

OFFICE OF
THE SECRETARY OF THE TREASURY

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2/16/37

Senator Lundeen of Minnesota wants five minutes with the Secretary in the morning about Joe Wolfe.

Farley tells Gibbons that what Lundeen wants is to have Wolfe, now Democratic National Committeeman (just being replaced) be appointed Collector of Internal Revenue in place of James R. Landy.

Farley would like to have the Secretary not commit himself on the matter until

Farley returns in about ten days.

Upm

16 February, 1937
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

With the withdrawal of the few remaining boats at Paducah, the Coast Guard has completed evacuation of its forces in the Ohio Valley.

An office, manned by personnel from the patrol boat DIONE, is being set up at Natchez as is also a radio communication center, to facilitate operations in the Mississippi Valley in collaboration with the Army Engineers and Red Cross.

Captain Reinburg at Memphis reports conditions favorable all along the Mississippi and all levees holding.

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General Water Level Situation.

Crest near Vicksburg 52.7' and rising slowly to the southward. Water level 18.5' at New Orleans - the same as yesterday, - but expected to reach about 19' on February 18-19.

Hell

February 16, 1937

The following were dinner guests of the Secretary at his home this evening:

Mr. Jacob Baker, of WPA

Mr. Udo Rawl, of WPA

Senator Robert M. La Follette, Jr.

Mr. John Carmody, of Resettlement

Governor William I. Myers

Mr. Walter Packard, of Resettlement

Mr. Harry Hopkins

The group discussed the establishment in Washington of a self-help cooperative similar to the one managed by Miss Amy Guy in Richmond, Va. The group decided to start one in Washington.

February 16, 1937.

Mr. Eccles, Mr. Ransom, Mr. Taylor and Mr. Upham had lunch with Mr. Morgenthau at 1 o'clock.

Mr. Eccles explained that he had been on the Hill during the morning testifying before the House Banking and Currency Committee on his bill to extend the time during which Federal Reserve Banks might use Government securities as collateral for Federal Reserve Notes. He said that they asked him a number of questions about the operation of the Stabilization Fund and that he had referred them to the Secretary of the Treasury. They asked about sterilization of gold and whether the Treasury had legal authority to borrow money to buy gold and Mr. Eccles told them that they should ask that question of the General Counsel of the Treasury.

There was some discussion in the committee why foreigners can get gold and Americans cannot and Mr. Eccles explained that to the committee.

Mr. Eccles began a discussion of how to deal with inflow of foreign funds and said that he thought the increase in the withholding tax would not be effective -- that more than that is needed.

Mr. Morgenthau suggested that they defer discussion of that until the meeting at his house tonight. He said that he wanted to mention two things. He said that the Treasury would build \$300 million of bills into the June tax date as the Reserve System wishes. He indicated that he was becoming reluctant to give up 9-month bills and swing back to 6-month maturities. He is inclined to the view that more bills should be kept in the market. He also indicated that there are no maturities in 1942 and that it might be possible to issue in March a 5 year, 1-3/8% note.

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Mr. Morgenthau also told Mr. Eccles and Mr. Ransom that someone in England had requested permission to ship gold by parcel post to the Federal Reserve Bank of New York and had been told that the gold could not be consigned to that institution. Nevertheless, it was and the Federal Reserve Bank is asking for some backing in refusing the shipment.

Mr. Morgenthau told them that he would back them up in such refusal. He was of the opinion that they are trying to chisel on the rate or cost of shipment.

Mr. Eccles reported that the Advisory Council is in town for its regular meeting.

Mr. Ransom said that they report generally good business conditions everywhere, even in the flood area. He said it is turning out that things are not as bad as they seem. Few commercial bank loans are being sought for rehabilitation purposes.

There was some discussion of the proposed increased tax on sugar and there was some discussion also on the increase of individual income taxes which will be due this year as a result of dividends paid out because of the enactment of the undistributed earnings tax.

Mr. Morgenthau said that his own tax was considerably increased and that he was anticipating complaints from "the man across the street" when he gets around to making out his return.

Upm.

Tuesday
February 16, 1937
3:55 p.m.

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HMJr: Hello
Sen. Ernest
Lundeen: Hello

HMJr: Henry Morgenthau, Jr. -

L: Yes, yes

HMJr: Senator -

L: Yes

HMJr: I wondered if I couldn't save you a trip, because
I've made some inquiries about this, -

L: You've been what?

HMJr: This is Senator Lundeen of Minnesota?

L: Yes, yes it is.

HMJr: I've been inquiring about Joe Wolf.

L: Oh yes, yes, indeed, that's who I was interested in.

HMJr: Yes, well I understand that Mr. Farley is working on
it, see? And is trying to locate a place for him but
they haven't been able to do it yet. Now, the Presi-
dent spoke to me about it himself. And, as I under-
stand it, they're trying to make some kind of a swap
up there. But the matter is really in Farley's hands
and hasn't come to me yet.

L: Yes - well, the only - the only position I think he's
interested in is Collector of Customs, I think.

HMJr: Yes - Well -

L: I don't know whether they have him in mind for that
or not.

HMJr: Well frankly, it hasn't come to me yet. And the
organization is working on it and they - it hasn't
gotten to my desk yet.

L: Yes - well, do you expect it soon?

HMJr: Well, as I understand it, Mr. Farley's going away
and he suggested that we let it wait until he gets
back.

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L: And when will that be, about?

HMJr: I think a week or ten days.

L: I see. Well, that's the way it stands now, then?

HMJr: That's the way it stands -

L: Well, then we'll cancel the appointment tomorrow morning.

HMJr: But I want you to feel that I'm at your service any time.

L: Yes, well I appreciate that, indeed, I appreciate it. And the - perhaps this - perhaps this will serve the purpose just as well.

HMJr: But I told -

L: I wish you'd make a notation that he's interested in - there were some other positions mentioned but he is only interested in the Collector of Customs.

HMJr: Collector of Customs?

L: Yes

HMJr: Well, I'll pass that on -

L: Yes

HMJr: - to Steve Gibbons -

L: And really, you know, here's what I want to say to you about Joe -

HMJr: Yes

L: Now he's a sort of a quiet sort of unassuming fellow.

HMJr: Yes

L: And he doesn't fight for his position as he should. Now, in 1932 he organized a State for Roosevelt.

HMJr: Yes

L: And it had never been carried by a Democratic President - candidate for President - in all the history of Minnesota.

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HMJr: Is that right?

L: It had been carried by Theodore Roosevelt in 1912 on the Progressive ticket but no Democrat had ever carried it! And, by jove, he organized that in such a manner, of course he had the candidate and he had the situation, but it had never been done before and I think he should have some credit for that.

HMJr: Well, the President personally has spoken to me about Wolf.

L: Yes

HMJr: But, I am waiting, I don't like to pass the buck, but I am waiting to hear from the Democratic organization.

L: Yes

HMJr: And the next move is up to them.

L: Yes - I see. You mean the National Organization?

HMJr: National -

L: I see.

HMJr: The National -

L: Well, that's just fine.

HMJr: So I'll -

L: All right, I'll make that record here and then, will I hear from you then when it comes to you?

HMJr: Absolutely -

L: Thank you very much.

HMJr: I've got it in mind because you've spoken to me -

L: And then I'll cancel the appointment for tomorrow.

HMJr: All right.

L: All right, thank you very much.

HMJr: Thank you.

Tuesday
February 16, 1937
4:25 p.m.

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W. Randolph

Burgess: - all right.

HMJr: Burgess, notes that we sold went below par today.

B: Well, of course, that's the problem with the re-adjustment in rates.

HMJr: Yes

B: It's - even so, it's out of line with the other -

HMJr: Yes, I know.

B: - the other rates. It's yield is less and it's a longer maturity, so that if we have a readjustment of rates this is going on a little on those things -

HMJr: Yes

B: - It's almost impossible to prevent that.

HMJr: Well, do you think it's something that we should worry about?

B: No, I'd let it go.

HMJr: You'd let it go?

B: It didn't seem to me it mattered much. But as there's bound to be a readjustment of those rates, I think, under these circumstances, and -

HMJr: What will the banks sell? I mean, are they going to sell the notes in order to readjust their - themselves?

B: Well, I - some of them will let the notes go; some will let some bonds go. I don't think there'll be much selling. I think it's mostly that they think that rates are changing a little bit so that - that they'll try to guess ahead, you know?

HMJr: Yes

B: And get rid of things before the change takes place. My guess is that it won't go much below par and it won't stay very long perhaps.

HMJr: It won't.

B: But since that note is out of line, it seems to me it would be a mistake to support it.

HMJr: Yes

B: I don't think it means very much.

HMJr: Yes

B: I've been watching it and -

HMJr: Yes

B: We've been talking about it some, there.

HMJr: Well, I'll see you fellows tomorrow. I just wondered how you felt.

B: Yes, well, we've discussed it pretty carefully and it didn't seem to us it would be wise to support it. I don't think it'll make any fuss. People are expecting a little change in interest rates.

HMJr: Yes - Well, I'll see you tomorrow.

B: First rate.

HMJr: All right, goodbye.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

MEMORANDUM OF DAY'S ACTIVITIES
FOR FEBRUARY 16th

DATE February 16, 1937

TO Secretary Morgenthau

FROM Mr. Magill

1. Taxation of non-resident aliens

At the conference this afternoon with representatives of the State Department, Federal Reserve Board and the Securities & Exchange Commission (minutes will be sent to you later) Mr. de Wolf of the State Department presented a memorandum to the effect that the proposed increase in the withholding rate would not violate any important treaty provision; but he requested that the Bill contain a re-affirmation of the present provision in the law exempting income to the extent required by any existing treaty. Mr. de Wolf's memorandum also indicated that protests were filed by various foreign countries when the withholding rate was fixed at 10 percent in the 1936 law. These protests were based on grounds of general equity and not on any explicit treaty provisions. Mr. Feis of the State Department re-affirmed his unofficial opposition to the proposal, but stated that the State Department would not officially oppose the Bill, nor would its representatives appear before any Congressional Committee in opposition. Finally, letters of protest from foreign governments would be referred to us for disposition.

In the discussion of the proposed new administrative provisions Dr. Gourrich (Securities & Exchange Commission) suggested the addition of a provision designed in substance to require every American purchaser of securities to certify that he was purchasing on his own behalf, or, if not, to state for whom he was purchasing. It was agreed that this proposal required further study; the Treasury representatives believed that such legislation should be an amendment to the Securities & Exchange Act.

2. Carriers Taxing Act

I gave Senator Harrison a memorandum containing the background of the proposed extension legislation and explained the legislation to him. He called Mr. Pelley of the Association of Railroad Executives. Mr. Pelley stated that he had no objection to the extension and that he understood the brotherhoods had no objection. Senator Harrison said that he would call a Committee meeting probably Thursday or Friday, to consider the Bill, and that he expected to get favorable action upon it in the Senate early next week.

Rm

MEETING AT 2201 R STREET ON RESTRICTION
OF FOREIGN CAPITAL INFLOW

February 16, 1937
8:30 P.M.

Present: Mr. Magill
Mr. Taylor
Mr. Upham
Mr. Gaston
Mr. Bryan
Mr. Gardner (of Federal Reserve)
Mr. Lochhead
Mr. Landis
Mr. Oliphant
Mr. Haas
Mr. Zucker
Mr. White
Mr. Seltzer
Mr. Eccles

Magill: Well, this is a draft message to Congress on the subject of what we are talking about - (not) the proposed tax on sugar.

Taylor: I've got that message here.

Magill: "For many months past I have been increasingly disturbed by the volume and activity of foreign funds which have come and are still coming to this country, a large part of them for speculation and investment in American securities. Last November I directed the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Securities and Exchange Commission to make a special study of the problems raised by these capital movements and to suggest possible remedies. This study has progressed sufficiently far to convince me that a large proportion of these inflows has been distinctly unhealthy both in character and in volume - unhealthy for our own citizens and unhealthy for the citizens of the countries from which these funds are coming.

"In part these inflows of foreign funds into the United States represent a continuation of those erratic and undisciplined movements motivated by fear or by the hope of speculative gains from exchange fluctuations that threatened the currency stability of many countries a few years ago. In larger part, however, they represent funds attracted here for participation in the profits of American business recovery.

"We do not need these funds. Their immediate effect is merely to add to our already large gold reserves. They are not contributing to our business recovery. The metallic reserves of the United States are ample for all our present and foreseeable future needs. A number of other countries are much less happily situated in this respect. Yet, a substantial amount of the foreign funds coming to the United States are being sent from such countries.

"From the standpoint of our own interests, no less than from the standpoint of the other countries with which we are maintaining and improving trade relationships, the present volume of these capital inflows is altogether undesirable. They raise new problems. To the extent that these funds are used to make speculative purchases of American securities, the effectiveness of the wholesome regulatory activities of the Securities and Exchange Commission is impaired.

"As you all know, the Treasury has already had to take special action to protect the country's banking structure from the potentially undesirable effects of these foreign funds.

"Control over erratic movements in foreign exchange, which was greatly aided by the 'gentlemen's agreement' reached by the United States with a number of other countries last year, is also rendered more difficult by large capital movements to this country.

"It is clear, therefore, that our own interests and those of the world as a whole would be better served if the present volume of foreign capital funds coming to the United States for speculative and similar purposes were substantially reduced.

"As a first step in a program to regulate and to restrict the undesirable flow of foreign capital to this country, the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Securities and Exchange Commission have joined in recommending an increase in the withholding rates applicable to

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the incomes of aliens who do not reside here and who have no offices here. Aliens who reside here are already subjected to the same income taxes as our own citizens, but non-resident aliens have always received special treatment.

"Quite aside from the present issue, I believe that the withholding rates as fixed in the Revenue Act of 1936 are too low in comparison with the rates applicable to our own citizens. Thus, the tax on dividends, interest, rents, and royalties received by a non-resident alien individual is a flat ten percent. Our own citizens pay a normal tax of four percent, plus graduated surtaxes ranging from one to seventy-five percent, depending upon the size of their incomes. While it is impossible to secure perfect equivalents as among taxpayers with varying incomes, between a tax imposed at a flat rate and one imposed at progressive rates, it is significant that the average rate of tax on dividends paid by American citizens with net incomes of ten thousand dollars and over is approximately twenty percent. Moreover, American investors in Great Britain are subject to a withholding rate of twenty-three and three fourths percent, and in France of twelve, eighteen, and twenty-four percent, depending upon the type of securities held. Consequently, a substantial increase in withholding rates upon the current incomes of non-resident alien individuals and corporations is desirable on grounds of tax equality alone.

"The Revenue Act of 1936 freed non-resident alien individuals and corporations with no offices or business here from the tax on capital gains which is borne by our own citizens. It had been found difficult to obtain returns from persons outside the country in respect of transactions which could be completed outside the country. Nevertheless, I am not satisfied with a tax system which encourages foreign speculation in our securities to the possible injury of our citizens, and with partial or complete exemption from the tax burdens which our citizens must bear.

"I am therefore having further studies made of various possible methods of imposing effective

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taxes upon the profit obtained by foreigners from transactions in American securities. If practicable methods are devised, I may find it desirable to make recommendations in respect thereto.

"Independently of any further recommendations that I may find it desirable to make in the future, in connection with the problem of unwholesome inflows of foreign funds I recommend for your immediate consideration the enactment of substantial increases in the withholding rates of tax on the incomes of non-resident aliens without place of business in this country."

H.M.Jr: Do you have copies for Eccles and Landis there?

Magill: Yes.

H.M.Jr: Doesn't somebody want to criticize it?

Landis: I've got a few comments on it. One, I wish the thought that is in here as to the inequality of treatment accorded foreigners as compared with our citizens would come out earlier in the message, and I think it ought to come out like that (demonstrating with fist). It does come out later, but I think if that was turned around a little bit so that that thought would come out with a good crack right pretty near the start, it would help this quite a bit.

One other idea that occurred to me as you read it was this thought, especially where you speak of the capital gains tax - is that those capital gains, wherever derived, are due to American industry. I mean the thought immediately occurs to somebody that if I buy United States Steel in London for 50 and sell it in London for 100, why, that isn't an American transaction. And yet, basically, back of it, of course, is the fact that the increase in value is due in the main to American enterprise. I think if you could get that thought just in a few short words - it doesn't take much - I think that would also avert a possible query that might be in people's minds.

Magill: Taking that second point, Jim, would it be all right to put that in toward the end?

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Landis: Yes, that comes in toward the end.

Magill: You see - you understand the way the general development of this thing is? The first section here has to do with the history....

Landis: I think the structure is very good.

Magill:of the proposal, and then next the reasons why some action is necessary; and then, finally, a support for this particular action.

Landis: The third idea I had in mind was whether you would want to put into this message some justification or argument for a discretionary...

Magill: Well, we omitted that advisedly, you see, so far as this is concerned.

Landis: Well, I assumed you had.

H.M.Jr: Well, why?

Magill: Wait and see what the...

H.M.Jr: well, I mean could the President very well, after sending this message, ask for discretionary powers?

Magill: No, that isn't what I meant. If he wants the discretionary power, we'll put that in there.

H.M.Jr: Could there be - where you touch upon that, could there be a substitute page?

Magill: Certainly.

H.M.Jr: Could there be a substitute page? Say page 3 and page 3-A? Huh?

Magill: Yes.

H.M.Jr: Because...

Magill: As a matter of fact, that should have been here. We should have had it here tonight.

H.M.Jr: Well, I know you had very little time. But I think that that is one of the things I'd like very much to

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discuss tonight, that discretionary question, because I saw Eccles today and he had some doubts in his mind, and I'd like to go to the President with as nearly a united front as possible, particularly on account of the position that the State Department is taking.

Would you (Magill), while giving Eccles a sort of chance to catch his breath as he picks this up, tell them your impression of it just the way you told me there, so we can talk frankly - the way Feis left the thing this afternoon; because it kind of bothers me.

Magill:

Well, some of the rest of you may add to what I say. But he - my understanding of his position was this: That unofficially he was at least as much opposed to this proposal as he had indicated that he was opposed on the preceding day at the meeting we had in the Secretary's office. Officially, what he said was this: that he was clear that the State Department would not take any official position on the proposal one way or the other, and he emphasized the "official."

So we then asked him, "Suppose that some representative of the State Department is asked to appear before one of the Committees to give the views of the Department with respect to this proposal." His reply in substance was that the Department would seek to avoid in every way any appearance before the Committee, and if they appeared they would say that they did not wish to take an official position one way or the other.

Then further, in response to inquiries, he stated that he had no doubt that there would be bitter complaints by foreign governments with respect to this proposal, and dilated upon that a good deal, and then presently agreed that - well, his first proposition was that when these complaints came in they would forward them to the Legislative Committee, and next he said, more or less in response to a request of ours, that he would send them over to us for reply.

Landis: Well, of course, that's bound to happen, that foreign governments don't approve of this.

Maas: They don't like this.

Magill: He came over with a bundle of protests against the ten percent rate.

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- Oliphant: And his statement about the position, his unofficial position, went both to the wisdom of the action and to the effectiveness. Thought it was wrong both as to thinking the action wise or as to thinking this action effective.
- Magill: Yes.
- H.M.Jr: Well, I don't know whether you other gentlemen have had any experience with the State Department in legislation the way we have. But they started just the way they are on this and then before we got through we had all kinds of trouble. And I just want to make it plain, because if - we are more or less in it together. But last year we had one thing on narcotics and we had another thing on your...
- Oliphant: Canadian alcohol.
- H.M.Jr: Zones of smuggling. Didn't do anything. But somehow or other, word gets up on the hill that the State Department doesn't like it, and then it makes it...
- Landis: Doesn't that have a tendency to help its passage?
- Oliphant: It makes more work.
- H.M.Jr: No, it makes it more difficult, and then it involves a great shuffling around about who's going to represent them. No, it makes it more difficult.
- Oliphant: Well, I should say in the case of the Canadian liquor their opposition was effective.
- H.M.Jr: Yes. Why don't we start this page by page and let's see if anybody likes it.
- Oliphant: Might I make a general observation on it? It strikes me that one thing you might consider - you probably have it in mind: two types of documents, one a document in which the President confines himself to a statement of broad questions of policy involved, keeping entirely away from the details; and, of course, among those broad questions of policy would be the question of executive discretion, which of course would give a much shorter document. And then more - somewhat

in more detail would be the type of statement, for instance, the Secretary would make before the Committee. The reason I mention that is because of the hypersensitivity of the two Committees dealing with taxation, and particularly of the staffs working with them.

H.M.Jr: Well, I'd like to make my position clear. If the President asks my advice, and even if he doesn't I think I'll volunteer it, I'd much rather see him send nothing other than possibly a letter, or the best thing would be just a telephone message to Joe Robinson. But I'm not sure that that is what he wants. But I mean I think - I mean talking very confidentially, I think just at this time that just a letter or a telephone message would be the best. But he asked us to give him a letter and a message.

Magill: What did he mean by the letter?

H.M.Jr: Well, I think he just meant a letter, say to....

Magill:to Chairman...

H.M.Jr: No, to Joe Robinson and to the Speaker, simply indicating his interest in this type of legislation. But he didn't - Landis, I don't know, have you - I don't know of letters which he's made public; I know of private letters that he's sent up, but I don't know of public letters.

Landis: Sometimes they have been made public. I remember his letter - one of the letters addressed to the Chairmen of the Committees on the Public Utility Holding Company Act. It was, however, in the midst of the debate that it was made public. And the same thing was true on the Stoch Exchange bill - a couple of letters made public then.

Magill: I didn't know quite what he contemplated.

Eccles: You mean letter of transmittal sending bill up only to those men, possibly.

Olyphant: Well, I would agree with you that better no message, or even no letter. But speaking on the assumption that there is going to be a message, I thought it

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might be better if you had a two page, or two or three page statement, in which the President merely dealt with the broad statesmanlike considerations of international policy, and then reserved all the other material for the statements made by the heads of the respective departments - when you got down to four percent and three percent and the history and all that sort of thing.

H.M.Jr: I don't know.

Gaston: Can the Ways and Means Committee initiate a tax bill without a formal recommendation?

H.M.Jr: Oh yes.

Gaston: Can they?

Oliphant: Yes.

Magill: Yes.

Upham: Oh yes.

Oliphant: Executive officers not at liberty to recommend them without request.

H.M.Jr: Well, let's do this page for page.

Magill: On your proposition, of course....

Taylor: Do you mind if I ask a couple questions first, because I've been down in the deep South. And these are some notes which - which were mental notes first, and I think that they are questions which we ought to ask ourselves. Having asked them, we ought to be able to prepare to answer them, because they are questions which will be asked.

I think they are five. They relate to what is the purpose of the proposed legislation. The first heading is Revenue. The second is Credit or Deposit Control. Third, Regulation of the Stock Market. Fourth, Control of Capital Movements. And the fifth is Foreign Ownership of United States Industry.

I think if we wish to maintain or establish monetary

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leadership we must determine whether under any circumstances we wish to act as the custodian of the world's gold and the world's deposits. Having determined this point, we can decide whether we wish to have foreign control of any of our industries or foreign investment in our liquid securities.

Seltzer: Well, do you make these mutually exclusive objectives?

Taylor: No.

Seltzer: That is, couldn't you just say that here is a lot of gold coming in here for speculative investments, and it raises a lot of problems, hits all of those things?

Taylor: I think we have to think in terms of under what circumstances we wish to be custodian of any portion of the world's gold stock and any portion of the world's liquid deposits.

Eccles: Well, we are custodian today. It is just a question of whether we want to be custodian of an undue proportion.

Taylor: All right, you have to write the rules - on what basis you are willing to become....

Eccles: Well, I don't believe you can determine to a nicety just how much foreign investment you are going to permit or how much gold - the world's gold that we don't need - we are going to hold. I think that is a very difficult thing to undertake.

Taylor: Well, I think - I mean before we take this preliminary step and go to the others - I'm not saying which way we ought to go because I think you can play any set of rules you want to. But it is a series of questions which I think we have to answer for ourselves, because they are questions which are going to be asked to us.

White: Why use the term "custodian" in this connection? We have obtained a certain amount of gold; that gold we have a legal right to. I am not speaking of earmarked gold, and I presume you are not speaking of it either. It appears to me quite within the rules of the game as stated, or under any modification we wish, to assume you are wholly justified,

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if for sufficient economic reasons you feel you don't wish to acquire any more gold, in placing such restrictions as you feel are best under the circumstances to reduce the inflow. I don't quite see the pertinence of that first question.

Taylor: Well, obviously, that is one of the reasons why we are worried about this situation.

Oliphant: Your question is why we are worried about it and what is the extent of our worry?

Taylor: Yes, and what are we prepared to do next? Because it gets into this whole question of whether you are going to - if you are going to assume monetary leadership or be one of the monetary leaders, what are those rules going to be? And under any circumstances are you going to be willing to accept deposits from other countries? Accepting the deposits happens to cause the flow of the gold.

White: Is that a question that has to be answered?

Taylor: I mean in the statement, the President's message, why, that question immediately is raised.

Haas: Well, Wayne, you take the question of earmarking, which is a very simple case of custodianship. Even on that the Federal Reserve Bank - for example, they don't commit themselves to an indefinite amount. They can question any amount. The point is here that there is some belief that the amount coming in is excessive. We want to establish forces which would discourage rather than tend to increase that amount.

Oliphant: No, I think he is asking, excessive in relation to what objective?

Taylor: Well...

Oliphant: You see the amount is excessive. He says, Excessive in relation to what objective?

Taylor: No, I merely state these are questions which we should be able to answer, because they are basic

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questions in connection with the place which we wish our country to play as a monetary power, if you want to call it that.

- Amies: Does monetary leadership involve taking - permitting enough of the gold of the world to come here to where it creates an unstable situation throughout the world? It seems to me that in attempting to prevent gold from coming in here to the extent that it is - that that is taking a position of monetary leadership. We are doing what is not only in our own interest here, but we are doing what is in the interest of the world. Certainly a continuation of a flow of gold to this country is not going to in any way make for world stability. The gold that we are getting is needed in other countries, needed by the world at large, much more than it is needed here. And we are only - the way we show, assume a position as one of the monetary leaders in the world, it seems to me, is to do what we can to not unduly, certainly, attract the gold here.
- White: Are you (Taylor) doing something other than raise the question as to the wisdom of this procedure at this time? Is there something beyond that?
- Taylor: No, I think you can write the rules either way, but I think we have to take into full consideration what we are doing when we take this step.
- White: Well, it seems to me the criterion which lies behind all this is the general welfare of the American people in pursuing a certain course, and in that course you have decided that further inflows of gold have disadvantages. You have decided to restrict that inflow in this way, or at least to attempt to restrict it in this way. It seems to me that the criterion is there, that you don't have to write any further rules. And I don't see that you need any more specific objective than that you will take as much gold as you feel is for the best interests of the country and for the world in so far as it affects the country. Haven't we, by determining the wisdom, dictated a restriction of the flow? Haven't we already assumed our criterion and passed upon the wisdom of accepting that as a criterion? And it seems

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to me that if you are not raising the whole question again I don't quite see the relevance.

Taylor: Well, why isn't the thing to do simply to stop further imports of gold?

H.M.Jr: Wayne, do you mind if I interrupt? I don't really think it is fair to Landis and Eccles to tie them up on this thing when we've been at this thing now during the time you were away. And I really think that those are questions that we really ought to ask among ourselves in the Treasury. I mean we have gone so far....

Taylor: I think that's right. It's going to be our legislation, I assume.

H.M.Jr: I think it is a question that we ought to ask ourselves, because I've brought them here and we've agreed as to the principle. I think the only question as far as I know that Eccles may want to raise is this question of the....

Upham: Presidential discretion.

H.M.Jr: of making it discretionary. And I think in fairness to them that.... we could be here until five in the morning and we couldn't answer those questions. I mean don't you think so?

Taylor: Well, I've been out of that. I thought those questions ought to be asked before we made a recommendation.

H.M.Jr: I think they ought to be asked, but I think they ought to be asked in the Treasury and not take these people's time, because certainly we can't get anywhere tonight if we're going to start answering those questions. I mean we just wouldn't get to first base.

And what I'd like to do is - I mean having brought these men here - would be to take this thing up and find out if they are willing or if this comes to eighty or ninety percent of what they think and they'll go along tomorrow and say to the President, "This is a first draft. We'd like to know whether this is anywhere near what you'd like to send to

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Congress." I mean that's what I've got these people here for tonight. After all, one man has to do the work, and when we go over there I'd like to have Landis and Eccles also say, "Well, for a first draft, this is about what we stand for," or "It isn't." Isn't that right?

Eccles: (Nods yes)

H.M.Jr: I really think that we have traveled far enough. At least I have anyway, as far as the group in the Treasury - everybody, including the Federal Reserve and S.E.C., are all agreed that we could go this far as a first step. I mean there wasn't a single voice. The only question raised by anybody was making it discretionary in the hands of the President. Is that right? Am I overstating it?

White: No, I think there is some relevance to his point which will appear later if I gather correctly.

H.M.Jr: Am I overstating it?

Upham: No.

Eccles: As far as I'm concerned, we agreed to this as a first step, realizing that it was the mildest form that any action could take; and this in itself, it seems to me, would possibly be justified on the basis of equity between our own citizens and foreign citizens without regard to whether or not we may be getting excessive gold imports. I mean you can justify this without getting into the broader field, it seems to me, Wayne, that you raise.

Taylor: I think you can justify this on many bases. But when you bring the various other factors into the message, why, that is where I think we have to answer these other questions.

H.M.Jr: Wayne, this is just as though Gardner would say tonight, "I don't think you got enough gold; I want to see more." And I'd say, "Why didn't you say that before?"

Gardner: Not Gardner.

H.M.Jr: Well, I mean I wouldn't say that tonight. I wish you'd

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brought that up a couple days ago. I mean that doesn't - I mean I just think that to get into a very broad discussion tonight - I'm afraid we wouldn't be anywhere and I wouldn't be able to find out what Eccles and Landis think of this first draft, and that's what I'd really like to get - or anybody else to comment on this draft. Is that all right, Wayne?

Taylor: (Nods yes)

H.M.Jr: And you can get our boys together in your room and have our customary free-for-all. Huh?

Well now, you want to take this page by page?

Magill: Shall I read this first page?

Eccles: I'd like to read a page and then discuss it, if that's all right.

H.M.Jr: Or paragraph by paragraph. Why not do it one paragraph each time?

Magill: "For many months past I have been increasingly disturbed by the volume and activity of foreign funds which have come and are still coming to this country, a large part of them for speculation and investment in American securities. Last November I directed the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Securities and Exchange Commission to make a special study of the problems raised by these capital movements and to suggest possible remedies."

Gaston: Did you say September?

Magill: No, November.

Eccles: I'd just like to think of this: "a large part of them for speculation" - why say "and investment" in securities?

Magill: I think we had this thought as to this thing: that this particular move that we are making is open to criticism, as you have pointed out, as not being sufficiently directed against the speculator.

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- Eccles: I see. "nd inasmuch as it isn't, you want to cover more than speculation.
- Magill: Right.
- Oliphant: Large amounts are coming for investment, aren't they?
- Eccles: Your taxed income in general, and that covers income from stocks and bonds, income from any source.
- Magill: Right.
- Eccles: Yes, I see the point.
- Gardner: "ouldn't it be better to say "investment or speculation"?
- Haas: Well, he develops a little further, don't you, your details on that a little bit.
- Oliphant: That word "activity" means activity after it gets here, Ros? It bothered me both times.
- Seltzer: Well, these funds keep turning over; they are active in this way.
- Oliphant: Activity after they get here; is that it, Ros?
- Magill: Yes. Ready for the next one?
- H.M.Jr: Don't hurry them.
- Magill: "This study has progressed sufficiently far to convince me that a large proportion of these inflows has been distinctly unhealthy both in character and in volume - unhealthy for our own citizens and unhealthy for the citizens of the countries from which these funds are coming."
- Lendis: I wonder if that might not be written in this way. The thought occurs to me that if this volume should stop today - that is, if your cumulative inventory changes would go down rather than up - a query as to whether we'd really have a serious situation as it exists today. It is the continued up-curve that raises the problem rather than a steady condition today of whatever it may be.

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- Magill: Well then, you'd prefer "This study has progressed sufficiently far to convince me that a continuation of these inflows will be distinctly unhealthy."
- Eccles: Otherwise, the foreigner may get the impression we are going to do something about what's in here and attempt to....
- Magill: Shall I mark up this copy?
- Haas: Will you make the notes on it, Larry?
- Magill: Yes, we'd better keep one copy the way it was. Who's going to do it?
- Haas: Peltzer's going to do it.
- Magill: When you want to make it "A continuation of these inflows...."
- Gaston: What about "threatens to create a situation that would be unhealthy"?
- Magill: "A continuation of these inflows will be distinctly unhealthy both in character and volume." We'll stick in something like that.
- Haas: Get the thought, Larry, and fix it up.
- Loehhead: "Unhealthy for the citizens of the countries from which these funds are coming." I think it may be quite healthy for the citizens, but not the country.
- Magill: Yes, I think so. Cut out "the citizens of the" and make it "unhealthy for the countries from which these funds are coming." I think that's right.
- Eccles: With those two suggestions, I think it's all right.
- Magill: "In part these inflows of foreign funds into the United States represent a continuation of those erratic and undisciplined movements motivated by fear or by the hope of speculative gains from exchange fluctuations that threatened the currency stability of many countries a few years ago. In larger part, however, they represent funds attracted here for participation in the profits of American business recovery."

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- Oliphant: "A few years ago" is a little long.
- White: Yes, and why should the funds be coming in now, if I understand the tense, as a consequence of what happened? Or did I understand?
- Magill: A continuation of those erratic movements that threatened us a few years ago.
- Seltzer: Perhaps "recent years" instead of....
- Eccles: You've got three reasons here: The fear; and the opportunity of speculative profit through the fluctuations and the currency gains from exchange fluctuation; and the profits to be obtained by investment in American securities. Those are the three reasons. It is just a question of how you state them.
- Magill: Too long.
- Landis: The thought I have is in the last sentence there - the last sentence is too good, it is too kind to the foreigner. You say "In larger part, however, they represent funds attracted here for participation in the profits of American business recovery." That looks like a pretty good reason for coming over. Actually they are very liquid. They are not coming over here with the idea of getting a real return out of business recovery, but they are trying to play the stock market. I mean this is too respectable.
- Haas: You can put that in terms of "capital gains resulting from....."
- Landis: Yes, I thought if you emphasize that angle...
- Eccles: Why don't you say "speculative profit as a result of capital gains through operation of the stock market."
- Magill: Or "quick profits." We've got "speculative" in here a lot of times.
- Gaston: Aren't you afraid you're going to create the impression that we haven't got a real recovery, but just a stock market boom?

