other party, I mentioned the fact I was interested in checking a party named Gordon.

Q. What did this man say? A. Some time -- I don't remember the exact date -- before the investigation was completed, he said, "If you are interested in getting in touch with Gordon, let me know and maybe I can put you in touch with him." I said, "All right." He tore off a piece of paper and gave me a telephone number with his first name on.

EXHIBIT- 3

Q. With Geissler's first name? A. Yes. He said, "If you want to get in touch with him, call me a few days ahead and I think I can arrange it."

Q. That accountant's name was what? A. Carl Geissler,

Q. What did you do after that? A. I made numerous investigations trying to find something on Gordon and wasn't able to get much. I told the agent in charge I knew of no way to find any of his accounts except one that we had found through a killing that occurred in Hackensack.

Q. What account was that? A. Under the name of Henderson.

Q. Jas. Henderson? A. Yes.

Q. You had reason to believe that was a Gordon account? A. From information we picked up in that investigation and certain check stubs, we believed it was Gordon's. The agent in charge said, "Do you know of any way you can contact him?" I said, "I have a telephone number from a man that said he could put me in touch with him." He said, "See if you can do something on the case."

Q. These check stubs that you were able to work from and trace checks into the Gordon account were the stubs of what person?

A. I wouldn't be sure of the name, it seems it was Marietta.

Q. Would it refresh your recollection if I said it was Solly Moore or Salvatore Moretti? A. Yes.

Q. And investigation of his records occurred after what murder? A. The murder of Mr. Brady in Hackensack.

Q. A truck driver for someone? A. I understand he was a truck driver.

Q. It was after Moretti's arrest for that murder that you were investigating his records and from those records you traced checks into the Henderson account. A. Yes.

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Q. Do you recall on those check stubs any notations which mentioned the name of Gordon or Waxy? A. I recall one notation that mentioned Waxy which I think was our lead that possibly the account was Gordon's.

Q. Do you recall whether it said "Waxy for beer"? A. I don't recall "for beer." I recall the name Waxy.

Q. Did you thereafter call up Geissler? A. Yes.

Q. What conversation did you have? A. I asked him if he could make arrangements for us to meet -- we called him under the name of Gordon. He said possibly it would take a couple days, but he would call me back, which he did, and said the appointment was made and that I was to meet him in Hoboken.

Q. By this time it was during the early part of 1931, January 1931? A. Yes, possibly March of 1931.

Q. What did you do after that? A. I met this accountant at the tubes in Hoboken, we got in a car, which was driven by a chauffeur.

Q. Do you know whether or not that was Geissler's car?  
A. I don't know.

Q. Do you know whether Geissler employs a chauffeur? A.  
I don't know.

EXHIBIT. 3

Q. You were taken in a car with a chauffeur some place? A. Yes.

Q. What kind of car was it? A. If I remember, a Buick.

Q. Closed car? A. Yes.

Q. In good condition? A. Not extra good condition.

Q. Where did you go? A. We went to this warehouse, what street I don't know.

Q. Do you recall whether it was on Madison Ave.? A. No, I don't.

Q. If you went back to the place you could probably remember the locality and the building? A. I think so.

Q. What happened when you drove up to the place? A. On the way down this accountant says, "I think you will have to talk to a man named Black." I said, "It doesn't make any difference to me if he represents the taxpayer." When we got there, there was a couple men standing around. We got out and walked over to a man they introduced as Mr. Black.

Q. Who were the couple men standing around? Were they on guard at the place? A. I didn't pay much attention. Two or three were standing there, they didn't look like guards.

Q. After his telling you you would have to see Black, what happened? A. They introduced me to this man Black.

Q. Inside or outside? A. Outside.

Q. Geissler introduced you? A. Yes.

Q. Do you recall what he said and what Black said? A. Black said, "The boss is here, you might as well talk to him." I followed

him into a little office just inside the door, there was a man in there, I don't recall whether he introduced him as Gordon or whether he said this was the boss. Anyway this party said to me, "Have a chair."

Q. You understood he was Gordon? A. I took it for granted.

Q. It was the understanding you were meeting the boss?

A. Yes.

Q. I show you this exhibit marked "Oath of Allegiance" with a picture at the bottom and ask you if that is the man you met as the boss? A. I can't identify him from that picture for the reason he had a hat on.

Q. That is an excellent picture of Mr. Gordon. A. It is possible with a hat on he might look quite different.

Q. Would you know this man if you saw him again? A. I think I would. I would say this looks like him but as far as swearing it was him, I couldn't do it.

Q. Here is another picture. A. No, that doesn't either.

Q. Are you positive you would know the man if you saw him?  
A. I feel certain I would.

Q. That is a clean cut, accurate, reasonably late picture. To the best of your recollection, is that the man? A. I would say he has a very close resemblance to the man.

Q. After all, this wasn't just a routine case in your mind.  
A. It practically was at that time. The photograph in the newspaper looked entirely different from this.

Q. To the best of your ability to recall, does that look

EXHIBIT- 3

like the man? A. Yes.

Q. After you met this man that was introduced as the boss, what did you say and what did he say? A. He said, "I understand you are checking me for income tax." I said, "That's right." He said, "I have paid my income tax." He says, "What information have you got that I owe money?" I said, "We have information that you have a bank account under the name of Henderson." He says, "Where did you get the information?" I said, "Through an investigation we have picked up this information." He said, "How do you know that account is not a collection account?" I says, "I don't know but I expect to find out." He says, "There have been investigations by McQuillan's office and they never found anything wrong." He said, "You go ahead with your investigation and when you find out what tax I owe, let me know."

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Q. Did he mention anything about this Henderson account possibly being just a collection account? A. Yes.

Q. What did he say? A. He said, "How do you know that account is not only a collection account?"

Q. Did he say anything about our not being able to prove this account was his? A. No.

Q. Recall when you talked to Mr. Murphy and me in the office some time ago? We recall that you said he said "You can't prove it" when you mentioned the Henderson account.

A. Are you sure I said that?

Q. Yes. A. I don't recall it. It is possible he made that statement, I don't recall every word said at the meeting.

EXHIBIT- 3

MR. TARBELL:

Q. Did he mention his correct name at that time? A. No, sir.

Q. Did you ask him where he had filed returns? A. No, our information from Washington was he had not filed returns.

Q. I show you some photostatic copies of certain papers of Solly Moore that you referred to before and ask you if you have seen the originals of those? A. It is hard to recall.

Q. Did you go some place to look at Moore's papers? A. Yes, we went to a bank in Hackensack.

Q. Did you go any other place to see certain papers which had been seized by the local police from Moore? A. We went to the prosecutor's office in Hackensack but I don't think he showed us anything. I think he referred us to the bank.

Q. I show you a ledger sheet; did you ever see that before? A. Yes.

Q. Do you recall where you saw that? A. In the bank, in the vault downstairs.

Q. Those were papers of Solly Moore? A. That is what they told us.

JUROR: Were you assigned to this case by your chief? A. Yes.

JUROR: Did it give the name and address? A. It gave the name of Waxy Gordon, Paterson, N. J.

Q. Did you make an investigation in Paterson to find out where he lived? A. Only from the telephone book.

Q. Was his name in the book? A. Yes.

Q. Under what name? A. Wexler.

EXHIBIT- 3

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MR. SHARP:

Q. At the time you had this short conversation with the boss, was Black there during that time? A. As I recall, Black stood just outside the door.

Q. You would take it this was the boss's office? A. I would take it for that.

Q. Was that at this warehouse? A. Just inside the door of the warehouse.

Q. Was it a separate room? A. Just like a small place built alongside the warehouse.

MR. TARBELL:

Q. Did you ever see Black again? A. Yes.

Q. Where did you see him the next time? A. Shortly after that my chief said, "You better look at the records of the Union Brewery." I went up there and produced my credentials and someone took me inside and said, "You can talk to the manager." I asked the manager if he would tell me his name and for his books and records of the Union City Brewery. I said, "Our information is you have not filed returns." He said, "We have." He got out some books and while he was getting them out, this fellow Geissler — he says, "The accountant is working on the books and will be in any minute" — Geissler came in and I asked to see a copy of the returns and he showed me the copy and I made a preliminary examination and said, "Our information was you have not filed returns but since you have, we will make it a point to make the investigation later." As I was getting ready to leave, Black

EXHIBIT- 3

Hogan PH 9

comes in again and said, "Are you still investigation for income tax?" I said, "Yes." That is all he said and I went out.

Q. Did you ever see him any other place? A. No.

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(WITNESS EXCUSED)

EXHIBIT- 3

MEMORANDUM

In re: Vincent J. Hogan

Excerpts from the trial testimony. Questions by Dewey,  
Answers by Hogan (Page 1501 of the transcript).

79

Q. About what month of 1930 did that occur?  
A. That I made the appointment.

Q. Yes.  
A. In March.

Q. In March 1930?  
A. In March 1931.

\*\*\*\*\*

Q. Did you come back again?  
A. Yes, sir, made one more visit.

Q. Where?  
A. The same place.

Q. Whom did you find there that day?  
A. The same people.

Q. Did you have a conversation?  
A. Yes, sir.

Q. With whom?  
A. The same man.

\*\*\*\*\*

Cross-examination by Mr. Frumberg:

Q. When was this first conversation with Mr. Gordon that you testified about?

A. I would say between the 15th and 30th of March 1931.

Q. Who was present at that conversation?  
A. Mr. Black.

Q. Who else?  
A. That is all I remember.

Q. Was it in the morning or the afternoon or the evening?  
A. In the afternoon.

EXHIBIT- 4

Cross-examination by Mr. Frumberg (Cont'd):

Q. About what time?

A. I would say about 2:30.

Q. Had you seen or met Mr. Gordon before that time?

A. I had not.

Q. How many times have you seen Mr. Gordon since that time?

A. Once.

Q. When you first saw Mr. Gordon he told you that he had no bank accounts?

A. Yes.

Q. And that he had no records?

A. That is right.

Q. And that if he owed any income tax he would pay it?

A. That is right.

\*\*\*\*\*

Q. How long after that was your second conversation?

A. I would say approximately ten days.

Q. What was the occasion of that visit?

A. I had asked for my leave to go home. Mr. Jensen, the Agent in Charge said, "You can't go home until you complete that case". He said, "The 57th Street Division of the New York Internal Revenue has asked that the case be transferred to them". "I want the case closed and I want the tax in this division".

Q. Then what did you do?

A. I made the second appointment.

Q. With whom?

A. With Mr. Geissler.

Q. You saw Mr. Gordon again?

A. That is right.

Q. About what time in March 1931, was that, do you know?

A. The second appointment?

Q. Yes, the second ~~appointment~~ trip.

A. It is either the last of March or the first of April.

Q. Mr. Gordon treated you very courteously?

A. He did, yes.

EXHIBIT- 4

\*\*\*\*\*

13 February, 1937  
Noon

COAST GUARD OPERATIONS IN FLOOD AREA

- - - -

The Coast Guard force totaling 22 seagoing units, on which are based approximately 30 boats, and five planes - in the Mississippi Valley - is engaged principally in transporting refugees and workers along the levees and in affording radio communication facilities throughout the flood zone.

- - - -

General Water Level Conditions.

Crest is a little below Helena, Ark., the river rising slowly all the way to New Orleans - 18.2' - where crest is expected between February 20-25.

Helena

Citizens' Service Exchange  
Richmond, Virginia

File 2-11-37  
82

Report on the Co-ordination of the Citizens' Service Exchange's activities with those of Federal, State and Local agencies for the Calendar year, 1936.

Purpose: To give unemployed people, men and women, white and Negro, the opportunity of providing for themselves goods and services needed, to raise their standard of living.

The Citizens' Service Exchange was organized by the Council of Social Agencies, started operations January, 1933; financed by the Richmond Community Fund for first six months; paid salaries of four supervisors each year; Federal grants 1933, 1934, 1935, for operating expenses and equipment; Community Fund and Federal Government matched funds in 1936, and 1937 the Community Fund assumed all financial responsibility for the agency.

Members are paid in scrip, one hour of scrip for each hour worked. All goods and services are priced in hours of scrip, nothing is sold for cash.

Sponsoring Board:

Five members from the Richmond Community Fund, five from Council of Social Agencies, and five from Central Trades and Labor Council compose the Sponsoring Board, which meets annually to elect the Board of Directors.

Board of Directors:

Composed of 15 representative men and women, meeting monthly; all actively interested and cooperative and each member serving on a Committee.

Participants' Assembly:

All members of the Exchange, electing own officers and Executive Committee, meeting twice each month.

Civilian Conservation Camp

National Park Service

Resettlement Administration

Trees cut on land being developed as a recreational center in Chesterfield County, were given to the Exchange and hauled by its trucks and made available as fuel for its members.

Works Progress Administration:

88 workers under this project, including Supervisors of Departments. One-half of the wood cut by the laborers on this project is made available to relief clients of the City Social Service Bureau.

Emergency Educational Program:

20 instructors in various departments of the Exchange; 280 young people trained and placed in jobs in private industry during the past 18 months.

Visiting Housekeepers:

In order to keep in closer touch with Exchange families and to help them in the budgeting of their incomes and to help them improve home conditions, one visiting housekeeper has been used on this project during the year.

National Youth Administration:

135 youths assigned to this project since June 6th, 1935; all placed in Departments to learn trades; average of five a month placed in jobs in private industry.

Transients:

Travelers' Aid Society  
Y. W. C. A.  
Citizens' Service Exchange ) Cooperating

The Citizens' Service Exchange started its program of work for transients when requested to do so by the Federal Transient Bureau in Richmond. When the Federal Government withdrew from this field, the Exchange secured a farm from the Y. W. C. A. and provided work for the white, unattached men coming to the city. 2,283 transients were handled from April 15th to December 31st, 1936, on the farm. Case work was provided by the Travelers' Aid Society.

Virginia Department of Welfare:

The Virginia Director of Public Welfare assumed responsibility for the W. F. A. project at the Exchange during 1936; several wards of this Department have been taught trades at the Exchange.

Richmond Department of Welfare:  
(Social Service Bureau)

The Exchange provided work for 198 relief cases of the Social Service Bureau. Our case worker keeps in close touch with case workers of this Bureau.

Richmond Department of Public Works:

Furnished services of architect and engineer for drawing up plans and specifications for remodeling of another abandoned school building for trade training classes.

Richmond Department of Public Safety:

Furnishes the Exchange with two buildings, one for its operating departments and one for storage purposes.

Richmond Community Fund:

The Community Fund matched Federal funds for operating expenses of the Exchange during 1936.

Bureau of Recreation:

Provides recreational director for young peoples' activities at the Exchange.

Community Recreation Association:

Furnishes recreational directors for activities at lunch time and also music instructors.

Out-Patient Department of the Medical College of Virginia:

All members of the Exchange received complete physical examinations and follow-up treatments. 1,792 visits were made last year to the Clinic. The Exchange redeemed scrip for the Medical College by making orthopedic pads, etc., for its clients.

Richmond School Board:

Four teachers furnished the Exchange during 1936. Trade training opportunities will be enlarged during 1937, the Richmond School Board furnishing the teachers and the Citizens' Service Exchange furnishing the program and supervision. The Exchange puts on annual campaigns for used toys through the public schools for Exchange members.

Surplus Products:

The Exchange has received surplus products through the State Relief Administration, consisting of feed, which was used for the mid-day meals, raw wool, cotton and ticking.

Industries, Merchants and Individuals:

Commission merchants exchange surplus food for labor; oil drums are secured to be made into stoves; string, rope and surpluses of all kinds are secured from department stores and industries; labor is provided the Milk Bottle Exchange, which in turn furnishes our members with milk; individuals exchange surplus clothes, furniture, etc. for surplus labor.

Real Estate Exchange:

Houses are turned over to the Exchange, which agrees to put them in repairs for use for one year; houses are in turn rented to participants for 40 hours of scrip a month. 39 families are now in Exchange houses.



TREASURY DEPARTMENT  
INTERNAL REVENUE SERVICE

INTELLIGENCE UNIT  
(Boston)  
New York  
(Name of Division)  
SI:CRM:eam

Washington, D. C., February 13, 1937.

*Confidential*  
*File*

MEMORANDUM for Mr. Irey:

With reference to the recent investigation of Revenue Agent Vincent Hogan, Newark, New Jersey, information was obtained indicating that Frank Hague is opposed to Mr. Barradel because of tax investigations now going on involving Hague and one Milton, an attorney closely associated with him. Special Agent Adams in conjunction with Revenue Agents Claggett and Westrich investigated Hague several years ago and a substantial tax liability was disclosed and paid. It so happened that these revenue agents were in the Brooklyn Division and that Mr. Barradel was their Revenue Agent in Charge at that time. Since then he went to lower New York and recently to the Newark Division. It is further understood that Mr. Barradel is keeping in close touch with the present investigation of Hague and Milton, with a view of obtaining all taxes due, and it is very likely that the immediate cause of criticism against Mr. Barradel is due to the present investigation involving Hague.

*Clifton E. Mack*  
Clifton E. Mack,  
Special Agent in Charge.



GENERAL COUNSEL  
TREASURY DEPARTMENT  
WASHINGTON

88  
87

February 10, 1937.

MEMORANDUM FOR THE SECRETARY:

For your information -

On January 11, 1937, a hearing was had in the Chambers of Judge Julian W. Mack in New York (the hearing having been continued from January 8th due to Judge Mack's indisposition) on a motion to dismiss the pending petition filed by various creditors and security holders to reorganize the Associated Gas and Electric Company under section 77-B of the Bankruptcy Act, as amended. Mr. Frank Wideman and Mr. Lucius Buck represented the Government in its status as amicus curiae at the hearing. Mr. Arthur H. Kent, Assistant General Counsel, was present as an observer.

Mr. Jack Kraus, counsel for the principal group of petitioning creditors, and Mr. Charles M. Trevis, chief counsel for the Associated (debtor) Company read statements outlining the history of the case, the negotiations between the Company and the petitioners resulting in the signing of a stipulation by the terms of which, if a favorable report should be made by a firm of independent auditors selected to determine the current financial condition and earnings status of the debtor Company, the parties were to seek a dismissal of the pending proceeding, and the fact that the auditors so selected had made a favorable report. Under the stipulation three independent directors had been elected to the Board of the debtor Company to represent the creditors, the Board consisting of eight members.

Judge Mack then called for objections to the dismissal of the proceeding. None were forthcoming, but Mr. Wideman stated for the Government that he would wish to be heard if the Court contemplated that its action upon the motion to dismiss could be regarded as involving approval by the Court of the terms of the stipulation. Mr. Wideman had made it clear that the Government was not a party to this stipulation nor to the negotiations pending thereto, was in no sense bound by its provisions, and reserved to itself the right to avail itself of any means or remedies not only to protect the assets of the company but to collect its tax claim independent of what might be done on the pending motion.

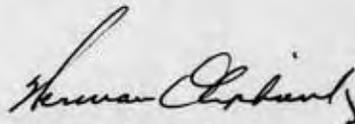
MEMORANDUM FOR THE SECRETARY.

88

The Court then stated in very clear terms that he deemed it neither his duty nor right to express approval or disapproval of the stipulation entered into by the parties and that there would be no approval thereof contained in any recital contained in the Court's decree embodying the action on the motion. The Court would go no further than to grant the motion to dismiss made previously by the defendant Company and consented to by the petitioning creditors.

Judge Mack firmly adhered to this eminently proper position despite pressure from Mr. Kraus to give some indication of approval of the stipulation and his manifest discomfiture that the Court refused to do so.

The motion to dismiss was then granted.



General Counsel.

MEMORANDUM FOR THE SECRETARY.

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(Signed) Herman Oliphant

General Counsel.

AIK:rgb 2/8/37

AIK

February 11, 1937.

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February 10, 1937.

MEMORANDUM FOR THE SECRETARY:

On January 11, 1937, a hearing was had in the Chambers of Judge Julius W. Mack in New York (the hearing having been continued from January 8th due to Judge Mack's indisposition) on a motion to dismiss the pending petition filed by various creditors and security holders to reorganize the Associated Gas and Electric Company under section 77-B of the Bankruptcy Act, as amended. Mr. Frank Wideman and Mr. Lucius Buck represented the Government in its status as amicus curiae at the hearing. Mr. Arthur H. Kent, Assistant General Counsel, was present as an observer.

Mr. Jack Kraus, counsel for the principal group of petitioning creditors, and Mr. Charles M. Travis, chief counsel for the Associated (debtor) Company read statements outlining the history of the case, the negotiations between the Company and the petitioners resulting in the signing of a stipulation by the terms of which, if a favorable report should be made by a firm of independent auditors selected to determine the current financial condition and earnings status of the debtor Company, the parties were to seek a dismissal of the pending proceeding, and the fact that the auditors so selected had made a favorable report. Under the stipulation three independent directors had been elected to the Board of the debtor Company to represent the creditors, the Board consisting of eight members.

Judge Mack then called for objections to the dismissal of the proceeding. None were forthcoming, but Mr. Wideman stated for the Government that he would wish to be heard if the Court contemplated that its action upon the motion to dismiss could be regarded as involving approval by the Court of the terms of the stipulation. Mr. Wideman had made it clear that the Government was not a party to this stipulation nor to the negotiations pending thereto, was in no sense bound by its provisions, and reserved to itself the right to avail itself of any means or remedies not only to protect the assets of the company but to collect its tax claim independent of what might be done on the pending motion.

**MEMORANDUM FOR THE SECRETARY.**

The Court then stated in very clear terms that he deemed it neither his duty nor right to express approval or disapproval of the stipulation entered into by the parties and that there would be no approval thereof contained in any recital contained in the Court's decree embodying the action on the motion. The Court would go no further than to grant the motion to dismiss made previously by the defendant Company and consented to by the petitioning creditors.

Judge Mack firmly adhered to this eminently proper position despite pressure from Mr. Kraus to give some indication of approval of the stipulation and his manifest discomfiture that the Court refused to do so.

The motion to dismiss was then granted.

(Signed) Herman Oliphant

General Counsel.

AEK:rgb 2/6/37

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 13, 1937, 5 p.m.

NO.: 205

STRICTLY CONFIDENTIAL FOR TREASURY.

This telegram supplements No. 203 of February 13, 1 p.m., from me:

This afternoon in a conversation with Blum he told me the financial situation was most disquieting, and that in two or three days he would like to discuss it with me at length. He said that Auriol was not going to London in search of a new loan from the British. From his conversation I got the impression that he had become convinced France is obliged to make some change in its financial policy.

BULLITT.

EA:LWW

U

GRAY

Bombay

Dated February 13, 1937

Rec'd 6:30 a.m.

Secretary of State

Washington

February 13, 11 a.m.

FOR THE SECRETARY OF THE TREASURY.

Silver market steady but dull during the week and fluctuations were restricted to rupees 0-8 per 100 tola with highest at 50-6 and lowest at 49-14 closing at 50-2. Stocks on hand augmented to about 34,000 bars and average daily offtake about 260 bars. Silver valued at 759,800 pounds en route to Bombay and week's imports about 4,609 bars from London.

Gold market quiet opening at rupees 35-3-3 per tola advanced sharply to 35-5-6 due to the sudden appreciation of the dollar but closed at 35-2.

WATERMAN

HPD

February 15th

If the President does not succeed in getting his legislation on the Supreme Court, and I do not think that he has better than a 50-50 chance of getting it to-day, I am going to suggest to him that he immediately call a conference of the leading countries of the world for disarmament and, in that way, take the minds of the people in the United States off his defeat. Of course, I am not going to make this suggestion to him at this time because I do not want him to think that I think he only has a 50-50 chance.

Certainly the sentiment is rolling up against him. I hear it on every side. I have not met anybody who thinks well of it. Certainly the only person who can save it is the President himself.

15 February, 1937  
4 p. m.

COAST GUARD OPERATIONS IN THE FLOOD AREA

The Coast Guard is removing all of its relief force north of Memphis, except at Paducah where 13 boats are being retained at the request of the local authorities.

Operating in the Mississippi is a force of 22 seagoing units, on which are basing 30 boats, this relief force following the crest of the flood all the way down the river. Four planes (2 at Memphis and 2 at Baton Rouge) are furnishing aerial facilities in the Mississippi Valley.

Captain Reinburg, Commander of the Coast Guard Relief Force, is still at Memphis, and has despatched Commander Coyle to Natchez to make arrangements for assistance in the Lower Mississippi in cooperation with the Red Cross and Army Engineers.

