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April 23, 1937

9:30 group meeting.

Present:

H. S. Klotz
Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Taylor
Miss Roche
Mr. Haas
Dr. Viner
Mr. Upham
Mr. Lochhead
Mr. McReynolds
Mr. Bell

HM, Jr.: Mac, there is a Mr. Jones coming in at ten o'clock and I would like to have you here. He wants to know how they can go about making a national park of a place down at Sea Island where this British gentleman landed in 1770. He's got a very interesting idea. You will be interested. The secretary of this general was the man who founded the Methodist Church. Who founded the Methodist church?

Dr. Haas: Wesley.

HM, Jr.: There were two Wesley brothers. What was the name of the place?

Mr. Magill: Oglethorpe.

HM, Jr.: I thank you. They are trying to do two things. One, is to get a national park where Wesley landed, at Oglethorpe, and next to it they want to have a shrine for the Methodists, combined, in 1940, and have a national home and national cemetery for Methodist preachers. On account of their moving around, they don't have a home. Very interesting idea.

Dr. Haas: The cemetery part is all right.

HM, Jr.: What he wants to know is does the National Park Service buy land or does Georgia have to buy the land. Who
can he see and how can he go about to buy Fort Oglethorpe. The Methodists will take care of their part.

Mr. Bell: Act of Congress on the books which authorizes the National Park Service to establish historical points and make national monuments or shrines.

HM, Jr: Personally I am tremendously impressed with this. I think he has a marvelous idea.

Mr. McReynolds: All the Methodists would have to do would be to furnish the money.

HM, Jr: They will take care of themselves, but the two things will be next to each other. What he is interested in is having Fort Oglethorpe made a national park. The other thing is next to it. They are not asking for any money, only to have Fort Oglethorpe as a national park.

Mr. Bell: The general policy is that somebody furnishes the ground.

HM, Jr: I want to put him in touch with the right party. The Congressman from that district comes from Sea Island. Personally I think it is a good idea -- the combining of the two -- and put the whole business where Wesley first preached. The oak is still there. Evidently I am more religious than some of the people in the room. Of course he was not a Methodist when he arrived here. That's the point. But out of that came the Methodist Church.

Mr. Upham: Jake Viner has read a very scurrilous history of Wesley's life.

Dr. Viner: I don't think the book stressed the Georgia part of his life. It was his life in England that it stressed.

Mr. Bell: I am in favor of it if it does not cost money -- that and the Jefferson Memorial.

HM, Jr: I thought we might take this out of Soil Conservation?

Mr. Bell: I am in favor of that too.

Mr. Magill: Can't you put a three-strand barbed wire
fence around it?

HM, Jr: It only needs to be a three-strand wire fence. I want you to write a letter to Henry Wallace and ask if I get more if the wire is barbed? For an hour and a half Henry Wallace explained it and Bell said he understood it perfectly!

Mr. Bell: I had a lesson in agriculture.

HM, Jr: The trouble was the President was sleeping so he did not stop anybody from talking.

Mac? Anything?

Mr. McReynolds: No. Graves is back this morning.

Mr. Bell: I haven't anything.

HM, Jr: You and I, what do we do? Just sit tight until we get a call from the White House?

Mr. Bell: I think that's the best thing? You mean on the agricultural thing?

HM, Jr: Yes.

Mr. Bell: They have had a rule and they were holding it up in Committee -- the Agricultural Bill. Does it come up for vote today?

Mr. Oliphant: That's what they said.

Mr. Bell: I thought it was being held until the Speaker heard something from the White House.

Mr. Oliphant: Has word gone to the Speaker to hold it?

HM, Jr: Yes. But no word from this shop. Please get that straight. We haven't done a thing. We just sit tight.

Mr. Bell: I don't know what else to do. We suggested a way to get the money and no one agrees with us, so they ought to suggest something.

HM, Jr: O. K. Would you make a note, Dan. In view of
the fact that Mr. Wallace throws down his own statement as the thing is written, how much cash he would draw on the Treasury. You see? He threw down his own statement. This is the only copy I have. You might give me one to take to Cabinet.

Mr. Bell: You mean based on Budget figures?

HM,Jr: Yes.

Mr. Bell: Get figures from our standpoint.

HM,Jr: Yes. Ezekiel fixed up figures on how much they are going to spend and I use the figures and they show that on a cash withdrawal basis that Wallace gets one dollar out of every six. Then yesterday he throws down his own figures.

Mr. Oliphant: Ezekiel wasn’t there?

HM,Jr: Oh, no.

Mr. Upham: I have nothing.

HM,Jr: The figures are right. Jump said they were right.

Dr. Viner: Is that the Department or all agricultural programs.

HM,Jr: Everything that goes through Wallace.

Dr. Viner: I would throw in any agricultural expenses -- Farm Credit -- all agricultural expenses.

HM,Jr: Supposing you have someone do that, Dan.

Dr. Viner: You ought to make a functional analysis.

Mr. Loachhead: Nothing.

Dr. Viner: Nothing.

HM,Jr: Eleven o’clock, Jake, will you come in?

Dr. Viner: What’s this investigation they are making of the Alcohol Tax Unit in Chicago. The papers are full of a Grand Jury investigation.

Mr. Oliphant: We heard of that.
HM.JR: Did that just reach you? What do you read? The Chicago Herald, one month late?

Dr. Viner: Chicago Tribune.

McReynolds: Yesterday evening they had it, only the other side of it. "April Grand Jury bawls out the United States Attorney's Office and throws bouquets at Alcohol Tax."

HM.JR: God! Has it taken us that long to get it across? Did you (Viner) notice somebody just returned from Chicago? Are you interested in it?

Dr. Viner: Yes.

HM.JR: Send for Harold Graves if you are interested. It's a long story, but he can give it to you.

Dr. Haas: Nothing.

HM.JR: Will you (Haas) get in touch with Professor Merriam? He's the fellow with National Resources and he wants us to put on a show for them. You see, the President has these meetings supposedly once a week, but he will not have one next week because he will be away, and what Merriam wants is to look at the picture from the Treasury's angle. Talk to him and see just what he wants. Find out what he wants. He whispered to me and said that the next time they would like me to read a paper on it from the Treasury angle. I don't want to do it unless it's absolutely top-notch, unless we have something to say. Anything else, George?

Dr. Haas: No.

HM.JR: (To Miss Roche) Denver still there?

Miss Roche: Very much, sir.

HM.JR: After you have read the report on that hospital I would like to talk to you about it.

Miss Roche: I would like to talk to you, too, Sir, but I would want first to talk to some other people about it.

Mr. Taylor: Nothing.
Mr. Gaston: Magill, do you have any objection to my doing what Mackeller wants?

Mr. Magill: No. Fine. Unless Mac objects.

Mr. Gaston: Might get Mac to write it.

The President has no press conference this morning.

HM.Jr: Why?

Mr. Gaston: On account of Forbes Morgan's funeral. What other reason, I don't know.

HM.Jr: You notice I wasn't asked to be a pallbearer. Also, my picture wasn't among those in the advertising book. You know. I felt hurt!

Was there anything more about my nice side remarks about the New York Times and their gold story? Krock didn't call me up.

Mr. Gaston: No. No. Both Rodney Bean and Bob Thornburgh acted kind of guilty and shamefaced about it. Rodney was told to ask and then Rodney wished it off on to Bob Thornburgh.

HM.Jr: Lucky for me, after Walter Lippmann had been in to see me he went up to see Bell and Bell told him word for word what I had told him without any preliminaries. But he walked in just the same to Bell and said, What I want to know is do they mean what they say?

Mr. Oliphant: I sent you the files and record of what we did in connection with the so-called joker in the liquor bill. It's just for your records.

HM.Jr: Not for action?

Mr. Oliphant: No. You remember we communicated with the Commission and I will have before you go to Cabinet meeting a one-page summary of the Federal Trade Commission's bill.

HM.Jr: May I say to you people that on account of the work Bell and I have been doing, I am just three weeks behind and if anybody wants any action on anything, don't send it to me; hand it personally to Mrs. Klotz because everything else is just piling up for a rainy day. But if anybody wants
anything done, you had better actually hand it to her because I am three weeks behind on my reading. I have never been so badly off.

Mr. Magill: Nothing.

HM,Jr: You fellows are going over at 11 o'clock?

Mr. Magill: Yes.

HM,Jr: Who do you take with you?

Mr. Magill: Secret Service!

Mr. Oliphant: A couple of machine guns!

HM,Jr: I want to say, if all of you could keep your ears open, because I think the Treasury is going to come in for sabotage from now on, the like of which we have never had before. Bell and I are always in a tough spot, but I think we will be in an even more difficult spot because as the President turns to us and says, 'If Wallace wants a Farm Tenancy Bill, find the money for him, and then Wallace during the day, I give this as an example, knowing we found the money but it has to come out of some existing appropriation, has a press conference and says, 'Too bad. Economy is the order so we will just give yp all the programs,' and then today comes a long statement from Ed O'Neal attacking the thing. It clicks just like that (gestures).

Mr. Bell: There is going to be a conference here in ten days, I understand.

HM,Jr: I think it's terrible, but, as I say, I think Bell and I will come in for this kind of thing within the Administration. It has been bad enough up to now, but I don't think anything we have had will equal what we are going to get in the next two or three months, and anything you people pick up or hear -- but it will come from within the Administration. Wallace will attack and sit back and say, "We want to do everything" and then put various pressure groups to work on us. I think it's terrible. Money is available for Farm Tenancy, for ever-normal granary, for Housing -- it's all there, but they have to give up something. So if you hear anything that is helpful to Bell and me, I wish you would get it. Bell, I think you and I are going to have the worst time because it's going to come from within. Herbert, you might get O'Neal's release for me. Just how
much of it the President is going to stand, I don't know. But I just thought I would let you know. But I think it's worth taking — quite worth while.

Mr. Bell: By the way, Walter Lippmann sensed that. He noticed a story in the paper on Wallace and he said, 'I think unless the President stands behind the Treasury that you won't be able to go through with this program. I think it's unfair to put the Treasury on the spot that way and alone.' He said, 'I can see it coming.'
April 23, 1937

After Cabinet the President asked to see Wallace, Bell and me. At the end of a half hour discussing the Farm Tenant Bill Wallace suggested that we cut his road appropriation from 150 million dollars to 120 million dollars - the 30 million dollars to go towards starting the Farm Tenancy Bill. This is, of course, what I hoped and prayed for, namely, that they would cut appropriations to find the necessary money to start anything new with.

On Crop Insurance they decided that they would limit it to wheat and that they would only need about three million dollars for administrative purposes until August, 1938, and Wallace said that he would consult with his people to see whether he could find the three million.

The meeting started very tense but ended on a very amicable basis. I am tremendously encouraged.
The President discussed with Secretary Morgenthau, Secretary Wallace, and myself, the question of funds to finance, during the fiscal year 1937, the provisions of the Farm Tenancy Bill and the Crop Insurance Bill. He asked Secretary Wallace as to whether or not he had been able to find any funds in the Agriculture Department to finance the Farm Tenancy program. The Secretary replied that they had discussed the matter at some length with the heads of the various bureaus of the Department of Agriculture concerned and they had come to the conclusion that the most that would be needed for the fiscal year 1938 to start this program on an experimental basis and maintain only a nucleus of an organization would be about $25,000,000. He said he did not think they should spend more than $15,000,000 on Farm Tenancy and he hoped that the Department might get by with as much as $5,000,000 for the fiscal year. Under the land-buying program he thought that $5,000,000 would be sufficient but officials in charge of that program would prefer to have $10,000,000.

As to the source of the funds, he thought that the best place would be good roads. He asked me to explain the situation with respect to good roads. I stated that the Secretary of Agriculture, prior to January 1, 1937, apportioned for the fiscal year 1938 about $200,000,000 among the several States for Federal aid highways and grade crossings, and that there will be a similar amount available for apportionment on January 1, 1938. The Budget for 1938 contains an item of appropriation of $150,000,000 to pay the States for Federal share of this program for the fiscal year 1938.
I explained that when the Secretary of Agriculture apportioned these funds to the various states it becomes under the law an obligation of the Federal Government and does not require a contract to construct the roads in order to incur that obligation. I said that I felt some money could be saved out of good roads by two methods (1) for the Appropriations Committee to reduce the $150,000,000 to $130,000,000 after which the Secretary should instruct Mr. MacDonald to advise the States that while the authorization for roads had been apportioned among the several States there was only available for expenditure during that fiscal year the sum of $130,000,000 and therefore projects would not be approved in excess of that sum, and (2) for the Secretary to instruct Mr. MacDonald to delay the approving of projects so that some part of the program, to the extent of $20,000,000 or $30,000,000 will be thrown over into the fiscal year 1939. Of the two, I prefer number (1) because Congress would be a party to the changed program. In either case, I think there will be some repercussions from the road organizations.

The President instructed me to confer with Mr. Jump and Mr. MacDonald of the Agriculture Department to work out the necessary steps and then confer with the Chairman of the Appropriations Committee so that the reduction might be made in the estimate pending in Congress.

Secretary Morgenthau then brought up the question of the participation in this program of Governor Myers' organization. He said that he felt that Governor Myers already had the Federal Farm Mortgage Corporation a set up which
is prepared to assist in this land-buying program, particularly in the appraisal end. He thought it advisable that the Secretary of Agriculture not set up a duplicate organization but be required to use the organization already in existence with, of course, full authority in the Secretary of Agriculture to determine the type of projects and the places where they should be located. Secretary Wallace agreed that this had a great deal of merit and he would be glad to look into that phase of the matter.

Secretary Wallace then brought up the Crop Insurance Bill which has passed the Senate. He said that he thought the President ought to get behind it or it would not get through as a great deal of objection has developed in the House. The President asked the Secretary how much money was involved and he replied that there was $10,000,000 for administrative expenses and $100,000,000 for capital stock but that he did not feel the full amount indicated would be needed for the fiscal year 1938. I asked the Secretary if he did not feel that the incurring of obligations under the Crop Insurance program could be confined for the fiscal year to wheat and the liquidation of any obligation so incurred could be confined to the fiscal year 1939 and that the administrative expenses might very well be kept within a limit of not more than $3,000,000. He said that it was his thought that the bill now pending in the House should eliminate every grain except wheat and that the experiment should be confined to that grain, and that the matter of the liquidation of the obligations under this program would not be presented until about August 1938, which would be
in the fiscal year 1939, and that certainly it was his thought that $3,000,000 for administrative expenses would be ample and he hoped that they might turn out to be a great deal less than this sum. He also said that he saw no reason why the funds required in 1938 for this purpose should not also be taken out of roads.
TO: Secretary Morgenthau  
FROM: Mr. Magill  

Subject: Conference regarding the case of E. M. Smith, in Attorney General Cummings' office, attended by the Attorney General, Assistant Attorney General Morris, Mr. Oliphant, and myself.

The Attorney General asked for our views regarding the case. Mr. Oliphant told him that in our opinion it was a particularly flagrant case, since there had not only been gross fraud by the taxpayer, but the taxpayer had induced twenty-five or thirty clerks, cashiers and the like to participate in his attempts to defraud the Government. Mr. Oliphant gave the Attorney General the names of several of these individuals with salaries ranging from $1,800. to $2,500. a year, who were dependent in some way upon Mr. Smith and who, at his request, reported dividends of around $15,000. to $25,000. each, which did not belong to them. Mr. Oliphant said that we regarded the case as one of the worst which we had ever seen and that it was extremely important to the morale of the taxpayers on the Pacific Coast that the criminal prosecution be actively carried through.

The Attorney General then made a long statement to the effect that the difference between the Treasury Department and the Department of Justice was that his men had had greater experience with Judges and Juries and that in many cases in which his attorneys would agree with the Treasury that the fraud was flagrant, nevertheless a conviction had not been secured. He mentioned particularly the Mitchell case and the "Dutch" Schultz case. Mr. Morris stated that there were a number of legal questions regarding some aspects of the tax liability so that we might not be able to recover the full tax. Further, Mr. Smith would explain the fraud on the grounds that his wife, from whom he was separated, was causing him a great deal of difficulty, and he did not want her to know the actual extent of his fortune.

Mr. Oliphant reminded the Attorney General that Justice's success in fraud cases ran about 70 percent and that this case was of a sort where success is likely, owing to the fact that there would be many witnesses who would testify to Smith's fraudulent schemes. He said that this case offered the same opportunity to the Attorney General as the Mellon case to instill new standards of uprightness in taxpayers.
The Secretary - 4/23/37 - 2

The Attorney General said that so far as the civil liability was concerned, the taxpayer is now offering $1 million in cash, $500,000, payable at the end of the year, with the understanding that he will waive the statute of limitations and permit the case to be tried before the Board of Tax Appeals to determine his exact liability. The understanding will be, further, that no part of the $1½ million is to be returned even if the Board finds his liability is less than that amount. The Attorney General said that he thought this offer was about all that could be expected, since the taxpayer's total assets were around $4 million. He could hardly be expected to offer the full amount of the tax, penalties and interest, since to do so would undoubtedly ruin him and cause him to lose control of his business. The Attorney General felt that the taxpayer would agree to enter a plea of "guilty" to one of the counts of the indictment, and that it would then be up to the Judge to determine the sentence. The Attorney General did not seem disposed to undertake that his attorneys would make a vigorous attempt to secure a substantial jail sentence.

I pointed out to the Attorney General that although we had lost the Mitchell case, the net effect has been to put a stop to husband and wife transactions for tax purposes, hence our loss was really a great victory. Furthermore, whether we win or lose the Mellon case, no one is apt again to create an educational trust out of pictures hanging on the walls of his own house. Both Mr. Oliphant and I complimented the Attorney General upon his persistence in prosecuting the Mellon case, and told him that the case had been extremely helpful to the Treasury.

The Attorney General finally suggested at the end of a conference of 1½ hours, that we take a little more time to think over the offer. Mr. Morris stated that the criminal case was now set for trial in the June term. The Attorney General thought that we ought to make up our minds regarding the offer in compromise at an early date. He suggested in conclusion that the very fact that the offer had been made would make it difficult for us to succeed in the criminal case.

After this conference I saw Robert H. Jackson. He told me in confidence that while he was head of the Tax Division he had strongly recommended to the Attorney General that the criminal case be actively prosecuted. He said he had told the Attorney General that the $1½ million offer was ridiculous since it involved us in the necessity of trying out the fraud case. So far as the entry of the plea of guilty was concerned, he said he felt no doubt that a suspended sentence would be given. He added that Mr. Bruce Kramer had been very angry at him and at you for refusing to accept the offers in
compromise and that he (Jackson) had been told that his transfer to the Anti-trust Division might be connected with his attitude in this matter.
TO
Secretary Morgenthau

FROM
Herman Oliphant

There are attached your letter to the President, which he referred to the Federal Trade Commission, the Federal Trade Commission's reply to him, his proposed letter transmitting this reply to the Speaker and to Senator Robinson, and the letter from the Federal Trade Commission approving this use of its letter.

This, briefly, is the situation: It now violates Federal law for a manufacturer to bind retailers to keep up the price of his product. This Tydings-Miller Bill would make this lawful in interstate commerce involving States which have legalized contracts for resale price maintenance.

This change in the Federal law would facilitate a rise in the price of many commodities and thus raise the cost of living.

If they say this Bill is aimed to prevent a retailer from selling something below cost to get customers into his store, the answer is that that is a different unfair method of competition, namely, predatory price study. We should prohibit it, but not legalize resale price maintenance.

The five cases in the Federal Trade Commission against the liquor interests charged them with violating Federal law by binding retailers with contracts to maintain their monopoly prices. If the Tydings-Miller Bill passes, these cases fall, and you can expect a rise in the price of liquor which will accentuate the "bootlegging" problem.

Attachments

Mrs. Kiley:
Brought this subject at Cabinet
Pursuant agreed to sign
the two attached letters. /Mr.

4-27-27
Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

In response to your inquiry about the letter of April 14 addressed to the President by myself as Chairman of the Federal Trade Commission, and discussing the probable effect of the Tydings-Miller bill, you are advised that the letter was for the use of the President in any way he may wish.

Very truly yours,

W. A. Ayres,
Chairman.
Sirs

My attention was called to S. 100, which would render legal certain contracts for the maintenance of resale prices now illegal under Federal law. I requested the Chairman of the Federal Trade Commission to give me a recommendation on this Bill, and I attach his reply on behalf of the Commission.

The present hazard of undue advances in prices, with a resultant rise in the cost of living, makes it most untimely to legalize any competitive or marketing practice calculated to facilitate increases in the cost of numerous and important articles which American householders, and consumers generally, buy. You will note that the Federal Trade Commission has made no study of the effect of resale price maintenance on consumers since 1929, but the Commission does mention a reputable body of informed opinion to the effect that such control of resale prices would be harmful to the consuming public. Indeed, the Commission says: "There is great probability that manufacturers and dealers may abuse the power to arbitrarily fix resale prices by unduly increasing prices, resulting in bitter resentment on the part of the consuming public, especially in this period of rising prices."

Since we are in a period of rising prices, this Bill should not, in my judgment, receive the consideration of the Congress until the whole matter can be more fully explored. Conceivably, the Congress might approve having the Commission bring down to date the study which it made eight years ago by examining the economic effects of resale price maintenance under the novel and rapidly changing conditions now attending business in this country.

Faithfully yours,

[Signature]

Honorable Joe T. Robinson
United States Senate

Enclosure

HOrbois Typed 4/22/37

Regraded Uclassified
Sirs

My attention was called to H.R. 1611, which would render legal certain contracts for the maintenance of resale prices now illegal under Federal Law. I requested the Chairman of the Federal Trade Commission to give me a recommendation on this Bill, and I attach his reply on behalf of the Commission.

The present hazard of undue advances in prices, with a resultant rise in the cost of living, makes it most untimely to legalize any competitive or marketing practice calculated to facilitate increases in the cost of numerous and important articles which American householders, and consumers generally, buy. You will note that the Federal Trade Commission has made no study of the effect of resale price maintenance on consumers since 1929, but the Commission does mention a reputable body of informed opinion to the effect that such control of resale prices would be harmful to the consuming public. Indeed, the Commission says: "There is great probability that manufacturers and dealers may abuse the power to arbitrarily fix resale prices by unduly increasing prices, resulting in bitter resentment on the part of the consuming public, especially in this period of rising prices."

Since we are in a period of rising prices, this Bill should not, in my judgment, receive the consideration of the Congress until the whole matter can be more fully explored. Conceivably, the Congress might approve having the Commission bring down to date the study which it made eight years ago by examining the economic effects of resale price maintenance under the novel and rapidly changing conditions now attending business in this country.

Faithfully yours,

The Speaker,

House of Representatives.

Enclosure.
The President,
The White House,
Washington, D. C.

Dear Mr. President:

Receipt is hereby acknowledged of your memorandum of April 7, 1937, transmitting Secretary Morgenthau's letter of April 6, 1937, and requesting a recommendation on the Tydings-Miller Bill. The Commission has not heretofore expressed an opinion as to the merits of this bill for the reason that it deemed it to be a matter of legislative policy for determination by yourself and the Congress.

The Tydings-Miller Bill would amend the anti-trust laws so as to legalize contracts and agreements fixing minimum resale prices for goods sold in interstate commerce and resold within the jurisdiction of any state where such contracts or agreements as to intrastate commerce have been legalized. A number of states now have such statutes.

Many of these state laws and the Tydings-Miller Bill are directly and irreconcilably in conflict with the present Federal law on resale price maintenance. Public policy since the passage of the Sherman Anti-Trust Act in 1890 has been opposed to resale price maintenance. Numerous court decrees have been entered under the Sherman Act and numerous orders to cease and desist have been issued by this Commission and affirmed by the courts in conformity with the public policy expressed in the Sherman Act and in the Federal Trade Commission Act. Enactment of the Tydings-Miller Bill would in its practical effect void such decrees and orders and constitute a reversal of what has been public policy for many years.
Since state laws, legalizing resale price maintenance, differ in the various states, and since, under the proposed Federal legislation, Federal exemption from the anti-trust laws would be conditioned upon the legality of similar contracts in intrastate transactions, the Tydings-Miller Bill would modify the anti-trust laws in differing degrees in different states. Thus, not only would it leave the Federal anti-trust laws in full force and effect as to those states which do not legalize resale price maintenance, but there would be divergent policies as to those states which legalize resale price maintenance, because of the differing terms of the different statutes in the respective states. Thus, the Federal Government would be under the necessity of attempting to enforce divergent regulatory policies toward shipments made by the same manufacturer to dealers located in different states, because of the differences in the respective state statutes.

A peculiar feature of many of the state laws which would, under a recent decision of the Supreme Court, speaking through Mr. Justice Sutherland (57 S. Ct. 147), thus be made binding upon interstate commerce is that they require wholesalers and retailers to conform to the provisions of private resale price maintenance contracts to which they are not parties. Thus, a private contract, the provisions of which are determined without public hearing and apart from any public supervision as to reasonableness, is made binding upon all dealers and the consuming public.

With respect to the economic phase of this matter, the Commission has not made a recent study of resale price maintenance. However, in 1929, the Commission did undertake such a study, reporting to the Congress thereon in 1931 (H.R. 546, 70th Congress, 2nd Session). In that report the Commission said:

"The position taken by both proponents and opponents of resale price maintenance are based on the belief that such maintenance..."
of prices will limit retail competition ... The real crux of the question, therefore, is whether injury done to the consumers' interests through the elimination of dealer competition with respect to price-maintained articles would be greater than the damage now alleged to be done to the interests of manufacturers and distributors of trade-marked, nationally advertised brands when they are used as leaders. Neither injury is capable of exact measurement, but, in the opinion of the Commission, the potential damage to consumers through price fixing would be much greater than any existing damage to producers through this form of price cutting."

The general opposition of economists and consumers to this type of legislation is noteworthy. A questionnaire sent to members of the American Economic Association some years ago, by Carroll W. Doten, Professor at the Massachusetts Institute of Technology, resulted in a vote of 401 to 87 that the manufacturer should not have the legal right to control the retail prices of his products.

There is great probability that manufacturers and dealers may abuse the power to arbitrarily fix resale prices by unduly increasing prices, resulting in bitter resentment on the part of the consuming public, especially in this period of rising prices.

Replying to your inquiry as to the five complaints issued against certain distillers by this Commission, referred to by Secretary Morgenthau, there are enclosed herewith, for your information, copies of those complaints. In substance, these dealers are charged with maintaining uniform minimum resale prices in interstate commerce and with enforcing agreements with respect thereto by unlawful methods, such as
the use of blacklists, boycott, threats of boycott, and other coercive methods incidental to the enforcement of their resale price policies.

With great respect, I am

Very truly yours,

W. A. Ayres,
Chairman.
THE WHITE HOUSE
WASHINGTON

April 7, 1937.

MEMORANDUM FOR

HON. W. A. AYRES

Would you give me a recommendation on this Tydings-Miller Bill to which the Secretary of the Treasury refers?

F. D. R.

Letter from the Secretary of the Treasury, 4/6/37 to the President. States the five cases pending before the Federal Trade Commission against some of the largest distilling companies which he mentioned to President involve this monopolistic practice of fixing retail prices in violation of Federal law, nominal resale price maintenance. States if Tydings-Miller Bill, reported out in both Houses, is to be enacted, the liquor industry should be excepted.
By dear Mr. President:

The five cases pending before the Federal Trade Commission against some of the largest distilling companies which I mentioned to you involve their monopolistic practice of fixing retail prices in violation of Federal law against resale price maintenance.

The Tydings-Miller Bill has been reported out in both Houses. It would legalize the monopolistic practices on which these Federal Trade Commission cases rest.

This Bill applies to all commodities and would tend to raise prices generally, particularly in the lines of business where monopolistic conditions prevail. It should not pass at all, but, if it is to be enacted, the liquor industry should be excepted because a rise in prices in that industry would have the additional social disadvantage of accentuating the problem of "bottleging."

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President

The White House.
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Hello.
H. M. Jr: Well we'll go the limit. Of course, the way - the trouble right this week is that the newspapers don't believe we mean what we're saying.

G: I know they don't and that's all right they may not - we may not be able to do it. I don't know what the boss is going to say; I believe he's going to balk on this 10 percent.

H. M. Jr: On the what?

G: Is he going to balk?

H. M. Jr: No.

G: When he finds out what it is by God he's going to say, "Well wait a minute".