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- Oliphant: That's the impression it makes on me.
- Seltzer: You've got plenty of "speculation" in here.
- Haas: Of course there's a lot of...
- Seltzer: I don't know that you got the last point. We deliberately put in here this business about exchange - speculation on the exchanges, to get away from the stock market, historically that having preceded this stock market business.
- Magill: Why don't we cut out that last sentence, Jim, and carry over that idea with your capital gains thought?
- Landis: I don't think the last sentence is necessary.
- Gardner: The first sentence of the paragraph. There has been no outflow of foreign funds. It has all been a movement into the security market; partly foreigners reducing their securities, to a larger extent foreigners buying American securities. And they have been buying American securities, I suppose, partly because of bad conditions in Europe, such as currency fears, war fears, and to a larger extent undoubtedly because of the profits anticipated from American business recovery.
- Taylor: The minute you make that statement, don't you have to be willing to answer Question Number Five?
- (Hearty laughter)
- H.M.Jr: That's all right. You know, these - everybody goes away for a week and it's unfair; they get a chance to think. It isn't fair to the rest of us.
- Taylor: I was answering questions about the Supreme Court.
- Haas: I think there's a danger of making this appear too alarming. In other words, a good deal of these funds aren't as "hot" as some people might lead one to believe. I mean I think there is a large bulk of those that really stay for a number of years, and they're going to stay here as long as the outlook is good.
- Gardner: The fact is that the "cool" money is about as dangerous as the "hot" money.

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- Reas: That's right.
- Gaston: You don't have to throw the whole weight on speculation.
- Magill: Then you wind up by leaving in the last sentence.
- Seltzer: Why sure, we left it in; I never took it out.
- Eccles: I think we can generally agree on the three points that are made there. It is a question of phrasing. After all, you can't work out here, it seems to me, the exact phrasing. If you agree on the three particular reasons why the funds come here - and then it is a question of how it is stated.
- Magill: Well, we'll look for a disreputable adjective of some sort.
- White: Except that exchange depreciation is no longer playing a significant role, either in attracting or keeping it there.
- Magill: Well, our next paragraph. "We do not need these funds. Their immediate effect is merely to add to our already large gold reserves. They are not contributing to our business recovery."
- Upham: I object to that sentence.
- Magill: "The metallic reserves of the United States are ample for all our present and foreseeable future needs." Including yours, Upham. "A number of other countries are much less happily situated in this respect. Yet, a substantial amount of the foreign funds coming to the United States are being sent from such countries." That ought to be "is." Seltzer, by golly, you've got another error. He's got a "proportion is" up here somewhere.
- Oliphant: The amount "is."
- Magill: "Substantial amount are" isn't right. Ought to be "is."
- Oliphant: That takes a load off my mind, Ros.
- Taylor: When you make that statement, which countries do you

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mean?

- White: France is one, and those which are included under the list of "other countries" - lot of small countries.
- Seltzer: The stuff that comes from England, you see, is routed through England.
- Taylor: I mean are you prepared to say that is France?
- White: There are several countries about which that is not true, but there are more in number about which it is.
- Eccles: Speaking about future needs, you might apply it to England if they are going to finance France.
- Taylor: But I think you have to be prepared to answer that question if you make that statement.
- Landis: What's the purpose of that sentence? I didn't quite get it.
- Magill: Mr. Landis wants to know what the last two sentences are in there for.
- Seltzer: The purpose of what?
- Magill: The last two sentences.
- Seltzer: Well, that is to introduce the idea that these other countries need the other gold more than we do, and we are proposing to do this thing to help them as well as help ourselves.
- Oliphant: Well, the situation being what it is at the moment, Seltzer, that isn't true. It isn't the fact that the gold is moving out; it's the condition causing the gold to move out that they are worried about. That's the real worry.
- Haas: It works both ways.
- Taylor: You're in an awful spot if you make that statement, making derogatory remarks about one of our pals in the tripartite agreement.

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- Glipnant: Your point is that it might tend to weaken the franc very materially.
- Taylor: Yes, you're damn right.
- Eccles: Well, if the funds couldn't come readily from England here, they may go to South America and other countries and help the whole world picture.
- White: But that's not the statement. I think that would be a better statement: the fact that the gold is not going to the places where it is most needed rather than that it is leaving countries that need it badly.
- Taylor: That's my point.
- Eccles: That's it, that we are getting it instead of its going to places where it is needed more.
- Seltzer: I don't know. Politically, you are on much weaker ground when you say, "Well, this gold is leaving these other countries anyhow, but we don't want it. We've got enough of it. Let it go to South America and other countries." You are on much more defensible ground - I mean just psychologically - when you are in the position of wanting to discourage an exodus of gold from countries that can use it. To use "We don't need it" - the minute you go around - the minute you introduce the question of other countries getting it if we don't, you raise some other questions: Do we want South America to get it from England, France, etc., and thereby set up trade relations with these countries rather than with us?
- Magill: Of course, there was one reason that we may have put those sentences in - was that we may have been over-influenced by these State Department arguments this afternoon. That is, they were full of thunder about the likelihood of the foreign countries coming in and urging that we were discriminating against them, etc. And I imagine there was some idea of putting a little color in here to indicate we were doing this for the benefit of some of these countries as well as for the good it might do us.
- Eccles: The difficulty of being specific this way - it is difficult to tie it down to a country.

- Magill: I think that's true.
- Reeles: What we are interested in is world trade and world stabilization. Therefore, it seems to me that, to the extent that we get no more of the world's gold and that the gold is left in other countries, it means that it is more likely to be better distributed. And, without being specific as this is, I think that the other suggestion that White made here certainly is a much more defensible one.
- Magill: Well, one thing that occurs to me, as a chronic compromiser, is that you might leave in that next to the last sentence and then put in White's in the last, or something of that sort.
- Dandis: You could leave out both those sentences and then extend the next sentence of the next paragraph.
- White: I think you are placing a little too much emphasis - and I think Taylor was coming to this possibly - you place too much emphasis on the equity provision. By placing emphasis on the equity provision you put yourself in a difficult spot if you wanted to pass any more legislation if you find this isn't effective, because the legislation that you will have to get later cannot be based upon equity nearly so much as this can. And therefore, if you don't strengthen that too much, you don't put yourself in the position of making it difficult later. I think possibly Taylor had that in mind.
- Oliphant: And then there is a big hole in there too that can be pointed out.
- White: It isn't too strong.
- Magill: That equity argument isn't one hundred percent.
- Reeles: That's where we had trouble with our memorandum on this thing.
- Oliphant: We don't lay taxes in order to be equitable. We do it in order to raise revenue. And beyond a certain point, the higher the rate the less revenue you get. The Ways and Means Committee knows why that rate has been where it is. They have talked about that for

hours and hours and hours. And the Finance Committee know too.

White: And if you are speaking of equity, how you going to - if it is equitable at twenty percent, now you going to raise it to forty and still call it on the basis of equity?

Magill: Well, of course, we have tried to cover that as well as you can. That is, we have said here, "We are doing this for one reason, because we want to try to take a first step in stopping these movements; secondly, as an adjustment of the rate."

White: It is quite true, but it means possibly that you have to put a little more emphasis on the gold flow.

Oliphant: I'd like to point out that this whole argument, that we are not taxing the foreigner as much as our own American, has been impressed on both those Committees, and they have turned down that argument knowing just what they are talking about. They turned it down on the basis of the yield - of the rate that would give the revenue.

H.M.Jr: Give what, Herman?

Oliphant: Yield the revenue. They weren't worried about abstract equity. They wanted a rate that would yield revenue.

Taylor: Well, you've got some additional evidence, in fact, in cases where you know of Americans going abroad and working through corporations to get the benefit of the differentiation, which you didn't have at that time.

H.M.Jr: State that again, will you, Herman. I don't quite get that.

Oliphant: I mean this talk that we are not taxing these people abroad as much as we tax our own people was urged on the Ways and Means Committee when the thing was up before.

H.M.Jr: Yes, and what happened?

Oliphant: That was all turned down in favor of the present rate.

Upham: Because....

- Oliphant: ...the primary thing that they had in mind was revenue yield rather than driving this money into tax exempt securities.
- Zucker: Another point that impressed them was that the foreigners don't tax capital gains either, and that gave them parity of treatment here.
- Landis: As far as the arguments in the Committees go, we can present this angle later if it turns out that this is too weak a method to discourage foreign investment: that if this is too weak, then the tax rate is not the controlling factor in investment here; therefore, raising the tax rate will mean an increase in revenue rather than a decrease in revenue.
- Oliphant: You see, we go down on the Hill, try to get this through before the 15th, and talk with them - it's all in terms - well, this is wholly disconnected with any of these general tax bills, if there is to be one at all; and so in presenting the case the stress should not be on the tax aspect of the thing, equalizing the tax system, etc. The stress should be on the emergency which has arisen and the need for action and the reason why you are taking this.
- Eccles: Yes, but you've got to mention the other. I don't think you've got to stress the other; I don't think you should. But...
- Oliphant: It will be mentioned later. But it is not the broad statesmanlike reason that the President is giving for recommending this action.
- Eccles: I agree with that.
- Oliphant: It's a detail and it will develop when the arguments start on this.
- Eccles: It's just one justification. It is a minor one.
- White: It is a minor one.
- Haas: It's a minor one; it's not airtight, either.
- Eccles: Do we want to say "They are not contributing to our

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business recovery"? I think those funds have up to the present time certainly contributed.

Seltzer: Did you want to say "Further inflows will not contribute"?

Eccles: Maybe. I think that would be better.

Landis: Say that they are not necessary.

Eccles: That's better.

Seltzer: Well, we - in this sense, we don't believe so. We believe they will hurt us rather than help us. Otherwise, we wouldn't be going about this. So when we say they won't help us we are speaking of our best knowledge at the moment, everything being subject to our limited - our lack of omniscience.

Haas: Well, if you change it, Larry, to "further flows are not necessary," I think that would take Mr. Landis's point.

Eccles: "Further inflows are not necessary to our business recovery." That would assume that the past has been. We'll admit that.

Haas: You have to make it neutral and...

Seltzer: We'll make it "The recent inflows are not contributing to our business recovery." That is certainly true.

Landis: The idea you really want to get across is this, isn't it: that the necessary investment for business recovery can be gotten in this country without resort abroad. Now, it is technically true that any money that has gone into investment has contributed to business recovery, irrespective of what source the money came from. Technically that is correct. But the other idea is the real idea, which you have tried to write shorthand in this fashion.

Zucker: You mean you want to bring out no dependence on these funds for recovery.

Magill: Suppose you say "Our business recovery can be financed at home."

- Ecclcs: "We are not dependent upon these funds for business recovery."
- Seltzer: It is a good deal weaker than this as it stands.
- Haas: Say "These funds are not required" and you don't make it present, past or future.
- Bryan: Does the word "contributing" as it stands - doesn't that mean now? That doesn't beg the question as to the past, does it?
- Haas: Well, that's a doubtful question.
- Gardner: There are two major effects from these funds. The first is the primary effect in the stock market, and that, we feel, is bad; now that the stock market is tending to get ahead of the business recovery, that the danger there lies that it will run too far ahead, and we have curtailed the use of foreign funds in the stock market. But the inpouring of foreign funds continues and constitutes a danger just of the same character as...
- White: In other words, had these funds not come in...
- Gardner: The primary effect on the stock market is bad. The second effect of these funds is that they bring gold, and the gold doesn't contribute to our domestic recovery; it piles up in the inactive holdings of the Treasury and enlarges the public debt. Neither of those things appears to help our recovery; both create problems, one for the Federal Reserve and S.E.C., the other for the Treasury.
- H.M.Jr: Could I just interrupt at this stage for a minute? This discussion about putting these words in the mouth of the President, as I am listening, is just absolutely frightening me to death, and I think we're just taking off entirely too much here. The reason I have kept quiet, I have been thinking, and it just scares me to death. And I think before we go further I'd like to just talk a minute, even though he's asked for a message. I mean after all we're coming here and if we give him this - I mean after spending several hours on it, and I'm going over again tomorrow. I mean the three of us walk in there; after all, it looks to us - I mean if we

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walk in there and say, "This is what we recommend".... I just wondered if you couldn't stop and pause a minute and if there isn't another method of approaching this thing without taking in practically the whole monetary policy of the Government and then putting it in the mouth of the President. This just scares me to death. I mean there are a lot of things here which we are talking about which I couldn't go along, I couldn't recommend; I'm not sure. And it's more or less - we are doing a thing which he's always backed off from the last three years; that is, we are tying his hands by committing him to a definite policy. I just wonder if we couldn't pause a minute and it wouldn't be a much simpler approach....

I want to say this: I think Magill, considering the time - it is a remarkable document that he's got there, and it certainly covers the whole thing. But I wonder if there isn't some simpler way which would act as a vehicle of transmitting this desire for legislation to the Hill but still not commit the President to an over-all monetary policy, internal and external. I just wonder if somebody wouldn't talk to that point.

Oliphant: I had this suggestion, Mr. Secretary....

Taylor: In that message you have answered these five questions - without knowing what the message was going to be - in the affirmative.

Oliphant: This is a possibility: that the President might call attention to the fact, by letter or message, that he had asked this study to be made and the study had reached a point where he wanted to put the proposal before the respective Committees and the heads of the various departments; and just stop at that.

H.M.Jr: Landis, what do you think?

Magill: I didn't get you on that.

H.M.Jr: I mean just take another angle at this thing. I didn't mean to interrupt you (Magill).

Landis: I think you are right on the proposition of putting too much in his mouth.

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- H.M.Jr: I mean just stop and think a minute. Let's just say that Magill hadn't done what I asked him to do. See? I mean let's stop and think a minute. Is there another method entirely different of doing this?
- Landis: Well, one thing that I think is a sort of - would meet his design, as far as I can guess it, in the situation, is to simply say this: "You will recall that I called the attention of the country to this problem, that I asked these people to study it. They have studied it. They have transmitted their suggestions to me, which are suggestions for immediate action, and for a first step in a program that they are working on; and I am transmitting that to you."
- H.M.Jr: What would that be?
- Landis: The bill.
- Eccles: Well, if that is all, that is merely a letter of transmittal. That, it seems to me, would be the safest thing for him to do. If that is what he wants to do, that is certainly the safest procedure.
- Seltzer: Of course, if you do that, you lose all the psychological effect of a formal message from the President to Congress.
- Eccles: Well, do you need that in connection with this particular proposal?
- Landis: You can pick that up, a considerable portion of that up, by a simple statement that "I think something ought to be done about it, and quickly; even though at the present time it is impossible to propose a complete program, the situation is such that it calls for very prompt action."
- Eccles: He might indicate that this isn't sufficient, that this is a first step.
- Taylor: You can do that - you can indicate that the studies are proceeding, "but the one thing that has become apparent while these studies are proceeding, and all three are willing to recommend, is this differential - rather, preferential treatment which is being

afforded foreigners." Which will indicate that the rest of it is going on.

Magill: No, there you get into the difficulty you were talking about earlier. As far as these - let me say here for the sake of the record that these first two pages - I of course knew nothing about them of my own knowledge, because I wasn't around here when this thing was prosecuted. What I did was to take the sundry memoranda which were designed to show why such action should be taken and try to put them in two pages; that is, these two pages. I think I have a habit of making things too clear sometimes.

H.M.Jr: Well, I just wonder if the very simplest statement of transmittal.... Let's say tomorrow we could have a rough draft of a bill, just a rough draft, and we went over to him and the President concentrated on that. And let's say that he decided after seeing the bill whether he wanted to have it a flat rate or have it discretionary. Then he'd say, "I like this," or "I don't like this thing." And then we gave the legal division a chance to make it absolutely as nearly foolproof and Constitutional - which certainly, Herman, you'd want more time than you have had, wouldn't you?

Oliphant: Yes, I'd like to.

H.M.Jr: And then just gave this - so the President would say, "All right, I like this, it's all right. I want it permissive," or "I don't." And then explain to him why we don't think he should go into all the aspects and repercussions, etc., whether gold did help us or didn't help us, or whether we want any more or whether we don't want any more gold, and this whole question of gold. And then we open up ourselves - "Why didn't you do this long ago? You've got twelve billion dollars. And what you going to do about Eccles' silver policy?"

(Hearty laughter)

Oliphant: What you meant was Utah silver policy.

H.M.Jr: That's right.

Eccles: Sponsored by Herman Oliphant.

Oliphant: Oh no.

Eccles: King and Oliphant.

H.M.Jr: King and Eccles.

Oliphant: Synonomous.

Eccles: I might be guilty of a hell of a lot, but you can't tie that on me.

Oliphant: Well, may I make this observstion there? I agree that it ought to be some very short document from the President going to the Hill. I'd like to call attention to this thing that we have run into over and over again down on the Hill. It's true, I think, that there is always difficulty about sending down the draft of a bill even to any Committee. There's been some serious repercussions very recently on bills that were sent down to Committees other than these two Committees. But in connection with Ways and Means, Mr. Secretary, and Finance Committee, we've got an especially difficult situation on personalities. If we send a bill down there, it will greatly prolong the process of getting it through. They will just - merely because it comes from that end of the Avenue, they will change things they otherwise wouldn't change, and it'll get into all sorts of difficulties. But if, on the other hand, we say that the experts, etc., are available, what will actually happen is that the paper will be passed at the proper time. But if it goes through the President, it will create lots of difficulty.

Gaston: Therefore, your message has got to say something; even though two short paragraphs, it's got to say something.

H.M.Jr: Well, Herman, just for a matter of the record, my suggestion was - and you were there when we talked with Pat Harrison and Doughton - that we go up - Landis, Eccles, and I go up on the Hill and meet with the same group that we met when Eccles, Jones, and I went up on the Hill, and explain this thing in a two-hour conference. And then they say, "Have you got something that we can work on?" and we say, "Why,

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probably we can give you something tomorrow," having the thing in the hip pocket all the time. And then we give them this draft and they are so tickled to get it, and they hang in one or two words and that's the way it works.

Oliphant: Saves you a world of trouble.

H.M.Jr: And then Landis can say, why, he's interested in this, and Eccles can say, why, he's interested, and I can add my little bit. It's all with no stenographer present, and then these boys make the speech. That's the way I'd like to see this thing handled.

Eccles: That will leave the President, of course, entirely out of sending anything up.

H.M.Jr: Well, if he followed my advice, that's the way he'd do it; that's the way he'd do it.

Eccles: That's right, at this present time, because we may need him later when we come to something more important.

H.M.Jr: If you want to get this by the 15th of March, if you want any deadline, we've got to move awful fast, and I'd have to - personally, this document, for me to be satisfied, I'd have to work two weeks on it; it would take me two weeks, and then I don't know that I'd be satisfied. I mean to cover up everything in that thing.

Haas: The people here agree, are of the same opinion. That's the way we feel about it.

Eccles: It is my view that to have the President write a message covering this particular action that is proposed is giving it an entirely exaggerated importance, an importance that the particular action here in no way justifies. If at this time we were covering the entire program we were proposing - what we say we may follow up with - then there might be some justification for a message; but this is so mild and in my opinion will be so ineffective in really doing very much about this thing, except temporarily because of the psychological effect possibly, that for the

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President to send an extended message in connection with this legislation - it attaches altogether too much importance to it.

- Taylor: I tipped your hand without knowing what your hand is.
- Oliphant: The thing that Wayne now - you are now signing off.
- Upnam: He put his five questions in his pocket.
- Rees: That's a suggestion: send up the five questions.
- Oliphant: I predict the method you had in mind originally would save about two weeks' time in getting the bill up to the White House for signature.
- Magill: Save more than two weeks.
- H.M.Jr: I want to say that Magill told me today that he very much hoped they wouldn't send any message.
- Magill: Oh, very much.
- H.M.Jr: And if he had to handle this thing, which he would, on the Hill, they would not send any. Is that right?
- Magill: Oh, absolutely.
- H.M.Jr: So he only did this on my urging him to. But his own opinion was no message. I just want to make it clear he was just doing what I asked, just putting it up there for us to look at.
- Eccles: I think if the President is going to send a message, even a short one - if he is going to give it Presidential recognition, that then he's got to say something. And I would sooner see what is proposed here in this legislation go up there without any recognition on the part of the President at all, giving it any importance, because it isn't very important.
- Seltzer: Of course, in so far as you want to bluff, it's all the more necessary to have a message.
- Eccles: I don't like to bluff. I mean the idea of bluffing is - it doesn't last long. It's a poor way, it seems to me.
- Lochhead: At his press conference the President said there

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was nothing on this. Then tomorrow you're going to give him this.

Haas: Well, you can learn a lot in a day.

H.M.Jr: Well, after all, he did - at his press conference in the middle of November he did talk about "hot" money, and so he's hooked up to it all right. I mean don't worry.

Gaston: That wouldn't give anybody heart failure, if one day he said he didn't know anything about it and the next day he sent it up in a message.

H.M.Jr: No, in the minds of the public Roosevelt and Eccles is what they're worried about, not money.

Eccles: Well, we were just anticipating a situation we knew that you'd all appreciate in time, you see.

H.M.Jr: What do you think, Roswell, after my raising this thing?

Magill: Well, my feeling is much as you described it before. As far as getting the thing through Congress, I don't think there is any question as to which is the better method, and that is no message. I think that is true for a dozen different reasons, most of which have been mentioned.

Eccles: I'd sooner defer any action at all on this until after the 15th if he wants to send a message, and then open - defer it until after that date saying we are still studying it, and then complete the program in one bill and have him send a message. Now, if it is decided to send this up, certainly I would very strongly favor having it handled without any recognition being given to it by the President.

Magill: I want to just stick in this car: that if there is no message going up, if it is just a tax bill, you two (Landis and Eccles) have still got to lay the groundwork for the thing. In other words, we are not doing this to see if we can get five or ten more million dollars for the Treasury; we are doing it on account of this situation that the President described in November. So that somebody has got to put the underpinning under it. We can't put it merely on this

equity ground, that these rates are too low, etc.

H.M.Jr: I very definitely said if we are going up on the Hill for this meeting - Robinson, Harrison, and Glass, and Bankhead, Doughton, and Steagall - I mean that whole group, the way we did the other time, I certainly would want and take it for granted that Eccles and Landis would go up there too and say their piece.

White: Mr. Secretary, I think there is more in this than has been mentioned to support the point of view you have taken, because a Presidential message will receive a lot of popular attention, and the public may be prone to evaluate this move by the criticism it receives, which may take this form: that this gold has been coming in because of the position of gold in relation to the devalued dollar; that we have been pursuing that course and on the other hand we are trying to prevent the gold from coming in. I don't say that is sound. I say a good deal is made of that criticism and you are reopening that whole question by giving it too popular a discussion if it is contained in a Presidential message.

H.M.Jr: The other thing they are going to ask is why we pay \$35 an ounce for silver, and isn't that what is bringing the gold in.

White: You mean gold.

H.M.Jr: Gold, gold. Did I say silver? It's that Utah influence.

Oliphant: I was just going to ask you if Eccles had your price of silver up to \$35 an ounce.

Taylor: He just gets the 77 cent part.

H.M.Jr: Let me just ask a question. What is the status, Herman, of the bill?

Oliphant: Well, I should say that it is all ready in shape if you did it by your method; that Ros could take it up with Beeman and Parker and decide after they take it up whether they'll want to work on it with Kent and Ros and with Lusk.

- H.M.Jr: I meant is it in such snape that we could show it - if we do have this 12:30 appointment, in such snape that we could show it to the President?
- Oliphant: It can be for that purpose. It's going to be unfortunate, because there's a lot of minute changes of this page and that page, and it's a very poor way, I think, to lay it before the President.
- H.M.Jr: We'll put it another way. Can Magill and Oliphant give us a piece of paper to put on his desk?
- Oliphant: That's right - one, two, three, four, five.
- Eccles: Not the bill, but what the bill purports to do.
- H.M.Jr: Could you do that and have that by 12:30?
- Oliphant: (Nods yes)
- H.M.Jr: Why, gentlemen, isn't that as far as we should attempt to go tomorrow?
- Eccles: I think it is.
- H.M.Jr: Landis?
- Eccles: With reference to the...
- Landis: (Nods yes)
- Eccles: With reference to the optional...
- H.M.Jr: I'd like to have a little fight on that with you tonight.
- Eccles: I was just going to say with reference to the optional provision that we might discuss the two methods of finishing this question. When we get up there before that Committee, we may find what we found when we discussed a similar situation before, when you and Jesse Jones and I were up there. Now, what if we do find that attitude on the part of those people that we may meet?
- H.M.Jr: Well, Marriner - I mean so the others know - I mean we went up there with the idea that we'd ask for an extension for four years - I mean for two years, with

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the right of the President to extend it two years more. And as soon as they heard that they said no, they wouldn't give him that; that was taking certain prerogatives away from Congress. They immediately said no.

Eccles: Didn't want to give any option.

H.M.Jr: No option. Now, I think that this is different, because we already have four precedents for this procedure, all in the foreign field. There are four different cases, all in the foreign field, where the thing has been given - the power, to the President.

Eccles: Did you have it in connection with taxation at all?

Magill: Yes, one. We put one in in 1934. In case a foreign country discriminated against our nationals and the President so found, then the President should have the power to double the tax rate applicable to nationals of that country in this country, and if he found that that discrimination had stopped, then he could pull the rate down again.

Eccles: Well, of course, if you tied into that provision this one here - but you don't want to tie it into that.

Magill: No, but that's simply answering your question, that there is a similar provision in the Revenue Act.

Eccles: But if you used that as a justification for giving discretionary power, then the question could very readily be raised that that is a pretty definite definition of the extent of the discretion; in other words, there is a limitation on the discretion.

Magill: It is not as clear, probably, as my statement makes it appear. Let me read it if you are interested in it. "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....." You see, that is really pretty vague when you come right down to business on it.

- H.W.Jr: Then there is the case of the tariff. It's an adjustable tariff. You had four. Reel them off. Then you had gold content of the dollar; that's three. And then there was a fourth one, counter-vailing duties.
- Taylor: Those are all based upon positive action - I mean of somebody else.
- Eccles: That's the point. They are based upon....
- White: With the exception of gold content of the dollar.
- H.W.Jr: Well, Harriner, let's put it a little bit - let's get down to brass tacks, if you don't mind. Let's, for the moment, put aside what Congress thinks is right or wrong or the best way. I mean you raise one objection, that you don't think, on account of our previous experience, that Congress will do that very readily.
- Eccles: Well, I meant if they raised the question, then what position would there be?
- H.W.Jr: What other objection? I mean let's get them all.
- Eccles: I think it puts us in a more difficult position with foreign countries, especially if we are going to put this thing entirely on the basis of equity, equalizing; then it seems to me it more or less destroys that argument.
- Haas: We agreed that argument wasn't very good.
- Eccles: Even to the extent that you use it at all, to the extent that we are justified in increasing this tax. Then the fact that you have the power to levy a tax far in excess of any tax that a foreign country levies upon our nationals - just to that extent, of course, I don't think that you can make any argument that this is equitable. I think you've got to leave the whole argument of equity out of it.
- Magill: Of course, under that proposal he could pull the rate down too, couldn't he?
- Oliphant: By the way, your fourth precedent was not counter-vailing duties; that's fixed. The fourth example

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was his discretionary war power to control exports for the purposes of neutrality.

White: There's another one of where if he finds certain conditions he can impose an additional duty; then that's five.

Taylor: My reason is a political reason.

H.M.Jr: What's that?

Taylor: It's his own personal interest. If he wants - asks for one more piece of legislation at this minute where the discretion is placed in him - extremely foolish thing for him to do.

H.M.Jr: I think you're right.

Eccles: Well, that's the...

Taylor: To me that's the...

Eccles: That's what I thought of when you go before the Committee.

Taylor: That's the controlling thing at the - factor right at the minute. I don't think this particular thing is worth taking the chance on.

Eccles: No. I don't think that - if you just send no message, the bill isn't made public, they draft the bill, and you go before the few of those leaders privately, they will advise you likely against it for that reason, see? And it would be a mistake to try to insist upon it or try to argue for it. And even if they were willing to undertake it, is it good politics at this time to do it?

White: Except in this particular field. I think that argument has a little less potency than it would have if it was anything in the domestic field. After all, the Congress has indicated....

Taylor: Doesn't make any difference what field it's in.

Oliphant: Well, the opinion of the Supreme Court sanctioning it in the international field is still ringing in people's ears.

(Secretary leaves room)

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- Taylor: That's all right, but that was before recent events.
- Eccles: It's hard to explain that to the public right now. In other words, the opposition can very easily make a story out of this thing, and it could get a hearing.
- Oliphant: Well, nobody suggested, for instance, there ought to be full discretion in the Secretary for the administration of the Stabilization Fund. It never even occurred to anybody.
- Eccles: He always had that. He got that discretion, Herman, at a time when it was recognized the discretion should be given. All you did was renew an existing power.
- Taylor: But that happened to be the Secretary.
- Oliphant: But the Secretary was under the President, Wayne.
- Taylor: Well, it's a very important difference at the present time.
- Eccles: How important is it to have discretionary powers in this particular thing?
- Oliphant: I think it is because you don't know that it is important.
- Landis: This thing is an instrument of policy; it's got to be flexible.
- Haas: Otherwise people will think you are putting down something permanently, that we don't want and never will want these funds. It's a short term proposition, or it might be a very short...
- Eccles: Well, do you expect this really to be an important instrument in influencing the flow of capital?
- Haas: Well, it would be more important, I would say, if it were flexible. That's one aspect of it. I think it would have more effect if it was flexible.
- Eccles: Well, maybe more. But the fact that it is a minor method of meeting the problem would seem to me to take away some of the justification for flexibility.

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If this was the major means of meeting this, then I could see a good deal of argument in making a case for it.

Magill: Well, for all you know now, it may be.

White: It may be in the future.

Haas: Of course, Marriner, you may say that if it is not flexible - you say, "Is it worth the effort to go down and try to do it?" I mean to go through all this. I mean it might be just that ineffective without it.

Gardner: What criteria for the use of this flexible power would be written into the law?

Magill: We've got lots of them.

Eccles: Well, if you get a criterion for that, that in itself might satisfy the public and Congress that after all this isn't wide discretionary power.

Oliphant: That had to be put in in order to take care of the "hot oil" cases.

Eccles: I think that would go a long way, the criteria, toward meeting the political objection.

Oliphant: Shall I read the four suggested standards or not?

"Whenever, from time to time, the President has reason to believe that

"(1) The foreign commerce of the United States has been or is about to be injured as a result of the operation of the taxes at any of the rates herein provided, or

"(2) The interests of the United States have been or are about to be adversely affected by reason of the value of the currency of any other government or governments in relation to the currency of the United States, reached or maintained as a result of the operation of the taxes at the rate herein provided, or

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"(3) The diplomatic relations of the United States have been or are about to be adversely affected or the performance on the part of the United States of any commitments, engagements or arrangements made, or in course of negotiation, by or on behalf of the United States to or with any foreign country, by means of treaties, executive agreements, mutual statements of intention, or otherwise, is or will be prevented or impeded as a result of the operation of the taxes at the rate herein provided, or

"(4) The net outflow of gold from the United States as a result of the operation of the taxes at the rate herein provided is or is about to be so great in proportion to the then existing quantity of gold in the United States as adversely to affect domestic credit conditions..."

Gardner: That is confined to outflow?

White: Might want to move it up - the inflow.

Oliphant: That's right.

".... the maintenance of the domestic price level, or the security of bank deposits,

"...he shall cause immediate investigation to be made to determine such facts. If, after such investigation, the President finds the existence of such facts and that the suspension of any portion of the rate (but not to exceed two thirds thereof)" - that leaves the ten percent minimum - "will prevent any of such adverse effects, he shall proclaim such determination. On the fifth day after the date of such proclamation the applicability of the portion of the rate so determined shall be suspended."

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- White: I think there is much to be said for the last one, possibly for the third; not so much for the first two.
- Oliphant: You are thinking from an operating standpoint.
- White: I am also thinking of it from the point of view of Congress; that the first one likely doesn't seem to relate directly enough to the problem which you are raising in Congress for them to be a little bit suspicious that the powers are too broad. Whereas the last one definitely looks at the power you are after.
- Oliphant: Well, the third one is pretty nearly a paraphrase of the recent Supreme Court decision; that's the reason for it.
- White: Well, the third one is possibly valid, but the first two....
- Eccles: Read that first one. You (White) asked the question on it if...
- Oliphant: Now, notice, these are all in the alternative; they are not conjunctive. They are all in the alternative.
- "The foreign commerce of the United States has been or is about to be injured as a result of the operation of the taxes at any of the rates herein provided."
- Second - did you want the second one read?
- Eccles: Which one did you (White) raise?
- White: The first one and the second that I raised.
- Gardner: Could we summarize the points, perhaps? The details, I mean - keep it more in mind. Quite difficult....
- Oliphant: Well, adverse effect on foreign commerce.
- Gardner: Yes.
- Oliphant: Interests of the United States about to be adversely affected by fluctuation in foreign currency as a result of the operation of the tax.

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Gardner: Exchange rates there.

Oliphant: The blocking of treaties and other arrangements.

Gardner: Diplomatic embarrassments.

Oliphant: And finally the flow of gold in a fashion adverse to the interests of the United States as a result of the tax.

Gardner: Well, I don't see any reason why that shouldn't be....

(Secretary returns)

Oliphant: What we were doing while you were absent, we were suggesting the question if you made this discretionary what standards would you set up that would guide the President in the exercise of his discretion; that's the way to state it from a legal standpoint. Stating it from an operating standpoint, what would be the situation under which - the more important circumstances under which the President might want to change it. And I've just gone over those now. I can state them again if you'd like them.

H.M.Jr: Please.

Oliphant: He may change the rates whenever he finds that the foreign commerce of the United States is being adversely affected as a result of the operation of a particular rate; whenever the interests of the United States are adversely affected as a result of a change in any foreign currency, which change of the value of the foreign currency results from the operation of this tax; third....

H.M.Jr: What are you reading from, Herman?

Oliphant: The statute - the proposed statute.

Third, whenever you are negotiating a treaty or a gentlemen's agreement, or so and so, which would be affected - the consummation of which would be adversely affected by the particular rate; necessary to change the rate in order to conclude a treaty. And fourth, whenever the movement of gold as a result of the operation of the tax was adversely

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affecting the domestic credit conditions of the country or the maintenance of the domestic price level.