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General Water Level Conditions.

Crest this morning at Greenville, Miss. - 52.2'. Rising slowly to the southward; Vicksburg, Miss. 52.4'. No change in level at New Orleans - 18.4' - where it is expected to rise to about 19' on February 18-19.



TREASURY DEPARTMENT

WASHINGTON

February 15, 1937.

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MEMORANDUM FOR THE SECRETARY

Subject: Stationing Additional Treasury Representative in Japan.

The plan contemplated with regard to establishing an additional Treasury representative in Japan to work on narcotics smuggling only is fully explained in my despatch of October 14, 1936, copy attached marked A.

The action taken with regard to this proposal has been as follows:

(a) Our Ambassador Tokyo advised the State Department in despatch dated November 30, 1936, to the effect that the Japanese Government would give permission for the stationing of such a representative in their country. It was further stated that the Japanese Department of Home Affairs, which is the agency having cognizance of prevention of narcotic smuggling out of Japan, would welcome the assistance of such an individual. Reservation was made by the Japanese Government to the effect that the Treasury representative would be required to communicate primarily with the appropriate officials of the Foreign Office only. However, in case of pressing emergency he might be allowed to deal with officials of the Department of Home Affairs. Further, should the Treasury representative seek to obtain information he would not be permitted to request it from private individuals, from local police officials or from the Department of Home Affairs but would be required to make his request to the Foreign Office. Also, it would have to be understood that should the Japanese Government desire to send officials to the United States such officials would be accorded such privileges and rights as would be given to our Treasury representative in Japan. In view of the foregoing reservations our Ambassador, Tokyo felt that such would prevent the representative's activities from adding much to the work already being done through existing channels.

(b) The State Department, under date of December 3, 1936, informed the Treasury of the contents of the Ambassador's despatch mentioned above and stated that they agreed with the view expressed by the Ambassador. Their communication further stated, in effect, that they would not feel justified in going ahead with the matter.

It would appear that the most important feature of stationing the new Treasury Attache in Japan has been ignored to a great extent in the two communications above mentioned. This feature is that the Treasury representative was not to be placed there only for the purpose of speeding up requests for information from the Japanese Government, but what is most important, to be on the ground to furnish the Japanese Government hot cable information received from our Customs channels at home regarding actual proposed smuggling shipments to be made out of Japanese ports, with a view that the Japanese police could prevent such shipments being made. The consequent protection to N.Y.K. and other important Japanese steamship lines was immediately recognized by N.Y.K. when I talked with them in Tokyo and they expressed themselves as heartily in favor of the plan.

It is felt that since the Japanese Government offers us permission to station a representative as proposed in their country, even though with certain reservations, it would be a very good move for us to take advantage of this permission. Once our man becomes established in Japan, his importance and value to both Governments should soon become so evident as to give him the status of persona grata.

Attention is called to the fact that the present arrangement now in effect in Japan was only accepted by the Treasury Department for the time being, as is set forth in Treasury letter of May 18, 1933, copy attached marked B.

Respectfully,

*B. M. Thompson*

B. M. Thompson.

Enclosures.

October 14, 1936.

No. 212.

SecState Washington

Department's 107, August 19,

1. Commander Thompson requests the following communication be delivered to Secretary Morgenthau:

Quote To Secretary of the Treasury, information Embassy, Tokyo, and State Department, Washington

Study of narcotics smuggling situation in Japan, including talks with Government officials, Prefectural police and others indicates Japanese Government, due to recent publicity in Geneva, increased smuggling narcotics from Japan to United States involving specialized use of their own steamship lines with consequent liability to penalties, realization our Treasury's determination to stop smuggling as evidenced by our recent impressive efforts, and to unfavorable international light smuggling traffic now places them, will work to stop smuggling out of Japan and is now in receptive mood toward actual effective cooperation. Practical solution recommended is the stationing of another Treasury Attaché in Japan attached to Embassy who shall be assigned exclusively to narcotics and who shall operate openly as the Embassy's contact. Payment of rewards for information can be dispensed with, if desired, as success of endeavor not dependent thereon. The foregoing will not affect maintenance of existing arrangement for exchange of information between Embassy and Foreign Office but will simply be another link therein. New Attaché must be a picked man,

intelligent, personable, and cooperative. Establishment of such an individual here functioning as the Embassy contact with Foreign Office, or more preferably with the Home Office direct, will result in immediate action on exchange of information in place of delayed action by Japanese on official letters often running into months. This Treasury Attaché being in immediate cable communication with our excellent Treasury Narcotics Information system recently established headquarters San Francisco and so successfully functioning, can place at once in hands of Japanese authorities information on prospective smuggling endeavors which will enable these authorities to thwart them before narcotics get aboard ship to leave Japan. I have talked situation over with Japanese official in the Home Office responsible for all anti-smuggling enforcement. He said that an arrangement for direct contact with Prefectural police at Kobe and Yokohama with present Treasury Attachés situated there or consuls could not be arranged since these police are not permitted to deal directly with representatives of foreign governments but that the proposition outlined above would be entirely acceptable to him and that he could transmit information supplied immediately to Prefectural police. Japanese steamship officials with whom I talked enthusiastically favor above plan, particularly in view of specialized use of their ships by Japanese smugglers due crew contacts.

Proposition above boils down simply to stationing another Treasury Attaché here to work on narcotics only and

provides

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provides the additional cog necessary for quick action. Such a step should be important in indicating to Japanese Government that we mean business in stopping narcotic smuggling and in influencing them to take one step necessary to stop narcotics smuggling from Japan, namely, to instruct the police, these being under national control, positively and flatly that the smuggling must be stopped. Police system is such that same can be done.

Above forwarded through Embassy Tokyo for comment

Commander Thompson Biltreasury

Unquote

2. Embassy's comments follow in separate telegram.

DICKOVER

(COPY)

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May 18, 1933.

The Honorable,

The Secretary of State.

Sir:

Receipt is acknowledged of your confidential letter of April 18, 1933, your file FE 894.114 Narcotics/, regarding investigations in Japan of matters relating to the smuggling into the United States of narcotic drugs of Japanese manufacture.

You state that, for many reasons, in view of conditions existing at the present time, your Department considers it advisable that all requests to the Japanese Government for the investigation of cases involving narcotic drugs should, for the time being, be presented to the Japanese Foreign Office by the American Embassy at Tokyo.

I have to advise that, while this Department has ample facilities and qualified personnel in the office of the Treasury Attache at Kobe to conduct such investigations, in view of your statement that conditions existing at the present time make it advisable that requests to the Japanese Government for narcotic investigations should be presented to the Japanese Foreign Office by the American Embassy at Tokyo, this Department is willing to acquiesce, for the time being, in the plan you suggest and is appropriately instructing its officials.

By direction of the Secretary:

Respectfully,

(Signed) L. W. Robert, Jr.  
Under Secretary of the Treasury

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 15, 1937.

MEMORANDUM OF DAY'S ACTIVITIES  
FOR FEBRUARY 15TH.

TO THE SECRETARY  
FROM MR. MAGILL

1. Taxation of Non-Resident Aliens.

As the result of the conference this morning between yourself, Mr. Landis, Mr. Eccles and their respective staffs, it was agreed that our proposal #2, which you recommended, would be put into shape. Mr. Landis and Mr. Eccles will give me supporting memoranda tomorrow morning, and each will send two men to confer at 3 P.M., tomorrow regarding the proposed legislation.

2. Bureau Administration.

Commissioner Helvering, Mr. Shafroth and Mr. Marrs (who is Head of the Technical Staff) are coming in Wednesday afternoon to discuss the possibilities of greater cooperation in the settlement of cases pending for hearing before the Board of Tax Appeals. Mr. Herbert S. Wood has given me a long memorandum suggesting changes in the procedure for the determination of deficiencies in income taxes. The general tenor of his suggestions is in the direction of giving greater power to settle cases to the local Internal Revenue Agents' Offices. He also recommends placing more competent men in the local offices with a view to improving the quality of the auditing of taxpayers' returns.

Dictated but not read by  
Mr. Magill

# TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE February 15, 1937

TO Secretary Morgenthau

FROM Mr. Magill

Subject: Conference on Revenue Legislation, February 11, 1937

Present: Secretary Morgenthau      Mr. Olyphant  
          Senator Harrison            Mr. L. H. Parker  
          Representative Doughton    Mr. Magill

Senator Harrison stated that he would like to get an agreement between the Treasury and the chairmen of the two committees, before he called a meeting of the Joint Committee on Internal Revenue Taxation.

Mr. Parker said that he had been studying the manufacturer's excise taxes and undistributed profits tax, and had requested information and estimates from the Treasury. The estimates on the undistributed profits tax revisions which were requested had been sent to him; and a copy was put before him.

Senator Harrison suggested the desirability of amending the undistributed profits tax law to provide some relief to debt-ridden corporations, and corporations wishing to expand their plant. He suggested some provision for credits for both purposes, and for a general exemption from the tax of the first 10 to 20 percent of undistributed earnings.

Secretary Morgenthau stated that he had floated \$24 billions of securities in three years; that he thought that deficit financing must be stopped if we were to avoid currency inflation. The budget can probably be balanced in 1938 if we keep our present revenues, and do not add new expenditures. It would be better to injure a few people by unfair taxes than to ruin the country by uncontrolled inflation.

Mr. Parker said that his investigation showed that it would be practically impossible to provide a full credit for payments on debts without ruining the productivity of the tax. The Treasury estimates indicated that there would be a loss of \$187 millions, if the first 10 percent of undistributed earnings were exempted from the tax.

After some further discussion, Mr. Doughton said he wished to put the extension of all the excises which expire in the summer through his Committee in the next ten days. Senator Harrison indicated that he would prefer to wait until about May, before taking up the bill in the Senate, since it would be easier to put the extensions through if the taxes were

Secretary Morgenthau 2/15/37 -- 2 -

about to expire. He also stated that he felt, in view of the Secretary's statement, that amendments to the undistributed profits tax should wait until after March 15, when the returns come in, and we can see better how the revenue receipts compare with the estimates. The Secretary said he would so advise the President.

The Secretary also said he might have something to propose to the Committees for quick action, in order to check the inflow of foreign gold, probably a simple increase in the withholding rate on non-resident aliens.

*Rm*

February 15, 1937

I told Bell today that twice a month, while Congress is in session, I want to go over with him to the White House with a statement showing how the Budget has changed because of new legislation and give him a picture of the set-up. I said to Bell, "I do not at any time want him to come back and say, 'Henry, why didn't you and Bell warn me of this or that change?'"

Feb 15, 1937

Monday, Jan 20 - 1937

MEMORANDUM FOR MR. BELL:

The following resume deals with the situation with respect to the general public works program to be provided for annually in the Budget.

The estimates submitted under the annual program of about \$500,000,000 are to a large extent based on authorizations for public works which have been made by the Congress in prior years. The estimates for some of the agencies, however, are not based on any prior authorizations. Projects under the Bureau of Reclamation and the Bureau of Indian Affairs, for example, appear for the first time in the estimates of appropriation. The form of the authorizations for public works varies materially. In some cases, such as public buildings and rivers and harbors, there is a general authorization to select from the list of projects submitted periodically to the Congress. In other cases such as Federal aid highways the authorization consists of an amount covering a specific period under which allotments are made to States under a prescribed formula. A third type is the authorization in a definite amount for a specific project.

At the last session of Congress authorizations for public works amounted to about \$1,100,000,000, principal items being the Highway Act, the Mississippi River Flood Control and the Omnibus Flood Control Acts. In addition to these authorizations the Rural Electrification Act provided an authorization of \$410,000,000 for loans to aid in rural electrification. There were included in the Budget estimates of appropriations for public works totaling \$465,000,000 partly based on these authorizations, partly

*I further hope to give Pres. a report of this nature very soon. My location is in session. H. M. P.*

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on prior authorizations and partly for projects for which no previous authorization was necessary. There are still outstanding authorizations for which no estimates have as yet been presented, totaling about \$1,400,000,000, of which amount about \$1,150,000,000 is for rivers and harbors, flood control and highways. It would be appropriate to mention here that the existing highway authorizations only cover the fiscal years 1938 and 1939 although it will not be necessary to appropriate all of the money in those two years since the actual expenditures under part of the authorizations would be deferred to 1940 and no appropriation need be made prior to that time.

In connection with the report of the National Resources Committee on public works planning which was submitted to Congress by the President on February 3rd, it is contemplated that there should be a long-term program setting forth a list of projects which Congress might consider for adoption and which would act as a reservoir from which to draw the items to be included in the annual public works program presented in the Budget. This would not preclude Congress from making any changes in the authorizations either in types of work or in amounts. It further provides for an annual revision of these projects so as to maintain the reservoir. This system would provide a reserve of approved projects so that in times of depressions the volume of public works construction might be rapidly expanded.

Under the present system there is no provision for realignment or resurvey of existing authorizations and in many instances the authorizations

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remain on the books though the need for them may have terminated. One difficulty experienced with such authorizations is the fact that they are frequently assumed to be mandatory rather than permissive and pressure is brought to bear to secure appropriations simply because these authorizations have been made, regardless of the present need for carrying out the authorization. If too large a sum is authorized for various classes of public works projects it will be difficult to resist the demands for appropriations and the tendency will be to increase the general public works program far beyond the annual amount contemplated. For example, at this session of Congress bills have been introduced providing for public works such as buildings, rivers and harbors, flood control and housing, which authorize appropriations of about \$5,000,000,000. Of course many of these bills will never secure Committee approval, but on the other hand there may be a strong sentiment aroused for certain types of bills such as flood control and housing which will add further huge authorizations to those already existing. It seems to be most important to attempt to exercise some control over the authorization of appropriations in order that a control over appropriations themselves may be made effective. Unless this is done it will be extremely difficult to resist the demand for increased public works appropriations, particularly with the decrease in emergency allocations for these purposes.

It is likewise important that the governmental agencies be controlled in the execution of their respective parts of the program so that they will

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not undertake construction on a scale that will necessarily cause an expanding program of expenditure in subsequent years. These agencies must stay within definite bounds both as to the rate of progress on the projects and as to the initiation of new projects. The estimates of appropriation submitted in the 1938 Budget for general public works total \$465,000,000 and with the probable demand for acceleration of rivers and harbors and flood control projects the need for a definite and positive control over the spending agencies is readily apparent if the cost of such public works is to be kept within the limit of \$500,000,000. The various departments and establishments involved should be instructed immediately that their work program must be planned and carried out so that the rate of expenditure will remain within definite limits for the next six years for otherwise it will not be possible to control the cost of the entire program. These limits should be determined and fixed prior to the commencement of expenditures under the appropriations for which estimates were included in the 1938 Budget.

The list of projects prepared by the National Resources Committee covering the six-year program is based on the recommendations of the various departments and independent establishments and no attempt has been made by the Committee to segregate the desirable from the undesirable. Under these projects the estimated expenditures of federal funds for the six years would be \$5,011,000,000 and at the end of that period it would still require \$680,000,000 to complete the projects. The projects included in this survey consist of construction, repairs and non-construction projects and include, of course, the authorized projects which have been referred to above. There is set forth on the following page the total estimated cost of the Federal projects included in the first year's program by types of work, arranged under the three headings, construction, repair and non-construction.

## Type

## Total estimated cost of Federal Projects

	Construction	Repairs	Non-construction
1. - Streets and Highways.....	\$1,189,373,527	\$64,176,930	-
2. - Grade-crossing Eliminations.....	301,300,000	-	-
3. - Educational Buildings and Equip..	37,502,102	1,668,811	-
4. - Buildings.....	689,531,636	125,755,921	-
5. - Slum Clearance and Low-Cost Housing projects.....	4,472,865	-	-
6. - All Recreational Projects.....	52,021,854	2,391,766	-
7. - Irrigation, Drainage and Flood Control.....	1,618,801,841	19,000	\$1,000,000
8. - Soil Conservation.....	377,300,765	5,000	35,472,542
9. - Forest Conservation & Develop., Game Protection, & Pest Control..	316,955,069	683,675	5,360,000
10. - Waterworks Projects.....	3,537,702	3,262,411	-
11. - Sewer Projects.....	1,248,887	1,640,323	-
12. - Electric, Gas, & Heating Projects	416,088,946	7,257,830	-
13. - Communication Facilities.....	9,385,482	12,541,537	-
14. - Railroads.....	2,151,350	5,609,715	-
15. - Water Navigation Aids.....	931,349,303	16,554,704	-
16. - Vessels.....	47,845,000	34,770,151	-
17. - Aviation Aids and Facilities.....	23,857,644	3,794,178	-
18. - Planning Surveys and Studies.....	195,318,747	-	8,232,000
19. - Miscellaneous.....	28,993,141	9,486,712	-
<b>Total.....</b>	<b>\$6,247,035,861</b>	<b>\$289,618,664</b>	<b>\$50,064,542</b>
<b>Total Construction .....</b>	<b>\$6,247,035,861</b>		
<b>Total Repairs.....</b>	<b>289,618,664</b>		
<b>Total Non-construction.....</b>	<b>50,064,542</b>		
<b>Grand total.....</b>	<b>\$6,586,719,067</b>		

The Committee has submitted in connection with its report a supplementary report on drainage basin problems and programs representing a study made with a view to formulating a national water plan and program. In this report there has been an evaluation of the various projects into two classes; those recommended for immediate investigation or construction, and those which should be deferred until a later date. The projects covered by this survey include many which would be a joint undertaking by the Federal, State, and local governments, while others would be directly and solely Federal projects. The Federal projects covered in this study are not in addition to those contained in the six-year Federal public works program but are generally the same projects segregated however with respect to their importance, necessity and value.

This report furnishes a sample of what the Committee believes <sup>or</sup>planned Federal works program should be. It takes into consideration the problem as a whole, bearing in mind its relation to state and local planning. It also takes into consideration the relative value of the various projects, not only within a class but as between classes and it is further based on the elements of timing and economic need.

The report of the Great Plains Committee furnishes a program for the use and development of the Great Plains area and in part this program involves public works similar in nature to those included in the drainage basin survey. The essential element in settling the problem of the Great Plains is water and the control and development of adequate facilities for securing, storing, and distributing, is one of the larger aspects of this problem. The water projects comprehended in the report of the Great Plains Committee are not necessarily in addition to those included in existing

authorizations and in the drainage basin survey, but are a part of the same problem. In addition to these water projects, however, the report of the Great Plains Committee proposes the acquisition of large areas of land roughly approximated at 24,000,000 acres. The making of topographic and soil surveys and development of soil conservation practices constitute another phase of the program. A third phase is an extension of credit and the development of the resettlement program in that area. Here again, as in the case of the drainage basin proposals, there is a necessity for a joint program between the Federal, State, and local governments. Most of the plans of this Committee can only be carried out through the cooperation of all three and the authorization for expenditure of Federal funds is largely dependent on the states' and localities' willingness to meet their share of the burden.

It is readily apparent that there must be close coordination of authorizations for various types of projects in order to avoid not so much duplication as interference between these programs. The development of highways, rivers and harbors, measures for flood control, reclamation projects and other public works must be so planned that they will meet the needs of the community viewed from the aspects of an agricultural policy and a water policy designed to protect a large area of the country from the disasters of flood and drought which have occurred within the last few years.

There is perhaps even more necessity for controlling the authorization of a public works project than there is for controlling the estimates of appropriations for any given year. Once a project has been authorized it is extremely difficult to avoid a subsequent appropriation, particularly

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in a locality which has suffered from loss due to drought, flood, etc. If the authorization exists and if at the same time there is a lack of employment in normal lines in that locality, it is next to impossible to avoid an appropriation to meet the authorization. Too broad an invitation to the Congress to authorized public works will inevitably result in an annual program far in excess of \$500,000,000 even though the estimates presented by the Budget might be held within that figure.

At this session for instance the Congress has authorized the use of \$20,000,000 of Reconstruction Finance Corporation Funds for loans for relief and rehabilitation of persons suffering losses from flood and other disasters. These loans will be made under terms which in very many of the cases may render them the equivalent of a grant. This expenditure is an addition to the Budget submitted about six weeks ago. This legislation is cited merely as an example of the type of circumstance which would motivate Congress to expand a program of expenditure. If there should be too large a reservoir of authorized projects Congress would inevitably yield to demands for appropriations and it is doubtful that very careful consideration would be given to their precedence or place in the long term program.



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# TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 15, 1937

TO Secretary Morgenthau

FROM M. A. Harris

The Market for Government Securities

Since the December 15th Financing

The general level of the government security market has undergone a decided change since the December 15th financing. In early December there was good demand throughout the list but since then Treasury notes and short and intermediate Treasury bonds have recorded sizeable losses whereas long bonds have, for the most part, been steady and in good demand and at the present time most of them are selling at higher prices. Recently, however, investors have been reluctant to buy long bonds at current levels. This change has resulted in a gradual narrowing of the yield spread between short and long maturities and presents quite a different picture than that just prior to the financing. In December, a 1 1/4% five-year note was offered but at present levels a coupon of at least 1 3/8% is called for in a five-year maturity and this would probably sell at a premium of between 3/8ths and 1/2 of a point. Any bond offering with a life less than twelve years would have to carry a higher coupon than was indicated in December but any offering of a long bond could be made at the same rate, with a possible extension of the life of the bond by one or more years. The 2 1/2% thirteen to seventeen-year bond offered in December has been popular with investors, particularly recently, and at present levels another 2 1/2% bond could be offered with a fourteen to eighteen-year life.

During the period between December 5, 1936 (the last business day before the terms of the December 15th financing were announced) and the present time, there has been for the most part very little liquidation, but considerable switching out of the short and into the longer issues has been reported and this, plus the lack of demand for short issues, has resulted in declining prices for notes and short bonds. In this period under review losses sustained by the Treasury notes show a pretty general decline, ranging from 22/32nds by the shortest maturities to 38/32nds by the longest. In the Treasury bond market, short and intermediate issues have recorded even larger losses than the notes, these range from 27/32nds up to 61/32nds with the largest losses occurring in the issues callable in 1943, 1944 and the high coupon issues. The 2 3/4s of 1948/51 are currently 13/32nds below their December 5th level, the 3 1/8s of 1949/52 7/32nds, while all the other long bonds are about unchanged to 17/32nds better. On an attached sheet is given the prices as of December 5, 1936 and February 13, 1937 and also the net changes for this period.

A number of factors have contributed to this change in the market and the most important, certainly from a market viewpoint, was the long period of uncertainty that existed as to what future action would be taken on reserve requirements. Shortly after the December 15th financing indication was given that in the near future some increase in requirements would be made. This resulted in easing prices for the short and intermediate maturities as belief was that if there was an increase it would be met by some selling in these issues. However, prices firmed up the latter part of December but the trend again became downward with the new year, due to further indications in early January of an increase. Except for short periods of firmness, the market continued uneasy until the

actual announcement which came after the close of business on January 30th. Another factor in the note market was a depreciation in "rights" value due to the budget message and other indications pointing to the end of deficit financing and possible cash retirement of some of the notes due in the near future. However, recent developments, such as the floods, have resulted in some appreciation in "rights" values for the 1937 maturities. Still another factor of importance is the recent trend toward higher money market rates. The Treasury bill market rate starting with the week of the December financing increased each week until last week. The announcement of the plan for the sterilization of gold may also be said to have had its effect on the short term market.