H. M. Jr: Well you know this reminds me of the way - when the world war and they wouldn't believe that the American soldiers were coming because they kept telling them each month they were coming next month.

G: Yes, I know - well we've been doing that you know the last two years.

H. M. Jr: And if there was some little bill that he could veto.

G: Yes by God with a ringing message.

H. M. Jr: I mean some little bill for a million dollars or something........

G: Yes.

H. M. Jr: .....and say at least........

G: I just hope to God he can; I'll do everything I can to persuade him to do it and fix it on the hill.

H. M. Jr: If you could think of some little bill that didn't mean much and we could get him to veto it and then.....

G: Well you find out one of them and by God I'll do it.

H. M. Jr: All right.
G: All right, I'll see you there at 2 o'clock.

H.M. Jr: Thank you.

G: All right.
Bell: Hello

H.M.Jr: Dan

B: Yes.

H.M.Jr: If we could only find some bill that comes down for 500 thousand or a million dollars that - and get the President to veto it soon, see?

B: Yes.

H.M.Jr: And then give a good stiff message and let it - it would need something like that for these people to believe that he's going to do it, see?

B: Ah-ha.

H.M.Jr: Now these bills that come down have to go across your desk, don't they?

B: Oh yes - oh yes.

H.M.Jr: Well now see if you can't find some bill that we can get them to veto that carries an appropriation.....

B: Well I've been looking for some but there's been hasn't been any bills going through that amount to anything. There's a lot of private claims and things like that - about all.

H.M.Jr: No but something that he could sound off on, you see?

B: Yes.

H.M.Jr: Make a.....

B: Ah -

H.M.Jr: ....... - a noble speech about, see?

B: What I'd like to see him veto is some appropriation bill.

That's never been done - I mean big one......

Oh.

......take the Interior Department bill which they are now talking about increasing that Vocational Education from three to fourteen which is eleven million dollars increase and if they do it - just hop right on it and veto the thing; he's opposed to it; he said he was at the time and that - ah - and then call attention to the fact that it's a shame that he has to veto a whole appropriation bill with 500 items in it to get at one and then ask for a Constitutional Amendment before he can veto individual items. One at a time, see?

Yes, well let's get something like that, see?

Yes. Well I think that if he could take a whole appropriation bill which is something - ah - well I don't know - remember when one was ever vetoed.

Well we've got to do something to make these people believe.

That's right. I know they don't believe it.

Yes.

And I talked about doing a little work here on some letters......

Yes.

.....to go out to - about this next June and impress upon these people that the President did mean to save money in the next three months.

Yes but we need - what we need is a very very strong veto message.

That's right - that's right. Well I've been looking for something but there hasn't anything come along that's worth much.

Well - ah - when you get it give me - come running in.

Alright, fine, I will.

Thank you.

Goodbye.
Secretary of State,
Washington.

241, April 23, 6 p.m.

STRICTLY CONFIDENTIAL.

FOR TREASURY FROM BUTTERWORTH.

At the weekly meeting at the British Treasury today, I conveyed the information which was given me in the telephone conversation of April 19th on Japanese financial approaches in Washington, and Phillips stated in reply that he had seen Arakawa since the latter's conversation with Waley and that he had found him very vague. Arakawa had made no mention of the tripartite monetary agreement and asked a number of questions and had given no information in return. Phillips said he could only conclude that Arakawa had no instructions to do anything specific and was merely "nosing around for information on the price of gold".

I also mentioned that I had heard that the views which he had been good to make known in last Friday's meeting had been read with interest in Washington, particularly his offer to exchange at any time views on the general situation.
LMS 2-No. 241, April 23, 6 p.m., from London.

situation created by the increase in the quantity and value of gold. The American Treasury was, of course, also willing to exchange views at any time; however, the important question of ways and means immediately arose since the related problems were so complicated that they did not lend themselves to cabled instructions. Philipps said that he understood that point of view; that it was desirable to keep the matter in the back of one's mind for it was not pressing — there was no need of precipitate action.

He then changed the conversation by saying that the French situation seemed to have become more complicated since our last talk and was perhaps approaching a crisis point. This time it was not due to a treasury deficiency for the French Treasury had enough money with which to carry on for the time being but it was a currency matter, which was to say a political matter. His feeling for which he emphasized he had no factual basis was that "once again we will be approached by the French for advice". Asked, whether there was anything in the monetary realm which Blum could do Phillips said that he did not believe there was any definitive action he could take and therefore he had no advice to offer them should they come for advice. At bottom the trouble seemed to be one of political and social in discipline;
LMS 3-No. 241, April 23, 6 p. m., from London

discipline ; for example in some extraordinary way it has become a highly important political question involving whether the Blum Government was to reverse its policy and provide a public works program merely to please the 30,000 workmen who were now reluctantly and intermittently putting up the exhibition buildings.

BINGHAM

"FIC
PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
DATE: April 23, 4 p.m.
NO. 523
FROM COCHRAN

Paris exchange market much quieter today. French control had up to 3.30 p.m. intervened only slightly selling sterling between 111.29 and .15. Lazard is selling dollars importantly against sterling or francs (then converting francs into sterling). Dollars were fairly well bid until New York opened seller. Rentes up; 4 1/2 1937 bonds unchanged; shares about even.

I made a call this forenoon at the Bank of France. The French control had not intervened in the market up until 11:30 but it was still too early to make any forecasts as to market trends. I was told most confidentially by Cariguel that since I last called on April 16th (refer to my telegram No. 491 of April 17, 9 a.m.) the control had been steadily losing gold and had difficulty between two credit days. Cariguel let me know that the net balance of gold and foreign exchange in the control fund had declined from approximately (end Section one)
PARAPHRASE OF SECTION TWO. No. 523 from Paris April 23.

4,500,000,000 francs to 3,650,000,000 francs.

I questioned Cariguel as to whether during the past few days any other means had been discussed of raising money for the Government to supplement the Treasury's funds which still remain from the new loan. The balance of the Treasury, incidentally, (as I mentioned in my telegram of yesterday) with the Bank of France has declined as of the last statement. This confirms the prediction that this account would not be increased through the receipt of late payments on subscriptions to the loan, but the fund was rather drawn upon. Reference was made by Cariguel to the City of Paris loan - see my telegram No. 482 of April 14, 6 p.m. - the proceeds of which will undoubtedly be used by the Treasury. Government or semiofficial loans which are issued on the local market usually result in a flood of applications being received by the Bank of France. However during the first few days that the City of Paris issue was open, at the Bank of France not a single bond was sold.

I was informed by Cariguel that there is now some discussion of the possibility of issuing 2,000,000,000 francs of bonds of the Caissides Pensions, offering the same terms as the last loan. Taking into consideration the present (omission) market, he doubts whether such an issue would be feasible.

Cariguel could not confirm the rumor that recently an attempt to borrow in the Netherlands had been made by the Treasury. END SECTION TWO.

Bullitt.
The recent weakness of the franc Gariguel attributes to fears over the political and social structure in France. This consisted of a flight from the franc, he said, and not a filling of commercial demands for currencies of other countries. During the last speculative attack on the franc, he said, the situation was not favorable as long and short term money rates are high on the French market, with practically no foreign funds here and bank deposits are low. He said that nevertheless, if big holders of capital see fit to leave the franc irrespective of money rates, this currency can be put under such pressure that the foreign exchange resources and gold of the French control might not last long. Presumably the control had already started drawing out gold from the Bank of France.

Cariguel said that, with reference to the situation in the Netherlands, President Trip of the Netherlands Bank had recently released from the Dutch stabilization fund a considerable amount of gold.

END SECTION THREE.

BULLITT.
PARAPHRASE OF SECTIONS FOUR AND FIVE, No. 523, April 23 from Paris.

He had given this gold to the Netherlands Bank of the Indies against florins, to reconstitute the gold resources of that Bank.

At noon today I had a visit from Maurice Frere, the representative of Prime Minister Van Zeeland, charged with preliminary international economic investigations. I have known Frere several years, and he talked rather frankly about his mission. The job keenly interests Frere, although he realizes that nothing could be accomplished very quickly and that there are many obstacles to be overcome and much groundwork to do. Frere said he saw no early opportunity to hold a world conference on these matters. He has no preconceived plans about it, but is obtaining the views of the appropriate officials in the various countries and he then hopes to see if they can develop some common formula.

Frere had seen Spinasse, the French Minister of National Economy, before he called on me this morning. He found that Spinasse, as well as Auriol and other officials of the Blum Government, were interested in the undertaking of Van Zeeland, and anxious to do what they could to assist it. However, he understands that the French Government is not in a position to take the initiative but will await the results of the explorations which Frere is making to see whether then can fit into a general plan. If some broad international program is achieved, Frere thought there would be
an especial opportunity for replacing quotas by customs tariffs in France. The German situation, he knows, would present difficulties in the achievement of such a plan. Any big program, he believes, must envisage a devaluation and stabilization of the Reichsmark, for which outside financial assistance would have to be given to Germany. France, he believed, would be unwilling to extend such assistance to Germany without some political guarantee from her. When Spinasse and other French officials urgently requested Frere's views as to the French situation, he said he expressed them frankly. The Blum Government, he told them, should at once take definite and forceful action to quiet the labor situation, and demand the Extreme Left's full cooperation. Frere asked them why they were letting such a situation develop for some other government to take in hand. If a strong policy of public order and relaxation of the forty-hour week, etc., would be followed by the Blum Government, Frere said he thought it could win sufficient confidence on the part of the capitalist classes to bring about a repatriation of funds and a business pickup which might

END SECTIONS FOUR AND FIVE.

BULLITT.

EA: LWW
SECTION SIX

save the situation. Nevertheless, he realizes that the time for such action is near to passing and that if a crisis is to be avoided, something must be done soon. He would regret seeing a government which in most matters meets the current political thought in France fall on a financial difficulty. He is convinced that his banking friends in Paris, although skeptical of the present Government, would help the Government through a crisis rather than see it fall in circumstances where the banks might conceivably be blamed therefor.

Frere is returning to Brussels tonight and will proceed to Berlin on Monday where he has been urged to stay a week by Schacht. A favorable impression was made by Schacht in Brussels where Frere attended the meetings between Van Zeeland and Schacht. After leaving Berlin Frere will go to Rome but will not stop off in Basel where he has attended regularly the B.I.S. annual meetings heretofore as a representative of the Austrian National Bank. He considers that it is highly important that he obtain the support of the Government of Italy to the present undertaking and that the dictators find no reason to take offense at Van Zeeland's procedure and no basis for
PARAPHRASE OF SECTION SEVEN. No. 523 of April 23 from Paris.

terming this plan a "democratic" maneuver. It is Frere's plan to see the appropriate officials as soon as he can. He does not want to expose himself to the general questioning which he might experience if he stopped over at Basel, where at the annual meeting so many central banks will be represented.

I questioned Frere as to whether on Van Zeeland's trip to the United States he would be with him. His reply was that Van Zeeland's trip to Washington is still considered as a purely personal call, and that as long as this is the situation, he does not want to give evidence of actual investigation or negotiation through taking his technical assistant with him.

I gave to Frere a document on the American Government 1938 budget, and two publications of the Treasury Department on capital movements. As yet Frere has not got together any sort of a staff, but he said he might call upon me later for further documentation with respect to our country. Material on France had been given him by Rist.

END MESSAGE.

BULLITT.

EA: LW

Regraded Unclassified
Secretary of State

Washington, D.C.

April 24, 11am.

FOR THE SECRETARY OF THE TREASURY.

Silver market continued quiet during the week; ready opened at rupees 53-5 per hundred tolas and after touching 53-10 closed at 52-12. Stocks on hand continued heavy at about 34,000 bars and daily offtake improved to about 85 bars. A shipment valued at 20,000 pounds reported from London.

Gold declined; ready opened at rupees 34-14-3 per tola, touched 34-11-6, closed at 34-13-6. There was some nervousness early in the week concerning American Treasury policy but confidence returned.

WATERMAN

WWC
KLP
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
DATE: April 24, noon
NO.: 527
FROM COCHRAN

There is no exchange news as Paris banks are closed for the day.

This morning I talked by telephone with Jacobsson at Basel. From Jacobsson's conversations with Van Zeeland, Marcel and other officials of the B.I.S. and contacts, he thinks Paul Van Zeeland is principally playing for time, through Freres investigational trips to European capitals, until he can come to Washington.

I talked yesterday with the senior partner in a Paris-American banking concern. He told me that franc deposits in his bank were not increasing and that the deposits in foreign currencies, namely, sterling, dollars and Swiss francs, amounted to twenty-four percent of his total deposits. The firm of Sulzer Freres, one of his clients which has manufacturing plants for engines, etcetera, in France and Switzerland, informs him that due to inefficiency of French labor and to social legislation, their cost of production in France is at present thirty percent higher than that in the Swiss plant despite the fact that higher per capita wages are paid Swiss laborers.
He said that another American client of the bank requiring large quantities of manufactured material finds that it can get goods it had ordered cheaper in Switzerland than in France and can get a guarantee as to fulfillment of the contract and delivery for a specified date from the Swiss while no guarantee will be given by the French factories. These two examples were offered by my contact to show the unfavorable financial situation which has developed under the present political and social regime in France and the unsound business.
The Government Security Market

Week ended April 24, 1937

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Treasury bonds recorded a net decrease of about 1/2 of a point in the average during the past week, thereby cancelling practically all of the advance in the preceding week. Prices turned upward on Monday and Saturday but in the other four days the movement was toward lower levels. Trading continued at a moderate rate, principally in small lots, but as there was little buying interest shown in the market a small amount of selling at times resulted in sizeable losses. The long issues were the most active and suffered the largest losses. The five longest maturities lost about 3/4 of a point, the three shortest issues were about unchanged, while declines by the other issues ranged from about 1/4 to 1/2 of a point. Guaranteed issues declined about 5/8ths of a point in the average.

The trend to the Treasury note market for the week as a whole was toward slightly lower levels but at no time was there any real weakness in the market as individual changes on any one day were confined to small fractions. Losses ranged from 1 to 6/32nds compared to gains that ranged up to 23/32nds in the previous week.

[Signature]
MEMORANDUM

April 23, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Treasury bond market opened moderately lower today and prices sagged steadily in quiet trading up to the close. The long Treasury bonds finished 10/32 to 16/32 down from yesterday, the intermediate maturities were down 4/32 to 12/32, and the three shortest bonds were down 2/32 to 6/32. Losses in the guaranteed bonds ranged from 1/4 up to about 1/2 point. Volume was $1,572,000, most of which consisted of small lot transactions. The note market was easier and closing quotations were at the lows of the day, 1/32 to 4/32 off from yesterday.

Domestic bonds were dull but there was a little activity toward the latter part of the day when some selling appeared. Second grade bonds showed losses of up to 1/2 point and high grades were off, on the average, about 1/4 point.

Foreigns were generally quiet with prices unchanged. German bonds showed gains of fractions to about a point and a number of Latin-American issues were fractionally off.

No purchases for Treasury today.
My dear Mr. Secretary:

Reference is made to the letter, under date of March 5, 1937, to the Secretary of the Treasury from G. Mallet Prevost, administrator of the estate of Teresa de Prevost, in which application and demand is made for payment under the provisions of Bill S. 1360, 74th Congress, 2d Session, entitled "AN ACT For the relief of the estate of Teresa de Prevost". The letter states that the Bill "became a law by reason of the failure of the President to return the same with his objections thereto to the House of Congress in which it originated in the time and manner prescribed and required by the Constitution and Law of the United States". The amount involved is $25,000.

It appears from an investigation by members of my staff that no record was kept either at the White House or at the Senate of the exact time or even the day upon which the Bill was returned to the Senate with the Veto Message of the President.

Article 1, Section 7, Clause 2 of the Constitution provides, in part, as follows:

"Every Bill which shall have passed the House of Representatives and the Senate, shall, before it become a Law, be presented to the President of the United States; If he approve
he shall sign it, but if not he shall return it, with his Objections to that House in which it shall have originated, who shall enter the Objections at large on their Journal, and proceed to reconsider it. If any Bill shall not be returned by the President within ten Days (Sundays excepted) after it shall have been presented to him, the Same shall be a Law, in like Manner as if he had signed it, unless the Congress by their Adjournment prevent its Return, in which Case it shall not be a Law." (Under-scoring supplied.)

The nature of the return and record thereof contemplated by the Constitution was indicated by the Supreme Court in The Pocket Veto Case, (1929) 279 U.S. 655 (at pages 664-665):

"In short, it was plainly the object of the constitutional provision that there should be a timely return of the bill, which should not only be a matter of official record definitely shown by the Journal of the House itself, giving public, certain and prompt knowledge as to the status of the bill, but should enable Congress to proceed immediately with its reconsideration; and that the return of the bill should be an actual and public return to the House itself, and not a fictitious return by a delivery of the bill to some individual which could be given a retroactive effect at a later date when the time for the return of the bill to the House had expired."

It is obvious that the lack of records in the instant case illustrates an undesirable situation which should be remedied. You may wish to call the matter to the attention of those concerned or to present it in Cabinet meeting.

Very truly yours,

[Signature]

General Counsel.

The Honorable

The Secretary of the Treasury.
April 26, 1937.
9:25 a.m.

H.M. Jr: Hello
Operator: Chairman Eccles.
H.M. Jr: Hello.
Eccles: Hello.
H.M. Jr: Marriner.
Eccles: Yes sir.
H.M. Jr: I think I better go away every Saturday.
E: Why?
H.M. Jr: Well look what happened to the bond market. What did you fellows do to it?
E: Well we put a few orders in.
H.M. Jr: I see. Do you want to tell me? We've heard one side of it; we haven't heard yours.
E: Well this is what happened - ah - on Friday, of course, the market went off pretty badly......
H.M. Jr: Yes.
E: ......and - ah - so I had a meeting Friday afternoon in the office and we got ahold of George and decided what to do on Saturday morning.
H.M. Jr: Yes.
E: Told them that they ought to change their tactics and put some orders in......
H.M. Jr: Yes.
E: ......and that's what they did.
H.M.Jr: Well they must have changed their tactics about putting in orders of five bonds under the market and then when he hits it why withdraw the orders of five bonds.

E: Well they got a - they got quite a lot of them on Saturday.

H.M.Jr: But they must have followed the market up, didn't they?

E: Well I wouldn't say that they put orders in - not under the market - they put orders in with the dealers for two million each.

H.M.Jr: Two million each?

E: Yes.

H.M.Jr: Of what?

E: Well two million - two million to each dealer.

H.M.Jr: Oh I see.

E: Two million dollars.

H.M.Jr: Yes, to use at his discretion?

E: What is it?

H.M.Jr: To use at his discretion?

E: No - no - to - to use them to buy any bonds that were on the market - being offered at the market.

H.M.Jr: I see.

E: You know they weren't to follow it up but they weren't necessarily to follow it down but if there were bonds hanging over the market......

H.M.Jr: I see.

E: You see? To pick them up.....

H.M.Jr: Yes.

E: .......and on the board they put orders in for - ah - well I think they picked up close to five million.
H.M. Jr: Well -

E: At least they - we got - we got Saturday morning fifteen million......

H.M. Jr: Yes.

E: ......and - ah - I - I argued that that market ought to show some strength over the week-end.

H.M. Jr: Yes.

E: That they had bill financing to do to-day......

H.M. Jr: Yes.

E: ......and that the job to-day would be just that much more if we didn't change that trend of the end of the week.

H.M. Jr: Yes. Of course, I'm simply delighted. Taylor and Lochhead and I walked home Friday night and we talked it all over and - because we felt terribly blue at the way they were handling it but I kept saying it's the Federal reserve's money - it's not mine and then you fellows did Saturday what we were praying that you'd do.

E: (Laughs) Well -

H.M. Jr: I mean you did what we'd have done if it was our money.

E: Well I felt that - that the - ah - Open Market Committee had authorized - we fought that thing through as you know......

H.M. Jr: Yes.

E: ......and I said, "Well what the devil do they mean now?" I said, "We've got this money to be spent and it's true we can't take the market and there may be more offerings than we can take but certainly we can get in there and do a damned sight more than we did do."

H.M. Jr: Yes.

E: I said, "We've proven by putting a statement - see George is always arguing and some of the others on the Committee
were arguing very strongly that if we could show a statement where we hadn't bought any bonds for a week....

H.M.Jr: That would be bullish.

E: .......that that would be bullish because it wouldn't be a supported market.

H.M.Jr: Well they got......

E: And I said, "Well I - I'm not sure that's the case at all. If I was sitting out in the country and saw that condition I'd say that the Federal Reserve's got cold feet and they're withdrawing."

H.M.Jr: Well, of course, George Harrison has been saying all the time the best news - they did nothing - well your statement came out and showed that they'd done nothing...

E: That's right.

H.M.Jr: .........and the country's reacted - "Well if the Federal Reserve System hasn't got confidence in the bonds why should we?"

E: Well it - ah - I don't know what - I don't know what reason George will give for that now. He'll have some other reason I guess; something else will have happened.

H.M.Jr: Oh, I - I haven't talked to him but Taylor has and from the way he was sputtering I gathered that you fellows must have done something and naturally we were curious.

E: Well we bought - ah - we bought fifteen million on Saturday.

H.M.Jr: Yes, well all I can say is more power to you.

E: And we're going to meet in about a half hour - George is down - I had him come down and Sinclair is down.....

H.M.Jr: Yes.

E: .....so that we can watch the market this morning and - ah - so as to make that bill offering successful. As I understand it though the bill market has acted pretty good and the market is entirely cleaned of bills....

H.M.Jr: Yes.
E: \ldots which is a good thing.

H.M.Jr: Yes.

E: And - ah - as you know, we took some of the bills last week.

H.M.Jr: I know.

E: \ldots but the dealers then during the rest of the week, in spite of the bond market being weak, had a strong - a pretty strong demand for the bills and they even got rid of all the nine months bills.

H.M.Jr: Good.

E: So the bill market looks better.

H.M.Jr: Well I think that having a strong market Saturday - you're absolutely right - it makes it much easier to-day.

E: Well I figured it would cost less to-day if we did that than if we let that market continue to go down.

H.M.Jr: Even the New York Times had a kind word to say for the bond market....

E: Did they? (Laughs)

H.M.Jr: \ldots which is something.

E: Well I hope - I hope it will get off all right.

H.M.Jr: Well I'm simply tickled to death but we made up our mind that it wasn't our money and we were going to grit our teeth and go through this week and take it on the chin.

E: Well I - ah - I told you I was going to do what I could and I've been fighting like hell to keep the thing going and....

H.M.Jr: Well -

E: \ldots we've got another week to get through and....
H.M.Jr: Well I'm - I'm more pleased to-day than I've been any time since the 15th of March.

E: Well that's fine. I'm - I'm glad you are.

H.M.Jr: Yes. Well let me know later on, will you?

E: I will. I'll call you.

H.M.Jr: Now that it - I - you see with Burgess away I don't get as good information as when Burgess is there.

E: You know that's a terrible loss to us. Now if we - ah - ah - those fellows don't run that market like Burgess.

H.M.Jr: Oh no.

E: And - and - and......

H.M.Jr: And they've insisted that Harrison - ah - what the hell does he know about the bond market?

E: He doesn't know anything.

H.M.Jr: And when you call up Harrison he insists on referring to this man - what's his name?

E: Ah - Allan Sproul.

H.M.Jr: And not only that but he's the boy that sees the newspapermen every afternoon.

E: Well it's just unfortunate. It's just one of those damn breaks because I'm - I'm sure that if we'd had Burgess - ah - the situation would have been handled far much better than it has; the results would have been better.

H.M.Jr: Oh sure.

E: Burgess was in favor of - of this action you know - when this crowd was down here although he didn't say much about it - I knew he was pretty much in sympathy with what I wanted to do.
H.M. Jr: Well even if he wasn't he'd do what you want him to do.

E: He'd not only do that but he knows what to do.

H.M. Jr: Yes. Oh I've felt his loss tremendously.

E: Yes, well it's been a fright for us.

H.M. Jr: Well let - talk to me a little later will you Marriner?

E: All right.

H.M. Jr: Thank you.

E: Goodbye.
April 26, 1937

9:30 Group Meeting.

Present:

Mrs. Klotz
Mr. Oliphant
Mr. Magill
Mr. Upham
Mr. Gibbons
Mr. Taylor
Mr. McReynolds
Mr. Bell

HM, Jr.: Steve, what about this J. L. Matthews, related to the Vice President, who came in to see you?

Mr. Gibbons: He came in and said you had talked to the Vice President. Just a young chap.

HM, Jr.: I don't know who he is.

Mr. Gibbons: He said the Vice President had spoken to you about it.

HM, Jr.: No. Well, I have to see the Vice President myself. I will go up the first thing tomorrow morning. The Vice President is more temperamental than at any time over the spending thing. All this stuff that the Vice President is working against Roosevelt is not true, because I have seen him in action and he always said, 'Now, Chief, what do you want? Is it all right for me to do it?' Don't for a moment, want anybody in this room to think he is working against Roosevelt.

Mr. Gibbons: I think he would come right out in the open and tell you what he is doing.

HM, Jr.: Herbert?

Mr. Gaston: (Gave the Secretary Kiplinger's 'Washington Letter'.)

HM, Jr.: I got this over to Kiplinger anyway. I had
better luck than with Lippmann. (Reading) "How sincere is the President? We have reason to believe that he is sincere NOW despite fact that in past he has TALKED economy and then proceeded to spend more than ever. He may change his mind, as he has in the past, but just now he has reason to be very earnest in working toward budget balance."

Herbert, I am inclined to send for Arthur Krock. I haven't done it for a long time. And talk to him about the editorial on gold in the Times. They ran that rumor the other day and in order to justify themselves, instead of being good sports and coming out and saying we are a bunch of old wash-women, I kind of thought I might send for Arthur Krock and in view also -- if you would get yesterday's Editorial Section of the Times -- make a note -- a story by Turner Catledge. In the body of his story is a straight factual story, but the headings are 'Due to Treasury's Blunders we are Having Budget Troubles'. Then you read the Turner Catledge story and there is nothing in it, but the heading -- something about 'Treasury Blunders Makes Budget Balance Difficult' -- but the story does not say anything about it and there is no use calling up -- I would much rather have it out with Krock. What do you think?

Mr. Gaston: Of course, Krock would not have anything to do with the heading of that story.

HM.Jr: No. No. But I have nothing to lose and a little to gain. Shall I call him up and see if I can get him?

Mr. Gaston: Yes.

HM.Jr: (To Operator) See if Mr. Krock could come in to see me between 11 and 11:30. Let me know which.

Mr. MoReynolds: Nothing.

Mr. Bell: Nothing.

HM.Jr: Danny, on this thing .... how did you keep your word with me?

Mr. Bell: Oh, yes!

Mr. MoReynolds: Yes, he did. I went around to his office about eleven o'clock and the girl said, 'He isn't here. The Secretary made him promise to stay home.'
HM, Jr.: Could you get hold of Clarence Opper and this fellow Ihlder and sort of sit down and see if they can sketch something along the line the President told us. What he said is, we take part of Ickes' revolving fund and then we set up housing on a basis of, first, the community would have to buy the land. Isn't that what he said?

Mr. Bell: He said he would insist on it.

HM, Jr.: Then he said, two, we will give a 45% grant, and three, all the unemployed labor that they could use.

Mr. Bell: Did he say 45% grant?

HM, Jr.: Yes.

Mr. Bell: And in addition ......

HM, Jr.: ...... all the unemployed labor that they could use. What they are doing now is they are giving them ......

Mr. Bell: ...... relief labor.

HM, Jr.: Well, aren't they giving them -- we are buying the land. We just give them a 45% grant.

Mr. Bell: Ickes is constructing some himself.

Mr. McReynolds: All that he is doing is he's doing it all, but he is giving them 45%.

HM, Jr.: Mac is in on this and we are not getting anywhere.

Mr. McReynolds: Ihlder has a draft, but everytime it comes back, something new is thrown into it.

HM, Jr.: You have been thinking about it and if I get a breathing spell in the next two or three days, I would like to sit in on it, but I am afraid the President will send for us. Forty-five percent grant, he limited it to materials, (I had better get him to give it to me at noon)and then give them all the relief labor they could use. But I thought he said 45% on materials.

Mr. Bell: I thought he said a 45% grant including all the labor.
HM, Jr.: Anything for me on the overhead of the various agencies? Remember?

Mr. Bell: I have forgotten it if you did.

