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GROUP MEETING

May 18, 1937
9:30 A.M.

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

H.M.Jr: Mac?

McR: Danny didn't have time to read that report last night.
We got it ready.

H.M.Jr: All right.

Look, this chauffeur that you gave me last night seems awfully nice, but here comes a letter from Bronson Cutting's mother recommending the chauffeur who drove for Bronson for seven years. She gives him a marvelous recommendation.

McR: I'll get hold of him and see.

H.M.Jr: I mean seven years he drove for the Senator, and it's a marvelous recommendation. What?

McR: We'll get him. You want... Is he here?

H.M.Jr: Evidently he's here.

McR: I just wondered whether you didn't want to try him as soon as this other boy.....

H.M.Jr: I would.

McR: I'll see if I can get hold of him, arrange for you to....

H.M.Jr: We were going out to Madeira School this afternoon and if he could go with us - if he's available, he could drive us part way.

McR: What time you going?

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H.M.Jr: He ought to be at the house at 3:15 if you can get him.

McR: I'll try.

H.M.Jr: Because - you read it. He's trying - what he's trying for is to drive a Secret Service car; that's what he wants.

Lochhead: Market's opening very quietly. Bonds went up a little bit, but it's not so.....

H.M.Jr: O.K.

Haas: I have nothing except the report on that....

H.M.Jr: Well, I'll give you time on that.

Roche: Nothing very special, sir. Haven't got any money out of anybody yet.

H.M.Jr: Neither have I.

Roche: Nothing new at all, is it? Saved a lot of money by the Court, though, didn't you?

H.M.Jr: I don't know. We can't - I don't know whether we have or haven't, do you (Oliphant)?

Oliphant: Well, there is no action on the Social Security. But they sustained our statute safeguarding refunds, and Stone and Cardozo went out of the way to make it clear that they didn't think the original Butler case, original AAA case, was necessarily final.

H.M.Jr: What I can't get is - it's like the story... (reporter instructed not to record) So I want to know, do we get money or don't we?

Magill: No, you don't get any money.

Oliphant: Slows up the process of refunds.

Magill: Slows up the process of refunds.

Oliphant: That's all.

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H.M.Jr: That's all, do we get the money or don't we get it?

Magill: It upholds provisions in the Revenue Act for a Board of Review and further review by the Board of Appeals. But we don't get any money; it just slows up the taking out of money for refunds.

McR: These fellows have been waiting to find out whether they couldn't get it without this process. It just clarifies the fact that they've got to go through that procedure to get it.

Magill: That's right.

Gibbons: It's all a big boon to me; we'll be able to give some of these fellows some jobs. Now, if the Court had decided against it, we wouldn't - these lawyers.

McR: That doesn't mean that we've got to go through with that, necessarily.

Gibbons: I mean if they file their suits.

Oliphant: We'll have another Supreme Court.

H.M.Jr: You try to get some money.

Oliphant: You try and get some refunds. They haven't had any refunds yet.

McR: They got the enrichment taxes.

Gibbons: We'll have to defend it if they make a claim.

H.M.Jr: Well, here's my list of lawyers.

Oliphant: What? (Laughs)

H.M.Jr: Put there (referring to chirping bird outside window) by the Attorney General to keep me in good humor.

Magill: Keep him in a cage?

H.M.Jr: I can't go into the details, but the Treasury won a moral victory yesterday, the equal of which we have not won since we've been here. I mean that they're going to go ahead now and try to put some of these

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really important people behind the bars that break the laws, instead of trying to let them settle. And the repercussions on us are going to be - you just watch the tar fly. I mean we're going to get it - I am - right here (indicating neck).

Gibbons: I don't follow you.

(Hearty laughter)

Oliphant: You will.

Gibbons: I mean something that wasn't announced in the paper.

H.M.Jr: There won't be any announcement, but there will be plenty of gossip. But it was a showdown between the Attorney General and myself as to whether we should settle some of these important cases or put some of these defendants behind the bars, and the decision was we were going to put them behind the bars and then talk settlement. And it's the most important victory that we've had since we've been here. And naturally, I'll be the goat.

McR: Well, will the United States Attorneys stand up for this decision?

H.M.Jr: Well, if they don't, I'd say from the mood the President was in yesterday there will be some new United States Attorneys.

McR: Swell.

H.M.Jr: What will happen - he practically told them if they don't know how to try cases they better get some new ones.

Gibbons: Good.

H.M.Jr: In other words, less settlements and more fight from now on. You'll hear it. You'll begin - it won't take very long. Because the lawyer for this one particular case we all know.

Gibbons: (Laughs)

H.M.Jr: All right.

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Gibbons: O.K.

Mrs Klotz: Having a swell time.

H.M.Jr: Wayne?

Taylor: (Nods nothing)

H.M.Jr: You fellows (Magill and Oliphant) want to see me after this meeting.

Magill: (Nods yes)

H.M.Jr: All right; well, we're running pretty fast.
And you (Gaston)?

Gaston: (Nods yes)

H.M.Jr: You too?

Gaston: Oh, you mean the three of us. Yes.

H.M.Jr: Well, why don't we do - use this, as long as nobody has anything.

Oliphant: I have a little matter.

H.M.Jr: All right, go ahead.

Oliphant: Well, the President asked all the departments to submit to the Attorney General evidence of identical bidding, and the Attorney General looked into it and wrote the President that there wasn't sufficient evidence on which to base prosecution and proceedings against these people submitting identical bids to the Government.

Mr. Lawes, in charge of the lawyers of Procurement Division, raised with me the further question: assuming there isn't enough evidence to proceed criminally against these people, suppose Admiral Peoples is convinced that identical bids submitted to him are the result of agreement, of the people getting together and agreeing on how they would bid. (A) Would he be under duty to reject all bids; and (B) would he have power, by accepting any of those bids, to conclude a valid contract?

H.M.Jr: My dear Herman, this has been going on since Mr.

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Roosevelt came to town.

Oliphant: I understand that. The matter has come to me at this time in this fashion.

H.M.Jr: It was brought to me in the case of International Paper bidding on a paper contract for money, or whatever it was, over - stamps - anyway, it was paper. I mean what you going to do, get a whole new set of lawyers? I mean this has been going on for three years. They got together during the N.R.A. and they've been doing it ever since.

Oliphant: For the first time I've had occasion to prepare an opinion on it. In my opinion, Peoples has no right to accept any such bid and if he does, the contract which he attempts to enter into is invalid. And I have a letter from you to the Attorney General asking for his opinion on the question.

H.M.Jr: (Laughing) Herman, you can't stand too many victories. They just go to your head.

Oliphant: No, my shin is sore.

H.M.Jr: Herman, what you going to do?

Roche: Stay with it.

H.M.Jr: Herman, am I right? I tried to avoid the question. I mean can't you make it the first of June, so we'll have at least one a month, not one a day? That isn't nice, Herman.

Oliphant: Well, the law is perfectly clear.

H.M.Jr: I mean let me ask you as a lawyer, if a man has practiced illegally, carried on an illegal act, how long is it before it becomes common law?

Oliphant: The statute of limitations never runs in.....

H.M.Jr: If you practice it for three years?

Oliphant: No, nor three hundred.

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H.M.Jr: But after a while you establish a practice.

Oliphant: The contracts are illegal.

H.M.Jr: Aw, Herman!

Oliphant: If we should - for instance, take this case. They submit identical bids on desks. They supply the desks and the desks are not up to contract, and we sue them on their warranty. We have no rights against them; the contract is void.

H.M.Jr: Well, this is the best method I've heard yet of balancing the budget - everybody stop bidding.

McR: If the contract is void, why, don't pay them after you get it.

H.M.Jr: This will balance the budget.

Oliphant: Just that little business.

H.M.Jr: I've waited three years.

Oliphant: I have too.

H.M.Jr: Yesterday was too much for you, Herman.

Oliphant: (Laughs)

H.M.Jr: Got anything else today?

Oliphant: That's all.

H.M.Jr: O.K.

Magill: (Nods nothing)

Taylor: Herman, now that you feel like this, you can't reverse that opinion you gave me about the R.F.C.

Oliphant: Oh, there is one other matter. Mr. Johnson advised me that there was a meeting of that Policy Committee on the State Department especially called on the question of antique furniture. And Mr. Hull said that that whole - he'd like to have that legislation withdrawn because the amount involved made the thing

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very, very important from the standpoint of negotiating the treaty agreement.

H.M.Jr: With what country?

Oliphant: With Great Britain.

H.M.Jr: You're not serious?

Oliphant: Yes, I am - dead earnest. The amount of money involved in the furniture business is so great that it is very important that the matter be - the legislation be withdrawn in carrying on the negotiations for the trade agreement.

H.M.Jr: Do I understand that in one breath you want me to stop monopoly and on the other hand you're recommending fake furniture?

Oliphant: Yes.

H.M.Jr: I won't stand for it!

Oliphant: Well, I'm recommending nothing.

H.M.Jr: You mean you're going to legitimize wormholes.

Gaston: Going to throw ten thousand honest English workmen out of work, making antiques.

Oliphant: I merely report this. It isn't in my field.

H.M.Jr: No, I don't think it is.

Gibbons: Boy, that's going some.

H.M.Jr: "Mr. Justice Van Devanter Announces Retirement June 2."

Now, where are we? There's too much kidding. We were with wormholes.

Taylor: Shotgun right up to shoot him.

H.M.Jr: Well now, listen, this thing is in the hands - who sits on that Policy Committee?

Taylor: (raises hand)

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Oliphant: For some reason they called Johnson over specially on that meeting.

H.M.Jr: Well, will you (Taylor) please take this? Listen, if Mr. Hull doesn't get that trade treaty - I mean my God, we've just got to give anything. Listen, will you handle it?

Taylor: Yes, I'll find out. I didn't know they were going to talk about wormholes.

H.M.Jr: You think they do it with a shotgun?

Taylor: Well, they do sometimes. Very fine shot. Put the bullet up against the door and let it go.

Gaston: Some say worms are cheaper than shot.

H.M.Jr: Now listen, Georgie, you come in with your gang about 10:15.

Haas: Fine.

H.M.Jr: Tell us what New York did to you. You look awful sick.

Haas: (Laughs)

H.M.Jr: Did you go to bed every night at nine o'clock?

Haas: . Just about. No real night life.

H.M.Jr: You and who? Henry Murphy and Seltzer?

Haas: O.K.

H.M.Jr: And Mr. Taylor, you got a meeting at 10:15?

Taylor: No, if the wormholes will wait.

H.M.Jr: All right. And now I'll see my "white-wingers" here.

May 18, 1937

Excerpt from Mr. Roswell Magill's memorandum to the Secretary dated May 18, 1937, entitled, "Memorandum of the Day's Activities":

2. Railroad retirement legislation

Mr. Latimer called to inform us that additional benefits to the railroad men had been agreed upon since the original agreement which we saw. He said that this action was the result of Representative Crosser's insistence upon much greater benefits than the original legislation carried. I told Latimer that our position had always been that the legislation must pay for itself. He said that the plan which would probably be accepted would cost .35 percent of the pay rolls more than the plan originally presented to us. Another proposal by Mr. Crosser would cost $1\frac{1}{2}$ to $2\frac{1}{2}$ percent more. To carry out our original position the total tax rate should be increased by the percentages noted if the proposed benefits are actually adopted.

The present plan is for the House to pass the benefit bill before the tax bill is reported by the Ways and Means Committee. Apparently the best strategy is to wait to see what kind of a benefit bill is adopted before we take further action on the tax bill.

May 18, 1937

Mr. Magill, Mr. Oliphant and Mr. Gaston met with the Secretary today at 9:50.

Mr. Magill said the group had been discussing some device by which names could be used legally but before coming to a decision among themselves they wanted to have another talk with the Secretary. HM, Jr. then told them that he had a conference for two hours with the President last night and that the President had again expressed himself emphatically as wanting to use names. The story is much bigger than a tax question, the Secretary said, and today's story about the fifteen senators who agree on a last-ditch fight on the President's court plan reveals what it's all about. The question is whether we are going to have a Fascist government in this country or a government of the people, whether rich men are going to be able to defy the government and refuse to bear their burdens. Are we going to make progress in liberal government or is it going to take a revolution finally to settle the question? The rich are getting rich in this country and the poor poorer. In France they met this problem by successive revolutions. If it had not been for the revolutions, a few men would own all France today.

Such men as Garner, Robinson, Doughton and these men who are fighting the court plan are against the President on the real issues. There has got to be a fight and there has got to be a purge. We have got to go out and get the support of the men who are really on our side -- the Farmer-Labor senators from Minnesota, for instance.

Let us give the President what he wants, the Secretary added; without quibbling as to whether this or that is legal. The President is intelligent enough to decide what he can use, he said.

Mr. Oliphant agreed heartily to what the Secretary had said about the real issue and its importance, but thought the best results would flow from a message to Congress and hearings which would result in bringing such men as Hearst, Sloan and others down here to Washington to explain on the witness stand what they had done. Mr. Oliphant expressed the opinion that we need another Pecora investigation to focus the interest of the country.

The Secretary told the group that we must give the President pretty promptly something he can "put his teeth into".

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Mr. Gaston thought we needed in the first case a list of notable instances of tax avoidance, using names. This could be divided into Board of Tax Appeals cases where the names and facts are of record and could be used; cases pending before the Bureau, and facts from the new 1938 returns. This could be accompanied by a draft of a speech in which names would not be used unless the cases were of record.

Oliphant expressed himself as strongly opposed to having the President use names where the information is not publicly available, as it would put him in the wrong and weaken his case. The Secretary agreed to this point of view and directed that memoranda be prepared as rapidly as possible; at any rate, he wanted something ready by ten o'clock tomorrow, Wednesday.

Magill, from the start, seemed to agree with the Secretary and was not so sure that legally the President could not go on the air and give actual names and cases. Magill promised to put down in writing what the Secretary wanted.

MEMORANDUM

May 18, 1937

To: Secretary Morgenthau
From: Dr. Burgess



Treasury bond market was very quiet and steady in the forenoon but a slightly easier tendency was in evidence thereafter, and activity on the board increased in volume. Treasury bonds closed approximately at the lows of the day, generally 1/32 to 4/32 off from yesterday; the government guaranteed group showed various losses, ranging up to 8/32. Treasury note market was quiet and steady. Scattered issues closed 1/32 down from yesterday, but the 2 1/2s of 1938 were up 1/32. Turnover of Treasury bonds on the stock exchange was small at \$859,000.

Apart from some interest and activity in high grade industrial bonds early in the session when these issues showed fractional gains, the domestic bond market was quiet and there were only minor price variations. High grade industrials closed fractionally better on the day, while other high grades showed smaller gains. Second grade bonds declined slightly. The \$50,000,000 8-months Tax Anticipation Notes of the State of New York, bearing interest at the rate of 0.75%, offered this morning, are reported to have been well received.

Foreigns were quiet and steady generally.

No purchases for Treasury today.

May 18, 1937
10:24 A.M.

Operator: Mr. Ecker.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello.

Ecker's secretary: Mr. Morgenthau?

H.M.Jr: Yes

E.s.: One moment, please.

H.M.Jr: Hello? - Hello?

Operator:

H.M.Jr: Hello?

Frederick H. Ecker: Yes

H.M.Jr: Mr. Ecker?

E: Yes

H.M.Jr: Henry Morgenthau, Jr.

E: Yes, Mr. Morgenthau.

H.M.Jr: What I'm calling you up about is this. I'd like very much to see somebody from your insurance company who knows the Government bond market and follows your investments.

E: Yes

H.M.Jr: And I don't know just who it is, you see?

E: Yes - ah....

H.M.Jr: Ah - ah....

E: When do you want to see him?

H.M.Jr: I'd like to see him if he could come down this Thursday - would be convenient.

E: Be there Thursday?

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H.M.Jr: Yes. In the afternoon.

E:

H.M.Jr: No, I - I want to talk about the Government bond market, and I'd like to get the attitude of a company like yours who - who has, I think - who....

E: May I make some observations as long as we're talking?

H.M.Jr: Pardon me?

E: May I make some observations as long as we're talking?

H.M.Jr: I wish you would.

E: I'm assuming I know nothing about it.

H.M.Jr: Yes

E: That there's some 300 millions that you've got to take care of at a date in the near future.

H.M.Jr: Yes

E: That because the balances - the Treasury balances are low you may need four or five hundred millions more. You needn't answer this; I'm just "thinking out loud" - you know that hackneyed saying.

H.M.Jr: Yes

E: That would mean seven or eight hundred millions that may be in the minds of the Treasury to take care of it.

H.M.Jr: Yes

E: Looking at the present situation, the market isn't a bit favorable to long-term financing.

H.M.Jr: Yes

E: There's a feeling - now, this is - this is the feeling as I interpret it....

H.M.Jr: Yes

-3-

- E:that long-term bonds are going to three percent.
- H.M.Jr: Yes
- E: That if you put out a long-term issue now, it wouldn't be a pronounced success at any lower rate than three percent.
- H.M.Jr: Yes
- E: Ah - the general conditions in the banks are a little jittery.
- H.M.Jr: Yes
- E: That it may not be a desirable thing in your mind to accept a rate of three percent in major long-term financing.
- H.M.Jr: Yes.
- E: You've got bills which are running for three months on about a half of one percent basis, or up to nine months on somewhere between .65 and .70 of one percent.
- H.M.Jr: Yes.
- E: There's a limited amount of that financing that the market would take.
- H.M.Jr: Yes
- E: You're taking about a hundred million a week now. A question whether you can take three hundred millions at that time.
- H.M.Jr: Yes
- E: And conditions may improve and that might be possible, but that would look to be the limit that could be used in that form of financing at the time you are talking about.
- H.M.Jr: Right
- E: The other alternative is a three-year note issue.

-4-

H.M.Jr: Yes

E: And the way the market looks now to me, and as we view it here, it's one and a half percent.

H.M.Jr: Uh-huh.

E: What can I send somebody down, Mr. Morgenthau?

H.M.Jr: You can't. It's not - it's not necessary. You're the man I want to talk to anyway.

E: (Laughs) Well

H.M.Jr: Now, what I'd like to do is this. I mean any - you - you boiled it down in three minutes.

E: Yes

H.M.Jr: Now, what I'd like to do is - ah - maybe next week call you again.

E: All right.

H.M.Jr: But - ah - you've given me what I want.

E: I suspected that that's what you want, and when I heard you called me I'd just been putting it over in my mind, thinking what I'd have to have somebody say if they went down to see you.

H.M.Jr: No, I - if I want anybody to come down, I'm going to ask you. But if you can give it to me as fast as that over the telephone, it's not necessary.

E: Well, only you're faster than I am.

H.M.Jr: I don't know about that. My father is still faster than I am.

E: Well, you know he's a dear.

H.M.Jr: Yes

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E: We've known each other, I suppose, almost longer than you've been born.

H.M.Jr: I think you have.

E: And my respect for him has never ceased and we - we have an affection and regard for each other, I think - I have for him anyway.

H.M.Jr: I know that, Mr. Ecker.

E: Yes.

H.M.Jr: That's one reason that I called you.

E: I know.

H.M.Jr: Well, I'll - I'll - I'll take the liberty of calling you again next week.

E: All right.

H.M.Jr: And then - ah... - we'll see how - where we stand.

E: All right, and we can compare notes. And this is what I observe: that when you talk it over with somebody else, it clarifies your own mind; it may not influence you a bit.

H.M.Jr: Well, what I do - what I have to do is - is - is listen; I can't contribute very much. But what I - I'd like to listen is to people like yourself, to find out just what you have on your mind.

E: Yes. All right.

H.M.Jr: Thank you very much.

E: Goodbye.

May 18, 1937
10:38 A.M.

H.M.Jr: Hello.

Operator: Mr. Hopkins is out of the city until after lunch. Here's his secretary on the line.

H.M.Jr: What?

O: His secretary's on the line.

H.M.Jr: Let me talk to her.

O: All right. Go ahead.

H.M.Jr: Hello.

Kathryn Godwin: Yes, Secretary Morgenthau.

H.M.Jr: Who is this, please?

G: Mrs. Godwin speaking.

H.M.Jr: Mrs. Godwin, when do you expect Mr. Hopkins back?

G: Well, I haven't any definite time, but I don't expect him before 12:30. He's motoring down from Scranton this morning and I don't believe he can get in before then.

H.M.Jr: Uh-huh. Well, will you tell him I'd like to talk to him?

G: Yes, I'll have him call you.

H.M.Jr: And I'll tell you what it's about.

G: All right.

H.M.Jr: You can look it up. It's a question of this money for this self-help co-op in Washington.

G: Uh-huh.

H.M.Jr: See?

G: Well, I - I have a note here, anyway, that Mr. Gill wants to talk to him about that, so it's in the works here; it's just a question of....

H.M.Jr: Well....

-2-

G: ...getting it going, I know.

H.M.Jr: I know. Mr. Hopkins said that originally there was a number of ways he could find the money.

G: Uh-huh.

H.M.Jr: Now the thing is they're ready to start, they're ready to register the people, and it's right up to him now.

G: I know. And I - I know that he has - I know that he told Gill to find a way, and that...

H.M.Jr: What? What's that?

G: I say I know that he told Gill to find the money.

H.M.Jr: Yes

G: And Gill apparently has run into some obstacle, because he wants to talk to Mr. Hopkins about it also.

H.M.Jr: Well, I just talked to Mr. Bell, and they think they've found a way, and it's up to Mr. Hopkins to approve it.

G: I see. Well, I'm sure he will and I'll have him call you as soon as he gets here.

H.M.Jr: I thank you.

G: Thank you.

Fin
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May 18, 1937
11:26 P.M.

H.M.Jr: Hello.

Operator: Governor Harrison. Go ahead.

H.M.Jr: Hello.

George
Harrison: Yes, Henry.

H.M.Jr: Listen, George, when you come down tomorrow are you going to bring some information about how the market feels on bonds - financing?

H: Yes

H.M.Jr: You are?

H: You mean on commercial?

H.M.Jr: No, no, no. I - I mean just how they feel about our next financing.

H: Well, I'm going to try and bring you a little, but I think it's too early to decide anything, of course.

H.M.Jr: Oh, quite. But as to their feelings?

H: Yes, that's right.

H.M.Jr: And as to the timing.

H: Quite right.

H.M.Jr: See?

H: You mean the timing....

H.M.Jr: Well, here's the thing of it. You see, on this Social Security thing, they - not having it yesterday,.....

H: Yes

H.M.Jr: ...I won't decide anything now until after next Monday.

H: Yes

-2-

H.M.Jr: If they don't hand it down next Monday, then I think it'd be - we ought to make up our mind that we won't do anything until June 7.

Harrison: I think that's right. Well, I talked to Burgess yesterday.

H.M.Jr: Yes

Harrison: And he agreed that you shouldn't do anything until June 7.

H.M.Jr: I see. Well...

H: I told him I thought that you would try to put it a little earlier on his account, but.....

H.M.Jr: Well...

H: ...he agrees with me that this time you've got to wait the limit.

H.M.Jr: Well, the point is that if they didn't get a decision next Monday, then I certainly would want to wait.

H: Yes, yes.

H.M.Jr: See?

H: But I think you might as well anyway, unless....

H.M.Jr: Uh-huh.

H: But we can discuss that part of it tomorrow.

H.M.Jr: But you will, - you will talk to someone...

H: Yes, that's right.

H.M.Jr: And you ... - when does Burgess get back?

H: He won't get back until next Monday.

H.M.Jr: Uh-huh.

H: He called me yesterday about it.

H.M.Jr: I see.