<u>BONDS:</u>	<u>Closing Bid Prices **Dec. 5, 1936</u>	<u>Closing Bid Prices Feb. 13, 1937</u>	<u>Net Change</u>
3-3/8s 1940/43	108.11	107.5	- .38
3-3/8s 1941/43	109.13	108.5	- .40
3-1/4s 1941	109.14	108.1	- .45
3-3/8s 1943/47	111.	109.7	- .57
3-1/4s 1943/45	110.14	108.19	- .59
3-1/4s 1944/46	110.12	108.15	- .61
4s 1944/54	116.6	114.18	- .52
2-3/4s 1945/47	106.21	105.18	- .35
3-3/4s 1946/56	114.18	113.10	- .40
3s 1946/48	108.4	107.9	- .27
3-1/8s 1946/49	109.	108.1	- .31
4-1/4s 1947/52	121.20	120.1	- .51
2-3/4s 1949/51	104.15	104.2	- .13
3-1/8s 1949/52	108.7	108.	- .07
2-1/2s 1949/53	100.29 (a)	101.13	+ .16
2-3/4s 1951/54	103.2	103.5	+ .03
3s 1951/55	106.13	106.17	+ .04
2-7/8s 1955/60	104.15	104.13	- .02
2-3/4s 1956/59	102.17	103.4	+ .17

NOTES:

3s 4/15/37	101.23	101.1	- .22
3-1/4s 9/15/37	102.23	102.1	- .22
2-5/8s 2/1/39	102.28	102.6	- .22
3s 3/15/38	103.19	102.25	- .26
2-7/8s 6/15/38	104.	103.4	- .28
2-1/2s 9/15/38	103.26	102.29	- .29
1-1/2s 3/15/39	101.31	101.6	- .25
2-1/8s 6/15/39	103.17	102.20	- .29
1-3/8s 12/15/39	101.24	100.31	- .25
1-5/8s 3/15/40	102.11	101.12	- .31
1-1/2s 6/15/40	102.1	101.	- .33
1-1/2s 12/15/40	102.1	100.30	- .35
1-1/2s 3/15/41	102.1	100.30	- .35
1-3/8s 6/15/41	101.17	101.11	- .38
1-1/4s 12/15/41	100.29 (a)	100.3	- .26

\*\* Closing prices day before the announcement of the terms of the December 15th financing.

(a) As of December 15th.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Moscow.  
NO.: 39.  
DATE: February 15, 3 p.m.  
FOR MORGENTHAU.

With reference to our conversation, I wish to report that it is practically impossible to obtain definite information pertaining to gold reserve. The Government is carefully guarded by the Government as a military secret. Such information as is given out is probably exaggerated for the purpose of propaganda.

According to the best information available at this time from the Bank for International Settlements, the League, the German statistical year book, a study made by the American Legation at Riga, and the German Embassy at Moscow, gold production in the Soviet was between \$159,000,000 and \$200,000,000/ <sup>in 1935.</sup> In January 1937 an announcement was made in the Soviet press that 1936 production was 26 percent higher than production in 1935. If this statement is accepted as accurate, then 1936 production, based on the above figures, amounted to between \$189,000,000 and \$250,000,000. It is generally believed that gold production is growing very rapidly. The Soviet Union is generally conceded to be the second largest gold producer in the world.

The

-2-

The statements (possibly inspired) that have been made in certain quarters here to the effect that the annual production is between 500 and 750,000,000 are undoubtedly greatly exaggerated, since there have been no indications that the Soviet Union has surpassed South Africa, which produced approximately \$377,000,000 worth of gold in 1935.

The last statement of the Emission Department of the State Bank, issued in August 1936, which <sup>contains</sup> ~~is~~ the only official published indication regarding gold reserve, indicated that gold coverage for money in circulation amounted to approximately \$335,000,000. The entire gold reserve of the country is not pretended to be indicated by this statement. The official rate of the ruble is 5 to 1 dollar; the bootleg rate is 20, compared with the bootleg rate of 30 one year ago and of 40 two years ago.

In ascertaining the gold reserve the principal difficulty arises from the fact that not only are there no official figures for gold production, but no statement regarding the Soviet balance of payments was published by the Soviet Government until 1935. In 1935 balance of payments were favorable to the extent of approximately \$30,000,000 according to official statements; they were also favorable in 1936.

It

-3-

It is significant to note that the Government is not so active in seeking foreign credits. It has been more or less definitely stated that in the future only financial credits of more than five years at interest rates of less than 6 percent will be accepted.

I regret the paucity of this information. I am continuing my efforts and will advise later.

EA:EB

122 ~~FILE~~

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 16, 1937

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Timing of bill issues and maturities

1. This memorandum presents alternative programs of bill issues and maturities designed to accomplish the following objectives:

(a) To obtain a concentration of bill maturities of approximately \$300 millions at each of the four quarterly income-tax payment periods;

(b) To obtain the maximum practicable degree of uniformity in the issues; and

(c) To achieve these objectives without erratic or unnecessary fluctuations in the aggregate volume of bills outstanding.

2. Each of the alternative patterns outlined below can be applied with considerable flexibility. These patterns all call for a substratum of uniform weekly bill issues, designed to maintain any desired volume of outstanding bills, exclusive of the quarterly concentrations, and another series designed to produce the quarterly concentrations of maturities. Any of the patterns may be introduced immediately, if temporarily supplemented in the manner outlined in the appendix to this memorandum.

I. Bill issues of \$50 millions weekly throughout the year.

Seven of the thirteen issues in each quarter to be for 273 days; the maturities of the remaining six to be concentrated at the third following quarterly income-tax payment period. If the issues for quarterly concentrations were offered alternately with the 273-day issues (except during the two weeks joining the quarters, when two 273-day issues would be offered consecutively), they would range in length from slightly less than 273 days to about 180 days. Six out of thirteen weeks of each quarter would have no bill maturities.

Secretary Morgenthau - 2/16/37 - 2

The aggregate volume of bills outstanding would range from \$1,650 millions immediately after each quarterly concentration of maturities to \$1,950 millions immediately prior thereto.

II. Bill issues of \$65 millions weekly throughout the year.

Each weekly offering would consist of \$40 millions of 182-day bills and \$25 millions of bills maturing at the third following quarterly income-tax payment period, and therefore ranging in length from just under 273 days to just over 180 days. Maturities would amount to \$40 millions each week, except at income-tax payment periods, when the maturities would amount to \$365 millions.

The aggregate volume of bills outstanding would range from \$1,690 millions immediately after each quarterly concentration of maturities to \$1,990 millions immediately prior thereto.

III. Weekly bill issues of \$35 millions during seven out of each thirteen weeks and \$85 millions during the six weeks preceding the quarterly income-tax payment period.

Throughout the year \$35 millions of 273-day bills would be offered weekly, but in each of the six weeks preceding the quarterly income-tax payment period, an additional \$50 millions of bills maturing at the second next income-tax payment period would be offered. The latter bills would range in length between just under 135 days and about 98 days. Regular weekly maturities would be \$35 millions.

The aggregate volume of bills outstanding would range from \$1,665 millions immediately after each quarterly concentration of maturities to \$1,965 millions immediately prior thereto.

3. The three foregoing patterns differ primarily in the following respects:

(a) Patterns I and II each provide uniform amounts of the weekly bill offering, \$50 millions and \$65 millions, respectively; whereas Pattern III provides for \$35 millions offerings in seven out of each thirteen weeks and \$85 millions offerings in each of the last six weeks preceding the quarterly income-tax payment period.

Secretary Morgenthau - 2/16/37 - 3

(b) Under Pattern I, a single series would be issued each week; under Pattern II, each week's offering would consist of two series of different lengths; whereas under Pattern III, there would be an offering of two series in six out of each thirteen weeks.

(c) Pattern I calls for no bill maturities during six out of each thirteen weeks, whereas Patterns II and III call for weekly maturities of \$40 millions and \$35 millions, respectively, exclusive of the quarterly concentrations.

(d) Patterns I and III provide for a substratum of 273-day bills, whereas the maturity of this substratum is 182 days in Pattern II. The bills issues for quarterly concentration would range in length from just under 273 days to about 180 days in Patterns I and II, and from just under 135 days to about 98 days in Pattern III.

4. Because of the volume and character of the outstanding bill issues, any one of these three patterns could be put into full operation only gradually over a period of about nine months. There are appended hereto two suggested procedures for putting each into operation, one procedure being based on the assumption that a start could be made with the issue of February 24 and the other on the assumption that no start could be made until the issue of March 24. Any of these procedures would take care of the June, September, and December maturity concentrations, as well as the quarterly concentrations thereafter.

Attachments

## APPENDIX I

Suggested Procedure for Introducing  
Alternative Patterns on  
February 24, 1937Pattern I

(1) Beginning on February 24, we would issue on alternate weeks \$50 millions of bills maturing at the third following income-tax payment period and \$50 millions of 273-day bills. Two successive 273-day issues would be offered, however, on the two Wednesdays bridging the end of one quarter and the beginning of the next. (The issues of February 24 and March 10 would be mid-September maturities; those of March 24 and April 14, mid-December maturities, et cetera.) This is the proposed regular pattern, and would provide a level of outstanding bills ranging from \$1,650 millions just after a quarterly redemption to \$1,950 millions just prior thereto.

The additional issues indicated below are required only this year to provide the June and the remainder of the September concentrations that would normally be provided by the pattern itself.

(2) The \$300 millions of mid-June maturities would be produced by six issues of \$50 millions each on the following dates, in addition to the regular weekly issues of like amount noted below: February 24, March 3, March 10, April 21, April 28, and May 5.

(3) The mid-September concentration of \$300 millions maturities would be produced by the regular issues noted above to the extent of \$100 millions, and by four additional issues of \$50 millions each on the four Wednesdays of July.

(4) The mid-December concentration of maturities, and the subsequent quarterly concentrations, would be regularly built up under (1) without additional issues.

Pattern II

(1) Because of the character of the outstanding bill issues, the period between February 24 and May 26 would be utilized, as indicated in (3) below, to supply the mid-June, mid-September, and part of the mid-December concentrations of maturities that would subsequently be supplied by the pattern itself.

## Appendix I - 2

(2) The pattern proper would be applied beginning with Wednesday, May 26. On that date and on all subsequent Wednesdays, \$40 millions of 182-day bills, and \$25 millions of bills maturing at the third following income-tax payment period, would be issued. (The \$25 millions issues of May 26 and the three succeeding Wednesdays would mature in mid-December; the next thirteen issues of \$25 millions — starting June 23 — would all mature in mid-March 1938; et cetera.) This pattern provides a level of outstanding bills ranging from \$1,690 millions just after a quarterly redemption to \$1,990 millions just prior thereto.

(3) To provide the June, September, and part of the December concentrations of maturities that would normally be provided by the pattern itself, the following issues would be offered between February 24 and May 26:

On February 24 and on the five succeeding Wednesdays;  
\$50 millions each Wednesday, all maturing in mid-June.

On April 7 and on the three succeeding Wednesdays;  
\$75 millions each Wednesday, all maturing in mid-September.

On May 5 and on the two succeeding Wednesdays;  
\$75 millions each Wednesday, all maturing in mid-December.

Pattern III

(1) Beginning February 24, we would issue \$35 millions of 273-day bills each Wednesday; and on each of the six Wednesdays preceding a quarterly income-tax payment period, we would issue an additional \$50 millions of bills maturing at the second following quarterly income-tax payment period. (This latter series would start on May 5 to begin the mid-September concentration of maturities; on the six Wednesdays preceding September 15, we would build up the mid-December concentrations; et cetera.) It will be observed that this pattern itself provides for the mid-September and all subsequent concentrations, but does not provide for the June concentration this year. This pattern provides a level of outstanding bills ranging from \$1,665 millions just after a quarterly redemption to \$1,965 millions just prior thereto.

(2) The mid-June 1937 concentration would be provided by additional bill issues of \$50 millions each on February 24, March 3 and 10, April 14, 21, and 28, making total bill issues of \$85 millions on these dates. (The period between the middle of March and the middle of April contains no additional bill offerings because the Working Balance would then be ample.)

## APPENDIX II

Suggested Procedure for Introducing  
Alternative Patterns on  
March 24, 1937Pattern I

(1) Beginning on March 24, we would issue on alternate weeks \$50 millions of bills maturing at the third following income-tax payment period and \$50 millions of 273-day bills. The bills issued to mature at "the third following income-tax payment period" during the first quarter of the plan would be for mid-December maturities, during the second quarter of the plan for mid-March 1938 maturities, et cetera. Two successive 273-day issues would be offered on the two Wednesdays bridging the end of one quarter and the beginning of the next. This is the proposed regular pattern, and would provide a level of outstanding bills ranging from \$1,650 millions just after a quarterly redemption to \$1,950 millions just prior thereto.

The special issues indicated below are required only this year to provide the June and September concentrations that would normally be provided by the pattern itself.

(2) The \$300 millions of mid-June maturities would be provided for by six issues of \$50 millions on each of the six Wednesdays from March 31 to May 5, inclusive.

(3) The \$300 millions of mid-September maturities would be provided by six issues of \$50 millions on each of the six Wednesdays from July 7 to August 11, inclusive.

Pattern II

(1) Because of the character of the outstanding bill issues, the period between March 24 and June 23 would be utilized, as indicated in (3) below, to supply the mid-June, mid-September, and mid-December concentrations of maturities that will subsequently be supplied by the pattern itself.

(2) The pattern proper would be applied beginning with Wednesday, June 23. On that date and on all subsequent Wednesdays, \$40 millions of 182-day bills, and \$25 millions of bills maturing at the third following income-tax payment period, would be issued. (The \$25 millions issues of June 23 and the twelve succeeding Wednesdays would mature in mid-March 1938; the next thirteen issues of \$25 millions — starting September 22 — would all mature in mid-June 1938; et cetera.) This pattern provides a level of outstanding bills ranging from \$1,690 millions just after a quarterly redemption to \$1,990 millions just prior thereto.

(3) To provide the June, September, and December concentrations of maturities that would normally be provided by the pattern itself, the following issues would be offered between March 24 and June 23:

On March 24 and on the three succeeding Wednesdays:  
\$75 millions each Wednesday, all maturing in mid-June.

On April 21 and on the three succeeding Wednesdays:  
\$75 millions each Wednesday, all maturing in mid-September.

On May 19, and on the four succeeding Wednesdays:  
\$65 millions each Wednesday, all maturing in mid-December.

#### Pattern III

(1) Beginning March 24, we would issue \$35 millions of 273-day bills each Wednesday; and on each of the six Wednesdays preceding a quarterly income-tax payment period, we would issue an additional \$50 millions of bills maturing at the second following quarterly income-tax payment period. (This latter series would start on May 5 to begin the mid-September concentration of maturities; on the six Wednesdays preceding September 15, we would build up the mid-December concentrations; et cetera.) It will be observed that this pattern itself provides for the mid-September and all subsequent concentrations, but does not provide for the June concentration this year. This pattern provides a level of outstanding bills ranging from \$1,665 millions just after a quarterly redemption to \$1,965 millions just prior thereto.

(2) The mid-June 1937 concentrations would be provided by additional bill issues of \$50 millions each on March 24 and 31, April 7, 14, 21, and 28, making total bill issue of \$85 millions on these dates.

ESTIMATE OF CASH  
POSITION  
FEBRUARY-JUNE, 1937

(In millions of dollars)

	Feb.	Mar.	Apr.	May	June	Total
Balances at beginning of periods . . . . .	924	669	1,349	1,004	739	924
Receipts . . . . .	325	1,215	330	340	940	3,150
Treasury notes or bonds.	=	1,000	=	=	=	1,000
Treasury bills (regular)	200	=	150	200	250	800
Treasury bills (special)	=	250 Jn	50 Jn	=	1/250 Sa	550
<b>Total:</b>	<b>1,449</b>	<b>3,134</b>	<b>1,879</b>	<b>1,544</b>	<b>2,179</b>	<b>6,424</b>
Expenditures . . . . .	580	735	675	605	745	3,340
Treasury notes maturing	=	500	=	=	=	500
Treasury bills (regular) maturity . . . . .	200	250	200	200	250	1,100
Treasury bills (special) maturity . . . . .	=	300	=	=	300	600
<b>Total:</b>	<b>780</b>	<b>1,785</b>	<b>875</b>	<b>805</b>	<b>1,295</b>	<b>5,540</b>
Balances at end of periods:	669	1,349	1,004	739	884	884

1/ 50M additional to issue on July 7 to mature Sept. 18th

Accounts and Deposits  
February 16, 1937.

ISSUING MATHEMATICS

NEW ISSUES

Date	Amount	Issue Date	Amount		No. Days	Maturity
			Roll-Over	New		
		<u>1937</u>				
Mar. 2	\$ 50M	Mar. 2	\$ 50M		100	June 18
Mar. 10	50	Mar. 10	50		90	June 18
Mar. 16	100					
Mar. 17	150	Mar. 17	50		92	June 17
Mar. 18	100					
Mar. 24	50	Mar. 24	50		85	June 17
Mar. 31	50	Mar. 31	50		79	June 18
Apr. 7	50	Apr. 7	50		72	June 18
Apr. 14	50	Apr. 14	50		273	Jun. 12, 1938
Apr. 21	50	Apr. 21	50		265	Jun. 19, 1938
Apr. 28	50	Apr. 28	50		273	Jun. 26, 1938
May 5	50	May 5	50		273	Feb. 2, 1938
May 12	50	May 12	50		273	Feb. 9, 1938
May 19	50	May 19	50		273	Feb. 16, 1938
May 26	50	May 26	50		273	Feb. 23, 1938
June 2	50	June 2	50		273	Mar. 2, 1938
				50	106	Sep. 16
June 9	50	June 9	50		273	Mar. 9, 1938
				50	99	Sep. 16
June 16	150	June 16	50		273	Mar. 16, 1938
				50	91	Sep. 17
June 17	100					
June 18	100					
June 23	50	June 23	50		273	Mar. 23, 1938
				50	86	Sep. 17
June 30	50	June 30	50		273	Mar. 30, 1938
				50	80	Sep. 18
July 7	50	July 7	50		273	Apr. 6, 1938
				50	73	Sep. 18
July 14	50	July 14	50		273	Apr. 13, 1938
July 21	50	July 21	50		273	Apr. 20, 1938
July 28	50	July 28	50		273	Apr. 27, 1938
Aug. 4	50	Aug. 4	50		273	May 4, 1938
Aug. 11	50	Aug. 11	50		273	May 11, 1938
Aug. 18	50	Aug. 18	50		273	May 18, 1938
Aug. 25	50	Aug. 25	50		273	May 25, 1938
Sep. 1	50	Sep. 1	50		273	June 1, 1938
				50	106	Dec. 10
Sep. 8	50	Sep. 8	50		273	June 8, 1938
				50	99	Dec. 10
Sep. 15	50	Sep. 15	50		273	June 15, 1938
				50	93	Dec. 17
Sep. 16	100					
Sep. 17	100					
Sep. 18	100					
Sep. 22	50	Sep. 22	50		273	June 22, 1938
				50	86	Dec. 17
Sep. 29	50	Sep. 29	50		273	June 29, 1938
				50	80	Dec. 18
Oct. 6	50	Oct. 6	50		273	July 6, 1938
				50	73	Dec. 18
Oct. 13	50	Oct. 13	50		273	July 13, 1938
Oct. 20	50	Oct. 20	50		273	July 20, 1938
Oct. 27	50	Oct. 27	50		273	July 27, 1938
Nov. 3	50	Nov. 3	50		273	Aug. 3, 1938
Nov. 10	50	Nov. 10	50		273	Aug. 10, 1938
Nov. 17	50	Nov. 17	50		273	Aug. 17, 1938
Nov. 24	50	Nov. 24	50		273	Aug. 24, 1938
Dec. 16	100					
Dec. 17	100					
Dec. 18	100					
Jan. 12, 1938	50					

OFFICE CORRESPONDENCE

DATE Feb. 15, 1937.

TO CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

DE NEDERLANDSCHE BANK

Mr. De Jong called me this morning at 10:06 and after quite some difficulty we finally made a good connection at 10:41. Mr. De Jong said he called to explain what they intended to do. He asked if we had received his cable to take over \$100,000 in gold from their earmarked gold account and I replied that I had it before me at the moment. Mr. De Jong said that as we knew, the guilder had been weak recently and that they intended to gradually dispose of their dollars with us (for the time being not in large amounts), for the purpose of counteracting rather than preventing the rise in the dollar, so that the dollar rate would go up slowly. He said he intended to operate in Amsterdam but would give no order to us as yet, but might do so later. He said he would send us a cable each day requesting us to release the gold equivalent of the dollars sold by him, the same as he had done on Saturday. He inquired if this plan was satisfactory to us and I replied it was. Mr. De Jong said it was not quite settled to what level they would allow the guilder to drop. I inquired if he cared to indicate at what rate he would begin to operate. He said the guilder was firmer today at 183 1/4 to 3/8 which is equal to 54.55 cents and that he would not operate at that rate. He said he would wait until guilders dropped to say, 184 or 185 which is equivalent to 54.05 cents. He said however, before giving us an order to buy guilders here, he would telephone us. He said that they would probably use up all the gold they had here and that then they might ask us to take gold in Amsterdam or some of the gold they have in London.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Feb. 15, 1937TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeDE NEDERLANDSCHE BANK

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We agreed that we would discuss this question again when the time arrived.

I inquired about the market and Mr. De Jong said that they feared that something will happen in France, that they were not at all optimistic and that they cannot get reliable information. I mentioned that the whole problem was political and Mr. De Jong agreed. He then said that he hoped that we would let him know if everything wasn't working well under the arrangement.

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE February 15, 1927.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH  
DE NEDERLANDSCHE BANK

L. W. Knoke

I called Mr. de Jong at 3:50 this afternoon to point out that as a result of reports on the news ticker to the effect that de Nederlandsche Bank had lowered its buying price for gold the guilder market here had very suddenly gone up with all bid and none offered. In view of their standing order to sell at 54.78 which had not yet been cancelled and assuming that they were interested in having an orderly market for their currency, we had sold about guilder 600,000 at their limit. Was this satisfactory to them?

Mr. de Jong replied that he was in agreement and thanked me for what we had done. I inquired whether it would be in order for us to sell more, also whether we might consider the order in force tomorrow unless it were cancelled in the meantime and de Jong answered in both cases in the affirmative.

I asked whether the report was correct and I understood from his reply, which was not entirely clear, that although they did not, of course, have an official buying or selling rate for gold they had indicated to a few private operators that they would pay less for gold. I expressed the thought that they had done this in order to prevent speculators from buying in London and reselling in Amsterdam and de Jong replied that this was so.

*WJ*  
LWK:KW

Monday  
February 15, 1937  
4:20 p.m.

HMJr: Having - when I had lunch with the President I told him what we did this morning.

James M. Landis: Yes

HMJr: And he liked it.

L: Good!

HMJr: And the chances are that we'll go and see him, you, Eccles and I, at twelve-thirty Wednesday.

L: Yes

HMJr: Now, here's the only new thing which surprised me and I told our boys when they meet tomorrow - he most likely will want to send it up with either a message or a letter himself.

L: Yes

HMJr: And that I wanted to tell you so you will be thinking about it.

L: Well, I think that's a rather good idea.

HMJr: Well, I told him I hadn't thought of it because I'm very hesitant about always making him think that he's got to push it along with a message.

L: Yes

HMJr: But he very distinctly wants to do it.

L: Yes - Of course he ran with the ball in the first instance, you know.

HMJr: I know.

L: - Ran with it pretty hard.

HMJr: I know.

L: Yes

HMJr: So - but I just wanted to pass that along -

L: Yes

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HMJr: And - also - he set the time tentatively for twelve-thirty Wednesday.

L: Yes

HMJr: So I'll - all of our boys will just have to step on it.

L: Yes - The one thing that occurs to me in that connection is - this does give you a good chance to set the thing. Set the purposes and characteristics and all that.

HMJr: And it can all be done in a letter.

L: Yes

HMJr: And - I just wanted to pass that on.

L: Yes

HMJr: I thought it was an awfully good meeting this morning.

L: Oh, I thought - it was - yes - talking to the point and getting something done.

HMJr: And I've had word from Hull that as far as he knows, unless it's in some way in conflict with some treaty, he doesn't wish to take any part in the discussion.

L: Well, that's good.

HMJr: Yes

L: Yes, fine

HMJr: Thank you.

L: You're welcome.

Monday  
February 15, 1937  
4:20 p.m.

Treas.  
Operator: Go ahead.

HMJr: Hello  
Marriner  
Eccles: Hello

HMJr: Marriner -

E: Yes, Henry

HMJr: I want to bring you up to date. I lunched with the President and I told him what we'd done here this morning. He liked it very much. The only new thing on it was this. Much to my surprise he said that he himself would most likely write either a message or letter to Congress on this. Hello?

E: Yes

HMJr: And we have a tentative appointment to see him at twelve-thirty on Wednesday.

E: Twelve-thirty?

HMJr: Yes

E: Now, I have an appointment with you - that is the Open Market Committee does - at eleven.

HMJr: That's right.

E: So we'd go right from there over to the White House.

HMJr: That's right. But I wanted to give you this latest angle on it.