HM, Jr.: I will tell you again. You were going to take a sheet and go back to July 1 . . . .

Mr. Bell: Oh, yes!

HM, Jr.: ... and have the various number of people employed in the several emergency agencies and as the money goes down, is personnel coming down.

Mr. Bell: We had to send to the field for some of that.

HM, Jr.: What else?

Mr. Bell: That's all. There is a little concern on the Hill about this economy program.

HM, Jr.: Which way?

Mr. Bell: Cannon called me up last night and said -- Cannon is pinch-hitting for Taylor.

HM, Jr.: What State does he come from?

Mr. Bell: Missouri. He says the Tabor stuff is going out all over the country and all of these Democrats are getting letters from their constituents criticizing them for not cooperating with the Republicans in this economy drive.

HM, Jr.: Swell!

Mr. Bell: To show the absurdity of the situation; one of his men -- one of the letters he got was from a man who said he was on WPA and he wanted more money from WPA -- wanted higher wages and at the same time insisted that he cooperate with the Republicans on the economy drive.

HM, Jr.: In other words, the heat is being turned on them.

Mr. Bell: Yes. But he says the thing that is worrying him -- two points in the President's message, as to how he
is going to meet the deficit in 1938 has not gotten across at all and I told him you and I talked about it and said if we could get some bill which he could veto we might bring this home. He said, 'That's a good idea'. And he said, 'I hope you can get one', but he wants to attach to the present deficiency bill the 10% cut. I am to ask the President this morning if he is agreeable to having that go through.

HM.Jr: Dan and I have been watching for a nice juicy bill for the President to veto and then with a big speech give them a veto message so it will let them know he means what he says. How about Gibbons' request for an appropriation for the New York Fair?

Mr. Bell: That Fair and Exposition thing is just a plain racket. Every city in the country is trying to outdo the other. We are paying all the administrative expenses for these Fairs.

HM.Jr: Anything on your desk?

Mr. Bell: No.

HM.Jr: You know, they just won't believe it. I use the same example -- the Allies kept saying, 'You keep telling us the American troops are coming. We don't believe it. Each month is going to be next month.' And they wouldn't believe it until they actually saw the list of killed. It's the same way with this. They are not going to know until the President publishes the first casualty list and then they are going to believe it. It's true. They won't believe it.

Mr. Bell: I would like to see it happen to an appropriation bill.

HM.Jr: I bet I know which one. You are out for blood in a big way!

Mr. Bell: I want to shoot a whole battalion all at once.

Mr. McReynolds: You want one of these large Department bills.

HM.Jr: He has his eyes on a departmental bill and if he kills that -- Mac, where is our Treasury bill?
Mr. McReynolds: That was ruined before it ever got to the Committee?

HM, Jr.: How far along is it?

Mr. McReynolds: Conference.

HM, Jr.: You had better watch it. This fellow Bell is on the warpath.

Mr. McReynolds: I am watching it, but Danny ruined that before it ever went up.

Mr. Loonhead: I haven't those other figures yet.

Mr. Taylor: Nothing.

Mr. Gibbons: I would like to tell you something I heard Saturday night.

HM, Jr.: Stay right behind.

Mr. Upham: You said you might want to see me before ....

HM, Jr.: I think you had better start out just like I said. I would not only see the banker fellows. I would see the Farm Credit, the HOLC and the Federal Housing, so you get all around the thing. I suggested to Cy that he start and swing down through Richmond, Atlanta, Texas, New Orleans, San Francisco and Seattle and take a plane back, and send in a letter and let us know what's going on.

Mr. Upham: Mr. Gaston has already asked if he can go in my place.

HM, Jr.: Better get a little dope on the farm stuff. The President got a letter from an orange grower in Florida sending a check for $101.00 and he said he thought the President could use it better than he because he's getting paid for something he had done all his life. Said, Why should he take money for that? I thought I would take my check -- I can't say 'disabled' -- but I want to use a very carefully chosen word -- the children at Warm Springs could use it a great deal better than I could and send it to the Warm Springs Foundation for the children down there.

Mr. Gibbons: Physically underprivileged.
HM, Jr.: Something -- not underprivileged.

Mr. Gaston: You spoke about the Wagner Housing Bill. The only thing the President has said in his press conferences is that this would be pretty much of a blue-print plan and also he said that he is firmly convinced that the whole cost should be the grant and then he also said this other thing about using the Public Works revolving fund.

Mr. Bell: The decision for the locality to buy the land is the most important decision he has made.

Mr. McReynolds: All the housing people tell me when it goes in that way you don't have to worry about financing, because there won't be any program.

Mr. Gaston: I fixed up something for MacKellar, but the man on the air tonight is Cummings.

HM, Jr.: That's your worry.

Mr. Oliphant: I would like to tell you, before lunch, about my talk with Wallace Saturday. It will take four or five minutes.

Mr. Bell: (To Mr. Oliphant) Herman, may I ask what is the condition of the refund to the Philippines?

Mr. Oliphant: There has been sent to Quezon a draft of a letter which he is going to reply to us, asking us not to pay it for the present. For the time being, not to pay to the Philippines the $46,000,000.

HM, Jr.: I think it's a "gyp". I swear it is. I know the Army does not want it, but I still think ....

Mr. Oliphant: The Army would like to have it for an arsenal.

HM, Jr.: But not for the Philippines.

Mr. Oliphant: An arsenal in the Philippines. They did not want the political government to have it, but they would like to have it for an arsenal.

HM, Jr.: I listened to it last year and if ever a Government
was entitled to it, they are. I mean, a moral obligation that they are entitled to it.

Mr. Oliphant: Absolutely.

Mr. Gaston: It's their gold reserve.

Mr. Oliphant: No. This is the other thing -- this is the coconut oil.

Mr. McReynolds: Processing tax collected.

HM, Jr: Oh, I thought you were talking about the other matter.

Mr. Magill: The Railroad Retirement is taking its normal course before the Ways and Means and I notice that this Doughton bill for repealing that provision for reporting corporate officers' salaries is going to be taken up under a rule, I suppose to be passed.

HM, Jr: I haven't read your letter yet on your talk with the Attorney General, but when he sat down he said, 'I had a fine conference'.....

Mr. Magill: When did he say this to you?

HM, Jr: At Cabinet. 'And I don't think there is any real difference between us.' (Mr. Magill laughed aloud at this remark.) I said, 'I am sorry, Homer, I haven't talked to either of the men.' So he said, 'Well, we are practically together.' I had better see both of you this morning.

Mr. Oliphant: Did the Federal Trade Commission thing clear at Cabinet?

HM, Jr: It cleared. Wallace raised one objection. He said something about rice in prices and he changed it to put in the word the "seeming" rise of retail prices. Put in the word "seeming" and the word "retail".

Mr. Oliphant: And the White House will send it?

HM, Jr: Will send it. The thing that surprises me on prices -- food prices are 10 points lower today than they
they were a year ago, which is surprising. It is all cleared.

Mr. Oliphant: That's a good piece of work.

HM, Jr.: The Attorney General handed it to me and wanted me to present it. He did not want to present it. (Mr. Oliphant laughed aloud at this remark.) But you certainly would have gotten a big kick to hear him talking about 'his brief' against the Aluminum Company. (General laughter from the group.) 'You can't imagine the work it takes to go into a thing like this.' I was feeling devilish and I said, By the way, do the people's names who work on this ever appear on the brief? 'Oh, yes,' and he showed me Homer Cummings and switched over to the other list and it mentioned Robert Jackson last.

Mr. Oliphant: I just happen to know how much time he put on it!

HM, Jr.: 'God! The time it takes!' And he did say one thing and I gave him a pat on the back. He turned and said, 'Mr. President, another thing against Mr. Mellon -- Aluminum -- and you might get another art gallery out of it.' So I gave him a pat on the back and I said, 'Homer, that's pretty good coming from you.' I got the idea that a certain fellow by the name of Robert Jackson, who spent about nine months working on the Mellon income tax case, somehow or other got the idea that the Board of Tax Appeals thought the Administration had lost interest and, purely by accident, before the Board of Tax Appeals hand down the decision, he wants to show that the Administration has not lost interest and, therefore, he files another claim against Mr. Mellon and the Aluminum Company to show that the Administration is interested. The fact that it came down before the Board of Tax Appeals decision is pure accident or coincidence. Just an accident on the part of Robert Jackson! Am I right? He's a smart boy. He's got his whole reputation in that thing. So he files this other thing and everything is fine and shows Mr. Mellon is still Mr. Mellon and the Board of Tax Appeals read it and now I say that Mr. Jackson's chances of winning it are increased about 1,000 percent. Never occurred to Bob!

Mr. Oliphant: No!

Mr. Magill: Hell, no!
ATTENTION: Mr. Lochhead

Sir:

There is enclosed herewith copy of the summary of a speech delivered by the Japanese Minister of Finance at the Conference of Clearing Houses held in Tokyo on April 20, 1937.

Respectfully,

L. W. Knoke,
Vice President.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

Enc.
The Summary of the Speech of the Minister of Finance Delivered at the Conference of Clearing Houses Held in Tokyo on April 20, 1927.

1. The purpose of our financial and economic policy is to promote the welfare of the country. In view of our poor natural resources and increasing population, the expansion of our foreign trade must be the guiding principle. Accordingly it is necessary to promote trade with other countries, to develop shipping and fishing industries and to encourage emigration. To attain these purposes it is advisable to make reciprocal arrangements with foreign countries by peaceful and gradual means.

Economic nationalism is still prevailing in the world and is impairing foreign trade and jeopardizing the peace of the world. Therefore if an international economic conference is held in the future, we will gladly participate in the conference with a view to clarifying the situation and to making foreign countries better understand our country.

2. The urgent necessity for the present is to improve the producing power of industry, to develop industries as a whole and to promote foreign trade so as to enable the Government to meet the increased expenditures. The increase of national expenditures ought to be limited within the producing power of industry.

3. The Government is prepared to carry out taxation reform in the near future. The increase of taxes, however, should not retard the development of industries. In revising custom duties, the Government intends to protect industries which require protection from the viewpoint of national policy and to give careful consideration to the balance of payment.
4. It is important not to make drastic changes in financial matters and not to take radical measures which affect financial institutions. However, in view of the great responsibility of financial institutions with respect to the development of the producing power of industry, the consumption of national loans, the encouragement of savings and investment within Manchuria and China, it is desirable that they collaborate and cooperate among themselves, and also discourage speculative employment of funds. As to monetary policy, neither the expansion of currencies to the extent of exceeding the economic need of the country nor the stringency of money inimical to the smooth operation of the financial world is advisable. The amount of currencies should be appropriate to the situation.

5. The balance of payment is reflecting all aspects of finance and economics and should be taken into consideration by the entire nation. The Government has decided to send gold abroad and increase funds for the purpose of maintaining the present rate of yen exchange. However, we can not rely simply on gold shipments. The urgent necessity of today is fundamentally to improve the balance of payment so as not to impair the foundation of the currency system. When the producing power of the industry develops favorably, the maintenance of the yen exchange rate at the present level will not be a difficult task.
GRAY
London
Dated April 26, 1937
Rec'd 2:50 p.m.

Secretary of State,
Washington.

247, April 26, 7 p.m.
FOR TREASURY FROM BUTTERWORTH.

Replying to a question (*) House of Commons this after­noon Chancellor of the Exchequer announced that he had decided in the general interest of local authorities and other borrowers to acquaint the market with his intention to "advertise on Wednesday morning details of an issue to be made on Thursday of two and a half per cent national defense bonds to the amount of 100,000,000 pounds at 99 and one­half. This will be a short to medium term security redeemable before the end of 1948 by annual drawings at par of not less than 20% of the amount of the loan, the first drawing being in the autumn of 1944; subscriptions will be payable by installments over three months and the first dividend will be 13 shillings per cent on the 15th September 1937. In order that small investors may have an opportunity of participating I have arranged for a separate issue of reg­istered bonds in amounts of five pounds and multiples of five
LMS 2-No. 247, April 26, 7 p.m., from London.

Five pounds up to a maximum of one thousand pounds to be made through the Post Office Savings Bank and Trustee Savings Bank".

Mr. Chamberlain also indicated that "the proceeds of the issue until required for financing the defense program will be available for reducing the floating debt and will in any case cover the estimated expenditure of eighty million pounds to be made this year from borrowed monies".

The London Stock Exchange was decidedly weak again today but the amount of business transacted bore no relation to the price declines; inasmuch as no brokerage firm can advise its clients how any particular stock is to be taxed under the new national defense contribution there are no buyers, while at the same time there are both nervous sellers and forced sellers. Thus far there is no reflection in the House of Commons, aside from a numerically small die-hard Tory group, of the somewhat bitterly critical reaction now current in the City.

The foreign exchange market was also active today as well-informed dealers report that the Bank of France will have lost as much as two million pounds today.

BINGHAM

HPD: WVC

(*) Apparent omission.
April 26, 1937
3:15 p.m.

Present:
Mrs. Klotz
Mr. Magill
Mr. Oliphant
Mr. Taylor
Mr. Seltzer
Mr. McReynolds
Mr. Bell
Mr. White

HM, Jr.: Bell, I don't like to bring up these unpleasant things, but I thought after having lunched with the President you might as well have the worst.

This is on the Housing bill. The President said on a million dollar project that the city should buy, out of its own budget, $200,000. That leaves $800,000. The Federal Government will give a grant of 45%, which is $360,000. Then, he said, we will give 10% of relief labor, which is $80,000 -- 10% of the $800,000 -- leaving a contribution of $440,000. Now on re-cap, the city puts up $200,000; the United States Government puts up $440,000; the balance of $360,000 should be raised on first mortgage, and I said, 'What else do we contribute?' and he said, 'Nothing.' And he said, 'Why?' and I said, 'They won't like it.' He said, 'If they don't like it, they're crazy!' I said, 'Is that really all you are going to give them?' So he said, 'WHAT! Henry, you and I could build on that basis and if they can't, they're crazy.'

Mr. Bell: You didn't have a Senator present.

HM, Jr.: No, but I have it in his own handwriting.

Mr. Bell: I don't see any initials!

HM, Jr.: That's the President's last. And when I said, 'Mr. President, this won't do; they won't like it,' he said, 'Anybody that don't like that is crazy.' Well, they are asking for 100%. And he said, 'Well, if they don't like that, they don't get anything. They can take it and like it.'
Mr. Bell: This is 56-44.

HM Jr: It's 44% grant by the Government and 56% by the local community.

Now, I want volunteers. Who is going to break it to Senator Wagner? I'll tell you what we'll do. If Mac does not come through with that memo that I am waiting for in 24 hours, he's the candidate to see Senator Wagner.

Well, anyway, there it is. I'll move on. Isn't that good news?

Mr. Bell: O.K. That's fine.

HM Jr: Now, the other thing is this, and you can carry the ball on this, Magill. The President wants, when he comes back, to send either a message to Congress or a letter to Pat Harrison and Doughton in which he is going to go into detail as to what the $600,000,000 is that we are short of revenue -- possibly use Professor Crum's letter -- but anyway, he wants to say flatly that our estimates and our method of estimating were correct, but the citizens -- that's the word he used -- found a trick way of finding loopholes. And then he wants us to go into considerable detail as to what those loopholes are, particularly elaborating on his friend Colonel Schick. He's got that fellow on his mind. (Shick razor.)

And here's what is new. He wants to make a recommendation to Congress, now, the 12th of May, that these loopholes be closed and that they be retroactive. And he said he does not want to wait until next fall and he wants to particularly, where it is true, to show the items which are held up by Court action and go into a description of just what the Court has done. And this thing -- somebody he read -- Ray Tucker or somebody said that the President and the Secretary of the Treasury did not know how to estimate taxes and it's gotten terribly under his skin.

So I told him the one in the Times on Turner Catledge, who wrote a perfectly straight story, but the headings were 'Treasury's Blunders Make Budget Balance Difficult.' That's in the Times editorial section. But he wants to hit this and he said, "Don't wait until I come back. If you get any good stories on how people evade taxes, send them down to me by radio." He said, "I have been telling the Colonel..."
Schick story to everybody who comes to the house. People get awfully angry about it and incensed to think that a United States army officer would become a Canadian citizen and move his fortune to the Bahama Islands.

Now I did not argue with him that his message wasn't dry yet that he would make recommendations in November as to loopholes, but he is very much excited about it and he wants to have those loopholes closed now and retroactive. He thinks it's too late. I didn't argue with him because he was all steamed up. He had just seen some congressman about flood relief. He's turning him down on a flood relief bill.

So I thought, Ros, if you would carry it and work with Herman Oliphant and with Haas -- joint cooperation, but somebody has to carry the ball. But I wanted to do the two things and so I thought it was a pretty good meeting.

Mr. Bell: Fine!

Mr. Magill: Of course, it's mostly a matter of getting information from these field investigations.

HM, Jr: Then he asked me something which I could not answer and did not attempt to answer, and that was that he saw some ruling about Internal Revenue on foreign corporations and he said, "Are you sure that will stick?". I said, "I don't know." Something he saw. But I don't know whether everybody has seen Crum's report or not, but I am giving you the stuff. This means no housing bill -- at least no money.

Mr. Bell: You don't have to go below the second line. No housing.

HM, Jr: I said to him, "I didn't get all of this kidding when I came into the room the other day." I said, "What was it all about." I said, "I didn't get it." He said, "Didn't you understand?" and I said, "No." So he said, "I was getting back at Wallace at the statement he had made that he wasn't going to get any money and I thought the way to do it was to take it out on you and Bell, and Wallace would get it." I said, "I wish you would give me a signal next time." But did you get it, Bell?

Mr. Bell: No.
HM, Jr.: I couldn't get it.

Mr. Bell: I thought he wanted to let us know we were licked before we started.

HM, Jr.: He turned to Wallace and said, "I don't want to do anything to hurt Wallace." I just saw Wallace and he's going along with us on everything. Even now he's talking about taking some out of his $500,000,000, so I have nothing to complain of and I thought you fellows would like to know.

Mr. Bell: I intended to call them over this afternoon, and go over it, but I have not had a chance.
Land: $1,000, and 200,000

Balance: $600,000

W. grant 45%: $260,000
Land: pay war: 10% of all sales labor $80,000

Govt. contrib: $440,000

Financing: City pays balance for land: $200,000
11.5 paying interest: $340,000
Balances 10.5 financing: $360,000

Total: $1,000,000
April 26, 1937.
3:35 p.m.

H.M. Jr: Hello
Operator: Chairman Eccles. Go ahead.
H.M. Jr: Hello Marriner?
Eccles: Yes sir.
H.M. Jr: How are you to-day?
E: Well I'm all right. (Laughs) How are you by now?
H.M. Jr: Oh I'm all right. What did you spend?
E: Well now - ah - I guess you got the report on the bill market.
H.M. Jr: No I haven't.
E: The - ah - well the - I got a preliminary report.
H.M. Jr: Yes I've got it before me - I didn't realize it.
E: Well it was - the preliminary in New York was 72 on the nine months and 63 on the short bills - it was a little less than last week on the short and slightly over on the long.....
H.M. Jr: Yes.
E: .....so that the average would be just about the same or maybe slightly less than last week.....
H.M. Jr: Yes.
E: .....so that we're over that hump.
H.M. Jr: Yes.
E: Ah - the - ah - we - we told the dealers this morning - indicated to them that if they found that they were long on long bills and were having - have any difficulty in disposing of them - marketing them during the week that we would be prepared to help out.
H.M. Jr: Yes.
E: Ah - we don't know how many bills they bought but we assume, of course, they did - they were in the market and did subscribe to some extent.

H.M. Jr: Yes.

E: Now - ah - what we would do then tomorrow and Wednesday and Thursday during the week would be to, if they found that they were having difficulty distributing their long bills, we would either take some off their hands for cash or on an exchange for short bills. In other words, if they found that they could readily sell short bills......

H.M. Jr: Yes.

E: ....and they - they - in that case they would, of course, sooner have short bills than cash.

H.M. Jr: Yes.

E: We would then switch - give them some short bills and - in exchange for the long bills.

H.M. Jr: Yes.

E: And - and that - that apparently was helpful, of course, in the situation.

H.M. Jr: Well you fellows got your teeth into this thing Saturday. How much weight has George Harrison lost the last 48 hours.

E: (Laughs) Oh he looked all right this morning.

H.M. Jr: Is he sitting next to you now?

E: No he's gone back.

H.M. Jr: Could he hear me this morning?

E: No.

H.M. Jr: Oh.

E: No.

H.M. Jr: All right.

E: No he didn't hear you. Nobody heard you.
H.M. Jr: All right.
E: The - ah - the - ah - the bonds to-day were - they were just selling all over the lot.
H.M. Jr: Yes.
E: Ah - we bought 17 million.
H.M. Jr: Good.
E: Of bonds.
H.M. Jr: Swell.
E: And the - the - ah - market was off - ah - in the short bonds from two and - up to as high as, I think, 7 or 8/32d's in the longest ones.
H.M. Jr: Boy you're watching this bond market these days, aren't you?
E: (Laughs)
H.M. Jr: Remember when I used to call you up and you'd.....
E: Well hell I know but.....
H.M. Jr: ......give me a three day old quotation.
E: ......we had no occasion to do anything about it. We were so far removed from it that there was nothing else to do.
H.M. Jr: Yes, that was my money in those days.
E: It wasn't anybody's money.
H.M. Jr: Sure.
E: Wasn't any money going in.
H.M. Jr: Yeah.
E: What?
H.M. Jr: The days I used to put in 40-50 million in a day and I'd call you up and you say "Huh."
E: Well I know but you - ah - you didn't want us in at that time. We went in on a partnership basis feeling you got interested in it.

H.M.Jr: I love to hear you talk quotations.

E: Well anyway.....

H.M.Jr: It warms the coccyges of my heart.

E: Now - ah - you'll be interested in this - I - I think that the bond market will possibly continue to go down.

H.M.Jr: Yes.

E: Ah - maybe I'm wrong but it's - it's just my hunch that it will be put down and - because they've - everybody's talked this 3%.

H.M.Jr: Yes.

E: The - there's a sit-down strike. (Laughs) That's what it amounts to on the part of the insurance companies and the big investors and they've put out - and I talked to - Walter Cummings called me from Chicago this morning.....

H.M.Jr: Yes.

E: and Walter said - ah - ah - the banks throughout the middle west and customers were talk - talked to him during the last week and again this morning and it was their general feeling - because of the propaganda that had been put out from New York, he said - that the bond market is going to 3% and he said there wasn't any of the banks that he knew of that were required to sell at all to meet any reserves. He said they all had ample reserves and practically all of them had excess reserves.

H.M.Jr: Yes.

E: So that the only reason they would sell the bonds would not be because they had any other place in the world to put their money but would be merely because they thought they could buy them cheaper.

H.M.Jr: Yes.

E: Because they could sell them on a - on a 2-3/4 yield and buy them later on a 3% yield - of course that -
in other words they were speculating to that extent.

E: Now he said the insurance companies - ah - and, of course, we know that - and the big institutional investors who had wanted 3% right along are just sitting back and are anxious to have the country in general help them get that rate.

H.M.Jr: Yes.

E: Now - ah - so I said they may go to 3%.

H.M.Jr: Yes.

E: However, the minute they start their buying they can't any more keep them at 3% than they can fly because there just isn't enough places to put the money they've got - ah - and, of course, they'll go back up again.

H.M.Jr: Yes.

E: Now - ah - I - we decided this morning here - the Committee - that during the balance of the week we would just continue to operate like we did to-day.

H.M.Jr: Swell.

E: We wouldn't - we couldn't take the market and, of course, we wouldn't try but that we would be in the market and - ah - buy securities and undertake to keep it orderly.

H.M.Jr: Good.

E: Ah - so I say if it should go down there.....

H.M.Jr: Yes.

E: ...it's my hunch that we'll - we'll see a darned good - a - a much better bond market a little later on.

H.M.Jr: Yes.

E: That it's just one of those periods that - ah - the propaganda has caused everybody to feel that they're going to make profit by selling now and buying later. Somebody is going to get fooled.

H.M.Jr: Yes.
E: Now - ah - the - this was an interesting phase - and I've heard it before and possibly you have - that - ah - the Treasury was going to have to do some long-term financing in June.

H.M.Jr: Yes.

E: And - ah - therefore that they - and they'd likely have to pay 3%......

H.M.Jr: Yes.

E: .....because the investors that know wouldn't come in for less than three now - that no one would take less than 3%......

H.M.Jr: Yes.

E: .....and - ah - the tendency, therefore, would be to wait with the expectation that they could get a higher rate when the Treasury's financing had to be done in June.

H.M.Jr: Yes.

E: Now - ah - of course, I think that to do any long-term financing at all in June - at least unless the situation was - was entirely different - ah - would be a mistake and let the bill market - after the first of June there will be a lot of excess reserves.

H.M.Jr: Marriner, listen, old man, let's wait till the first of May and then we'll begin worrying.

E: Oh yes.

H.M.Jr: Then we'll begin worrying. Let's get through this week. I think this is going to be your hardest week and if you keep plugging the way you did today - Saturday, see.....

E: Yes.

H.M.Jr: .....ah - let's see where we are next Monday on the first but don't let's worry about our 15th of June because - don't let anybody tell you I've made up my mind about anything.
E: Oh well I knew that. I was - I was merely telling you the - of some of the propaganda that they're putting out with an effort to knock down the bond market.

H.M. Jr: And don't forget that Walter Cummings was the first banker to sell a big block of bonds that we knew of.

E: Yes.

H.M. Jr: That he sold 25 million along - between the first and seventh of March and it's the fact that he'd sold it and I'd heard about it is the reason that I stiffened my price on the exchanges for the 15th of March. Burgess told me that Walter Cummings had dumped 25 million and he was the first fellow to do it.

E: Ah-ha. Ah-ha.

H.M. Jr: And when he went down to Warm Springs to see the President complaining about the bond market I said, "You ask Walter Cummings why he sold before anybody else did."

E: Ah-ha.

H.M. Jr: Don't forget it either.

E: Well I knew that he'd done that.

H.M. Jr: Yes.

E: And I'm not - Walter Cummings' report was merely - and I don't know whether it was New York or not - maybe......

H.M. Jr: You're coming over for lunch tomorrow.

E: Well I'd like to.

H.M. Jr: O.K.

E: All right - one o'clock.

H.M. Jr: Righto.

E: All right. Goodbye.
Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

Dear Henry,

In view of the friendly and open-minded manner in which you received me on the occasion of my last visit to Washington, I feel warranted in writing to you at some length on the subject that we discussed. I do this the more readily in that I was much impressed with your approach to the problem, which seemed to me entirely without pre-conceptions and purely based upon a desire to find a sound solution of present difficulties.

My impression was that, among your other concerns, you were extremely interested in the subject of "hot money". I think that the great flow of gold to this country is in measure due to a movement of capital in our direction which is the result of political and economic uncertainties in other parts of the world. Because of the removal for the time being of the imminent danger of a European war, I would expect this cause to gradually assume diminishing importance.

Beyond this, however, there is another factor difficult to appraise but which I consider of great moment. That is the fact that the American price level has never anything like fully adjusted itself to the revaluation of the dollar that has already taken place. In my opinion, a gradual rise in the commodity price level to accomplish such a readjustment should not only be welcomed, but should be facilitated. Until this readjustment takes place, there will be no stopping the flow of gold, barring a new gold policy.
For the reasons stated when I was with you, I consider a change in the price of gold as a brake on gold imports an unsound conception and one which you will be extremely reluctant to adopt. Now that we, for a long time, have had de facto stabilization on the basis of $35. per fine ounce, I feel that any tampering with the gold price would introduce an element of the greatest confusion and uncertainty into the world and the domestic economy; and such a step would be fraught with the greatest danger. I can see the pressure under which the constant influx of gold must be placing you, and yet I am satisfied in my own mind that to yield to this pressure, either through refusing to buy gold, through attempting to place an import tax on its importation, or through excessive handling charges, would be in fact jumping from the frying pan into an extremely hot fire. I would hesitate to predict how much of our recovery would be jeopardized by such a fire once it was lit. I know how much considerations of this sort weigh with you, and I am hopeful that your thinking will not take you in this direction.