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H: While he's much better, I think he'd better stay away one more week.

H.M.Jr: I see.

H: He'll be back next Monday and I expect him down with me here on - at the meeting next week with you.

H.M.Jr: Good.

H: So I'll bring him down then.

H.M.Jr: All right, George.

H: Right.

H.M.Jr: Goodbye.

F-24

May 18, 1937
11:30

H.M.Jr: Hello.

Operator: Governor Young. Go ahead.

H.M.Jr: How are you?

Governor Young: Fine. How are you, Mr. Secretary?

H.M.Jr: Good. I missed not seeing you.

Ah - Mr. Young, I'm calling you up in your capacity as fiscal agent for the Tressury.

Y: Yes.

H.M.Jr: Which I think you are.

Y: Yes, sir.

H.M.Jr: Now, I wish that you'd do some inquiring around amongst the banks, your friends, get some information for me on how they feel on our next financing.

Y: Yes, well....

H.M.Jr: I know it's a little early.

Y: I have talked a little bit. But what would the - would it be a snort-time issue or a long-time issue?

H.M.Jr: Well, we don't know. That's just what I want to find out - what - what the market will take.

Y: I see.

H.M.Jr: And how keen they'll be about it.

Y: Well, I want to canvass that pretty thoroughly. When will you want that information?

H.M.Jr: Well, I - I'd put it this way: as you get anything that you think is worth while, why, give me a ring. Ah - if I could have something, say, beginning with, maybe, next Monday.....

Y: Oh yes. Well, I'll get something before that and I'll call you up from time to time.

-2-

H.M.Jr: And if you think there's anybody that I ought to see or who would be useful for me to see next week, I'd be glad to have suggestions.

Y: Yes.

H.M.Jr: See?

Y: Yes.

H.M.Jr: I mean if there's anybody - the bank, or insurance company, or anybody that you think I should see, why - I haven't seen anybody from Boston so long....

Y: All right, and I'll - I'll do that very thing right away.

H.M.Jr: And - all right - and if you decide that there's somebody you think'd be useful for me to see, the sooner you let me know the better, because I'm making up my schedule for next week.

Y: Yes.

H.M.Jr: But I want - what I want to know is - I mean - you know, the usual thing. It's early, but I feel that this time we have to start a little earlier.

Y: Yes. All right, and I'll do that very thing and do it right away.

H.M.Jr: Thank you very much.

Y: How have you been yourself?

H.M.Jr: Oh I'm - right now I'm fine. I haven't felt as well in months.

Y: Ah - I dropped in one evening down at to see you.

H.M.Jr: I know you did. We were awfully sorry to have missed you.

Y: Yes. Well, I hope to see you soon.

H.M.Jr: I hope so.

Y: Yes.
H.M.Jr: Thank you.
Y: All right.
H.M.Jr: Goodbye.
Y: Goodbye.

F. 27

May 18, 1937
11:33 A.M.

H.M.Jr: Hello.

Operator: Governor Schaller is out of the city. They say Mr. Young, the Assistant Vice President, is in charge.

H.M.Jr: No, I... When do they expect Schaller back?

Operator: She didn't say. Just a minute.

* * * * *

11:34 A.M.

H.M.Jr: Hello.

O: Governor Schaller will be in Chicago tomorrow evening, but his secretary can reach him and have him call you if you like that.

H.M.Jr: Do that.

O: All right.

May 18, 1937
2:57 P.M.

Operator: Go ahead.

H.M.Jr: Hello?

Hello.

H.M.Jr: Governor Schaller.

We have the Governor for you. Just a moment please.

O: I'm sorry, I thought that was he.

Governor
Schaller: Hello.

H.M.Jr: Governor Schaller.

S: Yes.

H.M.Jr: Morgenthau.

S: Yes.

H.M.Jr: How are you?

S: Well, pretty good. We're up here in the rainy district just now.

H.M.Jr: What district?

S: Up in Michigan.

H.M.Jr: What're you doing up there?

S: Oh, we're doing a little missionary work.

H.M.Jr: Uh-huh.

S: That is, some bank meetings up here.

H.M.Jr: Well, what I called you up for was this: I want to talk to you as - in your capacity as fiscal agent of the Treasury. - Hello.

S: Yes.

H.M.Jr: When you get back to Chicago, will you begin to do a

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little inquiring amongst the banks and insurance companies as to how they feel about our next financing?

S: Sure.

H.M.Jr: And after you've got something would you give me a telephone call?

S: Yes. Now, will the day after tomorrow be all right?

H.M.Jr: Oh, if you'll call me Monday, be all right.

S: Monday - next Monday?

H.M.Jr: Yes

S: Of course, we have been kind of feeling out the sentiment a little as we went along.

H.M.Jr: I know.

S: And you probably got a report on that.

H.M.Jr: Well, I don't get it direct. I don't know what's - I don't know where your reports go.

S: Well, of course, we'll be glad to report direct if we can do anything - do any....

H.M.Jr: Well, after all, you are our agents of the Treasury.

S: Yes

H.M.Jr: And I feel I perfectly...

S: We're very glad to help you in anything that we can on that, and... Of course, the sentiment, I think, guessing at just this time, - the feel is very largely for short terms, not including the notes.

H.M.Jr: Yes

S: But I'll - I'll canvass the whole thing on Thursday.

H.M.Jr: Yes

-3-

S: And phone you during the week

H.M.Jr: Well, if you have anything Friday - if you have anything Friday forenoon, give me a ring; otherwise, Monday.

S: All right, I'll call you Friday before noon.

H.M.Jr: And you might be thinking over whether you think I ought to see anybody from out your way, see? I - I always see a few people and I haven't seen anybody from Chicago now in a couple years.

S: Well, but you've - you marked us off of the - off of the Open Market Committee; of course you won't see us.

H.M.Jr: I know.

S: (Laughs)

H.M.Jr: That's why... But I mean take a man like - ah - I don't know him, but a man like the President of Northwestern. He's in your district, isn't he?

S: Yes, President

H.M.Jr: Well...

S: Able fellow.

H.M.Jr: Well now, you think about it, whether you think I ought to see a couple people like that.

S: You mean....

H.M.Jr: Ask them to come to Chica- - down here, I mean.

S: Ask them to come down?

H.M.Jr: Yes

S: All right.

H.M.Jr: I mean I won't....

S: I'll canvass that very fully for you.

H.M.Jr: But I mean I won't do it unless you think well of it.

-4-

S: Yes. We'll kind of think that over and I'll call you on Friday morning.

H.M.Jr: Yes, I'd appre- - because, as I say, I don't - ah - the way things are formed now, you see, I - I don't get much from your - out your way at all.

S: Well, I'll be very glad to come down any time if you think I can bring you anything.

H.M.Jr: All right.

S: Whenever - if you'll call me, why, I'll come down.

H.M.Jr: Thank you.

S: Any time.

H.M.Jr: Thank you.

S: Good. Anything that you want looked after, why, let us know and we'll be glad to....

H.M.Jr: Well, it's - it's this particular situation now.

S: Yes.

H.M.Jr: Yep.

S: Yes. All right.

H.M.Jr: Thank you.

May 18, 1937
11:38 A.M.

Operator: Dr. Magill calling.

H.M.Jr: All right.

Operator: Go ahead.

H.M.Jr: Hello.

Magill: Ros Magill.

H.M.Jr: Yes

M: Why, I'm going up this afternoon on this excise tax extension.

H.M.Jr: Yes

M: And it occurred to me in connection with that - ah - what about the extension of the three-cent rate of postage?

H.M.Jr: Oh yes.

M: Should we care for that?

H.M.Jr: Yes.

M: I've got Danny Bell checking up to see whether the Post Office Department's done anything about it. I don't think they have.

H.M.Jr: I tell you what I'd do. Ah - I just would call them up, see. Ask - if Mr. Farley isn't there, ask for whoever's acting and just tell them you're going up; I'd just check it.

M: Well, I - shall I do it? I asked Danny to check up with them. Shall I call them too?

H.M.Jr: I would, yes.

M: All right. I will. Thank you.

LMS

GRAY

London

Dated May 18, 1937

Rec'd 2:50 p. m.

Secretary of State,
Washington.

293, May 18, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Although due to the Whitsun holidays the amount of gold offered today at fixing was less than during recent days considerable quantities were on offer after fixing at as low as under 140 shillings for delivery end of May. Likewise India continues to offer future gold at substantial discounts; for instance at 1 shilling $2\frac{1}{2}$ pence discount three months' delivery. London's information is that the selling pressure in India comes from up country.

In this general connection the following excerpts from today's FINANCIAL TIMES may be of interest.

"It is quite evident that the effects of the gold scare have not yet completely disappeared. The issues raised by the recent trend of events are obviously much more substantial and are being taken much more seriously than may have been realized.

Remnants

LMS 2-No. 293, May 16, 7 p. m., from London,

Remnants of the scare are to be found in the increasing amount of dishoarding, a reluctance on the part of many arbitrageurs to undertake large commitments for shipping the metal to New York, and the prevalence of an appreciable discount in the sterling price under the dollar shipping parity.

We are going to hear a lot about gold in the coming weeks, for there is a growing feeling that events may be moving to a climax. Last week brought a revival of the story that an immediate tax may be introduced in the United States and owing to the expansion in the volume of dishoarding fears were entertained in some quarters that in the present highly sensitive state of the markets a wave of this dishoarding might aggravate existing world gold problems".

The FINANCIAL NEWS in the course of an editorial on South Africa states that "with about 70 per cent of its exports consisting of gold South Africa depends entirely on the Rand; we have stated in these columns that in our opinion there will be no reduction in the American gold price. That view stands. But we do not deny nor do we attempt to minimize the vulnerability of a prosperity level largely governed by the gold buying
of

LMS 3-No. 293, May 18, 7 p. m., from London.

of the United States which is confessedly on a 24-hour standard. A satisfactory and lasting organization of the gold market can come only through an arrangement between the United States, Great Britain and France covering some sort of stabilization of the respective currencies at tenable parities". In the same journal Einzig severely criticizes the Chancellor of the Exchequer attributing the root of the trouble to the fact that 'intervention in support of the price of gold is half-hearted and yet the exchange equalization account could allay fears by supporting the price of gold at the American shipping parity".

700 41
EXEMPTED FROM PROSECUTION
PUBLISHED BY THE BUREAU OF INVESTIGATION
Sir Josiah Stamp states that he is sailing shortly for the United States and plans to be in Washington June 13 and 14.

BINGHAM

WTC:RR

LMS

GRAY

Paris

Dated May 18, 1937

Rec'd 3:10 p. m.

Secretary of State,
Washington.

641, May 18, 5 p. m.

FROM COCHRAN.

Paris exchange market quiet. French franc under slight pressure. French control yielded some sterling at 110.41 and 43; then stepped out of market and rate moved to 48. Soviets said to be buying Dutch florins today; no reason mentioned. Rentes mostly lower; shares dull. Press continues to gossip of an alleged agreement whereby United States buys gold directly from Soviets without working through London. Indian gold for future delivery declining further with no takers to be found.

For the first five months of this year imports into France totalled 13,525,000,000 francs, an increase of 5,375,000,000 francs over the corresponding period of last year. Exports totalled 7,280,000,000 francs an increase of 2,403,000,000 francs. For April imports amounted to 3,297,000,000 while exports reached 1,973,000,000 francs.

BULLITT

RECEIVED
MAY 19 1937
RR:770

PARAPHRASE OF SECTIONS TWO AND THREE OF TELEGRAM NO. 641
of May 18, 1937, from Paris.

Yesterday evening Riefler and I visited Professor Rist at Versailles. The Professor told us that it is worry over the international political and social outlook rather than fear of international complications or early war that is delaying recovery in France. The past few days there has been an increase in the Treasury bills in circulation, he said, showing that there is actually more available cash in France for investment in this. However, he added that as yet there had been no real repatriation of French funds abroad. The fact that the French stabilization fund is barely holding its own bears this out. The seriousness of the budgetary situation is not minimized by Professor Rist. He remarked that beyond about the end of June the Treasury requirements have not been provided for. As to what would happen after that date, he would venture no opinion. The obstinacy of the British economic leaders made him particularly unhappy, and thought that their policies were (?) ill-advised. As evidence, he said, is the report of the recent first issue of their defense loan.

Today the Bank of Italy representative, Pennachio, had a telephone call from a responsible Swiss banker who said that the Zurich daily confidential tip was that within 15 days the French franc would be devalued. This is of
course

- 2 -

course discounted by Pennachio, but he is convinced that the French Treasury will have to exhaust all of its cash and draw to full limit of its credit with the Bank of France in order to meet obligations until the end of next month. It is Pennachio's opinion that a change of government here with such a man as Daladier becoming Premier would give such an impetus to recovery in France and capital repatriation that the international gold scare might soon disappear entirely. Governor Azzolini of the Bank of Italy, he said, may about the middle of June pay a visit to Governor Labeyrie of the Bank of France.

FINANCIAL TIMES London today says city has long been convinced that the signatories to the tripartite agreement should issue a joint statement on the gold price subject.

END MESSAGE.

BULLITT.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Cook
39

OFFICE CORRESPONDENCE

DATE May 18, 1937.

TO CONFIDENTIAL FILES

SUBJECT: _____

FROM Allan Spraul

Mr. Araki, New York Agent of the Bank of Japan, called on me and stated that the Japanese Government has decided to send a third lot of gold to the United States totaling approximately 53 million yen. He said that the first shipment of this lot, totaling about 18 million yen, would leave Japan on May 25rd and would be due in San Francisco June 9th, and that there would probably be two additional shipments. Mr. Araki gave me the following figures with respect to the three lots of gold, two of which have been and one of which is about to be shipped to the United States by the Japanese Government:

	<u>Volume</u>			<u>Value</u>
1st	15,929,009	gramme	actual	\$15,654,069.92
2nd	14,745,000		estimated @ \$35 per ounce	16,594,089.00
3rd - 1st shipment May 25 (and probably two additional shipments) and due San Francisco June 9th	18,600,000		" " "	15,505,465.00

Mr. Araki said that the proceeds of the first shipment had been retained by the Japanese Government to pay the service on bonds held abroad, foreign expenses of the Government, etc. The proceeds of the second shipment, and, probably, the third shipment, are gradually to be sold to the Yokohama Specie Bank for use in exchange operations in support of the yen. This procedure takes funds out of the Japanese market, as the Yokohama Specie Bank pays ^{yen into} the Bank of Japan for the dollars obtained through the sale of gold. Mr. Araki thought that this would place some limit on the amount of Japanese gold which could be used in this way, particularly as the Japanese Government and the Bank of Japan are interested in seeing that money continues relatively

OFFICE CORRESPONDENCE

DATE May 18, 1957.

TO CONFIDENTIAL FILES

SUBJECT: _____

-2-

FROM Allen Sproul

easy in the Japanese market while the Government is doing deficit financing. Mr. Araki also said that the first half of the calendar year is the time of heavy imports into Japan and that the requirements for supporting yen exchange are correspondingly heavy in that period. During the second half of the year, he said, when the trade balance is more nearly adjusted it may not be necessary to sell gold in order to obtain foreign exchange.

AS:R

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Lusk 41

OFFICE CORRESPONDENCE

DATE May 19, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Kneke

WITH BANK OF ENGLAND.

I called Mr. Bolton at 11:35 and referred to today's renewed weakness of the French franc. Bolton had no explanation to offer other than to say that the franc had had about ten days of rest which was a lot for that currency and that that rest period seemed to be over. Possibly the softer tone of the franc could be explained by the improvement in international markets on the theory that the Frenchmen might conceivably again be buying international securities. That, he said, however, was entirely a guess. At any rate, there was no particular news from political circles in Paris. The continued unfavorable trade balance, of course, helped to push the franc down.

As regards the gold market in London, Bolton thought it was a little less nervous and seemed to be getting over its recent troubles. The heavy discounts quoted for forward delivery, he had found to be mostly talk. At any rate, he had tested the market (I think he referred to Bombay) and put in a bid for forward delivery at the price quoted only to find, however, that there was no gold available at that level. I mentioned that I had heard from one source that gold stocks in Bombay and Calcutta were exhausted and Bolton thought that that was probably true. They (I presume he meant the fund) had taken a lot of gold off the market in London during recent days; he did not know the exact amount but it was somewhere between one and two million pounds a day. As a result, he thought that a good deal of the volume recently pressing upon

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 20, 1927.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knobe

WITH BANK OF ENGLAND.

- 2 -

the market was now out of the way. Bolton inquired whether we had been able to fix up anything with Russia. I replied that the Treasury had just again denied that an agreement had been arrived at. Bolton said that a good deal of the gold purchased by them was Russian gold; they were in contact with the Moscow-Narodny Bank in London - the Russian State Bank's agent in London - but nothing further had happened. Shipments of gold from Russia were coming in again but at a slower pace, now of about \$1,000,000 a week. The total so far received was a little over \$30,000,000. Generally speaking, he repeated, things were much quieter now although there was still a little nervousness. Their market operations had been small; they had received a number of orders from various correspondents for the sale of dollars, for what purpose, he did not know.

[Handwritten signature]
LWK:EMC

RR

GRAY

Paris

Dated May 19, 1937

Received 1:30 p. m.

Secretary of State,
Washington.

645, May 19, 6 p. m.

FROM COCHERIN. Paris exchange market fairly active. To meet steady demand for sterling French control is said to have lost almost one million pounds intervening at 110.55, 57, 61 and finally 110.75. The demand for sterling is widespread, with no particular element evidently responsible therefor. Forward franc slightly more offered. French rentes unchanged. Shares of Banque de L'Union Parisienne dropped today from 490 to 380 upon the report that negotiations for the taking over of this institution (which has not been strong since severely hit by foreign loan defaults) by the Banque Nationale Pour le Commerce et L'Industrie have broken down.

(END SECTION ONE)

CSB

BULLITT

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 645 of
May 19, 1937, from the American Embassy, Paris.

The French situation is a continued source of worry to market observers - particularly the question of how the Treasury requirements will be financed; however today the sentiment toward other problems seems better. L'INFORMATION says that Washington and Moscow have reached a definite agreement and that the gold question is therefore settled; this report is apparently believed on the market. Less offering of Indian gold today, some forward purchasers are on the market. Visible gratification by London FINANCIAL NEWS that Sprague's views as expressed at Berlin showed a change from those which he earlier pronounced at Paris and fit in with this paper's contention that more gold should have been taken by the British equalization fund.

I was visited this afternoon by the head of a Paris-American bank. He said that his French industrial clients report that there is a let-up in France of internal consumption demand and that there is a decline in orders for export because of high prices due to excessive costs of production in France. There is so much impatience on the part of manufacturers (who have held their staffs together even when producing at a loss) with the attitude of labor as at least countenanced by the Government that employees are being dropped.

END MESSAGE.

BULLITT.

EA:LWW

MEMORANDUM

May 19, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Treasury bond market was quiet today, quotations easing in the first part of the session 1/32 to 5/32 and closing generally 1/32 to 3/32 off from yesterday. The market had a rather professional tone. The government guaranteed bonds were unchanged to 2/32 off. Turnover of Treasury bonds on the board was small at \$504,000. Treasury notes were dull and quotations declined slightly. Most maturities closed 1/32 down from yesterday but the new 1 1/4s were 2/32 down.

Aside from a little interest and activity in high grade bonds in the first hour or so, the domestic bond market was quiet and price changes were small. Both high and second grade bonds closed generally small fractions better on the day.

Foreigns were generally quiet and steady. Canadian bonds tended slightly lower.

No purchases for Treasury today.

Gastner's Speech (not used)

46

5-19-27.

My friends, there is a campaign on in America. It is a part of a struggle in which all mankind is eternally engaged. It is a campaign for better government and better living.

A campaign is a fight. It is a series of battles. On the part of millions here in America this campaign is not about abstract principles of government; ~~it is~~ it is a battle for the right to live, a fight for the right to live in decency ~~in~~ and ^{security,} to be freed from the fear of imminent starvation.

A few months ago we were engaged in a political contest and on many occasions then I talked to you about the objectives we had set for ourselves. I was encouraged by the results of that contest to believe that I had stated your objectives truly. ~~Indeed~~ If they were our objectives then they are even more our objectives now. If they were worth fighting for then they are worth fighting for now. On several occasions then I used the words "We have just begun to fight." I was not dealing in figures of speech; I was dealing with hard and stubborn facts. If any one supposed then that those words referred to the election of any one man or any set of men to office or to the results of any single political competition, I was woefully misunderstood. The campaign in which we are engaged is no such temporary struggle. It will not be ended in a year. It will not be ended in the life of one political administration. It will not be ended in one man's lifetime. It is a battle for human progress. It is a battle to give every man ~~xxxxxxxxxxxx~~ and woman and child a chance for a decent living. It is a battle to ~~prevent~~ hold what we have gained, to prevent what we have of civilization and ^{humane living} ~~humanity~~ from falling in ruins about us.

I have no illusions about being able to bring about a millenium in this generation. I have no ambition but to ~~bring about some~~ be helpful if I can in bringing about some advance in our ways of government which will contribute to human

happiness, which will give some greater freedom from fear and some relief for the human misery that exists today.

I know of but one way to make any real contribution in that direction. It is to hold continuously before our people the vision of what they may accomplish for their own betterment and for the betterment of their children and to urge them to fight to attain it. My appeal is to youth and to the youthful in spirit, to those who are not willing to confess defeat but who hold steadfastly not merely to visions of a better day but to active ambition to achieve it.

Here in America we have the pattern and the ~~framework~~ framework of government which can make those visions and those ambitions of the common man effective. We hold a great gift in this pattern and this foundation of democracy. We hold a great responsibility too. It is not the pattern on which a beaten and a cowed people can advance, but it is the path of progress for free and independent spirits who can work out their own destiny without need of a ~~dictator~~ dictator.

We have liberty within the framework of our government. It has but one essential feature; that is the ultimate rule of the people. They can make their government what they wish, and they can do it peacefully. They need no violent revolutions to accomplish their desires.

It is a government expressly designed to promote the common defense and the general welfare, and those who originally participated in its formation left the broadest latitude to succeeding generations to determine how those objects might best be attained. In the early days the first preoccupation was with the general defense and that was regarded as the prime function of the general government. But steadily, generation by generation, the importance of the regulation of the activities of our citizens so as to promote the general welfare has grown until it has properly become the chief concern of our system of government.

We have reached another crucial stage in the development of our form of govern-

ment, perhaps even more crucial than the ^{great} struggle between the States which determined that one indivisible government should rule in all the territory of the United States.

We have extended greatly the scope of our general government. We have extended its responsibilities to promote order in industry, to curb avarice, to protect the rights of the weak, to relieve suffering and want. The people of the Nation have unmistakably declared that they will not recede from these new fields of government; that they will continue to use the powers of the general government to ~~xxxxxxx~~ promote order in our economic life, to give opportunity for initiative and to restrain ~~xxxxxxx~~ predatory practices which, as we have learned through ~~xxxxxxxxxxxx~~ recent bitter experience, threaten our whole National life.

Our purpose to do these things will not be accomplished without a struggle. I am not prophesying; I am speaking of facts. The power of our government, the laws of our government, are being challenged today. They are being challenged and resisted and evaded in the letter, and they are being challenged and resisted and evaded in the spirit.

We must have revenue to finance the increased responsibilities of government. We have passed tax laws to obtain the necessary revenue. For nearly a quarter of ~~xxxxxxx~~ century we have had established in our revenue laws the principle of taxation according to ability to pay. It has become the core ~~of~~ of our Federal revenue system. We didn't establish that system without a long-drawn-out battle. We had finally to write a new section into our Constitution to overcome an adverse decision by our highest court. We have not even yet been able to make the system work ~~at~~ satisfactorily, although we obtain a chief part of our revenues by applying it.