E: Well, that's good. I'm glad he feels that way about it. I -

HMJr: And of course in a letter we could very carefully couch the language so that it would give the right impression.

E: If he's going to give the message - I - I hope that we can get him to say something about some of these other things, as - -

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HMJr: Well, I - I very much want you and Landis to see him with me because I don't want to - it's a joint responsibility.

E: Yes

HMJr: And then you'll have ample opportunity to express your own views.

E: Yes

HMJr: And the other point is, Mr. Hull sent me word that unless this is in conflict with some treaty that he has no interest, he doesn't want to take any part in it.

E: Yes, well I - I could guess as much from what Herbert said this morning.

HMJr: Yes - unless it's in conflict with a treaty he doesn't want any - -

E: Well, now - are you going to undertake to prepare the message for the President?

HMJr: Yes

E: - between now and Wednesday?

HMJr: Yes - and your boys will sit in with Magill on it.

E: In the preparation of it?

HMJr: That's right.

E: Yes

HMJr: That's right.

E: Well, that's fine.

HMJr: Magill's carrying the ball and you - and I'm going to tell him to keep you people advised of every step that we take.

E: Well, he'll keep in touch with Goldenweiser and Bryan.

HMJr: That's right.

E: This fellow, Bryan, we've got, he's one of those new

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men that used to be with Curry, you know? - when Curry had that staff in the Treasury the summer that he was there?

HMJr: Oh, was Bryan here then?

E: Oh yes

HMJr: I didn't know that.

E: Yes, Bryan was there, then. He's a -

HMJr: Fine

E: - a -

HMJr: Was he - isn't he the fellow from North or South Carolina?

E: No, he's a man from Atlanta.

HMJr: Oh

E: He's a man - Ransom knew him.

HMJr: Oh

E: And we checked him up very thoroughly and he's a -  
he's a pretty good man I think.

HMJr: Fine

E: He's going to be real helpful to both of us.

HMJr: Good

E: All right, thank you.

TREASURY GROUP ON RESTRICTION  
OF FOREIGN CAPITAL INFLOWFebruary 16, 1937  
9:30 A.M.

Present: Mrs Klotz  
Mr. Magill  
Mr. Gaston  
Mr. Locinehead  
Mr. Zucker  
Mr. Haas  
Mr. White  
Mr. Upham  
Mr. Oliphant  
Mr. Opper  
Mr. Kent  
Mr. Seltzer

Gaston: There is large newspaper interest in this ten o'clock meeting this morning. All the various ones have been calling up. Underwood & Underwood thinks it would be all right to have a picture taken of you and Eccles and Landis.

Haas: Feis, I think, is a little exercised about this meeting, see? They have worked up a compilation of these treaties.

H.M.Jr: George, I won't tease you. I talked to Feis. He called me, and he seemed a little "exerfeised" and - just a little "exerfeised." So I says, "You're going to sit in at ten o'clock." I called him back again. Thinks it would be marvelous; won't have any trouble at all about the State Department. He'll be here at ten. He's having a similar meeting at 9:30. So that's all right.

(Oliphant and Opper come in)

Oliphant: Good morning.

H.M.Jr: What a wonderful sunburn you got up at Manhattan. Can you get a sun tan at midnight on Broadway?

Oliphant: From the Kleig lights. Is that what they call them?

H.M.Jr: Believe me, I haven't seen Herman coming in on a Monday looking like this for a long time.

Oliphant: Slept well on the train.

- 2 -

H.M.Jr: I was just telling George that Feis would be here at ten. I gave him what you were thinking about, the long time we were working. "Well, if you follow that, you won't have any trouble with the State Department at all." Now, the only thing I think he is going to put up a fight on is that this Canadian treaty idea be protected, see? That whatever we do doesn't conflict with that.

Now, the interesting thing - I saw the President Friday - is that the President had never heard of this provision of contiguous countries having a special provision in regard to the tax on their holdings. Never knew the thing existed. First time. And didn't particularly hit him well.

Now, may I just say I have read very carefully these memoranda. We haven't got any copies to give these boys; maybe it would be just as well we haven't got any. Well, I'm going to ask Magill to read them anyway out loud. After reading this thing over very carefully, I personally am leaning towards this idea of making this thing discretionary, and I wanted to give anybody here a chance to talk with me before the crowd comes as to why we shouldn't, and the reasons.

I first argued with myself, "Well now, if you go up on the Hill and ask to give the President additional discretionary power, they'll say no. But that's domestic. And this fits in line with our other foreign policy to make it discretionary." See? I mean it fits in line - it makes it consistent. Now, if it was domestic, I don't know whether they'd give it to us, but, being foreign, they might.

There's just one thing. I wondered if Oliphant meant to say what he did say.... I'm in good shape today, if I say so myself.

Oliphant: Not a typographical error, is there?

H.M.Jr: No, it's worse than that. At least, I think it is. At the bottom you give three reasons: Export for war purposes. Increase of tariffs for discrimination abroad. Increase of taxes on foreigners for discrimination abroad. Now, these are things which exist?

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- Magill: Yes.
- H.M.Jr: Now, what increase on taxes on foreigners for discrimination abroad?
- Magill: Where is that thing?
- Kent: Section 103.
- Magill: It was one of those things put in in 1934, and I didn't know what had happened since.
- Oliphant: And Ros drew the Act.
- Magill: Well, here it is: "Whenever the President finds that, under the laws of any foreign country, citizens or corporations of the United States are being subjected to discriminatory or extraterritorial taxes, the President shall so proclaim and the rates of tax imposed by sections (etc. etc.) shall, for the taxable year during which such proclamation is made and for each taxable year thereafter, be doubled in the case of each citizen and corporation of such foreign country."
- My recollection of the reason for that was this: That at that time we were in a good deal of discussion with France with respect to the method of taxation France was employing on Americans and American corporations, in which they were attributing to France income which we did not regard as being earned in France but rather as being earned elsewhere; and for the sake of giving us a weapon to induce them to stop that sort of business, we put in this provision to the effect that if a foreign country does impose these discriminatory taxes and the President so proclaims, then we can catch the Frenchman in this country with respect to his American income to a corresponding extent.
- H.M.Jr: Well, have we ever used it?
- Magill: Not so far as I know. Have we (to Kent)?
- Kent: No, but its very....
- Magill: It's a pretty good...

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- Kent: Its very presence in the Act is regarded as being a large factor in bringing about the consummation of the French treaty.
- Magill: I remember when the discussion - this is just as a matter of information - when we were discussing the thing in 1934, the discussion was much like some of the discussion that's going on here on this provision: that the thing would be very difficult to work, and how you going to find out about these things, etc., and the reason we put in the provision was simply this "big stick" idea; not so much that we intended to use it, but we at least would have a threat there which might make France behave.
- H.M.Jr: Now, do it again. I haven't quite got it yet.
- Magill: Well, the actual case, I think, that we had in mind - John Wanamaker & Company, I believe, have a big agency in Paris, or did. Now, they didn't sell a thing in France; let's assume that case at any rate. But they do buy gowns and ship them over to the United States and they are sold here. Well, from our point of view Wanamaker's would have no French income at all.
- H.M.Jr: When Woolworth's do it, it's dresses, isn't it?
- Magill: I don't...
- H.M.Jr: With Wanamaker's it's gowns.
- Magill: Gowns, yes. That's right; I didn't get it. This is Monday morning. Don't be too quick.
- Oliphant: The motor's still cold.
- Magill: The motor's still cold, yes. But France was proposing to tax Wanamaker's and - more complication to it than I have indicated; but they were proposing to tax Wanamaker's as having a French income, although according to our point of view they had no French income and their income arose wholly in this country. Now, by way of inducing France to stop that sort of thing, what we said here in substance was that if France does that, then in the case of any French

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citizen, if the President proclaims that there has been this discrimination, we will double the American tax.

H.M.Jr: Well, wasn't there at the time a couple of the oil companies - weren't they very much exercised about it? Doing business abroad, and they felt they were constantly increasing tax on American corporations doing business abroad.

Magill: I don't remember whether the oil companies....

H.M.Jr: Wasn't it Texas?

Lochhead: Texas and Standard were both having to build refineries in France.

H.M.Jr: And it was to keep them from increasing the taxation abroad.

Magill: Now, subsequently what happened was we made - I guess a treaty with France had already been made but the French wouldn't ratify it.

Kent: That's right.

Magill: And after this was put in, the French did ratify it, so the situation is now cured as far as France is concerned.

H.M.Jr: Now let me ask you would that stay in if we added to this, giving the President the right to increase the taxes, say, from ten to twenty? This thing would stay? Would this be added right to that statute?

Magill: Yes.

Oliphant: This is a general provision of law which continues.

H.M.Jr: But this would be....

Oliphant: This would be another....

H.M.Jr: But it would be part of that?

Oliphant: Yes.

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- H.M.Jr: Now let me ask you another thing. Export for war purposes - what's that legislation?
- Opper: That's the present neutrality legislation. One company, the Curtiss-Wright Company....
- H.M.Jr: What's that?
- Opper: That provides that when the President proclaims a state of war, you've got to get a license in order to export war materials to the belligerent countries. The Curtiss-Wright Company tried to export airplanes in this Chaco...
- H.M.Jr: Well, they did, didn't they? They flew them down there, didn't they?
- Opper: Yes, and they were brought up on charges; a criminal offense to do it without a license. The lower court - as I recall, they were convicted; at any rate, in the Supreme Court the legislation was upheld. And that was a discretionary power on the part of the President, to put the bars down when he found a state of war existed.
- H.M.Jr: Well now, this increase of tariffs for discrimination abroad.
- Oliphant: That would be.....
- Opper: There is a further provision in Section 304, I think, of the Tariff Act, providing for this specific increase of 50 percent where there has been discriminatory - either embargoes or excessive taxes on American products.
- Oliphant: Where it is found that there has been discrimination.
- Opper: Yes
- H.M.Jr: He can reduce it 50 percent also, can't he?
- Opper: That's another section of the Tariff Act.
- H.M.Jr: Well, I'm sorry - unless I may have rushed you - that those things weren't developed a little bit more and explained. But the feeling that I got, understanding them as well as I could, was that there is a definite background for doing the kind of thing that we are

- 7 -

talking about doing in relation to the foreigners. And the more I thought of it, the more I liked to handle it that way. I mean that's what I wanted to say this morning before these people came.

- White: But if there is going to be an introduction of flexibility, might it not be considered to make it flexible also from twenty to thirty as well as down? If you are successful in acquiring those powers, there might be some merit in having them flexible both ways, up as well as down.
- Magill: You mean have your upper rate higher than the rate which we have mentioned.
- White: Yes, as long as it is flexible.
- Magill: Yes, I should think so.
- H.M.Jr: I wouldn't do it that way at all. I wouldn't make it mandatory on him to do anything. I'd simply say he could raise it.
- White: This doesn't give him - this gives him only the power to reduce it.
- Oliphant: No, it gives him the power to increase it and to reduce it.
- Magill: Well now, that is the way this is, so I think you (White) are quite right. This proposal as outlined is an Act to increase withholding rates, as in Proposal Number One. You (Oliphant) didn't really mean that?
- Oliphant: I didn't draw that.
- Opper: Yes, I think we did mean that.
- Oliphant: Well, I don't know.
- Opper: Well, you're talking about X percent to start with; that is, the increase is to be to X percent in the mandatory section.
- Oliphant: Yes.

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Opper: Now, suppose that X is twenty.

Oliphant: Yes.

Opper: Then Harry's proposal would be met by making it thirty. That's all the change you'd need. Everything else would run exactly the same.

H.M.Jr: Now, what's the tax now?

White: Ten.

H.M.Jr: Now, what I had in mind was that this would give the President power to raise it from ten to X, but he doesn't have to do anything if he doesn't want to.

White: That's not indicated there.

Oliphant: Well, that's the way it's drawn.

H.M.Jr: But I mean he could raise it from ten to X if and when he thought it was necessary.

Oliphant: That's the way it's drawn.

H.M.Jr: Well, I guess there was a little misunderstanding. But as to result...

Magill: That's what it ought to be.

Oliphant: Yes.

H.M.Jr: When we were talking about twenty, that's what we thought would be fair, but if we are going to give him this power I think we ought to give him the necessary flexibility from ten to thirty.

Gaston: Anywhere within that area, within that range.

H.M.Jr: You saw what happened on Saturday. We have been running - on an average they have been buying from two to three million dollars net balances per day.

White: More than double that.

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- H.M.Jr: But I mean these figures, and then double whatever I say. And Saturday - Friday being closed, Saturday was the first day, and they sold net twenty-eight hundred. That's the first time they had a chance.
- White: Thursday they bought eight million.
- H.M.Jr: Thursday they bought - the same day they settled the automobile strike, there was eight million bought. But they bought them before 10:30 our time, and then their markets were closed.
- Oliphant: First chance they had, they sold some.
- H.M.Jr: The first chance they had. General Motors - when I walked in this office at nine o'clock, General Motors was up four points in London and so was United States Steel. And that was when I got in. Then we came along and made this announcement at 10:30. But these boys had already bought heavy. Is that right, Archie?
- Lochhead: Great deal of buying, yes.
- H.M.Jr: And the first chance they had was Saturday. Now, if this continued it might not be necessary to do anything. So I just wanted to tell you - I mean I've had a lot of time to think over the weekend, and after thinking about it and studying this stuff, I am pretty well sold on the idea of making it entirely discretionary.
- White: You stated if this continues it may not be necessary to do anything. It may be highly desirable to get that flexible provision without doing anything.
- H.M.Jr: You again misunderstand me. I mean get the law passed and then sit and watch.
- And the only thing I want is this question that any new Government securities sold - the income should be taxed, and my chances of getting it through by the 15th - is that the next issue? You see, we don't want the foreigners coming in, taking the securities away from the hungry mouths of American bankers. See? Don't you (Upham) like that?
- Upham: Splendid.

- 10 -

H.M.Jr: What?

Upham: Splendid.

H.M.Jr: Does that bring tears to your eyes?

Now, I've talked for nineteen minutes and I'll give anybody else eleven. That's fair, isn't it?

Haas: May I take one half minute? You have a justification, Mr. Secretary, for increasing your withholding rate just in order to increase the taxes on foreigners relative to Americans, regardless of any capital movements.

White: There's one thought in my mind. What protection will there be against - what protection can we secure against operations through Canada, if Canada is going to be five percent and that is going to be twenty? What is being contemplated as protection against that?

H.M.Jr: Say it again. I don't think....

White: Canada will have a five percent rate, I think, if the treaty goes through. I say what protection do you contemplate securing in order to prevent any routing of transactions by way of Canada?

Magill: Well, we have already been talking - working on that. Of course, you see, you had the same problem to a lesser degree even before any legislation of this sort was proposed. Now, the necessary administrative element will be to get some kind of statement as best you can to enable you to assure yourself as to whether the person who is getting the income is actually a Canadian resident or is a foreigner.

White: Supposing it is a Canadian trust company.

Magill: We have talked with the Canadian authorities and they have so far - of course, this hasn't been in the air, and they have so far indicated every intention of cooperating with us. And further, Canada has its own taxes. So the avenue of evasion there isn't as great as it might appear on the surface.

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- Kent: Also, we were very careful in the drafting of the treaty to make the treaty in terms apply only to the imposing rate. That is, we are not obligated to withhold only five percent on Canadians. We could, without violating the treaty, withhold the full rate, if that were necessary, in every case, and let them come in and get refunds where they were entitled to the five percent rate. Now, I don't think that would be desirable if substantial safeguards can be found in some other way. But there always is that possibility.
- Oliphant: What's the status of the Canadian treaty? Does it have to be ratified by our Senate?
- Kent: Yes.
- Oliphant: Has it been?
- Kent: No.
- Oliphant: Has it been ratified by the Canadian Parliament?
- Kent: I think not. It is before the Foreign Relations Committee at the present time.
- H.M.Jr: Well, Kent, from the standpoint of the United States citizen, why is it good for us to have this treaty with Canada?
- Kent: Well, it was felt to be good because our investments in Canada are immensely greater than theirs are down here.
- H.M.Jr: Yes, but are they?
- Kent: Yes.
- Magill: We are getting a five percent tax ourselves with respect to our investments in Canada.
- Kent: See, if they boosted their rates up there, we would lose more than they under foreign tax credits.
- H.M.Jr: That's what I wanted.
- Kent: Yes.

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Oliphant: There is an ambiguity: "We." It is advantageous to American investors in Canada. It doesn't follow that it is advantageous to the United States revenues. See the difference? We may be giving up revenues. The net effect may be that we give up revenues and thereby effect a saving to people who have investments there.

Magill: Well, I think we do.

White: And encourage the development of branch plants in Canada.

Oliphant: Branch plants, direct investments.

White: As distinct from exporting goods to Canada.

H.M.Jr: Isn't it true, White, now that Canada is your best customer?

White: Yes.

H.M.Jr: And it is also true that the secret reason for Runciman's coming here was to break down the Canadian-United States treaty. That's what he really came for. And of course, if we - I think we've got to be careful on this thing. But that's what Runciman came for. And he did put the screws on Canada for all he could to break down the United States-Canadian treaty.

Haas: European countries frequently use that device for countries adjoining, and it is one of the exceptions which they allow to the most-favored-nation principle.

H.M.Jr: I think it would be a good thing while the bill was pending to talk about the Canadian thing and then make the Canadians give a certain agreement or understanding. But of course, if you say we can withhold them, then we can make each person establish his citizenship. What?

Kent: That's right.

Zucker: There is a certain practical side to this flexible provision that I would like to take a minute on. Not that I object to it wholly. But on the assumption

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that some foreigners will make investments in the United States on the basis of a fixed yield, as we assume they would, if these rates are permitted to be flexible up or down, won't we thus perhaps create an encouragement to off selling at times when people - as we switch the rate upward. That will reduce their effective yield and we may force him to sell in our markets at a time when we don't want him to.

Then I was also considering this from the standpoint purely of control. Is this going to be so sensitive a provision that we can determine just what percentage to recommend to the President, and considering also that these returns come in once a year and the information returns pertaining to the transactions come in once a month, can we thus shape a policy fast enough on the basis of the scattered returns that we get from these investors.

- H.M.Jr: As far as I'm concerned - I mean I can give you a policy any morning from this sheet.
- Oliphant: I think what he points out, though, is a question of the wisdom of using the power, assuming you've got it and the care with which you've got to use it; it doesn't go to the question of the desirability of having the power.
- H.M.Jr: I think the thing you (Zucker) point out is all right, and it would be the kind of thing I'd worry about after 1940. But after all, contrary to the general belief - I mean we don't - any movement that we make that affects foreign capital has only been done in the Treasury after months of exhaustive study, and we don't move suddenly. I mean we move very, very slowly. It takes us months and months and months to make up our mind. I mean I'm glad to have your point, but this question of buying and selling - they always move together. Now, here's one, two, three, four, five, six - well, I mean there are five countries, and the five countries all did the same thing Saturday. They all did the same thing, see? I mean Great Britain, France, Netherlands, Switzerland and Canada all did the same thing Saturday; they all sold.
- Zucker: Of course, if we consider it advantageous to create a certain amount of uncertainty in the mind of the foreign investor, so he'll never know just what his returns are - always subject to change - that's what

- 14 -

this will do.

White: But Joe, it's not retroactive.

Zucker: But his present investments will be subject to a flexible provision, so he might assume that as he buys this stuff, that next month the rate will change and his yield will be cut in half or cut a large percentage.

H.M.Jr: Well, I think it's all right to point it out, and I think this week will tell the story as we talk and as we get the fundamentals.

Oliphant: Couldn't we say this: This power we are now talking about is now in Congress. All the considerations and precedents and purposes. This power is now in Congress, to make this change. Now we are suggesting that it would be advantageous for the power to be in the President's hands. And there is a difference between the wisdom of using the power on a particular occasion and the prudence of having the power in case you need it for emergency.

H.M.Jr: Well, that's - I mean in thinking over I was fearful that they wouldn't give the President this power, and I think if it was purely a domestic thing that we wouldn't have any precedent for this thing; but with all this precedent back of it on the foreign side, I think we might have a pretty good chance.

Oliphant: The way we are handling our other foreign stuff.

H.M.Jr: I mean it is a known... All the other powers are discretionary.

U

GRAY

Paris

Dated February 16, 1937

Rec'd 9:30 a.m.

Secretary of State

Washington

215, February 16, 11 a.m. (SECTION ONE)

FROM COCHRAN

In a radio broadcast on Saturday last Premier Blum urged government employees to withhold demands for higher salaries which they have been led to make as a result of the ever increasing cost of living. The appeal of Blum has been seized upon by the opposition press as proof that the Government's theory of increased purchasing power through inflation has failed. In this regard LE TEMPS notes with satisfaction Blum's recognition on Saturday that "the budgetary deficit cannot be allowed to increase inordinately without compromising the public credit".

In addition to counselling civil employees to patience the object of Blum's broadcast was to announce the decision of the Government to present new laws to Parliament during present week providing for the reenforcement of existing legislation relating to the punishing of speculators on prices of products of prime necessity. He also indicated that later on he would have something (END SECTION ONE)

RR:CSB

BULLITT

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GRAY

Paris

Dated February 16, 1937

Rec'd 9:25 a.m.

Secretary of State

Washington

215, February 16, 11 a.m. (SECTION TWO)

to say about the export of capital.

LE TEMPS of yesterday carried a lengthy article by its financial editor Frederic Jenny regarding the present regime of the franc. Notably Jenny points out that while the Minister of Finance has declared himself against further devaluation he has not made it clear that he does not envisage reducing the value of the franc to the lowest legal limit of 43 milligrams. Examining the question as to whether such a policy would be equivalent to a new devaluation Jenny contends that legally the answer is in the negative. However, in his view it would be equivalent to a "new depreciation" and would present the same inconvenience as a new devaluation as concerns price movements and fixed revenue securities. Jenny does not consider that the reduction in itself should be regarded contrary to the tripartite arrangement but points out that under the terms of the arrangement all concerned undertook to avoid any measure that could affect the new exchange level. He notes that so far the other parties to the arrangement have given

no indication

U -2- #215, Feb. 16, 11 a.m. (Sec. 2) from Paris

no indication of their attitude regarding such possible action by France.

Janny does not agree that suppression of the existing margin of 6.50% would lessen pressure on the franc nor lead to wholesale repatriation of French funds as claimed in certain quarters. He contends that,

BULLITT

CSB

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GRAY

Paris

Dated February 16, 1937

Rec'd 9:47 a.m.

Secretary of State

Washington

215, February 16, 11 a.m. (SECTION THREE)

on the contrary consolidation at the present level would be more favorable to the franc. Furthermore, he recalls that profit of about 18½ billion francs that would follow devaluation to legal limit (8½ billions from gold revaluation and release of exchange fund of ten billions) would not solve the Treasury problem for the reason that the monetary law stipulates that such profits must be applied to redemption of the public debt.

Turning to possible benefits of a decision to stabilize definitely this authority considers that much may be said in its favor; for instance it would do away with exchange regulations, lead to the liquidation of most speculative positions, make it possible for private holders of gold to sell at world prices and lead to the release of hoarded gold.

However, Jenny very forcibly concludes that the real trouble resides in general conditions here such as extravagant expenditures, unbalanced budget, huge requirements of the Treasury, and lack of confidence, and not in the monetary systems. He contends that it is probably desirable

to

U -2- #215, Feb. 16, 11 a.m. (Sec. 3) from Paris

to remove or to improve these conditions before stabilizing the franc.

Considerable notice is given in yesterday's press to an article by Rist published in L'EUROPE NOUVELLE condemning Government's policy of increasing purchasing power by salary increases and huge outlays for public works. Rist warns that such a policy can only compromise the equilibrium of the money market. His views are strongly endorsed by AGENCE ECONOMIQUE which contends that the only solution is to open the frontiers, to let gold, currencies, capital and securities enter and leave freely and to lower the customs duties on all raw material regardless of the protests of a few private interests. (END MESSAGE)

BULLITT

CSB

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GRAY

Paris

Dated February 16, 1937

Rec'd 2:50 p.m.

Secretary of State

Washington

218, February 16, 3 p.m.

FROM COCHRAN.