Since I last spoke to you, there has been a further and material drop in commodity prices. This has now reached a point where, as you know, it is creating a considerable nervousness and hesitancy in the business world. Furthermore, the Government bond market has become as much a matter of concern to outside observers like myself as it must be to the Treasury Department. I am told by banking friends in New York that they have many orders to sell Governments and that there are few bona fide bids other than from the Federal. This, taken in connection with your new program of selling Treasury Notes weekly, creates a situation of some tension and one that I think is getting near the point of requiring drastic action on your part. It is so much easier to revive confidence when it has had merely a little setback than after it has turned into pessimism and despondency, due to the face of a declining business activity and a tendency towards growing unemployment. I would consider neither of these latter possibilities as extremely remote, barring action by Washington.

My feeling is that this situation could be readily turned about if you would abandon the policy of gold sterilization and deposit in gold certificates with the Federal the equivalent of the gold now sterilized. This would have an immediate and an electric effect on the bond market, both for Government and corporate issues, and would go a long way towards throwing into reverse the feeling of apprehension that has been growing all too rapidly in the last few weeks. It would be reflected in the commodity market by substantial advances. Washington has been critical of advances in the commodity market until quite recently; yet I cannot avoid the feeling that they should now be concerned rather about further declines than about a new recovery. While I quite sympathize with their desire to react from to time against speculative excesses wherever they may appear, I feel that in the long run we will only reach a sound position if gradually the price level is allowed to readjust itself to the present price of gold. Such a readjustment in itself would correct many of the disequilibria in our system.
There will always be a lag between a rising cost of living and the rate of wages and salaries. Sometimes one will out-run the other and at other times vice versa. But having in mind the extent to which there is a tendency to re-distribute through wages, salaries and dividends to an ever-increasing number of individuals a constantly larger share of the annual productivity, I would expect this to gradually take care of itself in the general upsurge of an economy which is turned towards increasing activity based upon an enormous amount of necessary work throughout the country waiting still to be done. Such an upsurge will do more than anything else to solve the problem of "hot money" and at the same time it will do more than any other thing to bring about budgetary equilibrium. It is obvious that anything which causes a material setback in this tendency will have immediate and unpleasant implications for the budget.

This letter, as you see, is addressed to other phases of the problem than those which I went into with you in some detail when I was in Washington. I have not changed my view about the question of the free coinage of gold, but I agree with you that the phases of the problem touched upon in this letter are of more immediate importance. In the end, they all have some points of interdependence.

I am at your disposal at any time to discuss this or any other questions with you, should you so desire.

With kindest regards, I am,

Yours sincerely,

[Signature]

FA/B.
Secretary of State,
Washington, D.C.

530, April 26, 6 p.m.

FROM COCHRAN.

French control sold fair amount of sterling at 111.15. Dollar has become a little more offered. The control sold a few at 92.55. Rentes declined about 1.70 francs and the new 1937 four and one half national defense bonds sank to 94.31. Stock market bad.

Today's market nervousness/due in part to week-end political developments and most particularly to insistent and recurring demand of Jouhaux and his laborers that ten billion francs be borrowed by the Government to finance public works and especially to take care of the twenty odd thousand employed in finishing the Paris Exposition structures. The idea of "work bills" after the German example which could be discounted by contractors with the bank and later rediscounted at the Bank of France is being pushed while earlier ideas of capital levies and nationalization of insurance and other business are reviving.

"With French Parliament assembling tomorrow, Government may soon face a bitter debate on general policies.

The "Minister
From Paris #530

The Minister of Finance will undoubtedly be required to advertise the Finance Committee's detailed information with respect to the state of the Treasury, disposition made of funds recently borrowed, etc.

BULLITT

SMS: RCC
April 27, 1937.

H. M. Jr. called to see the Vice-President this morning. The Vice-President told H. M. Jr., that as Secretary of the Treasury he has the responsibility of the budget and the time may come when he may have to resign if he does not get the co-operation of the President on "spending". H. M. Jr. told him that he does not threaten but if the President does not carry out his promise to stop spending, he will resign.

The V.P. told H. M. Jr., that for two months he has laid the ground work for the curtailing of spending but that the President would not listen. He also said, "Henry, frankly, I am talking to the President through you". H. M. Jr. replied that he understood.

H. M. Jr. asked the V.P. whether he had confidence in him and the Vice-President answered, "Henry, I am your friend and I am proud of you. You can always count on me".
April 27, 1937.
9:58 a.m.

H.M. Jr: Hello
Operator: Governor Harrison - go ahead.
H.M. Jr: Hello
Harrison: Hello Henry?
H.M. Jr: Good morning George.
H: I was disappointed not to see you yesterday. On account of this daylight saving thing I had to rush off as soon as my meeting was over.
H.M. Jr: I see. What were you afraid to get caught in the dark.
H: Well I'll tell you. It gets me home so late. I didn't get home as it was till pretty near 11.
H.M. Jr: I see.
H: And I - it cuts an hour off on the night train so I have to skip that if I can.
H.M. Jr: Yes.
H: Ah - I - everything is about the same as last night's closing.
H.M. Jr: well I haven't. I haven't - I don't watch the bond market as closely as I used to.
H: I see.
H.M. Jr: I let Marriner and you do that.
H: And -
H.M. Jr: Seriously.
H: What's that?
H.M. Jr: I'm serious.
H: Well I think that's right.
H.M. Jr: Yes.
H: The - ah - and I'm glad you don't bother about it.

H.M.Jr: Yes.

H: Ah - the - ah - ah - - the difficulty is there's a there - that I wanted to mention to you there - judging by the evidence of the last three or four days......

H.M.Jr: Yes.

H: .....there's a good deal of liquidation coming from the middle west and far west........

H.M.Jr: I see.

H: .....for the first time.

H.M.Jr: Ah-ha.

H: Ah - that's the reason that - usually quiet in the mornings - it's been quiet in the mornings for three days now and then there's - ah - the west wakes up - ah - we get soaked and it's been quiet again to-day but we're fearful that we will get soaked again this afternoon the same as we did yesterday. Of course, yesterday was a bad day in everything.

H.M.Jr: Ah-ha.

H: And a good deal of rumor or talk has been around town about collapse of prices and securities in London.

H.M.Jr: Ah-ha.

H: Ah - which some people rumored I guess - we've had no evidence of any justification to the rumor.

H.M.Jr: Yes.

H: That somebody's commission in - ah - houses - were in trouble over there.

H.M.Jr: A h-ha.

H: Now whether that's had anything to do with added pressure I don't know.
H.M. Jr: Well I wanted to ask you just what the various worries were in New York - if you could - tell me what are some of the financial people worrying about in New York?

H: Well I don't know but I'll tell you what I've done - I've just started to-day having a series of - well I began as a matter of fact on Friday before I went down there and they had only one then but I'm having now a series of talks with the principal banks just to find out - because I can get a collection of that.

H.M. Jr: I'd like to know.....

H: And I'm having two or three of them come in to-day again and after I get a better cross-section of it I'll sum it up for you but I just wanted to know myself.

H.M. Jr: Because I - I - all I keep hearing is they're worried but I don't know what they're worrying about.

H: Well I'll tell you - one man - and I think it's better from your standpoint than mine not to ask me who it is - some day I'll tell you came - came on Friday and I spent an hour with him and, frankly, his only worry was the general one - fundamental one - of what the world and - and the U. S. too but the world was a whole was going to do about gold because he thinks we're getting into an awful jam on it.

H.M. Jr: Ah-ha.

H: And he says that with America and England being forced to buy gold at prices that are not justified in relation to other world prices - gold that we don't want - and the way he figured it out - that it will either continue to come here and increase excess reserves or increase government debt and he just thinks and expresses damnfoolishness for the world - for England and this country to have to go on at that rate buying gold that they don't want and all the rest of the world is dumping on these two countries. Now he says fundamentally he thinks that's the most dangerous thing in the situation and that thoughtful people are getting more cautious about it and getting more at the President.

H.M. Jr: Well that - would that mean there would be more or less gold come this way?
H: You mean his feeling that way?

H.M. Jr: Well I mean if they're are enough people feel that way.

H: Well I'll - I'll try to puzzle that out. I don't think so because you see most of it is coming not because people here are attracting it but rather because people in the other parts of the world that don't want it are selling it to us because they think they're getting a very good price.

H.M. Jr: Well I'd be very much interested after you talk to the people - ah - ah - if you - if there's any general ideas as to what's the matter I'd like to have them.

H: Yes, well I'll - I'll - well I thought I'd just make this survey just to see what's itching them all.

H.M. Jr: Of course, from the standpoint of the United States Treasury - ah - I'm not worried.......

H: Yes.

H.M. Jr: .....because the things that are happening don't affect us.

H: Yes.

H.M. Jr: So there's nothing - ah - for me to worry about unless the worries get sufficient that it slows up business.

H: Yes.

H.M. Jr: And, of course; that hasn't happened.

H: No I don't think it's happened and to the extent we've had any slowing up I think it's been

H.M. Jr: So - ah - ah......

H: But I do think from - ah - evidence that you get everywhere that there is a trend of firmer interest rates all over the world.

H.M. Jr: Well - ah - that - that may be so although I see the British are selling a 1948 - 2-1/2% bond so that don't look as though interest rates were so firm.
H: 1948.

H.M.Jr: That's what they - that's what they offered yesterday - 1948 - 2-1/2%.

H: Yes, that's 11 years.

H.M.Jr: At 99-1/2.

H: Yes.

H.M.Jr: Well let's see what happens beginning next Monday when - when - after we've passed the famous May 1st date.

H: Yes, well I think that we're seeing that now. I think that we're closer to that.

H.M.Jr: All right George if you get anything give me a ring, will you?

H: Yes, I will.

H.M.Jr: Thank you.

H: Goodbye.
April 27, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Treasury bonds were quiet today with little change in prices. Volume of trading on the board was small and there was not a great deal of activity in the over-the-counter market. Opening bids on the board were 1/32 under yesterday's close and there was little variation from this level throughout the session. The long bonds closed unchanged to 2/32 off and the rest of the list was unchanged to 1/32 off. The guaranteed group was also quiet but showed fairly large price changes; the F.F.M.C. bonds were mixed and the H.O.L.C. bonds were down 5/32 to 7/32 on sales. Government bond turnover on the board was $691,000 compared with $3,643,000 yesterday.

The note market was quiet and steady with few changes in quotations. Several middle maturities closed 1/32 down on the day, the two longest issues 1/32 better and the rest of the list was unchanged.

Domestic bonds were dull apart from a little activity in the second grade rails, and price changes were generally small. In the second grade group rails were small fractions better on the day, industrials were firm to last night's closing level, and utilities were small fractions off. High grades were rather mixed with a firmer tendency.

There was moderate and general activity in the foreigns with few price changes of consequence. Argentine 4½s were off 1/2 point; Canadian bonds were unchanged to a shade lower, while Australian and Japanese issues firmed slightly.

No purchases for Treasury today.
In reply refer to FE - 694.006/8.

Confidential.

April 27, 1937

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his confidential information a paraphrase of a telegram (No. 119) of April 23, 1937, from the American Ambassador at Tokyo in regard to trade policies of Japan.

Enclosure:

Paraphrase.

Noted

A. Lochhead
DEPARTMENT OF STATE

DIVISION (FE)

ENCLOSURE

TO

LETTER DRAFTED

ADDRESS TO

Secretary of the Treasury
A telegram (No. 119) of April 23, 1937, from the American Ambassador at Tokyo reads substantially as follows:

On April 21 the Minister for Foreign Affairs remarked at a farewell dinner given in honor of the Kadono Economic Mission that, although it may not be possible to restore completely international free trade as it existed in the past, a check should be put on the trend toward extreme trade protection. The Foreign Minister said also that Japan should take part in the movement in Europe and America for freer trade between the nations.

According to reports in the press of April 22 the Ministry of Finance has decided to retain in force after July 1 the measures adopted on January 8 for import exchange control and to expand the scope of the measures in order to restrict gradually imports into Japan of luxury goods and non-essential materials.

The attention of the Department is invited to the inconsistency between the two policies above mentioned in case the Department should have occasion to have conversations with the mission while it is in the United States.
April 27, 1937.
10:25 a.m.

H.M.Jr: Hello.
Operator: Mr. Knoke.
H.M.Jr: Hello.
L.W.
Knoke: Good morning, Mr. Secretary.
H.M.Jr: Hello Knoke. How are you?
K: Quite well, thanks.
H.M.Jr: Ah - Knoke, have you talked recently to England or to Holland.
K: Well I'm expecting a call from Holland now.
H.M.Jr: Good.
K: They put it in for ten minutes after eleven.
H.M.Jr: Are they calling you?
K: Yes, they're calling me.
H.M.Jr: Good and are you going to talk to England today?
K: Ah - well if you think I ought to.
H.M.Jr: Well I - I'd like to know what they're all worrying about. If you can find out, you know.
K: Yes.
H.M.Jr: If there's anything particular that's gone wrong or is there - ah - what's all the shooting for, you know?
K: Yes, well I'll - surely I'll ask that question. I'm afraid that (laughs) this situation will last for a while, Mr. Secretary.
H.M.Jr: Why?
K: Well because - ah - ah - you see the - it will probably the rumors will come up and the rumors will call for a denial and the more rumors and the more denials probably gradually the more hard-boiled the market will get.
H.M.Jr: Yes.

K: And that, after all, is the experience that has - that anybody always has had. The first denial is the most effective; the second is - is not quite as effective and so it will - and so it continues.

H.M.Jr: Well do you think these rumors that they're going to drop the price of gold are coming from abroad?

K: From where?

H.M.Jr: From abroad.

K: Oh I'm sure they are not coming from here.

H.M.Jr: Yes.

K: Well that I'm sure of because - ah - at least I have no reason to assume that anybody here is spreading those.

H.M.Jr: Well that's what I think.

K: Well at least ....

H.M.Jr: Some of the people here in the Treasury don't agree with me. I think that they're being manufactured abroad.

K: They what?

H.M.Jr: I think the rumors are coming mostly from abroad.

K: Well that's what I think.

H.M.Jr: Yes.

K: That's what I said. I don't think they come from here.

H.M.Jr: No.

K: They at least - ah - let me put it this way. I have no reason whatever to assume that they come from here. I have no indication of any kind.

H.M.Jr: Well this is the way I feel and I told this to Governor Harrison a little while ago. While these rumors are bothersome and they upset the markets and so forth and so on - but as far as the United States Treasury is concerned they really don't affect us.
K: Yes.

H.M.Jr: And while what I'm trying to do as Secretary is to be to help keep the market stable see, and orderly. In the final analysis all of this what's going on here for the last couple of weeks really doesn't touch us. I mean there's nothing really to worry us.

K: Well no I guess.

H.M.Jr: I mean the stock market falls four or five points it doesn't affect us and always because it hasn't slowed up business, you see?

K: Yes, well, of course, the one thing ah one respect in which it seems to me it does affect us is the the ah continued increasing amount of gold coming over.

H.M.Jr: Well why worry about it Knoke?

K: Well ah... 

H.M.Jr: Supposing we get a billion dollars of gold what of it?

K: Well (Laughs)

H.M.Jr: No I want to get that over to you What of it? Now look 

K: Yes.

H.M.Jr: We're spending seven billion dollars next year seven billion three hundred million dollars.

K: Yes.

H.M.Jr: Supposing I have to spend seven million dollars on interest to sterilize a billion dollars worth of gold. What of it? Why should I worry?

K: Quite so Mr. Secretary, but I'm not......

H.M.Jr: No but I want to get that over to you I mean I want to get it over to you 

K: Yes.

H.M.Jr: ...... so that you can get it over.
K: Yes.

H.M.Jr: There's nothing in this situation which gives me any cause for worry. If I get a billion dollars worth of gold and sterilize and it costs me seven million dollars in order to insure the financial structure that this gold doesn't go into our blood-stream, see?

K: Yes.

H.M.Jr: Keep it out of our blood-stream.

K: Yes.

H.M.Jr: What is there to worry about?

K: Well - ah - may I - ah - say how I think the market is......

H.M.Jr: Please, always tell me and then tell me what you think.

K: Ah - the way the market argues is that as the sterilized gold mounts up someday there will be a kick from up in the Capitol and the same old argument. They say, "Well this is nothing but a bonus to the banker" and - ah - in Patman's language and in Coughlin's language - a bonus to the banker.

H.M.Jr: Well all right - let me take care of that. I took care of it in '33, '34, and '35.

K: (Laughs)

H.M.Jr: No, but I'm telling you.

K: Yes.

H.M.Jr: I mean I want to get this over to you that neither the President nor I are worried about the present situation because there's nothing in the fundamental economic structure of this country which it harms. We're going ahead; we have our strikes, yes; we have our labor troubles, yes; but the business moves forward. Ah - the New York Times business index constantly goes up. I mean what is there fundamentally for me to worry about? That's what I'd like to have some New York financier tell me, because I can't see anything.

K: That isn't I think......

H.M.Jr: Pardon me?
K: That isn't what you want to worry about - it's - ah ....

H.M.Jr: Well I can't worry because they worry.

K: Well that is just it - the - quite so you can't but the effect of the - the accumulated effect of their worrying is what worries me.

H.M.Jr: True but what you want to know is - there's only two people in the United States that can change the price of gold, and I'm one of them.

K: Mr. Secretary, I said to the Chase yesterday I was willing to bet there would be no change this year and I was willing to bet there would be no change next year, and I said, "Politically I can't think any further than that."

H.M.Jr: Well what I'm getting at is - ah - I want you to know that I'm not worried about five hundred million; I'm not worried about a billion dollars worth of gold coming over here, see?

K: Yes.

H.M.Jr: And I - but I can't worry because some fellow down there worries.

K: Yes.

H.M.Jr: Now the only thing that Archie brought up is whether we ought to step in and buy some gold in London ourselves.

K: Yes.

H.M.Jr: I don't know whether that would help or not.

K: Well I - I think it - ah - yes, I think it would help because it seems to me the continued discount of the London price indicates that supply - that although demands has picked up considerably yet it is not up to supply.

H.M.Jr: Well, think that over.

K: Well we - he and I discussed it yesterday afternoon and I thought it would be - expressed the feeling then .........
H.M.Jr: Well you talk to London; you talk to Holland, will you?
K: Yes.
H.M.Jr: And - and talk to Cariguel too.
K: Yes.
H.M.Jr: And after you've talked to them give me a ring.
K: Am I at liberty to indicate what you told me?
H.M.Jr: Are you at liberty?
K: Yes.
H.M.Jr: Absolutely.
K: All right, sir.
H.M.Jr: I mean absolutely.
K: All right.
H.M.Jr: I mean I - I wouldn't give that to very many people but I give it to you. You mean abroad and at home?
K: Abroad.
H.M.Jr: Yes, you can use it - you can use it anywhere where you think it's necessary.
K: All right, sir, and I'll call you later on.
H.M.Jr: Yes, because that's the way I feel. I mean - the point is I can't worry because some other fellows are worrying and there's - there's nothing that I can see that I should worry about.
K: Well I shall do my darndest to get that across.
H.M.Jr: O. K.
K: All right, sir.
H.M.Jr: All right, thank you.
Hello

H.M.Jr: Henry Morgenthau, Jr.

Yes.

H.M.Jr: You tell Major Berry, when he comes back, that I have approved his request for the 15% differential for the men in the Bureau of Engraving.

Approved his request – I beg your pardon?


Yes.


All right I surely will. Alright I surely will.

H.M.Jr: I have approved it.

You've approved it.

H.M.Jr: Yes.

All right I'll tell him when he comes in.
April 27, 1937.
10:58 a.m.

Hello
Operator: Just a minute please.
H.M.Jr: Put him on.
O: He's on.
H.M.Jr: (Aside to Miss Roche: "Thanks Miss Roche")
Hello
B: Good afternoon Mr. Secretary.
H.M.Jr: Can you hear me.
B: Absolutely.
H.M.Jr: All right. Butterworth - what I want you to do if you have the contacts - I wish you could talk to either to some of the American.....
B: I can't hear you sir.
H.M."r: Can you hear me now?
B: A little bit better, yes.
H.M.Jr: If you know any of the American brokers in London - brokerage offices - do you know any of them?
B: Yes - yes I do.
H.M.Jr: I wondered if you could sort of talk to them.....
B: Yes.
H.M.Jr: ....and find out why they think the people are selling American stocks, see?
B: Why they're selling American stocks?
H.M.Jr: Yes, if they have any reason.
B: Yes, well I - I know that there's been a spilling over of the liquidation here.

H.M.Jr: Yes.

B: I'll tell you what I mean - brokers took the position which occurred here in the last week.

H.M.Jr: Yes.

B: And then from speculators and investors found themselves in a position where they had to undertake some forced liquidation.

H.M.Jr: I see.

B: Now they - if they liquidated their English stock which had declined considerably in value -

H.M.Jr: Yes.

B: Those were several reasons that I reported you know.

H.M.Jr: Yes.

B: They would have to do so at a great sacrifice......

H.M.Jr: Yes.

B: ....and so they were inclined to liquidate some of their American holdings......

H.M.Jr: I see.

B: .......particularly the sort of well known market leaders such as U. S. Steel and New York Central and International Nickel.

H.M.Jr: Yes. those

B: The - particularly / national stocks which are quoted in large amounts both here and in New York.......

H.M.Jr: I see.

B: .......which is an active market in both places.

H.M.Jr: I see.
B: And that I know has been going on.

H.M.Jr: Ah-ha.

B: I don't think they've been liquidating their American stocks from - in the last few days on the basis of

H.M.Jr: Ah-ha.

B: I think it was temporary rather than a permanent thing.

H.M.Jr: Well the thing that I wanted was: What was their particular worry - not only American stocks but what are they worrying about, see?

B: Oh I see.

H.M.Jr: I mean - what are the people in the markets - what are they worrying about abroad and in the United States, see? I mean if - if you could find out - I mean - ah - I know they are worrying about a lot of things but I - I can't find out what their particular worries are.

B: I don't think they're particularly worried about the American scene. I think their worry has been internal matters here.

H.M.Jr: Well could you find out more about it and send me a cable on it?

B: I could indeed. Would you like - like me to tell you a little bit about the atmosphere at the present moment?

H.M.Jr: Yes.

B: Ah - in brief the English market has improved to-day.

H.M.Jr: Good.

B: And people are feeling better in anticipation of the statement which Mr. Chamberlain is making to the House of Commons to-day.

H.M.Jr: I see.
B: ...regarding the national contribution pact. Of arrangements of this pact has - ah - hit the market so hard is because it's connected in the peoples minds with the wartime financing.

H.M.Jr: Yes.

B: This pact.

H.M.Jr: Ah-ha.

B: And it's going to hit people.

H.M.Jr: Yes.

B: For instance, if they come here on 1933, '34 and '35.

H.M.Jr: Yes.

B: A good many of the heavy incomes have been - and so on were very depressed during those - so that if that is true it would carry the they will have to pay a rather large tax.

H.M.Jr: I see.

B: A very good is that the - the whole position is somewhat clearing up on the basis of the assessment which was on the three million pounds twenty - twenty-five million pounds but the particulars as to how it is going to be worked out has not been made clear.

H.M.Jr: I see.

B: If those were cleared up I think that they will be likewise clearing up the .

H.M.Jr: Ah-ha. Well if you don't mind - I don't quite get it very well over the telephone. I wish you'd sit down and write me a cable on it.

B: I certainly will.
H.M. Jr: Now we here, as far as the Treasury goes, we have no particular worries but there are an awful lot of other people who are worrying and I'm trying, by calling up you, calling up Cochran and New York, I'm trying to find out what are people worrying about in the various financial centers......

B: Yes.

H.M. Jr: ......and see if any of it makes any sense and - so if you just talk and see - I mean if you can pin them down, see?

B: Yes.

H.M. Jr: And if you can and never mind how foolish it sounds - why just send it along.

B: Yes I will.

H.M. Jr: And we're trying to pick it up from the different centers.

B: Alright. Well I'll see if I can't get you off a cablegram tonight.

H.M. Jr: Thank you very much.

B: On this - Mr. Secretary.

H.M. Jr: Yes.

B: You got my report of the conversation on Friday?

H.M. Jr: On what?

B: On Friday.

H.M. Jr: Yes.

B: Was that satisfactory the way it was put?

H.M. Jr: Yes quite.

B: It was.

H.M. Jr: Yes.

B: Well thank you so much.
H.M.Jr: Yes, it was all right.
B: Thank you very much.
H.M.Jr: Goodbye.
B: Goodbye.
Mr. de Jong called me at 11:51 and referred to his cablegram of today, by which he had canceled his previous instructions to sell guilders at 5476 or better, and gave us a new order to sell for their account further guilders 25,000,000 at 5484 less charges, that is 54831 in cases where we sell through agents. If we made sales without paying brokerage or commission to agents, he would be satisfied to receive 54831 also. de Jong was at great pains to point out that changing the price did not mean a fundamental change in their policy. All they intended to do was to follow the market rather than stick to one rate irrespective of demand or supply. That being so, they were quite likely to change their rate again in the near future or, for that matter, to change it a number of times. In that case, they would send us a telegram quoting us the new rate. I asked how the dollar was behaving and de Jong said it was very much offered. I asked how he explained the weakness of the dollar and he ascribed it to the same old rumors.

I took this opportunity to refer to our telephone conversation of April 9, when I had repeated to him what the Secretary of the Treasury had told me over the telephone, namely that neither the President nor he contemplated a change in the gold price. I mentioned that I had a similar call from the Secretary this morning, repeating the same statement and I added that, personally, I was very considerably impressed with what the Secretary had told me. de Jong thanked me.

He then mentioned that he wanted me to know that in all
probability we would receive substantial amounts of dollars for their account, which they were not going to ask us to convert into gold. This, however, did not apply to dollars with which we might credit them against our sales of guilders in this market. The latter, we were to continue to convert into gold as heretofore. I pointed out that if he accumulated dollars without at once converting them into gold, conversion under the present arrangement could not take place at a future date. de Jong assured me that he fully understood the situation.
Hello.

Operator: Just a minute please.

H.M.Jr: Put him on.

Operator: He's on.

H.M.Jr: (Aside to Miss Roche: "Thanks Miss Roche."

Hello.


B: Good afternoon, Mr. Secretary.

H.M.Jr: Can you hear me?

B: Absolutely.

H.M.Jr: All right. Butterworth - what I want you to do if you have the contacts - I wish you could talk to either to some of the American ....

B: I can't hear you sir.

H.M.Jr: Can you hear me now?

B: A little bit better, yes.

H.M.Jr: If you know any of the American brokers in London - brokerage offices - do you know any of them?

B: Yes - yes I do.

H.M.Jr: I wondered if you could sort of talk to them....

B: Yes.

H.M.Jr: ....... and find out why they think the people are selling American stocks, see?

B: Why they're selling American stocks?

H.M.Jr: Yes, if they have any reason.
B: Yes, well I - I know that there's been a spilling over of the liquidation here.

H.M.Jr: Yes.

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B: They would have to do so at a great sacrifice.....

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B: ..... particularly the sort of well known market leaders such as U. S. Steel and New York Central and International Nickel.

H.M.Jr: Yes.

B: The - particularly those national stocks which are quoted in large amounts both here and in New York......

H.M.Jr: I see.

B: ..... which is an active market in both places.

H.M.Jr: I see.
B: And that I know has been going on.

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B: Oh, I see.

H.M.Jr: I mean - what are the people in the markets - what are they worrying about abroad and in the United States, see? I mean if - if you could find out - I mean - ah - I know they are worrying about a lot of things but I - I can't find out what their particular worries are.

B: I don't think they're particularly worried about the American scene. I think their worry has been internal matters here.

H.M.Jr: Well could you find out more about it and send me a cable on it?

B: I could indeed. Would you like - like me to tell you a little bit about the atmosphere at the present moment?

H.M.Jr: Yes.

B: Ah - in brief the English market has improved today.

H.M.Jr: Good.

B: And people are feeling better in anticipation of the statement which Mr. Chamberlain is making to the House of Commons today ..... 

H.M.Jr: I see.

B: ..... regarding the national contribution pact. Of arrangements of this pact has - ah - hit the market so hard is because it's connected in the people's minds with the wartime financing.

H.M.Jr: Yes.