Taxation according to ability to pay is resisted stubbornly and continuously

by many of those who are the chief beneficiaries of our governmental system and our National progress.

When I sent my budget message to the Congress in January of this year I included in it an estimate of approximately two billions, three hundred and seventy-three millions of revenue from income taxes in the fiscal year that will end on June 30. In April I found it necessary to send a revised estimate to the Congress in which the receipts from income taxes, in the light of the March collections, were reduced by two hundred and sixty seven millions. Since ~~that time~~ then there has been time for the Treasury Department to make a critical examination of a large number of returns. ~~and the result is~~ The result is not at all to cast discredit on the original estimates. The ~~sharp~~ drop of about 11 per cent in revenue seems to be amply explained on other grounds, which amount simply to this: Many men of large income don't want to ~~pay~~ pay their just and lawful shares of the money due the government. They seek by every possible device--many of them no doubt illegal under present law--to avoid paying their just liability.

This business of beating the Federal revenue laws has become a game to be played for high stakes. It is a rich man's game; the poor can not play it. It is a game in which high-priced lawyers and business organization and income tax experts are engaged to devise tricky schemes and to prosecute prolonged litigation so that men of wealth may escape paying what is rightfully due to your government.

Business has been the beneficiary to a striking degree of the recovery that has been brought about by our common effort. Most business men have cheerfully and candidly revealed their profits of last year and have willingly paid their taxes. A striking instance of that attitude is shown a ~~letter~~ letter received by a Collector of Internal Revenue from the officer of a West Virginia corporation. This man wrote:

"In view of the enhanced business conditions due to Government instrumentality, and because of our interest in ~~and~~ appreciation for improved conditions brought about by such governmental intervention, it is our desire to withdraw the claim for payment referred to above."

This was a claim for a tax refund of \$4,757.

This is one attitude. But unfortunately we have many instances of an attitude totally different. I shall cite a few cases of ~~that sort~~ that sort. I should like to name names and I think the time will come when names will be named publicly and the American people will have an opportunity to form their judgments and to shape their political attitude accordingly.

I desire that the American people should have full information for two reasons. The first is that out of our examination of income tax returns will come recommendations for changes in the law to close gaps--loopholes of tax avoidance. Those recommendations can not be prepared hastily. I expect to make such recommendations to the next session of Congress. But I want the American people to be informed in advance so that they may support those proposals that they regard as fair and equitable. The second reason is that I think reforms ^{of real importance} can be achieved purely by the force of public opinion. I trust the American conscience to express itself in shaping a code of ethics as to duty and responsibility to our government apart from the letter of the law.

Instance No. 1 of this class is of a Western millionaire who has been evading his tax liability for several years. He did it by the device of concealing the ownership of his stock in corporations. He registered a large group of his employees and ~~xxxix~~ relatives as owners of stock that he himself really owned. He gave them the money to pay the taxes, which amounted to hundreds of thousands of dollars less than he would have had to pay if had told the truth. That man has been trying to bargain with the Government for a settlement. He will not be

permitted to make a bargain. The law will take care of his case.

Instance No. 2 is of a rich New Yorker who showed no ^{taxable} income in his 1936 return. But he and his family own the stock of a Canadian corporation that had dividends of a million 600 thousand dollars from American sources.

Instance No. 3 covers several men who entered into a complicated transaction involving pretended ~~insurance~~ life insurance policies. They paid over large sums of money and immediately borrowed it back, creating large and fictitious interest costs which they showed as reducing their taxable income.

Instance No. 4 is of a taxpayer who ~~owned~~ a yacht. The cost of its operation was not a business expense and could not be deducted from his income. But he made it a business expense by transferring it to a holding company, and the effect is to reduce his reported income and his tax.

This instance is repeated in substance by the practice of a considerable number of men of high incomes who operate country homes as incorporated stock farms or racing stables run for profit.

Instance No. 5 also includes a fairly large number of persons whose incomes are being split up among trusts created for relatives so as to reduce the total income to a fraction of what it would be if the real owner reported it as his own.

Instance No. 6 is of an American whose great fortune was built in American industry ~~is~~ by his father. This man theoretically lives abroad and has had a movable place of residence. His last reported home was in a remote village in British Columbia.

These are but a few type cases. The property of others, their investments in American business, have been swallowed by holding corporations established in the Bahamas or elsewhere out of the United States, which receive the income. In a great number of cases American holding companies are used as the device by which great fortunes are permitted to accumulate without being subject to

the taxes which the owner would have to pay as an individual.

Then there are also cases of corporations whose expenditures have very greatly increased along with profits. There are very large charges for maintenance and repair^s and there are in some cases large disbursements to private pension funds, so, etimes for the ultimate benefit of a ~~tax~~ relatively highly paid officers and employees.

It might be said of all these instances that examination should show whether they constitute legal avoidance or illegal evasion of taxes; that if the legal avoidance results in injustice and failure to get the revenue the government ought to get the remedy is to ~~amend~~ ^{amend} the law, and that where there is illegal evasion all that is necessary is to enforce the law.

But there is more to the matter than that. Of course we shall have to continue to study our laws in the light of experience and to devise constantly new means for dealing with ~~tax evasion~~ those who exercise all their ingenuity to escape their share of taxation. In other words, we shall have to make our tax fences as nearly as humanly possible hog tight.

It is equally true that we shall have to continue patiently and with every resource at our command to restrain and to punish illegal evasion.

But beyond that we must recognize that what we are dealing with is a challenge to government, a challenge to our capacity for self-government. We must recognize that all we are seeking to do for the furtherance of a better order can be wrecked on the rocks of resistance by men who are powerful, who speak with many voices, who are as cunning in ~~misleading~~ misleading public opinion as they are in devising schemes to outwit the intent of Congress and the people.

When men of this class speak of diminishing returns from taxation they are obviously intimating that they will refuse to pay taxes that they regard as too high, regardless of what the law says. Happily they are not in the majority.

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Resistance to taxation is today a major problem of government, but it is not an insuperable one. We can make our tax laws hog-tight and we can enforce them against cheaters. We can through this means find the revenue to help our people in the ways they need to be helped and we can prevent ~~the~~ concentration of wealth on a scale which would imperil the foundations of our civilization.

We can do these things by public understanding and an informed public will. Our way can be the way of progress with democracy--not the way of revolution.

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These are but a few type cases. The property of others, their investments in American business, have been swallowed by holding corporations established in the Bahamas or elsewhere out of the United States, which receive the income. In a great number of cases American holding companies are used as the device by which great fortunes are permitted to accumulate without being subject to the taxes which the owner would have to pay as an individual.

Then there are also cases of corporations whose expenditures, as shown on their tax returns, have increased out of all proportion to their increase in business. There are very large charges for maintenance and repairs and there are in some cases large disbursements to private pension funds, sometimes for the ultimate benefit of a relatively few highly paid officers and employes.

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But there is more to the matter than that. Of course we shall have to continue to study our laws in the light of experience and to devise constantly new means for dealing with those who exercise all their ingenuity to escape their share of taxation. In other words, we shall have to make our tax fences as nearly as humanly possible hog tight.

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But beyond that we must recognize that what we are dealing with is a challenge to government, a challenge to our capacity for self-government. We must recognize that all we are seeking to do for the furtherance of a better order can be wrecked on the rocks of resistance by men who are powerful, who speak with many voices, who are as cunning in misleading public opinion as they are in devising schemes to outwit the intent of Congress and the people.

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--oOo--

GROUP MEETING

May 19, 1937
9:30 A.M.

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

- H.M.Jr: Before we get going around the table, Mr. Farley called me up at my home and he said that - he didn't have it quite straight, but the Treasury, he understood, was favoring a bill which would take the three thousand - what he calls it, the people who - conservators and put them under S.E.C. He said he didn't have it quite straight, but if I didn't know what it was, it was bill so-and-so and so-and-so; he had the bill before him. And he said he didn't care what bureau or what it was, but he thought it ought to be in the Treasury, and he couldn't see why we put it over in S.E.C. So I said I'd heard something about it, but I was a little vague and I didn't know about it exactly. Is it going to S.E.C.?
- Oliphant: Do you want the story?
- H.M.Jr: That's what I'm asking for.
- Oliphant: A couple of years ago Jefty had the plan.....
- H.M.Jr: Mac, why don't you let Dan sit in that chair?
- Bell: No, I'd rather sit in a straight chair. I get down there, can't get up.
- Oliphant:had the plan of increasing his staff by about three thousand by having a conservator appointed in each Federal bankruptcy and having them all under the control of the Comptroller of the Currency. Last year that bill was presented to us and the Department made a formal adverse report. And all

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that had been done this year is to say to the Committee - Mr. Hester has told the Committee that there has been no change in the Department's attitude.

- H.M.Jr: But is there any recommendation that should go over to S.E.C.?
- Oliphant: None at all.
- H.M.Jr: Where should it go?
- Bell: F.D.I.C.
- H.M.Jr: He said S.E.C.
- Oliphant: It's the whole bankruptcy picture and the protection of creditors of these corporations, see?
- H.M.Jr: Bankrupt corporations?
- Oliphant: Yes
- H.M.Jr: Who's handling it now?
- Oliphant: Well, there is no such person now. They are proposing to create a conservator in each one of the bankruptcy cases.
- H.M.Jr: Do you mind giving me a memorandum on it?
- Oliphant: Be glad to.
- H.M.Jr: Huh?
- McR: It's that Sabath committee activity.
- Oliphant: I know if I were locating it naturally, where it properly belongs, I'd put it in the S.E.C., because that is the job of S.E.C., to protect investors of this country.
- McR: S.E.C.'s man wrote the bill that they are considering now, I understand.
- H.M.Jr: Well, give me a little informal memorandum.

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- Oliphant: Bill Douglas has studied the subject some ten years, and this is the result of his ten years of study.
- McR: The Committee came around - Sabath sent the Clerk of the Committee down to see me; wanted to know whether the Treasury wouldn't be willing to have this organization built up and placed in the Treasury, they didn't care where. And since it is something that is just a question of conserving the interests of stockholders in bankrupt corporations, having nothing to do with Treasury financing, I said it shouldn't be in Treasury. I said, "That's my opinion." Now - and on that basis they dealt with S.E.C. I told them that I thought S.E.C. - I sent the man down to see you (Oliphant); you told him the same thing.
- Oliphant: Yes, and we had never conferred. You and I had never talked about it.
- McR: No, I had never talked to you about it, but you told him the same thing. It's just naturally something Treasury shouldn't take on. And there is no reason in the world why the Comptroller of the Currency, having national banks under him, should extend his jurisdiction to bankrupt corporations.
- Oliphant: No.
- McR: It isn't confined to financial institutions.
- Oliphant: The matter is coming up before the Committee this morning. The Committee will follow the Treasury's recommendation.
- H.M.Jr: Well, you wouldn't think it could go into Internal Revenue?
- Oliphant: Huh?
- H.M.Jr: Could it go into Internal Revenue?
- Oliphant: No.
- H.M.Jr: Because we have a bankruptcy corporation division over there.

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- Oliphant: That is for the purpose of protecting our claims against these corporations, getting our money out of these corporations. But the purpose of the whole Douglas plan is the protection of the investing public. The organization whose job that is is S.E.C. - to protect the investing public.
- McR: Sabata's committee suggested the consolidation of this with your (Oliphant) division down there on bankrupts. I told him in my opinion that would be particularly bad, because our job was to look after the Government's interests in connection with the bankruptcy proceedings, and it would be inconsistent for us to undertake to look after the Government's interests and at the same time to look after the adverse interests of somebody else.
- Oliphant: That's right, the Treasury's interest is adverse to the interest of the investors.
- H.M.Jr: I still say, if you'll give me a memorandum....
- Oliphant: I'll give you one.
- H.M.Jr: Now, one other thing that I got - what is the latest on the self-help co-op?
- Bell: I think they've found the money; not definitely, but someone dug up some money yesterday in the District; apparently it's about \$70,000 of an old balance available to the District which was out of grant money.
- H.M.Jr: Well, who would know?
- Bell: Well, they were getting - I told them last night to be sure about it. They said they were certain and I said, "Be sure and call Dan Donovan this morning." That's what they're going to do.
- H.M.Jr: Who would know?
- Bell: Miss Lonigan was following it with Mr. King.
- H.M.Jr: Would Miss Lonigan?
- Bell: She might.

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H.M.Jr: (On phone) Miss Lonigan, please.

They're starting registering people today. Never worked so hard for \$50,000 in my life.

(On phone) Hello.

Operator: Miss Lonigan. Go ahead.

H.M.Jr: Hello.

Lonigan: Yes, Mr. Secretary.

H.M.Jr: Good morning. Have you got the money for self-help co-op?

Lonigan: No, we have to go over at ten o'clock to see Mr. Street and he is to carry us until the new bill is put through. We couldn't get our appointment until ten o'clock this morning.

H.M.Jr: Now just a moment. Mr. Bell is here. - - The ten thousand will carry you how long?

Lonigan: Until the new bill, the 1937 relief bill. Under that it is a very simple thing to grant to self-help co-ops, and you arranged that with Mr. Bell, so that from the new money we can get the grants.

H.M.Jr: Now just a moment, please.

Bell: That's all right. Creek - I don't know who he is.

Mrs Klotz: No, Street.

Bell: Oh.

H.M.Jr: That's out of the seventy thousand he got?

Lonigan: Now, the new grant would come from the billion five.

H.M.Jr: No, the ten.

Lonigan: The ten would come out of the seventy. If we ask for more, then we might not get it; if we ask for seventy, we know we won't.

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H.M.Jr: Well, after you get back, will you come to Mrs. Klotz's office and tell her what happened?

Lonigan: Yes, Mr. Secretary.

H.M.Jr: Thank you.

Lonigan: Thank you.

H.M.Jr: Mac?

McR: (Nods nothing)

H.M.Jr: Dan?

Bell: I haven't anything except.....

H.M.Jr: Excuse me (answering phone)

Bell: ...you asked me to look into that. (Handing papers to Secretary)

H.M.Jr: (On phone) Hello. (Has conversation with Cordell Hull, record of which follows:)

May 19, 1937.
9:38 a.m.

H.M.Jr: Hello - hello.

Operator: He'll put him on in just a second.

H.M.Jr: Hello

Hull: Henry, how are you feeling?

H.M.Jr: I'm all right, thank you.

H: I - ah - I just wanted to call your attention to a phase of that proposed tariff on antiques. I'm not - I'm not discussing or taking issue with the reasons.

H.M.Jr: Yes.

H: In support of putting a tariff on it the only question is at this time, as you know, we've got hanging in the balance our whole British situation.....

H.M.Jr: Yes.

H:and that will run on probably several weeks. Ah - last year, I think, of 15 million imports of these things about six or seven million of them came from Great Britain.

H.M.Jr: Ah-ha.

H: As I say, I'm not - it's not necessary to raise any questions about the merits of the matter.

H.M.Jr: Well Cordell.

H: Yes.

H.M.Jr: Ah - I've turned the thing over to Wayne Taylor and he had it up with our Customs people yesterday.

H: Yes.

H.M.Jr: Now if you'll send some fellow over to talk to him or tell me who he should talk to why they can get together on it to-day.

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- H: Yes, well - ah - our man Hawkins over here who is in charge of our trade agreements.....
- H.M.Jr: Yes.
- H:talked with Mr. Johnson.....
- H.M.Jr: Well.....
- H:and he didn't get any particular satisfaction.
- H.M.Jr: Well since that - he didn't talk to him yesterday, did he?
- H: No, a couple of days ago.
- H.M.Jr: Well since then I don't know how it came to me - anyway they told me you people were interested in it - somebody came over to see Oliphant yesterday.
- H: Oh I didn't know that.
- H.M.Jr: Yes, they came to see Oliphant about it and we discussed it here yesterday and they explained to me your interest on account of your pending trade treaty. Now I want to do everything that I can to help - in a sense I don't want to be.....
- H: Ah, see when we have been negotiating with other countries like Switzerland and two or three others and they've raised rates during the negotiation we raise the devil about it because.....
- H.M.Jr: It doesn't help any.
- H:we said we couldn't trade that way. When they were raising things against us - ah - right - either for the purpose of trading this could be - at any rate it could - it could give us some trouble with.....
- H.M.Jr: Well now if you can send your man over to see Mr. Taylor this morning he's ready to talk.
- H: Yes.
- H.M.Jr: And - ah - ah - ah - I - I - I'm quite sure we'll help. We won't - I - I'm not - ah-going to make it any more difficult for you I'll assure you that,

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- H: Well I - I think our - probably we may - the British you know may be thinking about two or three things at the same time like the monetary situation and the debt situation and the trade situation - we can't tell but we just want to be prepared to - ah - make the strongest pull on them.
- H.M.Jr: Listen, if we've been taking their fake antique furniture for I don't know how many years we can take it for a month longer I guess.
- H: Well that 's - that 's the point. I know what - I know their fault you understand.....
- H.M.Jr: Yes.
- H:and situation.
- H.M.Jr: Well I'm - I - I - I think if you'll get a man over here you'll find.....
- H: Yes.
- H.M.Jr:that there's a - that we'll do everything we can not to be a stumbling block.
- H: Thank you, Henry.
- H.M.Jr: Thank you.

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H.M.Jr: Right?

Taylor: (Nods yes)

H.M.Jr: Say, we've been taking it how long?

Oliphant: Time out of mind.

H.M.Jr: Well, I don't want to - as I say, and I am perfectly sincere, if we have taken their fake antiques for God knows how long and Cordell has got this thing, it's insignificant compared to what he's trying to do, and I don't want to.....

Taylor: What it amounts to is that we make a major change in the tariff structure and call it an administrative ruling, because there is....

H.M.Jr: Well, you know how we feel. We can take their lousy wormholes. Trouble is, they're not lousy enough, is that it?

McR: The worms are still crawling.

H.M.Jr: That's the trouble, they're not lousy enough.

Bell: You asked me to look into the matter as to whether we had ever offered two or more issues combined - with the combined allotment, rather than an amount on each individual issue. On two different occasions we have offered two issues of certificates of indebtedness with a combined total. That third paragraph will show you the provision put into the circular - third paragraph on the first page - as to how it is worded and the proportion.

H.M.Jr: That's been done?

Bell: Yes, but on both occasions they were obligations exactly alike; in other words, they were certificates of indebtedness. But we've never offered a certificate and a note, or a note and a bond. But it's the same principle.

H.M.Jr: Now, you going to be here at 11?

Bell: (Nods yes)

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H.M.Jr: Taylor?

Taylor: (Nods yes)

H.M.Jr: What about Haas? Will you (Mrs Klotz) check with Haas.

Anything else?

Bell: That's all.

H.M.Jr: If you don't feel well, you don't have to come to that three o'clock.

Bell: I think I'll be here.

H.M.Jr: I mean that's nothing.

You (Lochhead) sit in on that?

Lochhead: The eleven? Yes.

H.M.Jr: Bring Harris in too.

That clear you (Bell) now?

Bell: That clears me.

H.M.Jr: I've got nothing from the President on anything except what happened - what Gaston told me late last night over the telephone; he wants to release those May first letters. And I wouldn't mind seeing what letters I have written.

Bell: I'm not going to release those letters.

H.M.Jr: But what have I said. How much have I done? Have I saved anything?

McR: Practically nothing.

H.M.Jr: I said I went the limit.

Bell: Well, I tell you what most of them have done, particularly the large departments, War and Navy. They have looked at the April 20 expenditure estimate for 1937 and then advised the Budget "we'll meet those figures."

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H.M.Jr: Well, this is something between you and the President.

Bell: How's that?

H.M.Jr: Just between you and the President.

Bell: Certainly put me on the spot. I've been dodging that question now.....

H.M.Jr: Well, have I written you a letter?

Bell: Yes

H.M.Jr: Was it any good?

Bell: It came from the Treasury.

H.M.Jr: Was it any - who signed it?

McR: I did.

H.M.Jr: Any good?

Bell: Yes, I really think the Treasury did a good job. They got estimates from each bureau separately, set up the appropriations and the amounts they contemplated saving.

McR: Well, we saved about 12 million in one bureau, Dan, but we had to eat it up in your additional allotments to keep this emergency stuff going.

Oliphant: Mac's talking too much.

H.M.Jr: Well, O.K.

Well, if I might make a suggestion, if you haven't thought of it, I'd get hold of Steve Early right away and talk to him.

Bell: Well, I'm not going to give out any figures. I'm not going to give out any letters. I think I'll tell him in a general way what was done; that these departments have got these far-flung activities over the world and all they have done is issued instructions to save wherever it is possible to save and incur no obligations that are not absolutely necessary.

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McR: And it's done a lot of good too.

Bell: Yes, it's done good; but the dollars and cents - you just can't pin it down to that amount.

H.M.Jr: All right.

Bell: I'm satisfied - perfectly well satisfied if they meet the Budget figures of April 20.

H.M.Jr: Well, if you're satisfied, I am. All right?

Bell: I think we'll be getting by pretty good if we take 295 million off the estimated expenditures.

H.M.Jr: But you did it before that request went up.

Bell: I anticipated the savings.

McR: Dan knew what he was going to put in the letter and he knew what response he would get, and he just got by with it, that's all.

H.M.Jr: O.K., Dan. All right?

Bell: (Nods yes)

Lochhead: The bonds are opening slightly lower this morning.

Roche: I think nothing special, sir.

H.M.Jr: I'm glad to see that you put some extra men on - and women - at Stapleton.

Roche: Yes, I put that in the statement. Two nurses too - emergency; we took them from another hospital as an expedient for the time.

H.M.Jr: As what?

Roche: Just a temporary expedient until we can get some more. But it's helped.

Bell: That relieves the situation for 1938.

Roche: So sorry you mentioned it.

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H.M.Jr: That's the trouble when you have a man around that has a triple capacity. Three titles, you know.

Bell: Take advantage of anything you say, and if anything disadvantageous, I don't hear it.

Roche: All right. We'll send him up - when you get completely paralyzed with your back, we'll send you up to Stapleton.

H.M.Jr: Isn't she mean, Dan?

Bell: I've been in it before.

H.M.Jr: He's had a bad back before too.

McR: Yes, Dan knows better than to give....

Bell: Coast Guard tried to get me up in an airplane several times and I wouldn't go.

McR: Got you on a boat one time, didn't they?

H.M.Jr: Wayne?

Taylor: This Patman bill - you don't want to do anything about that, do you?

Mrs Klotz: That's the thing they wanted a suggestion on.

Taylor: Off-the-record comments, on that monetary plan.

H.M.Jr: What is it?

Taylor: "Attached is a copy of a bill that I expect to recommend to our group. If you have any off-the-record suggestions, please advise me."

H.M.Jr: Well, what is the bill?

Taylor: To take Government ownership of the Federal Reserve Banks.

H.M.Jr: No. No. I'd just acknowledge it. (To Mrs Klotz) Just acknowledge it and tell him that - just acknowledge it formally.

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Anything else?

Taylor:

No.

H.M.Jr:

Herbert?

Gaston:

I don't believe there is anything.

Oliphant:

Nothing. Lot of talk among newspapermen last night about the President's talking about that report on his health at the press conference yesterday.

Gaston:

I think Waters is going to lose some circulation on that item.

H.M.Jr:

I hope so.