Pressure on French franc was less severe yesterday and today than at close of last week. Swiss franc weakened yesterday due to Germans liquidating Swiss securities and converting proceeds into sterling or dollars. Florin has today recovered loss suffered last night since it is now understood that the change in Dutch gold price is a purely internal matter and does not affect international transactions. French carryover rate yesterday was high and money is scarce. Understand Bank of France is scrutinizing carefully requests for rediscounts in endeavor to check move to purchase forward commodities as a hedge against further devaluation of franc. French shares weak yesterday and irregular today. Rentes recovered slightly from yesterday's heavy decline. (END SECTION ONE)

BULLITT

CSB

## GROUP MEETING

February 16, 1937  
9:30 A.M.

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

H.M.Jr: Listen, "Sugar" Wallace is having pins and needles until you get over there. The whole sugar cartel of the world is tied up waiting on your return.

Taylor: 2:30

H.M.Jr: All right.

Taylor: And I'd like to talk about that a little before I go over there.

H.M.Jr: All right, I think I'll get a chance to this morning. I'll get a chance this morning, after our politics; I can do it right after Mr. Helvering is here at 10:30.

Oliphant: I'd like to talk about it.

H.M.Jr: Would you?

Oliphant: Legal questions.

H.M.Jr: Anybody that wants to talk about sugar, 10:30.

Where's George Haas? Now George, you're radiating health, aren't you? If you will, after you go out of here, go in Mrs. Klotz' room at ten o'clock. She'll give you that letter to Secretary Moore.

George, you take one of these (a copy of "Chaos or Reconstruction" by Raymond Leslie Buell) and give one to Mr. Taylor. Wait a minute, take an extra one for

- 2 -

Harry White. And one for Gaston. I strongly recommend it. I tell you, do you mind - did I give you two?

Haas: Yes, sir.

H.M.Jr: Give me back one. (Haas returns a copy)  
It's one of the best things that I've read in a long time.

I'm a little bit.... Helvering is coming in at ten on politics on New Jersey. I think you contact - I think you (Gibbons) better stay. Don't you think so?

Gibbons: All right.

H.M.Jr: Senator Moore, I mean, is coming in at ten. What's been happening is that - Moore says they have been passing around from pillar to post for a year and he wants a "Yes" or "No" and I told Helvering to come in a few minutes ahead of time. I think you better stay and we'll see what we're going to say. My experience with these politicians is they'd rather have a "Yes" or "No" than be kidded for a year, the way he's been.

Gibbons: Yes or no.

H.M.Jr: Don't you agree?

Gibbons: Oh yes.

H.M.Jr: And he said to me, "Tell me yes or no."

Gibbons: He's a very direct fellow.

H.M.Jr: So I think you better stay. And Magill isn't allowed in on this for Internal Revenue.

Gibbons: Mayor Hague sent his very kindest regards to you last night.

H.M.Jr: The more I go into this, the more I understand why he sent his kind regards.

Just so you know what I'm doing, at three o'clock

- 3 -

Bell and Mac and I are seeing Hopkins on unemployment. Let's see, nobody else gets in on that.

On this flow of capital, inasmuch as we are seeing the President supposedly at 12:30 tomorrow - and Mrs. Klotz, remind me to call up McIntyre at four to find out about that appointment; I'll call McIntyre at four this afternoon. I've got this evening free, if necessary, to jam this thing through, because I won't have a chance tomorrow morning to have a dress rehearsal, because we have a meeting at eleven o'clock of the Executive Committee of the Open Market Committee of the Federal Reserve, see, and they're coming from out of town. So if it's a question of my getting together with Landis and Eccles, I'd have to do it tonight. So will you people keep that in mind?

Mrs Klotz: General Johnson is coming in at ten.

H.M.Jr: Today?

Mrs Klotz: Tomorrow. And I sent the papers to Mr. Magill.

Magill: I haven't gone over them.

H.M.Jr: Will you have a chance to tell me about it before Johnson comes?

Magill: There isn't much to be told, as a matter of fact.

H.M.Jr: Well, let's do it just before he comes.

Magill: I can tell you in five minutes.

H.M.Jr: All right. Do you (Mrs Klotz) mind speaking to Landis and Eccles and finding out whether they are free tonight in case we have to have a dress rehearsal before seeing the President, see? Tell him I'm keeping tonight open in case we... Would they be free, would they be available?

Magill: I think it might be well to have a meeting tonight.

H.M.Jr: Well, tell them that there is a 75 percent chance of having a meeting tonight. Would they - why not ask them would they be available?

Mrs Klotz: Ask them directly.

H.M.Jr: Directly. Well, let's make a tentative meeting for 8:30 at my house. Do you (Taylor) want to pick up those threads? I think you ought to pick them up. Are you free tonight?

Taylor: I can be.

H.M.Jr: Well, that's that. Instead of going around the room, who wants a decision on - who wants to tell me something?

Oliphant: Do you want to settle that Harvard thing?

H.M.Jr: Harvey?

Oliphant: Harvard.

H.M.Jr: Oh yes. And we got a telegram - this telegram came in from Storey: "Would you be willing to sit after Saturday afternoon session of Table Five?" I haven't got the program.

Haas: I've got one here. (Hands program to Secretary)  
There is Table Five at the beginning.

H.M.Jr: "Effect of...

Haas: That's on that state and local - all that stuff.

H.M.Jr: "Optional: Should the Federal Budget Be Balanced? If so...." I don't think so. I mean I can try and do that morning job, international money.

"Would you be willing to sit after Saturday afternoon session of Table Five on Federal revenue and expenditure? Originally we had hoped that you would come to this table rather than to Currency and Credit, but inasmuch as our advisers felt that Stabilization in Table Three would be of greater interest we suggested Three. Stop. If you do not care to discuss the last part of Table Three, we think you might find the Saturday afternoon session of Table Five interesting. Stop. Sorry not to have cleared this up over the telephone." He's talked to somebody.

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Now, what did you fellows decide?

Oliphant: Well....

Haas: I'm - we didn't come to any conclusion on the thing. My own position is I am at your service anyway.

H.M.Jr: Yes.

Oliphant: I don't want to go until Saturday. I don't want to miss Friday night, and apparently unless they shift their program - Taxing this Friday..... I think nine questions out of ten that they will ask on the tax thing will be the effect on business and business administration and business management and corporate finance. So that I should think it would be nicely taken care of if Haas was there. And then, if you want somebody to answer any legal questions.... I doubt if there will be.

H.M.Jr: Well then, what about Saturday for yourself?

Oliphant: Well, I'll be glad to be there Saturday if....

H.M.Jr: Pardon me.

Oliphant: ...that would be fundamentally...

H.M.Jr: Mine.

Oliphant: ...mine. But I....

H.M.Jr: But the way it works out it is not really necessary for you to go Saturday, inasmuch as that thing is Friday.

Oliphant: That's right.

H.M.Jr: And do you care?

Oliphant: I'd just a little rather not go.

H.M.Jr: Just a little rather not go.

Oliphant: Because I'd have to go up there a couple days and just for.... But I'd be glad to go.

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H.M.Jr: Well, we're being awfully polite with each other.

Oliphant: Well, it's Harvard involved.

H.M.Jr: Well, I think inasmuch as Friday afternoon is the thing that you would normally go on, then I would under the circumstances let George go over Friday and stay over and sit with me on the Saturday morning.

Haas: All right.

H.M.Jr: What?

Haas: All right.

H.M.Jr: And we won't attempt to do anything.... I think there is such a thing as spreading ourselves too thin. And I think you (Haas) should talk over with Oliphant and Magill whether you want to take anybody up with you Friday afternoon to sit with you. That's up to you. What?

Haas: All right.

H.M.Jr: All right?

Haas: O.K.

H.M.Jr: I mean if you want to take somebody like Kent - like that, I'm not - think it over.

Haas: Uh-huh. O.K.

H.M.Jr: Then you could sit with me on the Saturday morning one as long as you're there. What?

Haas: All right.

H.M.Jr: Don't you think I -

Haas: Yes, that's O.K. And on that Saturday afternoon; you can still think about that if you want to.

H.M.Jr: No, no. I mean if I - for me to prepare for Saturday afternoon is going to take two or three sessions of a couple hours each. That's all I can devote to the thing, and I can't devote the same thing to this question of the afternoon. I mean the question is a

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budgetary one anyway; it would mean taking Bell. And I just haven't got the - my mind isn't - I can't do it.

Haas: No.

H.M.Jr: I don't think anybody but Treasury - I don't think we want to go in there. You can't help but have leaks.

Haas: Oh sure.

H.M.Jr: If we do Taxes and International Monetary Stabilization, I think any university ought to be satisfied.

Magill: Ought to be satisfied with one of them.

H.M.Jr: And I think....

Oliphant: You can be sure on that other thing men like Douglas will be there anyway.

H.M.Jr: I don't think so.

Oliphant: On the budget thing.

H.M.Jr: I don't know. I think the easiest way to begin is to do it by telephone. Don't you think so?

Mrs Klotz: (Nods yes)

H.M.Jr: (On phone) See if you can get Mr. Charles M. Storey, Junior, either at quarter of twelve or at quarter of three this afternoon. I'd a little bit prefer the quarter of twelve. And let me know, will you? You know, the same call as yesterday.

We are all so terribly polite with each other. It's marvelous.

Gibbons: It's the effect of the dinner last night.

H.M.Jr: Now, who else wants a decision?

Gaston: The press would like a little information about our relations with the Dutch on this lowering of the buying price for gold - whether they consulted us or not.

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Lochhead: I'll speak to you about it.

H.M.Jr: The answer is they didn't.

Gaston: Well, they are not in the tripartite agreement; they are not obliged to.

H.M.Jr: Oh yes they are.

Gaston: Well....

Lochhead: This has nothing to do with that.

Gaston: All right.

H.M.Jr: The answer is they didn't.

Lochhead: We've checked with them.

H.M.Jr: Well, write a memorandum on that.  
(To Bell) Your balance went up.

Bell: Got some receipts from Frisco, about seven million dollars.

H.M.Jr: How can I keep track of you when your receipts go up?

Bell: Harry Hopkins...

H.M.Jr: What's the matter with the Youth Administration? Can't you do better than that?

Bell: ....if he doesn't know these big receipts come in, he can't spend it.

H.M.Jr: I never heard of such a thing. I keep a daily check. Running kind of low. Only got a balance of 760 million. You won't tell Harry, though, the receipts are going up. We'll have a nice friendly chat this afternoon - one hour.

Gaston: Do you want to raise that question of deficiency judgments that Bill Myers is interested in?

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H.M.Jr: Let Wayne Taylor handle that.

Gaston: All right, I'll talk to him about it.

H.M.Jr: I haven't got time.

Gaston: Right.

H.M.Jr: I haven't got time. I mean I'm just about - I'm crowded to my mental capacity, that's all.

Gaston: All right.

H.M.Jr: What else?

Magill: Looks as if I've got to up on the Hill on your carriers' tax. Mr. Doughton got it through the House in march time. Went through yesterday afternoon without any trouble. But Senator Harrison seems politely uninterested.

H.M.Jr: Has it passed the House?

Magill: Oh yes.

H.M.Jr: Does Miss Roche get the significance of this?

Roche: I didn't hear what....

Magill: You know this carriers' tax.

Roche: Oh surely I do.

Magill: Which expires on the 28th of February. Mr. Doughton put it through his Committee and the House very promptly. Now lying on the doormat of the Senate.

H.M.Jr: Well, if necessary we might find out who represents these people down there, Miss Roche. I mean the railroad men. I mean if we have a little trouble. What?

Roche: I think they are following it very closely.

H.M.Jr: Well, I don't wonder.

Roche: I don't know.

H.M.Jr: Well, anyway, when you come down from the Hill let us know.

Magill: The Senator wants a memorandum on it.

H.M.Jr: All right. What else?  
You two fellows (Bell and McReynolds) get together on that Secret Service.

McReynolds: Yes.

H.M.Jr: What else? Can you (Gibbons) report any progress on Customs?

Gibbons: Got a tough situation there. He's very recalcitrant.

H.M.Jr: Don't force him.

Gibbons: No. Well, I want to talk to you about it, you know.

H.M.Jr: All right.

Gibbons: Ballinger's doing a good job there, but it's slow, and he's going to straighten the whole situation out. It'll make him sore as the dickens.

H.M.Jr: Well, if anybody hasn't got anything else, all right.

TREASURY-S.E.C.-FEDERAL RESERVE  
MEETING ON RESTRICTION OF  
FOREIGN CAPITAL INFLOW

February 16, 1937  
10:00 A.M.

Present: Mr. Magill  
Mr. Gaston  
Mr. Lochhead  
Mr. Zucker  
Mr. Haas  
Mr. White  
Mr. Upham  
Mr. Oliphant  
Mr. Opper  
Mr. Kent  
Mr. Seltzer  
Mr. James M. Landis  
Dr. Paul P. Gourrich  
Dr. Raymond W. Goldschmidt  
Mr. Eccles  
Dr. Goldenweiser  
Mr. Bryan (Of Federal Reserve)  
Dr. Feis

H.M.Jr: Keep talking and maybe we won't have to do anything.  
Did you (Landis) see Saturday's figures?

Landis: Why, I did see them. I saw Saturday's figures.

H.M.Jr: All we've got to do is to talk.

Gourrich: But we have to keep on talking.

Goldschmidt: That helps only for one or two days.

H.M.Jr: And the interesting thing was, you notice, they all  
did the same thing.

Goldschmidt: All the Europeans usually have the same tendency  
plus or minus on the same date. Canadians, of course,  
not; that's independent.

H.M.Jr: It's not much use starting until Eccles gets here.

(Goldenweiser and Bryan come in)

Golden.: I'll have to have my watch better coordinated with  
Treasury time. I'm just exactly on time with my  
watch.

H.M.Jr: Well, last time it was your car.

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Golden.: I investigated it after that and found it was - my watch was four minutes slow and that parking took three minutes too long.

H.M.Jr: Well, I think the Federal Reserve and Treasury better set their watches. We ought to always be ahead of you.

Well, supposing I start in this way: At the request of the President, the three organizations have been working together and....

(Eccles comes in)

Eccles: How do you do, everybody.

H.M.Jr: Is your middle name "Jimmy Walker"?

Eccles: No, my name's "Jesse Jones."

H.M.Jr: All right. I was saying that at the request of the President the three organizations got together, and their technical staffs. And I was getting a little bit impatient and I asked you gentlemen whether you wouldn't come because we had a suggestion to make, would like to get you to consider it. I mean I don't want you to think it is - I mean I think it is a suggestion which has come out of the meeting of the technical staffs.

I'll just give it very roughly and then the technical explanation - I'll ask Mr. Magill to explain, or Mr. Oliphant, anybody who is here to help out. The idea that we have worked out, which I have talked to Mr. Landis and Eccles about over the telephone, and also Mr. Feis, was that instead of trying to find the perfect answer to this, we attempt to do something now which we could all agree upon. And that something which I'd like to discuss this morning is the idea of increasing - of giving - of asking Congress to give the President the right to increase the tax on aliens living abroad on their income, both from private sources and corporations, and also - I mean giving him that right to if he wanted to. And we will give you the background on this, the other similar powers that he has on other things that affect foreign holdings. Plus one other thing that we have dis-

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covered, that a foreigner holding United States Government securities pays no tax whatsoever; and we felt that we might be able to go up, if everybody agreed on this thing - go up to Congress giving us an excuse for our hurry our 15th of March financing, and say we wanted to get this thing through before the 15th of March so that the next lot of securities we sell would not also be free from taxes to foreigners, and that we might get the thing through on that basis, giving a list of other methods which these three organizations would continue to study.

Now, we get figures through S.E.C. every morning and every night and, to show you what just talking about it will do, the first day the foreigners had a chance to do anything was Saturday and they completely reversed themselves and the five countries sold net two million eight.

Now, I've given you the way I feel about this thing at this time. And Magill, could you go into the more - the background and the other examples and the precedent which has been established for giving the President the permissive power to do the thing.

Magill:

Yes. I don't know that it is necessary to do this, but I think it is well to start with what the present scheme of taxation is with respect to non-resident aliens and then consider what might - from there what might be done to meet this problem.

As far as the present scheme, I dare say most of you are familiar with it. The non-resident aliens are really dealt with in three different groups, whether you are speaking of individuals or corporations. The one case is the case of the non-resident alien individual or corporation which has an office or place of business in the United States, and such a non-resident alien - such an alien is dealt with the same as a citizen or resident.

In the case of the resident foreign corporation there is a flat tax of 22 percent on his income from American sources. In the case of the individual engaged in business here, the same rates as those applied to citizens and residents.

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Then, as most of you know, there was a provision made in the Act for the possibility of a treaty with Canada and also with Mexico; but there is pending a treaty with Canada the effect of which would be to reduce the withholding rate on periodical income, such as interest and dividends, etc., to five percent both in the case of the corporations and the individuals, and there will be no tax on capital gains at all.

Well then, finally, as to non-resident aliens other than these Canadians and other than aliens who have offices and places of business here, the third category. We provide in the case of an individual for a withholding rate of ten percent on periodical income such as interest, dividends, salaries, rents, etc., and no tax on capital gains; and in the case of the foreign corporation fifteen percent on interest, rents and royalties, ten percent on dividends, and no tax on capital gains.

Well now, in approaching this problem, there, I presume, are two principal solutions that you could think of. One is the increase in the withholding rate; the other is placing some tax on capital gains, on the theory of course that that would be a particular deterrent with respect to the speculator and some deterrent with respect to others.

As between the two of them, there has been a lot of work done here in the Department, done by Mr. Bryan and by others, on the subject of the possibilities. The difficulty in the case of the capital gains proposition is of course the administrative difficulty, the difficulty of enforcement, because many of these transactions are carried out abroad and can be perfectly well carried out abroad. There at the present time is no necessary reason why the capital gain should arise in this country, even though it arises in respect of American securities. Hence, it is a matter of a great deal of difficulty to formulate provisions of such a sort that the capital gain would really be taxable, that it would be administratively feasible to collect a tax, even though theoretically there would be no particular difficulty in imposing a tax.

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So far as the practicability of increasing the withholding rate is concerned, I should say there is almost no difficulty. The withholding tax is easy to collect. There is no necessity for a return from the alien, but you simply put your finger on the American source of the income and ask the American payer to withhold twenty percent instead of ten, or whatever figure you may decide upon.

Well, consequently, in working over the two and having in mind then the fact that if we put in a tax on capital gains on the alien the difficulties of enforcement and administration would be very great, and quite an elaborate machine would be necessary if the tax were really to be enforced, our thought was that it would be best to start with an increase in the withholding rate, since that can be made effective, and leave the possible increase in the tax on capital gains for later treatment, contemplating, as the Secretary has said, that if and when a statement is given out we would say among other things that that was one of the matters we were studying and one of the things which might be done next.

Well then, so far as the withholding rate is concerned, there were two different possibilities there which we have considered. One is to make a flat increase in the various withholding rates. The other is to make the increase and decrease depend upon some finding of fact or some proclamation by the President, so that in the event that this condition should change and this flow should reverse, for example, as would be possible, we could take steps to change the rate without the necessity of applying to Congress for new legislation, with the consequent delay, etc.

Well now, speaking to that proposition, I presume the principal precedent that we have for the - there are several precedents, but the principal one is in the Revenue Act at the moment, and that is the provision put in in 1934, when we had chiefly in mind the action of France in imposing what we regarded as discriminatory taxes upon Americans who had business

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offices in France but to our way of thinking were not earning any income from France. I don't think I need to go into that any more; I will if you want me to. At any rate, what we did there was to put in a provision to the effect that if the President should find that Americans and American corporations were being discriminated against by any foreign country in its taxation, the President might so proclaim and might increase the rate, might double the rate of American tax on the citizens of that country with respect to their American income; and there was further provision for decreasing the rate again in the event the President found that they had quit discriminating.

Well, the whole thought of that provision, as I recall it, in '34 was to have a club. The provision itself would possibly have given difficulty in operation, but it did seem to have the effect which we really had in mind in bringing the French into line. So that we have now in the law a provision giving discretionary power to the President, which is not at all dissimilar to the proposal here. The President would be given similar discretionary powers with respect to the increase or decrease of this withholding rate.

Then in other Acts there is similar discretionary power of the President with respect to aliens: Such things as the neutrality legislation concerning exports for war purposes; the increase of tariffs in case there has been discrimination abroad; and then the legislation fixing the gold content of the dollar. So that the legal office here feels that it would be possible to frame the legislation in such a way that it would be valid.

And further, it seems to all of us that there is an obvious advantage in having some flexibility in the application or in the removal of these additional rates.

Well now, to make that proposition more concrete, then, what we have in mind would be a bill in which the withholding rate as to non-resident individuals and non-resident corporations would be increased. Then a second section to the effect that if the

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President made certain findings, a proclamation, then this rate would be decreased or increased as the case might be; that is, the President could work it either way.

Now, as to what the rate should be finally, whether you have a flat increase or whether you give this discretionary power, the Statistical Division has made some investigation of the applicable rates of withholding abroad, and furthermore of the effective rate of tax as it applies here. And, so far as the principal foreign countries are concerned: In Great Britain the present withholding rate, the present normal tax rate, is 23 $\frac{3}{4}$  percent, as against our rate in the case of non-resident alien individuals of ten. And France, I understand, is 12, 18, and 24, dependent on the types of securities.

Then we find that so far as dividends are concerned in this country, if you eliminate the person with the small earnings, whose income is below ten thousand, the average effective rate on American nationals with respect to dividends runs around twenty to twenty-five percent. So that you can make out a case for the proposition that to increase the rate of withholding on individuals to, say, twenty - non-resident alien individuals - would not be out of line with the rates which they are at present paying in their own countries, or out of line with the rates which our own nationals are paying with respect to the bulk of these types of income.

Consequently, our thinking - I don't know that these rates are at all definitely fixed in our own minds, but our rate of thinking runs somewhat like this: That so far as the individuals are concerned - by individual I mean non-resident alien individual who does not have an office or place of business in the United States - increase the withholding rate from ten to twenty. And then so far as non-resident foreign corporations are concerned, we have considered increasing the rate on items of periodical income, other than dividends, from fifteen to twenty-five, and on dividends from ten to twenty. In other words, an increase of ten percent in each of the three effective rates.

Now, as I say, I don't know that we are absolutely definitely decided that those are the precise rates which should be adopted. But they seem to us, on the

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basis of the data we have, to the the best support-able ones.

We should consider in the same connection that the present rate on resident foreign corporations - that is, the corporation which has an office or place of business here - is now a flat 22, and I suppose it is conceivable that in the case of this increase in the rates applied to non-resident foreign corporations, you might want to make it a bit higher for whatever encouragement it might give to those corporations to have domestic offices here; give us a little better hold on them.

I think that outlines the story.

H.A.Jr: Start with Mr. Landis and go around the room.

Landis: I think perhaps the best way to start this is to recognize the objects and deficiencies of any of the schemes considered at the present time. It won't do certain things; we all recognize that. Namely, that it won't prevent the speculation, we'll say - won't prevent speculation in non-dividend paying stocks; nor will it prevent speculation where the main desire of the foreigner is to get his return as a result of capital appreciation rather than interest. I think there are your most - are your two prime deficiencies of the existing proposal.

On the other hand, it does seem to me that the problem is a pressing one, and to work out a scheme of either a capital gains tax or a nominee system, or something of that nature, would just take too much time at the present juncture. Now, the statute of the type that you are talking of, I think, could be written on two pages, and it is an easy statute to argue for. It will be appealing from that standpoint, the idea of at least trying to equalize benefits from speculation between foreigners and this country by a rough-and-reedy method of increasing the withholding tax. And it would seem that a thing like that could be put through Congress in very short time, whereas if you moved in the other direction at the present time, you'd have to spend most of your concern on the administrative side of it, the intermedial administrative side, which may be worked out - I don't know - but I haven't seen yet

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a clear-cut answer as to how it can be worked out without practically rewriting the tax law. In other words, a statute that would try to get at the capital gains tax and try to make that thing applicable to foreigners would take thirty pages of writing plus a great deal of ingenuity with reference to your sanctions - a tremendous amount of ingenuity. And then you have ultimately this gamble as to whether or not those things will work and the degree of personnel that would have to be employed in order to put a statute of that type into any kind of effective operation. Those, I think, are the prime considerations.