B: This pact.
H.M.Jr: Ah-ha.
B: And it's going to hit people.
H.M.Jr: Yes.
B: For instance, if they come here on 1933, '34 and '35.
H.M.Jr: Yes.
B: A good many of the heavy incomes have been - and so on were very depressed during those - so that if that is true it would carry the they will have to pay a rather large tax.
H.M.Jr: I see.
B: A very good is that the - the whole position is somewhat clearing up on the basis of the assessment which was on the three million pounds that twenty - twenty-five million pounds but the particulars as to how it is going to be worked out has not been made clear.
H.M.Jr: I see.
B: If those were cleared up I think that they will be likewise clearing up the.
H.M.Jr: Ah-ha. Well if you don't mind - I don't quite get it very well over the telephone. I wish you'd sit down and write me a cable on it.
B: I certainly will.
H.M.Jr: Now we here, as far as the Treasury goes, we have no particular worries but there are an awful lot of other people who are worrying and I'm trying, by calling up you, calling up Cochran and New York, I'm trying to find out what are people worrying about in the various financial centers .....  
B: Yes.
H.M.Jr: ..... and see if any of it makes any sense and - so if you just talk and see - I mean if you can pin them down, see?
B: Yes.
H.M.Jr: And if you can and never mind how foolish it sounds — why just send it along.
B: Yes I will.
H.M.Jr: And we're trying to pick it up from the different centers.
B: All right. Well I'll see if I can't get you off a cablegram tonight.
H.M.Jr: Thank you very much.
B: On this - Mr. Secretary.
H.M.Jr: Yes.
B: You got my report of the conversation on Friday?
H.M.Jr: On what?
B: On Friday.
H.M.Jr: Yes.
B: Was that satisfactory the way it was put?
H.M.Jr: Yes quite.
B: It was.
H.M.Jr: Yes.
B: Well thank you so much.
H.M.Jr: Yes, it was all right.
B: Thank you very much.
H.M.Jr: Goodbye.
B: Goodbye.
April 27, 1937.
11:54 a.m.

H.M. Jr: Hello.
H. Merle Cochran: Hello Mr. Morgenthau.

H.M. Jr: Hello Cochran. How are you?
C: All right, thank you, how are you?
H.M. Jr: Oh pretty well.
C: Haven't heard your voice for some time.

H.M. Jr: No. Cochran why I'm calling up is I wonder if you could make a few inquiries as to what people are worrying about as far as the finances of the world are concerned, see?

C: Yes.

H.M. Jr: We're getting all kinds of rumors; some of them credited; some of them London - I mean I wondered, for instance - I mean what are the New York banking, representatives of the New York Stock Exchange people in Paris - what are they worrying about, see?

C: Yes.

H.M. Jr: What are the French people worrying about?
C: Yes.

H.M. Jr: In other words, I'm trying to collect the various worries and then see if they make a picture, see?
C: Yes - yes.

H.M. Jr: Now, of course, I know about the gold and all that and every day we deny it ... .
C: Yes.

H.M. Jr: ..... and we'll keep on denying it.
C: Yes.
H.M. Jr: But I wondered if you could visit around in the next day or two and then send me a cable and give me what the people are worrying about.

C: Surely, I can do that.

H.M. Jr: Even though they may sound foolish.

C: Surely.

H.M. Jr: Have you got any ideas of your own what - or have you got any worries.

C: Well I haven't any particularly, no. But when I was in Basle, for instance, on the gold proposition -

H.M. Jr: Yes.

C: At that time your

H.M. Jr: Yes.

C: They were afraid that it left the door open to something and they thought that it might necessarily

H.M. Jr: Yes.

C: And since then it's been the market collapse more than anything to the effect of the President's statement on commodities.

H.M. Jr: I see.

C: And, of course, London had such a bad day yesterday and they've had this proposition put on to them and budget.

H.M. Jr: Yes.

C: It's just given them the worst move they've had in a long while.

H.M. Jr: Yes.

C: Then the loans coming out yesterday at a fairly low rate - this - it's all upset them.
H.M.Jr: Yes.
C: And then - then they fear that the American operators might in their own market.
H.M.Jr: Yes.
C: They think that if they had a little more - a little more confidence that it would spread over here.
H.M.Jr: You mean the stock market? Are you talking about the stock market?
C: That's it.
H.M.Jr: Yes.
C: That if the American operators had more faith in their own market....... 
H.M.Jr: Yes.
C: ...... that the confidence would be reflected on this side.
H.M.Jr: I see.
C: I'll - I'll get in touch with some of the Treasurers here tonight or certainly in the morning.
H.M.Jr: Yes.
C: And, of course, after this week-end I could give you quite a lot when I'm down at Basle.
H.M.Jr: Ah-ha. Well -
C: You remember I go there on Saturday night.
H.M.Jr: That's right.
C: That ought to leave Monday and Thursday - then I have - no - Sunday and Monday. Then I had your wire yesterday - Sunday rather .......
H.M.Jr: Yes.
C: ..... saying that you approve for me.

H.M.Jr: That's right.

C: I have no inkling of that at all but there's a good man on that Committee.

H.M.Jr: Yes.

C: by him so I'd only be there two or three days.

H.M.Jr: Yes.

C: And I expect to get the Annual Report out by before I go down.

H.M.Jr: Good.

C: And they're going to have a very expansive chapter on gold.

H.M.Jr: Yes.

C: On that I think there's probably some recommendations. I can cable a summary of that before I go then I'll get a cable off by airmail from Basle to Paris before I leave there for .

H.M.Jr: All right, well send anything along - along those lines.

C: I'll send you one from Paris before I go ..... 

H.M.Jr: Right.

C: ..... along this line.

H.M.Jr: And you'll be interested to know that we've practically made up our minds to go to Hawaii this summer.

C: Oh is that so.

H.M.Jr: Yes.

C: I just sent you another bunch of booklets this time on .
H.M.Jr: Well -

C:

H.M.Jr: Hawaii has no troubles just now and we think it looks pretty good.

C: Fine.

H.M.Jr: Yes.

C: Well I mean this summer is not going to be pleasant over here.

H.M.Jr: No we think that Hawaii looks very nice.

C: I think personally you're headed in the right direction but I'm sorry you're not going to be here in person.

H.M.Jr: Yes.

C: But for a holiday this is not going to be the place.

H.M.Jr: No that's what we thought.

C: When would you go then - July or August?

H.M.Jr: We'd be there the month of August.

C: There the month of August.

H.M.Jr: Yes. I thought you'd like to know it on account of your own plans.

C: Then what I should do - I should stay here for the summer, I think, then later get the holiday .......

H.M.Jr: Good.

C: ... at............

H.M.Jr: Good.

C: .... for some rest probably.

H.M.Jr: All right.
C: But I'll get off this cable in the next day or two.
H.M. Jr.: Fine.
C: And one thing - I can speak with the French.
H.M. Jr.: I wouldn't take very much - I mean if - if any govern-
ment could hear it all right.
C: Oh well that doesn't matter. I meant personally.
H.M. Jr.: What's that?
C: My friend here is giving a dinner on Thursday night.
H.M. Jr.: Giving a dinner Thursday night.
C: And which I hope by this time because
and he's invited him and Auriol and, I think, all the
members of this Control Committee.
H.M. Jr.: Yes.
C: And he's been good enough to invite me along too.
H.M. Jr.: Yes.
C: So I may hear some interesting things:
H.M. Jr.: Well you might drop me a letter.
C: What's that?
H.M. Jr.: it might be for some specula-
tion.
C: Well you might drop me a letter.
H.M. Jr.: this Thursday night.
C: I say after it you might just write me a personal letter.
H.M. Jr.: Yes.
H.M.Jr: Did you hear what I say?
C: Yes.
H.M.Jr: You might write me a letter.
C: Surely.
H.M.Jr: Yes.
C: All right I'll
H.M.Jr: O.K.
C: There's nothing else here. Everything is going all right.
H.M.Jr: Thank you.
C: Goodbye.
H.M.Jr: Goodbye.
April 27, 1937.
12:57 p. m.

H. M. Jr: Knoke?
L. W.
Knoke: I had all three on the 'phone.
H. M. Jr: Yes.

K: And in each case I referred to our telephone conversation the 9th of April when I'd spoken to them about what you had told me at that time and I - I mentioned that I had again this morning discussed - that you had discussed the situation with me....

H. M. Jr: Yes.

K: .... and that you - ah - that I heard very strongly that there was nothing - ah - there's no change contemplated anywhere.

H. M. Jr: Yes.

K: Ah - I then asked - ah - I suggested to Bolton that he let me know just - along what lines people argue in Europe......

H. M. Jr: Yes.

K: .... and I asked the same question of Cariguels and they both promised they'd let me know if they heard any new arguments. Meanwhile, this is what Bolton said. It was a kind of a whispering campaign......

H. M. Jr: Yes.

K: ..... mostly among academic circles......

H. M. Jr: Yes.

K: (Laughs) What he called the "Semi-intelligentsia,"......

H. M. Jr: Yes.

Kj: .... economists .....
K: .... ah - who - ah - based their argument primarily on rising tendency of commodity prices.

H.M.Jr: Yes.

K: Ah - Cariguel said while there was very little in - in - ah - Paris - the hotbed for all this talk was London -......

H.M.Jr: Yes.

K: ..... and - ah - ah - as far as the Bank of France was concerned, of course, they had never and were not taking it serious now - that's the way he put it.

H.M.Jr: I - you talked to Amsterdam?

K: I talked to Amsterdam also and repeated the same thing.

H.M.Jr: Yes. And they - what did they say?

K: Ah - well they didn't - ah - I didn't go into full length ......

H.M.Jr: Yes.

K: ..... because Amsterdam would probably give me what London was giving.

H.M.Jr: Well everything that I've heard this morning; I talked to Butterworth in London and to - ah - Cochran - and it all heads up in London as near as I can make out.

K: Yes, that's what Cariguel said too.

H.M.Jr: Yes. Well if they give you anything - let you know ....

K: Well they both promised that they'd let me know and I explained to them of how much value it was to us to understand the psychology of the fellows abroad and to know how they were arguing - would they please bear me in mind and they both promised it.

H.M.Jr: Of course, I feel that the shoe is pinching in England and - ah - all these arguments about changing the price of gold would help their situation and I've thought so now for some time.
K: Well I just wonder which, of course, would mean a lower sterling rate, wouldn't it?
H.M.Jr: Yes.
K: I just wonder whether, with the present expenditure for armaments,...........
H.M.Jr: Yes.
K: ..... ah - sterling rate at this level isn't really one that fits into the whole picture.
H.M.Jr: I don't know. Well evidently it doesn't - otherwise all this rumor wouldn't be coming out. I don't.....
K: Well of course, there is - that rumor I think - there's always the speculative element -
H.M.Jr: Well there's more than ..... 
K: He spoke of private banks - I'm sure he had in mind Lazard Freres - ah - Cariguel denied that he thought what happened of Lazard Freres business it was not at the moment at least of a particularly speculative nature.
H.M.Jr: Ah-ha. Well - ah - what did they think - Lazard Freres was doing something?
K: Well that is a - ah - what's his name - Bolton didn't mention him by name.
H.M.Jr: Yes.
K: He spoke of private banks in Paris and in London.
H.M.Jr: I see.
K: And Cariguel furnished the name......
H.M.Jr: Yes.
K: ..... and said that he didn't think it was Lazard - Lazard was doing that business just now.
H.M.Jr: No - ah .....
K: He rather protected Lazard on that.

H.M.Jr: I see. - ah - well thank you very much.

K: I'm dictating a brief report on the talk.

H.M.Jr: Yes. Well I don't think it's - I don't think it's Lazard because as a matter of fact Mr. Altschul was down here the other day for the first time since I've been here - asked to see me.

K: Yes.

H.M.Jr: And - ah - he - ah I gather very strongly that he thinks it would be a mistake to change the price of gold.

K: Yes, I see.

H.M.Jr: And - ah - ah I - ah - I didn't get anywhere the idea that - that - that he thought we ought to change it. I mean I listened to him. I didn't talk - I just listened.

K: Yes, well I had the impression that of the two Cariguel probably knew more about Cari - about Lazard business than Bolton.

H.M.Jr: Yes, well I got the very distinct impression from Mr. Altschul that - that - ah - I was just reading - I've got a letter here from him. I'll just read you what he says.

K: Yes.

H.M.Jr: "Now that we for a long time have had defacto stabilization on the basis of $35 per fine ounce I feel that any tampering with the gold price will introduce element of the greatest confusion and uncertainty to the world and the domestic economy and any such step will be fraught with the greatest danger."

K: Yes.

H.M.Jr: And that's in writing.

K: Yes, I see.
H.M.Jr: So that's how they feel.
K: Yes.
H.M.Jr: Couldn't put it any stronger than that.
K: No.
H.M.Jr: What?
K: No - no.
H.M.Jr: I mean this is a summary of what he told me.
K: Yes.
H.M.Jr: I don't think ......
K: I have the highest respect for Mr. Altschul's opinion. I think he's extremely intelligent and ......
H.M.Jr: Well - so he put it all in writing and - ah - so - ah - he - ah - whatever the rumor is I don't think it's coming from that source.
K: Yes - yes.
H.M.Jr: All right.
K: Right, sir.
H.M.Jr: Thank you.
K: Goodbye.
DATE April 27, 1937.

I called Mr. Bolton at 12:34 to ask how things looked over there now. He expressed the opinion that in London and on the continent stock and commodity markets were beginning to look a little bit steadier and that the principal liquidation seemed to be over. A lot, however, depended upon statements by the Chancellor in the budget situation, which were expected some time during this week. Business in dollars had been tremendous this morning, stock brokers and Japanese banks being the principal sellers. The supply of gold resulted from disharding and from the sale of newly-mined gold. Sellers continued to believe that we would lower our gold price. I asked Bolton whether he could explain to me along what line these arguments ran. If we had a better understanding on this point, maybe something could be done about it. Bolton then explained that it looked to him like a kind of a whispering campaign carried on by intellectual and academic circles, with a good deal of talk about commodity prices on the part of some economists who insisted that sooner or later commodity prices would have to be lowered and that this could be best accomplished by means of a cut in the gold price. I referred to our telephone conversation of April 9, when I had spoken to him about a telephone call I had just received from the Secretary of the Treasury, in which the latter had repeated to me most emphatically that neither the President nor he contemplated a change in the gold price. I continued to say that I had this morning had a similar conversation with the Secretary of the Treasury and that the Secretary had repeated his previous statements, which had personally impressed
me very considerably, with the result that I felt very strongly that
the Secretary was not worrying about the gold inflow nor about the
present or future size of the amount sterilized, nor about the interest
charge thus incurred, which was certainly of no consequence com-
pared with the fact that he had to find $7,000,000,000 next year.
The Secretary had added that the President was equally as determined
as he was, that there should be no change in the price. Bolton thought
that the difficulty was that a great many people (and nobody knew ex-
actly who they were nor from where they got their information) were
sure that something was going to happen, feeling that where there was
so much smoke there must be some fire. It was a very difficult kind
of argument to fight, he thought, but he would do his best to keep me
posted and particularly to let me know if any new arguments made their
appearance.
I called Mr. Cariguel at 12:50. They had had a busy morning, he said, with the franc around 444 1/2 and further fluctuations depended on what would happen here and what official statements might be made. In Europe, and particularly in London, rumors were circulating that we would interfere with the gold contents of the dollar; so far Paris had not joined in this talk. I referred him to our telephone conversation of April 9, when I had discussed with him a telephone call received from the Secretary of the Treasury in Washington, in which the latter had repeated to me most emphatically that neither the President nor he contemplated a change in our gold price. I continued that I had this morning had a similar conversation with Mr. Morgenthau and that Mr. Morgenthau had repeated his previous statements, which had personally impressed me considerably, with the result that I felt very strongly that he was not worrying about the gold inflow nor about the present or future size or amount of the gold sterilized, nor about the interest charge thus incurred, which, he said, was certainly of no consequence compared with the fact that he had to find 7 billion dollars next year. The Secretary added that the President was equally determined that there should be no change in the price of gold. Cariguel said that he had originally thought that these various rumors had come from America but now he began to wonder whether they did not originate in London. The public was very credulous and prone to pay a good deal of attention to this talk about lower prices.

I suggested to Cariguel that, if we had a better understanding
of just what these arguments in favor of price changes were, we might be able to do something about it. Would he, therefore, help me and give me a ring next time he came across a new argument or rumor when there was something new. He promised that he would do so but warned me that it was a hard job to trace these rumors. At the Bank of France they had never taken them seriously.
Your telephone call came during my daily market inquiries here which I have since completed but there is little to add to what I then said.

Briefly the present position must be regarded in the light of its antecedents, viz, the initial nervousness engendered by the "commodity price scare" which was further augmented by the "gold price scare" brought to a head by Professor Sprague's speech in Paris. As reported in my 224, April 17, 2 p.m., gold mining shares were seriously affected and since then two small failures have occurred in Johannesburg, the only market where there has been no attempt to control speculation, and there have been rumors of further difficulties. As also reported in that telegram the downward movement in commodities aroused in its course a number of other bear factors such as the effects of stock loss.
loss orders and hedge selling which caused much forced liquidation. On top of this and just after the difficult Stock Exchange settlement account terminating on April 15 had been arranged came the impact of Chamberlain's budget speech with its national defense contribution tax, the exact incidence of which the City was not then able and is not yet able fully to assess. Its imprecision, its resemblance to the hated war time excess profit tax, its apparent inequalities (the severity with which it would fall on recently recovered industries such as shipping, steel and engineering) and the fact that it hits primarily common stocks caused an immediate decline on the London Stock Exchange. In the given circumstances each decline in turn brought about further forced liquidation culminating yesterday in a "buyers strike". Therefore those who had to raise cash were forced to turn to the active New York market. As I mentioned on the telephone London's repatriation of funds by the sale of New York stocks has no connection with the American scene as such but is entirely due to technical causes arising out of the recent declines in commodities and stocks in London. None of the American brokers consulted here reports sales of American stocks by British insurance companies or investment trusts and on the contrary several have received buying orders today at certain price limits. However it is to be
be expected that in view of the recent past and the growing nervousness about the French situation London brokers may take occasion to improve their clients' marginal positions which in some cases will doubtless necessitate further sales in New York. Conditions in the London Stock Exchange were better today and prices advanced and there is a general feeling that the "worst is passed."

The demand for dollars in the late afternoon was due (1) to buying by Holland as a result of purchases of American common stocks (2) recurrence of the rumors in the gold market that something might be done in the United States to affect the price of gold.

BINGHAM

HFD
Secretary of State

Washington.

540, April 27, 5 p. m.
FROM COCHRAN.

French control yielded some sterling today. Dollars were a little easier due to their being offered against sterling. French rentes up 35 to 70 centimes without much business being done. Rest of market quiet.

Today witnessed a lull permitting some recovery from yesterday's unsatisfactory situation. Last evening following a Cabinet meeting Minister of Finance stated that the Government is maintaining its position of rejecting the idea of a new long term loan. He also denied rumors that there were to be resignations from his stabilization fund committee (Rist, Rueff and Baudoin had each been reported as resigning). The press says that Auriol also said that the French financial situation was witnessing some improvement rather than deteriorating as some alleged.

Auriol will be heard tomorrow by the Finance Committee of the Chamber, on Thursday by the Finance Committee of the Senate.
-2-#540, April 27, 5 p.m. from Paris

Senate and on Friday there will be general parliamentary debate on Government's policies.

BULLITT
April 27, 1937

My dear Mr. Attorney General:

Mr. Magill and Mr. Oliphant have reported to me fully on the extended conference which you had with them last Friday concerning the possibility of the settlement of the tax cases against E. M. Smith, E. M. Smith Company, and Walter G. L. Smith of Los Angeles. They outlined to me fully the suggestions as to a settlement, which are now being made to you on behalf of the taxpayers. In view of the unusual character of these cases, it seems to me that, as in former tax cases of like seriousness, any consideration of the settlement of civil liabilities at present is untimely and that these criminal cases should be pressed to trial or plea and sentence. Thereafter the collection or settlement of the tax liability can be taken up.

I hope that you will concur in this view, in the light of the additional information which Mr. Magill and Mr. Oliphant gave you; but if you do not, I should like for us to discuss these cases with the President, as indicated in my letter of April 18, 1937.

Sincerely yours,

The Honorable
The Attorney General of the United States

RM/egh

FILE COPY
April 27, 1937

The Honorable,
The Attorney General,
Washington, D. C.

My dear Mr. Attorney General:

I am returning herewith a number of letters addressed to Mr. Keenan by Mr. M.L. Igoe, United States Attorney for the Northern Judicial District of Illinois, containing criticisms directed at certain officers of the Treasury Department. With these I enclose a memorandum given me by the responsible officers of this Department commenting upon Mr. Igoe's charges. I believe that you will agree with me, after examining this memorandum, that there is no basis for Mr. Igoe's suggestions of improper conduct on the part of officers of this Department.

Sincerely,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

HNC/mff

Initiated: Graves, McReynolds, Halvering and Oliphant
MEMORANDUM FOR THE SECRETARY:

The Department has received from the Department of Justice a number of letters addressed to Hon. Joseph B. Keenan, Assistant to the Attorney General, by Michael L. Igoe, United States Attorney for the Northern District of Illinois, containing complaints against the Treasury Department, more especially against certain of the Department’s officials headquartered at Chicago.

These letters have been sent here informally pursuant to an understanding reached some time ago between Mr. Keenan and Messrs. Clifton and Helvering, to the effect that Mr. Igoe would submit in writing whatever grounds he might have for complaining of the activities of Treasury agencies at Chicago.

In accordance with your request, a synopsis of the complaints contained in Mr. Igoe’s letters, with the Department’s comment with respect to each specific criticism, is submitted below.

Alleged Unfriendly Attitude on the Part of Treasury Officials at Washington.

Mr. Igoe begins his first letter, which is dated March 25, by indicating that it is his distinct impression that the officials of the Treasury Department in Washington feel that at all hazards they must uphold their subordinates in the field regardless of the merits of any controversy which may arise. He bases this, he says, upon his experience in two specific instances; namely, the case of Ralph W. Cuyler and the so-called Barney Franklin case. After discussing these two cases at some length, he has the following to say:

"From the statements above made, I believe you will agree with me that all of the difficulties between the Treasury Department and myself have been ended long ago if there had been a disposition on the part of the officials of the Treasury Department to deal expeditiously and fairly with such difficulties when they arose. It is because they did not do so that we find ourselves in the situation which now confronts us."
Immauch as Mr. Igoe evidently feels that the attitude of the officials of the Treasury Department toward the two cases mentioned has had much to do with the strained relations between his office and this Department, they will be dealt with here in some detail.

The Cylor Case

Ralph H. Cylor, now District Supervisor, Bureau of Narcotics, at Detroit, Mich., was formerly on duty in the same capacity at Chicago. Mr. Igoe states that he communicated to Mr. Gibbons certain information pointing to improper conduct on Cylor's part. He says further that if the facts which he submitted to Mr. Gibbons were proven, as he understands they were, Cylor should have been summarily separated from the Service. He calls attention to the fact that Cylor still retains his position, to his (Igoe's) embarrassment. Mr. Igoe obviously feels that the officials of the Treasury Department in Washington were not warranted in retaining Cylor in the face of his (Igoe's) representations.

COMMENTS

On July 31, 1933, the Bureau of Narcotics at Chicago submitted four reports to the United States Attorney for the Northern Judicial District of Illinois, charging the following persons with violations of the Federal Narcotic Drug Laws: (1) Benjamin Cresch, Ivan H. Parks, and William Payne; (2) Jack Howard and Charles Porter Mitchell; (3) Hal Price Hedley and Marvin Harding; and (4) A. A. Barrond and James Hachman. The reports were based upon investigations made during June and July, 1933, at the Arlington Park race track, Chicago, by agents of the Bureau of Narcotics under the direction of Mr. Cylor, then District Supervisor at Chicago, and the violations charged arose out of the alleged "doping" of race horses.

Mr. Cylor was transferred from Chicago to Detroit on November 1, 1933, but before his transfer, on August 10, 1933, all the persons named above were indicted in the Federal District Court at Chicago. The indictments were secured by Mr. Leslie R. Salter, Special Assistant to the Attorney General, who had charge of these cases for the Government from their inception and who, as will be seen, finally secured convictions against Howard and Mitchell.
The defendants in the Howard case were Jack Howard, owner and trainer, and Charles F. Mitchell, his stable foreman. In the course of their investigations, Federal Narcotic agents observed numerous instances that just before racing horses of the Howard stable were given an injection from a metal syringe. They finally seized the syringe on one occasion just as its contents were about to be administered, and at the same time they seized seven bottles from horses in the Howard stable. The syringe and the bottles were all found to contain heroin. On the proceedings in court, a motion to suppress the evidence was filed and overruled. On the trial, both defendants were found guilty on June 30, 1934, and on July 3, 1934, Howard was fined $300 and sentenced to ten days in jail, and Mitchell was fined $100 and sentenced to five days in jail. The jail sentences were suspended and the defendants placed on probation for one year. Both defendants appealed, and the Circuit Court of Appeals for the Seventh Circuit affirmed the judgment of conviction January 29, 1936. They petitioned the United States Supreme Court for certiorari, which was denied April 25, 1936. As has been said, this case was tried by Mr. Walter, Special Assistant to the Attorney General, who likewise argued the Government’s case before the Circuit Court of Appeals.

On June 26, 1934, the cases against the other persons above named were continued for trial until the September, 1934, term of court, the United States Attorney’s office advising that action would be deferred in those cases until the Howard case had been finally adjudicated. As has been seen, this case was disposed of on April 25, 1935. Mr. Egan succeeded to the office of District Attorney in June, 1935, and these three cases were pending at that time, with no obstacle now in the way of their prosecution.

The defendants in the so-called Creschi case were Benjamin Creschi, whose wife was the owner of a stable of horses, Ivan E. Parks, Creschi’s son-in-law and trainer of the stable, and William Payne, a colored stable boy. During their investigations, Federal Narcotic agents on fourteen occasions observed the administration to horses of the Creschi stable, just prior to racing, of the contents of a metal syringe. This was usually by Parks, with Payne’s assistance, but on at least one occasion Creschi also observed to participate. A search of the stables was made on July 26, 1935, and 150 grains of heroin and 15 grains of cocaine were found therein. After the final disposition of the Howard case, this case was set for trial on January 6, 1936. However, on November 30, 1935, Parks and Payne withdrew their previous pleas of not guilty, and entered pleas of guilty. Parks was fined $500 and Payne $250. On the same day, on motion of the United States Attorney, the case was dismissed as to defendant Creschi. This disposition was made without consultation with the Narcotics Bureau or its District Supervisor at Chicago, and the latter officer did not learn of the termination of the case until January 3, 1936, when he was informally advised by Assistant United States Attorney Bailey.
In the Barroni and Hexham case, it had been observed on two occasions that a stableman entered a horse's stall with a syringe and later came out and rinsed the syringe with water. The officers did not actually see anyone use the syringe and there is no evidence to show what was contained therein. The officers did, however, seize from the tack room of the Barroni stable, a number of bottles of a liquid which proved, upon analysis, to contain heroin.

In the Headley and Hardin case, the officers observed the contents of a metal syringe administered to horses in some five instances and a number of bottles were seized in the tack room of Headley's stable of a liquid which proved, upon analysis, to contain heroin.

The Barroni and Hexham case and the Headley and Hardin case were set for trial on November 30, 1936, the Barroni-Hexham case to be tried first. Barroni and Hexham filed motions to suppress as evidence certain property seized in the tack room, on the ground that the search and seizure were unlawful. Upon hearing arguments, Judge Woodward rendered a memorandum opinion granting the motions of Barroni and Hexham and when the case was actually called for trial, it was dismissed on December 2, 1936, for want of prosecution. Because of the ruling on the admission of the evidence as to Barroni and Hexham, the case of Headley and Hardin was also dismissed on the same date for want of prosecution.

The Green case was undoubtedly the strongest of the three cases remaining after the disposition of the Howard case, and it was the opinion of the Commissioner of Narcotics that a vigorous prosecution of this case by the Government would have resulted in the conviction of all three of the defendants named therein. Early in January, 1936, the Commissioner called the disposition of this case, as above described, especially to the attention of Assistant Secretary Gibbons, stating, among other things, that there had been rumors that a great deal of money had been reported ready to secure the closing of the case without prosecution. Mr. Igoe happened to be in Washington about this time, and the dissatisfaction of the Commissioner of Narcotics with regard to this matter was communicated personally to him by Mr. Gibbons in a conference at the latter's office in the Treasury Department, which was attended also by the Assistant Commissioner of Narcotics in the Commissioner's absence.
There is no record of what transpired at this conference. It is apparent, however, although Mr. Gibbons now has no such recollection, that Mr. Igoe on this occasion must have conveyed to Mr. Gibbons certain information pointing to misconduct on the part of District Supervisor Cyler in connection with one of the horse-doping cases here referred to. It is apparent also that some agreement was reached by Mr. Igoe and Mr. Gibbons to the effect that Cyler's supposed misconduct would be made the subject of an investigation by the Intelligence Unit. On January 31, 1936, Mr. Gibbons made a formal recommendation to this effect, to the Secretary, from which the following is quoted:

"District Attorney Igoe advised me that he had heard that the Narcotic District Supervisor at Detroit, Mr. Cyler, had advised the Chief of Police of Lexington or Louisville, Kentucky, over the telephone that he did not think that one of the defendants in question could be convicted, notwithstanding, he protested the final action taken by the District Attorney."