Magill:

The bill to extend the excise taxes will be introduced in the House either today or tomorrow. Now, in that connection I have two questions. First, when Mr. James Roosevelt came down I used to get a letter from him about every week asking what we had done about the extension of the excise taxes, and the last of these letters asked me to inform him if, as, and when there was any development on the subject. Shall I inform him? His letter is some time ago, I might say.

Bell:

You know the reason for that.

H.M.Jr:

No.

Bell:

At the beginning of the session the President sent a memorandum to James Roosevelt, Charles West, and myself to watch all legislation that needed to be pushed, and my only part in that is to send him a memorandum every Monday morning as to the legislation that needs to be gotten through, the things that expire, etc., and he and Charley West follow that up. That's the only part I play on the committee.

H.M.Jr:

Send a letter to who?

Bell:

James Roosevelt, and a copy to Charley West.

H.M.Jr:

Well, there's the answer.

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Bell: And he apparently writes a letter to each one of the organizations concerned with the legislation on that statement.

H.M.Jr: I'd skip it.

Magill: Just skip it.

And the second question is, should I speak to Senator Harrison?

H.M.Jr: I want to tell you, just for the record, that as for the introduction of this bill I have talked to the President about it myself, and his only comment was, "Why wait until June? Why can't they do it right away?" So he's - so he knows about it and it is entirely agreeable.

Magill: Well, they're going to introduce it right away. I think they'll push it along through. They propose to have an executive session immediately to consider it, and then report the bill out, which is very, very simple.

H.M.Jr: Now, as for Senator Harrison.....

Magill: Yes

H.M.Jr: ...I think I'd sit tight.

Magill: I'll push him all I can, but I think for your information you might bear in mind that they are at present, not due to us at all - there is a great deal of resentment between the Ways and Means and the Senate.

H.M.Jr: I reported that at Cabinet.

Magill: And consequently - "Why should we send the bill over to the Senate? Let's hold it up until the tenth of June." Of course, that's mainly Vinson; I think Doughton is willing enough.

H.M.Jr: After all, the bill has to be introduced in the House. We work with the House, and when it passes we start with the Senate. I'd say nothing.

Magill: Say nothing. All right.

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The only other thing I have is this letter from Altmeyer, which you have seen, asking us to designate a man on an inter-departmental committee on research and Social Security, I presume to deal mainly with administrative questions.

H.M.Jr: Do you know what he wants?

Magill: I don't know precisely what he wants, except this: that Altmeyer has had a couple of conferences with Mr. McReynolds and myself regarding administrative questions as between the two departments.

H.M.Jr: Well, would it be agreeable to let Mac take it up and find out what he wants?

Magill: Yes. I think that's a good idea.

H.M.Jr: Why not let Mac take it up and find out what he wants and then report back?

McR: I know one thing he wants. I got a letter from him. He wants us to take over the whole damn job. That is practically - that is, he wants us to verify all these tax reports before we send them over to him.

H.M.Jr: Is that all right with you?

Magill: Fine. I think, as a matter of fact, I was going to suggest just that. Mr. McReynolds ought to be our representative on any such committee.

H.M.Jr: All right, what else?

Magill: That's all. I have a letter for you.

H.M.Jr: Well, are you three men (Gaston, Oliphant, Magill) ready to report?

Oliphant: Well, we talked yesterday and Gaston is rewriting the document. We're going to meet again at ten o'clock.

H.M.Jr: You're going to meet with me. Herbert, have you got anything?

Gaston: No, I haven't got anything. I've just got started.

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

Gaston: Before the day is over. I'll have something about three o'clock this afternoon.

H.M.Jr: Well, I got a meeting at three. Could you come in at 2:30?

Gaston: Yes

H.M.Jr: Huh?

Oliphant: (Nods yes)

Magill: (Nods yes)

H.M.Jr: 2:30, huh? And will you (Magill) stay behind?

May 19, 1937.
10:19 a.m.

H.M.Jr: Hello

Operator: Mr. Lubin hasn't come in yet - they expect him shortly.

H.M.Jr: Thank you.

O: Right.

H.M.Jr: Well you'll have to sort of - ah - before you call him - make sure no one is here. I want to be alone when I talk to him.

O: All right.

H.M.Jr: Thank you.

O: You're welcome.

* * * * *

10:54 a.m.

H.M.Jr: Hello Dr. Lubin.

Lubin: How are you Mr. Secretary.

H.M.Jr: Ah - Lubin - ah - have you - I wondered if you could give me a summary of your own impressions - just what's happening on business and production just now and what we may look forward to for the next couple of months.

L: I'd be glad to.

H.M.Jr: Could you come around and see me, say at 3 o'clock tomorrow - would you be free?

L: 3 o'clock tomorrow, surely.

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H.M.Jr: Ah - I'll tell you I - our boys here are a little bit worried about the present situation and what's happening due to the fall in price commodities. I'd like to get your own angle on it.

L: I'd be glad to - absolutely.

H.M.Jr: Thank you very much.

L: 3 o'clock.

H.M.Jr: Thank you.

L: Right.

MEETING WITH EXECUTIVE COMMITTEE OF
FEDERAL RESERVE OPEN MARKET COMMITTEE

May 19, 1937
11:00 A.M.

Fin
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Present: Mr. Taylor
Mr. Lochhead
Mr. Seltzer
Mr. Harris
Mr. Bell
Mr. Eccles
Mr. Harrison
Mr. Goldenweiser
Mr. Piser
Mr. McKee
Mr. Broderick
Mr. Williams
Mr. Sinclair

H.M.Jr: Do you want to tell, Mr. Harrison, what you picked up in New York in regard to financing?

Harrison: Yes, Mr. Secretary. It is a little early for anyone up there, or for any of us, I think, to try and guess what you might best do in June. But the general picture is about this: In the last month or so, the long bonds, or average of bonds, has increased some little something - somewhat over one point; the notes are up ten thirty-seconds; bills, while selling at about the same yield, are in much better demand and they are a much more healthy market than they were a few weeks ago. While the technical position of the bonds is better, there isn't yet very much demand. The liquidation has pretty well stopped at the moment. Banks are not selling; in fact, some of them are increasing here and there, and some outside buyers are beginning to come in.

But everyone with whom we have talked, seeing the picture as they see it today, feels that it would be overcrowding the market to try to issue bonds in June. They feel, however, that the note picture is much better so far as possibilities are concerned, particularly if you stick to an intermediate note rather than a long note, which appear at the moment to be somewhat overpriced, they feel, and a little out of line. And there is a risk that if you issue a long note, that it would have the effect of breaking the price on all the longer notes and therefore disorganizing your note market. I think there is some preference, therefore, if you issue a note, for an

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intermediate note around two and a half years, perhaps as much as three and a half years.

On the bills, sentiment is much better; much better demand for them. For instance, on the bills that were issued last Monday, the dealers have gotten rid of the better part of the nine months bills, 13 millions of which we took, by the way, and they have gotten rid of well over half of their 18 millions of short bills already.

H.A.Jr: How much did you have run off?

Harrison: 13 million 5.

Eccler: Just replaced them.

H.A.Jr: Just replaced them.

Eccler: We didn't want to show a decrease in the statement as of last night; felt that before the financing it would be a mistake to.

Harrison: Everyone with whom I talked feels that you could sell five hundred million of notes at a price in June almost regardless of what might happen, for instance, under the Security Act decision. That decision might influence the price one way or the other; but they think that the notes would go at the moment.

They are all - and I haven't found yet anyone who is in favor - opposed to a consideration of a bond, with the possible exception of one or two who said that if conditions continue at present and if you got a favorable security Act decision, you might sell a short-term bond. That's the only evidence that we've gotten from anyone that you might even consider the bonds as a means of financing.

H.A.Jr: Well, if you - a note, then, would confine - our customers would be the banks.

Harrison: I presume - no, I think you might get some corporate investors who would be interested in the notes.

Eccler: Won't you get some trustees too?

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Harrison: And trustees.

H.M.Jr: Well, what about the insurance companies?

Harrison: Insurance companies are nibbling here and there. You find them buying small amounts. But - and gradually a tone of inquiry from the insurance companies - but they have not yet evidenced any intention of coming in in large amounts, or to use the Government bonds as a means of employing their huge available funds; they haven't turned yet to bonds.

Eccles: How are the mutual savings banks? Same position?

Harrison: Frankly, I don't know on that; I haven't checked up on that. But I think I would have heard had there been any drift towards bonds on the part of the savings banks.

Eccles: They've got lots of funds.

Harrison: Yes.

The general feeling, Mr. Secretary, was this: that while this is a picture as of today, it would be prudent on the part of the Treasury to wait just as long as is possible this time before deciding what they are going to do. And I have talked with Burgess about that; he feels that, with any issue of the size that you'd be likely to put out, we could handle it all right as of June 7.

H.M.Jr: Well, I think - I think that this - if we don't get a decision on Social Security Monday, then I don't think there is any argument that we let it go until the seventh. If we do get a decision Monday, then we could talk about it...

Harrison: Yes, that's right.

H.M.Jr:again. But if we don't get one, then you have to wait. I don't think there is any question about that, because if we don't get it Monday then we can't get it until the first of June, Tuesday.

Bell: Possibly get it on the seventh, or will the Court

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adjourn before that?

Eccles: Yes, they'll adjourn.... Have to get it on the second.

Harrison: Have to get it on the first.

Lochhead: Another thing, May 31 will be a holiday; carries over this year. If you announced it, for instance, Saturday, you'd have to hold it over 'til Tuesday then - 'til June first.

Bell: Would be announced on Tuesday under those conditions.

H.M.Jr: Well, who else has got something to contribute? I haven't got anything to contribute. How about Philadelphia?

Sinclair: I have nothing at the present time, Mr. Secretary.

H.M.Jr: Have you been talking to your people?

Sinclair: In a preliminary way. I've been waiting 'til this week, as a matter of fact.

H.M.Jr: Anything?

Sinclair: (Nods no)

Eccles: Piser, you've been up - you went up to New York and Boston and you've been watching this thing constantly every day. What is your observation?

Piser: The impression that I've gotten is that the market does not want bonds and that a short-term note, no more than two or three years, would have the most popularity in the market.

Eccles: Do you have any impression, Mr. Goldenweiser, that you'd like to.....

Golden.: No, I haven't on that - nothing to add.

Eccles: Yesterday morning we had these twelve bankers in from over the country, and they - it was evident that there was a much greater interest by banks in the bill market. In every section of the country it was merely a question of education. The difficulty

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is that the New York market has been the - has been largely the bill - say, 90 percent of the market for bills; and on account of the extremely low rate bills have had for the last three years, there has been... Of course, prior to that time they had no interest in bills, but during the last three years they - on account of the low rate they bought commercial paper or they just kept their funds idle; the rate was so low it just didn't attract them.

It was the impression of these bankers yesterday that, with the rates on bills running from a third to three-quarters, depending upon the maturity of the bill, banks would be increasingly active and interested in coming into the market; that the dealers were finding it easier to market bills to the banks outside, as the rates now are sufficiently attractive to where they want to use their reserves which they have.

Morrison: Of course, the excess reserve market in New York is not as bad as we thought at one time it might be.

H. S. Jr: What?

Morrison: The excess reserves position is not as bad we thought it might be after May 1; in fact, it is considerably better. It got down around one hundred million at one time; it is now at about 200 million. It is about 22 percent of the total excess reserves of the country, whereas the first of March they ran around 30 percent; it is not so awfully much of a reduction in percentage as we thought might occur.

Now, whether the funds from the country are going to drift back into New York or not, I don't know; but in either event, I agree that the important thing for the System to do is to try and educate the banks outside of New York in the bill market, especially in those centers where there is an accumulation of excess reserves.

That, incidentally, is one of the topics for our Presidents' Conference....

Beales: ...on the seventh.

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Harrison:on the seventh.

H.M.Jr: Well, you mentioned five hundred million. The minimum we're going to ask for is 750; that's the minimum.

Eccles: You told us that last week.

H.M.Jr: Yes, but George said five hundred; I didn't want to just let that go by.

Harrison: Well, we talked to these fellows on the basis of five hundred million, Mr. Secretary, just to get a figure, not with a view to indicating what you were planning.

H.M.Jr: Yes, but I didn't want you to go out of here today with that figure of five hundred.

Sinclair: That's what you said last week - 750.

H.M.Jr: That's what Bell said and I said, "That's the minimum; that's the minimum."

Sinclair: I might say in connection with what you say about bills that I have talked to most of the banks in Philadelphia and have found a great deal of sympathy toward approaching the bill market, now that May 1 is over. I think early next week Mr. Piser and I are going to talk to a good many of the Philadelphia people and we'll have more next meeting than I have to say now.

McKee: I think it might be interesting to note from our meeting with the Advisory Council yesterday that it was evident in some sections of the country that the balances were being transferred to the central reserve cities; that there was quite a loss of deposits in the industrial communities that had enjoyed favorable balances of companies doing business in there, that they had been concentrating the balances in the reserve cities. Now, that might be some of the help that you have already seen - coming from that source.

H.M.Jr: Well, has anybody - I mean has anybody indicated a lack of willingness to bid on the 15th of June? I mean if.....

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Harrison: Bid for bills?

H.M.Jr: No, I mean for notes.

Harrison: No, on the contrary, there has been quite a bit of enthusiasm about a short note - intermediate note.

Eccles: I think that is what the whole market is waiting for; I think that they expect it. They have got these reserves and instead of using the funds now, I think in view of this contemplated financing you'll find that they are holding out with the idea of bidding.

H.M.Jr: I had Bell look up if we had ever offered two securities like, say, we want 750 million dollars; we give them two different kinds of securities but don't specify the amount, let the market say how much. And he finds we have done it on two different occasions. For instance, we say - well now, for example, say we'd have 750 million dollars; we'd give them a three-year note and a five-year note and let the market decide which one they want and not set a limit.

Eccles: Just an option.

H.M.Jr: An option on one and the other. And work it out on the basis of percentage on which they bid. And he finds that on two different occasions we have done that; they both happened to be bills.

Bell: Certificates.

H.M.Jr: Certificates. But.....

Eccles: It's a good idea.

Harrison: I think you could do it with notes, Mr. Secretary, if you did it with some new series of an existing note.

H.M.Jr: Well, I was just saying, suppose we offered a three-year and a five-year and let the market decide which they want. I mean I'm just throwing that out. I mean everybody says a short note - I suppose they mean three years; what I'd like to get is five years, because we got a blank in '42. Think about it. Say, "All right, we'll price it fairly - a three-year and a five-year. We want 750 million."

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and let the market decide which they want and then apportion according to the amount bid. I mean I'm just throwing it out as an idea.

Harrison: The only trouble is if you make those.....

Bell: '39, '40, '41, and '42 - September - are all open. You may want a 27-month or 39-month.

H.W.Jr: Well, I want to throw out the idea of having - letting the market decide which one.

Harrison: Mr. Bell, would it be your idea in a case like that to make it an addition to an existing issue or two new dates?

Bell: Not necessarily an addition; just two issues like we would offer at any time. Instead of saying, "450 for one and three for the other," we'd say, "750 for the combined, and take your choice." And then, when the subscriptions were in, we'd allot to each in the proportion which the subscription bears to the total amount.

Harrison: Might make an awful small ratio for one or the other.

Eccles: Doesn't make much difference.

Bell: No, we can always add to it.

H.W.Jr: I mean for example it might - a man might - a fellow doesn't know; that would be the best way to find out what they really did want. I mean if we got - we have an issue coming due in December '41 of 204 million, so we have been fooled here before on what the market really would take. I'm just throwing it out as a suggestion.

Harrison: Offhand, I don't see any great objection to it, especially if it is an extension of an existing issue. I do think there is some possible argument against offering two new issues and having one, for instance, sell for only a hundred millions and the rest all in the other issue.

Eccles: Well, your '42 would have to be a new date.

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- Bell: The trouble is those dates from that period of - five-year period of existing issues are pretty large.
- H.M.Jr: We have nothing in '42.
- Bell: No, I'm talking - Governor Harrison said if you add to an existing issue....
- Harrison: They are already large, you say?
- Bell: In June 1940 we have 738 million of notes; in 1941, 500 million; and can call - well, in '41, bonds of 800 million in August, which you probably would want to pick up in the June financing; '42, of course, is vacant. When you have all of the September financing dates vacant - '39, '40, '41, and '42. December '38 is vacant.
- Golden.: Only one risk by doing that, and that is if the market is very reluctant to take a five-year note; it would be rather a disturbing demonstration if you should give them the choice and they should almost none of them take the five-year note. It wouldn't look so good for your next bond issue. It would be better not to - not to give them that chance, unless you think - because it will be over-interpreted, I should think, in the market.
- H.M.Jr: Well, the other thing I want to draw your attention to is, take the year '41, for instance; we've got - let's see, there is in '41....
- Harrison: Busy year.
- H.M.Jr: ...we've got 1385 million of notes coming due in '41 now.
- Bell: Yes, and you've got 800 million dollars of bonds on August 1, and you have 545 million bonds which you can call; so you've really got over 2700 million dollars of debt which you can take care of in '41.
- H.M.Jr: If you gentlemen don't get anything else out of me today - and that is that I think - the idea of cultivating in the minds of people, if it is possible, a five-year note; because I don't like the

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way all that is bunched up in '40-'41. And as I say, if we should go 'til June 7, why, of course we've still got plenty of time, and the thing may straighten around. But frankly, I don't like all the way all that debt is bunched up, and there is '42 perfectly blank.

Piser: There is one other possibility, Mr. Secretary, and that is an issue into December 1938; that's an open date, and maturities in '38 are rather small compared with the succeeding years.

H.M.Jr: I know, but that is a great sign of weakness. I don't want to go back four years ago, when I could only sell something for a year and a half. I'd rather price the '42 - rather pay the extra money on coupon and go out than I would to go back to '38.

Harrison: Well, I talked to the fellows in the shop yesterday about it and they feel that you could sell the five-year note all right, but if it is properly priced in relation to other prices today it would be very likely to force all your other long notes to fall. That's the trouble; it's a bad relationship. And that is just a consideration.

H.M.Jr: Well, we got - as I say, rather than to come right up close.... And another thing - I mean if it is one issue, fixed date, and 750 million, that is pretty big, piling that on the '39, '40, or '41 debt. It makes it pretty big, I mean.

Well George, just supposing - I mean that's what we're here for - I mean right now a five-year - well, a $1\frac{1}{4}$ would only have about a 26/32 premium, which I wouldn't feel would be enough. I mean I wouldn't....

Harrison: Five-year note?

Eccles: Well, don't you think that premium on a five-year note at $1\frac{1}{4}$

Harrison: We figured 23/32 premium.

H.M.Jr: Well, whether it's 23 or 26 - ne (Harris) just figured it this morning; maybe that's the difference, I don't know. You figured that this morning, didn't you?

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- Harris: Yes, just before I came in.
- H.M.Jr: After the market opened?
- Harris: Yes
- H.M.Jr: He's figured it.
- Harrison: Very small difference.
- Harris: Well, I talked to New York on that, and I think they put the market basis about a decimal point higher than I did, although I thought I was being conservative on that.
- Bell: Seems a little low - 26/32 - at the present market.
- Harris: At first I thought it would sell around a point.
- H.M.Jr: Well, supposing you sold a 1 $\frac{1}{4}$; I mean is that enough premium today to make a thing like that go?
- Harrison: Well, as you look at it today and assuming no untoward events in the Social Security....
- H.M.Jr: No, just as we're sitting today.
- Harrison:probably I should think it would. But I think the penalty you would pay would perhaps be to have the other long notes sell of.
- H.M.Jr: Well, that is something we've all got to weigh. That is something we've got to weigh as against the desirability of distributing our maturities.
- Harrison: I think that's a balance of convenience and judgment there, that's right. I agree with you that I certainly at this stage of the game would not put out of consideration a five-year note, and I wouldn't want anything I have said to be construed that way.
- H.M.Jr: As I say, if you don't get anything else out of me today, I would like you people to go home with the thought, in talking, that there is a possibility of a five-year note, and kind of talk it up a little bit.

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- Eccles: Been some little discussion in the press; I've noticed two or three indications of that possibility.
- H.M.Jr: I think frankly I would be very unhappy if I had to go into '38; I wouldn't like it at all. And I have done so many things the last couple months that made me unhappy that I - I'd like to get out of that. I mean I'd much rather be accused of paying too high a coupon and all of that, but.... I mean when they begin to talk about five years as being long-term, why, I - I can't see it. And as I say, if there's a couple of weeks to go, so much may happen. What?
- Harrison: I go one step further. I would think that, looking ahead, you haven't put out of possible consideration an additional series of the shorter bonds, in - for instance, in place of the five-year note. I mean you could add, for example, to the 2 $\frac{3}{4}$ '48-'51; if those go up in price between now and June, say, by a quarter of a point, that would be a darn good issue to sell.
- H.M.Jr: How much are they selling at?
- Harris: Last night they closed at per 11, 13; but they are off this morning.
- H.M.Jr: How much of that is out? How much in volume?
- Harris: One billion, 223.
- H.M.Jr: That's a pretty good sized issue, a billion and a quarter.
- Harrison: But I don't think you want to close your eyes to the possibility. That's one of the suggestions that was made as a possible alternate - suggestion for a short bond in place of your long note, which might have a bad effect on the rest of your note market.
- H.M.Jr: What do you think, Wayne?
- Taylor: I lean very much to notes.
- H.M.Jr: Notes?

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Taylor: (Nods yes)

McCles: Well, I certainly would go into the short-term stuff at this stage, because it is largely a banker financing; and you can refund and carry out a program of longer-term financing when some of the present uncertain elements are removed so that investors come into the market. We've got to look to the market - look for the bond market, that is, the long-term financing, to the investing public, who are insurance companies and others who at the moment are out of it; and while they are out of the market we finance pretty largely through the banks, and it seems to me we'd better give them the shorter security, where we can get the favorable rate, with the expectation of the refunding, of the longer-term financing, when that market opens.

You take a year from now, with the budget picture, it seems to me there would be no problem at all in refunding a substantial amount of the short-term debt in the market. And at this time to put out a bond - it seems to me you're trying to force, in a sense, by giving it a rate that is hardly justified - to force a reluctant public into a market.

Taylor: And you don't know that they are going to come in in any case.

McCles: No. But you're trying to do something that hurts the confidence in the Treasury, hurts the picture generally; whereas you've got plenty of funds in the short-term market; banks be glad to take it. I'd give them a note and get by this period until your budget picture begins to look more certain, until a few of these existing uncertainties that tend to hold back the existing picture are disposed of. And then you can put out, it seems to me, your long-term financing and distribute them in the hands of the public.

Harrison: Mr. Chairman, I wasn't suggesting today a bond issue; my preference today would be for a short note. But, as the Secretary says you mustn't put out of consideration the five-year note, I also feel that you must not necessarily put out of consideration the possibility of opening up one of those short bond issues. I would

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not favor it, nor would I advise it today.

H.M.Jr: Well, I'd like to give one other suggestion, and that is the possibility of a bond dated - two and three-quarter coupon dated 1942 and then go out as long as the market will take it, extend it as far as possible; the - two and three-quarters, 1942-X, going out as far as....

Harrison: Just how far?

H.M.Jr: Well, I don't know - '42-'50 - go out just as far as you could. Then the fact that it is two and three-quarters and they may say, "We're paying that for five-year money" - on the other hand, if when it comes due money is cheap, you can call it then. I mean I'd like to have you people talk - I mean in 1942 something, huh? I mean what I'd like would be a 1942-50 two and three-quarter. But of course, the market, at present prices, wouldn't take it.

Harrison: With a two and three-quarters coupon.

H.M.Jr: About where would it go - '42?