At the present stage there is necessity for doing something and doing something quickly. You have the administrative machinery already set up to do something with a withholding tax and to make that kind of thing enforceable, and therefore increasing the withholding tax is a very simple method of getting at this situation, even though you admit it isn't by any means the cure.

The one point I would make is the desirability of having the thing discretionary rather than fixed.

H.M.Jr: I was going to ask you whether you liked that.

Landis: I think that is important. It is not a discretionary thing to administer assuming that you have your objectives clearly in mind. Being discretionary, I'd like to see the thing with pretty wide limits. It may be that you'd want to drive these taxes way up. One can't tell. And therefore in the statute I'd like to see just as much leeway as is possible there from the standpoint of a big - much more than doubling existing rates of taxes.

H.M.Jr: More than triple?

Landis: Well....

H.M.Jr: As an upper limit.

Landis: Well, perhaps so.

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- Magill: What would.... Now, we were thinking in terms of increasing withholding rates on individuals, say, to twenty percent, which is doubling. Now, how much leeway would you....
- Landis: I shouldn't see why you couldn't have an upper limit of forty percent. Maybe you don't want to use it, but you may want to use it. And if, for example, this is the only legislation that can be gotten through this Congress - I mean I'm not sure that from the standpoint of broad administrative policy the whole question of taxation along these wide lines wants to be opened up at this session. One doesn't know what the situation will be when Congress is out of session, and Congress will be out of session from about around June until December. So....
- H.M.Jr: You're an optimist.
- Landis: So that I think considerable leeway there is very desirable.
- From your other point - your point of the legal validity of the thing, it seems to be so clearly established that I should think there's no use of even bothering about it much. I mean your earliest cases would cast an aureole all the way down the line, and especially when applied against the foreigner. That seems to be a good Constitutional doctrine: "Soak the foreigner."
- H.M.Jr: May I just say before we go to Mr. Eccles or before anybody wants to ask you some questions, we had a secret meeting here the latter part of last week with Senator Harrison and Congressman Doughton on taxes, and we came to an understanding here, which subsequently the President approved, that nothing would be attempted on taxes until after the 15th of March. I told them about the possibility of asking for this kind of legislation before the 15th of March and both Senator Harrison and Mr. Doughton thought it would be possible to get it through before the 15th if we asked for something as simple as this. But I wanted to make plain - I mean to help us all in thinking - that nothing will be attempted on the 1937 Tax Bill until after the 15th, and that is - we've got that agreement between the President, Congress, and the Treasury.

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But in sounding them out - I mean the possibility of coming forward with something like this - the only thing that Senator Harrison - well, he said, "I've got to re-educate myself; I was brought up on the theory of what can we do to attract foreign capital to our shores, and now you tell me we don't want that." But from the standpoint of getting it through, they seemed to think it was perfectly possible and they liked it.

Landis: Another point I think is worth making is that, assuming that you get something like this through, this would be after all complementary to any other scheme; that is, a capital gains tax scheme or any other scheme. This is not in opposition - you wouldn't have to bother about this, you wouldn't have to change it. You could follow this with supplemental legislation.

H.M.Jr: This would be a foundation which you could build on.

Landis: Yes, and it would fit in together with any other scheme which sought to go further.

H.M.Jr: Do you want to call anybody from your group before we go to the Federal Reserve?

Landis: Well, Dr. Gourrich here suggests that as soon as possible - and I think this is a very good suggestion - we try to improve our statistics on foreign buying and selling. We don't have enough yet. The source of our statistics is a little obscure. We don't know what stocks, for example, they are buying. Take the - I am speaking of this problem on non-dividend paying stocks. We don't know enough to know whether the foreigners themselves are playing with those securities or whether they are playing with securities where the dividend yield is highest.

H.M.Jr: That's purely within your shop, isn't it, or not?

Landis: I'm not - perhaps so. I'm not sure quite what the strength of our power of regulation is there. These figures we are getting now are purely on a voluntary basis. A little added few lines, just empowering regulations to be issued by us, which will call for their reporting certain things, might be a good idea at this time. Of course, that would also give you

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the basis of saying here, "In this legislation we are looking forward."

- Magill: I wish you'd consider that and let us know what you've got in mind.
- Gourrich: And another thing, we'd want to show what kind of securities are being bought abroad, as well as what kind of securities are being bought here.
- H.M.Jr: You mean being bought abroad by United States?
- Gourrich: Yes, sir.
- H.M.Jr: Would it take S.E.C. very long to work out a little paragraph?
- Landis: No.
- H.M.Jr: What?
- Landis: No.
- H.M.Jr: Anything else, Landis?
- Landis: No, that's all.
- H.M.Jr: Anybody else from your staff?
- Goldsch.: The only thing I thought of is the higher you make the withholding rate, the more important probably would be the question about Americans acting as nominees for foreigners. I think you would have probably to think of that, so that evasion wouldn't come in there. Particularly private persons acting as nominees, which I think you do not cover at the present time.
- Landis: I think, Ros, you could settle that simply by regulation - I mean power of regulation.
- Magill: I think you could too.
- H.M.Jr: I think we want to keep it two pages, or one or two pages. Don't you think so?
- Landis: Oh yes.

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- Gourrich: I'd like to mention this point. Stocks today yield about, say, three or four percent, so that if you take twenty percent tax, that will mean it will increase carrying charge for a speculator or investor less than one percent per annum, and in a bull market that's nothing.
- H.M.Jr: It's all true, doctor, but I think, if you don't mind - I've listened and heard what the three staffs are going to do. Now, until we get - if I was suggesting something here and Mr. Eccles or Mr. Landis said, "No, this doesn't fit in the pattern," then I'd drop it. But if after the conference this does fit in the pattern, you see - but the thing I am afraid of is I want to make this first agreement just as simple as possible. As Mr. Landis said, this isn't the answer. But if you're going to give me a complete tax bill of, as Mr. Landis says, thirty pages, I just can throw up my hands. Because after three months we really haven't gotten anywhere as to a complete picture; and, listening to the thing, I don't think we'd get anywhere in another three months. I quite agree with you that this isn't going to solve it, but at least it's going to make a start, and after talking to Harrison and Doughton I think we've got a seventy-five percent chance of getting the thing through before the 15th of March.
- Gourrich: I think the real virtue of it is that people will consider that something is being done - and the first time - but I think we ought not to expect too much from that, because it is just a small thing in a rising market.
- H.M.Jr: But I think the next week or two, if we'd say, "We really mean business," we are going to tell whether Saturday was a strong wind or not.
- Gourrich: But I mean don't be too hopeful.
- H.M.Jr: That's right. Anything else, Landis? Eccles?
- Eccles: I think that the importance of stopping foreign capital coming in here is - I sometimes think that we don't fully appreciate it. Maybe we do.
- What is being proposed I am in accord with as part of the program. I think it fits into any program

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that would be adopted. It won't be very effective doing, I think, what we want it to do.

I had hoped that we might add at this time a flat capital gains tax on stocks only. That appears to be much more simple of administration than a capital gains tax applying on all capital gains. That would have two values. One, it would reduce the attractiveness of the stock market, where the real speculation is being done and where the large part of foreign funds is going. It would thus reduce the amount of foreign funds coming in here and it would thus reduce the speculative funds available for the stock market.

It may be that that would involve too much time and that this other program can be gotten through in the course of a few weeks. Of course, there could be no objection to getting as much as you can get now, if we make up our mind that we've got to have something else before Congress adjourns. I wouldn't feel satisfied merely to get a - with an increase in the withholding tax, unless I felt that we were going to get something else that would really be effective.

As to the question of the discretionary power in the withholding tax, I don't know. I'd like to think about that. It is a new thought in so far as the application of this tax is concerned; at the present time it isn't discretionary. Whether it would - just what effect it may have I don't know. If there is going to be a discretionary power, I would like to see it - like Mr. Landis, I'd like to see it up pretty high, thirty or forty percent rather than up to twenty percent.

Mr. Bryan has been studying this. I haven't had time to give it very much thought. I've just hit the high places on it in one conference, read a memorandum, so I really don't feel very competent to discuss the technical details of the program. I am primarily interested in the general objective. And I would like Mr. Bryan to just speak to this question, not in too much detail but merely an outline of the matters we discussed the other day.

Bryan: Mr. Secretary and Mr. Chairman: I find myself very

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genuinely impressed with the arguments that have been made here for the withholding tax as a step in a program that will eventually be developed, and it seems to me that there are very profound practical arguments for using the withholding tax increase, either discretionary or otherwise, rather immediately. I also am inclined to feel, however, that we must regard that as a step rather than as a final solution. That point, of course, has been made.

Now, I have one or two questions that I am a little puzzled about, and then one observation on the administration of capital gains tax, and then I will have said all that I have to say.

One of them I am wondering about is the problem of the proposed treaty with Canada and the reduction of the Canadian rate to five percent. Now, as I see it, with the present ten percent rate in existence, the reduction of the Canadian rate to five percent will not completely nullify our withholding rate, because Canada itself has a withholding rate. But it would seem to me something to be investigated, Mr. Secretary, that if we raise our rate on withholding tax to twenty, twenty-five, or thirty percent and then reduced it to five percent for the Canadians, foreign capital might flow into the United States by route of Canada, by way of Canada, and to some extent nullify it. That is merely a problem.

H.M.Jr: May I just ask Mr. Kent to answer that as he goes along, because we had this same - somebody else in our own crowd... Want to answer that, Kent?

Kent: I just wanted to point out that the treaty with Canada affects only the imposing rate of tax. It leaves us, if we wish to do so or if it is necessary to do so, free to withhold at the general rate and to make refunds only where proof of Canadian residence or citizenship is forthcoming. So that we have a maximum freedom of action on the administrative side. Now, how far it will be necessary or desirable to go in the exercise of that power, of course, remains to be seen.

H.M.Jr: And you might also - I mean I asked the same question. Our investments in Canada are far in excess of Canadian investments in the United States. Just wanted to....

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Bryan: Well, that may settle that question out of hand then.

Now, I have wondered a little bit about the problem of enforcement with regard to a yield tax if we did step up the rate substantially. I have rather felt that we might even in that tax run into rather serious difficulties of enforcement. And I have also wondered with regard to capital gains tax if we could omit the element in the capital gains that has to do with bearer securities, in which we have exceeding difficulty, and could confine ourselves to stock certificates, in which after all capital gains are largest, and which are ordinarily registered in transfer offices in the names of an owner, we might not finally derive a fairly simple and administrable capital gains tax in that connection. Now, I think that that is a subject to be studied and perhaps outside of the present discussion.

H.M.Jr: Well, Mr. Bryan, may I - just talking for the Treasury inside this room, the reason why we are sidestepping capital gains is that we feel that we couldn't apply that or have it in the bill at this time without raising the whole question of capital gains domestically. Now, we feel that this ought to be - if we are going to raise the question of capital gains, we can't raise it for the foreigner without raising it domestically. And if we are not going to do anything on our domestic tax situation until after the 15th, we would frankly like to postpone that question until after the 15th, just as a matter of - ah - common sense, I mean, or politics, whatever you want to call it.

Landis: Strategy.

H.M.Jr: Strategy. Thank you, thank you. I mean that's what we are - we are very conscious of capital gains, but we can't, we believe, raise it for the foreigners without having it immediately raised for the domestic field. And if you - I'd like to ask you, having it in mind that we have this "gentlemen's agreement" that nothing should be raised on domestic until after the 15th, if you think it would be wise to raise it.

Bryan: I think you certainly have very forceful considerations there, Mr. Secretary; almost compelling.

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- H.M.Jr: I mean that's strategy. Thank you for the word. Now, what other things?
- Bryan: I think that about covers all I have to say.
- H.M.Jr: Now, just take a moment and think, because - I mean I don't want to - or Mr. Eccles might want to ask you a question.
- Magill: If I may ask you one, Mr. Bryan. I take it you are going to continue your work with respect to this possibility of a tax on capital gains?
- Bryan: Well, Mr. Magill, that would depend entirely on my chief. That is, I'll do whatever he says about it.
- Golden.: Well, it is the intention, of course, to continue the study, isn't it, Mr. Chairman?
- Eccles: Well, as I understand it, this is a purely preliminary move in this direction, and as I understand it, the staffs of the three organizations would be expected to continue the study.
- H.M.Jr: That's all right.
- Eccles: I will say that certainly Mr. Bryan would be available to work with such members of the other two staffs as may be available to work on this problem, as long as it is necessary. I don't know of a more important problem for consideration at the moment.
- Olipphant: May I ask a question? Would a consensus of opinion be that we continue the study and as the next step focus the study on the question of limiting it to stock certificates?
- Eccles: I'd like to see that continue, because I...
- Olipphant: As something that you'd most likely get something out of quickly.
- H.M.Jr: Well, I wouldn't place any limit on it. I'd simply say that the three staffs are working together on the question of flow of foreign capital, and let them study anything, because nothing is - something might come to light that we don't know about.

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Magill: I think that's right.

Eccles: Wouldn't it be well to ask them to crystallize a program with some alternative programs? In other words, if they would crystallize a program with reference to a tax on - a flat tax on capital gains on stocks only, and then with alternative programs, we at least would have something concrete for consideration. That seems to be, on the face of it, a much simpler program than to cover the entire field of capital gains. And it gets, it seems to me, at the root of the speculative problem so far as foreign funds are concerned, and it should do more to tend to discourage or shunt off foreign capital coming into our market than anything else. Foreign capital coming here into our bond market, into our mortgage market, is of small proportions and is certainly not serious at all, and the capital gain that may be derived by going into that field is negligible on the basis of today's long term capital market, and so foreign capital going into that market wouldn't - would not certainly be serious. But the stock market is a field where it should have a political appeal to get a tax of that sort, and I would like to see a study made and a program, and with the thought that we can at least get that much through Congress before Congress adjourns, at such time as you may take up the tax program after the 15th.

H.W.Jr: Could I make this suggestion? We haven't heard from the State Department yet. Could we try to come to an agreement as to a program that we will try to get through before the 15th? If we can do that, then I would suggest that we then go on and direct our staffs to give preference in their study to the following things, you see, which we might decide we want to give out. Well then, you (Eccles) could say, "Well now, I think the following, one, two, three, four, are the most important," and Mr. Landis could say, "I'd like to see these particular things given attention," and our people the same way, and out of that would come four or five different possibilities to work on.

Eccles: Be well to give that out, I think.

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- H.M.Jr: I think so. But before that - we come to that, Marriner, could we first try to agree that "A, B, C, we've agreed to this"? Is that all right with you?
- Eccles: That's all right.
- H.M.Jr: Concentrate on that first and then take it up, and then say, "We agree that we should direct the staffs to concentrate next, as a next move, on the following things." Is that all right?
- Eccles: Yes, sir.
- H.M.Jr: Now, before I go to the State Department on the immediate question, do you want to call on anybody from your shop?
- Eccles: I'd like to know if Dr. Goldenweiser has anything to say.
- Golden.: Yes, I have. I have a very strong conviction on the subject of the discretionary power. In this matter I find myself alone in that conviction so far, from those who have spoken. But it seems to me that this is a field in which that discretionary power would be particularly inappropriate.
- H.M.Jr: Inappropriate?
- Golden.: Inappropriate, because it seems to me that when you have a discretionary power as a club over a country which may be discriminating against this country - that is a legitimate use of a discretionary power - that you say, "If you behave, we won't use it, but if you don't behave we will." But this tax program, it seems to me, ought to be one that ought to be by all odds presented to the world as a friendly move in the direction of implementing your tripartite agreement, preventing unnecessary and undesirable movements of funds from countries which may need it to a country which doesn't and is embarrassed by it. And to have that coupled with an arrangement which - by which the foreigners would not know at any time what tax they were going to have to pay - have that discretionary in the Executive, it seems to me, would

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be interpreted - would be legitimately interpreted as a hostile sort of an attitude, and would make it very much more difficult to handle this matter on a friendly international attitude. I would personally - I haven't thought about this discussion until I got in this room, but it struck me as being terribly out of tune with the general approach.

H.M.Jr: Could we let Herbert Feis answer you on that? I'd like to know how he feels about it.

Feis: I shouldn't have thought that there would be that difference of response to mandatory or to discretionary powers. If you can make the world believe that you are doing this primarily for an international objective, or an objective that has international importance, you could also make them believe that you will use the discretion for that purpose rather than for any other purpose. I shouldn't have anticipated that there would be that difference between the two. Of course, if in fact it was used for punitive purposes, yes; but I take it that is not the - it would not - that would not be the basis of Presidential action.

Golden.: May I say another word about that?

H.M.Jr: Please.

Golden.: Mr. Secretary, what is the discretion going to be based on? On the volume of movement? Was your idea, Mr. Landis, when you spoke about it, that the tax would be higher if the movement was big and lower if the movement was little?

Landis: Well, that certainly ought to be one of the standards upon which the discretion is grounded.

Golden.: Well, the point is, of course, that the tax is applicable to each individual, and to have an individual's tax depend on whether other individuals send money here also or not is certainly not conducive to any feeling of confidence or assurance. When a man can adjust himself to a tax that he knows - but to have to adjust himself to a tax which depends on whether X, Y, and Z are sending large amounts of

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money into this country is to say that at no time does he know what his tax is going to be. It just seems to me that that is a terribly bad thing to do.

H.M.Jr: Well, of course, if you don't mind, your reaction is just the reaction I want it to have on the investor abroad. I mean you are describing.... If it was a flat tax, then I think Dr. Gourrich would be right; it would have no effect whatsoever, because he said it was one percent, and then it'd have no effect whatsoever. But the fact that it is discretionary - I hope it has the same effect on them as on you.

Golden.: You want to scare them away by that tax?

H.M.Jr: Yes.

Golden.: Well, of course, if that is the definite objective, I think that it would be more effective than the flat tax. I'll admit that. But I think as something of a permanent national policy, it strikes me as being extremely undesirable. I'm through. I'm not going to stress that.

H.M.Jr: No, I mean we've got two schools of thought here, and the only way I think that we can keep the money from our shores at the present is to scare it away, because it is certainly fright - is one of the - aside from the profit motive, I think fright comes first - which is driving it here.

Golden.: But you can't scare people in a friendly way.

H.M.Jr: Pardon me?

Golden.: You can't scare people in a friendly way.

H.M.Jr: Well, you can't handle this situation in a friendly way either.

Golden.: But isn't your tripartite agreement a friendly agreement?

H.M.Jr: Entirely.

Golden.: And this - isn't this going to be - isn't the way

to handle this as something that is in tune with that agreement?

H.M.Jr: Yes.

Golden.: Well, I don't believe that the discretionary power is. That is just my opinion.

H.M.Jr: But I also have to come back that if I wait until these three groups can work out an effective method, I am afraid I won't have the little hair I've got on the top of my head - will be gone.

Golden.: Well, I feel, Mr. Secretary, that - as I understand it, this is going to be the one move before March 15, if you gentlemen can agree upon it, and then you are going to consider the other methods possibly still during this session of Congress?

H.M.Jr: That's right.

Golden.: And on that basis the increase in just the withholding tax seems to me, in view of all I have heard, a perfectly logical and in fact almost an inevitable approach; but I should hate myself to see the whole case prejudiced by starting it on a scale basis. But, as I say, I've made my point; I don't want to press it.

H.M.Jr: Well, I think it is an excellent point and you can't just brush it aside, especially when you tie it up with the philosophy back of the tripartite agreement. But frankly, I think with everybody else that this is a - I don't know that I would go as far as Mr. Eccles does and say it is the most important problem; I think that it is a very important problem. We have taken away the effect of it on our domestic economy through the sterilization, and I think the next thing is now we are going to keep these people from building up these tremendous sums of money here, and for a quick method this seems the most effective.

Now, as the thing is talked and so forth and so on - and if the members of the tripartite agreement file protests with the State Department, the State Department has a way of registering very quickly, and possibly it would be so serious that they'd have to

say, "Well, you can't. It's too serious. Your tripartite agreement is too important to try to jeopardize it with this." But on the other hand, if funds slow up and if they pile up in London or some place else, it might be just the thing that might possibly save the French again. Isn't that right? If we back these things up at this time and these funds start milling around in Europe, it might just be the thing that might give Mr. Blum another breathing spell.

- Gourrich: Don't you think, as a matter of fact, that the future of the tripartite agreement depends to a large extent on the possible elimination of those speculative movements of capital, and to the extent that you are going to take the lead in that direction you are strengthening the tripartite agreement?
- H.M.Jr: And it might give Mr. Blum just the breathing spell that he needs very, very badly at this time.
- Golden.: His breathing spell depends on having money not leave France, and this won't have any effect on that because it is leaving France because the French people have no confidence in the stability of the monetary set-up there, and it is going to keep on leaving so long as that is the case; and whether it goes to England, Netherlands, Switzerland, or the United States will not make much difference to Mr. Blum's chance of making a success of his undertaking.
- H.M.Jr: Dr. Goldenweiser, one member of the tripartite agreement has already taken some steps - and that is Switzerland - to discourage capital from coming there. They have already done it. And if capital doesn't come here - I mean I am taking what you say very seriously - and the other countries would say, "No, we don't want all this money of foreigners," possibly...
- Golden.: Possibly it may have to stay in France?
- H.M.Jr: It may possibly have to stay in France, even though they don't want that. I wish you'd think that over.
- Golden.: Well, of course, that doesn't - offhand, it strikes me as a very off chance, but I may be - maybe there is.

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H.M.Jr: Did you know that Switzerland had taken measures to stop the inflow of capital?

Golden.: No, I didn't have that in mind.

H.M.Jr: Yes. Am I right on that?

Lockhead: Unofficial.

H.M.Jr: Unofficial, yes, but they have done it.

Golden.: Well, they have been embarrassed by foreign funds for years.

H.M.Jr: Well, we are embarrassed too now. But I mean - now, again, Eccles, do you want to call on somebody else from your group?

Eccles: Well, we just have the two from our division. I just brought Dr. Goldenweiser and Mr. Bryan over. I'd like to have the State Department talk to this thing first. I may want to say something after that.

H.M.Jr: You reserve the right for rebuttal.

Eccles: That's right.

H.M.Jr: Well, we all do after Herbert Feis gets through.

Feis: Mr. Secretary, I haven't had any chance to get instructions from Mr. Hull and what I say may not represent his attitude. I could begin by asking a question, whether any consideration has been given to the idea of a tax imposed through the machinery of the stock exchanges on purchases and sales for foreigners.

Landis: Yes. However, it is a very difficult thing. It is more practical than the capital gains tax by a long ways, from the administrative standpoint; yet, from the administrative standpoint, it does present its difficulties.

H.M.Jr: If you can think of any method which hasn't been thought of, suggested by these three groups, you're good. They've got 57 varieties.

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Pels:

Well, I don't know how deep the difficulties are. All I do know is that the reflections that are cast by the present proposals are deep enough to leave me quite unconvinced that the objects to be attained by this immediate action are important enough to compensate for all those reflections. Now, I could talk for a long time, but I'll try to put it in a series of just dogmatic little observations.

One, that as we keep trying to advance our general program, which in essence is an attempt to rivet the attention of the world on the possibilities of the improvement of economic conditions because of increased potential productivity of our economic equipment, we do that in the hope that that way of living will supersede a way of living based on conquest. And in any specialized technical thought that has been given to the steps by which that conception of a possible improved future world can be worked out, certainly active financial aid is an important element. And so to have the United States make a move which applies to the regular income from regular investment has the appearance of being contrary to a general force that we think may be important in the whole work of world recovery.

Second - I am putting these things dogmatically and without adequate explanation - there will be times, perhaps, at which it will be distinctly advantageous for the United States to have large amounts of permanent foreign capital in this country. It creates a position of dependence on the part of others on our action, and that sometimes is advantageous, not disadvantageous.

Thirdly - and this is a question of such great importance that I even hesitate to raise it - but you place obstacles on the regular income from regular foreign investment in order to make it more difficult for capital to leave some places and just take refuge in other places. That means that everywhere you put the capital-owning groups more completely at the mercy of their governments. I don't know just what the consequences of that might be. One could think about it a very long time.

I don't think any of these things apply to action

designed to check and re-acquire the gains of speculative investment. I think they all do apply to measures which would rest on the regular income from permanent or semi permanent investment.