Pursuant to Mr. Gibbons's recommendation, the Intelligence Unit of the Bureau of Internal Revenue was directed to make an investigation of Mr. Cyler's alleged misconduct, and a final report of the investigation was delivered to the Department on May 14, 1936. This report, which was signed by Special Agent J. A. Jordan, contains the following:

"In compliance with request of Assistant Secretary Gibbons, the closing of the Benjamin Cressh 'horse doping' race track case at Chicago, Ill., and alleged questionable activities of Mr. Cyler with reference to the Barroni and Headley race track cases, were taken up with United States Attorney Michael L. Igoe at Chicago, Ill.

* * * * * *

U. S. District Attorney Michael F. Igoe informed me that Attorney E. B. McGrath, who represented Benjamin Cressh, Ivan H. Park, and William Payne in the Cressh race track case, had called at his office on January 6, 1936, and inquired as to whether Mr. Cyler, the Narcotic Agent in Charge of the race track investigation, had been to Mr. Igoe's office that day to advise him that Mr. Cyler did not think there was sufficient evidence to secure a conviction in either the Barroni or Headley cases; that Mr. McGrath did not represent either of the parties, but was down in behalf of a mutual friend of theirs and his,
namely, William H. Schmidt, a business man of Chicago, undertaker, and also engaged in the real estate business, who had been very friendly with both Mr. Headley and Mr. Barroni for a period of years, and who had been a client of Attorney McRath's for twenty years. The U. S. Attorney advised Attorney McRath that he did not know Mr. Cylor and that the latter had never called on him.

"Attorney T. E. McRath informed me that on January 17, 1933, Mr. William H. Schmidt came into his office, accompanied by Hal Price Headley, defendant in one of the mass truck cases, and introduced the latter. During the conversation, Mr. McRath inquired how they were informed that Mr. Cylor was coming to Chicago and why he was going to suggest dismissal of the Headley and Barroni cases to the U. S. Attorney. Thereupon, Mr. Hal Price Headley told Mr. McRath the following story:

"On Saturday, January 4, 1933, Cylor called the Chief of Police at Lexington and asked the Chief to arrange a meeting between Cylor and Headley. The Chief saw Headley and Headley advised him that he was not interested in meeting Cylor at any time or place, insisting that Cylor had done him a great injustice in involving him in the narcotics picture because he had never permitted the use of narcotics on any of his horses except as might have been prescribed in a medicine by a licensed veterinarian. The Chief of Police called Cylor at Detroit and so advised him. Cylor then wanted to know if the Chief would not come to Detroit as he wanted to tell him something. The Chief then told Cylor he could not go back to Headley because Headley would not talk about the case and that if the Chief wanted to talk about the case he would have to see Wallace H. Barroni, attorney for Headley. Mr. H. Barroni told the Chief he would go to Detroit and see what Cylor had to say. The Chief arrived in Detroit January 5th, met Cylor and it was at that time that Cylor said he did not think there was sufficient evidence to try the Barroni and Headley cases and that he was going to Chicago to see the United States District Attorney in this District and he wanted Mr. Headley to know that he was doing this so that Headley would appreciate his friendliness in the matter. Chief of Police left for Lexington on Sunday, January 5th, and Cylor supposedly left for Chicago on Sunday, January 5th."
To categorize this paragraph:

Information on the subject.

Any additional comments or remarks by the editor are noted at the end of the paragraph.

Dr. John Doe

Page 2

Classified Information

Regraded Uclassified
It will be noted that Mr. Headley was sued to have told Mr.
Dorough that Gylor had called Chief Thompson from Detroit on Jan-
uary 4. But in his signed statement, Chief Thompson says that it
was he who called Gylor, and not Gylor who called him. Apparently
having this discrepancy in mind, Special Agent Jordan said to
Thompson when the latter gave him his signed statement: "You
state here that you did talk with Mr. Gylor over the phone from
Detroit." To this Thompson replied: "Yes, I called him up to
make a date to see him there, but he never called me from Detroit
any time."

On March 24, Special Agent Jordan also secured signed state-
ments with regard to this matter from Mr. Headley and Mr. Headley's
attorney, Mr. Wallace Haig. Mr. Headley's statement reads as fol-
ows:

"About the first of the year 1936, Ernest Thompson,
Chief of Police of Lexington, Ky., called and told me
he was going to several cities, including Detroit, on
some police business, and wanted to know if I wanted him
to see Mr. Gylor while he was in Detroit, and I referred
him to my attorney, Mr. Haig. I was advised that he did
call Mr. Haig and Mr. Haig told him that it would be all
right for him to see Mr. Gylor, and to find out whether
my case was going to be disposed of on January 9 or not.

"My recollection is that Chief Thompson returned to
Lexington the following Monday and communicated with Mr.
Haig, and that I called Mr. Haig and Mr. Haig told me
that the case would not be tried on the 9th, and that
he understood Mr. Gylor was going to Chicago and that
everything was all right. I took from this statement
of Mr. Haig to mean that my case would be disposed of
in the same way as the Grouch case.

"A short time after that I went to Chicago on some
other business, and while there I called Mr. William E.
Schmitz, whom I have known for a long time, and who is
my personal friend and who voluntarily signed my bond at
the time I was indicted. I did not call Schmitz with
reference to the case, but just to talk with him. Schmitz
met me down town about noon for lunch and suggested that
before lunch I go with him to see Attorney T. E. McGlothlin,
who was his lawyer and friend, and who had represented
Grouch."
"I went with Schmidt to see Mr. McInrath and did not talk to him as my attorney and have never employed Mr. McInrath to represent me in any way. In the course of the conversation, Mr. McInrath told me that he knew Mr. Finckland and Mr. Sears, my Chicago attorneys, and also knew Mr. Nash, who represented Harron, and that the ethics of profession prevented him from saying anything concerning another lawyer's case, but he would be very glad to advise with either of these gentlemen, if they called upon him.

"I told Mr. McInrath that I was not guilty in this case, and never at any time permitted the use of narcotics on my horses, and had never permitted narcotics in any form to be in my stable. I told him that Chief Thompson was a life-long friend, and had tried to find out what the Government was claiming as against me, but had never been able to get any information. I also told him about Thompson's trip to Detroit, and that Thompson before leaving, had been in communication with Mr. Lair, and wanted to know about him seeing Cylor while in Detroit, and when Thompson came back he said Cylor was going to be in Chicago in a day or two. I did tell Mr. McInrath that Thompson had said that Cylor would see the District Attorney and recommend the dismissal of my case, but afterwards I talked with Mr. Lair and I found out that I had evidently misunderstood the meaning of Mr. Lair's conversation with me when he told me over the phone that 'the case would not be tried, and everything would be all right', taking from this that my case was going to be dismissed, having in mind the dismissal of the Dutch case, but I misunderstood Mr. Lair, and Mr. Lair says what he meant to tell me was that everything would be all right, so that I would not worry about my case at that time."

Mr. Lair's statement is as follows:

"At the time Chief Thompson was going to Detroit, he called me up and told me he was going to several cities on some business, including Detroit, and wanted to know if I thought it would be well for him to see Mr. Cylor while in Detroit. I told him it would be entirely all right for him to see Mr. Cylor and to ascertain, if he could, whether the case was going to be tried on January 9 or not."

Regraded Uclassified
"In a day or two Thompson returned to Lexington, called me and told me he had seen Cylon, but that he did not tell out from him whether the case would be tried on the 9th, but that Cylon was going to Chicago and would be at the District Attorney's office.

"Receiving this information, I telephoned to our attorneys in Chicago and told them that Mr. Cylon was going to be at the District Attorney's office and for them to get in touch with the District Attorney and see if our case would not be disposed of along the lines of the Broach case.

"I told Mr. Headley, over the telephone, that the case would not be tried on the 8th, but that everything would be all right. After telling him this, he was in Chicago on some business and he tells me that he had a talk with Mr. Schmidt and Mr. McGrath, in which he told Mr. McGrath and Mr. Schmidt to the effect that Cylon was supposed to come to Chicago, and that he was going to request the District Attorney to dismiss the case. Mr. Headley was supposed to have gotten this information from me, but Mr. Headley was mistaken about this and misinterpreted my saying to him that the case would not be tried, but everything would be all right."

Attention is particularly invited to the fact that while Mr. Headley states he did indicate to Mr. McGrath that Cylon planned to have the case against him dismissed, he now says that this was a misstatement. Both Mr. Headley and Mr. Hair now state in writing that the former misunderstood the latter, who had not intended to convey any such impression as that received by Mr. Headley and passed on to Mr. McGrath. There is clearly no evidence to support the statement that Mr. Cylon promised to take action looking to the dismissal of this case, or that he had expressed himself as feeling that the case was a weak one.

In considering the statements which have been made with respect to the Headley case, it is well to recall that this case was made in July, 1933, and that during the course of the investigation a Special Assistant to the Attorney General was assigned to handle it. He obtained the indictment and afterwards tried and convicted Jack Howard, one of the defendants in another case made at the same time as the Headley case. The latter case remained pending in the office of the United States Attorney at Chicago from August, 1933 to December 2, 1935, when it was called and dismissed. During this entire period the case was called for trial several times, and on no occasion was postponement requested or suggested by Mr. Cylon.
There is, moreover, considerable room for doubt whether the statements originally attributed to Mr. Headley by Attorney McOath would have afforded grounds for the dismissal of Cylor even if they could have been corroborated by substantial evidence, since they seem to imply only that Cylor had become convinced that there was not sufficient evidence to try the case pending against Headley, and that it was his intention so to advise the United States Attorney who had the case in charge. Had these statements been substantiated, there, of course, would have been a question whether Mr. Cylor's alleged action was judicious and discreet, but even if true, on their face they certainly do not imply corrupt misconduct. However, the stories finally told by Thompson, Headley, and Muir, as represented by their written statements now in the Department's files, as the result of questioning by Special Agent Jordan, are in an entirely different version from the account given by Attorney McOath, and they do not corroborate in any particular the statements alleged by Attorney McOath to have been made to him by Headley in so far as these statements may be said to reflect on Mr. Cylor. In these circumstances, and upon the recommendation of Special Agent Jordan and the Chief of the Intelligence Unit of the Bureau of Internal Revenue, the Department reached the conclusion that it had no basis for taking action of any kind against Mr. Cylor.

The Barney Franklin Case.

Mr. Igoe repeats the complaint which he has previously made with respect to this case, based on the fact alleged by him that Mr. Yellowley deliberately and knowingly transmitted to the Chicago DAILY NEWS a letter which he (Igoe) had written to Yellowley recommending the acceptance of an offer in compromise submitted by the defendant in the case of United States vs. Barney Franklin. Again Mr. Igoe criticizes the officials of the Treasury Department at Washington for their failure to discipline Yellowley for making this letter public.

COMMENT

Although the facts in this notorious case are well known, it is believed that they should be reviewed briefly here. On June 19, 1934, the defendant, Barney Franklin, the proprietor of a rathskeller in the Loop district in Chicago, was arrested in possession of an illicit rectifying plant in the basement of his barroom premises. At the time of his arrest, certain quantities of untaxed spirits, counterfeit stamp stamps, fraudulent labels, etc., were found on the premises. It was evident that Franklin was not only defrauding the Government of its revenue, but was also cheating his patrons by selling them spurious liquor.
Between June 19 and September 30, 1934, eight adjournments were obtained from the United States Commissioner before the defendant was held for the Grand Jury. On November 2, 1934, the defendant was indicted. On December 10, 1934, a demurrer was filed to the indictment. The demurrer was overruled on January 16, 1935, at which time a plea of not guilty was entered and a motion made to suppress the evidence. This motion was denied on April 20, 1935. Between April 25, 1935, and September 30, 1935, the trial of this case was adjourned five times. On October 15, 1935, the United States Attorney recommended to the Taxes and Penalties Unit of the Department of Justice the acceptance of an offer in compromise in the sum of $1,000 made by the defendant, Franklin, in satisfaction of all civil and criminal liability. This offer was rejected by the Taxes and Penalties Unit on the recommendation of the Alcohol Tax Unit of the Treasury Department. The case was adjourned from time to time from February 13, 1936, to November 30, 1936, at the request of Assistant United States Attorney Glasser, who assigned as the reason for his request the fact that an offer in compromise submitted by the defendant was under consideration.

The case was finally called for trial before Judge Sullivan in the District Court on November 30, 1936. At this time the defendant withdrew his plea of not guilty and pleaded guilty to one count in the indictment upon the understanding that a suspended sentence should be given on all other counts and that there should be a fine of $1,000 on this one count. This arrangement was recommended in open court by Assistant United States Attorney Glasser. It is a conspicuous fact that the amount of the fine so recommended was the same as the amount offered in compromise of the matter, which had been rejected by the Department of Justice.

Even this recommendation was made by Assistant United States Attorney Glasser, the Court, of its own motion, took the matter under advisement and adjourned the day of sentence until December 10, 1936.

On December 9, 1936, the Secretary of the Treasury protested personally to the Attorney General against Glasser's recommendation for the disposition of this case by a fine, and it is understood that the Secretary's protest was promptly conveyed to United States Attorney Pang. Notwithstanding this fact, when the case came up for sentence on December 10, Assistant United States Attorney Glasser revoked his earlier recommendation, and the Court imposed a fine of $1,000 against the defendant in accordance therewith.
As will be seen from the foregoing, the Barney Franklin case was pending in Chicago from June, 1935, until November, 1936. In connection with the offer in compromise above referred to, Mr. Igoe, on October 15, 1935, addressed the following letter to Mr. Yelloway:

"Please find enclosed cashier's check in the amount of $1,650, which has been submitted to me by the above-named defendant (Franklin) as an offer in compromise of the above entitled case.

"I have accepted this check from the defendant with the distinct understanding that it is his liability only and not as to his codefendant.

"I recommend the acceptance of this offer for the reason that I think it is substantial and in view of the past record of the defendant it is probably a better settlement than we could receive through the courts.

"Respectfully,

(Signed) "M. L. Igoe."

In response to this letter, Mr. Yelloway advised Mr. Igoe, on November 15, 1935, that he could not accept in the acceptance of this offer, and recommened that Franklin be prosecuted.

In an article which appeared in the Chicago DAILY NEWS of May 15, 1936, the above letter was quoted, and it was Mr. Igoe's assumption that a copy of the letter had been furnished the NEWS by Mr. Yelloway. Acting on this assumption, Mr. Igoe addressed the following letter to Mr. Yelloway under date of May 16, 1936:

"I will thank you to advise me at your earliest convenience your authority for giving to the press my letter to you of October 15, 1935, which appeared in the Chicago Daily News of May 15th, 1936.

"Respectfully,

(Signed) "Michael L. Igoe
"United States Attorney."
Treasury Department's "publicity agent." Mr. Yelloway categorically
denied having given the letter to the NWS, and such investigation
as this Department was able to make at the time afforded no basis for
the conclusion that he had any part in the transaction complained of.
A representative of the Department who called on the City Editor of
the Chicago DAILY NEWS for information as to the source of the letter
in question, was met with a declination to give out the source from
which the letter came but was positively told that it did not emanate
from anyone in the Treasury Department.

Under the foregoing circumstances, the Department did not feel
at the time of Mr. Igoe's original complaint and does not now feel
that it had any basis for action against Mr. Yelloway in connection
with the matter.

Allied Inefficiency of
the Alcohol Tax Unit at Chicago

Mr. Igoe makes certain complaints of inefficiency on the part
of the Alcohol Tax Unit at Chicago. These complaints are somewhat
indefinite, but they may fairly be classified as follows:

Operators of large stills are seldom if ever apprehended; only minor defendants are arrested.

Investigations are too long delayed.

Cases are frequently spoiled by illegal entry upon
the premises of the violators.

Occupational-tax stamps are sold to vendors of un-
taxedpirits.

Character of defendants in liquor cases:

Mr. Igoe says: "The record indicates that operators of large
stills in this district are seldom if ever apprehended. In prac-
tically every case in which a large still is involved, only minor de-
fendants are arrested. This situation has been commented upon by
all of the judges in this district." He says also that this situation
was commented upon by both the February and March, 1937, Grand Jurors,
and refers to letters which he received from the foremen of those
Grand Juries containing such consent. He then goes on to support
this complaint by citing three particular cases called for trial in
March, 1937, in which he says, or implies, that there was adverse
consent by the Court upon the cases as presented by the Alcohol Tax
Unit.
Mr. Iggo's reference to the criticisms of the February and March Grand Juries need scarcely be taken seriously. It is known to the Department that the letter signed by the foreman of the February Grand Jury was written by Assistant United States Attorney Glasser, and signed by the foreman at his (Glasser's) solicitation, and it is reasonable to presume that the March letter originated in this same way. It is of course obvious that the members of a Grand Jury sitting for a one-month's term, and dealing only with such few selected cases as the District Attorney chooses to bring before it, would hardly be in a position to say of their own knowledge that the Alcohol Tax Unit apprehends only the smaller violators and overlooks the principal defendants.

As to Mr. Iggo's statement to the effect that all of the judges in the Chicago district have commented on the failure of the Alcohol Tax Unit to apprehend important violators, the Department knows of three cases only in connection with which the Court made comment which might be construed as in any way reflecting upon that Unit. These are the three cases referred to in Mr. Iggo's letter, which were called for trial, respectively, on March 1, March 2, and March 3, 1937, as follows: U. S. vs. Frank Schaeffer, et al.; U. S. vs. Frank Siede, et al.; and U. S. vs. Kaiser F. Seltwedd. These cases will be discussed below, with particular reference to such comments as were made from the bench at the time of trial.

U. S. vs. Frank Schaeffer, et al.—This case originated with the seizure, on January 1, 1936, of an illicit distillery on the farm of George Dubin, near Hinsdale, Illinois. As the result of a subsequent open investigation, the Alcohol Tax Unit was able to connect eight defendants with the violation, all of whom, including the defendant Schaeffer, were indicted on December 10, 1936. On the trial of this case on March 1, 1937, two Government witnesses, namely, Walter and Steve Dubin, some of the owner of the farm on which the still was seized, failed to identify the defendant Schaeffer when called to the stand for this purpose. Upon this development, which came as a surprise to the Government, Judge Wilkerson made the remark, as Mr. Iggo says, that there was evidently something wrong with the Government's case. It is not seen how this comment from the bench can be construed either as reflecting upon the Alcohol Tax Unit, or as bearing particularly upon Mr. Iggo's contention that the Alcohol Tax Unit apprehends only minor defendants. This was no more than the not uncommon occurrence of
Government witnesses changing their testimony. Following the seizure of the still in this case, the witnesses Walter and Steve Subin had made sworn statements to revenue officers connecting the defendant Schaeffer with its operation, and they had identified two different pictures of this defendant. It is not supposed that Judge Lifkerson's remark was intended to impute neglect to anybody for the witnesses' repudiation of their testimony at the trial, but it might well be observed that it was no less the duty of the United States Attorney than of the Alcohol Tax Unit to anticipate this event. Had Mr. Igo called these witnesses and made their statements of record before the Grand Jury at the time of the indictment, they would undoubtedly, under fear of prosecution for perjury, have adhered to their original testimony when the case went to trial.

U. S. vs. Frank Sidote, et al.—This case had its inception in the seizure of a large alcohol distillery on December 17, 1936, and the arrest, at the time of the seizure, of four defendants, namely, Frank Sidote, Joe Cicero, Mike Ponicki, and Sandy Rose. One additional defendant, John Tenuti, was connected by subsequent investigation. All five defendants were indicted on December 10, 1936. On March 2, 1937, the defendants Sidote, Cicero, and Ponicki entered pleas of guilty before Federal Judge Sullivan. Mr. Igo states that the Court at this time expressed doubt, in view of the youthfulness of the defendants, that they had any real responsibility for the operation of the distillery, and that he postponed sentence until March 19, 1937, with instructions to the defendants that they should assist the Government in identifying the actual owners of the still. A subsequent investigation prompted by the Court's remarks developed the fact that the actual owner of the still was one Francesco Ruggieri, now in Italy, and that the defendant Ponicki was likewise financially interested. These facts were given to Judge Sullivan when the case came up for sentence on March 19, at which time he again continued the case with a remark to the effect that the people he was after were the ones who profited from the illicit operations.

U. S. vs. Elmer F. Solvadal.—This is one of several substantive cases that grew out of the supervision by officers of the Alcohol Tax Unit of the telephone of one Pete Hodorowicz, a well-known alcohol distributor in the Chicago area. The case jacketed against Hodorowicz was not successfully concluded due to the fact that the wire supervision was discovered by the telephone company and had to be abandoned before sufficient evidence could be obtained.
to incriminate him. The defendant Boltwedel, however, was arrested on January 24, 1936, while transporting 75 gallons of alcohol, as the result of information secured from supervising Hodorovic's telephone. This case was called for trial on March 3, 1937, at which time, after a motion to suppress the evidence had been denied, the defendant entered a plea of guilty. After the plea of guilty had been entered, it appears that counsel for the defendant advised Assistant United States Attorney Glasser that his client, the defendant Boltwedel, was of the opinion that the Hodorovic's case had been "fixed," supposedly by an Alcohol Tax investigator by the name of Coleman. This information was conveyed by Mr. Glasser to Federal Judge Barnes, who after a conference in chambers called the Alcohol Tax officers to the stand and asked them why Hodorovic had not been brought in as a defendant. As these officers were not familiar with the Hodorovic matter, and were therefore not able to answer the Judge's questions to his satisfaction, a conference was arranged in chambers by Judge Barnes with the head of the enforcement branch of the Alcohol Tax Unit in Chicago, who advised the Court that it had so far been found impossible to develop sufficient evidence to justify the submission of a conspiracy case involving Hodorovic and his associates. He also advised the Court that the case against Hodorovic had originally been handled by Investigator Coleman, who, prior to the conclusion of the investigation, had been dropped from the service as the result of a routine character examination made by the Civil Service Commission, and that the statement of the defendant Boltwedel was the first intimation which officers of the Alcohol Tax Unit had had of any alleged attempt to "fix" the case. After this conference, Judge Barnes expressed himself as fully satisfied with the explanation made.

It thus appears that in the three instances cited by Mr. Igoe in support of his statement to the effect that the Federal Judges have all commented adversely upon the alleged failure of the Alcohol Tax Unit to bring in important defendants, the supposed adverse comment had to do only with the cases instantly before the Court and had no reference to the general situation which, according to Mr. Igoe, exists in the Chicago district.

The personnel of the Alcohol Tax Unit assigned to duty in the Northern Judicial District of Illinois comprises 47 investigators or enforcement agents. In addition to this personnel, special investigators, to the average number of about 12, are assigned to duty in this judicial district, charged specially with the investigation of important syndicated operations in violation of the revenue laws relating to distilled spirits, wines and beer. A fair indication of the volume of the work done by this force of men can be gleaned from the following statistics showing results of their operations against persons involved in the illicit manufacture, transportation, and sale of distilled spirits during the calendar years 1935 and 1936:

Regraded Unclassified
Still Seizures, etc., in the Northern Judicial District of Illinois

<table>
<thead>
<tr>
<th>Item</th>
<th>Calendar year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1935</td>
</tr>
<tr>
<td>Number of still seized</td>
<td>3301</td>
</tr>
<tr>
<td>Number of persons arrested</td>
<td>223</td>
</tr>
<tr>
<td>Average still capacity, gallons</td>
<td>300</td>
</tr>
<tr>
<td>Gallons of mash seized</td>
<td>1,020,634</td>
</tr>
<tr>
<td>Gallons of distilled spirits seized</td>
<td>35,542</td>
</tr>
<tr>
<td>Number of automobiles seized</td>
<td>801</td>
</tr>
<tr>
<td>Value of property seized</td>
<td>$354,513</td>
</tr>
</tbody>
</table>

These statistics are given here not as having any direct bearing upon Mr. Igoe's charge that the Alcohol Tax Unit has made no headway against important operators, but simply to give some fair idea of the extent of the problem which has confronted the Alcohol Tax Unit in the Chicago area. In the Chicago district, as in all other districts, the operations of the Alcohol Tax Unit must largely be based upon complaints and information from public-spirited citizens, and from police and other local peace officers. It is mainly by investigating such complaints and by following up such information that the revenue officers are enabled to locate and seize illicit stills and to apprehend those attending the plants, as well as those engaged in the supplementary operations of unlawful transportation and sale. It is well known that, particularly in metropolitan areas like Chicago, the persons apprehended while directly involved in these operations are often paid employees of the real proprietors and managers of the illicit enterprises; and a proper ultimate objective of the Bureau of Internal Revenue is to determine by investigation who these proprietors and managers are and to obtain legal evidence of their complicity. This is not easy to do, and the Department makes no claim that in the Chicago area or any other area it is completely successful in reaching this ultimate objective. There will always be instances, as fairly illustrated by the three cases which have been cited by Mr. Igoe, in which the Department will fail to reach the principal defendants. It might of course be said that such cases should be more thoroughly investigated and never presented for prosecution until the real persons in interest have been implicated. But to follow such a course would be to tie up the relatively small force which is available on a limited number of cases, and this would be to allow other violators to run rampant while the investigation of this limited number of cases was cautiously pursued. The Department's deliberate policy in this respect
is to seize all illicit distilleries and to apprehend all violators of which it has knowledge, regardless of their rank and status, with the greatest possible dispatch; and to employ its limited force of special investigators upon investigations calculated to develop evidence against the members of these rings and syndicates whose manufacturing and selling operations are the most widespread and, therefore, the most damaging to the Federal revenues.

This policy is followed in all districts, and with the result that in most metropolitan centers like Chicago, the illicit traffic is kept at a minimum by the sheer physical process of destroying illegal plants as they are found and prosecuting those who operate them, and by the constant pressure which is applied through conspiracy cases made against important manufacturers and distributors of the syndicated type.

In the nature of things, however, a large proportion of those apprehended by the Bureau of Internal Revenue in pursuance of this policy will be in the category referred to by Mr. Iggs as minor defendants—not only persons who are the employees of large violators but persons who operate on their own account in a small way, whether as manufacturers, transporters, or vendors. Considering the country as a whole, it is probably correct to say that minor defendants of this type involved in alcohol-tax cases probably outnumber the so-called major defendants in the ratio of at least ten to one.

It is of course not intended by the foregoing to leave the impression that the Department has any choice in the matter of apprehending minor defendants and reporting them to district attorneys with a view to their prosecution. The applicable statute requires every fraudulent violation of the revenue laws, regardless of its importance, to be so reported. The language of the statute is as follows:

**Title 26, sec. 1645(b), U.S.C.—It shall be the duty of every collector of internal revenue having knowledge of any willful violation of any law of the United States relating to the revenue, within thirty days after coming into possession of such knowledge, to file with the district attorney of the district in which any fine, penalty, or forfeiture may be incurred, a statement of all the facts and circumstances of the case within his knowledge, together with the names of the witnesses, setting forth the provisions of law believed to be so violated on which reliance may be had for condemnation or conviction. (U.S. sec. 3164; Feb. 26, 1919, c. 15, sec. 1517, 40 Stat. 1143; Feb. 25, 1935; c. 77, sec. 1113, 48 Stat. 117.)**

*New district supervisor, Alcohol Tax Unit, Bureau of Internal Revenue in cases of violations of liquor-taxing laws. (Act of March 3, 1937, 44 Stat. 1382, and regulations issued thereunder.)*
Before leaving this phase of the matter, it should be said that
one of the most valuable instruments which the Government has at its
command in dealing with major violators of the Federal liquor laws,
is the vigorous prosecution, conviction, and imprisonment of minor
defendants who are connected with these major violators, whether as
employers or as customers. If the attitude of the prosecuting offi-
cers and the courts toward these minor figures is one of undue
leniency, the Government has no pressure which it can bring to bear
upon these persons with a view to forcing a disclosure of their
principals or their sources of supply. This point is well illustrated
by the Schaeffer and Siddow cases referred to above, where it is
evident that a threat of severe punishment against the minor defendants
who had been apprehended, either by the District Attorney or by the
Court, would have brought to light the identity of the real principals.
It should be obvious that in any district where minor defendants can
normally expect to be discharged without prosecution, or if pros-
cuted or pleading guilty set off with a suspended sentence on the
ground that they are not principals, the Government is deliberately
abandoning the most effective means which it has at its disposal to
identify and locate the important violators. The best results against
major violators are naturally obtained in those judicial districts
where these facts are understood by the prosecuting officers, and con-
versely the poorest results are achieved in districts where the pros-
cuting officers are averse to handling cases against so-called minor
defendants.