Bell: Might sell just a little above par, if they figured it to the maturity date.

H.M.Jr: Well, they'll have to.

Harrison: They'd figure it to maturity date.

Bell: Oh, I should think so.

H.M.Jr: Well, I'm throwing it out. You people who talk to these banks, which I don't, except a few isolated cases - I mean I'd like you to think about that.

Piser: I've run into some objection to a long call period on a Treasury bond.

H.M.Jr: Well, maybe so, but take a look at Farm Credit; they've got some 20-year call dates, haven't they?

Piser: Yes

H.M.Jr: And figure how they sell in comparison to ours - three years.

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Eccles: Not much difference.

H.M.Jr: There's no difference.

Eccles: That's on a very long bond, though, isn't it?

Bell: Here's one - '44-'64, three and a quarter.

Eccles: But it's a premium bond; it's figured at the call date; if it was a low coupon rate....

H.M.Jr: What is the coupon rate?

Bell: Three and a quarter.

Eccles: ...two and three-quarters, it might change that picture.

H.M.Jr: They don't like anything that is new. What I want to do is - I can wiggle around and study this thing and think.... Anything but a '38 - I mean anything but a '38, anything rather than a '38 or '39 note; that's the way I feel.

Broderick: You said three years, Mr. Secretary - option of three or five years; that would bring you into '40.

Eccles: I think three years would be - the banks would be - would take those without any trouble, possibly as readily as they would a two.

H.M.Jr: You'd have to make it September '40.

Taylor: Or December. Three and a half years if you put it in December.

H.M.Jr: Yes, December would be still better.

Piser: There is one possibility that might be considered....

H.M.Jr: In September would be before somebody's election, wouldn't it?

Taylor: I think December would be a better date there.

H.M.Jr: Think of the poor fellow that's coming in.

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- Taylor: 1941 ought to fix him up for 1942 too, if there is anything left after '41.
- Harrison: At this point in the record, you better put "laughter"; wouldn't want this to be taken seriously.
- Piser: Mr. Secretary, there is one more possibility that might be considered; that is of a Treasury note callable in three years and maturing in five years.
- Bell: We've gotten away from that principally at the request of the New York market. They don't like it.
- H.H.Jr: No, I think what we need is a little missionary work - a little missionary work for five years.
- Boales: I'd like to know what the insurance companies and the investors will think of a five-year note. I think your market for a five-year note with banks will be very much less than for a shorter note, and you'd have to depend more on the investment market. I think the investment market for a five-year note would likely be larger than the investment market for a shorter note. If we want to look to the banks, then we'd have a short note; then you could put out about all you want. With a five-year note, it's going to be split between the investment market and the banks. I don't believe the banks would - a good many of them would come in as heavily on the five as they would on the shorter, but it may be that it would be fully offset by the interest that some of the investment institutions and trustees would have in a five-year note.
- Does anybody have - do you have any inkling, could you find out, George, how the savings - I think the place to go is to find out from the insurance companies and the savings people, who have all these funds up there, what attitude they would take toward - would they be interested in a five-year note.
- Harrison: well, they are a very hard fellow to make commitments - they just won't do it - on the question of where they will come in on an issue. They slide all around on their guess as to what point they'd be interested. They indicated, for instance, that they'd be interested in the 3.30 AAA bond, and when they got that, they

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said, no, they'd shifted their point to 3.50; and when you got some of them to 3.50 they said, "The market is so unsteady, we're going to hold off until it is set." And you can't get them to commit themselves, or even to prognosticate at what point they'd be interested.

Eccles: That's the long bond; I could see that, but....

Harrison: Well, we might try.

Eccles: We must have some funds in intermediate, short-term maturities.

H.M.Jr: Well now, I want to raise - anybody have any objection or see any reason why we shouldn't sell a hundred million next Monday - 50 into September and 50 nine months?

Eccles: I don't see any reason why not.

H.M.Jr: Anybody think they wouldn't go?

Harrison: I think they'll go.

Eccles: What will that make, three hundred million in....

Bell: Yes, sir.

Harrison: That will make three hundred million for September.

H.M.Jr: After Monday. Well, if nobody has any objection, we'll do it, Dan.

Eccles: They're going easier each week.

H.M.Jr: Well, if there is nothing else....

McKee: Mr. Secretary, before you adjourn, I just wondered - you seem to be looking at this thing from one side, your not having anything maturing in '42. Have you seriously thought about the other portfolios - the portfolio that doesn't have anything maturing in '42; that we might want to buy something to fill up that gap or convert something else, before you pass up the possibility of nothing but '42 - a note in '42.

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- H.M.Jr: I don't think I quite follow you.
- McKee: In other words, anybody with an equalized portfolio of maturities, especially of Governments - they haven't got anything in '42. Now, they might be looking for something in '42. Now, have you explored that field yourself?
- H.M.Jr: Personally?
- McKee: Yes
- H.M.Jr: No, I haven't started yet, because I let it all - I bunch it all up the last week, because if I begin talking it gets around too much. So I concentrate all my interviews into the last week of the financing.
- McKee: Well, people with contracts of obligations to be met annually, and who have looked to your Government bonds as part of their portfolio - I think they would have in their portfolio a gap which they would look for and look with favor on if and when you put out a note into '42.
- H.M.Jr: Well, that's why I think these men who see these bankers and these people - that's why I keep - I've said about three times that I wish they would talk to them about '42. I think you're right.
- McKee: I think your possibility is good in '42. I don't know what the rate - what rate it would take, but, studying it, it looks like a one and three-quarters ought to ride. I don't know that you will get much bank buying out of that, but I think you'll get a lot of people that have contracts in five years - take those bonds - who will want maturities.
- H.M.Jr: Well, if some of these people that see the bankers every day would sound them out - and insurance companies - it would be fine. Then we could meet again a week from today, if that is agreeable to everybody.
- Sinclair: Mr. Secretary, in that connection, would it serve your purpose as well - and your associates - if we met on Tuesday next week instead of Wednesday? The only reason I suggest that is that I find I am out of close contact with the members of my Board because I have missed several meetings with them, and those

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meetings take place on Wednesday. I don't know whether it would serve your purpose just as well. I am perfectly willing to make it Wednesday if that is preferable from your point of view.

Eccles: They have their regular directors' meeting of the bank up there.

H.M.Jr: Well, I don't know. We have always met Wednesday; it's just sort of fitted in.

Sinclair: I am perfectly agreeable to.....

H.M.Jr: It's our bill market day, when we settle the question of bills.

Sinclair: Well, I can manage.....

H.M.Jr: No, I mean I don't know why; why have we always met on Wednesday?

Harrison: Habit.

Sinclair: It gives you one more day - I mean one more day of consideration.

Eccles: Of course, another reason is that our Board have a regular meeting Tuesday.

Sinclair: I'm perfectly agreeable; I merely want to raise the question.

H.M.Jr: Well, let's see, does it inconvenience anybody else - Wednesday?

McKee: Well, I'm sorry, I couldn't be here next Wednesday, but I could be here Tuesday.

Sinclair: And I don't want to make an inconvenience for anybody or if it doesn't serve your purpose as well.

Bell: There would be two more.

H.M.Jr: Well, I tell you, we'll meet on next Tuesday, and the following week come back to Wednesday, and you (Sinclair) can get acquainted with your Board.

Sinclair: I think it is pretty important to have that contact next week with the Philadelphia situation.

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H.M.Jr: Let's meet next week on Tuesday and the following week on Wednesday.

Sinclair: If that's fully convenient....

McKee: Any time Tuesday afternoon?

H.M.Jr: No, 11 o'clock suits me. Is that all right?

Eccles: That's fine with me.

H.M.Jr: All right.



TREASURY DEPARTMENT

WASHINGTON

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~~MA~~

May 19, 1937.

TO THE SECRETARY:

You asked me to go back over the Treasury financing to see whether or not we had ever offered for subscription two kinds of Treasury obligations with a limit on the two combined rather than a limit on each issue, giving subscribers a choice. I find that we have made two such offerings, as follows:

1. On January 25, 1932, the Treasury invited subscriptions to two series of certificates of indebtedness in the aggregate amount of \$350,000,000. One series was for six months with interest at the rate of 3-1/8 per cent and the other series was for one year at 3-3/4 per cent. The circular which offered these certificates for subscription had the following provision:

"The amount of each series to be issued will be in the proportion that the total subscriptions for that series bears to the total subscriptions received for both series."

In addition the subscribers were given the privilege of making payment for subscriptions allotted in Treasury bills maturing at that time. The total subscriptions received and the allotments made were as follows:

<u>Subscriptions received</u>	<u>Six month Certificates</u>	<u>One Year Certificates</u>
Cash subscriptions- - - - -	\$ 391 M	\$ 207 M
Treasury bills offered and exchanged- - -	5 M	43 M
Total subscriptions - - - - -	\$ 396 M	\$ 250 M

<u>Allotments made</u>		
Treasury bill exchange- - - - -	In Full	In Full
Cash subscriptions up to \$10,000- - - - -	In Full	In Full
Cash subscriptions \$10,000 to \$100,000- - -	80%	80%
Cash subscriptions \$100,000 to \$1,000,000 -	65%	60%
Cash subscriptions over \$1,000,000- - - - -	50%	40%
Total amount allotted - - - - -	\$ 228 M	\$ 144 M

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2. On March 13, 1933, the Treasury offered for subscription two series of certificates of indebtedness in the aggregate amount of \$800,000,000. One series was for five months bearing interest at 4 per cent, and the other series was for nine months, bearing interest at 4-1/4 per cent. The circular offering these certificates for subscription contained the following provision:

"The amount of each series to be issued will be in the proportion that the total subscriptions for that series bears to the total subscriptions received for both series."

In addition the subscribers were given the privilege of making payment for the subscriptions allotted in maturing 3-3/4 per cent Treasury certificates and 2 per cent Treasury certificates. The amount of the subscriptions received and the allotments made were as follows:

<u>Subscriptions received</u>	<u>Five month Certificates</u>	<u>Nine month Certificates</u>
Cash subscriptions- - - - -	\$ 616 M	\$ 648 M
Exchange subscriptions - - - - -	298 M	271 M
Total subscriptions received- - -	<u>\$ 914 M</u>	<u>\$ 919 M</u>
<u>Allotments made</u>		
Exchange subscriptions- - - - -	In Full	In Full
Cash subscriptions up to \$10,000- - - - -	In Full	In Full
Cash subscriptions over \$10,000 - - - - -	26%	28%
Total amount allotted - - - - -	\$ 469 M	\$473 M

It will be noted that the two occasions on which we have offered Treasury securities on this basis, both have involved the same kind of an obligation, that is, the Treasury certificate of indebtedness. We have never offered, for instance, a Treasury note and a Treasury bond, but I cannot at this time see any real objection to a procedure of that kind.

AWB

Prepared by: Lawrence H. Seltzer,
Assistant Director of
Research and Statistics;
Assisted by: Sidney G. Tickton.

DEPARTMENT

COMMUNICATION

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DATE May 19, 1937

TO Secretary Morgenthau
FROM Mr. Haas 
Subject: Short-Term Character of Immediate Financial Requirements

1. The Treasury's financing requirements are seen in proper perspective when it is realized that our new money requirements are due altogether to the gold sterilization program.

(a) Were it not for the gold sterilization program, the Treasury's cash balance today would be approximately \$1,200 millions; and there would be no occasion for further new money borrowing, except for bill issues offered in anticipation of quarterly income-tax receipts.

(b) The revised budget estimates contained in the President's message to Congress of April 20, 1937 indicate that no public financing for the purpose of financing the deficit will be necessary during the remainder of the present fiscal year and during the fiscal year 1938. On the contrary, between May 1, 1937 and June 30, 1938, some \$1,300 millions net of cash will become available to retire Treasury bonds, notes, and bills now held by private investors, or to increase the working balance. This net excess of cash receipts will arise out of the non-cash character of the expenditures for the Government Life Insurance Fund and the Old-Age Reserve Account, and out of the receipts from sales of United States Savings Bonds and Unemployment Trust Fund deposits (assuming the constitutionality of the taxes levied under the Social Security Act). This is exclusive, however, of any financing undertaken to finance the gold sterilization program. The relevant figures are summarized in Table I.

2. Apart from the gold sterilization program, the scheduled excess of cash receipts over cash disbursements during the next fourteen months is such as to make any new money requirements during this period of distinctly temporary character. Only one-half of the prospective excess of net cash receipts would be enough to raise our effective cash balance to approximately \$1,000 millions. The immediate financing for replenishing the cash balance may therefore be short-term in character.

Secretary Morgenthau - 2

3. The entire amount of funds scheduled to be made available for reductions in the privately held public debt, exclusive of United States Savings Bonds, during the next fourteen months could very conceivably be exceeded by the requirements of the gold sterilization program. Between December 23 and May 14, net gold sterilizations amounted to \$654 millions, of which \$225 millions was received in April. Obviously, if gold acquisitions averaged \$125 millions per month during the next fourteen months, they would aggregate \$1,750 millions in that period.

On the other hand, however, our prospective net cash expenditures for gold acquisitions -- about \$538 millions between May 14 and December 31, 1937, by Mr. Bell's preliminary estimates -- are of very special character. If these acquisitions were regarded as permanent, it is extremely unlikely that we would finance them by interest-bearing obligations of any character. If they be regarded as temporary, they will obviously be best financed by short-term obligations.

4. It is apparent from the foregoing that the immediate needs of the Treasury could be properly provided by the sale of short-term obligations. This does not mean that it would be improper to offer longer-term securities, if the market appeared receptive to the latter. The large volume of near-term maturities now outstanding would provide ample scope for the use of excess cash receipts for debt retirement, even if the immediate short-term needs were met by the sale of longer-term obligations. Nevertheless, the purport of this analysis is that, taken by itself, the June 15 financing arises out of temporary, rather than longer-term, requirements.

Table I

Net change in the Treasury's cash position, May 1, 1937 - June 30, 1938
 Excluding gold sterilization and new public debt offerings
 (except United States Savings Bonds)

(In millions of dollars)

	May 1 - June 30, 1937	July 1, 1937 - June 30, 1938	Total
Receipts			
General receipts ^{1/}	1,133	6,906	8,039
Deposits to Unemployment Trust Fund	65	576	641
Other trust account receipts ^{2/}	37	224	261
Net sales of U.S. Savings Bonds	<u>60</u>	<u>500</u>	<u>560</u>
Total receipts	<u>1,295</u>	<u>8,206</u>	<u>9,501</u>
Expenditures			
General expenditures ^{1/}	1,535	7,324	8,859
Trust expenditures, et cetera	85	800	885
Retirement of matured debt	8	25	33
Retirement of Adjusted Service Bonds	20	75	95
Retirement of national bank notes	<u>12</u>	<u>75</u>	<u>87</u>
Total expenditures	1,660	8,299	9,959
Less non-cash expenditures:			
Investment of Old-Age Reserve Account	45	540	585
Investment of Unemployment Trust Fund	65	577	642
Retirement funds	-	73	73
Special issue - Government Life Insurance Fund	<u>503</u>	<u>-</u>	<u>503</u>
Total non-cash expenditures	<u>613</u>	<u>1,190</u>	<u>1,803</u>
Total cash expenditures	<u>1,047</u>	<u>7,109</u>	<u>8,156</u>
Net change in cash position (excess of receipts)	<u>248</u>	<u>1,097</u>	<u>1,345</u>

^{1/} President's Budget Message, April 20, 1937.

^{2/} Excludes seigniorage.

Prepared by: Lawrence E. Seltzer,
Assistant Director of
Research and Statistics;
Assisted by: Henry C. Murphy, and
Sidney G. Tickton.

MENT

DATE May 19, 1937

TO Secretary Morgenthau

FROM Mr. Hase *JH*

Subject: Relative Advantages of a 5-Year and a Shorter-Term Note

1. Current quotations indicate that, given equal receptivity by the market, there would be little point in offering a note issue of less than 5 years maturity, unless the maturity were as short as 2 years and 3 months (September 15, 1939).

As of May 18's close, the difference in market yield between our longest outstanding note — maturing December 15, 1941 — and the note maturing earliest in 1940 — March 15 — was less than 17/100 of one percent. In other words, the curve of yields for note issues maturing in 1940 and thereafter is so flat that a saving of only 1/8 of one percent in coupon rate could be made by putting out a 3-year or 4-year note as against a 5-year note.

The outstanding note issue maturing June 15, 1940 is selling to yield 1.39; and if a similar issue were offered at this time with a coupon of 1-5/8 percent, it would command a premium of 22/32, if it sold at a like yield. For an additional 1/8 of one percent coupon, a 5-year note could be sold (coupon rate of 1 3/4 percent). Such a note, if priced by the market to yield 1.55 percent, would command a premium of approximately 31/32. (Extrapolating from the market yields on outstanding notes, the market yield of the new note would approximate 1.53.) On a yield basis of 1.60 percent, the premium on this note would approximate 23/32.

It seems clear, therefore, that a 5-year note is to be preferred to a 3- or 4-year note, from the standpoint of prevailing market yields.

2. A 1-3/8 percent 2 1/2-year note issue, maturing September 15, 1939, however, could be offered at a saving of 3/8 of one percent in coupon as compared with a 5-year note. This date is now open. Such an issue, carrying a coupon rate of 1-3/8 percent, would command a premium of 12/32, even if it sold no better than the December 15, 1939 maturity — 1.20 percent. If, as is more likely, it sold at a market yield midway between the two adjacent note maturities — 1.18 — it would command a premium of 15/32. Either of these premiums should be ample for a 2 1/2-year note issue.

3. If the market improves during the next ten days or two weeks, a 5-year $1\frac{3}{8}$ percent note would be preferable to the suggested $1\text{-}3/8$ percent $2\frac{1}{2}$ -year issue. This is true because of the heavy concentration of maturities during the next four calendar years, which, exclusive of bills, amount to the following:

1938	\$ 1,946 millions
1939	2,762 millions
1940	2,854 millions
1941	2,219 millions.

4. If the market appears to be unsettled ten days or two weeks hence, and the risk of an unfavorable reception is to be minimized, the $1\text{-}3/8$ percent $2\frac{1}{2}$ -year issue would be preferable.

It is highly probable that banks generally, and particularly those in our larger financial centers, would greatly prefer a $2\frac{1}{2}$ -year to a 5-year note issue, despite a difference of $3/8$ of 1 percent in coupon. This preference for a shorter maturity is likely to be accentuated if the market becomes more unsettled and is likely to become somewhat less pronounced if the tone and stability of the market improve.

It is to be noted that the subscribers to our last two 5-year note issues, who still hold them, now have a paper loss with respect to these issues; and that similar subscribers to the next preceding 5-year note are on the margin in this respect, the bid price at the May 18 close being under par. In view of the unfavorable experience of subscribers to the last few 5-year note issues, a 5-year note offering, unless the market improves, might be riskier than would otherwise be the case.

5. The market yields on our longest outstanding notes are possibly lower than those at which any substantial volume of additional such notes could be sold. This is true because there is a natural reluctance on the part of banks to sell Government securities on which they would realize losses. Hence, it is prudent to take account of the possibility that this section of the market may be a little weaker than is indicated by market quotations alone.

On the other hand, an attempt to offset this factor, as well as the consideration cited next above, by an unusually large premium on the new issue, might have the effect of further depressing the quotations for outstanding Treasury notes and for our medium-term bonds, the abnormal premium being possibly interpreted as a recognition by the Treasury that the going yields should be somewhat higher.

Secretary Morgenthau - 3

6. It would be possible to hedge the decision between a 2½-year and a 5-year note, and thereby to reduce the risk involved in the latter offering, in either one of two ways: (a) Both issues might be offered with no limit on either but with an aggregate limit of \$750 millions; or (b) both issues might be offered in fixed amounts, say \$450 millions of 2½-year notes and \$300 millions of 5-year notes.

Both alternatives have the advantage of reducing or eliminating our reliance upon the market's receptivity to a 5-year note issue, and yet permit the offering of 5-year obligations.

The first alternative has the advantage of permitting the market to take the whole amount in 5-year notes if it desires. By the same token, however, it would permit the market to take the whole amount in 2½-year notes. The higher probable premium on the 5-year notes might induce subscriptions for this issue by those who intend immediately to realize the premium by the sale of these notes and the investment of the proceeds in the shorter-term issue, and this might depress the prices of all our longer note maturities. If, on the other hand, the preponderance of the subscriptions is for the shorter-term notes, unfavorable comment respecting the confidence of investors in the existing level of medium-term interest rates might result.

The second alternative has the advantage of definitely reducing the size of each of the two offerings. The restriction of the 5-year note offering to some \$300 millions would definitely reduce the risk involved in such offering; and the availability of a 2½-year note issue would attract funds that would not be invested in a 5-year issue. If both issues were fully subscribed, this type of note offering would be less likely to elicit the type of adverse comment that might result if the preponderance of subscriptions, under the previously discussed type of joint offering, was for the shorter-term note.

May 19, 1937

The Secretary today sent for McReynolds, Ryan and Wilson. He said, "As I understand it, after June 1 the guards are to be under Secret Service. Jones, the guard at my entrance, is satisfactory and whoever goes on besides Jones, as his relief, inasmuch as you take it over as of June 1, I want you, Wilson, to select him. If you haven't got a man who is responsible among the guards, I want a Secret Service man detailed to this post. Two or three times a week I want you to go through the door at the private entrance yourself and see how the man is getting along.

"I also want Ryan made Superintendent of all the Treasury buildings and I want you, McReynolds, to draw up an order to that effect."

May 19, 1937

This morning I carefully read the documents sent me by Robert Kelley on May 12th from the State Department.

In going over the history of the Russian debt negotiations I have come to the conclusion that it would be stupid for me to raise the debt question with the Russians at this time. Bullitt handled the negotiations in a manner that he has irritated the Russians.

The President asked me to conduct the tri-partite agreement with France and England who owes us billions but why shouldn't I go ahead with our talks with the Russians without raising their debt question, which is only about 100 million dollars.

I, therefore, decided that I will go ahead with my talks with the Russians about gold and not raise the debt question unless they do.

MEETING ON HOUSING

May 19, 1937
3:00 P.M.

Present: Mr. McReynolds
Mr. Bell
Mr. Daiger
Mr. Opper
Mr. Patterson
Mr. Ihlder
Mr. Lindaw

H.M.Jr: Now, Mr. McReynolds, who's going to talk first?

Bell: I'm going to listen.

H.M.Jr: Me too.

McR: I ought to say something, but I haven't got anything to say.

H.M.Jr: Hell, you people have been fussing around here long enough; you ought to say something.

McR: I've got myself in the frame of mind of always criticizing what the other fellow has, so it's hard for me to produce anything.

Now, I might say that, as I told you, Daiger and I sat down and talked about the possibility of modifying the Wagner bill by placing the initiative on the local unit to acquire the property and start the project, do their own financing, the Federal Government to grant in the aggregate not more than 25 million dollars a year as a gift to these various projects that met certain specifications with respect to the type of project, to be laid down once they are started.

Now, Mr. Ihlder and Mr. Opper particularly, as I understand it, are quite in disagreement with the possibility of any such proposal becoming acceptable or useful. The alternative, as put up by Mr. Ihlder, would limit the grant made by the Government to 25 million dollars a year, but also would undertake, through Government financing, to provide approximately 200 million dollars a year as a basis of loans to these local organizations. Now, the reasons - there are reasons; I wouldn't want to undertake to state his reasons why that has to be done.