Now to pass to considerations of another sort. The few people in the shop I have had a chance to talk with tend to hold the opinion, despite the interesting figures that the Under Secretary cited, that in many countries this would be regarded as discriminatory taxation. When the Under Secretary cites the British rate, it is a very high rate, but it is the same rate on British receivers of income and, we'll say, American receivers of income. I am not prepared to - I just report that as an impression which may change: that it would be regarded as discriminatory taxation.

Third, or fourth, it would of course have certain indirect effects on the position of American investments abroad. Other countries would feel themselves more justified in restraining and dealing obstructively with the income derived by Americans from their investments abroad. True, a great deal of that investment is protected by clauses in the original bond contract guarding against discriminatory taxation, but to what extent those would stand up I don't know.

This last observation bears particularly on the question of whether we want to change the present situation, whereunder foreigners pay no taxation on their income from the United States Government bonds. Most American investment abroad is in the securities of foreign governments, and in those agreements it is usually provided that that income shall be exempt from any greater - or it is usually provided that the coupon payment should be completely exempt from any form of taxation.

Then lastly, the question of treaties, particularly the Canadian agreement. Again expressing purely a personal judgment, that doesn't disturb me so very much. I mean I don't place a terrible amount of importance on that Canadian treaty as an American interest; but of course, the Treaty Division in the Department would assassinate me if they heard me say that.

H.M.Jr: Well, this thing doesn't affect the Canadian treaty.

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Feis: well, I meant to say even if it did it would not be one of the main considerations, in my mind.

Now, those diverse remarks lead me to the conclusion that, unless it was clearly proven that immediate action was necessary to preserve the stability of American economic and financial life and that there was no other possible immediate action, why, I for my part would feel that some of these other things raise grave doubts as to the wisdom of the action. All of which may be contradicted by Mr. Hull.

Landis: May I make a couple of remarks on that?

H.M.Jr: Well, I'll say this. Herbert always has his courage with him. He always says his mind. So more than likely he can take it. Go ahead.

Landis: Well, I think his entire hypothesis is wholly wrong on this to start with. In the first place, Mr. Feis looks at this as discriminatory taxation against foreign investments in this country.

Feis: May I interrupt to say that was not my basic approach but merely my incidental one.

Landis: I thought it underlaid the first three points that you presented.

Feis: No, no, but go ahead.

Landis: I think the point ought to be made very clearly that this is an effort really to bring foreigners under the same tax burden as people in this country. One can't do it by putting them under the same tax burdens with reference to the capital gains tax, and for that reason you draw a rough measure of equalization by increasing the withholding tax. With reference to this particular measure, I think it has to be recognized to be on that basis. Therefore, I can't see that it is out of line with this so-called international policy of equality of treatment of capital. It seems to me distinctly in line with that policy of treatment. I think that is very important to recognize.

Feis: It is important and almost the same point I was

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trying to bring out when I said I doubted the wisdom of this particular approach and thought the others, despite administrative difficulties, might be far wiser, because I think this particular approach in fact has quite the opposite emphasis in our own system. In our treatment of Americans, what have we done? We have increased transfer taxes to lessen speculation. We have sustained a high system of capital gains. We have graduated that system of capital gains in favor of those who held securities for a considerable period. We have tried to favor within the limits of our financial necessities, our budget necessities - we have tried to favor those who put their funds into long time securities and derived regular investment income therefrom.

This particular alternative runs in the opposite direction, and it is the first step you take. And it is that which gives it the type of significance that I was placing upon it.

Landis: well, my point is simply that you are stating it with the wrong emphasis.

Oliphant: Jim, don't you think we ought to recognize that all our corporation taxes come out of dividends before they go to London? All our income taxes come out of dividends before they go abroad.

Landis: But the point I make is that this is a selling job, you see, Mr. Feis. The action is very indirect. And so it is important with reference to - call it the publicity of it or the strategy of announcing a proposal, that we support this selling point; namely, that it isn't discriminatory in this fashion, but an effort to approximate a condition of equality.

The second brief point I make is with reference to your comment on a tax - a withholding tax on United States Government bonds. I think the analogy with reference to foreign government securities fails completely, because what you are dealing with there are foreign dollar bonds, where there is really an effort to reach the foreign market from the standpoint of the government; there is an effort to reach the market outside. Therefore, in consideration of the subscription of capital by Americans, they say, "We'll treat you on a par with reference to our citizens." But there is no such effort or desire on the part of

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this government in issuing United States Governments. We are not anxious at all to sell these bonds to foreign interests.

H.M.Jr: Well, there's another side to it. There's so much I'd like to... The other side is that we are fearful that if we do have this legislation and don't do something with future American securities, there might be the rush of foreign funds into United States Governments. I mean there is that point.

But the thing that has just knocked me over with a feather is that Herbert Feis should say that, as far as their Treaty Division is concerned, this wouldn't - this move would not disturb him.

Feis: I was talking as an economist, not as a member of the Treaty Division.

H.M.Jr: I think if you don't - I think it is very interesting, but I think that, if you don't mind my saying it, if you could go spend some time with the economists who have been spending three months on this thing, because we are so far apart in our thinking that it alarms me. I mean to think that the State Department and these other three agencies should be so far apart - maybe we're wrong; I don't know - but certainly I don't see that - I know the philosophy of the State Department is to increase the world trade, increase consumption, all that, but I don't see how this move in any way possibly would interfere with that thing. And when you ask the question is this of sufficient importance for our domestic economy that we should move, as far as I can say there is only one answer, loudly "Yes!"

Goldschmidt: I think an argument could be made that we really are trying, in the general economic interests of the world, to make people do what is the right thing and keep them from doing what is the wrong thing for their broad interests, although it may not correspond to their present fears and interests of the moment. I think it is agreed that from our point of view of international division of labor, etc., there is no sense in the United States getting the savings of Switzerland and France and even smaller - indirectly, smaller and backward countries. So that we really try by this to put the economic laws in force. We exercise the superior wisdom which for some reason or other the individual investors abroad are not exercising at the moment.

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- Haas: Isn't it the old struggle, Herbert, that....
- Feis: This last remark is on the point that I - is so deep, it has so many ramifications...
- Haas: Well, your general thesis is very deep. It goes back to the fundamental question that you have probably asked yourself a good many times. That is, isn't it very questionable whether a country should take it upon itself to put in that much management in the world economic system? Will it work out to the best interests of the world? I mean you go back to that fundamental thesis in that argument.
- Gourrich: It can be said that, to the extent that every boom is the father of a depression and to the extent that all such excesses on the exchanges, flow of capital, constant flow of capital, are stimulating the boom, it means creating a nice little depression, and if there is a good depression in the United States the whole world will suffer from it. And so if you want to protect the world, I think you have to protect the economy of the United States, because it is the economy of the United States that is the leader and gives tone to the whole economic force the whole world over.
- Feis: Mr. Secretary, I don't want to take - I don't want to take your time for this.
- H.M.Jr: What I really think is that you ought to get together with these economists of these other organizations and fight it out. After all, they've been on this for three months and you haven't.
- Now, this is terribly important - talking for myself only, after listening to the discussion, there is nothing that's been raised, with the exception of what Dr. Goldenweiser said about how it will affect the tripartite agreement, but what I feel I would be ready, if these other two join me, to present this to the President. I want to move awfully fast. You see, you've had two people sitting in on this thing and - for three months. Now you come in this morning with an entirely....
- Haas: No, it hasn't been three months.

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- H.M.Jr: Didn't they sit in three months?
- Haas: No, they came in much later.
- H.M.Jr: But talking as a friend, I don't think they told Mr. Feis the....
- Feis: They had no intimation, Mr. Secretary, that this particular conclusion had been reached.
- H.M.Jr: Well, that's my fault then. But I do think that, if you don't mind, if you do think this is sort of important, you ought to immediately get in touch with Mr. Hull and you ought to get together with the economists from the other organizations, and I think you ought to burn a little midnight oil on it, either try to convince them or yourself. Is that fair?
- Feis: Mr. Hull may not want to seriously enter into the discussion at all. He may simply want to take the view that anything that these three departments can agree on, compatible with treaties - I mean that he wants to make no observation about it.
- H.M.Jr: Well, I'd like to have your moral backing too.
- May I go around again and, just talking to the immediate thing in view, do you want to express yourselves as to whether you think we should have the kind of bill we are talking about between now and the 15th of March?
- Landis: I think I have already definitely said yes.
- H.M.Jr: I mean in view of what's taken place in the - in an hour and a half.
- Landis: I haven't changed my mind.
- H.M.Jr: You haven't changed. Do you want to ask any of your staff?
- Gourrich: I feel in full agreement.
- Eccles: You are in favor, you mean, of this immediate bill?
- Landis: Yes, I am very much.

H.M.Jr: Marriner?

Eccles: Yes, I'm in favor of it if at the same time we will make a list of - as you suggested, of just where we are going. I'd just as soon do nothing if we're going to....

H.M.Jr: No, I'm for the list, I'm for the list, Marriner.

Eccles: And I'd like to have consideration given to announcing what we are considering. It seems to me that at the time this proposed bill is sent up to Congress it will of course be such a mild deterrent, so far as the market is concerned, that I think we need something else, and I think it may be well at that time to state specifically two or three of the other matters that we are thinking about.

H.M.Jr: Well, you'd be interested that in talking this thing over with Harrison and Doughton, he suggested we have exactly the same kind of meeting that you and Jesse Jones and I went to up on the Hill; that the same people be called in, and that we could hold a meeting the same way we did with Senator Robinson and explain the thing to that group and then let them carry the ball. But he said it should be done in exactly the same way as the time that you and Jesse Jones and myself went up on this.....

Eccles: Yes, those three emergency powers.

H.M.Jr: Pat said that that worked so beautifully he wanted the thing handled in the same way, and let them do the talking.

Eccles: That's a good way to do, especially with this particular bill that likely won't require any long discussion or hearings. It is simple and should not require any extensive debate, it seems to me, especially if we are all agreed here, including the State Department.

Weis: I have an idea that the Secretary will not want to seriously participate in the discussion of this question except in so far as treaty obligations may be affected. But I will do my best to find out this afternoon.

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H.M.Jr: Eccles, do you want to ask anybody that you brought with you?

Eccles: I was just going to say that the point that Dr. Goldenweiser raises, of course, will have to be settled either here or later, because it is an integral part of the program of the bill, and I am wondering if more consideration wants to be given to it. It seems to me that it is a rather important consideration and one that we might analyze further before determining definitely whether or not to provide discretionary power, unless we are prepared to do it today.

H.M.Jr: Well, we - after all, until this thing is drawn, until we can get it to the President, until Mr. Hull has a chance to think about this thing, certainly another 24 hours, 48 hours, will pass, which gives us another chance.

Eccles: Wouldn't it be well to, say, have a couple of people from each division, so as not to have too large a group - say six people give immediate consideration to that? I mean give further analysis so that it would - we could have a meeting just prior to going up or sending the bill up or determining on the bill in its final form; at least all of the considerations in connection with that would have been given.

H.M.Jr: Well, what I was going to suggest - it will have to be, the way we are talking, a tax bill, and the Treasury will have to defend it, and so forth and so on.

Eccles: Oh yes.

H.M.Jr: So what I was going to suggest was that our people draw a bill, and I was going to ask Mr. Landis and you to lend us people so if you've got a suggestion or questions then you can work right with the Treasury people in drawing the bill. As I say, you designate anybody. Then when we've got the thing so that your technicians and ours think it's all right, we'll call another meeting and hash it over again. But I don't think - Magill and Oliphant, I don't think the thing ought to take very long, ought it?

Oliphant: 24 hours.

H.M.Jr: 24 hours. So if you people can work the way we work in the Treasury, why, we'll turn something out for you.

Oliphant: Kent has all the drafting material in hand now.

H.M.Jr: You (Magill and Oliphant) have nothing you want to say on this?

Oliphant: (Nods no)

Magill: (Nods no)

H.M.Jr: Let me just go around again. Again, Merriner, don't you want to....

Eccles: If they have anything more to say... Bryan? Dr. Goldenweiser? Anything?

Bryan: (Nods no)

Golden.: (Nods no)

H.M.Jr: The Treasury has been awful quiet. We'll start from there and go around on this thing; not on what we will add, but just on this particular thing. Kent?

Kent: Well, the drafting will not be a matter of great difficulty. As a matter of fact, the thing could be set up in two ways. If it were the non-discretionary device, that wouldn't involve changing more than eight or ten words in the statute, so that if that were finally decided upon there would be no delay in any event.

H.M.Jr: It could be drawn both ways.

Kent: It could be drawn both ways.

H.M.Jr: But anything on the general situation?

Kent: (Nods no)

H.M.Jr: Harry?

White: Only one sentence. Mr. Feis raised six points in his discussion. I think four of them, to say the least, are very debatable; but we'll take that up privately.

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H.M.Jr: In classroom, did you say? All right. George?

Haas: Well, I don't know whether this is the proper place but I'd like to - I could take a couple minutes to discuss Mr. Goldenweiser's apprehension about the flexibility if you want to take time out. The other thing is I think I could ease Herbert Feis's conscience on some of the questions he raised. You can dismiss, it seems to me, some of those broad considerations which, if I may say so, also are bothering my conscience a bit, by this statement of fact: That at the present time we discriminate in favor of foreigners. I don't think there is any justification which would lead us to continue that policy if we could rectify that. And that is as far as we propose to go at this time. That doesn't raise that whole question of the freedom of capital movements. It is supposed to equalize the situation. I mean that is as far as it has been suggested we go.

Now, on Dr. Goldenweiser, I'll take about a minute.

Feis: You propose to equalize by letting the foreign speculator continue to get off far easier than the American by penalizing the foreign investor...

Haas: No, you're not...

Feis: ....far more heavily than the American investor. There is a twenty percent....

H.M.Jr: No, I think you are terribly wrong on that. I think you are entirely wrong on that. I think the Treasury people - if you give them an hour, or fifteen minutes, I think they can get that out of you.

Haas: The other question is with regard to Dr. Goldenweiser's apprehension about the flexibility provision and the effect it might have on foreigners. It seems to me that if we went ahead as I think Dr. Goldenweiser agreed would be more effective, and put on a capital gains tax, the injury would be much greater than it would be this way - than if you went the full limit on the flexible side. It seems to me it comes down to a question of you're going to execute a man, and Dr. Goldenweiser says, "Why tease him? You spoil his nervous system. Why not go ahead and do it and not leave him in anxiety?" And that, it seems to me, is all that is.

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- H.W.Jr: And I say that I want to tease him. And I don't want to kill him. Now, Herbert Feis says I've got to kill him; I say I want to tease him. All right, George. Seltzer?
- Seltzer: Nothing, no.
- Lucker: I just wanted to add one thought in connection with the point that Mr. Landis made. We all see that the in-and-out trader is perhaps not going to be drawn into this scheme, since it is a flat rate, and so we will not get him on his profits. But I think if we look at the figures, and unless there have been some very radical changes, between 1928 and 1931 a non-resident alien - the larger portion of the income reported by them has been in dividends and very small amounts have come in on capital gains. So that in making this sweep we are really hitting a substantial portion, if the data for '29 can serve as a reliable basis. Of the 80 million dollars reported for tax purposes, there were about 42 million in dividends and only about 16 million in profit.
- Gourrich: And how much was not reported?
- Lochhead: This is only one point in the details of it, but Mr. Landis mentioned that if we wanted to put this thing through, we might give some publicity to the fact that we are not discriminating against foreigners, but merely equalizing that situation. That may be very well, but if you're going to have the right to jump your rate up to forty or fifty when you think it necessary, then you are leaving the way open to discrimination, although I don't think that's our idea. And it's obvious that this question of equity could be taken care of by a fixed rate, and independently of whether you've got this larger question of capital movements, or whether you've got a stock market.
- Landis: I don't think you are quite right there. I think your publicity has to be a little cleverer than that.
- H.W.Jr: Marvelous.
- Lochhead: But I don't think we should over-emphasize that we are not trying to discriminate against foreigners and on the other hand say, "However, we may double this, triple this, although the domestic man - we're not going to change him."

- Landis: There is a bit of substance in that. If your market is moving up very rapidly, then you can justify - we can say forty percent. If your market is on that kind of a level (indicating), you can justify twenty.
- Goldsch.: Isn't it agreed that this flat rate is supposed to be at the same time an equalization of the low income tax rate which the American pays and the capital gains which he pays? It is intended to be an over-all equalization, and I think that makes Mr. Landis's point completely valid.
- Feis: Mr. Secretary, is there room for one more remark?
- H.M.Jr: Oh, Herbert, you're so good we'll give you room for two remarks.
- Feis: This may even make someone else reflect, if it is true. Held off about arm's length, in domestic policy we are trying to do two things at the same time: Stimulate economic activity by low interest rates and other methods, and on the other hand check creation of unsound values and the acquisition of unfair gains by a large variety of measures such as the capital gains tax and others that I needn't enumerate. In this particular first measure it seems to me you have selected a method which will deter the type of investors such as your Scottish investment trusts that come in here and supply capital for your development for years, living and paying their stockholders out of their regular income, while you are leaving quite free, or as free as at present, the elements that make for your real speculative activity. If there is anything in that, it also follows that what you are doing is not related to this problem of preventing an unhealthy boom condition.
- H.M.Jr: Who wants the privilege of answering Dr. Feis?
- Secles: Isn't it admitted that this proposal is more to equalize than to stop boom conditions? I certainly wouldn't be satisfied...
- Feis: Well, you get together with Mr. Gourrich.
- Secles: I certainly wouldn't be satisfied with this proposal if we're going to stop here. It is mild, and it is

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only making the Scottish trusts or any other investors that put their money in this market pay their fair share of taxation, which they are not paying and which doesn't bear a proper relationship to the tax that Americans who have funds invested in Great Britain are paying. It is an equalization, it seems to me. And the idea that these foreign funds have come in in the past when we have needed them is no reason why we should permit them to come in now or encourage them to come in necessarily, when we don't need them and when they may be needed abroad. They didn't come in here because of any philanthropic decision; they came in here, of course, because of the profit they could make.

The funds that are coming in now are coming in in somewhat of a different field than the funds that came in in the early development of this country. If these funds were coming in to put people to work it would be one situation; but they are coming in and they are bidding up the values of - particularly of our stocks, buying to some extent our bonds; but we have already such an abundance of American capital that we can't - we are unable to utilize it to the extent that it should be utilized and could be utilized. And therefore this foreign capital is needed less here and more most anywhere else in the world. And at least if it is going to come here it should have to pay on the income that it receives an equitable taxation in relation to what Americans pay on their foreign capital.

Now, it is true that it doesn't get at the real source of the evil. It is only a part of a program, and it is possibly the milder part of it. As I understand, we are going to try to get at that source of profit that is inducing the greatest amount of capital to come here, which is a speculative profit, and either a transfer tax or a capital gains tax on stocks, or some other method, would be much more effective, of course, in dealing with that problem than this method that is being proposed.

What is being proposed here seems to me to work in the direction of the State Department's work in developing these trade agreements. The fact that these countries throughout the world lose money in our investment market - it seems to me to work against

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the expansion of real foreign trade, the exchange of goods and services. The capital movement in one direction continuously makes for an upset of world trade and world stability. And it is in the interest of the world and in the interest of our trade agreements, it seems to me, that anything that we can do that deters the movement of this capital in such fashion should be supported by not only all elements in this country, but also abroad, if they understand what the true objectives are.

H.M.Jr: Let's see. We're going around. Want to say anything (to Upham)?

Upham: No.

H.M.Jr: Herbert?

Gaston: Well, I think just one point; that is, in seeking to put a good face on this important public announcement, it is well to make clear that what we do to discourage foreign investments in this country by the nationals of any particular foreign country may be in the interest of the national economy of that country, and the general tendency of this thing is rather in support of the tripartite agreement than in modification or in lessening of it.

H.M.Jr: That's what I think. Anything else?

Gaston: That's all.

H.M.Jr: Herman?

Olyphant: I think most of the points I had in mind have been brought out. I want to be sure that this is understood, of course; that if the thing is flexible it would not operate to discriminate as between countries.

H.M.Jr: Pardon me?

Olyphant: Any particular rate would be applicable to all countries, not discriminatory as between countries.

H.M.Jr: You mean this would be a flat rate on the world.

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Oliphant: Yes. If it is changed, it would change to all the world.

H.W.Jr: Well, with the exception of Canada.

Oliphant: With the exception of Canada. And then it is pointed out...

H.W.Jr: Would you mind if I comment? That means (to Feis) that we weren't going to pick countries; that this was applicable to all the world. We were not going to pick out countries.

Oliphant: And then if it were made flexible, and we were thinking in terms of otherwise making twenty percent flat and make it flexible, say, up to thirty percent, the making it strictly flexible would be distinctly a friendly gesture; that is, we would be reserving the power to make it only eleven or twelve percent, which is friendly rather than hostile. And it does give you - it would afford you time to study the particular rate you used if you were worried about a particular rate being discriminatory.

And finally, it seems to me that if you are embarrassed by representations made by the countries in the tripartite agreement, the very fact that the President has it in his power not to let the statute operate at all might be a very comforting power to have. And it seems to me that much of the discussion of the flexible - making it discretionary with the President, went to the question of exercising the power, as opposed to the question of the wisdom of having the power lodged in the President in case he wanted it.

H.W.Jr: In other words, it isn't a club; if the thought could be gotten out that it might be used in favor rather than as a club, of course, it could have a very different effect. But if it is to be used - held over them as a club, it couldn't work in a friendly direction.

H.W.Jr: Even using some of the terminology of Mr. Landis - I mean I - it might even be we are doing it purely to help out the world. I mean we might get ourselves in that frame of mind.

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Landis: I'm not so much interested.....

Golden.: Mr. Secretary, there's one remark I'd like to make. I feel that I do agree with Mr. Pais on one point. I think perhaps he might be glad if somebody agreed with him on one point. And that is that this withholding tax does in general hit the element of the foreign money that we are least anxious to hit, and I wouldn't - personally I wouldn't have been in favor of the withholding tax without the capital gains tax if it wasn't for your strategic reasons and if it wasn't understood that this is to be the first move, with the next move more carefully prepared and on a more important point; because it is true that the most undesirable element of that money that comes in is the element that goes into speculation, and speculation usually is for capital gains and not for income.

H.M.Jr: Well, wouldn't that come under this discussion that follows this right away, as to what we are going to direct the staffs to study?

Golden.: Exactly. I just wanted to say that I am favorable to the plan that you gentlemen were proposing to recommend, in my own mind, only with the feeling that that is just all you can get at this time, and that the capital gains tax was next on the list.

H.M.Jr: Now, before we go to the other thing, how do we handle this thing?

Magill: Well, I think we should have from the Federal Reserve Board and Mr. Landis's organization something written up in the form of memoranda, reports, or supporting statements, etc.

H.M.Jr: Seeing that you will have to defend it for the Treasury, don't you want to say now to Eccles and Landis the kind of person you want to sit in on this thing, so they can go right along with us. I think you ought to give the Treasury the kind of person that ought to work with us and - isn't that what you have in mind?

Magill: Yes, I have two things on my mind. I wonder would it be possible for Mr. Eccles and Mr. Landis, or their staffs, each to give us some memorandum or the like in support of this proposal along the lines of what's been said here this morning.

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- Eccles: Yes, we could. We've got enough. We've got the stuff more or less written up. It's just a question of - you don't mean dealing specifically with the technical aspect of this particular legislation, but you mean covering the broader question of the need and the justification for this action?
- Magill: Yes, and having particularly in mind those aspects of it which wouldn't normally fall within our particular cognizance here.
- And then, secondly, I think what I should like to see would be for probably the same men who have been sitting in on this conference the last two or three months to get together as soon as the legislation is raised, to go over that and see what suggestions they have specifically with respect to the bill.
- H.M.Jr: But for the next 48 hours what do you want?
- Magill: Well, to complete the...
- Oliphant: We'll go ahead and work on the bill and call a meeting.
- Magill: Call a meeting, and I should think in...
- H.M.Jr: Will you get in touch with Landis and Eccles? Is that what you'll do? I mean will we need anybody from them today?
- Oliphant: No, they'll work on the memorandum.
- Eccles: We'll start working on that memorandum.
- Magill: Yes.
- Eccles: Then tomorrow or the next day, whenever you are ready, if Dr. Goldenweiser and Mr. Bryan - or if Dr. Goldenweiser is otherwise occupied, maybe Mr. Gardner or Mr. Currie - but Mr. Bryen is taking - he's carrying the ball on this and he'll be available any time.
- Magill: Well, I'd like very much to have Bryan in on this. Then why don't we say ten o'clock tomorrow morning in my office, and if each of you can send one or two

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men, I think that will be very helpful.