The results of major investigations in the Chicago district have
not been aided by any effort on the part of the District Attorney to
put pressure upon minor defendants in the manner here suggested. The
record shows that a much larger number of violators are released with-
out trial in the Northern Judicial District of Illinois than in any
other metropolitan area in the United States. The record shows also,
however, that despite this handicap there have been many instances
in the Chicago district where in connection with large still seizures
these financing and directing the illicit operations, and those supply-
ing the raw material for purposes of illicit manufacture, have been
involved by the investigations of the Alcohol Tax Unit, and reported
to the United States Attorney for prosecution. A few of these cases
will be described below.

Case No. 3611-H. William J. Ercseny, et al.—This case originated
with the seizure of a clandestine alcohol distillery on February 19,
1935, in a warehouse building operated by the Continental Warehouse
Company, Chicago. The distillery had a daily producing capacity of
approximately 4,000 gallons and was one of the largest illicit plants ever seized in the entire country. Subsequent investigation developed that the most notorious liquor ring in the Chicago area was behind its operations. The corn syrup which was utilized as the basis of the mash was purchased in tank-car lots through an elaborate coverhouse arrangement. The finished alcohol not only found its way into the Chicago market, but was shipped in drums to distributing groups in other midwestern cities. As the result of an extensive open investigation, a case report was submitted to the United States Attorney in Chicago on May 16, 1935, naming 25 individuals and 7 corporations as defendants, and including along with the persons who were responsible for the manufacturing and distributing operations, those who had furnished the boilers, tanks, and other equipment used in the construction of the distillery, and those who supplied the raw materials from which the illicit product was manufactured. The most important defendant was one William J. Fortuna, the managing director of the warehouse company, and long a well-known figure in the illicit alcohol racket in the City of Chicago.

Case No. 3044-M, Frank Salaam, et al.—This case had its inception on March 31, 1935, with the seizure of a large illicit alcohol distillery consisting of one 1,000-gallon still, and one 1,000-gallon still. One arrest was made at the time of seizure. As the result of subsequent investigation, a case report was submitted to the United States Attorney on August 6, 1935, recommending the prosecution of nine defendants, including four important principals, as follows: David Stern, Frank Salaam, Fred Blumenthal, and Sam Rieff. Defendant Stern maintained an office in Rockford, Ill., from which he was in telephone communication with the premises on which the distillery was located and from which he supervised the hauling of raw materials to the plant and the disposition of the finished product. Defendant Salaam rented the premises on which the distillery was located and supervised its construction. Defendants Blumenthal and Rieff furnished the raw materials from which the illicit product was manufactured. The remaining five defendants were employees.

Case No. 3007-M, Anthony Sicili, et al.—This case involves a large combination headed by the four Sicili brothers, with headquarters at Calumet City, Ill., a suburb of Chicago. As the result of an undercover investigation begun in April, 1935, four large distilleries belonging to this combination were seized in the northern part of Indiana, engaged in the manufacture of alcohol, chiefly for sale in the City of Chicago. High-grade search warrants were secured from the United States Commissioner in Chicago, based upon the telephone conversations intercepted, and calling for documentary instrumentalities of the crime. Over 100 agents in pursuance of the conspiracy were found to have been committed both in the Northern District of Indiana and in the Northern District of Illinois. At the conclusion of the investigation, 21 defendants were reported to the United States Attorney in the Northern
District of Indiana under date of December 6, 1935, for prosecution. The more important defendants were the Vani brothers, who from their headquarters at Calumet City carried on a wholesale liquor business on an extensive scale, manufacturing and selling untaxed spirits in large quantities, purchasing and using automobiles and trucks for hauling the alcohol, and generally directing and supervising the illicit operations.

Case No. 3949-U. Joseph Vani, et al.—This case involves the Vani combine, a notorious group of alcohol distillers in the Chicago area. Two distilleries were seized in connection with this case, one on November 25, 1934, and another on June 26, 1935, and these two operations were connected by subsequent open investigation. Fourteen defendants were reported to the United States Attorney at Chicago on February 25, 1936, including Joseph Vani, James Vani, Tony Corso, and Palmer A. Malone, as principals. These persons were the owners of the distilleries, supervised their construction and operation, paid the employees working in the plants, bought raw materials to the stills, and disposed of the finished alcohol. All four of these defendants had criminal records. Three other important defendants were involved in this case as lieutenants of the principals, who assisted in renting the distillery premises, in purchasing equipment and supplies, and in otherwise facilitating the conspiracy. The remaining seven defendants were still operators, truck drivers, and other minor employees.

Case No. 4617-U. Peter Domino, et al.—This case involved the seizure of two large alcohol distilleries operated on different premises, one on December 27, 1935, and the other on May 5, 1936, the two seizures being connected by subsequent investigation. A report was submitted to the United States Attorney at Chicago in this case on November 9, 1936, recommending the prosecution of eight defendants, including the following principals: Peter Domino, Frank Theodore, Theodore Ingrassia, Frank Ingrassia, and Anthony Domino. These five individuals were all financially interested in the distilleries, were responsible for renting the premises on which they were located, caused the distilleries to be set up and operated, hired and paid the distillery employees, and disposed of the alcohol manufactured. All these individuals have criminal records, having been convicted and sent to the penitentiary on a conspiracy charge in 1921. The remaining three defendants in this case were persons employed as still operators and truck drivers.
Case No. 3922-M. Braverman, Reiner, et al.—This case involves a
conspiracy to violate the Internal Revenue laws on the part of a large
alcohol manufacturing and distributing syndicate, commonly referred to
as the Braverman-Reiner combine, and known to be the second largest
group which has operated in Chicago and vicinity since repeal. The
intermediary phases of the case were handled through the medium of
telephone supervision. More than 1,000 telephone calls relating to
the illicit business of the organization were intercepted during the
undercover investigation. A 4,000-gallon alcohol plant was seized in
the course of the investigation, and eight overt acts were established.
Corn sugar was utilized as the basis of the mash for the distilling
operations in this plant, which was purchased through the usual covers-
house system. Over 637,000 pounds of corn sugar were purchased from
the Corn Products Sales Company from about July 1, 1932, to August 15,
1935, by this syndicate. After the open investigation was instituted,
186 witnesses were interviewed, and 50 statements refused to writing.
Five special investigators were engaged over a period of months in
developing this case, beginning in August of 1932. Evidence was sub-
mitted to the United States Attorney under date of May 18, 1935, against
61 individuals and corporations, including the following important de-
fendants: Harry Braverman, Allen M. Reiner, Meyer Schle, Ben Feig,
Sam Reiner, Arnold Braverman, and Charles Yinz. These were the principals
and their chief lieutenants. Harry Braverman and Allen M. Reiner
were the financial bankers, directors of all operations, and the em-
ployers of the subordinates.

In addition to these persons, thirteen individuals were reported
to the District Attorney in this case for having furnished materials
to the syndicate or having concurred with the syndicate in the plan that
the materials might be received and properly covered. Thirteen other
persons were named in the case report as comprising the group which
actually operated the distillery, owned or leased the premises housing
the operations, purchased vehicles for the syndicate, and supplied needed
equipment. A number of other defendants were included, as truck drivers,
convoys of the trucks used in transportation, and minor employees.

Case No. 4153-M. Scarpa, Saladin, et al.—This case involved the
operation of a large alcohol distillery on two different premises, be-

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It should not be understood that the foregoing represents all the cases which have been made in the Chicago district in recent months which have involved important violators. As will appear in a later connection, 38 conspiracy cases were referred to the District Attorney at Chicago for prosecution during the 24-months period from January 1, 1936, to December 31, 1936. Among these cases will be found a considerable number, in addition to those above described, which contain evidence against the larger figures in the illicit alcohol traffic in the Chicago area. A total of three hundred and fifty-three defendants were named in these cases, and an examination of the situation justifies the conclusion that the Alcohol Tax Unit at Chicago, while of course not uniformly successful in the investigations which it has made with a view to reaching the major illicit operators, has during the last two years reported to the District Attorney evidence which involves the most important of the individuals and groups engaged in the illicit liquor racket in the Chicago district. Attention is invited particularly in this connection to the Jorkman, Brazerman-Valner, and Miscelli cases, indicating what undoubtedly are the three most notorious alcohol syndicates which have operated in the Chicago area since the repeal of Prohibition.

 Alleged Delay in Completing Investigation.

Mr. Igoe makes the complaint that "investigations are long delayed." He says that, in many cases, in submitting reports to him the Alcohol Tax Unit requests that the cases be not presented to the Grand Jury because an investigation is under way, and he implies that in frequent instances cases are lost by reason of the disappearance of the necessary witnesses due to the long lapse of time. He supports this charge by citing one case only, that of Mary Solla. With respect to this case, he says that this woman operated a still from which alcohol was supplied to one Harlan Crouch, who on May 14, 1936, assaulted and killed an investigator of the Alcohol Tax Unit in the State of Indiana. He says that the Solla woman was apprehended by the Alcohol Tax Unit in the Chicago district almost a year before this killing occurred, and he implies that despite pressure from his office, the investigation of the Solla case has not yet been concluded by the Alcohol Tax Unit.

In summary, with respect to this complaint, the Department has made an examination of the cases reported to the United States Attorney at Chicago by the Alcohol Tax Unit, and the record discloses the following: Of a total of 402 unjacketed (substantive) cases submitted to the United States Attorney in the 14-months period from January 1936 to February 1937, inclusive, 365 were filed within 30 days from the discovery of the violation, and of this number the great majority were submitted.
within a period of from two to ten days; 21 cases were submitted within 60 days from the date of the violation; 5 were submitted within 90 days from the discovery of the violation; and in only 11 cases did a period longer than 90 days elapse after the violation was discovered before submission of the final case report.

In the 24-months period from January 1, 1936, to December 31, 1936, the Alcohol Tax Unit at Chicago reported 38acketed (conspiracy) cases to the United States Attorney. It will be remembered that this is the class of cases in which the Department by special investigative effort undertakes to involve the "higher ups," or syndicated operators, in violations of the revenue laws. As is well known, conspiracy cases require a great deal of patience and time for their successful completion. They necessitate the use of a wide variety of investigative methods, and they are frequently based upon the supervision of telephones and the observation of suspects over extended periods. It is manifest that investigations of this character cannot be completed with anything like the same dispatch that applies to the substantive cases above referred to. Many such cases require months for their completion, and it is not infrequently happens that after prolonged investigation cases of this kind have to be abandoned without securing legal evidence of the guilt of the individuals under suspension. The following record should be considered in the light of the foregoing account: Of the 38 conspiracy cases presented to the United States Attorney in the 24-months period mentioned, 5 were submitted within 30 days from the date of the violation; 4 were submitted within 60 days; 9 were submitted within 90 days; 4 were submitted within 120 days; 1 was submitted within 150 days; 7 were submitted within 180 days; and 8 were submitted within 210 days. Eleven such cases are now under investigation in the Chicago District.

Considering all the cases referred to the United States Attorney at Chicago by the Alcohol Tax Unit, it appears that approximately 80% have been completed and submitted with a view to prosecution within 30 days of the violation, 6% within 60 days, and 3% within 90 days; and that in only 7% of the cases has the investigation been prolonged beyond 90 days. This record affords little justification for Mr. Igoe's charge that investigations are long delayed.

The facts in the Solla case, which is the only case cited by Mr. Igoe to substantiate his complaint, are as follows: This woman was reported to the then District Attorney at Chicago in October, 1934, for a substantive violation which was discovered July 17, 1934; she was later reported to the District Attorney, now Mr. Igoe, for a substantive violation which occurred on June 19, 1935; and she was reported for a third substantive violation in May, 1936. The violation
in each case was the operation of an illicit distillery. The plant involved in the second case was very large, having a capacity of 800 gallons, and when the report of this violation was submitted, the District Attorney was requested to delay proceedings with respect to this violation pending further investigation by the Alcohol Tax Unit, with a view to the implication of other defendants if possible. This second case remained dormant until June, 1936, at which time the attempt to make a conspiracy case involving other defendants was abandoned, and the District Attorney was requested to proceed on the substantive charge against the Solla women. An indictment was obtained in this case on December 18, 1936, and the women was tried and convicted on April 10, 1937, receiving a jail sentence of six months and a fine of $300. It does not appear, therefore, that the delay in this case occasioned by the unsuccessful efforts of the Alcohol Tax Unit to involve other defendants, had any adverse affect upon its ultimate prosecution.

Before leaving this point, attention should be called to the fact that Mr. Igoe's charge that the investigations undertaken by the Alcohol Tax Unit are unduly protracted is utterly inconsistent with his other charge, above referred to, that the Unit does not sufficiently concentrate upon the problem of bringing important violators before him. It is of course obvious that if syndicated violators, material men, and those who have financial investments in illicit operations, are to be prosecuted for the important part which they play in the illicit liquor traffic, this can be done only through the expedient of involving them as principal defendants in conspiracy cases—cases which in the very nature of things can successfully be made only by long and tedious investigative effort on the part of the revenue officers.

Allowed illegal searches and seizures.

In the text of his various letters, Mr. Igoe makes no direct reference to this subject, but in the letters referred to by him from the foremen of the February and March, 1937, Grand Juries, a statement is made to the effect that many alcohol-tax cases have to be re-billed by the Grand Jury for the reason that they are based upon the entry by Alcohol Tax Unit agents into homes and premises of private individuals without the aid of proper search warrants.

CONSIDER

Although Mr. Igoe repeated this charge verbally in his conversation with Messrs. Cipriano and Solvinger, he has at no time submitted any specific instances in which cases presented to him by the Alcohol Tax Unit have failed of prosecution by reason of illegal entry or illegal search. The Department has before it, however, the record of the Grand Jury sitting at Chicago during the month of February, consent with request to which will, it is believed, suffice to show the substantial facts regarding this particular complaint.
Seventeen alcohol-tax cases were taken by Assistant United States Attorney Glassner before the February Grand Jury. Of this number, 10 were indicted and 7 were no-billed, and the evidence is clear that 6 of these latter 7 cases were no-billed by the Grand Jury on representations by Mr. Glassner that they were based upon illegal search or illegal entry by agents of the Alcohol Tax Unit and that prosecution could therefore not be sustained. The Department has made a careful examination of these six cases, and each fact in each case as is believed pertinent to the issue here under consideration will be briefly stated.

Case No. IX-2712—On September 29, 1936, officers of the Chicago Police Department seized a 250-gallon St. Louis-type still, together with 7,000 gallons of mash and about 400 gallons of alcohol, in a one-story frame residence on South Halsted Avenue. After this seizure, the case was turned over to the Alcohol Tax Unit for prosecution under the internal-revenue laws. The Government had not in any way cooperated in the seizure. It is a well-established rule that the prohibitions of the Fourth Amendment relating to search and seizure apply only to Federal officers, and that evidence obtained by State officers working independently of Federal officers can be admitted without question in Federal Court. There were no grounds for no-billing this case by reason of a supposed illegal search and seizure.

Case No. IX-1932—This case was made during the investigation of the murder of an investigator of the Alcohol Tax Unit in the State of Indiana in May, 1936, by one Harold Crouch, which has been previously referred to. The investigation in that case disclosed that shortly after the murder, Crouch returned to Chicago in company with one James Jacobs and was arrested by the Chicago police for the possession of 45 gallons of bootleg alcohol. The investigation disclosed that the alcohol had been sold to Crouch and Jacobs by one Herman David. This likewise was an adopted case. Regardless of the circumstances surrounding this seizure, it was made by State and not Federal officers and the evidence would unquestionably have been admitted in Federal Court had the case been allowed to go to trial.

Case No. IX-2249—On December 1, 1936, Investigators of the Alcohol Tax Unit who had been informed that the defendant was manufacturing liquor, made an investigation near his premises. While in the alley they detected an unmistakable odor of mash, which was traced to the premises where the seizure was made. After detecting this odor, the investigators proceeded to the house and knocked on the door. The defendant’s wife answered the door, and, being informed by the officers of their identity and purpose, she was noncommittal, stating that her husband was not at home, and inviting the investigators inside the house.
to await his return. Then inside the house, the investigators became
certain that a still was in operation in the basement. When the
woman's husband arrived, he was placed under arrest and a search was
made of the basement, where a 300-gallon still, together with a
quantity of cash, was seized. It is believed that the search in
this case was illegal and could not have been used as a basis for
prosecution.

Case No. IL-2026—On November 16, 1936, investigators who had
been informed that a still was in operation in a garage on the north
side of Chicago, went to the premises for the purpose of making an
investigation. Upon approaching the garage, they detected an un-
mistakable odor of alcohol. The investigators rapped on the garage
door, stated that they were Federal officers, and asked that the
door be opened. The defendant in this case opened the door and was
immediately placed under arrest. The garage was then searched and a
300-gallon still, together with a quantity of cash and alcohol, was
seized. The facts in this case indicate a lawful search as an inci-
dent to an arrest for a crime committed in the arresting officer's
presence. It is believed that with proper attention on the part of
the United States Attorney this case would have been sustained had
it been permitted to go to trial.

Case No. IL-2030—On December 5, 1936, investigators made an in-
vestigation of a reported violation on the defendant's premises. On
approaching the premises from the alley, the investigators noticed a
very pronounced odor of fermenting mash, which appeared to emanate from
a two-stall garage located on the rear of the lot. After determining
certainly that the odor was in fact coming from the garage, they
took the garage and found an underground vat filled with mash, with
pipes leading to the house. One of the officers went to the house and
rapped on the door. The defendant opened the door and was asked by
the officers who was in control of the garage. The defendant stated
that he was. He was then asked where the still was located, and he
stated that it was in the basement. The defendant was placed under
arrest, and led the officers to the still, which was found to be a
300-gallon plant of the St. Louis type. No seizure was made until
after the arrest. It will be noted that in this case the officers
did not enter the premises until after they had first ascertained that
a felony was being committed there. It is believed that the search
in this case was good, it having been made as an incident to a lawful
arrest for a crime committed in the arresting officer's presence.

Case No. IL-4049—On April 10, 1936, investigators of the Alcohol
Tax Unit went to a garage known as the "North Shore Garage," in
Chicago to investigate a complaint that untaxed liquor was being
manufactured there. They entered the garage and found a boy in
charge. After revealing their identity, they asked the boy to show

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then around the garage. As they proceeded toward the rear, they detected an unmistakable odor of fermenting mash and heard the noise of a steam boiler. They proceeded to the second floor, where they found a man sitting alongside a steam boiler, receiving tank, and still. The still, which was a 300-gallon copper plant of the St. Louis type, was seized, together with all the paraphernalia, mash, and alcohol. This is a close case. It appears that this search might be called "exploratory" and perhaps could not have been sustained. On the other hand, it is to be noted that the seizure occurred in a public garage and there were therefore grounds for a contention by the Government that the search did not fall in the category of "exploratory" searches and was good. However this may be, it is felt that the question whether the search was legal or illegal in this particular case should unquestionably have been left to be raised by defense counsel and passed upon by the Court.

The Department's judgment therefore is that of the six cases mobilized by the February Grand Jury on representations by Assistant United States Attorney Glasser that they were based upon illegal search and seizure, there was only one in which the circumstances warranted a decision by the Government not to undertake prosecution. In at least four of the remaining five cases the available evidence is considered to have been entirely legal and would have afforded an adequate basis for prosecution had the cases been properly presented by competent counsel. In this connection, it will be recognized by anyone having a familiarity with police work that it is inevitable that entries, searches, seizures, and arrests made in good faith by enforcement officers will in some instances be judicially determined as illegal on questions raised by defense counsel, and no pretense is made that there have not been instances of this kind in the Chicago district as in all other districts. But the Department knows of no other instance in which Government counsel have themselves deliberately undertaken to raise such questions before a Federal Grand Jury as an obstacle to indictment.

There is considerable evidence which points to the fact that Mr. Glasser's conduct of the Alcohol-Tax cases taken before the February and March Grand Juries was not in good faith. It is a matter of common knowledge that grand juries must and do rely upon the prosecuting officers for instructions regarding the law in any case presented to them. Moreover, it is known that the action of the February and March Grand Juries at Chicago in no-billing certain cases was taken upon the affirmative recommendation of Mr. Glasser and upon his positive statements, usually contrary to fact, that these cases were based upon illegal search and seizure. It is known also that the letter to Mr. Igoo signed by the foreman of the February Grand Jury, condemning the Alcohol Tax Unit and extolling Mr. Glasser, originated with Mr. Glasser himself, and there is no reason to suppose that the letter signed by the foreman of the March Grand Jury had any different origin. It will be pertinent to consider these circumstances in the light of the following statutory provision:
Title 28, sec. 466, U.S.C.—It shall be the duty of every district attorney, to whom any collector of customs, or of internal revenue, shall report, according to law, any case in which any fine, penalty, or forfeiture has been incurred in the district of such attorney for the violation of any law of the United States relating to the revenue, to cause the proper proceedings to be commenced and prosecuted without delay, for the fines, penalties, and forfeitures in each case provided, unless, upon inquiry and examination, he shall decide that such proceedings cannot probably be maintained, or that the ends of public justice do not require that such proceedings should be instituted; in which case he shall report the facts in custom cases to the Secretary of the Treasury, and in internal revenue cases to the Commissioner of Internal Revenue for their direction. (2 U.S. sec. 164; Feb. 27, 1877, c. 69, sec. 1, 19 Stat. 261.)

The law defining the duties of district attorneys thus imposes upon those officers the duty of proceeding in cases referred to them by the Bureau of Internal Revenue with a view to prosecution, only in the event they shall decide that the proceedings can probably be maintained on the evidence submitted to them. In view of this provision of law, it would be fair to inquire why it was that Mr. Glasser, if he was in good faith convinced that the six cases above referred to were based upon illegal search or seizure, took those cases before the Grand Jury at all. He certainly was under no duty to do this. On the contrary, compliance with the statute would have required him to communicate his misgivings with regard to these cases, not to the Grand Jury, but to the Commissioner of Internal Revenue, or, as is the practice in such matters, to the Commissioner's representative at Chicago, the District Supervisor of the Alcohol Tax Unit.

It must be presumed that Mr. Igoe and his assistant, Mr. Glasser, are familiar with the law which defines the duties of the officers which they hold. In the face of this law and contrary to its obvious intent if not its express provisions, Mr. Glasser presented a number of cases to the Grand Jury in which, as he represented to the grand jurors, the evidence was not sufficient to sustain prosecution. Following the no-billing of these cases, Mr. Glasser prepared a letter assailling the Alcohol Tax Unit for supposed delinquencies in their preparation and praising himself, and he induced the signature of this letter by the foreman of the Grand Jury. Mr. Igoe promptly gave this letter to the newspapers, where it was published along with fantastic statements attributed to Mr. Glasser to the general effect

1New district supervisor, Alcohol Tax Unit, Bureau of Internal Revenue, in case of violations of liquor taxing laws. (Act of March 3, 1937, 44 Stat. 1362, and regulations issued thereunder.)

2Underlining supplied.
that more bootleg liquor is being sold in Chicago at the present time than in the heyday of the Prohibition period. There are present here all the elements of a deliberate plot to discredit the endeavors of the Bureau of Internal Revenue at Chicago to enforce the revenue laws; there is nothing of a bona fide character that is worthy of serious notice by the administrative officers of this Department.

Collection of occupational tax from alleged illicit vendors.

Mr. Igeo complains of the fact that, as he says, the Alcohol Tax Unit collects the retail liquor dealer’s occupational tax from speakeasies and similar unlicensed places which traffic in untaxed spirits. He concludes his criticism with this statement: “This would seem to be a violation in itself by reason of the fact that it in effect licenses the illicit operator.”

COMMENTS

Mr. Igeo’s criticism of the practice of the Bureau of Internal Revenue in collecting occupational taxes from persons selling untaxed distilled spirits without a license is not easy to comprehend, since it in no wise impinges upon or conflicts with his jurisdiction and duties as United States Attorney, but falls within the peculiar administrative province of the Commissioner of Internal Revenue. If his criticism is not to be regarded as being wholly gratuitous and intrusive, it is necessary to conclude that, as is perhaps suggested by the statement above quoted, Mr. Igeo is of the opinion that this practice not only is unwarranted in law, but constitutes such a violation of law as to require him to give the matter his attention in his official capacity as Government prosecutor.

To begin with, it may be said that the practice to which Mr. Igeo refers is not peculiar to the Chicago district, but under long-standing departmental regulations is the uniform procedure in all the internal-revenue districts into which the country is divided. It is obvious, therefore, that the Alcohol Tax Unit at Chicago must be exemmated from any blame which may attach to the practice complained of. With reference to Mr. Igeo’s opinion that the practice is illegal, it may be said that the Federal statutes imposing special or occupational taxes upon certain classes of persons have been in effect for more than sixty years. Among other things they provide that all persons who sell distilled spirits or offer such spirits for sale, are subject to the occupational tax as retail or wholesale liquor dealers as the case may be, and in this respect they make no distinction between licensed and unlicensed persons, nor between persons who
sell taxpaid spirits and those who sell untaxpaid spirits. The ad-
ministrative construction has followed the law, as will be evident
from the fact that the uniform practice of the Bureau of Internal
Revenue has always been to undertake to collect the occupational tax
from all liquor dealers operating in "dry" States; from unlicensed as
well as licensed persons selling liquor in "wet" States; and from per-
sons selling untaxpaid liquor as well as those selling taxpaid spirits
only, whether the State of sale is "wet" or "dry". In instances where
collection can not be made otherwise, the rule has been to assert the
occupational-tax liability of any person apprehended in the sale of
spirits in violation of the Federal laws, by the assessment of the
tax, with ad valorem penalties, for the period covered by his known
illegal operations, and this is regardless of whether the spirits
sold have or have not been taxpaid under the Federal laws.

It would appear that Mr. Igoe has fallen into the error common
among uninformed people of characterising as a license the tax stamp
which is furnished to any person paying the occupational tax in con-
nection with his current business. In this connection, the provisions
of Section 3243, R.S., are quoted below:

"The payment of any tax imposed by the internal-
revenue laws for carrying on any trade or business
shall not be held to exempt any person from any penalty
or punishment provided by the laws of any State for
carrying on the same within such State, or in any man-
ner to authorize the commencement or continuance of
such trade or business contrary to the laws of such
State or in places prohibited by municipal law; nor
shall the payment of any such tax be held to prohibit
any State from placing a duty or tax on the same trade
or business, for State or other purposes."

The occupational-tax stamp issued to dealers in liquor by the
Bureau of Internal Revenue carries the substance of these provisions
prominently on its face and, in addition, the following words: This
is a tax receipt—not a licence. It appears to be well settled that
Congress may tax even that which it forbids. It is believed that a
consideration of the applicable statutes and decisions should dis-
pose of Mr. Igoe's opinion that the issuance of occupational-tax
stamps has the effect of licensing illicit operations.