But it seems to me that the thing to do, if we are

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going to get any place, is to decide. Now, I suggest that Daiger and Ihlder and probably Clarence Oppen sit down and undertake to redraft or modify some of these bills to come within the limitations that they be given before they sit down to draft it. Now, if they can be told what they must limit themselves to, I think the thing could be worked out within that limitation. But I didn't think it would be desirable for them to sit down again, certainly so far as Mr. Oppen and Mr. Ihlder are concerned, to undertake to draft something that they didn't - themselves didn't believe would meet any useful purpose or be acceptable. And on my own responsibility, or at least second-handed, I didn't want to tell them what limitations they'd have to place on it.

H.M.Jr: Now, you've got this memorandum that the President gave us? Were you with me, Dan, when he....

Bell: No, sir. I saw the memorandum.

(Oppen hands memo to H.M.Jr)

H.M.Jr: Well, what he had here - I mean using this as a model just for a moment - let's drop everything else. Under the President's proposal, the city would have to spend \$200,000 to buy the land, and then they'd have to borrow \$360,000, I take it, from private sources. Now, the Government's contribution is the \$360,000, or 45 percent, which is to come out of Mr. Ickes' revolving fund, see? Now, if we granted - if we took 45 percent in grants - how much is the revolving fund? Let's just - how much is there left?

Bell: About 145 million dollars in securities.

H.M.Jr: Let's say there's a hundred million dollars. That would build.... How much would be another 55 percent?

Bell: About 300 million dollars for the projects.

H.M.Jr: 300 million?

Bell: 45 percent would be 135 million.

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H.M.Jr: How much projects?

Bell: About 300 million dollars.

H.M.Jr: Now, when the President - let me give you a little background on this. This isn't my formula; this is his. And his answer was that if they couldn't build houses on that basis, then they are crazy; and he was very emphatic. He said, "If they can't go out and build a house on that basis, make it pay, then there's something wrong with this whole thing," and he said he wasn't interested. Now, he turned to me and said, "You and I could do that." He said, "All you got to borrow is 36 percent on a million dollar project, and if they can't do that then there's something wrong with this whole business."

Opper: Could I suggest, Mr. Secretary, that as I read that it is 56 percent; that is, the 20 percent that goes into the land has got to be borrowed too, doesn't it, by the locality?

H.M.Jr: Well, I suppose what he had in mind was that they'd buy the land out of - unless they borrowed - buy it out of going revenue.

Opper: Well, they'd have to put in, either out of their own funds or borrowed funds, 56 percent of the total.

H.M.Jr: Well, they wouldn't have to put up 101; we put up 45.

Opper: We put up 45 of the building cost, not 45 percent of the total, according to these figures as I recall them.

H.M.Jr: Well, I see what you mean, but here - here's the thing now. I mean I'd like to start out on this track. After all, what we've been trying to do, and what we were told to do, was to try to work out a formula on financing. Now, I'm not going to attempt to say whether people will or will not build houses on this formula. I'd like to exhaust this formula - method of procedure which the President has laid down, and then after we have taken it send for somebody like the Tenement House Commissioner of New York and say, "Supposing this were suggested to you; could you go ahead and build any houses?" Then send for somebody from somewhere else, some other people; send for half

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a dozen housing authority managers and simply say, "On this basis, what could you do?" And ask Mayor LaGuardia, "What can you do?" Send for the representative of the various Mayors and put this up to a dozen cities: Will they build on this basis?"

The thing that we don't want to do - I mean that I don't want to do is - and there's no indication that the President wants to do, is to commit this Government to any 59-year program. I mean I'm just not going to be any party to it. I mean if we have to put up 25 million dollars a year for 59 years - and there's no indication on his part that - the slightest interest on his part that he wants to commit himself to put up 25 million dollars a year for 59 years.

Is there anybody in this room that can explain to me - I've asked it again and again - what the central government of England does, how they make their contributions?

Daiger: I think I can.

H.M.Jr: Can you start with a million dollars? If London County Council was going to build a million dollars worth of houses, how would they go about it?

Daiger: Yes. The million dollars of housing would be in itself a local operation. The London County Council would be the body which had the raising of the funds. I may say that there are two ways of raising funds for English housing. The local authority would conduct the inquiry into the housing conditions; it would initiate and plan and execute the housing scheme itself, and it would then operate and manage the project. The local government, in the case of the larger bodies, such as London or Birmingham or Leeds, or any of those places, would sell their own bonds in the market to raise the funds for the housing. We have to remember, however, that in the absence of the Federal form of government, the central government has the power to compel the issuance and sale of those bonds for these housing purposes.

Now then, of those communities that are too small or whose credit is not available - is not accessible

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to the general bond market - there is made available to those localities the funds of what is known in England as the Public Works Loan Board. The Public Works Loan Board is a body which has been in existence for a great many years. It operates with a revolving fund resulting originally from the sale of stock, and it makes loans for a great variety of public works purposes, including housing, to those localities which would have to pay a high rate or which would have no call at all on open market funds. The result is that the costs of housing in general approximate - I mean the financing costs of the money approximate the rate of consols, the rate on - they approximate the rate on consols themselves. I had a check made on that interest rate a few months ago and there was scarcely any difference between the two. The result would be approximately the same as if we in this country sold Treasury bonds to raise the money. I mean in so far as cost is concerned, it would compare with our long-term Treasury rate.

H.M.Jr: Do they have the tax exempt feature?

Daiger: No.

H.M.Jr: Well now, where is - what contribution does the British Government make?

Daiger: The British Government subsidy is in the form of an annual grant which is proportionate to a contribution also made by the local community, and it is through that payment on the part of the central government and of the local government that the total subsidy is accomplished. And that subsidy is based not on the cost of the project, as has been proposed in this legislation, but on the number of persons rehoused in the process.

H.M.Jr: So much a family?

Daiger: So much per person rehoused.

McR: What is the relationship between the local contribution and the federal contribution?

Daiger: Currently, about two to one; about two-thirds for the central government's contribution and one-third

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for the local one.

Now, the difficulty, Mr. Secretary, if I may point out - and I think Mr. McReynolds misunderstood one part of our conversation the other day.... I haven't suggested that we can avoid the making of these loans, as has been proposed in this legislation, because I am quite certain that if we did, we would defeat one of the purposes of the subsidy - I mean one of the purposes of the whole operation, which is to bring down the cost of the financing and the cost - and the schedule of rents.

Bell: You mean it can't operate on 55 percent.

Daiger: What did you say?

Bell: You can't - you mean you can't operate on that.

Daiger: No, let me say that you would be paying a higher cost for money if we had to resort to the private capital market; I mean if these properties had to be financed as if they were real estate operations, you'd pay a great deal higher rate for your money than you pay on the Treasury rate.

H.M.Jr: True, but if we give them the - say, the three percent rate, we've simply got to go around and tax the people to make up the difference, say, between three and 4½. Somebody makes it up.

Ihlder: But if they were to pay for their money five or five and a quarter, and then you granted a subsidy, the subsidy would pay that interest in very large part. That is, it would be two to two and a quarter percent that would be taken out of the subsidy.

H.M.Jr: But you see, the President can't get it through his head. He said, "On a formula like that, if people can't go ahead," - he thinks - he says, "there's just something the matter with this whole business." And on this thing there's no subsidy. He just thinks it's crazy. He said, "It's just crazy." He said, "If they can't house people on that basis, there's something wrong."

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- Opper: Of course, the answer is there is something wrong.
- H.M.Jr: What?
- Opper: There is something wrong.
- Daiger: Mr. Secretary, I'd like to state....
- H.M.Jr: Say anything you've got on your mind.
- Daiger:briefly what the difference is. The problem of getting the rent down and the problem of getting the cost of the building operation down are to a large extent separate problems.
- H.M.Jr: Entirely.
- Daiger: Now, the President has predicated this suggestion apparently on the one element of getting the original cost down. That has - getting that original cost down, even if you got it - even if you got it down 50 percent more than is indicated there, does not have a proportionate effect on the operating cost of that property.
- H.M.Jr: True.
- Daiger: And does not have a proportionate effect in decreasing the rental schedule.
- H.M.Jr: Have you worked out a formula of financing? Have you been able to do it?
- Daiger: Well, I may say frankly that I have never been assigned to it, so I haven't; but I should be perfectly willing to undertake it with some of these . others who have a little more public - I mean I can understand the financial formula; I don't profess to be a public housing man. I don't....
- H.M.Jr: Well, let's put it this way. I'd like to - should have said this at the beginning - I sincerely would like to see this thing done; I really would like to see it get going. They've fussed around with this thing now for three years, and they haven't found the answer yet.

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All we are supposed to do here in the Treasury is to find a financial formula; that's all. I mean that's our sole responsibility; and, frankly, we haven't been able to do it. Now, I don't want to get into this argument - I've tried it once or twice and I get licked - as to whether there should be slum drainage, or slum clearance, or low rent housing, and all this terminology, and - I mean I can't get any two people to agree and Mac tells me the same thing, that nobody will agree as to what you want to do.

Now, Monday night they had Mr. Palmer over at the White House and he talked to the President for an hour, and he completely disagrees with you (Ihlder). I mean not you personally, but....

Ihlder: I know I talked to him the other day; I thought we were in substantial agreement.

H.M.Jr: No, I don't think so - I mean as to his - I mean at least - well, he didn't mention you by name. I just mention.....

Ihlder: No, because I think we were in substantial agreement, except he wants demonstration projects, that's it.

H.M.Jr: Well, I didn't - I'm just using.....

So I think the only ground that we are safe on is the ground of finances. And can we - can we take - can we give the President a formula? Now, say, "If you want to house people so that it will cost five or six dollars per room per month, and so the Federal Government on its principal will get its money back, but that you've got to make a contribution of so much, here's the way you can do it if you want to do it."

Daiger: Mr. Secretary, Mr. Ihlder was up to see me a little while ago; we were talking about some of the provisions of his bill. I suggested to him that there were one or two fundamental points that had to be agreed on before any formula could be written, and one is, first: Is it the intention of the President, or is it your desire, in approaching this bill, to assume that there is to be required a local initiation and financial contribution to the project?

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- H.M.Jr: The answer to that is "Yes."
- Daiger: Whenever I've talked to the President, he's always emphasized it, but none of the public housing people seems ever to have heard him say it.
- H.M.Jr: Well, I've heard him say it.
- Daiger: I've heard him say it repeatedly.
- H.M.Jr: He said it Monday night.
- Bell: It's the first thing on the memorandum.
- H.M.Jr: Definitely.
- Daiger: Well then, the....
- H.M.Jr: Excuse me. I mean we - what we got over to him is this: Lacking legal right of the Federal Government to condemn, he is completely sold on the idea that the community should buy the land.
- Daiger: Well then, lacking the means of having the Federal Government do it at all, directly or indirectly, you have to face the fact that that will mean a great curtailment in the area of operation of the program, because of the lack of enabling legislation or the condition of existing legislation in a large number of states. Now, whenever that has been brought to the attention of the President, I have heard him say, "Well, let them get the legislation in shape."
- H.M.Jr: He said that Monday night. As I understand - did he use the figure two-thirds of the states now?
- Daiger: I think that he was told last year at one of the meetings that two-thirds of the states probably could not do it.
- H.M.Jr: Well, he used the two-thirds. But he definitely said, "Let the states do it." He said, "We've got enough states who have legislation to begin this thing."
- Daiger: Yes. I'd just like to check some of these things,

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because there is seldom agreement. I mean they make a great deal of difference in the nature of the financial formula.

Now then, one other point that is of equal importance: whether or not the Federal Government is to have the obligation of a state or municipal body....

H.M.Jr: I don't follow you.

Daiger:representing the security for the loan. I mean whether the loan made by the Federal Government is to be a loan which is in effect a lien on taxes, if you please; whether the security received by the Government to represent the loan made by the public housing authority - Federal public housing authority - is to be the obligation of, let us say, the State of Maryland or the City of Baltimore, or is it to be the obligation of some public housing authority which does not have the power to pledge the credit of the state or the city.

H.M.Jr: Well, from this formula here I would say that the City of Baltimore would have to go out - City of Baltimore housing authority would have to go out and borrow the money.

Daiger: Well, we're assuming - I'm assuming here that it will borrow it from the United States Government. I mean if it borrows it from the United States Government, what kind of note does the Government get to represent that debt? Does it get an obligation of the State of Maryland, of the City of Baltimore, or of a public housing authority which lacks the authority to pledge the credit of the city or the state?

H.M.Jr: Well, I can't answer that.

Daiger: That is an extremely important question.

McR: You're too far ahead.

H.M.Jr: I can't answer it.

McR: You can't answer that, because you're assuming, when

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you ask that, that the Federal Government is going to undertake to loan the money.

Daiger: I mean if you're going after a formula, one of the formulas you will have to consider.....

H.M.Jr: I can't answer it. I've never heard it put that way.

Daiger: The reason I raise that question is that the Wagner bill and the bill drawn by Mr. Ihlder and most of the bills that I have seen on this subject go on the assumption that there will be loans by the United States Government secured by mortgages, and I suggested that politically it is inconceivable that the Federal Government can take a mortgage on the property of a state or local government.

H.M.Jr: Well, under this arrangement, if we followed this formula, we'd give them a 45 percent grant - to the housing authority - and then we wash our hands of the thing.

McR: There is no question of loaning involved there.

H.M.Jr: The question that you raised doesn't exist if we follow this formula. Then the housing authority in turn would go out and loan from private funds. So if we followed this, the Federal Government wouldn't lend them any money.

Daiger: No, I understood you to say a few minutes ago that if it could not be done by this formula and you had to follow an alternative formula.....

H.M.Jr: Now wait a minute. What I said - let's follow this to its ultimate limit and show the President, "Now, we have taken your formula and we have worked out this thing and we have submitted it to various - half a dozen housing authorities, and they say they can or cannot do it." Now, if they can do it, fine, or if they can't, "These are the objections they raise. Now, in view of these objections, what do you suggest?" Now, I'd like to do it that way.

Daiger: I understood that you also added a little later that if you assumed that you wanted to get the rent down to a certain figure and to raise that money, what would you do?

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- H.M.Jr: Well, I was talking about what I - just from what I picked up around. But what I think we ought to do is to take this principle and submit it, say, to a half dozen different housing authorities and see how they react. Now, can the New York housing authority do business under this?
- Daiger: Well, I'd like to suggest, Mr. Secretary, that we could work out that and work out one or two alternative formulas at the same time.
- H.M.Jr: But when you get on the alternatives, I can't answer you. I mean I can't say to you - I can't answer that particular question, because in discussing it with the President he's never crossed that bridge.
- Daiger: You see, the point that I have in mind is, what kind of security the Government would get.
- H.M.Jr: And I can't yet answer that.
- Bell: In other words, we don't want to submit any alternative plans if we find this one doesn't work.
- H.M.Jr: I think, Dan, we're under a mandate from the President to take this thing and - what's the name of this young fellow who represents the Mayors' Conference? -
- Bell: Paul Betters.
- H.M.Jr: - ask Paul Betters - ask him to send for some of these managers, or whatever they call them, of housing authorities to come to Washington and submit this thing to them and see what they say. But until I have done that, I wouldn't want to go beyond this... I mean some of you know me, and....
- Daiger: I had not seen that until yesterday.
- H.M.Jr: Well, I've been waiting until Mac told me.... Ihlder sent me word he wasn't ready yet, it hadn't cleared the various people. Isn't that right?
- Ihlder: I'm ready.
- H.M.Jr: Well, if you're ready.....

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Ihlder: Only I didn't have that formula before me; that's news to me.

H.M.Jr: Well, both Dan and I have needed a breathing spell on everything. Isn't that right? I mean it's a question of physical limitation, of how many hours there are in the day, and we just haven't had any hours. Now, I'm just trying to pick this up. But as I say, Mac up to now hadn't told me that you were ready, but I thought anyway 'd let you go along and see what you could develop.

Now, Mac, what do you think of taking this thing the way it is and submitting it to half a dozen housing authorities and see how they react?

McR: Well, I think if Daiger and Clarence and Ihlder will sit down with that formula and be sure that they adhere to the formula and work out something of the procedure that would be required to carry it out, sticking meticulously to the authority that is implied by the formula itself, which is no loan from the Government at all, the initiative of the project locally, and the contribution by the Government - have the limitation placed, and when the thing comes forward in proper shape.....

H.M.Jr: And no subsidy.

McR: And no subsidy, no. Now, if you get that in shape so these fellows will understand it and you won't be in a position to argue about this - what this thing means and - and then if Betters will get these fellows in..... We'll have to be careful about not getting this Public Housing Association in; you want the responsible representatives from the various different cities. Ihlder understands about that and so does Daiger - quite thoroughly, with respect to the men to deal with. They'll come in.....

H.M.Jr: Well, quite frankly, I wouldn't want to go back to the President - I wouldn't have the nerve to go back to him until I had exhausted this thing.

McR: Well, when the thing has actually been up to the group representing the biggest units now organized and operating, and you know whether they would take it or not, that should help settle it.

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- H.M.Jr: Could you do this? Would this be agreeable, Bell, to you? Supposing we told Mac, beginning Monday, to get in - say, devote every afternoon, have a group come in every afternoon, and then let them, say, run it Monday, Tuesday and Wednesday next week in the afternoon; then let these people sit with them and submit it, and then after you had heard what these two groups.....
- McR: I don't think they'll take very much time on it.
- Bell: That'll give you enough time to write out the formula in such a way that it could be understood by Monday, will it?
- Opper: I think the formula is right there, Mr. Secretary, except for one question which I wanted to ask about it, and that is this: That deals with a project, theoretically, of a million dollars. Now, nothing is said about the total extent, the aggregate extent, either per year or in toto, of the proposed contribution of the Federal Government. Now, it seems to me that might have some effect on the reaction that you get from these people.
- H.M.Jr: Well, what would you say, Dan?
- Bell: Well, I'd say that a hundred million dollars certainly would be the limit.
- Opper: In one year at any time?
- Bell: Out of the revolving fund. And when you exhaust that, then you've got to go some place else.
- Opper: Well, this fund wouldn't revolve.
- Bell: This money that you're going to give away comes out of Mr. Ickes' revolving fund. Of course, the President didn't contemplate any such amount as a hundred million dollars in the next year or two. He thought about ten or fifteen million dollars, I think, in 1938 and possibly fifteen, twenty, twenty-five in 1939. Didn't he?
- H.M.Jr: Yes.

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- Inhlder: Suppose you said what I understood at the first conference, Mr. Secretary: 15 million dollars next year and 25 million dollars a year thereafter for four years. Now, that would make 115 million dollars in five years. We aren't concerned as to what source it comes from, whether it's out of Mr. Ickes' revolving fund or where. And Mr. Opper's question is, what is the total limit over what time? Supposing it was 115 million dollars by 1942.
- Bell: Well, it's a hard question to answer.
- H.M.Jr: Oh, I wouldn't - I wouldn't want to commit the President. If I have lunch with him Monday, I'll ask him how much; I'd give you a figure before you see the people Monday afternoon. But I wouldn't want to take that on myself to answer.
- Opper: Can I ask one more question?
- H.M.Jr: Ask two more.
- Opper: You suggested this would be on the basis of the Federal Government putting in the money and washing its hands of the project. But would there be any objection, assuming the money weren't called for all at one time, to its being paid out in installments on some formula so that a number of projects could get started this year and be paid off completely next year, for example?
- H.M.Jr: Well - (laughs) - he's going back to the housing group; he's no longer with the Treasury. Going to whangle me?
- Opper: It's not a question of going back. That's where I've been all the time. Of course, obviously, the total amount couldn't be more than would be permitted within the period called for.
- H.M.Jr: Now, if I had to answer that now, I would say that it would be 15 million dollars. If they started 15 projects of a million dollars each, it would be 15 million dollars. I mean I wouldn't want to commit the Federal Government beyond that total cost of projects. Would you (Bell)?
- Bell: I think it would depend on how far the President is willing - if he is willing to go five years and 25 million dollars a year.

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- H.M.Jr: If you people - three out of four Mondays I eat lunch with him, and if you could have some of those questions written out and leave it, and put two questions to a page, I'll put them to him and let him write the answers. How's that?
- Opper: Fine.
- H.M.Jr: What? Tell you what we'll do. Supposing we meet again at 11 o'clock Monday, which would give me a chance to go over the thing. You (Daiger) are accustomed to working under pressure, aren't you?
- Daiger: Very much so.
- Inlder: Monday the 24th.
- H.M.Jr: Is it asking too much of you?
- Daiger: No indeed.
- Bell: I should think that it might be very important to have these grants go out over the period of construction. Might let them use the grant money first, but they should get it as and when they need it to pay for construction costs; shouldn't get the grant all at once.
- H.M.Jr: Let's do this, Mac. Bell and I have got all we can swing. Will you handle this for both of us?
- McR: We'll have the arrangements made with the people who are to come in.
- H.M.Jr: And I'll be here at 11 o'clock Monday.
- McR: 11 o'clock. And we'll have the questions you want to ask.
- H.M.Jr: And between now and Monday, in case something else comes up, we can have an emergency meeting for a few minutes; just walk in here. I think the thing to do is exhaust the possibilities of the President's own formula. I want to again say I didn't write it.
- McR: And remember when you are preparing those questions that the limitation of your activity is going to be governed by the answers you get to the questions that the boss is going to take back to the President on Monday, and you can't come in with any alternatives.



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT

WASHINGTON

May 19, 1937.

MEMORANDUM FOR THE SECRETARY:

There are two points involved in the Collector Moore case. The first relates to whether he returned to Famous Brands Ohio, Inc., profits received as a result of participation in the liquor sales agency. The second involves the question as to the disposition made of the stock to divest himself and members of his immediate family of all interest therein.

With respect to the first point, there is considerable correspondence between the Secretary and Collector Moore, starting on September 12, 1935. The Collector's letters were indefinite and not responsive. Finally, on November 29, 1935, the Secretary addressed a communication to Moore insisting upon a definite reply. In response to this letter Senator Bulkley wrote the Secretary on December 6, 1935, indicating Moore's willingness to divest himself of all profits by returning them to Famous Brands Ohio, Inc., which company had agreed to accept the return of the profits and immediately pay them over to public charity. On December 16, 1935, Collector Moore replied to the Secretary's letter and stated that he proposed to return to the company such profits as he realized from this transaction "when and as I am able to do so." On January 2, 1936, the

Memo. in re: C. E. Moore.

Secretary acknowledged that letter and stated that he understood the Collector's letter "to be an undertaking on your part and in behalf of your family to dispose forthwith of all interests in Famous Brands Ohio, and to turn over to it all dividends, payments and profits which are the result of your respective connections with that company or its predecessor syndicate." In answer to this letter Collector Moore wrote on January 7, 1936, stating that he would comply with the terms outlined in his letter of December 16, 1935. Thus, Collector Moore ignored the expressed understanding of the Secretary with respect to compliance and simply reiterated that he would comply with his own terms outlined in his letter of December 16, 1935. The investigation has disclosed that at no time has Collector Moore made payment of any portion of his profits to Famous Brands Ohio, Inc. He gives three reasons in explanation of this failure on his part: first, indebtedness; second, sickness of his wife and self; and, third, that he has otherwise made payments to charity.

With respect to his indebtedness, it is shown that he and Mrs. Moore received \$15,155.18 from the liquor agency; that he receives a salary of \$7,000 a year as Collector; and that he had income from another source during 1936 of \$1,300. On October 9, 1935, an agreement was entered into for the purchase of their home by Mr. and Mrs. Moore at a cost of approximately \$23,000. He assumed this heavy

Memo. in re: C. E. Moore.

financial obligation within a little less than one month after the Secretary had written him advising that he would be expected to turn his profits back to Famous Brands, and he has since reduced this indebtedness to approximately \$16,000.