- McCles: The third one is the only one that seems to me to.... Negotiation of treaties - it's an invitation to the foreign country and the State Department to bring pressure for an adjustment of the tax.
- Oliphant: No, there's this sort of situation. You might want to supplement the gentlemen's agreement and might find that a particular rate was embarrassing, want to shift that rate. The particular reason that third one was put in was because it is pretty nearly an exact paraphrase of the Supreme Court decision holding that the President had very broad discretionary powers in the foreign relations field.
- McCles: Well, I think that if you - with criteria like that, it certainly does take away some of the objections to giving the discretionary power. It's different than the discretionary power which was asked with reference to the R.F.C. and Stabilization Fund.
- Magill: We talk about it as a discretionary power, but of course anybody speaking before the Committee, for example - or, as a matter of fact, it is far from a discretionary power, as that phrase is ordinarily understood. Certain definite things have to be found. Here they are.
- Taylor: I don't see how you could prove any except Number Three.
- Magill: Well, I know...
- Landis: That's the beauty of it.
- (Hearty laughter)
- H.M.Jr: That's a snappy comeback.
- McCles: Well, of course, under our system there is no possible way for anybody to go behind the President in such findings, and presumably the Chief Executive would not be irresponsible in making those findings.

- Taylor: Well, I don't see how he could prove those to his own satisfaction.
- Oliphant: Well, I think right this moment the Secretary has a very keen appreciation as to whether or not the movement of gold is embarrassing. I think he knows by a paper that's on his desk every morning.
- H.M.Jr: Oh yes, I could go to the President and in a very short time on that thing - well, I mean if you want to - I mean you wouldn't have to draw terribly on your imagination that the movement of gold to this country is going to break down the tripartite agreement.
- Gardner: What that makes clear is that he should not be governed by considerations of equity in taxation, but by considerations of international policy.
- H.G.Jr: And for that reason this thing should be discretionary. If you remember that this is entirely a question of building this up following other questions on which he has the discretion in the foreign field...
- White: Don't you think it is quite possible they might be more favorable to the bill if they were to feel that there is a way out to reduce it when the urgency exists? Supposing they were to say, "Well, this is a condition right now. How do you know it will continue?" Then you are in a position to say, "That's why we want it flexible. If it does continue, all right. If it doesn't continue, we have the power very quickly to reduce it."
- H.M.Jr: Well, I could give you a very extreme example. Supposing of these eight billion dollars - let's say that of those securities - what proportion belong to England, 25 percent?
- Eccles: 23 something.
- H.M.Jr: Belong to England.
- Taylor: Higher than that.
- Eccles: I don't know; do you know, Gardner?

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Gardner: A magnitude of that character, about a quarter.

Magill: Two billion out of eight.

H.M.Jr: And let's say just for example - I mean again it is extreme - that England went to war and she seized the securities held by her nationals abroad and sold them, and wanted to bring that money back to England. I mean just using that as an example - extreme, very extreme. We might not be so keen on that. This device... I'm just taking a very extreme case.

Taylor: Well, this particular rate of income tax wouldn't have the slightest effect on that situation.

H.M.Jr: No, but I mean I wouldn't be sitting here worrying about my end of it, that they are buying six or seven million dollars worth of our securities every day - and Eccles, it affects his job, and it affects Landis's job, and it affects each one of the three of us in the job that we are hired and paid to do at the moment. I mean when you get to three, six, or seven million dollars worth, each one of us - it makes our work very, very difficult.

Taylor: I'm not arguing about that at all. But the ability to vary the withholding rate on certain income-producing securities I don't think would have any important effect one way or the other on that situation.

H.M.Jr: But on the other hand you might again want to make it attractive to make capital come here. Well look...

Eccles: If you take out the... I think if we approach this from the standpoint of justification for discretionary power, with the criteria that Herman has read here - seemed to be justifiable criteria - then it seems to me that we should be pretty careful in dealing with the equity in the situation; that the equitable part of it certainly should - it is a question if it even should be raised at all. But if it is raised - I question even the advisability of raising it at all, except we may go so far only that our present rate it

substantially lower than the tax rate charged in any other country, but not in any way stress the fact that it may not be inequitable.

- Oliphant: If I went down there and talked to the Ways and Means Committee about equity, Vincent would howl at me, "Now Oliphant, are you going to bring that up again?"
- Gaston: I'd turn that equity argument around and make some vague statement about we are offering - we are entering into unfair competition with the European economy - there is some indication that we are - by offering unfair extra inducements for capital to come over here.
- Eccles: Another reason I don't like the equity argument is that we want to go considerably farther than this; that we - it is a little deceptive, and that at the time that this is proposed we certainly all recognize that it isn't likely to be sufficient and we have other things in the back of our head; that if they are proposed, certainly they will not be proposed for the reason of equalizing the situation. And that is another reason that I think we should...
- Oliphant: I think...
- Eccles: I think we will make a much better case, if we are going to have this flexible provision, by...
- Oliphant: I think all of our experience and observation is to the effect that we get along better with Committees if we are wholly candid; and the candid reason is that we are worried about the gold flow and not because of equity.
- Megill: But don't forget the equity is a good secondary reason. There is another thing that motivates in me this thought, which hasn't been mentioned, on the rate proposition, and that is that any of us who have dealt with those financial Committees know that rates are particularly their - you start trying to tell them what the rates are going to be and you're going to get smacked right on the chin. And that indirectly affects your equity argument.

- Eccles: Well, can't we say there is a justification for this on that basis but not use that as an argument why that should be done - as to why we are proposing this at that time?
- Magill: Well, if you look at this statement, I tried to word that part of it very adroitly with a view to bringing before them the information to the effect that the foreign rates are in fact higher than ours - the withholding rate - and that consequently is part of the picture. We were offering a certain inducement there which the foreign countries don't offer.
- Eccles: All this argument is another reason why the President shouldn't be injected into the picture.
- H.M.Jr: May I ask you just - because I think we're all getting tired; I know I am anyway. Let me ask Landis and Eccles: As I understand, what we are proposing to do tomorrow is to go over there and lay a piece of paper on the President's desk, giving him an outline of a proposed bill along the lines we are talking, and making it a flat rate or discretionary. And I'd like to ask how Landis feels about it. I mean in presenting it - I mean which position he's going to argue or urge the President to take. Is that fair to ask you that at this stage?
- Landis: Yes, I think so. I think I made the answer a little while ago: that I feel it is very important that it should be discretionary; unless it is discretionary, I should doubt the validity of doing anything.
- H.M.Jr: I see. I mean that's your position?
- Landis: Yes, that's my position.
- H.M.Jr: Well, that's mine. Now I'd just like to.... I take the same position. I'd just like to ask Eccles.
- Eccles: Well, I have much less objection to the discretionary power with the criteria that have been read. That is a matter that hadn't been discussed. I think that gives far more justification for it; makes it certainly more palatable politically because of the President. And it isn't any wide discretionary power. At least, it is held within certain bounds

and limitations which are in the public interest. And if we will not at the same time attempt to argue the equities of the situation and we eliminate the equities of it, and with the criteria, I think I would be in the position to say that, this being merely a primary step, I think it would be more effective, be more justifiable as a piece of legislation, than it possibly would be merely to fix a rate of, say, twenty percent or some fixed rate.

There is, of course, the assumption on the part of foreigners - they are going to figure for all practical purposes thirty percent if you put that as the limit. Certainly from the standpoint of their estimation, their own calculations, they are only safe in figuring a possible thirty percent tax. That, of course, makes it a little more justifiable and palatable, certainly, from my point of view.

I do think, however, that we should indicate to the President the possibility of what some of these men on the Hill might - the question they might raise at this time as to the political aspect, and ask him what we should say to this Committee that we are going to meet in case they do raise the question of the discretionary power. I would be willing to go over and approach it from that standpoint.

H.H.Jr: That's all right. Can we do any more than that tonight?

Magill: No, I don't think so.

McCles: I would like to say this, Mr. Secretary. I think that you and Landis and I, in order to get the full effect of this - that it is important inasmuch as the press has said considerable about it, and they are all - the public, the foreigners in particular, are waiting for something - that either we individually should agree on what we may say or we should say it collectively to the press, either before or after we possibly go up to the Committees. We should prepare before what we are going to say after, and I think at that time we should pretty definitely point out that this is just a first move and that we hope to be able to take further moves if the situation

- 51 -

requires it.

H.M.Jr: Well, as far as I'm concerned, I'd much rather have a joint statement coming from the three of us, carefully prepared, and to go out over the three names.

Landis: Tomorrow?

H.M.Jr: No, no, if and when we ever make a statement.

Landis: Oh yes.

Eccles: I think we should be prepared to make one, but prepared before we take it on the Hill, because of what has been said, of what has gone on through the press. I think that we should not have any impression given out that we think this is the solution.

H.M.Jr: I don't know what your policy is, but when I go on the Hill, my policy is that I don't do - I never make a statement. That's what I've always done.

Eccles: Well, what about after you've been up there.

H.M.Jr: No, I don't make a statement, but when I go up I refer them to see Joe and he makes a statement and he loves it.

U

GRAY

London

Dated February 16, 1937

Rec'd 3:15 p.m.

Secretary of State

Washington

RUSIA

71, February 16, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The more important London newspapers carry straightforward declarative reports under Washington datelines on the hearings of the House Appropriation Committee and the meeting of the President's Special Committee on the inflow of foreign capital into the United States. The latter is particularly headlined in the FINANCIAL PRESS and Mr. Eccles is quoted as predicting that "something concrete will emerge". No editorial comment has appeared in today's press. (END SECTION ONE)

ATHERTON

RR:CSB

RB

GRAY

London

Dated February 16, 1937

Rec'd 3:30 p. m.

Secretary of State
Washington.

71, February 16, 7 p. m. (SECTION TWO)

January trade returns show an increase in imports of 8%, in exports of 13½% and reexports of 17% over January of last year. Unemployment increased but by much less than the usual seasonable amounts and in these figures the indication in cotton and wool manufactures and coal mining is already reflected. It appears that at long last the more depressed and important basic industries -- coal, cotton, and wool manufactures--which were slow to benefit by the general revival are now picking up, that the rise in price of primary products is stimulating purchasing power in important markets for these goods. Another indication of the improved position of these industries is the great drop in the advances loaned to them by the clearing banks--many of which were formerly considered frozen. The analysis of bank advances published by the Bank of England (see the ECONOMIST page 306) which compared advances to various industries in 1936 with figures compiled

RB

-2-71, February 16, 7 P. M. from
London (SECTION TWO)

compiled for MacMillan Committee in 1929-30 show a drop from 81,000,000 to 40,000,000 pounds for the textile industries and from 30,000,000 to 18,000,000 for mining industries. Bank chairmen commenting on the fact that total advances had not increased at the rate which might have been expected from the degree of industrial revival pointed out that the quality of their advances had greatly improved and mentioned the thawing of loans.

The statistics giving the direction of British trade in 1936 have just become available: the proportion of both exports and imports to and from the Empire continues to rise, the Empire having taken 49.2% of British domestic exports in 1936 as compared with 49% in 1935 while imports from the Empire in 1936 constituted 36.8% of total imports and in 1935 35.1%.

Exports and reexports to the United States showed a marked increase in 1936 and although imports from the United States also increased the ratio for the year of imports to total exports stood at $2\frac{1}{2}$ to 1, whereas in 1935 the ratio was 3 to 1, and in 1934 it was 4 to 1. A large element in the increase of British exports to the United States in 1936 was the heavier shipments of spirits.

Continued

RB

-3-#71, February 16, 7 p. m. from
London (SECTION TWO)

Continued increases in industrial activity are confidentially expected and the overseas trade returns in January are welcomed by those who emphasize the importance of increasing exports to offset the rising prices of raw materials and other essential imports especially during this intensive rearmament period. (END OF MESSAGE)

ATHERTON

CSB

TREASURY DEPARTMENT

297

INTER OFFICE COMMUNICATION

DATE February 16, 1937

TO The Secretary
FROM Miss Lonigan

Attached are a few further points from my interview with Mr. Hopkins last week, in addition to what I reported over the telephone.

At first Mr. Hopkins was hesitant about his using the figures in our table on Government Emergency Payments. He was searching for the reasons back of it all. He suggested that he might write an article for the New York Times, or make a speech on it. Then he decided that it might be used, after conference with the President, as preparation for the President's announcement about next year's relief policy, to be made about March 25th.

Mr. Hopkins then began thinking outloud about the use that could be made of the material. He said that in distributing the national income it made no difference whether people received it for work in industry or for work as soldiers, relief workers, old-age pensions, or direct relief. It was all distribution of purchasing power.

He suggested that we add to the table columns showing the number of people at work in regular government departments, and in the Army and Navy.

He suggested that he call a conference including Mr. Lubin and some other interested people to go over the implications of the material thoroughly before preparing the interpretation of it.

He went on to say that he was convinced the redistribution of income must come through Federal financing. The States and cities were powerless because their tax base was too narrow. They had only real estate, but the Federal Government had all the taxing power it needed.

February 17, 1937.

MEMORANDUM ON CONFERENCE WITH MESSRS. ECCLES, OLIPHANT
AND KENT:

RE: TAX ON NON-RESIDENT ALIENS.

Mr. Eccles inquired whether the proposed increase in the withholding rates could not be rendered wholly nugatory through the provisions of the law which now give lower rates to individuals and corporations having an office or place of business in this country. He pointed out that it would be easy for a Scotch investment trust to establish an office in New York or New Jersey.

I called Mr. Eccles' attention to the fact that a resident foreign corporation is compelled to file a tax return and to include in the return its capital gains. The capital gains would not be subject to tax to a non-resident foreign corporation. Furthermore, the corporation by establishing an office in this country would subject itself to State laws regarding the service of process and to State taxation.

After discussion, Mr. Eccles agreed that the danger did not seem to be very great in view of these additional factors.

Rm

February 17, 1937.

MEMORANDUM ON NON-RESIDENT ALIENS:

RE: CONFERENCE WITH RANDOLPH BURGESS.

Mr. Burgess questioned the desirability of removing the exemption of non-resident aliens from taxation on interest on United States bonds to be issued in the future. Burgess stated that the central banks of the different countries either have deposits in banks, investments in bankers' acceptances or ~~in~~ investments in government obligations. Under our present law, the interest on foreign deposits in American banks is exempt from American taxation as is also the interest on bankers' acceptances. Burgess said that it seemed to him questionable policy to subject the interest on our governmental obligation to tax while retaining the exemption on interest on bank deposits, thereby subjecting the governmental obligations to a burden which we do not impose on private obligations.

I said that I would bring the matter to the Secretary's attention.

Rm

February 17, 1937

To: Secretary Morgenthau
Mr. Eccles
Mr. Landis

From: Mr. Magill

Subject: Conference on taxation of non-resident aliens

The attached summary of the draft legislation agreed upon by the three agencies was laid before the President. It was pointed out that the proposed rate of tax approximated that in effect with respect to our own citizens receiving dividends and also the British and French withholding rates applicable to non-residents of those countries.

The President raised the question of the effect of this proposal upon foreigners having more or less permanent investments in this country. He enquired whether it would be possible to arrange for some drawback or refund of the proposed additional tax if the foreigner could show that he had held his American investment for a year or more. It was suggested that the administrative machinery would be extremely difficult to arrange since American securities are frequently registered in the names of foreign brokerage concerns and endorsed by them in blank. The certificates then circulate in bearer form for five or more years. Hence the difficulties of an ascertainment of the beneficial owner by the Bureau of Internal Revenue are very great.

The President also pointed out that the flexible feature of the proposal would be difficult to justify on grounds of equity as between Americans and foreigners. Mr. Landis indicated the desirability of flexibility in any matter which affects our foreign relations.

The President asked that the three agencies consult with the Secretary of State in order to secure his approval, particularly in view of the Department's interest in reciprocal trade agreements. It was agreed that such a conference would be arranged at once and the President advised of the result.

The President in general approved of the proposal as a mild first step, but requested additional study on the drawback or refund point.

RM

SUMMARY OF THE PROPOSED LEGISLATION

A - Changes in rates:

1. Change the rate upon the taxable income of non-resident alien individuals from United States sources from the present rate of 10 per cent to 20 per cent if the rate is to be fixed or between 10 and 30 per cent if the rate is to be variable upon Presidential proclamation.
2. The corresponding change in the case of non-resident corporations would be from the present rates of 10 per cent on dividends and 15 per cent on other taxable income to the rates of 20 and 25 per cent respectively if the rates are to be fixed and, if they are to be flexible, from 10 to 30 per cent on dividends and 15 to 35 per cent on other income.

B - If the foregoing tax rates are to be flexible, the standards for guiding executive action and rendering this delegation of power valid would consist of Presidential determination of the effect of these rates on:

1. Possible injury to the foreign commerce of the United States.
2. Adverse changes in foreign exchange rates as result of these taxes.
3. Adverse effects upon diplomatic relations including the performance or negotiation of treaties and other international understandings.
4. Movements of gold to and from the United States adversely affecting domestic credit conditions and the domestic price levels.

C - To prevent evasions, it is proposed to broaden the power of the Commissioner of Internal Revenue, with the approval of the Secretary, to require information returns from brokers, nominees, and others showing details as to purchase prices, profits, and losses on security transactions originating from abroad.

D - Obligations of the United States and its instrumentalities hereafter issued, which under the existing law are exempt from all taxes when owned by non-resident aliens or foreign corporations not engaged in trade or business in the United States, will be made taxable and fitted into the general plan of taxing foreign individuals and corporations on private obligations owned by them.

JRM

Prepared by Mr. Zucker
Division of Research and Statistics
TREASURY DEPARTMENT

303

INTER OFFICE COMMUNICATION

DATE February 17, 1937

TO Secretary Morgenthau

FROM Mr. Magill

Subject: Minutes of meeting on suggested tax proposals dealing with foreign capital movements, held February 15, 1937.

A meeting was held in my office at which there were present members of the technical staffs of the Federal Reserve Board, Securities Exchange Commission, State Department, and the Treasury Department, as follows:

Messrs. Gardner and Bryan from the Federal Reserve Board; Messrs. Gourrich, Goldschmidt, and Green, from the Securities Exchange Commission; Messrs. Feis, Livesey, and de Wolf from the State Department; and Messrs. Magill, Oliphant, Oppen, Lusk, Haas, Seltzer, White, and Zucker from the Treasury Department.

Mr. Oppen read a proposed draft of a bill for taxing non-resident aliens and foreign corporations, which had been prepared jointly by the staff members of the several agencies. Discussion was had thereon, culminating in a series of agreed upon suggestions for revision. In connection with the imposing of a 20 percent withholding rate, it was pointed out by Mr. Haas and Mr. Zucker that such rate can be justified on the premise of treating foreigners on an equal footing with Americans, with respect to measure of tax burden on income. It was mentioned that for all individuals in the \$10,000 a year class and over, the effective rate of tax is around 20 percent. It was further pointed out that if dividends were treated as the last increment of income and superimposed on all other sources, they, for the same group of individuals the effective rate on dividends would be approximately 29 percent.

The State Department representatives at this point took up the discussion. Mr. Herbert Feis, in particular, stated that his Department is wholly against the decision that there is need for something to be done about the influx of foreign capital. He also stated that the proposed tax against nonresident aliens does not carry out the purpose claimed for it, and that, in any event, the suggested rates were discriminatory against foreigners. He emphasized this latter point by saying that even the existing 10 percent rate is already discriminatory. Mr. de Wolf of the State Department presented a memorandum which summarized objections.

Secretary Morgenthau - 2/17/37 - 2

made by foreign countries, to the tax provisions now existing, applicable to nonresident aliens. The general tone of the objections was that the 10 percent rate would interfere with foreigners seeking investments in the United States. He also read from the proposed treaty with Canada, as a result of which the withholding rate for Canadian Nationals may be reduced to 5 percent.

Mr. Gourrich and Mr. Bryan each presented a memorandum in compliance with your request, in which are set forth arguments in support of and explanation of the proposed tax bill for increasing the withholding rates, and also containing other proposals in the order of their preference to be considered as a "second step." No discussion was had on these memoranda at the meeting.

Mr. Oliphant and Mr. Opper pointed out that the contemplated draft of the bill would include provisions requiring the filing of information returns by brokers, bankers, nominees, etc., with the Treasury Department only, and not with the Securities Exchange Commission or other agencies. It was the original request of Mr. Green of the Securities Exchange Commission that information reports be filed with the SEC. Mr. Opper stated, however, in view of the provision of Section 55 of the Revenue Act of 1936, procedure now exists which permits the disclosure to the other departments of information from tax returns.

The meeting adjourned to permit members of the legal staff to continue with the drafting of the proposed bill.

Wednesday
February 17, 1937
1:00 p.m.

Fred I.
Kent:

Mr. Morgenthau?

HMJr: Yes

K: Mr. Morgenthau, when I found I couldn't get you first this morning I thought I'd wait until this afternoon, because I'm having a little conference here, a confidential conference, so I thought I might have something of value for you.

HMJr: Oh -

K: Now, if you would like to have me see you any time Friday, I can come over, tomorrow afternoon.

HMJr: Well -

K: It might be that you'd prefer to receive my letter which I am sending this afternoon first. In that case you could telegraph me or have your secretary phone me.

HMJr: Well, supposing I wait, then. If you could - can you put a 'Special -

K: Just one second, please - hello, I don't quite hear you.

HMJr: Will you put a 'Special Delivery' on it?

K: What was it?

HMJr: Put a 'Special Delivery' stamp -

K: Put a 'Special Delivery' on it?

HMJr: Yes

K: Yes, all right, I'll do that. Now, I could - of course I could come tonight, but it's - I have some meetings tomorrow and I'm studying this matter for you a little and I thought that it would be much better Friday, if that's agreeable to you.

HMJr: Well, let me get - let me get your letter and see what you've got in your mind, because I don't know along what lines you are thinking.

K: Yes, I see. All right, then, the letter will go 'Special Delivery' this afternoon and you can get word to me so that I get that four-thirty train tomorrow afternoon for Washington. Then I'll be there and I can make it any time Friday that suits your convenience.

HMJr: Thank you.

K: All right, Mr. Morgenthau. Thank you for calling.

HMJr: Goodbye.

LIN

GRAY

LONDON

Dated Feb. 17, 1937

Rec'd. 1:15pm.

Secretary of State

Washington, D.C.

72, February 17, 2pm.

FOR TREASURY FROM BUTTERWORTH.

The following comments by financial editors have appeared in today's London press on the subject of curbing influx of foreign funds into the United States.

DAILY TELEGRAPH "Keen attention is being paid to the discussions in Washington on the problem of foreign investment and speculation in Wall Street. Londoners have in the last few days lightened their New York commitments, and there has been a decline in the volume of buying of American stocks from this side of the Atlantic. These discussions, as our special Wall Street correspondent pointed out yesterday, will probably continue for several weeks. While we await the up shot two points may be remembered. Both here and in New York it is believed that nothing can check the irresistible force of the momentum of recovery in America. Secondly Mr. Roosevelt is probably on his guard against the 'hot money' danger but possibly this is a case where he may prefer to bark rather than to bite".

mm 72 Feb. 17, 2pm. from London. -2-

bite".

FINANCIAL NEWS "on the whole the investor who is hoping for further profitable participation in the American market can take heart from the events of Monday. The remarks made by Mr. Morgenthau and Mr. Eccles after the meeting of the committee to consider the inflow of foreign capital indicate more clearly than anything has yet done that the administration is taking the 'hot money' question very seriously. But they indicate just as clearly that the authorities are finding it extremely difficult to discover any satisfactory means of deterring or excluding foreign capital from Wall Street. Some form of exchange rationing or control is probably the only efficient method unless the cooperation of foreign governments is obtained. It is interesting to note that Mr. Morgenthau said he was opposed to exchange control except as a last resort".

FINANCIAL TIMES "there seems to be no doubt in the minds of financial circles in the city that action will be taken, but, as it is believed that there can be no question of any legislation being retrospective, competent authorities cannot find any reason why the dollar should be offered. All that they do expect is a check to the influx of moneys for investment (and perhaps speculation) on Wall Street, with a consequent curtailment of the demand for dollars on

that

III 72 Feb. 17, 2pm. from London -3-

that account. There remains the commercial factor. Speculation was rife yesterday what Mr. Morgenthau meant when he said that conferences on the subject of capital importation restrictions had not taken into consideration any change in the American gold price. London was puzzled and argued that unless the question of the gold price had been discussed the Secretary to the Treasury would not have referred to the matter. It is inconceivable that any change would be made except towards the "41.34 per ounce level".

From my own inquiries I gather that although the city is vitally interested in whether the attitude of the American authorities has been and will be translated into positive action it is at the moment singularly unperturbed at the prospect. It takes the view that just as more British money went to the United States in 1935 than in 1936 so there will be still less in 1937; in other words the main movement against which action is contemplated has already taken place. It also holds that the difficulties of differentiating between "hot money" and stable bona fide investment are almost unsurmountable. In this connection it is frequently pointed out (one) the British speculator is really not interested in dividends but in capital appreciation and will therefore operate in the American market as long as the capital

appreciation

mm 72 Feb. 17, 2pm. from London. -4-

appreciation prospects make it worth his while; (two) drastic transfer penalties will further stimulate the movement of putting American stocks in the names of British jobbers and increasing the already substantial market in London for American securities.

ATTERTON

CSB

MEETING WITH EXECUTIVE COMMITTEE OF
FEDERAL RESERVE OPEN MARKET COMMITTEE

February 17, 1937
11:00 A.M.

- Present:
- Mr. Upham
 - Mr. Lochhead
 - Mr. Harris
 - Mr. Harrison
 - Mr. Burgess
 - Mr. Bell
 - Mr. Taylor
 - Mr. Haas
 - Mr. Eccles
 - Mr. Piser
 - Mr. Szymczak
 - Mr. Ransom

H.M.Jr: Well, I think it would be nice to open the meeting by letting Dr. Burgess give us a review of the market in New York maybe.

Burgess: Well, Mr. Secretary, the market has gradually been readjusting to what it regards as a changed situation following the increase in reserve requirements. The actual change in quotations is pretty small, but the notes have gradually been working off and the shorter term bonds have been working off some. I think the Treasury bills have perhaps reflected the movement as well as anything. They have worked up to a point where they were - where the new issues sold at a .40 basis. Now, they slipped; the last two issues have been .37, indicating some sign of stabilizing it at about that point, I think. So that my own feeling is that a considerable part of the readjustment has already been made. But the market is still "softish."

From one technical point of view, the market is strong. The dealers' position is very small. The dealers' position - that is, the portfolio held by Government security dealers is the smallest it has been for a long time.

On the other hand, if you take the relationship of the Government market and the corporate market, the spread is greater than it has been for some time; that is, corporate bonds have been weaker than Treasury bonds, so that that spread has increased; this second chart shows it. So that from that point of view Governments are not so strong technically.

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Now, I think one should say that that probably reflects a readjustment to a more normal relationship. Take the period during the twenties when the Government debt was being retired each year. There was a spread of, say, a point and a quarter in the yield basis between Governments and corporate bonds. Recently that spread has been running more around three quarters of a point, or even as low as half a point here between this two and seven-eighths and corporate bonds. So that the spread up until very recently has compared very closely with the spread during the War and the immediate post-War period, when the Government debt was increasing. Now, with the new prospect on debt, it is natural to expect that spread will be greater.

But the movement has been so rapid in the last few months that you will have to say from that point of view the Government market is not technically in as stable a position as it was a couple of months ago. So technically you've got those two different indications - the Government dealers' position and the spread between Governments and corporate bonds.

It has been a very quiet market. There has been no heavy selling. There has been some buying by insurance companies and by others coming in and picking up bonds, particularly. But there's a good deal of feeling that the note market is working toward somewhat lower levels; a question mark on the bond market, but nobody having any very substantial convictions as to whether that is due to work off a little or not; and the corporate bond market has shown a considerable amount of weakness, with recent new issues having gone pretty badly, some of them. Of course New York City's went badly. The longer terms went badly. Canadians went badly. There are three or four others that have been very hard to dispose of. A few others have gone very well. The whole corporate market has worked off quite a little. So that I think there is a feeling that corporate bond prices of highest grade have hit their top and they are likely to work off a little over a period.

H.M.Jr:

Well now, let's tell you what our needs of money

- 3 -

are from now until the first of July, see, without saying...

Bell: ...how it will be raised.

H.M.Jr: Yes

Bell: Well, I believe that we need five hundred million dollars of new money. If we raise five hundred of new money, our balances going out of June will be about nine hundred million dollars.

Burgess: What will it be going out of May, Dan?

Bell: With five hundred million?

Burgess: Yes. Seven hundred million?

Bell: Yes, be about 740 or 750 million.

Burgess: Of course, you've got June open. I mean the end of June isn't so much the question before you, as much as what you have before June.

H.M.Jr: Well, what will we go out of May with?

Bell: Raising five hundred million dollars of new money, we go out of May with about 739 million dollars. We expect to go into March, on the basis of these estimates, with about 669 million. Be a little shift there and that may drop down to 640. And we may lose in the first eight days of March as much as a hundred million. But then from the tenth to the 14th, we'll probably pick up 75 million of it, so we ought to go into the 15th with a round six hundred million dollars.

H.M.Jr: In the Treasury we have gotten this far in our thinking: that in order to help out the situation generally, we are ready to sell some bills into - which will mature on the 15th or 16th of June. I mean we are ready to do that; that is one thing we are ready to do.

Now, in talking this thing over - say we started to sell those bills on the second of March, and that we would stop selling our nine months; it would only be fifty million a week. I had a few minutes with Burgess this morning and he says that that would not

- 4 -

be necessary; if you wanted to continue to sell nine months, we could continue to sell them right straight through, and add fifty million a week of the June bills.

Burgess: Well, of course, they appeal to a little narrower market.

H.M.Jr: What's that?

Burgess: There is always a broader market for the shorter bills than there is for the nine months bills.

H.M.Jr: Well, if we did the latter thing, and kept on selling the nine months right straight through, then sold another fifty million a week for six weeks, that would give three hundred of the five hundred new money we need.

Bell: That's right.

H.M.Jr: Then we'd need another two hundred million. What?

Bell: Yes, sir.

H.M.Jr: Are you (Burgess) quite sure that the market would take the regular nine months bills and then another fifty million a week?

Burgess: (Nods yes) Been very good bidding for bills at these rates - 150 million and 170 million in bids a week.

H.M.Jr: Well then, it gets down to pretty much two plans. Either we can drop the nine months and raise five hundred million in some way, on some kind of securities, or continue the nine months, and then we feel we need another two hundred million to be safe.

Bell: We'd either have to have two hundred million along there some time or pick it up in July and August.

Burgess: Well, it would be all right to raise it the 15th of June, wouldn't it, Dan?

H.M.Jr: You'd run down awfully low, wouldn't you?

Bell: No, we'd have five hundred million balance going out of May.

H.M.Jr: You see, another thing, to throw everything on the table - I'd like to, if possible, this year sell five year notes maturing in '42, because '42 is blank. But there's no use talking about selling a five year note at this time; it would just weaken the note market that much more, and it now looks as though it is going lower. So if we stay pretty close to the wind from now until the 15th of June and then can sell a fairly sizable five year note on the 15th of June, and then pick up whatever bills and extra money we needed in June....

Bell: Yes.

H.M.Jr: What?

Bell: Yes, sir.

H.M.Jr: I mean doesn't that state about all the alternatives, Dan, we've been talking about?

Bell: Yes, I think that states them all.

H.M.Jr: We are very anxious here to borrow our money so that it will disturb the money market as little as possible and so there will be as little criticism of the Federal Reserve Board - I mean we don't want to aggravate the situation. That's why we're taking more time on this borrowing than I have ever taken before, because I want to do it in a way that will make the least possible disturbance as a result, and the least criticism for all of us, because we are all in the same boat. And, as I say, I have spent more time on this financing and I feel it is distinctly worth while, because each week we get a little bit more light. Now, two weeks ago it wasn't so obvious that the note market was going to be so weak, and also it wasn't obvious that the bill market wasn't going to continue to run up. I mean two weeks ago I was worried about the bill market; now it looks as though it's struck a lull. I mean for two weeks it's been the same. So I feel a little bit more kindly disposed towards borrowing in the bill market; that's why I've shifted. And I'm a little bit more worried about the note market. The picture gradually changes.

- 6 -

Harrison: There is one point in figuring on your new bills in addition to your nine months roll-over bills. It seemed to me that you'd have to be careful the last half of April about pushing the bill market, because that will be just two weeks prior to the increase in reserve requirements the first of May, and you might have to skip those two weeks.

H.M.Jr: Well now, Harrison, we'd be out...

Bell: ...on the 7th of April.

H.M.Jr: Bell's figured it out.

Szymczak: Going right through March, taking every week in March? I thought perhaps - have you (Burgess) talked to the Secretary about skipping?

Burgess: No. There would be some merit in skipping the 17th of March, when you're going to have a considerable drain on the market.

H.M.Jr: I wouldn't want to do that. I think that would be a sign of weakness.

Bell: You mean because of the funds coming in?

Burgess: Because you're locking up a good deal of funds.

Bell: Well, if that occurs, or it looks that way, what we'd do is have the 50 million paid in the War Loan account and pay off the maturing fifty from the General account.

Burgess: Well, I don't think....

Bell: We've done that.

Burgess: No.

Bell: '34.

Burgess: Oh, one issue I guess we did.

Bell: Two or three issues in '34.

H.M.Jr: Bell's looked it up. But I mean to skip it - I think I may be wrong to skip a week. That would make news.

- 7 -

Harrison: Well, I mean skip a week only for your additional bills.

H.M.Jr: I know, but if you're going to start on a program for six weeks, I hate like the devil - I don't say I wouldn't, but I hate like the devil....

Burgess: It doesn't really matter much.

H.M.Jr: If it doesn't matter - if Burgess said, "I can't handle it," then.... But if he says, "It doesn't matter much," I think if you start on a six weeks' program you ought to carry it through.

Burgess: You could start on February 24 if you wanted.

Bell: Yes. No, we've already sent out the notice for the 24th. You'll open on Friday this time because Monday's a holiday.

Burgess: You mean you've announced the issue?

Bell: It went out last night.

Burgess: Did it really?

Bell: Didn't you read this morning's papers?

H.M.Jr: I'll be glad to give you a New York paper.