Olipphant: Would it be just as convenient to make it three?

Magill: When, tomorrow afternoon? It's all right with me.

Landis: Did you want that so-called regulatory measure?

Magill: Yes.

Landis: We'll work that out.

H.M.Jr: Now look, before we get on this other thing, this thing has attracted a lot of attention publicly, and I want it to; and I mentioned that I called up Mr. Landis and Mr. Eccles before I announced this and they thought it was a good idea - I mean the announcement I made, I checked with them before I made it. Now, what are we going to say? We'll come on this other thing in a minute. I just want to be thinking. I imagine that the newspapers - what are we going to say after this meeting?

Eccles: We'll just refer them to you.

H.M.Jr: Gosh, you're big-hearted.

Eccles: Do you think there's anything we can tell them, except that it will be a question of a day or two?

H.M.Jr: I'd say several days.

Eccles: Yes, several days. I should think that's about all.

Gaston: I thought I'd tell them who was here and that they made suggestions regarding possible recommendations to the President and Congress, and that there is nothing further at this time; they are continuing the study.

H.M.Jr: Landis, is that all right?

Landis: Perfectly.

H.M.Jr: That all right with you, Eccles?

Eccles: Yes. I would like to suggest that during this 48 hours each division also make up a list so that you will be ready at the time.....

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H.M.Jr: Instead of doing it now. You mean to....

Eccles: So that when you do get ready for your announcement you've at least got a program to go along with it.

H.M.Jr: Well now, Eccles, you understand that you'll have somebody at Roswell Magill's room at three tomorrow?

Eccles: You (Magill) call up Mr. Bryan or Mr. Goldenweiser.

Golden.: Well, that's a definite engagement, isn't it?

Magill: That will be definite, three tomorrow. We'll get a bill drafted in the meantime. And these two memoranda - if you could get those up to me.

Eccles: They can work on those two memos.

H.M.Jr: Well, you'll have a bill by three o'clock tomorrow?

Magill: That's right.

H.M.Jr: Just a minute before we break up. Harriner, anything else?

Eccles: Nothing else. I think it's pretty well covered.

H.M.Jr: Landis?

Landis: I think it's all covered. I'll try to get a draft of that little section to you tonight.

Magill: Good. I wish you would.

H.M.Jr: Personally, I think it's a swell meeting. And then you (Feis) will get - tell Mr. Hull what happened and when do you think I'll hear from Mr. Hull or you? Some time tomorrow morning?

Feis: I should hope perhaps this afternoon or today. I anticipate that there will be real regret that the one type of capital movement that induces an unstable economy and the creation of unsound values is not being dealt with. Despite that, I anticipate that the Secretary - that in the light of this convinced agreement, all he will ask is that at that

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meeting tomorrow someone acquainted with the treaty aspects of the thing be permitted to look over the drafting and make any suggestions from that angle. I imagine that is...

Magill: Surely.

Feis: I may find it impossible to be there, but I know the Secretary would like to have....

Magill: Well, will you tell us who to invite, or will you invite him on our behalf?

Feis: As you say.

Magill: Yes.

H.M.Jr: All right, thank you.

## SUGAR TAX MEETING

February 16, 1937  
10:40 A.M.

Present: Mr. Helvering  
Mr. Taylor  
Miss Roche  
Mr. Oliphant  
Mr. Magill

Taylor: .....Puerto Rico, Hawaii, and the Virgin Islands.

H.M.Jr: Just give those countries to the boy again.

Taylor: Domestic beet, domestic cane - Cuba, Philippines, and the insular possessions. I am making a special case for the Philippines, because whereas at the present time it is an excellent possession, it is in process of not becoming one. I think you can divide - redivide again between domestic beet, domestic cane, Cuba, and the Philippines. The question of the percentage of the Puerto Rican and Virgin Islands and Hawaii - and the total makes up a fairly large unit - but you can call that the fifth unit.

Now, as you also know, your domestic beet and your domestic cane have been protected and developed through tariffs. Then you get into the question of the quota, which has been the most recent method, which was also protected through your - or made possible through your allotment payments under that original tax of a half cent.

The situation at the present time, as I see it, is that on your theoretical one hundred, you have pressure not so much for expanding the domestic beet acreage but for expansion of your domestic cane acreage. As a result of first year protection, plus your bounties which are contemplated to be paid, you have a constant tendency to increase the domestic cane. And in that particular situation also you have an entirely different situation than that which exists regarding your labor conditions and your payments to your growers, because the labor factor is not as important in cane sugar as it is in beet sugar.

H.M.Jr: More machinery?

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- Taylor: Different type of cultivation. Partly more machinery, but it's - you don't have to do the work in the fields with cheap labor, and the same... In other words, your domestic cane situation is, as far as the production goes, very similar to your production of everything, except beet.
- On the basis of this theoretical one hundred - and have you got the figures in mind, Miss Roche, as to how that is divided in percentages?
- Roche: Of the beet - Cuban sugar?
- Taylor: Of the total.
- Roche: Yes, I have. Total tons consumption in '35, 6,359,000, of which the Cuban quota was 1,823,000.
- H.M.Jr: Consumption or production?
- Roche: Consumption, sir, in the United States.
- Taylor: That is your theoretical one hundred. How much did we consume of sugar?
- Roche: Nearly....
- H.M.Jr: What proportion has Cuba?
- Roche: Cuban quota in '35 was 1,823,000.
- H.M.Jr: I see.
- Taylor: And your Philippine is about a million three, isn't it?
- Roche: Around a million, slightly less. I haven't it here.  
- - No, I haven't got the tonnage that came in from the others.
- H.M.Jr: Well, go ahead. Which all leads to what?
- Taylor: Which leads to this situation: that one of the things we are trying to correct, and which I think we can, is the fact that your payments to your domestic producers of cane - rather, of beet - and in particular as they affect the type of labor, we'll say, the beet sugar industry attracts and uses - have not been satisfactory. I think we would all be very much in

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sympathy with correcting that situation. But if...

H.M.Jr: Well, may I interrupt you a minute? That isn't the angle that Wallace is approaching this from. Let me give you what I know; we are talking here in the room, so we all put our cards on the table. What Wallace is worrying about is that the sugar companies are making too much money. I mean I just want to tell you that that is his worry. And he gave me some figures, which I can't reel off. But when he put in the present system, they told the State Department that Cuba would sell, I think, 29 million dollars more than they had the year before, and that's been far in excess, and I think their sales are up to a hundred million dollars, and if he puts in this their sales will drop back to something like 70 or 80, he says.

But the main thing, as I get it, that is worrying Wallace is that under the present processing tax on sugar the sugar companies are making 12 or 14 percent.

Roche: Well, it's all going to them. It isn't being distributed.

H.M.Jr: I just wanted to tell you what's hitting him.

Taylor: Well, I was trying to get to that. I agree with that.

H.M.Jr: Well then, the other thing where we come in on this thing from two angles. In the first place, the revenue to the United States Treasury is one. That's what we're fighting for. The other thing is the State Department has asked us to make a study and recommendations on the new set-up to finance Cuba - from the standpoint of the Cuban, see? What's good for the Cuban? So we're in it first from the revenue, and then of course there is the big broad picture, the child labor question, which I suppose...

Oliphant: May I suggest even a broader one from my standpoint: that, so far as I know, in the history of tax legislation in this country we have never imposed a tax on a particular industry because it is making too much money. We have had a general excess profits tax, but we have never imposed a tax on this - an industry in this country because it is making too much money.

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- Roche: I don't think that's exactly the entire position of Wallace.
- H.M.Jr: Well, that's the way he talks, Miss Roche.
- Olipnant: I just threw that in along with this.
- H.M.Jr: That's all he talks to me.
- Olipnant: Who?
- H.M.Jr: Henry Wallace.
- Olipnant: I think so.
- H.M.Jr: I mean that's all. I never heard him on this thing once mention child labor.
- Roche: Perhaps it is just so much in his mind and the picture is so completely there that....
- Taylor: Domestic beet is about half a million. Is that about right?
- Roche: Little over. About six hundred thousand.
- Olipnant: Let me make one more sentence. I can pick out a number of industries that are making a certain level of profits because of the operation of our tariff system that are employing child labor, and hence on this basis argue for a special excess profits on that industry, the proceeds of that profit to go to child labor. Now, don't understand that I am opposing this thing. I merely want to orient it by pointing out to you that this is unprecedented in the history of American taxation - the proposal to tax a particular industry because it is making too much money.
- Helvering: Isn't that corrected by our excess profits tax?
- Olipnant: Well, that applies to all industry, Guy. I pointed that out. We have had excess profits tax and do have one now.
- H.M.Jr: Why isn't Magill in on this?

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Oliphant: He had to go down to see Harrison.

H.M.Jr: He's waiting to see me. Might as well wait in here. I'm asking myself. (On phone) Send Magill in please.

He's waiting to see me. I want him to get in on this first.

Taylor: Put it another way....

H.M.Jr: He isn't going on the Hill until he sees me on this railroad thing, and I said I couldn't see him before five minutes of eleven.

Taylor: Put another way, you've got a bad situation from the standpoint of how they split up the profits, as one element in this industry - so that this distribution of ten percent.... In other words, you've got domestic beet six hundred thousand tons, as against a total consumption in this country of six million tons. And that is a bad situation.

H.M.Jr: Well, I still don't get it.

(Magill comes in)

I thought you (Magill) might - while you are waiting on your railroad thing you better listen to this, because this seems to be straight taxes.

Taylor: Well, this in another way can't be considered as a revenue measure, because it isn't that.

H.M.Jr: Well, what is it, Wayne?

Taylor: It is an attempt to do the following: You have this ten percent, which is the beet production, domestic beet, in which you know the situation isn't very good as far as labor goes. That always has been high cost production. That's the reason you had to protect your tariff; that's the reason you had to raise other things. But you haven't had a satisfactory distribution at the present time of the profits of that ten percent of the total consumption. That's where the domestic boys, refiners, are making too much money.

However, you have this other situation, which is your expansion of domestic cane, which is very important.

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They haven't got the same factors, but back of this protection and the quota system they can do very well.

Then you have a price structure, naturally, with all these factors, in this country which is way above your world price level. That is made possible through your quotas.

You have a theoretical - an actual one hundred which is in balance. That's your six millions - this six million tons. If Cuba were able to come in, or if the Philippines were able to come in, or possibly Hawaii were able to come in on a larger amount, way, you'd lower your price level.

Rocne: Did you want to see the Smoot-Hawley tariff situation? Almost the same price there.

Taylor: Two cent tax.

Rocne: I know, but that didn't affect Philippines. Tariff didn't affect them.

Taylor: But as a result of that, why, that production increased very rapidly.

Rocne: That is exactly why the Jones-Costigan Act carried the provisions it did to control Philippine quotas.

H.M.Jr: I just haven't got it yet.

Taylor: Now, you have what you might consider a balanced price level which is perfectly satisfactory. What would you say the price level was at the present time?

Rocne: The present price level to consumers is five and six tenths. The same as it was. Five and seven tenths before. Be the same under the proposed plan.

Taylor: Six million tons, five and seven tenths. You put on a one cent excise and you are not going to increase the price level and you're going to have these bounty payments to domestic cane and domestic beet. Again getting back to Miss Roche's problem, this is the best way that I think they can achieve to get this redistribution.

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- H.M.Jr: Well, what is Miss Roche's problem?
- Taylor: Child labor.
- Roche: I'm interested in the whole thing as a balanced program that's worked for the first time in a quarter of a century in the sugar industry. I'd like to see something approaching the Jones-Costigan Act, and everyone interested in all phases of the sugar industry would like to see that, because it gives everybody a fair deal - Cuba, processors, refiners.
- H.M.Jr: Well, isn't that in effect now?
- Roche: Well, under the Supreme Court decision that was declared out, so that their only instrument is a quota now which divides up the returns of the sugar beet industry so that farmers, growers, and labor and farm families get - it's all going into the one pocket, the sugar company's pocket. That's what we're concerned about.
- H.M.Jr: Are you in favor of what Wallace is trying to do?
- Roche: Yes. My only question is as to the one cent, as against the half cent tax, a question of amount. I don't know as to this increasing it from half a cent to a cent. But certainly the other worked. You had everybody entirely satisfied, including Cuba.
- H.M.Jr: No use trying to assimilate this. I just can't. I'm in the middle of another thing. And I just can't in the middle of this foreign flow thing take this. I just can't do it. I mean there's no use trying to give it to me in twenty minutes - something that takes people two months to study.
- Taylor: Would this help any? You have...
- H.M.Jr: Well, what the hell is the use of getting me to.... That's a study in itself. I mean my opinion isn't worth anything. I'm right in the midst of something which affects our internal and external - whole thing. And I can't in the middle of it break off and talk

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sugar. Now, Wallace always wants the thing that he wants. My god, he's been calling up three times on Saturday. And why is there such a hurry about this thing? Congress is going to be here until the first of July. But when Wallace wants something - when he wanted to do this speech in January, everybody in the Treasury had to stop. He said he wouldn't give it, gave it anyway. I can't understand Wallace. I'm not - he can take his turn as far as I'm concerned, and wait. Now we're right in the middle of a thing, and we're going to see the President tomorrow. We're going to clean up one thing at a time, and that thing right now is the inflow of capital from abroad.

And I just can't in the middle stop and you can tell Wallace that, and you can tell Wallace that I'm in the middle of this thing. Between now and 12:30 we are going to decide something that is - I mean every pocketbook, the price level - it's very important.

Oliphant: Particularly can't ask you to settle it when it's....

H.M.Jr: My venemence is directed at Wallace. And I can't in the middle of a question that is as important as capital inflow from the world into the United States, stop off and try to be intelligent on something else. I just can't assimilate it.

Oliphant: My thought is that this needs a lot of study because it constitutes a new attitude of government toward the profit system.

H.M.Jr: I'm not going to, and I want you to say that the Treasury isn't ready. And there's no hurry. And the President - he's going to send a message on this thing.

Taylor: Well...

H.M.Jr: It's all right. The Treasury will take this thing up in order. But right now, for this week, inflow of foreign capital, and we can't take anything more. I mean I'm not going to break myself down physically just to adjust myself to Wallace.

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Taylor: I agree with Herman. This is in a way exactly as important.

H.M.Jr: Then if that is true, there's all the more reason in the world to hold off. I'm up right to here, just breathing. And when this is out of the way, when the President has settled this, then the Treasury will be willing to take up this question. You (Magill) can't assimilate this, can you?

Magill: No, I don't know a thing about it.

H.M.Jr: Do you, Guy?

Helvering: Not about this question.

H.M.Jr: Well then, at least you've accomplished this; you've found out that I won't even talk sugar this week and - which means that the Treasury won't approve of anything until we all have a chance to study it. But this idea - Wallace, he just gets these ideas and he just wants to drive through. And this afternoon, besides everything else, we've got a very important hour's conference with Hopkins, and I just can't do anything.

Oliphant: I think we've accomplished another thing. I think we have all sensed the tremendous importance of this.

H.M.Jr: It's bewildering.

Magill: What have we got on it? Anything?

Roche: The world.

H.M.Jr: Well, I don't think Haas has started on it.

## RAILROAD PENSION DISCUSSION

February 16, 1937  
10:55 A.M.

Present: Mr. Magill  
Mr. Oliphant  
Miss Roche  
Mr. Helvering

H.W.Jr: Take a minute and talk railroads.

Magill: On that railroad situation I talked to Murray Latimer, who fell down on me. He was supposed to clear this thing with the Brotherhoods and with the railways. Apparently he cleared it with the Brotherhoods, but he didn't go to the railway. And his attitude is that he doesn't want to clear it, because, he says, "I'm an impartial mediator between these people and I mustn't say one way or the other." But he says they did say in somebody's presence over there last night that this extension had passed the House and that he thought it was all right with the railroads as well as with the Brotherhoods.

Well now, it occurred to me - talked to Herman and Herman was a little doubtful; I didn't propose this particular thing to him except in general - I think that Senator Harrison's "golf partner" in this business is not Pelley, but Judge Fletcher, who is a former member of the Mississippi Supreme Court, and who is the attorney for the Association of Railway Executives. I know him slightly from four years ago, when he appeared on some bills. I can call him up without much difficulty and inquire how these negotiations were going for this new retirement scheme, and then speak incidentally of the fact that this bill has passed the House, etc., and I assume it is satisfactory to the railroads as well as to the Brotherhoods.

H.W.Jr: We have never done - we have never done that. I mean - you tell me if I'm wrong - we go up there; this is a bill, and this thing, after having hearings and finding out whether it is satisfactory to the particular groups - I think that is up to Congress.

Magill: Well, I don't want to do it. All I'm interested in...

Oliphant: I don't think the Under Secretary should call the lobbyists, unless it is a personal - unless he knew him for a lifetime.

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- H.M.Jr: Obviously if he roomed with him or something like that, it would be different.
- Magill: Not any great deal.
- H.M.Jr: Let's be practical for a minute. What good would it do if Senator X didn't want to do it anyway? Because it always comes back - all right, this counsel for the railroads says, "All right, we'll go along with the Treasury on this," and then he comes along in three months and says, "By the way, I've got up a problem for the railroads; how about helping me out?"
- Magill: No, no. I know just what that one would be, too.
- Oliphant: So do I.
- Roche: That would be worse.
- H.M.Jr: If Harrison won't do it, see, just stymie him.
- Magill: That isn't what he'll say. He'll say, "Have you talked to Mr. Pelley or Judge Fletcher?" and I'll say, "No, I haven't."
- H.M.Jr: I don't mind if you want to drag me into it. We don't feel that that's our job. We don't feel that; you can quote me as saying so. Let him talk - let Senator Harrison talk to Pelley. Why should we talk to Pelley? What I was getting at - if you can't get it, then I'll have to get the President to telephone Harrison and tell Harrison that he, the President, wants the thing extended. If you can't get it, I'll have the President call Harrison and tell him he wants this thing extended, see?

February 18, 1937

After the Secretary talked to Senator Moore on the telephone on January 27, with respect to removing Barradelle, Internal Revenue Agent in Charge at Newark and replacing him with Hogan, who is an Internal Revenue Agent in that office, he (the Secretary) called Irey and instructed him to make an investigation of Hogan. The Secretary wanted to have this report before he gave Senator Moore a definite appointment.

Today the Secretary had Commissioner Helvering and Mr. Gibbons in his office, before Senator Moore came to keep his 10 o'clock appointment. Helvering explained that it was the practice to transfer an Internal Revenue Agent in Charge from one office to another and if it was decided to transfer Barradelle in this case it would not be because Senator Moore had requested his removal from the Newark office and it would not be in the nature of a demotion.

The Secretary asked Mr. Helvering the direct question, "Do you feel that Moore and Hague have presented sufficient reasons to move Barradelle?" The Commissioner's answer was, "Well, they said he was overbearing and arbitrary." The Secretary then asked him, "Do you mind giving me a yes or a no? Do you recommend to me that we should or should not move Barradelle?" Helvering replied, "I would recommend that we do move Barradelle."

The Secretary's next question was, "Now, as to his successor. Do you let political leaders choose a successor?" Helvering answered, "No, we do not. We will either take a man in the same office or else we will choose another person." The Secretary then inquired, "Will you submit various names that you have chosen as successor to Barradelle to Moore for his approval?" Helvering's response was, "Well, frankly, I did show a list to Hague some months ago. I have prepared a memorandum, which is as follows, outlining my suggestions. These are men in the Newark office." (Copy of this memorandum is attached.)

The Secretary said, "I want a special investigation of these men before I would recommend one."

Helvering said to the Secretary, "We could move Barradelle to California." The Secretary replied, "Is it

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agreeable to you that you take the lead on this conversation when Moore comes in?" Helvering answered, "Yes." "I am willing," the Secretary said, "I am willing to say to Moore that if you have a vacancy somewhere and it is no demotion to Barradella, that I would be agreeable to have him moved since he cannot get along in the present set-up, but on the other hand, I will not accept the people that Moore wants to put in his place. My position is tenable. We will move Barradelle, but we will not let Moore appoint a successor. If I do not do it this week I will not be able to resist the pressure from the President. McIntyre is bringing great pressure to bear. I have talked to the President about this. Moore told me that I did not have to take Hogan, but that I had to move Barradella."

February 6, 1937

Mr. Commissioner:

After a careful survey of the personnel of the Newark Division, I find there are only four employees in the Division which I could conscientiously recommend for the position of Internal Revenue Agent in Charge, and who, in my opinion, would receive the approval of the Secretary. They are:

Raymond Shotwell  
Rueben O. Thornton  
Joseph F. Kelly  
John J. Morgan.

With respect to Morgan, in 1923, Senator Pepper recommended that he be transferred from the Huntington Division to the Philadelphia Division or that vicinity. In 1928, V. L. Highland, of Republican National Committee, recommended him for the position of Internal Revenue Agent in Charge of the Huntington Division.

You are familiar with the Intelligence Unit report on Agent Hogan which eliminates him from consideration.

The age and record of Agent Downey also eliminates him from consideration.

Very truly yours,  
E. M. MURPHY

Deputy Commissioner.

February 16, 1937

Present:

Mr. Hopkins  
Mr. Bell

HM, Jr: I have taken an interest in the Self-Help Cooperative and have asked them to keep you informed. My interest in trying it in one place is that I was tremendously impressed with what they are doing in Richmond. They are rehabilitating the families in cities. There are 3,000 people on direct relief and 9,000 who are certified which you cannot take care of here in Washington. Are there any reasons why we should not try it here?

Mr. Hopkins: Washington is not a typical city to try it in. I would like you to spend an evening with us to discuss with us our three years' experience with cooperatives.

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Mr. Hopkins: Now, then, there are two things we want. One is a blanket authorization by types of projects. If it can be done for white collar projects, it can be done for others. There is nothing in the law to make it necessary for projects to go through the General Accounting. Second, we want all the money -- \$655,000,000 -- in our hands for the balance of the year. If we had the money we would spend it. If we do not have the money, we can't spend it. We cannot administer a program properly if the money is in somebody else's hands. The President told me we could have both, as far as he was concerned.

HM, Jr: Bell and I were with the President yesterday and he never mentioned it. About the Comptroller, you are probably right. You are not spending 90% of the Federal funds for relief labor.

Mr. Hopkins: As the bill is written now, the money is given to the President.

HM, Jr: What percentage of your expenditure goes for labor?

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Mr. Hopkins: 75% or 80%, and it varies by States.

HM,Jr: Bell says 60%. Does that include administrative expenses?

Mr. Hopkins: I don't know, but I will get it for you.

Mr. Bell: It is a matter of policy as to whether the President wants to turn this money loose. I think there ought to be a check-up on this money and not turn it loose.

HM,Jr: Are you applying this to every other agency?

Mr. Bell: Yes. The money is appropriated for definite expenditures.

Mr. Hopkins: You people ought to come over and do my job or else let me do it. The world will not come to an end if we do not get what we want, but I just want to tell you what we want in order to administer the job well.

HM,Jr: Let me ask Bell this, from our standpoint. If we were going to make a recommendation to the President, what would your recommendation be -- this \$790,000?

Mr. Bell: I would recommend that it be carried on as it is now. The President approves the projects and gives Harry Hopkins the money on a monthly basis and he will have no difficulty with the Comptroller General.

HM,Jr: As Director of the Budget, between now and July 1 what do you recommend?

Mr. Bell: To carry on as we are now.

Mr. Hopkins: I would like to present a brief on both of these points: why we should have the \$655,000,000 and why we ought to have blanket projects.

Mr. Bell: There must be red tape in connection with handling Federal money.

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HM, Jr: My inclination is to go on as you have. I will recommend that you get enough money to take care of you to the first of April and then enough to June 1 and then the third allotment will take care of whatever is left. Would that make it very difficult?

Mr. Hopkins: It is not what we want.

HM, Jr: From a fiscal budgetary standpoint, it is good housekeeping.

Mr. Bell: It is easier for me to give it to you all at once.

Mr. Hopkins: Nobody has the headaches that I have.

HM, Jr: From a humanitarian standpoint, yes; from an administrative, no; no more than anybody else. Give us the two briefs you spoke about.

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