With respect to the question of illness, we are informed by Assistant Collector Campbell that Mrs. Moore became ill in the fall of 1936, a year after the Secretary had directed the moneys be returned, and that Collector Moore himself became ill in the current year 1937.

With respect to the third point, his 1936 return discloses a claim for reduction of \$100 as a contribution to the Community Chest. This, of course, has no bearing on the understanding with the Secretary; every man in public life is called on to make some contribution to public charitable movements.

As to the question of the disposition of the stock, it is shown that Mrs. Moore transferred the shares to her father, Dr. H. P. Wells, on January 10, 1936, three days after Collector Moore's final letter to the Secretary, and that she received subsequent to that date (January 30, 1936) a payment of \$900 representing the December, 1935 dividend. It was learned that, although the Secretary informed Collector Moore at the conference on July 24, 1935, that it was improper for him or any member of his family to receive profits

Memo. in re: C. E. Moore.

from a transaction of this sort, yet after that date Mrs. Moore continued to remain a stockholder until January 10, 1936, directly receiving total dividends of \$3,060, the last one having been paid on January 30, 1936. In addition, Mrs. Moore received \$2,070 during 1936 representing dividends paid to her father after the stock was transferred to him. In other words, Collector Moore not only failed to repay any profits to Famous Brands Ohio, Inc., but Mrs. Moore received substantial additional income from the liquor agency.

When Dr. Wells was interviewed during January, 1937, prior to the filing of the 1936 returns, he stated that he paid his daughter for the stock by canceling specific indebtedness of \$4,900, and that the dividend payments which he turned over to her were simply further loans. However, in April, 1937, after the 1936 returns had been filed, Dr. Wells was again interviewed. He indicated that he would not discuss the matter further unless legally compelled to do so. The agent informed him that the information was required because his prior statements indicated a taxable profit to Mrs. Moore for 1936. Dr. Wells thereupon changed his original story and stated specifically that there was no consideration paid by him for the stock at the time of its transfer or at any other time, and that the dividend payments which he turned over to Mrs. Moore were gifts.

It is true that Mrs. Moore's stock in Famous Brands Ohio, Inc., was transferred to Dr. Wells; that he was the stockholder of record;

Memo. in re: C. E. Moore.

that the dividend checks were issued to him; and that he reported the amount of dividends as income in his 1936 return. The records indicated a bona fide sale of stock and it was not until the dividend checks were examined that it was learned of the endorsements of such checks to Mrs. Moore totaling \$2,070, and it was only after being informed that an income tax inquiry was being made that Dr. Wells changed his story that \$4,900 was paid for the stock by cancellation of indebtedness, and admitted that no consideration was paid.

In connection with the disposition of the stock, Collector Moore has stated repeatedly that this stock had no market value and that his wife could not "hand it to a person on the street." As a matter of fact, when the stock was transferred January 10, 1936, the December, 1935 dividend had not been paid and was not paid until January 30, 1936, when Mrs. Moore received \$900, which would be an indication of the then value; further, the Famous Brands Ohio, Inc., was an active business at that time, as is evidenced by the fact that dividends of \$2,790 were paid on the stock after it was transferred to Dr. Wells up to the time of dissolution, December 21, 1936.

Investigation of the income tax returns of Mr. and Mrs. Moore and Dr. Wells does not disclose any irregularities. As stated in the report of the special agent of May 3, 1937, Dr. Wells returned

Memo. in re: C. E. Moore.

as income the dividends received in 1936, which his last story indicates he turned over to his daughter as gifts. The item of \$1,200 reported on Mrs. Moore's return for 1936 is explained by Attorney Gardner Abbott as advance compensation to her for advisory work in a lithographing business operated by him. The \$678.06 reported on Mrs. Moore's 1935 return as received from Mr. Abbott, Agent, relates to the liquor agency.

To summarize, it is shown, first, that Collector Moore in his correspondence with the Secretary evaded the Secretary's insistence that the profits be returned to Famous Brands Ohio, Inc., and committed himself only to the extent that he would do so when and as he was able to make such payments; second, that following the Secretary's statement at the conference on July 24, 1935, as to the impropriety of receiving funds from such source, Mrs. Moore continued to accept dividends from the liquor agency, and, in fact, did so for a period of approximately one year and a half after that date; third, that the disposition of the stock by turning it over to her father, who was residing in the same house with Collector Moore and his wife, was merely a subterfuge, as is borne out by the fact that no consideration was paid for the stock, and that

Memo. in re: C. E. Moore.

she thereafter received dividends totaling \$2,070 by endorsement of dividend checks over to her by her father. While Dr. Wells had an unquestioned right to make such gifts as he wished to his daughter, yet it is obvious from the manner in which this entire transaction was handled that, if the last story told by the father is true, it was merely a means to insure that Mrs. Moore would continue to receive the profits from Famous Brands Ohio, Inc.

Stripped of the irrelevant issues which have been raised in this case, the single question for determination is whether Collector Moore has complied with the Secretary's instructions. The facts and circumstances set forth herein definitely show that he did not; that, without reasonable excuse, he took no steps whatever to return profits as directed, and the transfer of his wife's stock was made under circumstances which aggravate the original offense.

May 20, 1937
9:07 A.M.

H.M.Jr: Hello.

Operator: Mr. Landis hasn't reached his office yet.

* * * *

9:12 A.M.

H.M.Jr: Hello.

James M.
Landis: Hello.

H.M.Jr: Hello, Landis.

L: Good morning, Mr. Secretary.

H.M.Jr: How are you?

L: Fine, thank you. Say, I wanted to - ah - talk to you about what might perhaps be the Treasury position on this so-called Sabath bill.

H.M.Jr: Ha-ha, ha-ha, - ha-ha.

L: The reorganization thing.

H.M.Jr: Very easy.

L: (Laughs)

H.M.Jr: Ah - it'll take me a minute or two to tell you.

L: Yes

H.M.Jr: Night before last our good friend Mr. Farley called me up, and - that he had just casually heard of a bill and that they - which took three thousand conservators and put them outside of the Treasury, and that as far as he was concerned he thought that that thing ought to belong somewhere in the Treasury. And he just had casually heard about it, but then he happened to have the bill on his desk and read the number to me, see?

L: Yes

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H.M.Jr: Well, I told him that I wasn't entirely familiar with it and I'd look it up yesterday, see?

L: Yes

H.M.Jr: I mean it - I - it wasn't entirely fresh in my mind. Well, yesterday, it seems that, according to people on the Hill, that Mr. Farley had been in touch with the Judiciary Committee and had said that I had changed my position, which of course was not true, see?

L: Yes

H.M.Jr: Now - ah - then yesterday - I'm giving you the whole story, takes a minute or two - Mr. McIntyre called up and said Sabath was over there, could I see him at once, and I said "No" and I could see him at 9:30 this morning. Well, he said - Sabath got on the wire and said that he didn't know whether he could wait. I said, "Well, I'm terribly sorry, Mr. Sabath. I can see you 9:30 this morning, but not before that." Then I went into a session with Oliphant and McReynolds, who had seen them, and we'd agreed here that - that - bankrupt concerns should - looking after them should not be in the Treasury; - hello?

L: Yes

H.M.Jr: - that strange enough as it may seem, that the interest of the stockholder in a bankrupt concern and the United States Government were in conflict.

L: That's true.

H.M.Jr: And that, as far as we're concerned, we understand that you people over there made a study of it and we think it belongs - should belong in S.E.C.

L: Yes

H.M.Jr: Now it took me a couple of minutes to get around to that.

L: Yes (laughs)

H.M.Jr: But - I mean I want to let you know that there's - there's evidently quite a lot of dirty work at the

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crossroads. And I - and I first thought we'd ask some of you people to come over here at 9:30. Then we thought it might be embarrassing to you.

L: Yes

H.M.Jr: But what I'd be more than pleased to do is that after I've seen Mr. Sabath I'll call you.

L: Well, that'd be fine.

H.M.Jr: But we're going to take the position that we do not want it in the Treasury.

L: Yes.

H.M.Jr: I think we better get together, and it may be necessary for you and me to see the President about it.

L: I think so. I don't know whether you know quite what our position is on that.

H.M.Jr: No, I'd like to have it.

L: This so-called Sabath bill.

H.M.Jr: Yes

L: We're not for that.

H.M.Jr: Yes

L: The position of the Hill is that they have to report something out for old man Sabath.

H.M.Jr: Yes

L: And what we're urging them to do is to take a portion of the so-called Chandler bill....

H.M.Jr: Yes

L: ...and tack Sabath's name to it and give him that. We're - one of the chief reasons for being against the Sabath bill...

H.M.Jr: Yes

- L:is that the ad- - the administrative overhead that it looks to - looks toward is simply tremendous. We think - and in our bills set up a jurisdiction over reorganization in which, instead of taking over the prime load ourselves, we build upon the judicial machinery as it exists and put the administrative branch of the Government at the aid of the judiciary as a sort of research advisory assistant.
- H.M.Jr: I see.
- L: Now - I mean that happens to be our outlook on it. On the other hand, of course, we - we're disturbed if jurisdiction over reorganization and bankruptcy and so on would go somewhere else.
- H.M.Jr: Well, it - it oughtn't to go any more under the Comptroller of the Currency than it should go over to F.D.I.C.
- L: Yes
- H.M.Jr: You - you'll find... As I told our boys yesterday, I feel I'm on the home stretch. I haven't compromised myself so far, so why should I now?
- L: Yes
- H.M.Jr: What?
- L: Yes (laughs)
- H.M.Jr: I mean there's no reason why we should hand over three thousand - oh, whatever it is - political - at least, that's what they think of, in terms of political jobs; it's perfectly ridiculous.
- L: Yes
- H.M.Jr: And after Sabath has left, I'll call you. And if they're going to make a political issue out of it, maybe you and I better go up and see the President.
- L: Yes, I think so. Ah - I think the situation there is very embarrassing to us because we don't want to offend the Sabath group on the Hill that would like to do something about the reorganization problem.

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H.M.Jr: I see.

L: On the - but our position is that really they're on the wrong track on this.

H.M.Jr: Well, my position is - is perfect, because - ah - I don't want it in the Treasury.

L: Yes

H.M.Jr: See?

L: Yes

H.M.Jr: And - so I'm glad you called and after.... We're together, aren't we?

L: Yes, I think so. Absolutely.

H.M.Jr: Well, I think that between us, I don't know why we can't handle it. Just because Mr. Sabath broke down and wept bitterly....

L: Yes

H.M.Jr: ...is no reason why he should be given this plum.

L: Yes

H.M.Jr: What?

L: Yes, I think so.

H.M.Jr: But you...

L: I think - he's about one of the last men, I think, to handle a thing like that, frankly.

H.M.Jr: He's either the last or the next to the last. (Laughs)

L: (Laughs)

H.M.Jr: O.K.

L: All right, thank you.

H.M.Jr: 'Bye.

L: Goodbye.

May 20, 1937
10:01 A.M.

H.M.Jr: Hello.

Operator: Chairman Landis. Go ahead.

H.M.Jr: Hello.

James M. Landis: Hello.

H.M.Jr: Mr. Sabath just left.

L: Yes

H.M.Jr: And I told him.... He asked me did we want it in the Treasury, and the answer was "No." Then he said, "Where do you want it?" and I said, "Over at S.E.C." Then to make absolutely sure, I sent for O'Connor and sat here and repeated - and told him that we did not want it in the Treasury. Hello?

L: Yes

H.M.Jr: And Sabath was entirely satisfied. And he asked me where I wanted it and I said S.E.C. Then he said, "But the trouble is that Landis is resigning on June 6." So I said, "Well, maybe he's - he's going to stay on, I don't know." He said, "Well, if he's going to stay on," he said, "I'd feel entirely differently about it."

L: Well, it's pretty kind of him to say that. (Laughs)

H.M.Jr: Are - are you going to stay on until September?

L: Ah - I haven't the slightest idea, and I was going to see the - the President about it and see what he wants me to do.

H.M.Jr: Well, I think if you could let Mr. Sabath know what your plans were after the sixth, it would make a lot of difference to him.

L: Uh-huh.

H.M.Jr: Now, that's that. Now do you want - is there anything else we can do?

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L: Well, that's - that's fine, I think.

H.M.Jr: All right.

L: That helps us a lot.

H.M.Jr: O.K.

L: I think we - the result will be that we can work out a pretty good piece of legislation on that.

H.M.Jr: Well, if - if you want anything, Eliphant's entirely familiar with it.

L: Yes

H.M.Jr: And give either him or me a ring?

L: All right, I'll - I'll do that. I'll keep in touch with you.

H.M.Jr: All right.

L: Well....

H.M.Jr: Thank you.

L: Thank you very much.

H.M.Jr: Goodbye.

L: Goodbye.

May 20, 1937

HM, Jr. called the President and said to him, "Congratulations on your first casualty!" (Veto message on appropriation for New York World's Fair.) "It will help our bond market and we need it."

"We will be ready to give you something tomorrow morning on the question of taxes -- the job you gave us to do. I would like to bring Magill and Gaston over with me.

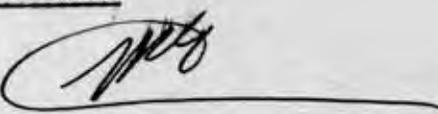
"The amusing thing is that the fellow who is red-hot on it is Magill. He is marvelous and he has done a grand job."

The President said he would give HM, Jr. an appointment right after press conference tomorrow and Kannee will 'phone the definite hour.

May 20, 1937.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



I am attaching a memorandum that Chic Schwarz wrote, at my request, on April 6th on the subject of Red Cross activities in the January floods. Jimmie Roosevelt, through Dr. Parran, has asked to see a copy of this memorandum but I didn't want to send it to him without your permission. Dr. Olesen of the Public Health Service, in the course of our trip to Stapleton, told me something about their experience with the Red Cross similar in vein to what Schwarz has written. I happened to discuss the matter with Dr. Parran and let him have this memorandum of Schwarz's to read. In a later conversation with Jimmie Roosevelt he talked about Red Cross and Public Health relations and mentioned this memorandum about Coast Guard impressions. Jimmie then asked if he could have a copy of it. Dr. Parran mentioned it to me.

I think the whole Red Cross thing is pretty sour, but I doubt that the President would want to move on it at this time.

Attachment.

May 20, 1937.

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Attachment.

Red Cross
April 6, 1937.

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MEMORANDUM

To: Mr. Gaston

From: Chic Schwarz

THE JANUARY FLOODS

In line with our conversation and your request for further details, I am setting down some of my observations during the January floods in the Ohio valley, with especial emphasis on the Coast Guard and its relations with the Red Cross.

The major conclusion to be derived from the whole tragic experience is that the operations in such a catastrophe should not properly be dependent upon an organization functioning with voluntary funds. In the public mind, the Red Cross is so closely linked to the actual Government structure that there is a tendency to look upon it as an official agency with the authority and responsibility thereof.

As a matter of fact, in practical operation the Red Cross, because it controls the purse strings of funds contributed voluntarily in response to Presidential appeals and proclamations, directs most of the activities and the Army's Engineers, the Coast Guard, Public Health officers and others are frequently subordinated to the dictates of more provincial relief authorities.

It must of course be recognized that there are some highly experienced disaster experts in the organization and their knowledge certainly is needed, but the very nature

of the setup is such as to make it unwieldy. The more efficient arrangement would be for some reserve to be available from year to year to allow for mobilization of Army and Coast Guard forces whenever the need arises.

By illustration, I think it should be pointed out that the late McLin S. Collom, veteran Government meteorologist at Evansville, had visited the Chicago division headquarters of the Coast Guard as far back as last summer to predict an unusually high flood this past winter and had begged the Coast Guard officers to prepare for intense activity. They followed his suggestion and were itching to get to the river at the first intimation from the weather man that his predictions were being borne out. Because of the arrangement by which the Red Cross pays for the transportation, housing and subsistence of men and equipment, however, the Coast Guard boats couldn't move until they were so requested by the Red Cross. And that wasn't done in this instance until local chairmen had appealed to national headquarters here, national Red Cross headquarters had communicated with Coast Guard headquarters and the latter office then speedily issued orders for the movement.

In other words, all of the fine detailed work that has been done by forward-looking Coast Guard officers to prepare standing orders for use in such an emergency (copies of such orders are in the hands of each station boatswain) is of no avail when execution of such orders has to wait upon outside authority that is not exercised until the emergency has become desperate.

I suppose some of the newer relief activities of the Government itself have been open to criticism of extravagance but it's manifest that neither the Army nor the Coast Guard would be as unnecessarily lavish in their administrative activities as was the Red Cross at Evansville.

With the Weather Bureau supplying stage predictions even in advance of the opening of relief headquarters that indicated that certain buildings near the river would suffer washed-out basements and consequent loss of heating plants in a short time, the first headquarters were set up in a comfortable hotel almost on the river. That lasted Thursday, Friday and Saturday. When the fire went out early Sunday morning, everything was moved, telephones yanked out and new offices set up in a bank building for Monday and Tuesday. By Wednesday it was again necessary to move to higher ground, this time into the County Courthouse where the Indiana National Guard had begun to set up a semblance of co-ordinated effort.

As for communications, in a natural catastrophe of this sort it is manifest that the Army or Coast Guard would have better facilities than a voluntary organization. As a result, Capt. Reinburg was aware of needs in isolated localities before the Red Cross officials. However, they were upset whenever the captain would approve requests by his men for permission to respond to immediate needs, ~~even~~ *even though* there were many times when the ranking Red Cross people were not available for consultation.

A good portion of the Red Cross' campaign for flood funds also was directed from Evansville, with a rather elaborate publicity staff on hand early even before the relief operations had been fully organized. Asked to ~~arrange~~ consult with them in the arrangement of "stunts" to help the campaign, I pointed out that it was my conception of my own particular responsibility to handle press queries to our officers in order to relieve them of that burden so that they might be free to devote their full energies to relief operations, that the emergency activity was the first concern of all on the scene and that after the situation was well under control we would naturally be happy to co-operate fully in any activity that would help in their fund-raising.

There ~~were~~ were instances where some of the Red Cross people wanted to hold up badly-needed Coast Guard surf boats while it was decided whether or not they should fly Red Cross flags so that photographs of the activities would show the association of the Red Cross with the operations.

Because the orders for movements were slow -- the majority of the Coast Guardsmen ~~have~~ had such flood experience as to enable them to go scouting up the rivers and tributaries and find distress cases before calls for help arrive -- at one time I counted thirty-five surf boats tied up at Evansville before the river had reached its crest and there were still many emergency appeals unanswered. It was necessary to argue vigorously with the newreel and still men to prevent them from making shots of the scene, for which they originally seemed naturally to think the Coast Guard was responsible.

It is my studied ~~conclusion~~ conclusion that had a co-ordinated Governmental setup --- weather bureau, Army, Coast Guard, Federal and State health services -- been prearranged with unified authority, much of the loss of life at Louisville could have been prevented.

It was probably mere coincidence that the Coast Guard established its first national headquarters in the same place as the first regional office for the Red Cross, but that regional office was only for the states of Indiana and Kentucky. When calls for help began to arrive from upriver points in the state of Ohio, the Indiana-Kentucky man, naturally seeking to protect his own region, took it upon himself to forbid movements to those points outside of his district. It wasn't ^{until} orders arrived from Admiral Waesche after various Senators and Representatives had relayed appeals from their home centers that such places were given adequate floating facilities.

(C2)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

MEMORANDUM OF THE DAY'S
ACTIVITIES - MAY 20th

DATE May 20, 1937

TO Secretary Morgenthau
FROM Mr. Magill

1. Decentralization of the Bureau

Deputy Commissioner Russell and his assistants are completing the reports formulated by the various committees at the recent conference of Internal Revenue Agents. They expect to put the decentralization plan into effect in Dallas, New York and San Francisco, on July 1st.

Certain other changes are contemplated in the field organization generally. Mr. Russell will give me the reports in a few days and they will then be mimeographed and sent to the Agents in the field.

* * *

I did not send you a memorandum yesterday, since I spent practically the entire day working on the various memoranda for the President; and I have spent today in the same way.

I have asked Deputy Commissioner Charles Russell to let me know why the telegram was sent in his name to Mr. Leonard S. Gans. I can see no reason why a telegram should have been used, or why it should have been sent collect. I will let you know in due course.

Ru
H.

for my diary
WJ

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 20, 1937

TO Secretary Morgenthau
FROM Mr. Taylor

During our conversation this afternoon I discussed with you the possibility of transferring the unit in the Bureau of Foreign and Domestic Commerce headed by Dr. Amos Taylor, which works on the balance of payments, the international investment position of this country, et cetera, to the Treasury inasmuch as the Treasury is far more active in this field than the Department of Commerce and our own data is not completely satisfactory. You suggested that I take this matter up with Dr. White and Dr. Viner and make a recommendation to you which you in turn can take up with the President and Secretary Roper.

During the subsequent discussion with Dr. Lubin, Dr. Lubin stated that he saw no reason to anticipate any particular recession of more than seasonal character as a result of the decline in certain commodity prices; in fact that there were only four factors in the entire situation which disturbed him:

1. The fact that he could obtain no evidence that the inventories of finished and semi-finished ^{cotton} textiles were moving;
2. That the advance in wool prices, which in turn would be reflected in the price of fall clothing, might create a consumer resistance which would materially affect that section of the textile industry;
3. That the increase in construction costs, which in representative areas totaled fifteen per cent within the past three months, was

- 2 -

undoubtedly having an effect both on increased rents and on stimulation of speculative building, rather than a healthy effect on new residence construction;

4. That installment buying was present to a greater extent than during 1929 and that any moderate recession in employment could potentially have a more serious effect on the portion of the credit structure represented by the finance companies than during the 1929 period.

You asked Dr. Lubin if withholding Government purchases of textiles could have a healthy influence on this situation. He enthusiastically agreed that it could have and that it was the type of support which he had long advocated and that, as a matter of fact, a group of industrialists had been discussing this type of question with Secretary Roper for several months.

You then called Captain Collins and asked him to prepare a review of the contemplated purchases by all units of the Government from now until next January with a view to utilizing these purchases in such a way that they would tend to come into the market in periods of slack production and thereby at prices which would be advantageous to the Government. He stated that he would have such a survey ready for you by the middle of next week and that the survey would cover the purchases through Procurement, War Department and the Veterans Administration.

WJ.

COPY

May 20, 1937

My dear Mr. Kelly:

I have read with interest the confidential documents on the Russian debt negotiations which you forwarded to me in your letter of May 12, and am returning them herewith.

Please accept my thanks for your kindness in having made this material available to me.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. Robert F. Kelly,
Division of Eastern European Affairs,
State Department.



DEPARTMENT OF STATE
WASHINGTON

May 12, 1937.

Strictly Confidential

Dear Mr. Morgenthau:

Referring to our conversation of yesterday, I am attaching, for your confidential information, a copy of the gentlemen's agreement between the President and Mr. Litvinoff, and a summary of the negotiations which subsequently took place with the Soviet Government with regard to the settlement of American claims.

I would appreciate it if you would be good enough to return both of these documents to me as soon as you have had an opportunity to go over them. I may add that the original of the gentlemen's agreement was initialed by both the President and Mr. Litvinoff.

Sincerely yours,

Robert F. Kelley

Enclosures:

Two, as above.