Bell: Well, I'm not so sure that we shouldn't provide credit in the War Loan account on four issues after the 10th.

Eccles: You mean the bills?

Bell: Yes.

Eccles: Why not? Why isn't that a good thing to do?

Bell: I think it is at that time.

Eccles: You can always draw money out, but it's difficult to put it back, and it certainly would help to control your balances with the Reserve System, wouldn't it?

Bell: Yes

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Harrison: You mean to give them the option?

Bell: Oh yes, they'd have the option. But the War Loan balances are now down to the lowest level they have been for some time, so a lot of them would take advantage of it.

Harrison: Haas, would you recommend that?

Haas: Yes.

Burgess: I don't see any very great objection to it.

H.M.Jr: You (Bell) haven't sold me on that yet.

Bell: Haven't I?

H.M.Jr: No.

Burgess: It's a little irregular.

Bell: Well then, now about depositing some income tax payments in twelve, fifteen large banks throughout the country?

H.M.Jr: Well, I'll tell you what I want to do. I just want a chance to think that part of it over. I just want to study on it for a couple of days.

Burgess: Between those two, I think it is much preferable to let them pay for the bills, because the minute you make deposits in the banks, you are showing favoritism.

H.M.Jr: I'd have to look up which of the banks were Democrats.

Burgess: Well, everybody would get out the magnifying glass.

Harrison: At that time you might find out there are Democrats among the banks, and that might be an embarrassment.

H.M.Jr: But not "before Chicago." Isn't that right?

Szymczak: Right.

H.M.Jr: Well, that question of where we deposit that money - I mean I'd just like a little time. It's new and I'd like to have a chance....

Eccles: We discussed this yesterday about an hour or two hours. Randolph was down, and George. Fleming came down; he's not a member of the Committee. He wasn't feeling well, so he went back. And we had the members of the Board. We came to somewhat of a unanimous conclusion as to what our views of the situation were. Maybe you'd like to hear those.

H.M.Jr: Please.

Eccles: We asked Randolph to jot it down.

Burgess: Well, it's very much along the lines we have been discussing. Our feeling about bills was to start in practically right away, and if it was too late for February 24 then commence March third, taking an extra 50 million a week maturing in June. Our thought then was to skip the 17th, but as you say that isn't particularly important. If they paid with book credit, you could avoid any difficulty about locking up funds after the 15th.

I think our feeling about starting right in with the bills was to get that out of the way and have as quiet a situation by May first as you could possibly have.

Then we discussed the question of the March financing, and I think our feeling there was...

Szymczak: You mean the April financing in March.

Burgess: Yes, refunding the April thing. Discussed whether that should be done in March or April, and there was some feeling that sticking to the quarterly period was desirable, although in this particular case there were some merits in waiting; but that the general advantage of sticking to the quarterly periods was sufficient to outweigh the particular advantages at this time in waiting until you might know what your market was a little better.

Also it was felt with respect to this thing that if you could get by without asking for new money at that time, there would be a very considerable advantage in doing it. First, you are just getting the returns on your tax program. You don't know what

they are going to be; they may run heavier than you expect. Second, the market is unsettled. You don't know just what position it is in. It is hard to put out an issue and price it right, and you don't want to unsettle it further by rushing it very hard. And if you don't ask for any new money, the rolling over of these notes is a very relatively simple operation and it leaves the market undisturbed. Then we have a feeling that you can operate this putting bills into the tax period sufficiently to take care of your requirements for new money.

We discussed the particular kind of obligation itself and we came to the same conclusion that you have, that the note market is not in a favorable position at the moment to finance in, that the bond market is better. Can't tell what it will be two weeks from now, but at the present time the note market looks slippery and if you put in another note you're going to make it weaker still. So our feeling was that a bond was the thing to sell, and we talked about an additional amount of these 2½'s that were sold last time, or a new 2½ of perhaps a year longer maturity - year longer call date. If you feel, looking over your picture, that it is essential to have new money, our thought would be to take 300 million more of cash, say, in this bond issue, whatever you use for the new financing.

I think that covers the points.

Eccles: There was the question of the September bills.

Burgess: Oh yes. Our feeling was that this decision that you made with respect to June should be carried through also for September. And we raised the question whether, when you have done the job for June, you couldn't then start in with selling bills with a September maturity, not waiting until after the June financing but giving them a little longer usance than that would give.

Eccles: Instead of the nine months bills, you'd make the nine months bills mature in September.

Burgess: Yes, you could do that. In the middle of April, when you got this done, instead of selling nine months bills you could start selling September

- 11 -

bills. Then that would leave you free if at the end of six weeks there you wanted to consider shortening the usance of your bills to six months - you'd be in a position to start doing it.

I think we have in the back of our mind that, as a permanent thing for the Treasury, these nine months bills have a little question mark on them. They won't go as well in a jam. If money rates are higher and if money conditions are tighter, then they won't begin to go as well as the six months or a ninety-day bill.

H.M.Jr: That time isn't here now.

Burgess: No, but it is a query whether we oughtn't to begin to think about shifting back to the six months' usance.

H.M.Jr: I raised that a week ago, that very thing about the six months, and then after thinking it over and seeing the shift, I didn't think it was just the time to do it.

Eccles: Well, we weren't - we're not - at least I'm not so strong for shifting from the nine to the six. The general feeling - I would say the majority feeling was that it was desirable for the market to continue the present amount of bills out rather than reduce them; that until such time as there was an increase in the volume of acceptances and other short term paper, it would be a mistake to materially reduce the present amount of outstanding bills. This suggestion to make the nine months bills maturing in April to come due in September doesn't in itself contemplate a reduction in bills to six months. That bridge could be crossed, of course, in June or July.

Burgess: But it leaves you free to reconsider if you want to.

Eccles: That's right.

Bell: What did you consider for June when you mapped out that program?

Burgess: Well, we hadn't got that far. In June you could raise any new money you wanted.

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Bell: Of course, we'd have to....

Burgess: You'd have a clear field.

Harrison: You might have your 1942 notes in June.

Eccles: You see, Dan, you'd be in this position in June. All the increase in reserve requirements would have gone into effect the first of May, which would be six weeks before your June financing. And it was our thought that if there wasn't any new money raised in March it would help the whole bond market, the whole Government market - not to call at this time for any new money; it would have a very good psychological effect.

H.M.Jr: Well, if we were going to do something, the announcement would come Thursday. If we announce new bills, it would be Thursday a week, wouldn't it?

Bell: Yes

H.M.Jr: What?

Bell: Thursday a week, yes.

H.M.Jr: Would be the time to do it, wouldn't it?

Bell: That's right.

H.M.Jr: That would make it...

Bell: March 3.

H.M.Jr: March 3. Well, I want to say the thing hasn't yet cleared in my mind and I want all the time I can get. I mean it's getting clearer but I'm not satisfied yet; because the nearer we get to the 15th of March I think the clearer it's going to be. So I'd like to have one more meeting a week from today, because two weeks ago these - talking for myself, I wasn't so conscious of the fact that the note market was going to be what it is today, I didn't know that we had reached evidently a top on what we'd have to pay for nine months. Now in the last two weeks that thing has cleared. Now, I'd like - Marriner, I'd like if

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you would - if you fellows would meet with me again a week from today, and then at that time we will certainly make up our mind about the June bills, see, and then....

Eccles: That will be convenient for me. What about you, George?

Harrison: Well, I'll be away next week. It isn't necessary for me to come back, but.... I should think it would not be necessary on this one question of the bills for next week.

H.M.Jr: It isn't only that; it's more than that - I mean the whole thing. We are trying to do a job now. I mean if it was just the Treasury I could make up my mind like that. And furthermore, we have no selfish interest in this, because we don't own any bills or notes.

Burgess: (Laughs)

Harrison: You'll want a meeting, will you not, too, Mr. Secretary, the first week in March?

H.M.Jr: You fellows do.

Harrison: Anyway.

H.M.Jr: Yes.

Harrison: You will want a meeting the first week in March anyway.

H.M.Jr: Well, that would be Wednesday - would be what?

Bell: The third.

Burgess: There's one other thing...

H.M.Jr: Let me get my dates. This next Wednesday...

Burgess: The 24th.

H.M.Jr: And then would it be two weeks - take it to the third, or one week?

Burgess: One week.

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H.M.Jr: Well then, I want a meeting next week and I want a meeting the week after.

Burgess: One other point mentioned, Mr. Secretary, that bears on this question of dating. I think we felt that if you do put out a cash offering, it ought to be announced earlier than the eighth; that is, the eighth wouldn't give us time to handle properly a cash offering. If it is just an exchange offering....

H.M.Jr: That's all the more reason why. Would you (Harrison) be back by the third?

Harrison: I'll be back on the first; I'll be in Washington on the first, Monday.

H.M.Jr: But Burgess could be here a week from today.

Harrison: I'll be here if you want me to.

H.M.Jr: I'll leave it this way: if the situation doesn't get any worse than it is now, the answer is no; but if the note market begins to slip away from us and the bill market - the rate we pay goes up, then I might want you.

Harrison: I could come back overnight.

H.M.Jr: But if it's just a decision of deciding on the bills, that's all right; but if the situation gets worse, then I would like you to come back.

Harrison: I'll come back; that's quite fair. Then I would be here the following week anyway.

H.M.Jr: Are you going further south than Charleston?

Harrison: Just a few miles.

H.M.Jr: Well then, it's just a matter of - by train it's only overnight.

Harrison: No, it isn't even overnight.

H.M.Jr: You don't fly, do you?

Harrison: Not if I can avoid it. I have done it.

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H.M.Jr: Let me ask Wayne - you want to say anything?

Taylor: (Nods no)

H.M.Jr: George?

Haas: No, sir.

H.M.Jr: Dan?

Bell: Well, I question the advisability of raising new money on Treasury bills and financing at the same time in March, if that's in the picture at the present time.

Eccles: What do you mean, Dan?

Bell: Well, we've been talking about adding an additional fifty millions a week beginning March 3, of Treasury bills. Now, if we're going to announce a billion dollars in financing on March 15th, then I question the advisability of raising that additional money.

Burgess: If you just roll over the April note, that wouldn't hurt.

Bell: That wouldn't hurt.

Eccles: If you're going to get three hundred million in bills in addition to the 50 million, then you wouldn't need more than - and you start that next week - then you wouldn't need more than two hundred million new money in March. Instead of the five hundred it would have to be seven hundred.

Bell: But you've got to make up that three hundred million in either March, April, or June.

Burgess: Well, you can do it in June.

Eccles: Well, our thought was that the three hundred would be made up in June. Or you can go ahead and let that do just - in June you could start issuing those fifty million a week for September maturity, just as you are now doing for June maturity, if you didn't arrange for September maturity prior to that time.

Bell: I question whether we should raise any additional

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money on a major financing in March if we are going to take additional money on Treasury bills. And if we don't have any new money on major financing, I question whether we should refund on March 15 the April maturities. Wouldn't it look funny just refunding ahead of time?

Taylor: Just for the sake of sticking to your quarterly dates.

Bell: Well, I say wouldn't it look peculiar, even for that sake?

Burgess: I think the market wouldn't think that strange, Dan? We've done the financing so regularly on the quarterly dates now that I think they quite expect it, really.

Bell: Well then, we could raise the three hundred million to run us through bills, refund the five hundred million in a bond, and then in June raise eight hundred million in notes. That would complete the picture, give us the five hundred million new money we want.

Harrison: I personally think that is the prettiest picture.

Eccles: Yes.

Taylor: Then you've got a chance to look at your March income tax.

Eccles: You've got a better chance to look at your market if you don't go to the market for new money in March, except in the bill market. It seems to me that it is going to help your market. It will be a good breathing spell. There will be no new offering, and by June they may be hungry for something.

Burgess: And when you announced your bills, when you started these new bills going, you announced at the same time that you weren't going to ask for any new money in connection with your March financing, but just going to refund the Aprils - if you did that, that would clear the decks so the bills would go without any question at all.

Bell: And that would help your note market.

Burgess: Oh yes.

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- Eccles: Yes.
- Harrison: Yes.
- H.M.Jr: You noticed what I said, that we didn't own any bills or notes. You noticed that.
- Burgess: We're not worried about ourselves.
- Harrison: Mr. Bell, in making your calculations in balances at the end of each month, you estimated how much income tax receipts in March?
- Bell: About nine hundred million.
- Harrison: Nine hundred million. That's probably conservative, isn't it?
- Bell: I think it is.
- Haas: We're hoping so, but last fall when the tax bill was in nobody agreed with us.
- Burgess: That's the same estimate as last fall, isn't it, George?
- Haas: Not quite.
- Burgess: But you haven't adjusted for this upward swing in the business index, have you, that took place? The swing was stronger than your...
- Haas: Yes, this estimate was one that was made in November, so we had that more or less in it.
- Eccles: Nine hundred million, you say, is the estimate?
- Haas: Yes. Of course, in addition to the estimating the total - I mean on the fiscal basis - we had some additional difficulties this year about that undistributed profit tax and estimating the distribution.
- Harrison: It's extraordinary how many individuals with whom I've talked, though, around New York are already complaining how much increased their tax is going to be this year as a result of distribution at the end of last year.

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- H.M.Jr: Why single out New York (nodding at Taylor)?
- Taylor: You'd have heard some plain and fancy cursing yesterday at lunch.
- H.M.Jr: I'm just waiting until the President starts working on his income tax. The President said to me yesterday, "Who the hell is responsible for this tax law?" he says. "Now, you know, Henry, what you told me, you'd have more left when you got through than when you started." I said, "That's right."
- I don't think you've got to go to New York. Anybody working on his income tax the last ten days.
- Eccles: That only indicates, though, the revenue that you are likely to get, because everybody is hollering.
- Harrison: Well, I think it's an important factor in making your guess as to what you're going to get. The individual's estimate of his own situation gives you some idea of how large these taxes are going to be.
- H.M.Jr: Have you figured yours yet?
- Harrison: Not yet.
- H.M.Jr: Well, I think this is about as far as we can go. And then shall we say 11 o'clock a week from today?
- Eccles: That suits me.
- Harrison: And then if for any reason you want me, Mr. Burgess will let me know.
- H.M.Jr: Well - and we'll try to be ready at that time, know about the bills, and also try to be ready so if we do announce that we are going to sell an extra fifty, that that will take the place of any new financing for the 15th of March.
- Eccles: That is, you will know next week.
- H.M.Jr: We'll be ready when we come in. I mean a week from today.
- Eccles: That would make the first bill offering when?

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- Bell: The third.
- Eccles: The third.
- Burgess: The holiday has busted this week, hasn't it?
- Eccles: Going right through with six weeks...
- Bell: ...that will end on the 7th of April - plenty of time before May.
- Eccles: And you will probably arrange that War Loan account...
- H.M.Jr: We'll be ready by that time, but I don't want to make any commitments today. But I mean we will have done our home work before we meet with you next Wednesday. This isn't clear enough yet. I think by that time it will be.
- Harrison: I agree with you, Mr. Secretary, as to the importance of frequent contacts right along now, if only because of the very different situation you've got in the money market as a result of the increase in reserve requirements.
- Eccles: For the next three months, until the increase goes into effect and the whole market throughout the country has a chance to get adjusted to it, it isn't a question so much of the condition that it creates in the market actually, but it is the psychology that it creates on the part of bankers generally, who are more or less in a waiting frame of mind to know whether or not they want to buy notes or whether they want to buy bonds. And they've got extra cash, extra reserves; they will have a large amount of excess reserves after this action, but they won't be - it's a perfectly natural frame of mind to be in to simply say, "Well, I'm going to just wait now and see before I move." And I don't think there is any way of overcoming that except the element of time.
- H.M.Jr: Well, thank you for coming.

February 17th

Monday, February 16th, I lunched with the President. He asked me, "What do you think about the French situation" and I said, "It is getting steadily worse". He said, "Don't you remember that about two weeks ago I prophesied that the French would have to go to exchange control on February 15th". I could not remember that he had said any such thing but I did not contradict him. The President furthermore said, "I prophesy that that within a year the English will have to go to exchange control". I said, "The whole thing is the tremendous increasing expenditures for armaments. As long as that continues the situation will get worse". I said, "I am glad and was surprised that when I brought it up a week ago you encouraged me to study the situation."

The President said, "I had lunch with Mr. Hull, Norman Davis and Sumner Welles two or three days before and while Hull has done a perfectly magnificent job in South America he said, "I talked with him while I was down there about the world situation and Hull could only think in terms of trade treaties and their effect (I told him this a week before) and, he said, "On account of the way Hull is thinking you just came along a couple of days later and I was ready to talk to you. You and I are thinking along the same lines".

With this additional encouragement I said, "I think you ought to call a Washington Conference similar to the one in 1921". He said, "The conditions are so different now than they were then" and then he went ahead and sketched the whole Washington Conference of 1921.

Much to my surprise he seemed in a frame of mind that he would consider calling a Disarmament Conference. He said, "If I call it I will have just about half a dozen countries, have them meet with me and simply outline the situation to them, tell them to adjourn to some other building, tell them that the problem is theirs and that they should try to find a solution and then come back and see me again." The President said that he would not make any suggestions as to how they should solve their own political troubles but that he would try to start them to discuss disarming over possibly a five year period on a constantly increasing scale of reduction. He, furthermore, said that any country refusing to comply with the majority rule that they would apply economic boycott to that country.

- 2 -

I was dumbfounded how rapidly I made progress with him, furthermore that he seems to have made up his mind that he cannot use Hull or Norman Davis on this program.

It is up to me now to develop suggestions and keep giving them to him until I can work him up to the point that he will call a conference.

February 17, 1937

I went in to tell Taylor that I would see the boy from Alcohol Tax, about whom he spoke to me last night, if Taylor wanted me to, but he said that he had asked the boy to write the story out for him and that after he had read the story he would then decide whether I ought to see the boy or not.

17 February, 1937
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

In view of the improved situation throughout the Mississippi Valley, all of the six 165-foot patrol boats are to be returned to their regular stations on the Atlantic and Gulf coasts by the end of this week.

- - - -

The Coast Guard force at present operating in the Mississippi flood zone numbers 22 seagoing units and 25 boats, the latter operating under the immediate direction of the *DIONE* at Natchez, Mississippi, where a shore office and communication center is being maintained.

- - - -

Captain Reinburg reported that Coast Guard boats transported approximately 25,000 persons to safety in the area between Louisville and Paducah.

GENERAL WATER LEVEL CONDITION.

Water falling at Vicksburg and crest approaching Natchez where there was a depth of 57.3', a rise of $\frac{3}{10}$ ths of a foot since yesterday. Depth of 18.5' at New Orleans unchanged since yesterday.

FEDERAL RESERVE BANK
OF NEW YORK

W 1334
W

OFFICE CORRESPONDENCE

DATE February 17, 1957.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

BANK OF ENGLAND.

Mr. Bolton called me at noon today with reference to our cable No. 71/57 of February 11 which dealt with the question of a 24 hours notice. As he understood our cable, he said, the new feature of the tripartite agreement was that it was now subject to 24 hours notice. I replied that it was true that the agreement was subject to a 24 hour notice but that this was not a new feature but that it had been stated in all previous announcements of the Secretary of the Treasury. Furthermore, it was exactly the same basis on which he and we and the Bank of France and we had been operating. I repeated that the cable was sent merely because the Swiss had raised a question which seemed to make it imperative that all possibility of a misunderstanding should be eliminated. Bolton then asked me whether it was correct to state the case briefly as follows: "All dealings in gold cease immediately upon receipt of notification." I replied that that seemed to me to be a correct summing up but that I would prefer to give it more thought and would discuss it with him again the next time I spoke to him. Bolton then suggested the insertion, in paragraph one of our cable of February 11, after the words "To be earmarked or released," of "by either party." They had no other comments to make, he said.

In discussing current operations, I made mention of the shipment of gold by parcel post consigned to us by Samuel Montagu & Company in London, and of the fact that we had definitely refused to act as consignee for Montagu. Bolton replied that he was very glad to

FEDERAL RESERVE BANK
OF NEW YORK

335

OFFICE CORRESPONDENCE

DATE February 17, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

BANK OF ENGLAND.

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hear it; it seemed to him it was just about time that this sort of thing be stopped. He also mentioned that shipment by parcel post meant ^{a saving of} as much as five cents per ounce in the gold price, so that operators in London could pay up to 34.82 against what we consider the gold point of 34.77.

RECEIVED
FEB 18 1937
FEDERAL RESERVE BANK
OF NEW YORK

PARAPHRASE OF SECTIONS TWO AND THREE OF TELEGRAM
NO. 230 of February 17, 1937, from the American Embassy,
Paris.

I visited the Paris manager of the National City Bank at noon today. His franc deposits he said had declined below their level as of September 25. He understood the same condition prevailed in other Paris-American Banks. The financial situation of the Government is considered quite serious by this banker. Maturing Treasury bills and national defense bonds, he said, are being turned in for cash rather than being renewed. The past few days a private broker has been visiting National City, Guaranty, and Morgans seeking their subscription to short term paper of the Treasury. The bankers were told by the broker that he was doing this under direct instructions of the Ministry of Finance, which was endeavoring to raise from six to nine billion francs in this way.

The above-mentioned incident is the first such type of soliciting that has been experienced by the Paris-American banks. ^{have been}Protests/made by American bankers to the Bank of France against the latter's refusal to re-discount paper which was thought by the bankers to deserve consideration under usual rules, and which covered bona-fide commercial transactions. They were met by the reply that they should go to the Ministry of Finance if the decision of the Bank of France did not please them.

- 2

The contact which I have on the Bourse was informed today by a representative of the Bank of Indo-China that the person who heads that institution, Paul Baudoin, has definitely accepted (?) Labeyrie as Governor of the Bank of France provided this may be considered as a temporary appointment and that he is not thereby precluded from returning to the position he formerly held. Furthermore, it is understood that ~~Mr~~ Baudoin is in favor of changing the policy penalizing the holders of gold and also in favor of immediate stabilization at/^{about}the present level. There is increasing circulation of opinion in regard to the Red tendencies of Labeyrie, as reflected in the political confusion which he has created in the Bank and by his outspoken condemnation of the theory and practice of private profits and interest.

Should Baudoin ~~not~~ take the post at the Bank of France this apparently would indicate the likelihood of a change in the monetary and financial policies of the Government and it might conceivably involve the incorporation in the cabinet of one or more conservative advisers of the Reynaud or Caillaux school. Auriol would be most likely to be replaced by one of these.

END MESSAGE.

BULLITT

EA:HF:LWW

- 2 -

institutions would know how to deal with such matters. I was told by Rueff that the French would immediately begin to make inquiries of the above-mentioned kind.

In this regard I should add that along in December, I was told by Dean Jay, Paris Morgan partner, that he had made an effort to discourage the French when they asked him about the possibility of borrowing in the United States. Even if a French loan should not be ruled out by the Johnson Act, he said his firm could not envisage any change for an operation of any size on the market in the United States. In a great emergency, a very small sum might conceivably be obtained through an American financial institution passing on French securities to some of its correspondent banks. But in the circumstances which then obtained, there could be no success for a public offering. In January when I was in Washington I reported that earlier in the month the Paris National Bank had been approached on the same subject by Rueff. The latter had been told that New York had reported it had no "appetite for continental securities".

The telegrams which I sent this week, including my No. 230 of today, have pictured the desperate financial situation which the Government is now in. In my mind, it is certain that any funds that might be obtained through an operation abroad by any of the French bodies in question would go to the French Treasury direct. The

London

- 3 -

London loan in the name of the French railways ~~ix~~ has gone to the stabilization fund of France. The Bank of France gold is security for this credit, and on Monday, while I was at the Bank, it was requested to ship gold to the Bank of England in London this week to the maximum that the French can handle.

END MESSAGE

BILLITT.

EA:HF/LWW

RB

GRAY

London

Dated February 17, 1937

Rec'd 3:20 p. m.

Secretary of State

Washington.

75, February 17, 7 p. m.

FOR TREASURY FROM BUTTERTWORTH.

This afternoon the Chancellor of the Exchequer opened the two day debate which will take place on rearmament expenditure. His speech was primarily of a political character and one felt that he was speaking as much as the prospective Prime Minister as the present Chancellor of the Exchequer. He particularly emphasized the need for the expenditure and indicated that if the situation either improved or deteriorated the amount (now set at 1,500,000,000 pounds for the five years period) would be decreased or increased. He defended his proposal to obtain authority to borrow up to 400,000,000 pounds on the basis (one) that the tax payer will in any case bear currently three fourths of the expenditure; (two) that an increase in taxation sufficient to cover the total expenditure would be disastrously crippling. Chamberlain indicated that he would speak again late tonight answering at that time technical financial

RB

-2-#75, February 17, 7 p. m. from
London

financial questions.

Le Norcy, Acting French Financial Attache, who has just returned from period of consultation in Paris, said that Blum and his Cabinet were now fully aware of the importance of the financial problem and were coming to the realization of the necessity of attacking not the symptoms such as speculative activity but the cause, namely, lack of confidence. He had found a definite intention to attempt to hold prices and to curb excessive expenditure. He also was given the impression that the French authorities were moving towards the establishment of a free gold market in Paris which would in reality mean the abandonment of the penal regulations on both gold hoarding and funds abroad (rumor has it that Bandouin has made this a sine qua non of his acceptance of the Bank of France post).

Le Norcy referred to his previous assurance that the French authorities had no intention at the present time of lowering the value of the franc and said that this still held good although a change might at a later date be made and he intimated that there was strong backing for the idea of fixing at a definite level the value of the franc
on the

RB

-3-#75, February 17, 7 p. m. from
London

on the ground that French psychology required such a step if confidence was to be restored.

Le Morcy did not attempt to minimize the dangers in the situation although he had some hope that if the contemplated measures were acted upon quickly the forces of economic recovery in France might possibly win their race over those making for financial deterioration.

ATHERTON

CSB

RB

GRAY

Paris

Dated February 17, 1937

Rec'd 4:20 p. m.

Secretary of State
Washington.

230, February 17, 6 p. m.

FROM COCHRAN.

Total foreign trade of France for January increased by 1,875,000,000 francs. Imports up 1,305,000,000 and exports up 570,000,000. Unfavorable trade balance for January 1,546,000,000 compared with 1,376,000,000 for preceding month and 811,000,000 for January 1936.

Government recently stressed that substantial decrease in withdrawals of savings reflected returning confidence and upturn in economic activity. Deposits in postal savings banks for December 587,000,000 francs and withdrawals 589,000,000. Deposits in private savings banks first fifteen days of February 164,000,000 francs withdrawals 61,000,000.

Government is working on legislation to check rise in prices and to punish infringement of present regulations pertinent thereto.

Paris exchange market today fairly slow although

Bank of France

RB

-2-/#230, February 17, 6 p. m. from
Paris

Bank of France yielded considerable sterling this afternoon. Rentes opened 2 francs up and closed with gains of from 1.40 to 1.80. Observers inclined to attribute strength of rentes to: (1) renewed rumors that Labeyrie would be replaced by Baudoin, (2) gossip that Auriol would resign, (3) report that French monetary policy would be altered, (4) press story that United States is likely to take drastic measures to check influx of capital, (5) rumor that franc might be definitely stabilized and, (6) rumor of break between Communists and Radical Socialists. Toward end of Bourse session an official denial of any contemplated change in Ministry or in Government policy was issued. (END SECTION ONE)

BULLITT

CSB

Thursday
February 18, 1937
12:35 p.m.

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HMJr: Can you hear me?

H. M.

Cochran: Yes, very well.

HMJr: Fine - well now, I got your cable.

C: Yes

HMJr: In - with reference to that special question put up to you by that man.

C: Yes

HMJr: And, there's nothing we can answer him.

C: Well, I didn't expect an answer. I just wanted to let you know that it was going through.

HMJr: I understand. Well, now - but I wanted to tell you - see?

C: Yes

HMJr: - that, - in the first place it's what you call an "if" question, you know?

C: Yes

HMJr: "If" they do so and so what would we do, see?

C: Yes

HMJr: Well, the answer is that until it's put up to us we have no answer.

C: Yes

HMJr: And then, - but I can tell you that if it is put up to us -

C: Yes

HMJr: - they're going to get no encouragement.

C: That's what I tried to let them know. I went pretty far that first day.

HMJr: Yes

C: As you saw in my telegram -

HMJr: Yes

C: I mean I tried to discourage the whole thing.

HMJr: Yes

C: But they're just grasping at straws now.

HMJr: Yes, well, it's unfortunate, but I'm afraid that under the law there's nothing that we can do.

C: Well, that is my conviction.

HMJr: Yes - Well, I wanted to tell you that rather than to attempt to put it in a cable.

C: Yes, yes - Then I shan't cable on it any more. It's up to them to work through their bankers.

HMJr: Well, - work through any channels that they have.

C: What's that?

HMJr: Yes, I mean, there's nothing that you can do officially to help them.

C: Oh, no no - And I didn't want it to come up officially, -

HMJr: That's right.

C: - between Governments.

HMJr: That's right. It's - under the law we just can't help them.

C: Yes - that was my suggestion.

HMJr: Right

C: I hoped I can discourage them from it on Monday, but they're trying it anyway.

HMJr: Oh, they're going to go ahead with it?

C: They - I mean, last night indicated that they are going to try to go ahead with the inquiry.

HMJr: You say, they are or they are not?

C: They are.

HMJr: They are?

C: Yes

HMJr: All right. Well, that's their privilege.

C: Yes, yes

HMJr: You were here the last time that happened.

C: Yes

HMJr: And you know how I handled that.

C: Surely

HMJr: Well, we feel exactly the same.

C: Yes, yes

HMJr: See?

C: Surely

HMJr: So the situation on this side hasn't changed one iota.

C: Yes, fine.

HMJr: How are you?

C: Quite all right. I'm getting into things again now.

HMJr: Good

C: And, today things went a little better -

HMJr: Yes

C: There was sort of a heavy demand for a while -

HMJr: Yes

C: - for sterling. And just now, though, I talked to our friend at the bank, five minutes ago.

HMJr: Yes

C: Hello?

HMJr: Yes

C: And he said that sterling was being offered rather heavily by outside people.

HMJr: I see.

C: The rate dropped from 105.13 to 105.10½.

HMJr: Yes

C: That's purely political.

HMJr: I see.

C: From these rumors, you see?

HMJr: Yes

C: About the prospective change at the bank or in the Cabinet.

HMJr: Yes

C: And he told me that, while the man at the bank is probably doomed to go -

HMJr: Yes

C: - that it looks now as if he will not go as long as our other friend is in the Ministry of Finance.

HMJr: I see.

C: And it looks like the Premier is going to hold on to that man.

HMJr: I see.

C: So, while the situation is tense -

HMJr: Yes

C: I don't think there is going to be an immediate climax or crisis.

HMJr: You do not?

C: I do not think so.

-5-

HMJr: All right.

C: And they're trying to get some sort of a loan in Amsterdam for the telegraph office or one of these other bodies, you see?

HMJr: I see.

C: And, my chief is coming over to your side, leaving here the twenty-fifth.

HMJr: Yes - For his vacation?

C: No, the man across the street from you -

HMJr: Yes

C: - said that he wanted to see him.

HMJr: I see.

C: I don't know whether it was purely involuntary or what, but anyway, he's going to stay just two weeks.

HMJr: I see.

C: So he'll sail the twenty-fifth.

HMJr: All right.

C: Everything is going well here and I am trying to get around to see a variety of people to keep you informed.

HMJr: Thank you very much.

C: But, one second -

HMJr: Yes

C: Do you want to say anything to the Ambassador - he just came in this minute.

HMJr: I'd love to!

C: I say, Mr. Bullitt just came in my room as I was talking.

HMJr: I'd love to say hello to him.

C: Fine

Wm
Bullitt: Hello, Henry.

HMJr: Hello, Bill

B: How are you, my boy?

HMJr: I see you're coming over to see us.

B: You bet I am. I'll be back there on about the fourth.

HMJr: Good!

B: How is life moving?

HMJr: Oh, on this side everything is going along very well.
Not - we're a little bit more peaceful.

B: Yes - Henry, -

HMJr: Yes

B: Are you going to get your bill through the Senate?
The Supreme Court Bill - ?

HMJr: Am I - my Bill?

B: Yes, are you going to get the Supreme Court Bill
through the Senate?

HMJr: Oh, I think so.

B: You do? That's good.

HMJr: Yes, I think so.

B: That's fine. Well, God bless you, boy, see you soon.

HMJr: All right.

B: Good luck.

HMJr: Goodbye

B: Goodbye.

M 352

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 18, 1937, 5 p.m.

NO.: 237 FROM COCHRAN

Statement of Bank of France as of February 12 showed no change in gold basis holdings or in advances to the Government. Changes in other items not significant with coverage 55.31 versus 55.01.

Rentes today opened one franc down but later regained yesterday's levels with some going 25 centimes above. Gossip continues that Baudoin is to succeed Labeyrie in the immediate future but there is less talk of possible shift in the Cabinet.

French Parliament continues to work on gold clause legislation. Press reports Senate Committee on Commerce has decided to study the question of world distribution of raw materials with relation to German colonial demands. Introduction of fiscal identity card in France is being delayed possibly until May.

Officer in charge of Guaranty Trust of Paris visited me yesterday evening. This officer gave me information quite similar to that provided by the National City re the French banking and financial situation, which was incorporated in my telegram No. 230 of February 17, 1937, 6 p.m. I was told by this officer that belief that the French will soon definitely stabilize is becoming so firm among certain usually well informed speculators that they are selling sterling forward

- 2 -

forward and buying French rentes.

It is my understanding that Beyen is giving up all Netherland business connections except that with Phillips with a view to devoting all of his time to his duties at the BIS, as resident officer in charge.

It is said that Sir Otto Niemeyer is willing to accept the chairmanship of the board provided by so doing he will not have to give up other positions which he now holds - it is presumed this includes membership on the League's Financial Committee - and provided he will not be obligated to attend every meeting of the BIS. Effort is just now being made by Italian and French central bankers to influence drafting by BIS staff of a resolution to be considered at the director's meeting in March regarding the chairmanship of the BIS. The Italians and the French are anxious to guarantee that the position rotate between all founding central banks, while it is said the British are less inclined toward having it this way.

On Monday while I was talking with Cariguel he said that the Bank of France had informed the Ministry of Finance that the American proposition for transfer of earmarked gold between club members on reciprocal basis was acceptable to the Bank of France. My contact was not certain whether there would be a handling charge of one quarter per cent if the Bank of France transferred, for example, some gold held

by

by it under earmark with the New York Federal Reserve for its own account or the account of the French stabilization fund to the Bank of England's account.