Mr. Igoe is substantially correct in his understanding that the
reason for the Alcohol Tax Unit's insisting upon the purchase of a
tax stamp from (by) individuals selling untaxpaid distilled spirits,
is so that the investigators can make a search of the premises after
the stamp has been issued in accordance with law. In Chicago, and in other large cities, there are many houses of prostitution, speakeasies, and dives where spirits are sold by the package or dispensed on the premises in violation of State and local law. Not only do these places carry on the sale of spirits without State or municipal license, but, as suggested by Mr. Igos, their liquor stocks not uncommonly consist wholly or partly of untaxed or bootleg spirits. The difficulty of reaching violators of this class by the usual enforcement methods is very great, by reason of the fact that their illicit operations are usually carried on in apartment houses and other residential buildings not readily accessible to revenue officers. It is often possible, however, to induce the proprietor of a place of this kind to pay the Federal occupational tax, which involves, among other things, acknowledgment of tax liability on the proprietor's part; and in any case where this is done, the arrangement obviously clears the way for a subsequent periodical inspection of the premises by revenue officers under Section 3277 of the Revised Statutes. This practice, which as Mr. Igos suggests is commonly followed in the Chicago district, has resulted in considerable progress toward the elimination of the sale of untaxed spirits at Chicago through disorderly houses and other similar places which are illegal under State and local law — an objective which is obviously desirable from the standpoint of protecting the Federal revenue. The method described is legal in every respect, and is the most effective method which the Department can command to restrain the sale of bootleg spirits through illicit and clandestine retail outlets. No valid reason appears why it should be objected to by any United States Attorney.

Criticism of Mr. Arthur F. Madden
Special Agent in Charge, Intelligence Unit, Chicago.

Mr. Igos makes two specific complaints against Mr. Madden, the first having to do with an investigation which he requested Mr. Madden to make of the supposed improper withdrawal of a large amount of liquor from a certain bonded warehouse in Chicago, and the second with an investigation which he likewise requested Mr. Madden to make of the supposed misconduct of two inspectors of the Alcohol Tax Unit in endeavoring to collect an amount of money from a certain taxpayer. The two cases are well known to the Department.

Board Brothers, General Bonded Warehouse No. 5, Chicago.

Mr. Igos says that from the beginning of his term of office, a story had been in circulation which reached him sometimes over the telephone and sometimes through newspaper men, to the effect that a large amount of liquor had been improperly withdrawn from a certain
bonded warehouse. He says that he requested Mr. Nolaid to investigate this matter; that as a result of this request Mr. Nolaid advised Mr. Schare, the Department's "publicity man" at Chicago, that he (Igoe) had Mr. Yellowley under investigation; that he (Igoe) thought it strange that Nolaid should in this way notify one of Yellowley's agents of the fact that Yellowley was being investigated; that Mr. Nolaid has failed to comply with his (Igoe's) request for a report of his investigation; and that he (Igoe) fears that if a crime has been committed in connection with the withdrawal of the liquor in question, prosecution might be barred by the running of the statute of limitations.

COMMENT

The bonded warehouse in question, although not named in Mr. Igoe's letter, was General Bonded Warehouse No. 3, the proprietor of which was Normand Bros., Inc. On December 4, 1936, Assistant United States Attorney Glasser brought to Mr. Nolaid's attention certain claimed irregularities in connection with this warehouse. Mr. Nolaid assigned Special Agent D. L. Glasser to investigate this matter and on December 7, Mr. Glasser called on Mr. Glasser, who advised him that he (Glasser) had come into the possession of certain information to the effect that in the month of January, 1936, 3,600 cases and 150 barrels of whiskey had been removed from this warehouse to the warehouse of Nolaid and McLoughlin. Mr. Glasser stated that his information was to the effect that this whiskey had been stored in the Normand Bros. warehouse for a great many years, and that storage charges amounting to $12,000 had accrued on it, which were paid to Normand Bros. at the time of removal. Mr. Glasser further stated that it was his impression that the Government might have been defrauded of a large amount of money through the unauthorized removal of this whiskey. He stated that the source of his information was one Dan Vasarelli, then an employee of the Standard Oil Company in New York City, and formerly a storekeeper granger in the Bureau of Internal Revenue. He stated further that Vasarelli in turn had received his information from one Keating, an employee of Normand Bros. Mr. Glasser indicated that in his opinion a thorough investigation should be made by the Intelligence Unit to determine whether the Government had not been defrauded in connection with this transaction.

Following his interview with Mr. Glasser, Special Agent Glasser discovered that the matter referred to by Mr. Glasser had already been made the subject of an investigation by Mr. Nolaid's office. Vasarelli had been interviewed at New York City by Special Agent C. L. Converse of the Intelligence Unit on October 25, 1936. In the course of this interview, Vasarelli stated that he had been employed as storekeeper granger in the Bureau of Internal Revenue under Mr. Yellowley until
some time in 1934, and that in this capacity his last assignment was in the Normal Bros. warehouse; that William Koenig, whom he described as owner of this warehouse, had told him that Mr. Yellowley had informed him (Koenig) by letter that his warehouse would have to be closed and the whiskey stored therein disposed of; that Mr. Koenig had advised Mr. Yellowley that there was storage due on the whiskey amounting to $10,000; that after hearing this story from Mr. Koenig he (Vascarelli) looked up the regulations and found a section that provided that when whiskey had been in bonded storage for ten years, the Government could seize it and sell it in order to collect its tax; that he (Vascarelli) had called this regulation to the attention of certain officers in Mr. Yellowley's office and had been told to mind his own business; that in connection with the transfer of the whiskey from the Normal Bros. warehouse to the Waken and McLoughlin warehouse Mr. Koenig stated to him (Vascarelli) that Waken and McLoughlin were getting a half a million dollars worth of whiskey for $10,000, and that in his (Koenig's) opinion the Government should have seized the liquor and sold it as it had all been in storage for more than ten years; that in his (Vascarelli's) opinion someone got a lot of money to allow this transfer to be made; that in his (Vascarelli's) opinion, Mr. Koenig should be interviewed in connection with this transaction; that Assistant United States Attorney Warren Cumby had sent him a telegram during the previous week asking him when he would be available to appear before the Federal Grand Jury at Chicago; that reporters of the Chicago American had spoken to him about this matter the last time he was in Chicago; and that Alexander Janis and former United States Attorney George N. Q. Johnson knew about the matter and were considering having it presented to the Grand Jury.

Special Agent Converse stated in his report of this interview that Vascarelli had previously related this same story to him in the early part of 1935, and that he (Converse) had at that time interviewed Koenig as suggested by Vascarelli. In the course of his interview with Koenig, the Latter stated that in his opinion everything was regular in every way regarding the transfer of the liquor from the Normal warehouse to the warehouse of Waken and McLoughlin.

It is believed that the foregoing substantially comprises the information which had reached Mr. Igne regarding the supposed unauthorized removal of spirits from the Normal Bros. warehouse at the time when Mr. Madden's office was requested to investigate this matter. The actual facts regarding the transaction will now be stated.
The Norum Bros. warehouse, known as General Bonded Warehouse No. 5, is located at 323-337 Norton Street, Chicago, Ill. This is in a district frequented by gangsters and hoodlums, and repeated attempts to rob the warehouse were made during the years when it was used for the storage of spirits, one of which, some time between February 26 and March 5, 1937, was successful. Although only this one robbery actually occurred, the Norum warehouse, by reason of its undesirable location, had to be closely guarded by revenue officers at all times, and was a constant source of worry and annoyance to the officers of the Bureau of Internal Revenue who were responsible for its supervision. On October 8, 1934, after informal discussion of the matter with Departmental and Bureau officers at Washington, Mr. Yellowley, District Supervisor of the Alcohol Tax Unit at Chicago, submitted the following recommendation to the Commissioner of Internal Revenue:

"I am writing you regarding General Bonded Warehouse No. 5, operated by Norum Bros., 323-337 Norton Street, Chicago, Illinois.

"I have been recommending for the past six years that the spirits in this warehouse be moved to a concentration warehouse. The Bureau on several occasions ordered the spirits concentrated but each time the proprietor of the warehouse had the removal postponed indefinitely.

"There are now only 33,348.3 tax gallons in this warehouse. There is very little activity. Storekeeper-gangsters are needed very badly at plants where there is a great deal of activity. It is for this reason and the fact that this warehouse is located in an undesirable part of the city that I am again recommending that these spirits be removed to a concentration warehouse. The storekeeper-gangsters assigned there could then be given more productive duties. I sincerely hope that you can again issue the concentration order and that this work can be accomplished at an early date.

"I shall await your reply with interest.

"Very truly yours,

(Signed) "R. C. YELLOWLEY
"Acting District Supervisor."
The statutory authority for the transfer of spirits in this case is found in Section 3372, R. S., reading as follows:

"Whenever in the opinion of the Commissioner of Internal Revenue any distillery or other warehouse is unsafe or unfit for use, or the merchandise therein is for any reason liable to loss or great wastage, he may discontinue such warehouse, and require the merchandise therein to be transferred to such other warehouse as he may designate and within such time as he may prescribe. Such transfer shall be made under the supervision of the collector, or of such other officer as may be designated by the Commissioner, and the expense thereof shall be paid by the owner of the merchandise. Whenever the owner of such merchandise fails to make such transfer within the time prescribed, or to pay the just and proper expense of such transfer, as ascertained and determined by the Commissioner, such merchandise may be seized and sold by the collector in the same manner as goods are sold upon distraint for taxes, and the proceeds of such sale shall be applied to the payment of the taxes due thereon and the cost and expense of such sale and removal, and the balance paid over to the owner of such merchandise."

Normal Bros., Inc., encountered certain difficulty in complying with the order of the Commissioner for the removal of the spirits, and on December 19, 1934, Mr. Tolley wired the Commissioner as follows:

"Normal Bros. failed to take steps removal spirits to another warehouse accordance your order October thirty-first. Suggest you designate Nelson McLaughlin or Lawrence warehouse, or both, as receiving concentration warehouse for these spirits. Shall then negotiate with proprietor designated receiving warehouse with view having him assume storage charges and cost removal and file necessary papers for removal."

And he wired the Commissioner again on January 3, 1935, as follows:

"Please designate by wire warehouse to remove spirits Normal warehouse. See my telegram December twenty-ninth."
On January 3, 1935, the Commissioner sent the following telegram to Mr. Yelloway:

"Notela December twenty-nine and January two inre order October thirty-one for removal spirits from Morand Brothers warehouse to another warehouse, Bureau is agreeable to designation of either Walker and McLaughlin or Lawrence warehouse, or both, as receiving concentration warehouse and you are authorized to negotiate with proprietor of such warehouse with view to having them assume storage charges and cost of removal. If such arrangements made specific order for concentration will be issued."

Acting under the authority to be found in the correspondence here referred to, Mr. Yelloway caused the transfer of the spirits in question from the Morand warehouse to General Bonded Warehouse No. 3, operated by Walker and McLaughlin, at 229 East Illinois Street, Chicago, the transfer being completed February 4, 1935. The transfer was under the direct supervision of inspectors H. F. McCrath, C. L. Steuben, and W. J. Finko.

As will appear from the foregoing, the supposed unauthorized transfer of spirits in this instance was in fact a transfer which had been expressly authorized and directed by the Commissioner of Internal Revenue. It was in accordance with the law and the regulations of the Department, resulted in no loss to the Government but on the contrary diminished the risk of such loss, was supervised by officers of Internal Revenue, and was regular in every respect. In view of the insinuations by Mr. Igges's informant, perhaps it should be specially added that in connection with the transfer of taxable merchandise from one bonded warehouse to another, the Government preserves all its security and liens for the ultimate payment of taxes.

In view of these facts it is somewhat difficult to understand the basis of Mr. Igges's criticism, but his complaint apparently grew out of the fact that in the course of his investigation, Mr. Madden, or agents working under his supervision, made certain contacts with Mr. Yelloway's office, the intended inference evidently being that these contacts were designed to defeat the objects of the investigation. The record clearly shows that the investigation was in fact conducted in a manner well calculated to bring to light all the facts with reference to the matter under inquiry.
Allied attempt at extortion by Alcohol Tax Unit agents.

Mr. Igne writes that on one occasion two agents of the Alcohol Tax Unit attempted to collect money from a defendant in a case which had been referred to his office for prosecution. He questioned the manner of the attempt on collection and accordingly brought the matter to Mr. Hadden's attention with a view to having an appropriate investigation made. He says further that, much to his astonishment, he later learned that Mr. Hadden had taken the matter up with the local office of the Alcohol Tax Unit, which had advised him (Hadden) that the action of the two agents was regular. He concludes by saying that this was "a rather strange manner in which to conduct an investigation."

COPPER

The defendant whom Mr. Igne has in mind, although he does not identify him in his letter, is one Theodore Ries, who with one Margaret Heron was the proprietor of a disorderly house at 322 North Leland Avenue, Chicago, when these premises were visited by revenue officers last September. Ries and Heron were vendors of un taxpaid alcohol at various locations in Chicago, including 322 North Leland Avenue, 4431 Basil Avenue, and 825 Lawrence Avenue. A criminal case was made out against these persons growing out of sales of un taxpaid spirits at the Leland Avenue address in September, 1933, and out of similar sales made at the Lawrence Avenue address in November, 1933, and this was referred to Mr. Igne's office for disposition. On March 5, 1933, Mr. Igne addressed the following letter to Mr. Hadden:

"In re: Theodore Ries and Margaret Heron

"I have been informed by the above named people, that when they were arrested on November 3, 1933, certain suggestions were made to them by men of the Alcohol Tax Unit, namely Paul Caraillo and C. Davis, with reference to a settlement which they might make in lieu of taxes.

"They further informed me that they received telephone calls from one of the men of the Alcohol Tax Unit every day for three consecutive days, requesting them to bring $200 down to him, and that if they did not he would come up and get them.

"It is my suggestion, in view of the above, that an investigation be made to determine the facts in this case.

"Respectfully,

(Signed) "H. R. Igoe"
"U. S. Attorney."
On March 9, at Mr. Madden's direction, Special Agent Somers, of Mr. Madden's staff, called on Assistant United States Attorney Glasser with reference to this matter and was furnished by Mr. Glasser with a copy of the following affidavit:

**STATEMENT OF THEODORE RICE**

"I reside at 937 Lafayette St. I am the same Theodore Rice who was arrested on November 24, 1936, with Margaret Moran for a violation at 225 Lawrence Avenue, where the agents seized one gallon of alcohol. When we arrived at the New Post Office Building at the office of the Alcohol Tax Unit, Paul Cavillo and J. Davis were sitting alone with us, and Cavillo told us that our taxes would be in the neighborhood of $600, and that we would be expected to pay that. When I told him I had no such amount of money, he asked me how much I had. When I informed him that I had $200 worth of home bonds left, he suggested that I cash the home bonds as soon as possible, and deliver the $200 to him. He also told me that if I hurried and sent in the bonds immediately I should receive the money within a few days. After this conversation we were taken over to the United States Court House and arraigned before Commissioner Walker. Our case was continued before Commissioner Walker and hearing was set for December 8, 1936. On the Monday, Tuesday, and Wednesday following our appearance before Commissioner Walker on November 24th, Mr. Cavillo called at my home every day for three days, and told me that if I did not bring the $200.00 down to him he would come up and get me. After Mr. Cavillo's call of the Wednesday following our appearance before Judge Walker, we did not see him again until he testified in the Commissioner's Court room on December 8, 1936.

(Signed) "Theodore Rice"

"I, Margaret Moran, having read the above statement, concur in it and say that it is the truth.

(Signed) "Margaret Moran"

"Subscribed and sworn to before me this 12th day of January, 1937.

(Signed) "Daniel R. Glasser"

"Notary Public."

Regraded Unclassified
It was apparently the belief of Mr.娄e and his assistant, Mr. Glasser, that the demands made of the defendants Ries and Norman by Alcohol Tax Agents Tamillo and Davis, as described in the above affidavit, were extortionate and fraudulent in character. Under these circumstances, Special Agent Somers in due course visited the offices of the Alcohol Tax Unit for the purpose of inspecting the files relating to the case. Inspection of the files disclosed that the investigations made by the Alcohol Tax Unit had brought to light the fact that these defendants had incurred a liability for occupational taxes and ad valorem penalties amounting to $442.92, as the result of their liquor sales at the addresses above given during the period from December 1, 1933, to June 30, 1937; that the proper forms had been filled up by these persons in November, 1936, acknowledging their tax liability in this sum; that the defendant Ries advised Agents Tamillo and Davis at the time, however, that he did not have this amount of money, but thought he could realize at least $300 by cashing his bonus policy, and would pay at least that amount; that Agents Tamillo and Davis thereafter sought on a number of occasions to secure the tender of this smaller sum; and that the file of the case contains an official report of Agents Tamillo and Davis which includes the following statement:

"Inspector Tamillo phoned Mr. Ries, the wholesaler, on November 27, and he promised to be in December 1, to pay $300 on his liability of $447.92 as wholesaler.

"On December 1, Inspectors Tamillo and Davis waited, but Ries did not show up."

Special Agent Somers likewise interviewed Mr. L. J. Baker, Senior Inspector, Alcohol Tax Unit, and the superior officer of agents Tamillo and Davis, who advised that he (Baker) had been in close touch with the handling of the Ries-Norman case and was familiar with the efforts made by the agents to collect the tax. Since it was thus developed that the demands made upon Ries as described in the above affidavit dated January 12, 1937, had been made a matter of official record in the files of the case and were known to and approved by the supervisory officials of the Alcohol Tax Unit at the time when the transaction occurred in November, 1936, there were clearly no grounds for the supposition that they were extortionate and fraudulent in character, and Mr. Madden's investigation was closed when these facts were brought to light.
While it thus appears that there is not the slightest ground for
Mr. Iggo's criticism of the methods pursued by Mr. Madden in handling
this investigation, there is one further aspect of the matter which
should be commented upon. Mr. Iggo says in reference to the Rice-
Moran incident: "It is my understanding that once a case is referred
to the Department of Justice, the disposition of that case remains
exclusively with this department." He apparently means to say that
once the Rice-Moran matter had been referred to his office for
prosecution, his office, as a matter of law, then becomes exclusively
responsible for it, and any attempt made thereafter by revenue officers
to collect money from the defendants was an improper intrusion
upon his jurisdiction. The Department disagrees with Mr. Iggo's
understanding of the law on this point. The reference to a United
States Attorney, with a view to criminal prosecution, of a willful
and fraudulent violation of the internal-revenue laws relating to
distilled spirits, has not heretofore been construed as relieving
the Commissioner of Internal Revenue of his responsibility for the
collection of the internal-revenue taxes found to be due from the
person or persons involved in the violation, even though the liability
for such taxes arises out of the identical circumstances which give
rise to the criminal liability; and it has long been the uniform
practice in all districts for the Commissioner, by his officers and
agents, to assess the occupational taxes and ad valorem penalties
prescribed by law, together with commodity taxes where applicable,
against all persons found engaged in the illegal manufacture or sale
of distilled spirits, and to pursue the remedies prescribed in the
statutes for the recovery of such taxes, independently of any criminal
proceedings which may be instituted by the United States attorney.

The Department is not sure but that Mr. Iggo's misapprehension
of the law is at the bottom of his complaint in this case, since, if
the law had been as he supposed, he might have had grounds for the
belief that the action of revenue officers Tanillo and Davis amounted
to an unwarranted interference with his functions. Under the actual
circumstances of the case, however, it is clear, first, that the
Alcohol Tax Unit at Chicago was regularly performing a routine duty
in the efforts to effect the collection of taxes due from Rice and
Moran; and, second, that the acts of agents Tanillo and Davis were
their proper official acts in their capacity as inspectors and
deputy collectors of internal revenue.
Criticism of Mr. N. Kilby Campbell
Office of the General Counsel

In a separate letter, dated March 29, 1937, Mr. Igoe makes complaints against Mr. N. Kilby Campbell, an attorney of the General Counsel's Office, Bureau of Internal Revenue, who was formerly assigned to Mr. Igoe's office as Special Assistant United States Attorney, for the purpose of assisting in income-tax fraud cases. Mr. Igoe says that Campbell "is insisting that he must supervise and control all civil matters which are now pending in this (Igoe's) office, and which are now handled in conjunction with this office by Carl N. Perkins of the office of the Revenue Counsel." He says further that for more than a year past he (Igoe) has been forced to spend more than half his time in an effort to protect himself from embarrassing situations which he is satisfied were brought into existence through the joint activities of Yelloway, Madden, and Campbell. He says further that because of Campbell's willful and persistent refusal to cooperate with him, he advised Campbell (this was some months ago, probably December, 1936, as the result of the events in the so-called Malone case) that he (Igoe) could no longer work with him.

COOPERATION

It is somewhat difficult to comment upon sweeping observations of this character. At Mr. Igoe's instance, the General Counsel of the Bureau of Internal Revenue relieved Campbell from duty in Mr. Igoe's office in January, 1937, and so far as can be ascertained Campbell has since had no contact with that office. The alleged joint activities of Yelloway, Madden, and Campbell are considered to be entirely imaginary. Campbell has had no occasion to contact Yelloway officially, and he says that even now he has only the slightest acquaintance with him. Since he was taken out of Igoe's office in January, Campbell has been working with the revenue and special agents on certain important income-tax fraud cases which are now in the investigative stage. It is believed that Mr. Igoe's statement that Campbell willfully and persistently refused to cooperate with him during the time Campbell was assigned to his office, can be dismissed with the comment that it was not until after certain difficulties arose between Mr. Igoe and Campbell in December, 1936, in connection with the Malone case, that Mr. Igoe raised any question regarding the character of Campbell's services.
Action of Mr. E. C. Yellowley in Connection With Service Laboratories, et al.

By letter dated April 5, 1937, Mr. Lea forwarded to Mr. Keenan a copy of a communication dated January 2, 1930, directed by Alexander Sand, then Special Agent in Charge in the Bureau of Prohibition, to George F. Johnson, then United States Attorney in Chicago, relative to an investigation in 1929 and 1930 of the activities of certain specially denatured alcohol permittees and cover-houses in Chicago and other metropolitan cities during the period from 1929 to 1930. Mr. Lea suggests that this matter should now be inquired into by the Treasury Department. The inference apparently intended is that Mr. Yellowley, as Prohibition Administrator in the Bureau of Prohibition, and later as District Supervisor in the Bureau of Industrial Alcohol, was guilty of some malfeasance or nonfeasance in connection with the issuance of permits and the supervision of permittees.

COMMENT

According to the Department's records, the case referred to resulted in the indictment of more than one hundred corporations and individuals, mostly permittees and cover-houses in Chicago, New York, Cleveland, Detroit, and Baltimore, on a charge of conspiracy to violate the National Prohibition Act. Some idea of the thoroughness and the extent of the investigation made at the time will be gained from the fact that the case report now in the Department's files consists of more than 2,000 typewritten pages, exclusive of exhibits.

It is believed that no purpose would be served by reopening this case. The matter can be disposed of by stating that at the time the case was investigated in 1929 and 1930, the facts in connection therewith were fully known to the Director of Prohibition and later to the Commissioner of Industrial Alcohol; and that these officials found nothing in connection with the investigation that might be regarded as reflecting in the slightest degree on the administration of his office by Mr. Yellowley. In fact, the record shows that many of the permittees who were finally indicted had previously had their permits revoked as the result of investigations made by inspectors working under Mr. Yellowley's direction.
Conclusion

It is our conclusion that the charges and complaints made by District Attorney Igno reflecting upon certain Treasury officials headquartered at Chicago, as contained in his letters of March 26, March 29, and April 5, 1935, addressed to Honorable Joseph B. Keenan, Assistant to the Attorney General, are without any foundation, and require no administrative action by this Department.

(Signed) GUY T. HELVERING
Commissioner of Internal Revenue.

(Signed) WM. H. McREYNOLDS
Administrative Assistant to the Secretary.
April 27, 1937.

MEMORANDUM FOR THE SECRETARY:


An investigation of the alleged participation of Treasury officials at Cleveland, Ohio, in a liquor sales agency, developed that the above named persons became associated in the Ohio Sales Syndicate during April 1934, each acquiring a twenty percent interest in the profits without any investment therefor. This syndicate was created as the result of negotiations commenced by Secret Service Operative in Charge Bert C. Brown, Detroit, Michigan, since removed from the service, who was instrumental in organizing Famous Brands Ohio, Inc., of Detroit, Michigan, during August 1933, the sales agency for the American Distilling Company in Michigan. The Ohio Sales Syndicate was created to act as a sales agency for this company in Ohio. From April to December, 1934, inclusive, Messrs. Moore, Pollock and Harper each received an income of $3,292.14, Collector Moore being paid $1,603.98 in addition for sales promotion services.

On January 1, 1935, the syndicate was incorporated as the Famous Brands Ohio, Inc., and stock issued according to the interest of each syndicate member. Messrs. Pollock and Harper received 13 shares each, 16 shares were issued to Collector Moore's wife and a nominal price of $5.00 per share was paid. After the agency was incorporated additional dividends totaling $1,620.00 were paid to each up to the time the investigation was commenced, July 2, 1935.

A hearing was held at the office of the Secretary of the Treasury, July 24, 1935, to afford Messrs. Moore, Pollock and Harper an opportunity to explain their connection with this agency. As a result the Secretary directed that Messrs. Moore, Pollock and Harper should either dispose of their interests in the agency and forfeit to the United States Treasury all profits realized by them from that business, or sever their connection with the Treasury Department.

Collector Moore was noncommittal in his replies but finally, December 16, 1935, he wrote to the Secretary stating that he proposed "to return to the company such profits as I realized from this transaction when and as I am able to do so". Prior to the date of Collector Moore's
letter, Senator Birkley had, on December 6, 1935, written to Secretary Morgenthau indicating that the return of such profits would be made to the Famous Brands Ohio, Inc., and that the company would then pay them over to public charity. Mr. Pollock wrote a letter to the Commissioner of Customs, December 26, 1935, stating "I agree to contribute to charity, as I am able, the profits I have received, under the same arrangement made by Collector Moore". Mr. Harper wrote a letter to the Chief, Secret Service, under date of January 2, 1936, stating: "I will undertake to return the profits I have made -".

There were no further developments until September 24, 1936 when a letter was written to the Famous Brands Ohio, Inc., to obtain information as to whether profits had been relinquished by Messrs. Moore, Pollock and Harper but no reply was received. It subsequently developed that this company liquidated shortly thereafter, certificate of dissolution having been filed December 21, 1936.

A further investigation was then made during January 1937 to determine whether Messrs. Moore, Pollock and Harper had complied with the Secretary's instructions. This inquiry developed that subsequent to the hearing on charges at the Secretary's office, July 24, 1935, Messrs. Pollock and Harper, and Collector Moore's wife, each received $3,060 additional in dividends on the Famous Brands Ohio, Inc., stock.

The stock of Collector Moore's wife was held by her until January 10, 1936 when her father, who resides with Collector and Mrs. Moore, acquired the stock and thereafter endorsed over to her checks for dividends issued to him in the total amount of $2,070 which were deposited in her bank account.

Mr. Pollock's stock was transferred to his wife December 20, 1935, and on April 21, 1936 this stock was acquired by a next door neighbor, Mr. Charles Michel, Jr., who states he paid Mrs. Pollock $720 for it. A dividend check in the amount of $720 was issued to Mr. Michel but his check for $720 to Mr. Pollock, purporting to be the cost of the stock, was not charged to his bank account until the dividend check was received and deposited, thus in effect resulting in no cost to Mr. Michel.

Mr. Harper's stock was acquired by his wife January 10, 1936 and on April 17, 1936 it was transferred to Marc J. Wolpaw, a former Assistant United States Attorney, Cleveland, Ohio. Mr. Harper states he sold his stock for $5.00 per share, or $90.

It will be observed that not only did Messrs. Moore, Pollock and Harper fail to relinquish to Famous Brands Ohio, Inc., profits realized by them from this venture, but on the contrary received substantial additional income from the liquor agency after official notice that their association was considered reprehensible and instructions given to them that they should forfeit the profits already received.
Mr. Gardner Abbott, President of Famous Brands Ohio, Inc., now in liquidation, stated on January 29, 1937, that no repayments of profits were made by Messrs. Moore, Pollock and Harper. On the same date Messrs. Pollock and Harper admitted that they had not returned any profits to the liquor agency to date and both indicated that they did not contemplate making any immediate payments. It was also indicated that Messrs. Pollock and Harper have been guided by Collector Moore's action in this matter. Collector Moore was not interviewed as he was ill at the time of the recent investigation.

When the evidence of the association of Messrs. Moore, Pollock and Harper was first brought to the Secretary's attention, it was and still is considered to be a grievous offense and removal from the service was deemed to be the proper disposition. It was only after a further consideration of the case that it was decided to be lenient and permit them to remain in the service by relinquishing all interest in the liquor business and divesting themselves of all profits received. This they agreed to do, but the evidence established as a result of the recent investigation definitely shows that neither of them made any honest effort to comply with the Secretary's instructions, but on the other hand continued to flaunt the Secretary.

[Signature]