END MESSAGE.

BULLITT.

RECEIVED

FEB 19 1937

THE TREASURY DEPARTMENT
RECEIVED FEB 19 1937

EA:LWW

Department of State

PO BOX
DIVISION

EA

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

TREASURY

Mr. Lochhead

No.

366

Paris, February 18, 1937.

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Subject: Explanations furnished by the Minister of Finance regarding the French financial situation.

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

Reference is made to the Embassy's despatch No. 351 of February 10, 1937, which provided information relating to the negotiation of the British credit of £40 million concluded in London on January 29, and to the events which led to the appearance of the Minister of Finance before the Parliamentary Finance Committee and the financial debate which took place in the Chamber and Senate on February 4, 5, and 9.

I now have the honor to provide the following summary of official statements published in the press following evidences of public uneasiness and concern regarding the financial situation and renewal of pressure on the franc towards the end of January.

communiqué
JANUARY
1937

On January 27, the Minister of Finance issued a communiqué to the press indicating that he would explain the position of the Treasury to the Parliamentary Finance Committees, but that in the meantime he desired to make it clear that certain figures published relating to requirements of the Treasury were absolutely false and that a systematic campaign was afoot to disturb public opinion to undermine the Government. The deficit of the ordinary budget for 1937 would be less than last year, and that increasing revenue would fill up the gap. He agreed that the special budget (national defense and public works expenditures) was considerable, but necessary. He was convinced, he said, that the Railway deficit would be attenuated if economic recovery continued. He would demonstrate to the Parliamentary Committees that the program established for the Treasury would permit the Government to provide for requirements in a normal manner. The Government would defeat the efforts of those who were attempting to bring about a further devaluation of the franc, - it was determined to avoid any disturbance in the de facto ratio ("rapports de fait") established between the currencies. No one would profit by a return to monetary disorder. On the contrary, stability was in the interest of all. France would devote all her efforts to this end, and he did not doubt that the other parties to the tripartite monetary arrangement would likewise do the same.

Turning to ways and means of suppressing speculation, the Minister insisted that the Government was well armed and would leave no stone unturned to

defeat attacks on the currency.

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The Minister of Finance appeared before the Chamber Finance Committee on February 3. The following summary of his explanations is based upon semi-official accounts published:

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

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

At December 30, 1936, advances by the Bank totalled 5,400 millions, and 2,939 millions of Treasury bonds were outstanding, leaving a margin of 4,600 millions as concerned the advance account, and a margin of issue of 5,600 million francs as concerned the 20 billion franc limit of ordinary Treasury bonds.

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

For the whole year expenditures of

the . . .

Finance
Minister
appears
before Finance
Committee

the Treasury amounted to 27,700 million francs, not counting the reimbursement of the exceptional discounts (about 14 billion francs) at the Bank of France. Of this total 1,800 million francs could be laid to laws voted by the present Government.

So far, no limit of authorization had been exceeded, and no margin of authorization had been exhausted. The Finance Law for 1937 had fixed the limit of issue of ordinary Treasury bonds at 25 billions; the cumulated total of bonds and advances from the Bank was under 13,400 millions, leaving a margin available to the Treasury of 9,600 millions.

The Minister contended that "astronomic" figures had been put forward regarding Treasury requirements for 1937, to be met by borrowing. As a matter of fact, total direct charges of the State to be met by the Treasury amounted to 20,465 millions. Adding "special" charges of 3,370 millions, and advances to collectivities of 12,272 millions, the total would be 36,127 millions.

As concerned loan issues to cover these requirements, taking into account the London credit of January 29, 1937, and the National Defense loan of December 17, 1936, the need

to borrow would, as a result, be reduced from 36 billions to 28 billions (for the State 20 billions, and for the collectivities 8 billions). This was not more than for previous years when borrowing varied between 24 and 27 billions.

Referring to predictions that the money market could not possibly respond to such calls upon it, the Minister said that the Government would appeal to the country, "which was reviving economically, and which could provide the money". He agreed that the first few months would be difficult, and that all unnecessary expenses must be stopped.

The Minister looked for better results as concerned the marketing of Treasury bonds, following the increase in interest rates, and he was also pressing for settlement of unpaid taxes between 1934 and 1936. Furthermore, he had requested the departments and communes to provide for their own financial needs.

While a credit had been arranged in London, in reality the French market should provide the funds necessary for the Treasury. The Government, as far as it was concerned, had done what it could. It had offered a three-year loan repayable at 140 francs, and it had made public all of its accounts.

It was inadmissible that speculative operations should continue to hamper the security and produce markets, and for this reason the Bank of France had decided to raise the discount rate. Furthermore, the Government considered that the interest rates of the Bank had proved too low for the Paris market, and the rate for Treasury bonds had evidently not been sufficiently high to encourage the renewal of Treasury bonds.

It was by such means that the Minister hoped to find the necessary funds during the next three or four months, which were usually difficult for the Treasury. Later on, he would appear again before the Committee to explain the situation, and ways and means of meeting requirements until the end of the year.

The Committee then requested the Minister to reply to three direct questions.

The first was whether he considered that it was possible to fix the value of the franc at 45 milligrams of gold without upsetting the tripartite agreement, and without running the risk of further devaluation by another country.

In reply, the Minister pointed out that the three governments concerned

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"had declared their intention to use appropriate available resources so as to avoid as far as possible any disturbance which may affect the new bases of the exchanges resulting from readjustment of the franc", and added that it had been understood that necessary consultations would be assured to this end between the two other governments and between the banks of issue.

The second question was whether, if the franc were stabilized at 49 milligrams of gold, the profit should not be used to repay advances from the Bank of France to the State.

The Minister replied that, as far as he was concerned "the question did not arise". He would simply refer to the terms of the convention dated September 25, 1936, which provided that "the proceeds of the additional revaluation which must eventually be carried out following the fixation of the new gold content of the franc will be attributed to the State under conditions which will be made the object of an ulterior convention. These proceeds, as well as the proceeds of the liquidation of the Exchange Equalization Fund can only be applied to the amortization of the public debt".

Finally, the Committee asked whether the whole of the 1,030,606,297 francs set aside in October last for the repayment of the British credit, arranged in February, 1936, had been entirely used.

The Minister replied that about 1 billion francs of the money had been used for this purpose.

In reply to a supplementary question, the Minister stated that the guarantee clause of the recent British credit was in all respects similar to that agreed upon for the operation arranged by his predecessor in February, 1936. He described as follows the mechanism of the guarantee:

"The Bank of France would deposit to its account at the Bank of England an amount of gold or of currencies equal to that of the credit, which would serve as a guarantee and should be recovered immediately upon reimbursement of the credit."

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

The Minister repeated, in reply to

further . . .

further questions, that the Exchange Equalization Fund still possessed "a substantial amount of gold and currencies" and that, contrary to rumors in circulation, "it was far from being exhausted".

The Minister then appeared before the Senate Finance Committee, and gave similar explanations, it is said. At the conclusion of the hearing this body issued the following communique to the press:

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

The debate in the Chamber on February 4 on the bill grouping supplementary and extraordinary credits relating to the budgetary year 1936, provided the opposition with an opportunity to express its views on the financial situation and on the financial policy of the Government. The discussion in this respect is reported on pages 380 to 385 of the

Date in the
Chamber on
February 4.

Deputy Fernand-Laurent (Independent-Republican - Mendel Group) held that from the arrival in power of the Popular Front Government to the end of 1936, the gold holdings had, in reality, decreased by one-third. At May 1, 1936, the reserve totalled 61,937 million francs ("Poincaré" francs). At December 31 it was 60,550 million francs ("Rives-Auriol" francs), or in "Poincaré" francs, 42 billions.

On the other hand, the note circulation had increased during the same period from 22,757 million francs to 29,341 millions, an increase of 7 billions in six months.

In spite of the devaluation, the ratio of gold cover at December 31 was only 57.44 percent compared with 56.47 percent at May 1, 1936. If devaluation had not intervened the percentage would have fallen almost to the level of the legal cover, namely, 35 percent.

Deputy Fernand-Laurent invited attention to the decision to raise the discount rate on the same day as the London credit was concluded (January 29) and insisted that the explanation of these two developments was that the French Exchange Fund was no

longer in control of the market. Turning to needs for 1937, Fernand-Laurent referred to the estimate of 85 billions put forward by the Radical-Socialist Deputy Potut, but indicated that as the Minister of Finance had stated before the Finance Committee that it was 85 billions, he would take this figure as a minimum. He doubted that the French market would furnish the money required, and insisted that while under normal conditions a foreign loan would bring gold to the Treasury, the contrary was the case under present conditions. Another possibility of providing necessary funds was further devaluation, but the Minister had said that he would not do this. The fourth and last possibility, as Fernand-Laurent saw it, was inflation, and this facility the Treasury was actually utilizing, he insisted, and after examining in detail the situation of authorizations to borrow, and the advance account at the Bank of France, concluded that the Treasury had gone beyond authorizations. (Note: The Minister did not apparently contest this suggestion.) He claimed that the only solution to the financial problem was to change the Government. Investors would not lend to the Popular Front Government as they had no confidence in it.

The . . .

The famous speech "dream on the future" which H. Blum talked of would, in his view, prove to be "a sheet without provisions".

H. Paul Reynaud referred at length to the necessity for France to borrow abroad four months after devaluation, while, for instance, Switzerland was actually converting its interior loans. In his view, speculation was not to blame for the financial difficulties as the Minister of Finance had claimed. The cause of the trouble was elsewhere. Reynaud congratulated the Minister for having given up the idea of "open market" operations, as the result would have been, he thought, to provide speculators with francs with which to gamble on the currency. He dwelt at some length on the "costly" credit operation just concluded at London. He suggested that 1/2 percent had been added to the interest rate because the credit was negotiated in the name of the Bellways and not of the State, and expressed particular concern about the resulting diminution of the gold reserves, as the result of the security clause. In reality, he pointed out, the gold reserves will, for the next few months, include 4 billion francs which really belong to the British".

He agreed that the Government had taken office under difficult conditions, but impressed

upon the Minister of Finance that the

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London credit would only be justified if the Government changed its policy during the respite thus afforded. He wondered if the Government contemplated exchange control, if it were driven into a corner, and recalled that some time ago the Minister favored such a policy. "Happily", Reynaud continued (addressing the Minister), "this is a measure to which you cannot have recourse" under the terms of the tripartite agreement. The latter not only inferred that the French Government would not establish exchange control but, furthermore, obliged the French Government "to pursue a liberal economic and financial policy". Reynaud particularly stressed the view that exchange control would mean the rupture of the tripartite arrangement, and added that "the consequences would not be of a financial order only".

He then turned to rumors about possible legal stabilization of the franc, and stressed the view that in presence of a floating pound (which he referred to as "the world currency"), and in presence of the uncertain economic conditions, "it would be a crime against the country to stabilize under present circumstances". He stated in order to permit the Treasury to take over the stabilization fund, and to appropriate

the profit from revaluation of the gold stock.

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At this point the Minister of Finance interrupted to express his "entire agreement" with the position which Reynaud took regarding exchange control, and stabilization. Reynaud said he took note of the Minister's declaration with pleasure, "as it was desirable to put a stop to certain false rumors".

Reynaud stated that he was definitely against further devaluation "which would not have a chance of success if it were not combined with a new policy".

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

Reynaud then pointed to other sources of disquietude, such as fear that financial restrictions would be renewed, and emphasized that although Blum declared for a liberal policy, he hoped action would prove "the reality of the intention". Referring to the fact that deflation and devaluation experiments

had . . .

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had been made, he expressed keen regret that France seemed doomed to always halt half-way in the carrying out of its financial, economic and monetary policies.

Finally, Reynaud assured the Chamber that the essential, in his view, was not a change of Government, but a change of policy, without loss of time.

It should be mentioned here that during the discussion outlined above it was brought out that the combined budgetary deficit for the City of Paris, and the Department of the Seine, for 1937, amounted to about 1,500 million francs.

Replying to his critics of the previous day, the Minister of Finance told the Chamber that he considered that he had already provided the Chamber Finance Committee with all necessary explanations and information, and recalled that he had also made public, in the form of a communique, the essential features of his declaration. He had, he said, explained the plans of the Government, and he did not consider that further detailed explanations would serve any purpose. He complained that repeated requests for information seriously interfered with his duties, and left him no time for reflection.

Nevertheless, the Minister proceeded to make certain observations on the criticisms of the

Government's policy made by Fernand-Laurent, and Paul Reynaud, and to express satisfaction that both of these gentlemen had agreed that he had been frank and had withheld nothing. However, he noted that neither of them had made any precise proposals, although Fernand-Laurent urged a change of Government, and Reynaud had counselled a change of policy.

The Minister claimed that if, tomorrow, he asked for subscriptions to a loan issue, and there was no response, the blame could not be placed upon the Government, which had done its duty, "but on those who, for political reasons, and by egoism, had refused their assistance".

With respect to ways and means envisaged to cover Treasury requirements, the Minister assured the Chamber that he realized the dangers of inflation, and that he "had taken all useful measures to procure the resources that would make it unnecessary to have recourse to an issue of notes".

M. Fernand-Laurent had asked if he intended to present a new monetary law, the Minister recalled, and replied that he "agreed with Paul Reynaud that this would be disastrous and inadmissible".

Neither would he have recourse to new taxation, which was already too heavy.

There remained the possibility of borrowing, and if there remained no other

may not be any no reason against it. He was unable to understand why holders of gold had refused to fulfill their duty, when their country called on them, and those with small economies, on the other hand, had shown their confidence as reflected in deposits in the savings banks.

He was then led to state that the Railways owed 6 billion francs to the Treasury, and that every week they borrowed more "because they were unable any longer to sell their securities". Furthermore, that the City of Paris had asked for authority to issue a loan of 1 billion "for public works", and that he had agreed, provided conditions of the loan did not hamper State issues, and that the Government would be consulted regarding the date of issue.

With respect to the immediate future, the Minister reminded the Chamber that "they were now approaching the low-water period as concerned revenue from taxation", but expressed the opinion that "after April or May the possibility of making loan issues would be greater". Therefore, he was obliged, in the first place, to provide resources for the Treasury during

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the first three months of 1937, and he was certain, he said, that he would not have to draw on the margin of authorization to borrow at the Bank of France. With the view, apparently, of making clear the position of the Treasury in this respect, he added that he had requested the Railways to repay their debt of 8 billion francs. However, a deputy interrupted to suggest that the method of repayment envisaged was for the Government to borrow abroad in the name of the Railways. The Minister protested that he had procured a written undertaking from the Railways to make repayment, and said that he "had proved (before the Parliamentary Finance Committee) that the conditions of the recent London credit were similar to those of the credit of 1935, and that the gold security would not cease to belong to the State and to the Bank of France, but that the State had given the undertaking to reimburse the amount of the credit in the event that the Railways were unable to proceed to make necessary loan issues".

Regarding repayment of the British credit, the Minister was confident "that increased exports, and foreign currencies which will be left by tourists visiting

the . . .

the Exposition will permit the Treasury to make arrangements to this end without calling on the Bank to relinquish the gold deposited as guarantee".

The Minister of Finance, in conclusion, pleaded with the Chamber to aid him in the task of breaking down resistance to the Government's appeal for financial assistance.

"If this can be done, with the British credit of 4 billion francs, renewed subscriptions to short-term Treasury bonds, the collection of unpaid taxes for 1933, 1934, and 1935, the Treasury could wait and could pass the critical period."

He would need to borrow perhaps 30 billion francs for the rest of the year. His plan was to make short term loan issues to cover the ordinary budgetary deficit, and for temporary requirements of the Treasury, and medium or long term loans to cover the special budget of armament and public works. This, he insisted, should not be impossible, seeing that the requirements of previous years had thus been covered. However, he revealed that difficulty in placing short-term Treasury bonds was causing embarrassment to the Government. At present, only 4-1/2 billions of such bonds were in circulation, which

he considered was out of all proportion to a note circulation of \$8 billions.

The Minister failed to understand the hesitation of the public to buy long-term securities, "as he had denied that he would inflate", and he "had pointed out the dangers of a new monetary reform". Furthermore, he would say "no" to exchange control - autarchy would follow such a decision. The Minister continued: "we will avoid anything that could destroy the happy monetary arrangement of the three great democracies, and to which other countries have adhered. We will take care not to isolate ourselves, when the interest of Europe and of the world, and our own interest, leads us, and obliges us to maintain monetary, economic and political solidarity". He continued that the Government held to monetary and economic order, and that "it would maintain close contact with the two great countries which had never ceased to collaborate with a constant friendship for which he would express from the floor of the House the grateful thanks of all". A currency or economy which resumed its independence, which separated itself from the others, would be unfortunate for all, he insisted.

The . . .

2 / The Minister denied the claim by Fernand-Laurent on February 4 that the needs of the Exchange Fund had forced the Government to double the official discount rate, and to borrow in London. The Fund, he said, had ended 9 billion francs to the Bank at the commencement, and later had taken back 4 billions to repay the British credit, and had now recovered the remaining 3 billions.

Finally, he said he hoped that he had dissipated the fears of H. Reynaud. He regretted that he could not give satisfaction to M. Fernand-Laurent who had asked for a change of Government, and he concluded, significantly: "Gentlemen, I think you will all agree that these are dangerous words, certainly not for the Government, but if really this is the motive of the tightening up of capital, and refusal to collaborate in the national defense, the problem would thus take on extreme gravity".

Fernand Reynaud impressed upon the Government that without a change of policy, coupling deflation with the devaluation that had already been made, the Government was headed towards economic collapse. He outlined the problem

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

debate in the
Senate on
February 9

The discussion of the supplementary credits bill for 1936 also furnished the Senate with the occasion to review the financial policy of the Government. The essential features of the discussion concerned the warning of M. Gardey, reporter of the Senate Finance Committee, to halt expenditures, and notice served on the Government by M. Gaillaux, President of the Senate Finance Committee, that that body would henceforth reject any requests for expenditure not accompanied by appropriate ways and means.

Gardey, in an objective analysis of the situation, said that the Government's calculation that 36 billions over and above budgetary revenue would be required during 1937 was open to question and that, based on figures furnished by the Minister of Finance himself, requirements totalled

between . . .

25 between 38 and 39 billions, including
loans for the Railways. It is noted that
this was not contested by the Minister
of Finance.

Assuming that at February 1 the
Treasury had at its disposal ordinary
Treasury bonds of 6-1/2 billion francs,
and 1 billion francs still available at
the Bank of France, Gardey examined the
possibilities of procuring the additional
30 billions. He recalled that Auriol had
concluded before the Chamber that loan
issues must provide necessary funds.
Pointing out that the various ways and
means resorted to to cover last year's
expenditures were mostly "expedients"
(17-1/2 billion francs from the Bank of
France, profits from devaluation 6 billions,
and Treasury bonds and loan issue, 1 billion)
he expressed doubt that similar procedure
would succeed as concerned the year 1937.
He was far from convinced that Auriol's
hopes for obtaining funds would be realized
(in this respect particular reference was
made by Gardey to the Government's announced
intention of calling upon the Departments
and Communes to repay advances), and he
could not believe that the Government
envisaged borrowing through a third party.

He noted that, with the view of finding some relief, the Government envisaged the postponement of certain public works projects, and observed that, by "this prudent gesture" the Government provided an indication that it had ceased to have complete faith in the virtues of the development of purchasing power.

Gardey laid particular stress on the necessity for the Government to take steps to halt rising prices, and to put a stop, immediately and effectively, to the rising flood of expenditures. He called upon the Government to state clearly and definitively its intentions, "so as to dissipate the anxiety of a large part of the population, and the illusions of others".

Finally, he insisted that the country must be accorded a breathing spell to rebuild its reserves, and to enable it to respond to the calls of the Treasury for credit. The currency, national defense and liberty were at stake, he solemnly warned the Senate.

The Minister of Finance asked the Senate to permit him to make "improvised" and brief observations to M. Gardey for the reason that his time and attention had been taken

up by preoccupations of one kind and

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another. Briefly, he recalled previous budgetary deficits, and the unfavorable development of French finances under other governments. He did not contest Gerdey's estimate of requirements for 1937, but hopefully pointed to increased revenue receipts of 202 million francs for December and 268 million francs for January (from indirect taxes alone). This improvement encouraged him to hope that budgetary estimates of revenue for 1937 would be amply justified, and he thought that especially during the last half of 1937 revenue would be satisfactory on account of the stimulus of the Exposition. He complained that he was criticized but no one had brought any solutions. He could not raise taxes, nor would he have recourse to a new devaluation. He would not bring another monetary law before Parliament. Therefore, borrowing was the only solution. But in connection with this necessity to borrow, and the credit of the State, the Minister begged "certain newspapers and certain people" to cease alarming the public, and appealed to all good citizens to group themselves around the Government.

emphasize again the position of the Government with respect to devaluation, exchange control, and the tripartite monetary arrangement. He would, he said, repeat what he had said before the Parliamentary Committee, and before the Chamber. France had signed a tripartite agreement with two Great democracies. "France would not practice a policy of monetary isolation, it would not shut itself out from the world at a moment when it was necessary for French financial and economic interests to draw closer to the Great democracies, and consequently to consolidate existing agreements, and not to break them". Exchange control, he went on, would mean the breaking up of the monetary arrangement. The Government was in agreement with him that, on the contrary, it was towards an "extension and consolidation" of the monetary arrangement that they should devote their efforts.

He thought it was necessary to remind the country, however, that while he had promised freedom of monetary exchanges, he had also insisted that there should be no fraud, and there existed no contradiction

in this respect, as had been claimed. He insisted that exchange transactions must be "normal".

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The Minister then invited the attention of the Senate to the fact that no one had brought forward any other solution to the Government's difficulties than borrowing. However, it was said that the "climate" was not favorable. But, he complained, false rumors circulated about further devaluation, empty Treasury, et cetera, could not possibly create a "favorable climate". In conclusion, he refused to believe that such a campaign had political ends, but he regretted to note that "an important Right organ" had predicted the day before that "in three weeks anarchy and revolt would be rampant in Paris", and this at a moment when foreigners were preparing to come to France.

M. Caillaux, President of the Senate Finance Committee, then presented his views on the situation. He impressed upon the Government that unless the price problem received an early solution the situation would become "extremely perilous". Turning to the financial situation, he claimed that while the present administration could not be held entirely responsible for the present

embarrassment . . .

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embarrassment, the principal cause was the program of the Popular Front. In a word, a part of the deficit arose from the policy of reflation, based on the theory of purchasing power which Caillaux characterized as "absurd". He observed that the Government had to go abroad for funds because the French public had withdrawn its confidence in the administration. The reason was because the public was alarmed at ever-increasing expenditures, and he predicted that soon even foreign sources of revenue would dry up. If the Government was encountering difficulties in raising money it was not because of the opposition of any particular "money block". The "money block", if one existed, was composed of millions of small investors who were unwilling to subscribe to Government loans because they consider that the State expends too much, and that the administration of public finances is exactly the opposite of what it should be to gain public confidence.

A country whose public debt had increased by 100 billion francs in seven years could not possibly survive, Caillaux continued, and concluded by warning the Government that his Committee would henceforth refuse all authorizations for expenditures not accompanied

by . . .

by ways and means. 29

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M. Spinaee, Minister of National Economy, closed the debate by explaining his view of the price problem, and expressed the hope that by the organization of labor, it would be possible to increase production and thus bring about a reduction of prices, and the cost of living, and revive trade exchanges. He emphasized, however, that French economy would have to borrow several billion francs, at medium and long term, during the coming months.

In conclusion, it may be said that the declarations made by the Minister of Finance relating to the situation of the Treasury, ways and means envisaged by the Government to meet its financial requirements for the coming months, and assurances given regarding the intentions of the Government as concerns further devaluation of the franc, and freedom of movement of capital, have apparently not made a profound impression on public opinion. There are no outstanding indications that investors have become less hesitant about entrusting their funds to the Government, and that, if a public issue were decided upon, there would be a favorable response. New legislation now in preparation, designed to curb prices and to halt the increase in the cost of living, may prove to

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be beneficial and revive confidence sufficiently to induce the public to subscribe to public loan issues. However, in order to induce those who have funds available to come to the assistance of the Government, the latter will have to effectively demonstrate that it can definitely control the situation and that there exists a reasonable chance of obtaining the reimbursement of capital invested.

Respectfully yours,

For the Ambassador:

Edwin C. Wilson
Counselor of Embassy

In quintuplicate.

HMG/AG/jr

OFFICE OF THE ATTORNEY GENERAL
DEPARTMENT OF JUSTICE
WASHINGTON, D. C. 20530
MAY 10 1951
RECEIVED

Feb. 18, 1937.

MR. OLIPHANT

MR. KENT

In re: Interstate Commerce Commission Report -
Undistributed Profits Tax

I have not had time, due to my illness last week, to prepare a memorandum discussing in detail the contents of the Commission's proposed letter to the President.

Much of it does not go to the heart of the essential issues and will not be too difficult to answer. The one surprise in it is the material on pages four and five which indicates some informal contact between an official of the Commission and someone in Legislation and Regulations Division while the report was in process of preparation. I asked Mr. Lusk to find out what he could about the matter, for their inquiries never came to my own nor Mr. Lusk's attention. Apparently, someone did talk to Mr. Adams, Assistant Head, and Attorney Mitchell some months ago, but they have only the vaguest recollection of what the inquiries were or what was said. Hence, we do not know how closely the statement on page five is to the facts. No copy of the Director's memorandum of October 21, 1936, to the Legislative Division to which reference is made at the top of page five is appended to the above letter in the file.

It is obvious that, if the statement on page five is true, bad judgment was shown by someone in failing to see the importance of the issues about to be raised by the Commission and insisting that the matter be cleared formally through the Secretary. But this does not absolve the Commission from failure to appreciate the impropriety of speaking as it did on a matter of such importance to the Department without clearing it with the head of the Department.

ARK:grh 2/18/37

Thursday
February 18, 1937
12:35 p.m.

HMJr: Can you hear me?

H. M.

Cochran: Yes, very well.

HMJr: Fine - well now, I got your cable.

C: Yes

HMJr: In - with reference to that special question put up to you by that man.

C: Yes

HMJr: And, there's nothing we can answer him.

C: Well, I didn't expect an answer. I just wanted to let you know that it was going through.

HMJr: I understand. Well, now - but I wanted to tell you - see?

C: Yes

HMJr: - that, - in the first place it's what you call an "if" question, you know?

C: Yes

HMJr: "If" they do so and so what would we do, see?

C: Yes

HMJr: Well, the answer is that until it's put up to us we have no answer.

C: Yes

HMJr: And then, - but I can tell you that if it is put up to us -

C: Yes

HMJr: - they're going to get no encouragement.

C: That's what I tried to let them know. I went pretty far that first day.

HMJr: Yes

- 2 -

C: As you saw in my telegram -

HMJr: Yes

C: I mean I tried to discourage the whole thing.

HMJr: Yes

C: But they're just grasping at straws now.

HMJr: Yes, well, it's unfortunate, but I'm afraid that under the law there's nothing that we can do.

C: Well, that is my conviction.

HMJr: Yes - Well, I wanted to tell you that rather than to attempt to put it in a cable.

C: Yes, yes - when I shan't cable on it any more. It's up to them to work through their bankers.

HMJr: Well, - work through any channels that they have.

C: What's that?

HMJr: Yes, I mean, there's nothing that you can do officially to help them.

C: Oh, no no - And I didn't want it to come up officially-

HMJr: That's right.

C: - between Governments.

HMJr: That's right. It's - under the law we just can't help them.

C: Yes - that was my suggestion.

HMJr: right

C: I hoped I can discourage them from it on Monday, but they're trying it anyway.

HMJr: Oh, they're going to go ahead with it?

C: They - I mean, last night indicated that they are going to try to go ahead with the inquiry.

HMJr: You say, they are or they are not?

C: They are.

HMJr: They are?

C: Yes

HMJr: All right. Well, that's their privilege.

C: Yes, yes

HMJr: You were here the last time that happened.

C: Yes

HMJr: And you know how I handled that.

C: Surely

HMJr: Well, we feel exactly the same.

C: Yes, yes

HMJr: See?

C: Surely

HMJr: So the situation on this side hasn't changed one iota.

C: Yes, fine.

HMJr: How are you?

C: Quite all right. I'm getting into things again now.

HMJr: Good

C: And, today things went a little better -

HMJr: Yes

C: There was sort of a heavy demand for a while -

HMJr: Yes

C: - for sterling. And just now, though, I talked to our friend at the bank, five minutes ago.

HMJr: Yes

C: Hello?

HMJr: Yes

C: And he said that sterling was being offered rather heavily by outside people.

HMJr: I see.

C: The rate dropped from 105.13 to 105.10½.

HMJr: Yes

C: That's purely political.

HMJr: I see.

C: From these rumors, you see?

HMJr: Yes

C: About the prospective change at the bank or in the Cabinet.

HMJr: Yes

C: And he told me that, while the man at the bank is probably doomed to go -

HMJr: Yes

C: - that it looks now as if he will not go as long as our other friend is in the Ministry of Finance.

HMJr: I see.

C: And it looks like the Premier is going to hold on to that man.

HMJr: I see.

C: So, while the situation is tense -

HMJr: Yes

C: I don't think there is going to be an immediate climax or crisis.

HMJr: You do not?

C: I do not think so.

HMJr: All right.

C: And they're trying to get some sort of a loan in Amsterdam for the telegraph office or one of these other bodies, you see?

HMJr: I see.

C: And, my chief is coming over to your side, leaving here the twenty-fifth.

HMJr: Yes - For his vacation?

C: No, the man across the street from you -

HMJr: Yes

C: - said that he wanted to see him.

HMJr: I see.

C: I don't know whether it was purely involuntary or what, but anyway, he's going to stay just two weeks.

HMJr: I see.

C: So he'll sail the twenty-fifth.

HMJr: All right.

C: Everything is going well here and I am trying to get around to see a variety of people to keep you informed.

HMJr: Thank you very much.

C: But, one second -

HMJr: Yes

C: Do you want to say anything to the Ambassador - he just came in this minute.

HMJr: I'd love to!

C: I say, Mr. Bullitt just came in my room as I was talking.

HMJr: I'd love to say hello to him.

C: Fine

-6-

Wm.
Bullitt: Hello, Henry.

HMJr: Hello, Bill

B: How are you, my boy?

HMJr: I see you're coming over to see us.

B: You bet I am. I'll be back there on about the fourth.

HMJr: Good!

B: How is life moving?

HMJr: Oh, on this side everything is going along very well.
Not - we're a little bit more peaceful.

B: Yes - Henry, -

HMJr: Yes

B: Are you going to get your bill through the Senate?
The Supreme Court Bill - ?

HMJr: Am I - my Bill?

B: Yes, are you going to get the Supreme Court Bill
through the Senate?

HMJr: Oh, I think so.

B: You do? That's good.

HMJr: Yes, I think so.

B: That's fine. Well, God bless you, boy, see you soon.

HMJr: All right.

B: Good luck.

HMJr: Goodbye.

B: Goodbye.

Thursday
February 18, 1937
12:50 p.m.

HMJr: Hello
Ernest
Lundeen: Hello, Mr. Secretary
HMJr: How are you?
L: - get down there and see you -
HMJr: Yes
L: - some time in the next day or two.
HMJr: Well, is it about Joe Wolf?
L: Well, it might have something to do with that.
HMJr: Yes, well, the reason I'm calling is this. I've been called away from Washington unexpectedly. And I've got to go tonight for two days. And if it's about Joe Wolf I can tell you just where it stands. And then next week I'd be delighted to see you.
L: Yes, well that will be all right.
HMJr: Well, the President talked to me about Mr. Wolf and he has it in mind -
L: Yes
JDMJr: Now, what's happened is, Mr. Farley's gone away for ten days and he's asked us not to do anything about it until he gets back.
L: Yes
HMJr: Now that's the status.
L: Yes
HMJr: See?
L: Now, when will you be back?
HMJr: Oh, I'll be back here Monday.
L: Yes

HMJr: Or Tuesday

L: Well, I'll give you a ring then, next week.

HMJr: Will you do that?

L: Yes

HMJr: I'll be delighted to see you any time, but, if you just will understand I - I didn't know that I'm going to have to leave town tonight for two days.

L: Yes, all right, thank you very much.

HMJr: Thank you

Thursday
February 18, 1937
12:52 p.m.

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HMJr: Hello

Treas.

Operator: Chairman Landis' Office on the line - she says that she understood that you were all to go to Secretary Hull's office at three o'clock.

HMJr: No, they're to meet here first at two-thirty.

T.O.: To meet here first at two-thirty?

HMJr: That's right.

T.O.: Right, I'll tell her.

18 February, 1937
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

Coast Guard small boat forces were concentrated on the evening of February 17th in the region of Deer Park, Louisiana, where danger of break in levee arose.

Coast Guard force at present operating in the Mississippi flood zone numbers 22 seagoing units and 25 boats, the latter operating under the immediate direction of the DIONE at Natchez, Mississippi, where a shore office and communication center is being maintained.

GENERAL WATER LEVEL CONDITION

Depth 52.7' at Vicksburg, a rise of 1/10th foot since yesterday; 57.5' at Natchez and rising; 18.8' at New Orleans, a rise of 3/10ths a foot since yesterday.

Help

TREASURY-FEDERAL RESERVE-S.E.C. GROUP ON
RESTRICTION OF FOREIGN CAPITAL INFLOW

February 18, 1937
2:30 P.M.

Present: Mrs Klots
Mr. Oliphant
Mr. Magill
Mr. Heas
Mr. Taylor
Mr. Eccles
Mr. Landis

Magill: As I understand it, the legal staff retired and considered precisely how such a provision might be formulated.

Oliphant: I discussed the matter with lawyers from Helvering's snop. What's that man's name?

Magill: Secrist.

Oliphant: Secrist, who actually administers this matter of taxing foreigners. But addressing myself to this question: Would it be possible to frame a statute reasonably satisfactory both as a matter of statutory workmanship and from the standpoint of administration, which would give a refund to long time investors? And the concensus of opinion was that, while the problem is a difficult one, it was feasible to do so, and much more feasible if we for the present took some date and sawed it off; for instance, January 1, 1936 - if you owned your security before that time, you would be entitled to a refund. If you did that for the present rather than making it a moving period of two years or three years....

H.M.Jr: I don't follow you, Herman. I don't follow you. I mean that last thing.

Oliphant: Yes. Well, people are to get refunds, under this plan, if they are relatively permanent investors in this country. Now, you either have a rule that for a particular taxable year you must have held that security, say, three years, in order to be entitled to a refund, or you could put in the statute and say that people will not be entitled to a refund as to a

- 2 -

particular security unless they owned it, bought it, on or before January 1, 1936.

H.M.Jr: You mean rather than from the day they bought it, going back, say, two years?

Oliphant: Yes. And that would, of course - if it were in operation long enough, it would soon get antiquated. But since the problem is not a permanent problem and could be changed from year to year as legislation - well, that tends to get you into detail, doesn't it? The answer is that, while difficult, it is feasible to develop such legislation.

H.M.Jr: Well, that's what he asked you to study yesterday?

Oliphant: (Nods yes)

Eccles: Gosh, I hope we don't do that. I thought in deciding on this bill now it was because it was a thing that could be done very quickly because it was relatively simple and it would be recognized that it would likely be minor in dealing with the important problem of capital imports for speculation; that a withholding tax, whether twenty percent or thirty percent, would not be a sufficient deterrent to stop the speculator who is desirous of a capital gain. Now, if we propose now only this withholding tax, leaving discretionary power according to a certain criterion, and then making a lot of exceptions for the purpose of refunding...

Oliphant: Just one exception.

Eccles: Well, one exception then. The one exception would be the time of the purchase. If there is an exception, that seems to me not to be very equitable, because the people who are the best able and who have profited the most by recovery are those who purchased these securities, as many of them did, in '34 and '35 and '36, and therefore if they have a right to a refund because they held them prior to present prices, they are not paying their equitable proportion of the cost of our recovery and the benefits that they have derived from it. I mean there is that equitable argument there.

It seems to me that the real objection the State Department seems to be making to this proposal....

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- H.M.Jr: May I interrupt you just one minute. When Mr. Hull comes in, he may not have seen that sheet that we gave the President of one page.
- Oliphant: May I volunteer a suggestion: that if when Mr. Hull came in the situation of capital movements were described to him and he were asked what he thinks we could do about it for the time being, it would be better than if we started with anything that looked like....
- H.M.Jr: I know, but he hasn't seen this and this is all condensed.
- Oliphant: I'm just raising the question do you want to start with the problem or start with your solution?
- H.M.Jr: Well, I'm only - what do you think, Landis?
- Landis: In dealing with Mr. Hull, you mean?
- H.M.Jr: Yes.
- Landis: I think we ought to deal with him on the basis of the present suggestion. Why I think that is that this has a tendency to confuse the issue, and if you admit the desirability of this drawback idea for long term investment, you destroy the whole basis of your argument for equality.
- Magill: Well, Herman didn't mean that.
- Oliphant: You state what I mean.
- Magill: What he meant was this: that it'd be better in dealing with Mr. Hull to describe to him briefly the problem that we are confronted with. That is, what is this "hot" money situation that we are trying to deal with? Why are we trying to do anything about it? And then come along and after the first fifteen minutes say, "Now, we've thought about this and we've thought about that and something else, and this outline here indicates....."
- Landis: Oh yes, I think...
- Magill: ...that our best thought is along...

- 4 -

- Eccles: As a first step.
- Landis: I think unquestionably that is the way to present it.
- Magill: Let's present the problem first.
- Eccles: He ought to have the background as to why this is being proposed.
- Oliphant: I think one of Dr. Feis's difficulties has been he hasn't seen how serious the problem is that we are trying to find a solution for.
- Landis: Unfortunately, it's been referred to as the "hot" money problem, and we're not really concerned with "hot" money.
- H.M.Jr: Well, let's - one person ought to present it. I'm not that person. I mean how do you want to do it?
- Landis: I think that is for you to determine.
- H.M.Jr: No, I mean... Do you want to present it?
- Landis: I'll do my best.
- H.M.Jr: What?
- Landis: Yes.
- H.M.Jr: Well, just - I mean how would you like to do it?
- Landis: Well, I think the way it ought to be presented is this: First, the significance of foreign movements into this country, the problem of why they are coming to this country; just some general suggestions as to why they come here. The question of how to deal with them. The discriminatory situation as it exists today in this country; that is, discrimination in favor of the alien. The various methods of doing so. The difficulties of certain approaches, such as the capital gains approach and the transfer tax approach. And the immediate desirability of doing something now and the possibility of moving immediately to correct one situation, which can be done at the present time.

H.M.Jr: Well, why don't you present it and then when it comes to the particular plan let Megill pick up the ball there? How would that be?

Landis: I'll do my best.

H.M.Jr: What? Is that all right with you (Eccles)?

Eccles: It's all right with me. I think that the order of presenting it should be..... He is particularly interested in this: the effect upon the countries of the world, see - losing this capital. They can buy less wheat, they can buy less cotton. It doesn't help his foreign trade picture, because if they put capital over here in our securities, it depresses their own picture of France today, and England, needing its own capital possibly. So that we are really not working against the interests, generally speaking, of those countries.

All right. Then the effect upon us, who don't need the capital; that it comes in, it adds to our bank deposits; it costs the Government money by having to sterilize the gold, and increases its debt; it increases - creates a speculative market that is not representative of a true condition of values of recovery necessarily; and then, there is of course always the danger of that money being taken out through sale of securities at a time when we least need or desire that it be taken out. It seems to me that that is the sequence of the thing, isn't it?

Landis: (Nods yes)

H.M.Jr: The only suggestion I might make in presenting it - I don't think I'd be apologetic about the foreign field. I'd let them bring that up. I mean I think I'd present it as a positive thing.

Eccles: Yes, don't raise any question about it.

H.M.Jr: Yes, I wouldn't apologize or try to excuse anything.

Landis: Apologetic along what line?

H.M.Jr: Well, I mean Marriner started in by saying, "By letting this money come we are taking it away from the cotton and the wheat." I mean I wouldn't start off by trying to get him thinking along those lines.

- 6 -

I mean if he says, "Well, it's going to hurt my trade treaties," then I think it would be time enough.

Eccles: You mean hold out the best argument until the...

H.M.Jr: I mean I'm in pretty fast company here and I just don't know. I just wonder if we don't want to just state the case and then if he begins to argue and say, "Well, this may hurt my trade treaties," then bring that up. I don't know.

Eccles: What we are doing is not against his trade treaties.

Oliphant: I wouldn't undertake to tell Hull what his problems are.

H.M.Jr: That's exactly what I had in mind.

Landis: Oh, I wouldn't bring in the trade treaties there.

Eccles: The monetary aspect of it.

Landis: You're really not harming the foreign countries by doing this.

Oliphant: May I say this: The idea I'm trying to get across - to illustrate, if we spent an hour with Feis describing capital movements and its consequences, etc., so that he got a very keen appreciation that here is a very live picture, and then had spent 30 minutes - we'd have been better off doing it the other way around. He didn't get a keen appreciation.

Eccles: I thought he was sitting in conference.

Haas: He had a representative, but he wasn't here.

H.M.Jr: I think what you've got to say for them is this, because Mr. Hull is terribly hot and bothered about the trade treaty legislation and he's having a lot of trouble. I think he's been concentrating on that and hasn't had time to pick this thing up, any more than I have had time to pick up Henry Wallace's sugar stuff. I just refused to be pulled in on it; I can't do my homework on it.

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The reason I'd just as leave have Landis or Eccles state it rather than somebody from the Treasury is that - I don't know how you are, but I look at you more as a neutral, because we have so many differences with the State Department all the time and I don't imagine that you do. I mean that your paths don't cross.

Landis: Oh, our paths cross.

H.M.Jr: Oh, do you? I mean I was just suggesting that possibly it might taste a little sweeter - I don't know. But we are all here to pitch in. I don't expect very much trouble. I mean I've always found he stands up for what he believes, but - I mean he's always very polite about it.

Eccles: With reference to this thing that Herman was discussing, this proposal for a tax refund, my personal view is that I would sooner see a flat withholding tax, base it on equity pretty largely, which would meet most of the State Department question.

Oliphant: I didn't mean to infer from what I said about the difficulty that it would take us long to be ready with that. We'd be ready to discuss it with Beeman and Parker in a very short time.

Eccles: I would say if it isn't going to be just a plain simple tax that if you based it on.... As I got the thought of the President yesterday, if there would be a justification for a flat tax, if it was in line with what other governments charged Americans, then we could justify an increase on that basis that the State Department or nobody else could seriously object to. But the discretionary provision, of course, was the thing that raised the difficulty.

Oliphant: Of course, you might think of it in terms, Marriner - in terms of what they would charge Americans if they were confronted with a like influx of capital. That is what we are not trying to do. We are trying to control the movement of capital. And our equity argument won't last very long down on the Hill.

Eccles: Then if we do that, we shouldn't make these drawback exceptions. That's the point. I'm for the flexible

provision just as it is, but when we begin to get to the equitable aspect of it, then I'm not for it. If we can treat it as it is without dealing with the question of the equitable aspect, all right. If we can't, if we're going to make exceptions because of equitable situations, then I say let's go to the flat tax and deal with it purely as an equitable matter and not as a legislation to deal with a capital import problem, except just incidentally.

H.M.Jr: We had a meeting here this morning. I can't talk for Taylor, but I think with the exception - I don't know, may have changed. Or I'll just put it this way, that talking for myself after talking with you people, we have pretty well come to the conclusion that if we can't have this thing on a flexible basis I don't know whether we want to go up and ask for it at all.

Eccles: I agree with you.

H.M.Jr: We have pretty near come to that basis, because if you just increase it from ten to twenty and leave it flat, why, what's the use of going through all the energy, going up on the Hill, and all the rest of the stuff?

Eccles: This is my position. If we can't put it through about like it is, with the chance to go to thirty percent, the flexible basis, then I say I'm against doing anything until we are prepared to meet this whole problem. Let's take further time to study it. Let's decide what we can do about the capital gains tax on stocks, or on the transfer tax, and defer any action at this time until - for another month or two months, until we can actually prepare a program to deal in finality with this problem.

H.M.Jr: But I want to tell you this: that we here in the Treasury will not deal with the capital gains thing unless we deal with it domestically, and there is a very good chance there isn't going to be any tax bill. I want you to know that. Marriner, did you get what I said?

Eccles: Yes, I got it. But of course, this is a separate problem.

- H.M.Jr: I know, but we cannot deal with a capital gains. We are not prepared. We are in an untenable position if we open up capital gains on foreigners and at the same time don't handle our own. I don't know whether you go along with me or not, Landis, or...
- Landis: Well, I go along with you on that. I don't see how you could handle capital gains - the whole question would be popped. If you say, "Impossible - a capital gains tax on foreigners," then you'll have all these fellows like King and his crew; they'll say, "Why do you have a capital gains tax at home? The thing is bad, ought to be done away with." Then you are immediately in a "cat-and-dog" fight of the toughest kind on that capital gains proposition. Whether you want to take that on is not my business to suggest.
- H.M.Jr: well, we're not ready to take it on. And I also want to say that there is a fifty-fifty chance there will be no tax bill at all this year, so I don't want Eccles or somebody to say, "Well..." - I mean I want to make the Treasury position absolutely clear. There's a fifty-fifty - I don't think I'm over- or understating it, do you, Magill or Oliphant, when I say there is a fifty-fifty chance of no tax bill, see?
- Magill: Other than the extension of the excise taxes.
- H.M.Jr: Oh yes. Well, I don't consider that as taxes. When I mean taxes I mean grief. I mean with the exception of that.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

MEMORANDUM OF THE DAY'S ACTIVITIES DATE February 18, 1937
FOR FEBRUARY 18th

TO Secretary Morgenthau

FROM Mr. Magill

1. Taxation of non-resident aliens

My conferences today on this subject have already been reported to you or you have attended them. After Mr. Oliphant and I left you this morning, we discussed with several members of his staff the administrative feasibility of refunds of some portion of the taxes on dividends and interest, to foreigners who have held our securities for some time. It was decided that although there were serious difficulties, legislation could probably be drawn which would be practicable. Mr. Haas and Mr. White expressed serious doubt as to the desirability of any such refunds on the grounds that the force of the whole proposal would be seriously crippled or defeated. It was agreed that Mr. Oliphant's staff would undertake the preparation of a provision for refunds to foreigners who have held their investments for a long period; and that Mr. Haas and Mr. White would prepare a brief statement of the objections to amending our original proposal in this regard.

I requested Mr. Oliphant to assign one or two good members of his staff to work on a plan for the taxation of transfers of stock to and from non-resident aliens. The proposal could be associated with a tax on capital gains or the two could be kept separate.

I neglected to report to you yesterday ^{the} substance of my conference with Dr. Burgess. Attached hereto is a memorandum of his comments and also a memorandum summarizing the conference with Mr. Eccles.

2. Sugar tax

Mr. Eccles told me after this afternoon's conference that he would like to discuss the sugar tax with me when it came before me. I told him that I knew nothing about it as yet, but I should be glad to get the background from him.

RW

Attachments

February 18, 1937.

Dear Doctor Feis:

I believe that your letter of February 17, 1937, correctly summarizes your expressions in our conference of February 16, 1937, regarding the attitude of the Department of State.

We should be happy to advise you of any future meetings which may be held by representatives of the three agencies, directed by the President to study the problem.

Sincerely,
(Signed) Roswell Magill

Under Secretary of the Treasury.

Doctor Herbert Feis,
Department of State,
Washington, D. C.

RM:ogh:drq

mailed by Cest 2/15-

DEPARTMENT OF STATE
WASHINGTON

February 17, 1937.

Dear Dr. McGill:

The Secretary of State has authorized me to confirm the arrangements which we discussed in regard to various situations that may present themselves in connection with the proposed changes of taxation applicable to the income received by non-resident aliens from American securities.

Should the following situations arise, the Department would endeavor to deal with them as herein set forth:

(1) If, as appears unlikely, the Department should be requested to appear before committees of Congress to discuss this proposal, it will state its opinion that the matter is not one primarily within the field of its action or responsibility and therefore has no presentation to make before the congressional committees.

(2) That if, as is frequently done, the interested committees of Congress refer the proposed legislative changes to it by letter for comment, the Department will limit its comment to the treaty phases of the subject.

(3) Should foreign governments enter protests or communications of the character received when the present legislation was enacted, it will transmit these communications to the Treasury for the formulation of the response.

I trust that these arrangements are satisfactory to the Treasury. If you have any further suggestions to make in regard to this matter, please do not hesitate to send them along.

I assume, unless informed to the contrary, that the treaty aspect of the subject will be taken care of in the manner discussed at yesterday's meeting, to wit, by the enactment of an exemption for obligations that may be assumed under treaties.

The Department is appreciative of the opportunity that has been extended of keeping itself informed of developments in the matter, and will appreciate similar opportunity in the event that further action should be given consideration.

Sincerely yours,

(Signed) Herbert Fels

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Sincerely yours,

(Signed) Herbert Feis

MEETING WITH SECRETARY HULL ON
RESTRICTION OF FOREIGN CAPITAL INFLOW

February 18, 1937
3:00 P.M.

Present: Mr. Hull
Mrs Klotz
Mr. Feis
Mr. Oliphant
Mr. Magill
Mr. Haas
Mr. Taylor
Mr. Eccles
Mr. Landis

Hull: It's a very tempting thing to propose an exchange of some personnel between the two Departments when I come over here. I can't - I'm restrained from saying much on account of Feis being along with me.

Feis: Just as well for everybody, Mr. Secretary.

H.M.Jr: What do you want to swap Feis for?

Hull: Well, I've talked too much already.

H.M.Jr: Do you want a catcher or a runner?

(Hearty laughter)

Hull: Well, I'm glad you people have no more problems on hand than you have.

H.M.Jr: Don't know just how to take that. I'm always glad that you think there is less publicity - the chance for publicity - in the Treasury than there is in the State Department.

Hull: Well, we're mighty close-mouthed over there, and we have thirty or forty fellows who make their living just tramping around in those corridors and putting out things to the country. I thought it would save you folks any bother about that.

H.M.Jr: Well, I appreciate your coming very much. Now, I think if one of these gentlemen might explain to you what we have in mind, and then you interrupt just as you feel like it.

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Hull: Yes. If I may just make this remark, we can appreciate your difficulties to a more or less positive extent, and have some ideas about them; and, without going too far into the merits of them, we have run into another phase that hits us. And so we have our difficulties, which I hope in the proper spirit we can carry along with you gentlemen, and let us do the best we can about it.

H.M.Jr: Well, I think it is possible for us to obtain our ends without embarrassing you, and that's what we'd like to have a chance to explain to you, and we'll do it briefly as possible.

Hull: It will be awfully interesting.

Landis: I think I might perhaps open the discussion of this problem, because it has concerned our outfit just as much as it's concerned any other outfit.

We have been watching for quite some time the capital inflow from abroad into this country, which moves primarily into our security markets. It jumped up enormously last fall, still has been on the steady increase, and has had rather abnormal increases in the last two months.

Some aspects of that flow are particularly interesting. First, that it is in large measure of a speculative character. We can judge that by watching the total balance, the total amount of sales and purchases of our securities, and then comparing that with the net inventory change as a result of those changes.

That capital inflow into this country in the field of American securities seems primarily due to obvious things abroad. Namely, the disturbed condition of the European countries; also, the fact that their security markets are out of line - much more out of line with any rational prices than are ours in this country.

Of course, that raises problems for us. It raises problems perhaps of major importance for Mr. Eccles and his group and for the Secretary of the Treasury and his group. It means, of course, the flow of gold into this country, with its consequent increase of

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bank deposits and the cost to the Government involved in that by the required sterilization of that gold. In our security markets it means the introduction of - well, approximately two billion dollars of funds within a very short period of time, until we have something in the way of eight billions invested in American securities in this country.

The problems there don't show any tendency to decrease; I mean the tendency is rather one of increase than otherwise. In examining that problem, methods of dealing with it have been suggested. The field that has been most thoroughly canvassed is the tax field. In considering that, we are struck with rather an extraordinary situation of discrimination against our own nationals in the tax field. We find, for example, that the alien - the non-resident alien and people in his category are not subject to the capital gains tax in the way in which our nationals are subject to that, therefore permitting - giving an edge to them to speculate in our securities which we deny to our own nationals.

Hull: Now, that relates to all classes of investors from abroad, does it?

Landis: Yes, all classes of investors except those that are resident here or that we can reach through the fact of being resident in this country.

We find also this to be true: that from the ordinary standpoint of taxation there is a discrimination too against our nationals. The withholding tax on interest payments and dividends runs about - runs ten percent as against the alien. With reference to our own nationals, of course, the tax starts on a four percent basis but it has a progressive effect, so that, according to the Treasury figures, if one would try and draw a rough generalization between this progressive tax on our nationals and the straight withholding tax upon foreigners, the figure would be more in the neighborhood of twenty percent than the existing ten percent.

Hull: The withholding tax, of course, is a gross tax - tax on gross income rather than net, isn't it?

Landis: Yes.

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- Hull: Whereas the other is strictly a net tax based upon the assembling of all the capital.
- Magill: Well, of course, the alien's other transactions that would give the net are assembled at the place of his residence. And then of course, further, there would not be many deductions which would be attributed to these items like dividends and interest, on which the withholding is made.
- Hull: I was asking the question as much as making a statement. It is practically a gross tax - tax on his gross income, isn't it?
- Magill: Well, it is, yes, in one sense; that is, the withholding is from the gross amount of dividends or interest which are payable to him.
- Hull: He gets no deductions or abatements or exemptions.
- Magill: No, not here.
- Hull: And pays on the gross amount from this country.
- Magill: But, as you doubtless know, we have the same situation, for instance, among our own states.
- Hull: Yes.
- Magill: Exactly the same condition exists there. And I think the general theory is that he should get the deductions in the place of his domicile rather than in the place in which his income has the source, if there are the two places.
- Landis: Well, to go ahead with the examination of the field and see what possible remedies there are that would deal with this situation, as we view it, both to the good of our own country and to the good of the world generally.
- We canvassed very carefully the application of the capital gains tax so as to bring equality of treatment with reference to that tax as between nationals and non-resident aliens, and we find that there are enormous difficulties in working that thing out administratively. You can readily appreciate that when you

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recognize that many of these transfers never occur in this country. They are transfers made abroad. Despite that fact, though, the increase in capital that results from a transfer of an American security made abroad is an increase flowing from the fact of American enterprise at home, and in justice that increase ought to bear the burden of taxation just as much as an increase occurring from a transfer here in this country.

The difficulty of the approach through the capital gains tax has been the administrative approach. Idealistically, I suppose it might be desirable to look at it from that standpoint. Furthermore, I think the general judgment is that there is an immediacy in the present situation; I think Mr. Eccles particularly is disturbed about that from his angle; frankly, I am disturbed about it from the standpoint of the increasing speculative activity that has been showing in the market over the past two months.

Hull: May I - you don't mind if I interrupt you as we go along.

Landis: No, not at all.

Hull: Just so I can understand a little more fully, is it your primary purpose to curb this situation or to impose these taxes, or both?

Landis: The primary purpose, I should say, is to curb the situation. But if you find that one cause for the situation results in a favorable treatment that is accorded which from a broad standpoint seems not to have any justification, at least that deserves to be cured, even though it may not cure the entire situation. Other measures may be necessary, but that one way of movement seems to be free of difficulties that might be present in another method of attacking the situation.

The result of that examination in the capital gains tax, I think, brought us to the realization that if we want something to be immediately done with the problem, we can't use the capital gains tax route. Nor did we feel that the imposition of a transfer tax on stocks, directed against aliens as such, was a very desirable solution to the problem. It had

aspects of discrimination, beside aspects of difficulties of administration.

On the other hand, we are now administering a withholding tax, and an increase in the rates of that withholding tax seemed to us not to create administrative - new administrative difficulties. They are already present; the Treasury has already worked out the method of administration there. And from a - generally, from a legislative standpoint, it seemed easy to attack it in that way.

Therefore, the judgment of the group here was that if we wanted to attack that thing immediately, and there was a desire to attack it immediately, the best way would be to move towards increasing the rates on the withholding taxes imposed on non-resident aliens.

Hull: May I ask a question? Would it be possible to get at these speculators from abroad by making their admission to the stock market - require them as a condition precedent to entering, their appearance - make these transfers within our tax jurisdiction?

Landis: That raises the type of administrative problem that has really balked us for the time being in the administration of the capital gains tax: the difficulty of finding the beneficial ownership beneath transfers of this character. It raises that problem. It means that you have to constantly watch a transfer day by day in order to discover when the individual that you are after enters into the picture.

Hull: I was just wondering if you haven't got sufficient basis there - sufficient evidence of the accumulation of taxable income to require some kind of safeguarding by these foreign speculators in the way of a preliminary showing. It seems to me - not my business to suggest; I wouldn't venture to do that - but I just inquire whether there couldn't be an avenue of approach from that angle to this.

Landis: You mean before.....

Hull: The speculator who gets in here and avoids the capital gains tax and avoids all taxes, practically. They practically avoid this ten percent tax, it is so difficult.

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Lundis:

There is that difficulty even with reference to the withholding tax, but I think you increase that difficulty enormously when you think in terms of trying to deal with the individual transaction as such, put some barrier up as against the foreigner acquiring the stock in the first instance. I don't think there is anybody here that doesn't recognize the deficiencies that are present with reference to the present scheme. It doesn't attack the speculator as such; it attacks him indirectly, because the burden of that tax falls equally as against the person who is a day-by-day trader and as against the person who holds and has held the security over a period of time. But, contrariwise, that person today - the long term investor, foreign investor in this country, has an undue preference and therefore to attack him is not discriminatory; at least, as it seems to me.

Furthermore, one further device that we have in mind as a cure against the speculator is to give the President himself a discretionary power, within certain limits - rather, a flexible power within certain limits, to elevate that tax rate. I mean - the thought was to thirty percent at the most - between ten percent, the existing rate, and thirty percent. As such, we of course have to consider the legislative problem that would be raised with reference to the grant of flexible power elsewhere in the field of taxation; but it seemed particularly easy to get that flexible grant in this field, where you are dealing in part with an instrument of policy in the foreign field, where delegation to the Executive is a common tradition.

The flexible power admittedly has some difficulty of justification on the ground purely of equality of treatment between aliens and nationals in this country. Yet, from the standpoint of being a discouraging threat towards the speculator - its liability from the former standpoint seemed less than its asset from the latter standpoint. In fact, I think we feel rather clearly that unless some discretionary power is involved there, the mere raising of the withholding tax from ten, we'll say, to twenty percent, possesses not too great a virtue. It may be enough, and yet we have some doubts about that without the discretionary power, inasmuch as this is a moving problem from day to day and has to be handled as such.

- Hull: Which countries are chiefly represented here, do you think, in these groups - three groups, two or three groups of investments over here? The British and French?
- Landis: Well, England itself possesses the largest amount of investment in this country. Perhaps the most quick-moving countries, as I see them, are the Dutch in this field and also the French are rather quick-moving. That is, I think if you try to measure speculative activity, the speculative activity perhaps among the Dutch is greater in ratio to their change in inventory position than that among the English, but the English is a greater volume.
- Fels: May I ask a question just for information? How is it you can get at the fellow who receives a dividend on a thousand shares of United States Steel and yet can't get at a capital gain that he might make by selling the thousand shares of Steel? What is the point that makes one thing feasible and the other not feasible? I just don't...
- Landis: I think Herman Oliphant could answer that easily. But the first thing that occurs to me is this: that in getting at the fellow who receives a thousand dollars as dividends on United States Steel, you only have to look at the source of that, whereas if you are getting at the fellow who has bought a hundred shares of Steel and sold it the next day, and bought a hundred shares and sold it the next day, you are constantly - every day, every hour, you are trying to find where the ownership of that is, and that raises an administrative problem that can be stepped up in intensity to almost any level.
- H.M.Jr: Well, I must just say at this stage that even if it was feasible, we don't want to raise the question of capital gains tax at this time, because we feel that we can't raise it for the foreigners without raising it for our own citizens, and we are not prepared to raise it domestically. I'd like to just take a minute to explain. We have an understanding with Harrison and Doughton at this time that, with the exception of the possible extension of the miscellaneous taxes in toto, we won't consider a tax bill until after the 15th of March, and there is a

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fifty-fifty percent likelihood that we will have no tax bill this year of any kind. So we couldn't very well raise this capital gains tax for foreigners without opening up the whole tax field of our own, and they are not prepared to do that at this time.

And that is another reason why we wanted to use an excuse, a reason for hurrying this thing. We have a financing on the 15th of March and - I don't know if it's been pointed out to you - under the Second Liberty Loan Act foreigners holding United States Government securities are free from all taxes on the income received from such a source.

Hull: That was put on back there, was it, to bolster up the value of our securities - back following the War?

Oliphant: Facilitate their sale.

H.M.Jr: And we thought that we could go to the Hill and say, "Now, we like this legislation but we have to have it before the 15th of March so that the security we sell on that date will not continue to - the foreigners who buy that will not continue to enjoy that privilege." As you know, we've got to have some kind of excuse these days to get anything through in a hurry. I just wanted to give you that lighting, background, as to where our tax bill and tax legislation stands.

Hull: Well, we've whittled down our own exemptions on interest from Federal securities to a little nothing, haven't we? It used to be five thousand dollars flat exemption plus a surtax only. What have we got now?

Magill: Well, I think the bulk of them is free from normal tax, subject to surtaxes.

Hull: The same as it used to be, except the five thousand is stricken out.

Taylor: The five thousand is still in.

Hull: Then it's still - it's surtaxes plus an exemption of five thousand dollars.

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- Taylor: Jumped from the normal exemption up to five thousand dollars, and then subject to surtaxes.
- Hull: Well, that's what it's been all the time.
- Landis: What I think might be desirable in order to appreciate our problem here - I have tried to give it from the angle of security control - is that perhaps Mr. Eccles could give something of a broader picture of it than I can give, from the angle of the effect upon gold reserves in this country.
- Hull: Yes, thank you. This proposed increase of the flat tax from ten to twenty percent - have you any estimate as to the relative proportion of the long term investments and the bank deposits and the speculations, all from abroad, that this twenty percent - how it would hit each of those three groups?
- Magill: Mr. Haas could give that.
- Haas: Let's see, there are some rough estimates, Mr. Secretary, on the total amount of foreign investments in this country - as you know, somewhere between seven and eight billion dollars. Of that amount, about three and a half billion is estimated to be in securities of one form or another, stocks and bonds. I don't recall offhand the other breakdown. I think there's about a billion and a half estimated in bank balances and the rest of it is in direct investments, in plants. And then there are some other miscellaneous items in there to make up that total. But just how that is taxed - this withholding tax would operate, would be withheld from all income derived from these investments, whether it is dividends, interest, rents, or royalties.
- Hull: Yes. I imagine - just imagine that you could get at the income from these long term investments in this country more fully than you could get at the profits or income from either - certainly the speculations and the stock market. I don't know how it is about the bank deposit situation.
- Haas: If I understand what you mean, it is easier to get at the longer term fixed investment income than it is to the income otherwise derived. I think you're right.

- Hull: I was trying to see what group of this foreign capital in here this would hit principally, or whether it would hit all three groups in somewhat relative proportion.
- Landis: Well, you see, it would hit the speculator because his costs for carrying a position in this country are increased as a result of that tax. It hits him. It perhaps doesn't hit him as severely as we would like it to hit him. Now, I think another thing that is admittedly true is that in large measure one is working in the dark on this matter; we don't know how much of a pressure is sufficient to bring about an appropriate deterrent to the speculator in this country that one wants.
- Hull: Just how... Then you take short term investments; do they grow principally out of owners of money and credit abroad who are scared and looking - who are hunting for hiding places?
- Landis: I don't think in the short term field that is so. From the standpoint of bank deposits in this country, there are a great many bank deposits here which are not drawing interest, which must be simply the flight of capital because they are scared abroad. It is not a speculative venture; it is based upon the desire for safety rather than anything else. With reference to your outstanding good short term obligations, I suppose the same thing would be true. Whether that would be true with reference to short term obligations of a speculative character, of which quite a few exist - I doubt that and I would imagine that the speculative influence would be at work there too.
- Hull: Now, was some other gentleman going to say something?
- Landis: I was thinking that you (Eccles) might just bring out the significance of this problem from your standpoint.
- Eccles: I think Mr. Landis has covered the situation very well and quite fully. Very little that I can add to it, except to say that foreign capital coming to this country adds to the increase of bank deposits; bank deposits at the present time are about two billion dollars in excess of what we had in 1929. They are

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of sufficient amount that, given the velocity of the turnover of '29, we could support a national income at the 1929 price level of about ninety billion dollars.

We can control - at least, can influence the domestic creation of bank deposits. Bank deposits domestically, of course, are created by domestic credit, bank credit; whereas deposits that are created as a result of gold imports - we exercise no control over their creation. It may be coming at a time, as we think it is, when it is undesirable, and it may go out at a time when it is the least desirable to lose it. Therefore they accentuate the domestic credit control problem. The problem of the Reserve Board has been greatly minimized as the result of the gold sterilization.

Hull: How much of that is sterilized now, approximately?

Eccles: What's that, a hundred and some odd million?

H.M.Jr: 160 or 170 million.

Eccles: It only went into effect in December. That prevents those....

H.M.Jr: 172.

Eccles: It prevents that gold from adding to the excess bank reserves,....

Hull: Yes

Eccles:which create - when added to the reserves the problem is of course greatly increased, because upon each dollar of reserves the amount of credit that can be expanded upon that is greatly multiplied. So that the sterilization has eliminated that problem. It has of course increased the Treasury problem of financing that cost. And so long as gold is coming in, gold is being sterilized, there is always an element of danger with Congress, looking to the indefinite future, of those getting out into the credit mechanism. There is no danger today so long as the present situation prevails, because the Treasury and ourselves have a very clear picture of the problem and an understanding of it, so that we have no concern

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about this sterilized gold getting into the banking system and creating an inflationary situation, unless Congress should do something about it, which is not likely at this time at least. We would much prefer to not have the gold here, where it is not needed.

Now, we of course are indirectly interested in the production prices, as they are closely related to the problem of domestic credit control. And to the extent that these funds come in.... And if they were used for the purpose of buying domestic - of producing and giving employment to the market at this particular stage, it would possibly be helpful. But to the extent that they create fictitious price levels by going into the speculative channels, either commodity futures - I mean commodity speculator or stock speculation, they tend to upset the equilibrium of an orderly recovery. The withdrawal of them would of course tend to accentuate the declines.

That is the problem as we see it and that we are interested in.

Hull:

Naturally we desire to work with you gentlemen and try to work with you just as you undertake to reciprocate with us, and I think altogether we get along very well. We are trying to ease along - have been trying to ease along with respect to this situation and cause a minimum of bother to you folks in whatever you have in mind to do.

Naturally, I get some very earnest pleas from outstanding people about the idea of seemingly contradicting our commercial policy as it relates to international commerce and trade.

I think, for instance, if we take the tax phase of this.... I can understand how you'd want to from any viewpoint gather from those taxes from abroad their full and equitable share at least, if not more. Well, that's one proposition.

The question of the extent to which you can use the tax method to curb this capital - these international capital movements, is what gives us some concern. For instance, I think some months ago we negotiated a

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tax arrangement with Canada under which each of our countries - at least we only charge five percent instead of this ten percent that we have now and which is to be raised to twenty percent. I don't remember who started that.

H.M.Jr: Well, under this - if this went through, this wouldn't interfere with your Canadian treaty.

Hull: No, I know it wouldn't. But what I am coming to is that every week, and sometimes more frequently, we are struggling to induce other countries to remove discrimination against us. We have tried it in every form, and if they can find any ground or plausible pretext to plead that we are doing something similar, then they stop right in the middle of the road.

For instance, you take this situation. I haven't worked it out. I know - don't know whether I could at this time or not; I could at one time, but that's beyond me. They will contend that it is awfully difficult to compare the incidence and all phases of a tax on gross receipts with a tax on income.

All questions of reductions and exemptions and abatements such, for instance, as the British income tax system contains, do not enter into the calculation when we tax a British subject on, say, long term investments over here. So different - investment in our securities. It will be in his name that the protest would probably come, if one should come; it wouldn't be in the name of these gamblers in the stock market or these owners of scared capital that is rushing here, yonder and other places. And I was wondering whether this tax proposition wouldn't hit these long term investors to such a heavy extent as would give them all the more ground to make complaints. I merely raise that as an illustration.

At this time, speaking in great confidence - Mr. Henry Morgenthau knows about it, of course; he knows anything that I know that he wants to know about our trade movements - just now we are making some progress in our appeals to the biggest commercial countries abroad to take up seriously for

the first time the question of abandoning all of these preferential and discriminatory practices and methods they have in international finance and commerce, and move in our direction. We are right on the brink of something - some accomplishments in that direction, according to my best impression. In that I may be mistaken in the end, but that's the way I feel about it.

Now, that calls for some precaution on our part to guard against any particular step that would give them a chance to say, "Well, you're starting in here doing something that squints in that same direction." I'm not saying we are, understand; I am raising the question just at this particular time.

Of course, I may be mistaken, but I think unless these other important countries in Europe, for instance, do wake up and move somewhat in the direction of liberalizing their economic liberalism, they will go into an economic catastrophe over there within another two or three years, putting what they have got in armaments and having an unsound economic structure to start with. Then we would all be, of course, in trouble.

It is that broad situation that we are trying to deal with from our angle, and of course you gentlemen appreciate that and have given your cooperation in that direction, and we very highly - we are very highly appreciative of it. Now, it is a question of - so far as I see it, it is a question of being as sure-footed as possible as we approach this complex and conflicting - more or less conflicting situation.

If, of course, it were only a question of equalizing these taxes right now and six months from now, after this critical situation in our field has passed, that would be one proposition. But if this is a major factor in reaching and curbing the worst conditions that exist over here - I mean those relating to gambling in the market, this short term capital rushing around, in contrast with the more legitimate long term investments that people have over here, which none of us are disposed seriously to disturb, I think - it is those phases that have a more or less conflicting nature that give them a chance to decline to correct

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their methods and practices, that obstruct and interfere with our whole movement to advance more liberal commercial policy in the international situation.

Now, that is our concern, and we want to go to the outside limit in cooperating with you, and we not only would like to but we know you will not overlook this other angle in our field as you feel your way along in your efforts to deal with this situation, which we all can appreciate.

H.M.Jr: Well, looking at this thing from a Treasury or even a broader standpoint, I think that all of us - I don't think there is any difference of opinion that this situation of foreign capital seeking investment here on a permanent or speculative basis in the United States has got to be so large that it is becoming a dangerous factor as it affects our domestic economy. I mean all of us that have studied it agree as to that. There was a time when we were very glad to see it come to our shores. Looking at it purely from the selfish standpoint, we don't need it now. We don't need this money.

Hull: Mr. Secretary, I've forgotten whether you estimated the amount of this seven or eight million that is invested in long term securities and the amounts invested in the other two categories.

Landis: No, that is total investments.

Hull: I know that is the total, but what proportion comprise these three categories?

Haas: I could attempt to answer that, Mr. Secretary. There are no estimates - at least I haven't seen any - which break the foreign investment down into short and long term, for example. You have an estimate of investment - foreign investment in securities, which includes bonds and stocks. One difficulty we have there in attempting to estimate short and long is: What do you mean by a short term investment, you see? Some stock investments work out to be very long term investments for some people and not for others. But they are - out of the seven or eight billion, three and a half billion are in stocks and bonds, and we'll say about a billion and a half in bank balances. Now, a good portion of

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those stocks and bonds probably are short term investments; you can't tell. But such short term investments as are there are in some - some of those certainly are short term investments. Then the bank balances - they also may be rather permanent; a goodly portion are held here for genuine trade purposes.

Hull: What I was trying to get at is that you can do considerable to these gamblers and scared people who rush their properties over here without their governments' taking any notice of it. But if we go too far in what they might be able to construe as discrimination against long term legitimate investments over here, then they go to retaliating on us, of course.

Magill: Well, we have had that very much in mind in attempting a solution here. As I think Mr. Landis said, to attempt to get the speculator, so far as we can see, involves quite an elaborate attempt to tax capital gains on transactions that are quite frequent and moreover do not necessarily take place in this country, and are being conducted by persons who are not resident here. So, with the transaction very frequently out of the country, the individual who is liable for the tax out of the country, the certificate of stock itself for the most part out of the country, it is not at all easy to formulate a scheme which will effect the desired result without very elaborate machinery.

And, speaking then from your point of view, I would suppose that if we came to Congress now with a proposal to attempt to tax capital gains or speculative transactions, its elaborate character itself would be an affront to any foreign country which is engaged in these negotiations with you.

Now, as contrasted with that, this proposed increase in the withholding rate which we have spoken of, is a very simple thing to do so far as the legislation itself is concerned. It involves no great administrative machinery. Furthermore, we can justify what we propose to do so far as the proposed rate is concerned by the proposition that both in Great Britain and in France the rates applied to our own nationals - withholding rates applied to our own nationals, are

as high or higher than the rate which we now have in mind. And furthermore, the effective rates as applied to our own nationals here at home with respect to their income here, works out in enough approximation to be the rate which we now wish to apply to the non-resident alien.

Hull: Of course, it is very difficult to compare those rates.

Magill: It is really impossible to get an exact equivalent.

Hull: That's what I referred to, frankly. That's the thing that gives me some concern, as it applies to income from long term investments. They can't go in there and contrast those two situations enough. Not in every instance, but in some cases it gives it some semblance of discrimination.

Magill: Well, they operate - I have seen, as you have - they operate on a hypothesis that for the most part is completely false. That is, they start in by showing the rates which are applicable to American citizens in the lower brackets, and then they contrast that rate with the withholding rate and they say, "Look, the withholding rate is much higher than the rate applicable to your own citizens of small incomes." Well, that is of course perfectly true in itself. Nevertheless, as our best information indicates, the foreigner with a thousand dollar income or five thousand dollar income is not apt to invest in this country at all. So that the comparison which is made in these discriminatory protests - protests of discrimination - the comparison really isn't a proper comparison.

Hull: Pardon us, Mr. Secretary. We took you off the floor.

H.M.Jr: That's all right. I'm used to it and like it. I don't know where I was, but I wonder if it wouldn't - I don't think what I was saying - I've forgotten it for the moment, but I'll skip what I was going to say. I'll reserve the right to come back. This device which we worked out as a proposal, which we showed to the President yesterday - Eccles and Landis there - I'd like to show you that device, because I wonder if after you've seen that it might not possibly alter some of the doubts you have in your mind. We

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have a finding of facts in there. There are four findings of different kinds of criteria, and one of them is trade treaties. Don't you (Magill) want to show that to Mr. Hull?

Magill: I'm very sorry I don't have an original. (Hands Mr. Hull copy of paper entitled "Summary of the Proposed Legislation," dated 2-17-37, copy attached)

Taylor: That's the flexible portion.

H.M.Jr: I mean that's what we gave the President yesterday. If you will give Herbert Feis one... I think possibly after you've seen that it may answer some of your doubts.

Hull: You notice the press - that is natural - the press is creating this sort of psychology: that the sole purpose really is to curb these movements rather than one of taxation; that that is purely incidental. Now, if it should work out that this tax should hit a good bit between the eyes the income from these long term investments, rather than the other two categories - if that sort of psychology gets abroad and gets definitely fixed, I think that's the thing that gives us the trouble.

(Hull reads summary)
(Mrs Klotz leaves)

Hull: This is very close to the matter.

Is it the judgment of you gentlemen that a country would be led to believe - that is, that this same psychology would persist on an increasing scale that the purpose of these steps is really primarily to curb these capital movements rather than one of taxes? And if so, whether it strikes largely at this income from these long term investments. Now, if that is the case, do you think that does merit any further consideration?

H.M.Jr: I don't think I quite understand. You mean as to how the country will receive it, or how?

Hull: The effect it would have on our efforts to deal with other countries on discriminations and our efforts to induce them to get in behind the move-

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ment to abandon a lot of these practices and methods in international finance and commerce that are causing so much trouble.

Oliphant: I was going to say, Mr. Secretary, that if, as I take it would be the case, the President geared his exercise of this discretion to these erratic movements, the business world would very soon appreciate that that was the purpose of the legislation - his using the power only so far as necessary.

Hull: It is your idea, then, to make this discretionary with aim, is it?

Oliphant: Upon making any one of those four findings.

H.M.Jr: And we might do nothing even; the President might do nothing.

Oliphant: Might do nothing.

Feis: Mr. Secretary, I don't want to shift the discussion from your emphasis of the question of what type of capital this would affect, but before the discussion ends on this one, two, three, four, I want to venture the impression that it would have a result of bringing the whole question of tax policy into the international bargaining field, which would be extremely full of consequences. All with the exception of four, which is the thing that Mr. Oliphant has just emphasized. As long as it rested on four, it wouldn't do it. You rest it on one, two, and three and you will have brought it into the international bargaining field.

H.M.Jr: Well, what you are saying boils down to this. It is a question of giving these various considerations X amount of weight.

Now, what I started to say before. Landis has got his problems; he's got to watch the stock market. Eccles has got his question of credit. I've got mine. All of us find our task increasingly difficult due to the fact that this money is continuing to come at a very rapid rate. This whole question of domestic economy is involved, and it is our particular responsibility for all three of us, and it is being made more and more difficult.

I don't think there is any question that this proposal which we make will fall on the man who has had his money invested here for a long period; not with the idea of fright or anything else; he's come here because he thinks it is a good place to invest. And it will fall on him just the way it will on the speculator.

After three months, the various technical staffs, with two members, I think, from the State Department sitting in from time to time - the only device that we can agree on as a start is this one. Now, we all recognize the problem and we do feel that, whether this is the device or something else, the only thing - all the other devices are much more drastic - but that we've got to do something. Now, against that we have to weigh pending important trade treaties, and I think that the final answer is - which far be it from me - is: Which is more important, the problem which the three agencies are facing and trying to handle, or the problem of extending these treaties and our trade?

And possibly the thing that we are suggesting will not be considered offensive to the countries that you have in mind, for the following reason, and that's what I'm leading up to: Certainly, talking very much in this room, the present French situation is aggravated by a large flow of capital from France to England to the United States. Now, our withholding tax isn't going to solve the internal situation in France. But, on the other hand, we are not doing anything to injure the French Government and, not too indirectly, we are merely doing something to assist them; because if we are successful in retarding the flow, and that's all we can hope for, we may back up this capital into France, even though the people don't want to keep it there.

Now, Switzerland has already made it - taken a move to make it difficult to bring gold into Switzerland. Holland has started this week to do something. And I just wonder whether England and France at this time might not welcome such a move on our part, because it is increasingly difficult for England to be the funnel through which these funds flow.

Hull: Yes

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H.M.Jr: See what I mean? Rather than objecting, they may just at this time welcome this thing, providing we can explain it to them - that we are not going to tax aliens living abroad any more than we do our own citizens.

Hull: Well...

H.M.Jr: That's what I wanted to say.

Hull: Well, this is right in that connection. Of course, I would biff all of this gambling situation and all this wildcat capitalistic movement right in the face if I could - which you gentlemen are trying to do. But if they are badly scared over there, as I think they are, they wouldn't stop to think whether the tax over here was five percent or fifty percent or twenty-five percent; they would come on. If they want to gamble and got the gambling instinct, like some of us have over here, they wouldn't stop to inquire about the tax matter; they'd jump right in.

Now, I am wondering whether the amount of good that this first initial tax proposition, which will wake up the permanent investor, as you say - I am wondering whether the amount of good that it would do in the way of curbing these worst phases would be sufficient to justify its immediate application. That is one thing.

H.M.Jr: May I answer that? After all, on all the problems that are here, that we are very much worried about, we have to make a start somewhere, and amongst ourselves we have agreed - and we wouldn't want to have this agreement without expressing it to you - that this is only a beginning if the funds continue to flow as rapidly as they have.

Now, to show you - I don't know whether the President told you this yesterday at lunch - but what he's told me, how far he's thinking, he's even asked me to think how can I go about to register the holdings of all aliens in the United States - what possibility of taking over their securities, all of them? Well now, I mean - and he's asked me to be thinking about machinery to do that if this thing continues.

Hull: Yes.

- H.M.Jr: Now, the fact that this proposal that we make doesn't hit the worst offender, I am not convinced, if you don't mind my saying, is really an argument sufficient to keep us from making any start at all.
- Hull: Yes, sir. Well, of course...
- H.M.Jr: ...because, frankly, after three months we can't find anything that we can all agree on as a start except this particular thing, and that is the only thing we can agree on at this date, keeping in mind that we don't want to at this time open up the question of our own tax legislation.
- Hull: Now, I hope you will appreciate our situation when we raise questions with these other governments and they say, "What is your position about curbing all kinds of capital movements in your country? Are you advocating that?" We are in a difficult position to say "Yes" when we are appealing to these other countries to do just the opposite. That's why we've been easing along to make ourselves agreeable to you gentlemen. Mr. Feis was the best man we could send over here for that.
- H.M.Jr: But isn't the question of, let's say, exchange control as it has just been established in Japan, the exchange control in Italy, the exchange control in Germany, which is a deterrent to exchange of goods - isn't that something entirely different than this question of trying to slow up the flow of capital for investment and speculative purposes coming to our shores?
- Hull: Well, of course, if they make the charge that this is more or less of a discrimination in the first place - and governments get up charges pretty easily that way at times - and then raise the other question that it is a substantial factor, that it is an important factor - I'm not discussing the merits of it now - that it is an important factor in obstructing the flow of capital and commerce back and forth among nations - they can make a somewhat broad general statement like that, and when, as I say, we have every kind of an obstruction and discrimination under present methods and practices in international trade and finance that we are asking these countries as fast as they will to abandon. So we are in a very

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difficult position. We are like we were, if you will recall, when Germany approached us to buy eight hundred thousand bales of cotton and somebody put it on me to decide on it. I was down in the middle of the Cotton Belt, where everybody wanted to sell cotton. I decided against the sale because it required us to set a precedent that would fly up in our face every step we took throughout all of the future prosecution of this reciprocity and economic program.

So it is difficult for us to say that we approve what the country may consider as more or less - and again I'm not discussing the merits; I understand something about your problems and your difficulties. I am doing my best to keep out of the way here, but I am trying to make a little more clear where we are.

Now, we can ease along just as we are starting in to ease along, but you must - if the country decides that this is really a purpose to obstruct normal and not unnatural movements of capital through honest legitimate long term investments, that we are standing for it because it gets us into trouble under our policy - I just hope you'll appreciate our situation.

H.M.Jr:

Well, I'm trying to, but I want to be - I simply think we ought - I want to be just as frank as I can be with you. Let's say, for instance, the President decides, or we decide of our own accord, that we won't do anything at this time, see? Well then, I am fairly sure that if the situation keeps on as it is, when we do move the thing will be far more drastic and we will have to move so fast that we definitely would then be coming in conflict with your trade treaties. I don't think there is any question about it. I mean if we delay this making a start, what I am fearful of is the next move is really going to be a drastic one. And I don't know whether these other two gentlemen agree with me or not, but they've got their own minds to speak.

Eccles:

Secretary Hull, it seems to me that to the extent that this proposed action would reduce the amount of capital coming here, it would help your problem. It would help to stabilize world economy and would help

to increase the volume exchange of goods and services. The loss of gold by many of the countries that need gold will tend sooner or later to create a restricted credit development in those countries, reduce their buying power from this country. Restricted credit tends to break down their prices; or, on the other hand, they would be forced, if they don't restrict credit, to permit their currencies to be devalued further in relationship to our dollar.

Hull: Yes.

Eccles: International stabilization of our currencies seems to me to depend upon those countries that need capital being able to get it. Those creditor countries such as this country is - it would be more natural for us to make foreign credit extensions rather than have foreign credit extensions made to us, which the capital movement to this country really amounts to. It seems to me that any program that will reduce or even eliminate altogether the movement of capital this way - even so far as the loss of some of the foreign capital that we have, which would mean a loss of gold - would be in the interest of world stability. And it may tend, then, to have those countries that are sending capital here who are creditor countries and have it to send, to direct the flow of that capital to the debtor countries that may need the capital.

Hull: Do you get any intimation about the attitude - what is in the mind of the British about this proposition?

Eccles: I haven't, except some - nothing except of a trivial nature.

Hull: You don't know whether they have really considered it yet?

Eccles: I really couldn't say.

H.M.Jr: I haven't - we haven't had anything, have we, Wayne?

Taylor: Stuff in the papers, quite a lot.

H.M.Jr: Well, we haven't taken it up with them.

Hull: I agree with you, Mr. Eccles, about the objective there. The only question is how far the nations can go in artificial methods of bringing about just what you describe there - this sound, wholesome objective. Heretofore, when one country would do an arbitrary thing for a legitimate purpose, then another country would do something arbitrary to offset that, and of course we pile up and stack up an artificial, arbitrary economic structure. Now, if your idea were to avoid that sort of a situation in accomplishing what you describe, why then of course I'd be a hundred percent in agreement with you. We are trying in our field, as you know, to move in a natural direction of gradually abandoning these artificial and arbitrary methods and devices that each government has been stacking up for some temporary purpose or to offset something that some other government has done.

Eccles: Of course, isn't it true that a managed currency system within the various countries and a managed international exchange is getting away from the automatic international operation of the gold standard, and isn't action of this sort necessarily an inherent part of a managed national and international currency situation?

Hull: It may be. I don't pretend to be versed in the fundamentals and in the mechanics of international finance and exchange and credit. I just want you to know our position. And if you feel that the benefits of this withholding tax proposition will be greater to this country than the possible hazards which it creates in our immediate trade negotiations, for one reason, why then you gentlemen - as far as I'm concerned, you go along, provided you will give us permission to adhere to our original doctrines which are supposed to underly the program for economic rehabilitation that we are prosecuting. Would that be agreeable?

H.M. Jr: Well, anything's agreeable, and the decision isn't mine.

May I ask you this? This idea of making this thing flexible in the hands of the President, rather than

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having a flat increase - how does that device impress you?

Hull: Well, I imagine that would be - if you can make that workable, as you probably - you gentlemen have gone into that.

Feis: Mr. Secretary, may I speak to that?

H.M.Jr: Do you mind one minute if I just get Mr. Hull's idea - which he would think.

Hull: I haven't looked into the mechanics of this, the technical side of it, but in brief... Of course, I'd like to see you gentlemen succeed one hundred percent. I'm just sorry you haven't got a pretty drastic remedy on these gamblers and those - this wild runaway capital that's coming in here, instead of commencing at the other end, but that's nobody's fault.

H.M.Jr: But I want to get just your "horseback" opinion as to which you think would be the least objectionable to the aliens and their governments - having it a flat increase from ten to twenty, or having it flexible in the hands of the President?

Hull: To raise it ten to twenty? Well, the way it's written here it's flexible from ten to thirty.

H.M.Jr: I mean flexible or have it the other way?

Hull: Well, that would bring up the question - my idea would be that that would be determined by the possibilities of discrimination under either plan. If one would give the countries abroad more chance, more ground to complain of discrimination than the other, then I'd take the other.

H.M.Jr: Well, which one?

Hull: Whichever one gave other countries the least ground to make charges that we are discriminating against them.

H.M.Jr: But I don't know which one.

Hull: I know. I don't know which one. I haven't studied it. Apparently the discretionary one, if it ranges

from ten to twenty percent. I don't know. I haven't studied to see how that is based, whether that would give more ground for discrimination charges than the other.

Landis: Could one put it this way, Mr. Secretary: If, for example, the initial rate established on an effective basis treated our nationals like the - treated the aliens like the nationals - if one could meet that burden of proof so that there was a clear equality argument present there, the criticism of discrimination that might be voiced to you would be met.

Hull: Un-huh.

Landis: Secondly, if beyond that effective rate you gave the Executive Department a power of varying that rate to meet, we'll say, either changes in the effective domestic rate or to meet objectives - international objectives which, in the judgment of the State Department, are fully in accord with the general movement that the State - the general objectives of the State Department in the foreign field, it would seem to me that that would meet the problem.

Hull: Well, nobody at home or abroad could object to the actual equalization of any of our tax laws. There is no doubt about that.

Landis: Nor would I think that the State Department could say, "Well now, if the objective of flexibility which will be vested in the President is the realization of objectives which we are now fighting for in the foreign field" - then I should think that that very flexibility would be attractive to the State Department rather than otherwise.

Hull: Yes, yes.

Landis: Now, I think one would have to analyze the conditions of flexibility to be sure that those conditions were in accord with the general desires of the State Department.

Hull: Well, of course, if that could be worked out, why, that would be a happy....

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Feis: Can I talk some to that point?

H.M.Jr: Yes, you better. I thought Herbert was going to break a blood vessel. He's just been bursting for half an hour.

Feis: That's right.

I agree there might be reasons why the variable scheme, the discretionary scheme, is better; but it would bring the whole question of tax rate into the field of diplomatic bargaining throughout the world. If we go along giving the Executive the discretion to modify tax rate on the basis of injuring the foreign commerce - it is one and three particularly that disturb me as creating a whole new field of diplomatic controversy, and secondly, and I am being as brief as possible, a whole new range of argument over discrimination. So I would ask, if it was decided to make it a variable scheme, that there be lots of time taken to discuss with the Department the particular grounds cited. That's the first point.

The second, of a totally different nature, is something that I am not sure can be passed over as quickly as it has been - the point you (H.M.Jr) made: that if this action is not taken and this situation develops to a greater extent than at present, it might compel action of a much more far-reaching nature. I think that is true, but I wonder whether all possible types of action have been considered. Certainly in the discussions that I have heard the major approaches haven't even been mentioned. For example, bank deposits was cited, the problem of constant accretion of bank deposits, a problem rising mainly out of domestic causes, to a certain extent out of foreign causes. It is possible to visualize some adaptation of our banking arrangements or reserve arrangements that might take care of that problem as a whole.

Similarly, the problem of speculation. It is predominantly domestic speculation, to a fractional degree foreign speculation. It is possible to visualize policies....

Landis: That percentage runs - it has run twenty percent.

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- Feis: That still leaves eighty of domestic.
- Landis: Well....
- Feis: It is possible to visualize an answer such as increase of all transfer taxes or variations that might deal with it. My second point would be to imply that I haven't seen in these discussions...
- H.M.Jr: Well, you haven't heard - read the...
- Feis: I go on to say....
- H.M.Jr: But if you don't mind my saying, they are all mentioned in the - our paper.
- Haas: We've got a 30-page memorandum on the transfer tax.
- Feis: Well, on the general transfer tax applicable domestic as well as foreign?
- Haas: Yes, we've gone into that.
- Magill: We've gone into that. That is not in Bryan's memorandum, but we've gone into that on our own.
- Eccles: Bryan's is with capital gains.
- H.M.Jr: You see, these technical staffs - and I can't understand; you are supposed to have had two men sitting on it - spent three months looking at these other devices; and when they got all through this one seemed the best of a bad lot.
- Now, what I'd like to do - I mean I realize this is tremendously important, to talk about eight billion dollars worth of investments in this country and the future external policy of this government. Now, the last thing in the world I want to do is to rush anybody, and what I'd like to suggest, if it's agreeable to you, is take it over the weekend, chew over it, send for anybody here that you'd like to talk to, and then let's meet again on Tuesday.
- Hull: That might facilitate....
- H.M.Jr: I'm not - I mean it's too important from everybody's

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standpoint and certainly one weekend isn't going to hurt anything; and if by - Monday's a holiday - and if by Tuesday you are ready to talk again, we'll hold ourselves ready to come see you or hold a meeting wherever you'd like to hold it.

Hull: Well, we will work in the most sympathetic way we can.

H.M.Jr: I've got two partners in this. Is that all right? I mean if you don't - if that is agreeable to my two partners.

Hull: Yes, yes.

Eccles: I'm not as hopeful that this proposal will be effective in doing what we desire to have done as some of them are, and I have a preference of dealing with the speculative aspect of the situation. But it involves this capital gains tax, which - the Secretary has explained the reason why that is not feasible at this time. As a member of the committee I have agreed to this proposal, recognizing that it appears to be the best one that is available at the moment, with the understanding that something more drastic, if necessary, will be done later. I just wanted to...

Hull: Yes, yes, and it probably will.

H.M.Jr: Did you mind? I just wanted to ask.

Hull: That brings to mind the story of a fellow who talked to Joe Cannon one time. He was mentioned for President every four years for a quarter of a century, and when the time came around the newspapers mentioned him for President; and some fellow met Uncle Joe and tried to compliment him on this reference in the papers for President. And he tilted his cigar and said, "Well, they could go further and do worse. And they probably will."

To
Master
Mc

RESULTS OF THE PROPOSED MODIFICATION

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A - Changes in rates

1. Change the rate upon the taxable income of non-resident alien individuals from United States sources from the present rate of 10 per cent to 20 per cent if the rate is to be fixed or between 10 and 30 per cent if the rate is to be variable upon Presidential proclamation.
2. The corresponding change in the case of non-resident corporations would be from the present rates of 10 per cent on dividends and 15 per cent on other taxable income to the rates of 20 and 25 per cent respectively if the rates are to be fixed and, if they are to be flexible, from 10 to 30 per cent on dividends and 15 to 35 per cent on other income.

B - If the foregoing tax rates are to be flexible, the standards for guiding executive action and rendering this delegation of power valid would consist of Presidential determination of the effect of these rates on:

1. Possible injury to the foreign commerce of the United States.
2. Adverse changes in foreign exchange rates as result of these taxes.
3. Adverse effects upon diplomatic relations including the performance or negotiation of treaties and other international understandings.
4. Movement of gold to and from the United States adversely affecting domestic credit conditions and the domestic price levels.

C - To prevent evasion, it is proposed to broaden the power of the Commissioner of Internal Revenue, with the approval of the Secretary, to require information returns from brokers, nominees, and others showing details as to purchase prices, profits, and losses on security transactions originating from abroad.

D - Obligations of the United States and its instrumentalities hereafter issued, which under the existing law are exempt from all taxes when owned by non-resident aliens or foreign corporations, shall be not engaged in trade or business in the United States, will be made variable and fitted into the general plan of taxing foreign individuals and corporations on private obligations owned by them.

2/19/57

February 18, 1937

The Secretary telephoned to the President at 10:15 today and said, "We got an exciting cable from Cochran, Roueff, who is Under-secretary of the Treasury there, has been desperately trying to get Cochran to ask us whether the City of Paris or the Credit Foncier could borrow in our market and Cochran told them that they ought to take it up through the bankers who are going to handle it. My feeling is that we should not answer an 'if' question and if the National City or the Guaranty Trust should ask us I would follow what you told us the last time -- that the spirit of the Johnson Act would say 'no'."

The President replied in substance, The French Government should seize all gold and silver in Paris and all the gold held abroad by their citizens and turn it into the Treasury, just the way we did in this country. After the conversation with the President was concluded, the Secretary remarked in connection with the President's statement, "I am not sure that the French have not already done this.")

The President also said, in substance, That is the kind of thing that they haven't got the 'guts' to do in France. They get away with half the income tax they ought to pay.

Replying to the President's remarks, the Secretary said, "They have gone half way and have gotten cold feet and they are now talking of back-tracking and have not done what you have just mentioned. Belgium handled it much better."

The President asked, "Bonnet arrives today or tomorrow and should I see him right away?" HM, Jr. answered, "I think you ought to keep him waiting until the middle of the week, under the circumstances. Inasmuch as they are so desperate and we can't do anything, I would suggest not seeing him until the middle of the week."

"I am inclined to think," the President said, "That what I said to de Laboulaye got back to him." In substance, he continued, When de Laboulaye came to say good-bye, he said, 'I am sure you will like my successor' and

-2-

I raised my eyebrows and said, We will see. And then I told de Laboulaye that I did not like Bonnet's making so many speeches and that he was coming over as a special ambassador.

(Note: The President feels that de Laboulaye brought back to Bonnet the conversation he had with the President because from the announcement in the papers, Bonnet is coming over as a regular ambassador.)

HM, Jr. asked the President if it would be agreeable to him if he, HM, Jr., left on the midnight tonight to spend tomorrow with Mrs. Morgenthau who is in New York. HM, Jr. explained that it was Mrs. Morgenthau's birthday and the anniversary of her mother's death and he said he did want to spend the day with her. The President told HM, Jr. it was perfectly all right for him to skip Cabinet, but asked him not to fly to New York.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: February 19, 1937, 5 p.m.

NO.: 59

Reference is made to telegram No. 48 of February 8, 6 p.m., from the Embassy.

FOR THE SECRETARY OF THE TREASURY.

The Japanese financial outlook in general is much brighter than it was a month ago. This is due largely to public confidence in Yuki's policies. Yuki's principal policy is that it is better first to augment the economic resources in order to care for increasing burdens, rather than impose overly heavy burdens of governmental spending on the inadequate economic structure. The budget has therefore been decreased somewhat, which has checked the too-rapid price rise. The belief is now held that with the aid of Ikeda and Tsushima, Yuki will be able to float the Government deficit bonds in 1937 - which are somewhat less in amount than the Baba estimate - without great difficulty although it is possible that he may not be able to convert more outstanding bonds at high interest rates into issues at low interest.

Operation of the foreign exchange control is effective. The yen is firm with the actual exchange value being one shilling two pence as well as the nominal value. The

Government

Government is steadily granting permits for exchange to cover import business previously booked, and some new business is being covered now also. The belief is held that the administration of the exchange control by Yuki will be more liberal than that of Baba in order that Yuki's policy of fostering industry and trade will not be interfered with.

Yuki intimated yesterday, in reply to interpellations in the Diet, that specie shipments abroad may be made in order to settle international trade accounts. He said that no uneasiness regarding Japan's specie reserve need be felt because of such limited shipments. The possibility was put forward by some observers that Yuki may use a part of the idle specie reserve which is greatly in excess of the proportion usually considered necessary to secure the currency issue to buy up some of the bonds floated in the United States - 6 1/2 percent Japanese dollar bonds.

GREW.

EM:LWW

Friday
February 19, 1937
9:30 a.m.

HMJr: - this fellow that he was very anxious to have us take and as I understand it Jim has gone away for ten days so I thought I'd wait until he got back.

Ernest Lundeen: Well, is that definite, that you are going to wait until he gets back?

HMJr: It's definite that I'll do nothing until Jim gets back.

L: I don't want to hurry it at all, but of course, take the whole picture of representation in various departments of the Government. Ohio is so far under-represented that I don't like to see us slip back by a bit.

HMJr: Well, I can assure you, until Jim gets back nothing will be done.

L: All right, that's fine. I'd like to talk to you and to him both when he does get here.

HMJr: Because he's got somebody he's been trying to place for four years, he says.

L: Well, is it somebody not from Ohio?

HMJr: It is somebody not from Ohio.

L: That's pretty tough.

HMJr: Yes

L: Well, all right -

HMJr: Will you talk to Jim when he gets back?

L: Yes, I will.

HMJr: All right, thank you.

L: O.K.

HMJr: Thank you.

GROUP MEETING

February 19, 1937
9:30 A.M.

Present: Mrs Klotz
Mr. Oliphant
Mr. Gaston
Mr. Lochhead
Mr. Taylor
Mr. Upham
Miss Roche
Miss Lonigan
Mr. Magill
Mr. McReynolds

H.M.Jr: I asked Miss Lonigan so I wouldn't have to tell the story twice. We had at our nouse a meeting last night of people that Hopkins invited, and they were, amongst others, Jake Baker - and who's Baker's assistant?

Lonigan: Rall.

H.M.Jr: What country does he come from?

Lonigan: Germany.

H.M.Jr: He looks Scandinavian. I thought he was Scandinavian. Is he an American citizen?

Lonigan: I think so.

H.M.Jr: He's good, isn't he? And John Carmody and Mr. Studebaker and Bill Myers. And after three hours they've agreed that they are going to start at once a self-help cooperative in Washington, under the charge of Mrs. Amy Guy. And they are going to concentrate it in Washington, see? And it took three hours.

And I thought the interesting thing was, coming from LaFollette - he said, "Of all the evenings I've spent in Washington...."

Oliphant: LaFollette?

H.M.Jr: Yes. "...it was the most interesting." Now, of course, the whole thing is a question of management, and I told him I wanted you (Lonigan) to be with them as they go along. So I'd get in touch this morning with Jake Baker, find out what's going on, and give it just as much time as they'll let you.

But, in this room here, Jake Baker made a very poor impression, very poor impression. And the reports I'm getting on him are - now this is just in the room - are that he is just a washout. And it frightens me because I - but this fellow Rall seemed to know what he was talking about, had the stuff on his fingertips - but I'm sorry because I don't want this thing to fail, see? I don't know what you (Roche) know about Jake Baker. About the same?

Roche: No, sir. I don't know anything about his administrative work.

H.M.Jr: You don't know.

Roche: But as an administrator...

H.M.Jr: I don't know, it took me two hours to get him to say he'd even do this, so finally I said, "What's the matter, Baker, are you afraid?"

Lonigan: Well, he's enormously enthusiastic.

H.M.Jr: Well, at this stage we need executive ability.

Lonigan: I can't imagine why he'd be silent.

H.M.Jr: It took three hours to do this thing. He wasn't silent, but he took thirty minutes to tell me how marvelous a cooperative they had in France on French brandy - the most asinine thing to take up thirty minutes with. I said, "Let's take up our home proposition. If you learned everything abroad, all right." He went all through a lot of stuff that had nothing to do with Richmond. Well, I don't want him to do anything else but this self-help thing as it clicked in Richmond. I'm not interested in this Iowa thing or this fish cooperative in South Carolina; I'm not interested.

I said, "For two years I wanted - your work has been flat, and you haven't got a nickel. Now you've got it and you're going to get it."

- 3 -

And Bob LaFollette said, "I won't go to Baltimore. I'll come here. I'll come one night a week." I said I'd come one night a week. But they won't go to Baltimore; they won't go down to Richmond. And I don't want this thing - because Baker thinks this is a chance for him to get a lot of money to spread this thing, you see - I want this thing, and Hopkins finally said that he's sold and he's going to do this thing and they are going to concentrate on Washington, see?

Now, you watch it for me and let me know, will you?

Lonigan: Yes, Mr. Secretary.

H.M.Jr: But I mean after three hours they agreed this thing would go and Hopkins finally is enthusiastic, and he personally is going to start this thing - personally, and he's very enthusiastic.

O.K., now you watch it and don't let him run any fish cooperatives in on me from South Carolina or any lumber camps or anything else. I mean this money has got to go to the District for self-help cooperatives.

(Lonigan goes out)

Now listen, Mac, I want to go after this slum clearance, see, and I want a committee in with Peoples, but nobody that's got anything to do with it in the sense that he wants to grab it off, see? And at eleven o'clock today I want you and you're (Upham) not too busy?

Upham: No.

H.M.Jr: And who's the fellow I brought down from New York to help Peoples?

McReynolds: Oh, Roy Barton.

H.M.Jr: Yes. And the fellow over at Farm Credit who's got it.

McReynolds: Do you want Peoples?

- 4 -

Mrs Klotz: Emmerich.

H.M.Jr: Emmerich. I want Roy Barton, I want Emmerich, I want yourself, and you (Upham). Then I'll sketch what I want to do. I want to get the information together on what has been done publicly, privately, and the Wagner Bill, see - anybody that's got anything; what the Delano Committee did last year. I'll sketch in fifteen minutes at eleven o'clock what I want to do.

McReynolds: Barton and Emmerich are the only outsiders?

H.M.Jr: That's right. Can you think of anybody else?

McReynolds: No. Do you want any current information about Ickes' slum clearance?

H.M.Jr: What?

McReynolds: Do you want any current information about Ickes' slum clearance?

H.M.Jr: Yes. I'll sketch it at eleven o'clock.

McReynolds: I was just thinking whether there's anybody from over there you want.

H.M.Jr: No. What I'd like to start for this three or four days is to just get the information together, see?

McR: Yes.

H.M.Jr: Then I don't want to get it noised around here that the Treasury is trying to get in on this housing. If we just said to the Ickes shop, to Federal Housing Administration: what information have they got? - and what information has Fahey got, see? What information has Wagner's office got? Mr. Ellenbogen's office - what information has he got, see? And get this stuff all together for me by the middle of the week, see?

Roche: May I make a suggestion that if or when any future planning for any sort of program comes along, the Public Health people be included in it this time? They have engineering people who have a good deal

of information.

H.M.Jr: Well, who?

Roche: Well, Tarbett or his assistant. I can give Mr. McReynolds the proper names.

H.M.Jr: They know something?

Roche: Well, they do. I don't know how much they know about this directly. Tarbett is the Chief Engineer. I'm not sure whether he's in the city, but I'll find someone.

H.M.Jr: All right, fine.

I've made up my mind that we either get a bill which will be terrific from the standpoint of finance and the people that we are trying to serve, or somebody's got to do it who doesn't want to do it - I mean in a sense. But it took me a year and a half to put across that thing last night and now I'm going to go after this slum clearance.

Roche: The health feature hasn't been in any of the previous groups that have been working so long - been considered.

H.M.Jr: Anybody else got someone who knows something?

Oliphant: Well, Opper has followed it for years with Emmerich, and the biggest problem is that title problem. I'd like to, if it is agreeable...

H.M.Jr: All right.

McReynolds: Send Clarence in here at eleven o'clock.

H.M.Jr: Anybody else that....

Gaston: Would you like to use Lucius Wilmerding on it?

McR: You (H.M.Jr) let him go. He's down in Florida. Been in bad.

H.M.Jr: I don't think we want Lucius; I don't want the Peter Grimm slant on this thing. I mean I can talk to my

- 6 -

own crowd - what the heck?

- Gaston: What I thought about Lucius is he's a pretty good gatherer together of figures and that sort of thing.
- H.M.Jr: I just don't want Peter Grimm running down here. This is just to gather together all the information and digest it. What's been done publicly and privately? What has anybody got? What has Senator Wagner's office got? What has Mr. Ellenbogen's office got? What has Mrs. Simcovich got up in New York? She's got a house. Tenement House Commission of New York - Commissioner is a two-fisted guy.
- Taylor: Post.
- Magill: Langdon Post.
- H.M.Jr: See? Let's get the stuff together. I'm so sick and tired of money, my dollar spits are dry. And I'd ten times rather do this thing than sugar business. My soul needs recleaning.
- Taylor: Sweetening.
- H.M.Jr: Got a recleaning last night. Best thing that's happened to me in months. I mean if a fellow like LaFollette feels that way, just think what it does to me. Why, to sit here for two hours and try what we went through yesterday with Mr. Hull - he was here for two solid hours yesterday; it makes it tough going.
- Well, that's all I got. I'm going to leave about one o'clock today, Mac, so if you can extend the thing for seven days I accept.
- McR: All right, a week from today.
- Magill: Make it Thursday instead of Friday.
- H.M.Jr: "on't you be here?
- Magill: (Nods no).

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H.M.Jr: All right, make it Thursday.

Gaston: How about your other thing? Change your other thing.

Mrs Klotz: Make it Wednesday. No, you can't make it Wednesday.

McR: Well, what....

H.M.Jr: Say listen, you've got to stay here today anyway. You're going to Cabinet at two o'clock, so you better plan on a five o'clock train. Got something tonight?

Magill: (Nods yes)

H.M.Jr: What've you got? Well, think it over. You settle between yourself and Wayne. Somebody's got to go. As a punishment, one of you will have to go to Cabinet; I don't care who.

Gaston: Planes will be operating today.

H.M.Jr: Seriously....

Magill: I've got two hours of classes this afternoon commencing from four o'clock.

H.M.Jr: Oh. Oh, I didn't know that. Classes scheduled.

Magill: And we've got a very elaborate schedule for all semester.

H.M.Jr: I thought they were Saturdays.

Magill: I've got to go up Friday about through March. Then I'll be done.

H.M.Jr: All right. Well, I didn't know that. You hadn't told me.

Magill: I'm just as sorry as you are.

H.M.Jr: I didn't know that.

Magill: I thought you did. I'll bring you a copy of the schedule.

H.M.Jr: No, no. Does that mean you can't ever go to Cabinet?

Magill: I can after March.

H.M.Jr: Wayne, are you willing to go to Cabinet this afternoon?

Taylor: Yes, sir. I'll have to break some important engagements, but I think I'll be able to.

H.M.Jr: All right. Now, who wants to ask me something?

Oliphant: I'd like to have an opportunity to - before you get away, to clear the Goldberg settlement. It won't take long. I should think five minutes would give the picture.

H.M.Jr: How about 11:30?

Mrs Klotz: What are you going to do with him at eleven - Puleston?

H.M.Jr: I've shifted him four times this morning. Who's coming at eleven?

Mrs Klotz: You just started this group.

H.M.Jr: Oh well, tell that group - make the group 11:15. We'll settle the housing problem at 11:15.

Oliphant: And you'll see me....

H.M.Jr: ...at 11:30.

Gaston: Shall we tell the newspapermen that we are still working on the "hot" money problem, that there are no conferences of principals scheduled for today, that there will be no announcement over the weekend?

H.M.Jr: That's right.

Gaston: Not going to see Landis and Eccles today.

H.M.Jr: No, it's a holiday.

Gaston: I looked at the wrong calendar.

H.M.Jr: All right, what else.

Gaston: That's all.

H.M.Jr: All right.

GROUP ON HOUSING

February 19, 1937
11:20 A.M.

Present: Mr. McReynolds
Mr. Upham
Mr. Gaston
Mr. Opper
Miss Roche
Miss Switzer
Mr. LeRoy Barton, Procurement Division
Mr. Herbert Emmerich, Farm Credit
Mr. Joseph M. Dalla Valle, Asst. Sanitary Engineer, PHS

Roche: Mr. Dalla Valle, Mr. Secretary.

H.M.Jr: Civil engineer?

Dalla Valle: Sanitary engineer.

H.M.Jr: You're the fellow that used to fight with up at New York when Dr. Parran was up there, over when a stream was polluted. Used to rule that it was all right to kill a human being as long as it didn't kill a trout. That was, if the trout didn't die, it didn't make any difference if it killed a hundred people.

Dalla Valle: Yes.

H.M.Jr: It's true. You know it.

Well, anyway, this is what I'd like to do. I'd like to collect from every governmental agency what they have on low cost housing in cities. See? I'd like to know first what the Federal Government has done to date: buildings completed, under what plan, how they've been financed, rents, occupancy, and so forth and so on. That's buildings completed, buildings under construction, and buildings projected. That includes Public Works. Hopkins did do one or two. I think they were turned over to somebody, I don't know to whom. I know he started to do a couple. He stopped that.

Federal Housing - what they've done in the way of guaranteeing the mortgages, financing. What the attitude of Mr. Fahey and his crowd is. Mr. Eccles has a man who's working on this.

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Upham: Baker?

H.M.Jr: Is he still with him?

Upham: I think he has left.

H.M.Jr: There's another man.

Upham: Oh, I didn't know that.

H.M.Jr: Procurement has a lot of cost figures on it.

Barton: Yes, we have quite a lot of information. We'll get it.

H.M.Jr: Then also what people are doing under state and city housing authorities, if anything. In other words, I'd like to get together all the information which has been floating around, try to boil it down - what we have done; and then something as to the needs. See? As to the needs.

Now, what I am particularly interested in is really low cost. I mean anything over ten dollars I'm not interested in - per room per month. I mean the really low cost.

And there's a series of articles which - Mr. Kahn, is it? - that he wrote - of Frankfort, and if he is back in this country again... He wrote, I think, the most sensible articles, and they're in this Architectural Review, I believe.

Emmerich: Ernst Kahn.

Upham: Architectural Forum.

H.M.Jr: Well, he wrote a series of articles on how to finance low cost housing, and I thought it at the time the most sensible thing I've read. Of course, they are in line with... In other words, what I'd like to do is to get together everything that's available and let's get it down on a piece of paper, see?

And of course, what I hope to get out of this thing is a suggestion which the Treasury can make on how can these things be financed, see? I mean what is a

- 3 -

sound method of the Federal Government going into this picture, see? I mean how - what can we do? I mean I want to take a positive view. I don't want to say, "Are we going to do anything?" but a positive attitude toward this thing: "What can the Federal Government do towards this?"

The President had something in mind, that we'd contribute, say, ten million dollars a year for ten years as a subsidy, or something. Of course, Kehn's idea, to boil it all down, was to subsidize it through a low interest rate. He interprets that one percent interest means so much per room per month. He's worked that all out in the way of interest rates. I mean one - the difference between four and three means so much per room per month, and he's actually worked those figures out; because he has the background. He was financial editor of the Frankfurter Zeitung, and then was honorary mayor of the City of Frankfurt and Director of Housing there. So he has all that background.

Now, have you fellows lost your touch on this thing?

Emmerich: I've kept a little in touch with it the last few years.

Roche: We're organizing a departmental committee from all the agencies on the housing, under our general departmental committee, to bring together the work that's been done to date. It isn't functioning yet. It's on its way.

H.M.Jr: Well, I'd like to do this for me, sort of, you know. And of course, Mac has the contact with the Department of Interior. Get more from them than anybody else.

You people over at Procurement - you just have the cost figures. Have you kept in touch with this at all?

Barton: To some extent. We have had somebody at all the meetings, kept informed of what was going on and what was being contemplated.

H.M.Jr: What I was going to - if you could adjourn to Mr. McReynolds' room... And I'm going to pin it on to

- 4 -

you (McReynolds) And get this: I want something by the middle of next week, Wednesday. And then just divide up who's going to do what. I mean you may say to Cy - he knows people over at Federal Housing Administration. You can divide up what each person is going to do, you see. And then get it in and then let's get it down and look at it. Will you?

McReynolds: Yes, sir.

H.M.Jr: You want to ask any questions?

McR: No. I've got a girl that I gave George Haas for his secretary the other day, who had been loaned to Delano for a year working with that committee. I asked her after the meeting this morning....

H.M.Jr: You mean she is going to be loaned or she was loaned?

McR: No, she was loaned and now she's back here working in George Haas' section. I told her to get from their files over there a brief statement that had been recently prepared on this question of what has been done on housing. That committee has prepared such a statement; it may be of some use.

H.M.Jr: Well, something preliminary by Wednesday, because I don't know when the President is going to call up and ask us for a plan for low cost housing. They asked us to analyze the Wagner bill and we said we didn't feel - we couldn't go along on this immediately, but if the President would ask the Treasury to submit a method of low cost housing financing, we'd like to be able to. I don't want to wait until the last minute, so that's why I'm starting in on this, so that when the hurry-up call does come - "Please give us a plan" - I'm hopeful we can have something. I know everybody's tried, everybody's failed, but that's no reason why we shouldn't make a stab at it.

Have you lost your contact over there, Clarence?

Opper: Not entirely, but I haven't had much.

H.M.Jr: But you know the troubles Mr. Olyphant has had with

- 5 -

the land.

Opper: Yes

H.M.Jr: Of course, that is largely Mr. Ickes' trouble, as I understand.

Opper: That's right.

H.M.Jr: I mean the question of title, and he has no authority to condemn land for this.

Opper: No, that was declared unconstitutional in that Louisville case.

H.M.Jr: And isn't that one of the things?

Opper: That's right, land costs.

H.M.Jr: Now, can the New York State housing authority - can they take land from me?

Opper: I don't think they can. I haven't followed that very closely.

H.M.Jr: Of course, we could in the State Conservation Commission. We could take any land we wanted for state park purposes. It's a question of whether housing is a public purpose that's tripped up Ickes.

Opper: The very question that was cited in that Louisville case. As far as the Federal Government is concerned, they can condemn for park purposes and things of that kind. But in this case it was held that housing was not a public purpose so far as the Federal Government was concerned. Now, there is of course a different argument when you are dealing with a municipality. But the reason why I said I didn't think they could is because I'm afraid they may be upset the same way.

H.M.Jr: You - could you put somebody to work on how could you get the land at a reasonable cost? That's where you've got to start.

Opper: It's a good place to start.

H.M.Jr: Well, Mac, if you don't mind....

(Group adjourns to Mr. McReynolds' office)

2-19-37-

My dear Mr. Eastman:

The delay in receiving a copy of your draft letter to the President regarding the comments in your Annual Report in respect to the undistributed profits tax, as well as the pressure of other matters, has prevented me from responding more promptly to your suggestion of a conference between us. I should like to discuss the matter with you at your convenience toward the end of next week.

Sincerely,

Secretary of the Treasury

Honorable Joseph B. Eastman, Commissioner,
Interstate Commerce Commission,
Washington, D.C.

EH/agh
2/18/37

delivered by
messenger.

OFFICE OF
THE SECRETARY OF THE TREASURY

February 19, 1937.

MEMORANDUM FOR THE SECRETARY:

I attach a further telegram received this afternoon from Bullitt, together with a draft of a reply which I have sent to the State Department at their request.

I believe that the St. Pierre matter is in a fair way to being disposed of to our satisfaction.

GRAVES.

✓ 21-4-11
 1-4-7-6
 16-2-2-7-10
 11 of 21-fines

Paris, February 19, 1937.

Your No. 97, February 18, 10 p.m.

The Ministry of Foreign Affairs informs us that the 4th decree mentioned in the first paragraph of Embassy's 238, February 18, 6 p.m., is intended to prohibit the importation of bulk alcohol which might be used in smuggling, even though such alcohol may possess a trade name.

The Ministry of Foreign Affairs suggests that the question raised by our Treasury Department might be met by defining "alcool de traite" in the decree itself, and suggests that our Treasury Department itself should propose the definition of "alcool de traite."

If you find this arrangement satisfactory, the French Government, as a matter of form proposes to issue the decree in the following manner: Decrees 1 and 2 as given in our 238, February 18, 6 p.m.; Decrees 3 and 4 to be consolidated into one decree, which would: (a) prohibit the importation of "alcool de traite" into St. Pierre-Miquelon; (b) define "alcool de traite"; and (c) prohibit the installation of any distillery of alcohol in the islands of St. Pierre and Miquelon.

I should greatly appreciate a reply at your earliest convenience.

BULLITT.

Washington, D. C., February 19.

Treasury Department considers the arrangement outlined in your telegram of February 19 as satisfactory, subject to the acceptance of substantially the following definition of the term "alcool de traite":

"The term 'alcool de traite' means ethyl alcohol from whatever source or by whatever process produced, including dilutions or mixtures thereof, but not including beverages, perfumes, pharmaceuticals, flavoring extracts, and similar substances or preparations when bottled and packaged by reputable manufacturers and labeled as such under appropriate trade or brand names."

BUREAU OF INTERNAL REVENUE
OFFICE OF
CHIEF INTELLIGENCE UNIT

February 19, 1937.

Memorandum in re: V. V. Lamkin,
Applicant for appointment as
Collector of Internal Revenue
at New Orleans, Louisiana.

A conference was held in the office of the Secretary at 10:30 this morning, at which were present the Secretary, Commissioner Helvering, Senator Overton and myself.

The Secretary outlined to the Senator the facts reported in the attached file indicating that Mr. Lamkin, acting in his capacity as Mayor and Chief of Police at Alexandria, has permitted open gambling in that town, has allowed the sale of intoxicating liquor there on Sundays in violation of city ordinance, and has accepted payments of moneys from operators of gambling machines. The Secretary pointed out to Senator Overton that, in view of these facts, it would not be proper to consider Mr. Lamkin for the position. He suggested to the Senator that the best course would be for Mr. Lamkin to withdraw his application for the position.

Senator Overton stated that while he was not convinced the charges were true, he realized that the matter rested with the Secretary and Commissioner, and stated, therefore, that he would take steps to have Mr. Lamkin withdraw. He stated further, in response to the suggestion of the Secretary, that he would proceed to select a person to be recommended for the position and indicated that he thought it wise to refrain from recommending a politician.



United States Senate

COMMITTEE ON APPROPRIATIONS

February 1, 1937.

RE: Collector of Internal
Revenue, New Orleans.
V. V. Lamkin

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

Dear Mr. Secretary:

Following our visit to your office the other day, when we presented Hon. V. V. Lamkin of Alexandria, Louisiana, to you in person, we are formally recommending him for appointment as Collector of Internal Revenue at New Orleans, Louisiana.

Your file will show that, on May 7, 1936, Senator Overton recommended Mr. Lamkin's appointment with the concurrence of the then Junior Senator from Louisiana, Mrs. Rose McConnell Long, and with the endorsement of Governor Richard W. Leche, National Committeeman from Louisiana.

We may add that Governor Leche continues to concur in Mr. Lamkin's selection for this position.

It is our understanding that following the recommendation of May 7th of last year a thorough investigation was made of Mr. Lamkin by your Department and we assume that no further investigation is now necessary.

Very sincerely yours,

John H. Overton
JOHN H. OVERTON

Allen J. Ellender
ALLEN J. ELLENDER

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JERRY C. DUNDON, WYO.
WILLIAM STEWART MC ADAM, CALIF.
HARRY S. THIMMUS, MD.

KENNEDY F. REA, CLERK
JOHN W. B. SMITH, ASST. CLERK

STANDARD FORM NO. 144
APPROVED BY THE PRESIDENT
MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Commissioner's Office 12:55 p.m.

The appropriation from which payable must be stated on above line.

OPTIONAL FORM NO. 10 3-14117

June 17, 1936

Honorable John H. Overton
Senate Office Building
Washington, D.C.

Retel sixteenth Everything possible being done to expedite investigation
concerning availability of V. V. Lamkin for Collectorship STOP
Thoroughly appreciate the reasons which prompt your request

SECRETARY

G. T. Helvering

C O P Y

(Mr. Irey's Office have this file.)

19 February, 1937
4 p. m.

105

COAST GUARD OPERATIONS IN FLOOD AREA

Anxiety felt yesterday concerning possibility of break in levee at Deer Park, Louisiana, relieved, according to report of Commander, Coast Guard Relief Force, and the situation reported well under control after aerial survey by Coast Guard plane.

- - - -

Coast Guard force at present operating in the Mississippi flood zone numbers 22 seagoing units and 25 boats, the latter operating under the immediate direction of the DIONE at Natchez, Mississippi, where a shore office and communication center is being maintained.

- - - -

GENERAL WATER LEVEL CONDITIONS:

Crest at Vicksburg 52.8' this morning; Natchez 57.6', a rise of 1/10th a foot since yesterday; and New Orleans 18.7' a drop of 1/10th a foot.

Hill

Referred to
Mel Reynolds on
February 19, 1937



DEPARTMENT OF AGRICULTURE
WASHINGTON

Handwritten initials and scribbles

The Honorable

The Secretary of the Treasury

My dear Mr. Secretary:

In the course of certain investigations of its own activities conducted by the Resettlement Administration, information has been obtained regarding irregularities on the part of employees of the Procurement Division of the Treasury. Since the Department does not feel that it should investigate matters involving the employees of another agency of the Government, I felt that these matters should be brought to your personal attention.

The particular complaints which I have received involve Mr. J. Wiley Rankin, who is the Liaison Representative between the Procurement Division and the Resettlement Administration, and Mr. Thomas G. Crawford, who is in charge of the Resettlement Administration's Procurement Unit of the Procurement Division. It has been alleged that Mr. Rankin, while making trips on Government business and during his official hours in Washington, has used coercive methods in attempting to sell employees of the Resettlement Administration stock in a tung oil development company in which he has a financial interest, and that in addition he has used the prestige of his position to influence employees of the Resettlement Administration to so draw specifications on paint as would result in orders being placed for paint made from tung oil. It is also alleged that Mr. Rankin attempted to sell tung oil land in which he had financial interest to at least one concern which has received considerable business through the Procurement Division.

It is also alleged that Mr. Crawford used the prestige of his office to encourage the drawing of specifications whereby tung oil paint would be purchased, and that he has issued invitations to bid in such a way as to enable one contractor to receive contracts for a particular type of land clearing equipment.

Since neither Mr. Crawford nor Mr. Rankin is an employee of the Resettlement Administration, this information is being given you for such action as you may care to take. The Resettlement Administration will not carry its investigation any further insofar as these allegations are concerned, but will be glad to cooperate with investigators of your Department in establishing the truth or falsity of the charges.

Sincerely yours,

Dear Henry -

*There are no cards
in this in our files, H. A. W.*

H. A. Wallace
Secretary

Friday
February 19, 1937
9:30 a.m.

HMJr: - this fellow that he was very anxious to have us take and as I understand it Jim has gone away for ten days so I thought I'd wait until he got back.

Ernest Lundeen: Well, is that definite, that you are going to wait until he gets back?

HMJr: It's definite that I'll do nothing until Jim gets back.

L: I don't want to hurry it at all, but of course, take the whole picture of representation in various departments of the Government. Ohio is so far under-represented that I don't like to see us slip back by a bit.

HMJr: Well, I can assure you, until Jim gets back nothing will be done.

L: All right, that's fine. I'd like to talk to you and to him both when he does get here.

HMJr: Because he's got somebody he's been trying to place for four years, he says.

L: Well, is it somebody not from Ohio?

HMJr: It is somebody not from Ohio.

L: That's pretty tough.

HMJr: Yes

L: Well, all right -

HMJr: Will you talk to Jim when he gets back?

L: Yes, I will.

HMJr: All right, thank you.

L: O. K.

HMJr: Thank you.

OFFICE OF
THE SECRETARY OF THE TREASURY

470

MA

February 19, 1937.

MA

MEMORANDUM FOR THE SECRETARY:

I hand you herewith copies of two cablegrams received late yesterday by the State Department from Ambassador Bullitt, and telephoned over to me.

These are in response to the cable sent Bullitt on February 15, which I showed you, regarding the St. Pierre matter.

I attach also a copy of a proposed reply which I have sent to the State Department.

GRAVES.

Paris, February 17, 11 p.m.

471

Last night I communicated to Delbos (Minister of Foreign Affairs) the substance of your No. 85 of February 15, 4 p.m.

This morning Blum, to whom I had already spoken, telephoned and asked me to have a conversation with the Minister of Colonies, who called on me this evening, accompanied by his expert in the affairs of St. Pierre-Miquelon, M. Merat, Director of Economic Affairs at the Ministry of Colonies. Merat, who stated that he had been in St. Pierre-Miquelon in 1935-36, conducted most of the conversation in behalf of the Minister of Colonies.

He asserted that when he had been in St. Pierre-Miquelon he had discussed the question of suppressing the contraband trade with our Consul, Mr. Gunsaulus, and that Mr. Gunsaulus had approved fully of the measures which the French Government now proposes to adopt. He suggested that our Government should communicate with Gunsaulus. He was confident that Gunsaulus would agree with him that the new method devised by the French Government for suppressing the contraband trade would be more effective than the method now in force.

He and the Minister stated that their sole desire was to suppress completely the contraband trade from St. Pierre-Miquelon to the United States. They said that with this object in view they had asked the Assembly at St. Pierre-Miquelon to vote a law forbidding the importation into St. Pierre-Miquelon of all alcohol except French alcohol; the law had been voted. In return the inhabitants of St. Pierre-Miquelon had requested that they should be treated in the same manner as the inhabitants of all other French colonies, that is to say, the regime of export under bond should be suppressed. (superseded)

The Minister and his expert both stated that the French Government was prepared to promise that no alcohol de traite would be exported from France to St. Pierre-Miquelon.

They were further prepared to promise that if the American Government should find reason to object to the new regime in St. Pierre-Miquelon THEY WOULD ESTABLISH A QUOTA FOR IMPORTATIONS of alcoholic beverages to St. Pierre-Miquelon.

They stated, further, that one of their chief reasons in desiring to change the law was the ~~wish~~ wish to reduce the expenses of the French Government in maintaining St. Pierre-Miquelon. They asserted that the revenues of the Islands now amounted to approximately 1,000,000 francs annually, and asserted that the expenses of the Islands amounted to 3,000,000 francs annually, which required an annual contribution by the French Government of about 7,000,000 francs. They wished to reduce the number of customs inspectors at St. Pierre-Miquelon in order to reduce the expenses of the French Government.

The expert of the Minister of Colonies there said that they would be very glad to put on more customs inspectors if the United States should be prepared to pay for them. I asked him if he were speaking seriously,

-2-

as we were willing to go to great lengths to prevent this traffic. He replied that of course the French Government would have to select and pay the agents with our money.

They finally said that if the new regime should be established and the American Government should find objection thereto, they were prepared to reintroduce the regime now in force.

I asked if they would hold up the new decree, and they said they could hold it up for a few days. The difficulty was that the law passed by the Assembly of St. Pierre-Miquelon forbidding the importation of alcohol except of French origin was now to take effect. They have secured the passage of this law by promising that the regime of export under bond would be suppressed. Moreover, the bonding system was of doubtful legality. It would, therefore, be more embarrassing for them to delay the suppression of the bonding system. I asked why it would be embarrassing, and they repeated that the colonists of St. Pierre-Miquelon had demanded to be treated on the same footing as all other French colonists. I said that I did not believe that the French Government had to be too particular about the finer feelings of a lot of smugglers.

I said, further, that we did not believe the system they propose to install would prevent the importation into St. Pierre Miquelon of alcohol from other countries than France under French labels and under false French certificates. I added that we did not believe that exports from France would be controlled properly, and stated that we believed the only purpose of the new decree was to permit smuggling. After a vigorous discussion, I was again assured that the only desire of the French Government was to put an end, once and for all, to all smuggling from St. Pierre-Miquelon.

BULLITT.

Paris, February 18, 6 p.m.

The Ministry of Foreign Affairs now expresses the willingness to issue four decrees on this subject: 1, abrogating the present bonding system, except as it concerns alcohol and alcoholic beverages of whatever origin now in stock at St. Pierre-Miquelon; 2, prohibiting the importation of all alcohol and alcoholic beverages of foreign origin, no derogations being permitted; 3, prohibition of the manufacture of alcohol in the Islands; and, 4, prohibition of the importation of all "alcool de traite" of whatever origin into the Islands.

Foreign Office now says that alcohol de traite includes all alcohol and alcoholic beverages other than those having a trade name.

If the American Government finds that there has been a revival of smuggling under the new regime, the Foreign Office and the Ministry of Colonies have both agreed that the decree of April 9, 1935, will be reenacted, and written assurances to that effect will be given.

The Foreign Office, in this connection, requests that the Department again give consideration to the French Ambassador's proposals of 1935 that the United States Lines be induced to arrange cruises to St. Pierre-Miquelon.

BULLITT.

Washington, D. C., February 18

Treasury Department advises they have no substantial objection to first three decrees referred to in your telegram of February 18, 6 p.m. Stop. Regarding fourth decree, prohibiting importation of all "alcool de traite" of whatever origin, and in the light of Foreign Office definition of this term, Treasury points out that bulk alcohol commonly smuggled into this country from Europe via St. Pierre and otherwise usually has a trade name, such as "Hand Brand," "Swan Brand," etc. Stop. Treasury fears that this proposed limitation would therefore not prove effectual against resumption of smuggling from St. Pierre. Stop. They urge that either the present bonding system should be continued in force with respect to all exports of bulk alcohol of whatever origin from St. Pierre, or the importation of bulk alcohol, even though having a trade name, should be controlled through a quota system or an import tax. Stop. Treasury advises further that it is common gossip in the underworld in this country that smuggling operations based on St. Pierre will soon be resumed, and they urge that no loophole through which bulk alcohol could lawfully be withdrawn from St. Pierre be permitted in any proposed decree.

February 23, 1937

I let the President read the attached memorandum from Taylor, dated February 19, and he was very much interested.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 19, 1937

TO The Secretary
FROM Mr. Taylor

I had a call this afternoon from the Japanese Ambassador, accompanied *Mr. Okawa,* by the Financial Attaché assigned to Washington, Paris and London, and Mr. Ukawa, the Commercial Attaché stationed in New York. The purpose of the call was to check a series of questions about the operation of our gold licensing system, nationalization of gold, the operations of the Tripartite Agreement, earmarking, etc. I gathered the impression that the Japanese Government is endeavoring to follow the model of having a very close supervision, if not complete control, of their central banking and monetary policies, but that they were encountering various difficulties.

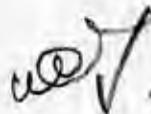
They expressed great interest in the possibility of their cooperating with the Tripartite group, which enabled me to call attention to some of the most important aspects of the statement on monetary policy. I got a distinct impression, which is more or less confirmed by the most recent cable from the Embassy, that the Japanese are adjusting their policies and at least temporarily have decided to be less aggressive in the Far East and to attempt to cooperate with occidental countries.

They also had a series of questions relating to the Johnson Act and any other controls which we might have over foreign loans floated in this market. I explained the situation as I understood it and referred to the history of the 1920's, during which the State Department was asked to express an opinion as to whether there were any political reasons which would make it undesirable to float a loan in this country, and also

- 2 -

the statement required from the Treasury regarding the indebtedness of a country to this Government. There was enough discussion about this point so that it may be that the Japanese are thinking in terms of attempting to float a loan over here. However, in connection with discussing the situation and the provisions of the Johnson Act I had the opportunity of saying that to all intents and purposes the questions raised as to the actual provisions of the Johnson Act answered themselves, as I did not think that a private banking group could be found which would undertake to attempt to float a loan in this market for a country where the political picture was very clouded, as it was on the continent at the present time, and it also gave me an opportunity to discuss various difficulties which had arisen in the German, French and other financial pictures which happened to apply with great completeness to the existing Japanese situation.

On the whole it was quite an interesting discussion and on a rather different plane than the one you had last year with the new Financial Attaché's predecessor.



IED

GRAY

PARIS

Dated February 19, 1957

Received 7:17 p.m.

Secretary of State

Washington

245, February 19, 6 p.m.

FROM COCHRAN.

Journal Official today promulgates law abrogating Article Six of the monetary law of October 1, 1936. It provides as follows: "the provisions of the monetary law of October 1, 1936, are not applicable to international payments which prior to the promulgation of this law were validly stipulated in gold francs. Payments effected between France, Algeria, Tunis, Morocco, the colonies, protectorates, and states and territories under French mandate are not international payments. The provisions of this law will be effective dating from October 1, 1936".

This law received the approval of Parliament yesterday. In reply to criticism the Minister of Finance pointed out that it had received the unanimous approval of the Parliamentary, Legal and Finance Committees, and furthermore that its provisions

MED - 2 - #245, February 19, 6 p.m. from Paris

provisions were similar to those embodied in the monetary act of June 25, 1928.

A decree was published in the Journal Official of February 17, which among other things provides that gold and gold currencies are subject to the provisions of Article No. 492 A of the customs code relating to penalties applicable to the suppression of contraband. Under this article customs agents are authorized to make search of residence when considered necessary and municipal agents may also participate in the search.

END SECTION ONE.

BULLITT

SMS:EMB

RB

GRAY

Paris

Dated February 19, 1937

Rec'd 7:35 p. m.

Secretary of State

Washington.

245, February 19, 6 p. m. (SECTION TWO)

It is stressed in the press that the measure has obviously been decided upon so as to place holders of undeclared gold in the class of smugglers and that it is a clever move from a purely juridicial point of view. However, it is pointed out that it is contrary to the policy of liberalism which it has recently been hoped the Government might follow. Financial editor of the LONDON FINANCIAL NEWS referring to this "reenforcement of vindictive legislation" today remarks that Aurial is making an exceptional record for consistently doing the wrong thing.

Franc strenghtened against sterling in late trading yesterday on purely political reasons but trend reversed today with Bank of France yielding important amount of sterling. Bank also provided market with some dollars one transaction this afternoon amounting to \$100,000. Swiss franc better with Lazard buying. Rentes were down

fifty

RB

-2-#245, February 19, 6 p. m. from
Paris (SECTION TWO)

fifty centimes at opening but closed a little above
this level. Not much gossip on bourse in regard to
political and central bank situation.

(EFD SECTION TWO)

BULLITT

MFD

SMS

MED

A portion of this message must be closely paraphrased before being communicated to anyone (b)

PARIS

Dated February 19, 1937

Received 7:28 p.m.

Secretary of State

Washington

245, February 19, 6 p.m. (SECTION THREE). (GRAY).

Paris received Reuter report from London this morning to the effect that United States would reduce buying price of gold but nothing was heard of this gossip this afternoon. Paris American Bank says it has been able to purchase some gold bars on London market today due to the withdrawal of Swiss competition. That is, the Swiss evidently cannot continue to buy gold in London and ship it by parcel post to New York in view of the increase that has been made in insurance charge. Bank in question is selling this gold in turn to Chemical which is shipping on Bernstein Line.

Market observers think there has been some cessation in French purchase of American securities pending outcome of committee studies in Washington on capital influx question. Edie cables L'INFORMATION that the "vague and contradictory statements made by Messrs. Morgenthau, Eccles, and Landis relative to

the

- 2 -

the nature and the application of legislation which will be proposed with a view to reducing imports of foreign funds seem to indicate that the Government is experiencing difficulties in solving the problem practically."

I have learned confidentially from Swiss banking sources that the Swiss banks have refused a request by the French for a loan of one billion francs for one of the French public bodies.

I was asked by Rueff to come to see him on Saturday at 4 p.m. at the Ministry of Finance.

END OF MESSAGE.

BULLITT.

EA:LWW

RECEIVED
JUN 28 1947
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
WASHINGTON, D. C.