The Honorable

Henry Morgenthau, junior,
Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 20, 1937

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Notes on New York Visit (May 14-17)

Mr. Seltzer and I had extended interviews with the following: Mr. Murray Shields, financial economist, of the Irving Trust Co.; Mr. J. H. Riddle, economist, of the Bankers Trust Co.; Mr. F. E. Shaller, vice president in charge of investments, of the Equitable Life Assurance Society of the United States; and Mr. Alexander Sachs, economist, of the Lehman Corporation. The salient points raised in these interviews are cited below:

I. Availability of Investment Funds

All agreed that plentiful funds are available for investment. Mr. Riddle pointed out that life insurance companies held about a billion dollars of idle cash as against the \$200 millions or so that they used to carry before the depression; but that they are, like other institutional investors, hoarding funds in the hope of higher interest rates. Mr. Shaller pointed to his company's portfolio of Governments at the year end, more than half of which consisted of Treasury bills. Mr. Shields emphasized that low interest rates, however, remove an important part of the market for Government securities, because insurance companies and other institutional investors require higher rates, and because private investors just do not buy when the rate is so low. He believes that the general economic situation would be best served if long-term Governments got to a 3 percent level and were maintained at that level.

II. Government Bonds

Mr. Riddle believes that banks as a whole are not now interested in long-term Governments, particularly since the increase in reserve requirements. Both he and Mr. Shields emphasized that banks look for a continued pick-up in commercial loans and desire to be in a position to meet this demand; hence, in the meantime, their interest will be largely restricted to short-term Governments.

Mr. Shields contended that New York City banks should not hold long-term Governments because of their large foreign deposits and their holdings of cash balances of interior banks. Both he and Mr. Riddle pointed to the fact that out-of-town banks now have a billion dollars

Secretary Morgenthau - 2

more in deposits with New York City banks than in 1929; and that, since no interest is paid on these deposits, they are subject to rapid withdrawal by interior banks as satisfactory yields become available on short-term investments. Mr. Shields said that his bank owns no long-term Governments, its Government portfolio being confined to notes and bills.

As a result of a recent trip to Europe, Mr. Shields became convinced that governments generally have run up the prices of their obligations to such a level as to make such prices unstable — analogous to the situation that would obtain in the commodity field if cotton were run up to 35 cents a pound. Mr. Riddle takes a more restricted view in this connection. He thinks that U. S. Governments were run up unduly high after the election upon buying by insurance companies rather than by banks; and that this made the recent break more severe.

Mr. Riddle believes that we should expect more erratic markets in Government securities than was previously the case, because such a large proportion of Governments is held by banks, which he regards as a very unstable group. With 15,000 banks in the country, recurring psychological waves of optimism and pessimism with respect to Governments must be expected. Moreover, many banks bought Governments on a speculative basis, feeling that they were too high, but hoping to sell out at a profit before a significant downturn.

Mr. Shields declared that our medium-term bonds were more vulnerable in the recent price declines than the longer-term bonds, because the former had been run up excessively in relation to the rest of the market.

Mr. Sachs, in contrast, strongly believes that the prices of Government bonds are now too low; that they should be placed on a $2\frac{1}{2}$ percent yield basis or lower. He believes that the increase in reserve requirements to the full legal limit was an important factor in the recent rise in yields; and that this change in reserve requirements was a major error — one-half of the increase, in his opinion, would have been plenty.

He believes that another "synthetic" depression is probably already in the making as a result of the tightening of the money markets that Government policies have produced.

Mr. Sachs believes very strongly that low interest rates constitute the most powerful means of preventing inflation — because they provide the basis for plant expansion and increased production. The plant expansion reemploys idle labor in the construction industries and the increased production keeps down the prices of manufactured products. The worst kind of depression, he said, is one in which we have high prices and even high wages, but a large volume of unemployment.

Secretary Morgenthau - 3

The restoration of a $2\frac{1}{2}$ percent yield on long-term Governments, in his opinion, would reopen the doors for a great volume of corporate refunding, doors which were closed in large part by the recent rise in interest rates. A $2\frac{1}{2}$ percent interest rate for long-term Governments, he thinks, would straighten out the capital markets. He contends that insurance companies need only a 3 percent return on prime corporate bonds to meet their contractual obligations and that a $2\frac{1}{2}$ percent yield on Governments would be roughly equivalent thereto. In the matter of new securities, he prefers giving the market what it will take at the moment, with the proviso that no security should be offered that would require a coupon rate of more than $2\frac{1}{2}$ percent.

III. Bill Issues

Mr. Shields was quite emphatic in declaring that the volume of Treasury bills outstanding should be increased. The nature of the New York money market, in his opinion, requires a greater volume of bills. The creation of a real trading market for Treasury bills would be very helpful to banks generally, he said, and this would be greatly furthered by an increase in the outstanding volume of Treasury bills. He believes that the gold sterilization program should be financed by bill issues in accordance with the plan originally announced, rather than by allowing the Treasury balance to run down. Mr. Shields also emphasized the greater desirability, from a banking standpoint, of six-month and three-month bills than of nine-month bills.

IV. Gold

Mr. Riddle thought that the gold problem was one of the most serious now facing the world. He raised the question of where we would be led by the present increased level of gold production in conjunction with the reduced monetary requirements for gold.

He declared that a democratic country could not be expected to continue to buy and sterilize gold and issue interest-bearing debt obligations to finance the process. He felt, however, that England was more seriously situated in connection with this problem than the United States because gold production plays an important role in the economy of her dominions.

He believes that the gold problem will be discussed at the Imperial Conference now meeting in London; that the British feel that their colonies may insist upon a more definite handling of the price of gold by Great Britain; and that the British are fearful that the United States might stop buying gold or make some other move in this direction while the Conference is in session, thereby forcing the British hand. This is the reason, in his opinion, why the British bought a substantial amount of gold the other day.

Secretary Morgenthau - 4

Mr. Riddle, who said he is going to Europe shortly to study the situation at first hand, believes that the United States should confer immediately with England with respect to the gold problem, and insist that the British share the burden. He is sure that the British realize that it is politically impossible for the United States to continue to create interest-bearing debt in order to absorb endless quantities of gold; and that their interest in the problem, through their dominions, is such as to make their position even more difficult than that of the United States.

Mr. Sachs read a memorandum that he had prepared on the gold dilemma, in which he outlined three alternative solutions: (1) Cut the price of gold; (2) adopt a two-price system for gold; and (3) a quota system; and contended that none of the three offered a feasible solution. He strongly believes that we should make the Tri-partite countries jointly bear the gold burden for the time being; but that the true solution probably lies in the absorption of gold by other countries, such as Argentina, et cetera.

He believes it ridiculous for the United States to issue interest-bearing debt instruments in order to sterilize gold, because the problem is essentially one of bookkeeping; and that, while he is no bookkeeper, he could see no reason why a bookkeeping solution of this problem would be any more difficult than the bookkeeping solutions to problems encountered by complicated holding companies.

V. Miscellaneous

Mr. Shields believes that American exports will increase substantially for a time because England and other countries are devoting so large a fraction of their economies to rearmament that they will not take on their normal volume of export business.

May 20, 1937
2:45 P.M.

Operator: Go ahead.

H.M.Jr: Hello.

Governor Schaller: Hello, Mr. Secretary.

H.M.Jr: How are you, Governor?

S: I'm out here in Chicago. I've contacted the - as far as I've contacted the Chicago banks and also some in Milwaukee, Detroit, and Indianapolis...

H.M.Jr: Yes

S:I get a very concerted opinion on about a three-year note.

H.M.Jr: Three-year note.

S: $1\frac{1}{2}$ to $1\frac{3}{4}$. Some of them will go to five years on $1\frac{1}{2}$, but most of the men contacted seem to think at about three years.

H.M.Jr: Uh-huh.

S: They - all of them are very much opposed to a bond issue, feeling that it will not be taken.

H.M.Jr: Uh-huh.

S: And it of course would disturb the other issues. They tell me there's plenty of money but it's more or less - well, it's just hesitant; wouldn't say frightened, but it's just hesitant what to do.

H.M.Jr: Uh-huh.

S: And they think the best thing they could do would be to give a - a rest to both the banks and the market on the bonds.

H.M.Jr: Uh-huh.

S: Do you think - do you think it would be very helpful if a definite statement could be - be made that there's possibly a shrinkage in the shortage reported in tax

-2-

collections?

H.M.Jr: What's that? I didn't get that?

S: If you could make a statement that the shortage in tax collections was smaller than first announced.

H.M.Jr: Well (laughs) - I - I can't do that.

S: Some of them think, you know, that there - there's a big improvement in taxes. I don't know. I'm just giving - passing this on to you.

H.M.Jr: Yes

S: Also, of course, as far as the market is concerned, they all think that if there could be a turn toward a - not assurance but a drift toward a balanced budget, it would cure many of our troubles.

H.M.Jr: Well, I agree with them on that.

S: Yes, I know you do. I've often heard you say so, many a time. One or two of them are still interested in a 30-year bond at three percent.

H.M.Jr: Really?

S: Yes, they think long-time. But I - I - myself, I would question it.

H.M.Jr: Uh-huh.

S: As another suggestion, they thought it would be very helpful if - I presume that's a Congressional matter - if we could take these Government securities for inheritance tax payments.

H.M.Jr: For inheritance tax?

S: Yes, in other words, if they - if - if a man would have a bond that his heirs could turn in in settlement of his inheritance tax.

H.M.Jr: I see.

S: They think that would open quite a field for - especially in some of the larger estates.

-3-

H.M.Jr: Uh-huh. Well, I've heard that over a couple years ago.

S: Yes, I know you have, yes. I talked with these people up at the our largest insurance company.

H.M.Jr: Yes

S: They are not interested in anything under two percent.

H.M.Jr: Now, that would go, say....

S: For five years.

H.M.Jr: Northwestern Mutual?

S: Yes

H.M.Jr: They're not interested in anything under two percent.

S: Under two percent.

H.M.Jr: I mean that's - that's the factor that - it's the rate that - what they want.

S: They - we discussed the five-year. He said that a five-year note at two percent would be the lowest they'd be interested in just at this time.

H.M.Jr: I see.

S: That they would be interested in ten to fifteen years.

H.M.Jr: They would?

S: At two and a half to two and three quarters.

H.M.Jr: They would? Well, that's interesting.

S: Over fifteen years, there would nothing interest them only under three percent.

H.M.Jr: Uh-huh. But they would be interested in a ten to fifteen year bond.

S: Ten to fifteen year bonds at two and a half to two and three quarters.

H.M.Jr: Uh-huh.

S: And a five-year note at two.

-4-

- H.M.Jr: Well, of course, they're crazy on that.
- S: I suppose they're out of line
I'm just - I'm just trying to give you the....
- H.M.Jr: No, I know, I know.
- S: ...reaction I get from them. Now that - that covers quite largely - of course, there's more of this in detail, but that covers quite largely the high points.
- H.M.Jr: Well, do you suppose you could do it again and maybe call me about next Wednesday?
- S: Well, I'll do whatever you ask me to.
- H.M.Jr: Well, supposing - I mean I don't want - would that be too soon to check up again?
- S: Well, let's see, when do you - when will we probably want to make any announcement?
- H.M.Jr: Well, it depends upon the Supreme Court. If the Supreme Court does not hand down a decision on Monday on the Social Security, then we won't do any financing until the seventh.
- S: Now, see - just let me get my calendar here. (Pause)
There will be no announcement made until the seventh of June.
- H.M.Jr: Well, we - we might possibly do it on June 1. See, there's a slight - there's some chance of our doing it June 1, but we're more apt to do it on June seventh.
- S: Well now, you'd like to have me call you a week from today?
- H.M.Jr: Ah - yes, that will be...
- S: Or you said a week from yesterday, Wednesday.
- H.M.Jr: I - I - well, what is today, Thursday?
- S: Thursday.
- H.M.Jr: Yes, I'd like if you - if you'd call me, say, next - a week from today would be good.

-5-

S: Call you a week from today.

H.M.Jr: Yes, will you please?

S: Sure, I'll make a canvass probably next Wednesday...

H.M.Jr: Yes

S:of the same parties....

H.M.Jr: Yes

S: ...to see if they've changed their minds any.

H.M.Jr: Fine. That would be good.

S: All right.

H.M. r: Thank you very much.

S: Yes, all right, thank you.

MEMORANDUM

May 20, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Treasury bond market was very quiet with a firm tone all day and price changes were small. Bid and asked quotations eased slightly on the stock exchange market in the forenoon but tended higher thereafter. At the close, the majority of Treasury bonds were unchanged to 2/32nds better than yesterday. In the guaranteed group the F.F.M.C.'s were unchanged to 2/32nds better, the H.O.L.C.'s were 1/32 to 3/32nds better. Turnover of Treasury and government guaranteed bonds was unusually small at \$290,000. Note market was also quiet, and the 1940 and 1941 maturities were generally 1/32nd better on the day.

Domestic bonds were notably dull. Both high and second grade issues showed small fractional gains.

Foreign bonds were quiet and steady and there were no price changes of consequence.

Purchased for Treasury today \$327,200 2-7/8% Treasury bonds of 1955-80 for account Secretary of the Interior Indian Fund.

JR

GRAY

Paris

Dated May 20, 1937

Rec'd 1:08 p.m.

Secretary of State,
Washington.

651. May 20, 5 p.m. (section one)
FROM COCHRAN.

Pressure on franc was lighter than yesterday but control was obliged to intervene in early trading at 110.80 and according to market observers yielded perhaps 400,000 pounds at that rate. French rentes down 20 to 45 centmes. National Defense bonds of 1937 which were issued at 98 are today 93.55. Gold mining shares improved. There is better demand for forward gold and India is now reported over-sold. Understand confidentially that only 300,000,000 francs have so far been subscribed to the new issue of Caisse des Pensions bonds for which 2,200,000,000 were sought. Date for closing subscriptions has therefore been prolonged from today until May 25th. Bank of France statement as of May 13th shows that no significant changes although coverage improved from 55.08 to 55.52 due principally to decline in note circulation.

BULLITT

McL:RR

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 651 of
May 20, 1937, from Paris

Today I had lunch with Professor Rist. This morning he had been at a conference lasting two hours with Minister of Finance Auriol and Premier Blum. In confidence Rist told me that the Premier is becoming more and more convinced that a real "pause" in his social program is essential. This morning they decided to permit the department stores to stay open six days a week while the Paris Exposition is going on.

According to Rist, Blum and Auriol are now going as far as they think they possibly can toward cutting down the deficit in the budget. The Chamber he believes will give special powers to the Government for making changes in the tariff after adjournment of Parliament. Rist remarked with a smile however that the French Senate is almost as hard to convince as the American Senate that a new era is needed.

Rist, as previously reported in my cables, is in favor of a lowering of trade barriers. He thinks that in the present circumstances the 40-hour week is too much for French industry to bear.

Rist has daily meetings with the other members of the Committee directing the French stabilization fund. His opinion of Labeyrie's qualifications as a central bank governor has however not risen as a result of such contact in these days when there is again pressure on the franc,

when

- 2 -

when the control is not holding its own, and when there is such a dismal outlook for financing the needs of the Government.

Regret was expressed by Rist that the French internal situation has been aggravated by the international gold scare. He mentioned two recent gold purchases which the Bank of England made, which in his opinion is insufficient. The failure of the British to step forcefully into the gold market when the scare recently developed is resented by Rist. He expressed the opinion that it is unfair for the British to leave to the United States almost the whole burden of holding the gold market and termed it plain (sic) if they should try to get the United States to lower the gold price simply to aid Great Britain in maintaining the commodity price level which in its present circumstances it finds suitable.

My contact believes that we should welcome the plenty of gold and not start lamenting over a plethora as we did over a scarcity only a few years ago.

END SECTIONS TWO AND THREE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION FOUR OF TELEGRAM NO. 851 of
May 20, 1937, from the American Embassy, Paris.

He added that our troubles do not come from gold, but that they arise from paper money economics and faulty reasoning in both internal measures and international affairs. The blame should not be put on gold, but rather on armaments, public works, nationalization of economy, and so on.

He thinks that now there should be an orderly rise in world commodity prices, just as a gradual rise in (omission) extended from the Transvaal discoveries until the World War in 1914.

An improvement of the currencies of Latin American countries was seen in that period, and Rist thinks the present epoch of increase in gold production should be the time for augmenting the supplies of gold of the needy central bnks and of correspondingly strengthening their monetary units.

What Rist advocates is that the United States should maintain its gold price, that Great Britain should take from the market its share of gold and allow a proportionate expansion in volume of its currency, and that foreign lending should be resumed by both countries, whether through acceptances or operations on longer term basis.

I was asked by Rist whether resumption of foreign lending was definitely opposed by the United States.

PARAPHRASE OF SECTION FIVE OF TELEGRAM NO. 651 of
May 20, 1937, from PARIS

I was convinced, I said, that nothing would be done in the near future to contravene or to amend the Johnson law provisions. I reminded Rist that on our market the recent conversion loans of non-defaulting foreign borrowers had been well received; I added that I had seen suggestions in the press of our making gold bullion loans to central banks of Latin America.

The Professor said that he thought such loans would be a step in the right direction. It would be most helpful, he thought, if the United States could discover some way to lend gold to Germany and Italy under conditions which prohibited its use for war purposes and stipulated that it be used as a monetary reserve. Real world progress in his opinion demands a return to an international gold standard; a prerequisite step he said is a better distribution of the existing supplies of gold. Rist said he would draw no line between different types of governments; he is happy to live in France under a democracy, but he is not presuming to tell his German or Italian friends what form of a government should be upheld by them.

END MESSAGE.

BULLITT.

EA:LWW

JR

GRAY

London

Dated May 20, 1937

Rec'd 2:10 p.m.

Secretary of State,
Washington.

296. May 20, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Confidentially informed by reputable journalist that it is due to a suggestion from the Bank of England that today's British press emphasizes that yesterday's purchase by the Bank of England from the British equalization fund of gold to the value of pounds 2,599,566 (old price) was solely for the purpose of building up the reserves of the bank against increase in the active note circulation. Bank of England is said to have taken this step inasmuch as last week's purchase, reported in my 283, May 13, 7 p.m., was interpreted in some quarters as an attempt to "reestablish confidence in the gold price". Today's Bank of England return does show the active note circulation at pounds 481,433,000, an increase on the week of pounds 1,523,000.

BINGHAM

RR:HPD

RECEIVED

MAY 21 1937
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

MM

GRAY

LONDON

Dated May 21, 1937

Rec'd. 2:36pm.

Secretary of State

Washington, D.C.

301, May 21, 7pm.

FOR TREASURY FROM BUTTERWORTH.

Sir Frederick Phillips began the meeting at the British Treasury today by saying that although the Coronation had smothered everything for the past two weeks the difficult problems seemed to remain; however, the City was feeling better after the receipt of good unemployment and trade returns. Philipps said that they had no indications of any decided change in the French situation; that the exhibitor was making haste slowly; if it were a success no doubt it would stimulate further the economic improvement which was going on. The consensus of opinion seemed to be that no decided change was to be expected until about October and the question was of course was any one willing to assume Blum's responsibilities.

Philipps asked whether we had any information regarding the reasons for the recent Japanese gold shipments to the United States and he said that he knew of no adequate reason why they should ship gold particularly at this time and he queried why Japan's balance of payments should require gold shipments

MM 301, May 21, 7pm. from London. -2-

shipments now when their export trade was at its all time high. Phillips then mentioned that Argentina had been absorbing amounts of gold and he inquired as to Brazil which he felt also ought to be in a position to do likewise. I then thought it opportune to ask him about the Empire countries and he replied that South Africa had of course increased its holdings considerably and no doubt would continue to do so; that Australia and New Zealand had reduced their gold holdings and in the case of Australia she might not be able to afford to hold increased quantities of gold. As for Canada "she handles that question herself". Phillips also mentioned that the British had recently bought considerable quantities of gold from time to time and in reply to a question he said that the best estimate he was able to get some weeks ago about the amount of hoarded gold remaining in London was one hundred thirty million pounds but it was very difficult to obtain an accurate figure.

In response to a query in this general connection Phillips said that thus far the Imperial Conference had touched on no monetary or economic question except to approve the Imperial Economic Committee report which was relatively unimportant in itself; that its efforts to date had been solely in the field of foreign and allied defense questions.

BINGHAM

KLP
GW

May 20, 1937
3:15 P.M.

H.M.Jr: Hello.

Operator: Captain Collins. Go ahead.

H.M.Jr: Hello.

H.E. Collins: Good afternoon, Mr. Secretary.

H.M.Jr: Hello. Collins?

C: Yes, sir.

H.M.Jr: I wonder if you could do something for me?

C: I'd be very happy to, sir.

H.M.Jr: Hello?

C: I'd be very happy to, sir.

H.M.Jr: Ah - in the question of the purchase of textiles, cotton goods, any textiles that the Government is purchasing, see?

C: Yes, sir.

H.M.Jr: That's - who - who, for instance, does the buying for C.C.C.? Hello?

C: Yes, sir, that comes through the Army Quartermaster, sir.

H.M.Jr: Well, you're in touch, aren't you?

C: Yes, sir, I could find out anything you wanted there.

H.M.Jr: Well, I tell you what I'd like to know. I'd like to have you make a survey of - of what the Army and the Navy and Procurement are thinking of buying in textiles from now until the first of January.

C: Yes, sir.

H.M.Jr: What the needs are of the government, see?

C: Yes, sir.

-2-

H.M.Jr: I mean get that on a - on a monthly basis.

C: Yes, sir. You want that...

H.M.Jr: And then...

C: you want that broken down by cotton and woolens, I suppose, sir?

H.M.Jr: Cotton and woolens.

C: Yes, sir.

H.M.Jr: And the the possibility of withholding orders, say, maybe until next fall...

C: Yes, sir.

H.M.Jr: ...or at least withholding them until we see what happens.

C: Yes, sir.

H.M.Jr: I tell you what I got in my mind. I mean you needn't tell this to anybody except Peoples.

C: I understand, sir.

H.M.Jr: We're worried about the textile and the woolen situation. If we could withhold government orders until the thing broke, and then put it in, it would be a very important stabilizing maneuver, see? Do you get the idea?

C: Yes, sir, I do.

H.M.Jr: Now, I want to keep it very secret, just for you and Peoples. But get a survey of what the government is going to buy by months from now until the first of January. Also shoes.

C: Shoes?

H.M.Jr: Yes

C: Yes, sir.

H.M.Jr: And let me know. And then the possibility of - of - of

-3-

postponing some of the orders.

C: Yes, sir.

H.M.Jr: See?

C: Yes, sir. Well then, Mr. Secretary, I'll get the survey first and probably I'd better discuss that with you before we take up a possibility of postponement, don't you think?

H.M.Jr: Get the survey first, yes. Now, how long is that going to take?

C: Well, it'll depend on how long it'll take me to shake it out of the Army. I can work on the Navy pretty rapidly.

H.M.Jr: Well, if you have any trouble with the Army, let me know.

C: All right, sir, I'll do that.

H.M.Jr: But this isn't something that I want - I - I'd like to have something by the middle of next week.

C: I'll have something by then, sir.

H.M.Jr: All right.

C: Goodbye, sir.

H.M.Jr: Thank you.

May 20, 1937
3:43 P.M.

H.M.Jr: Hello.

Marvin
McIntyre: Yes, sir.

H.M.Jr: Henry talking.

M: Yes, sir.

H.M.Jr: I just wanted to say I talked to the President this morning and we've been working on this job he gave us Monday, and he said that he'd see us right after his press conference tomorrow.

M: Yes

H.M.Jr: And I'd appreciate it if you would remind him.

M: I've already done it. He thinks you can do it in half an hour; can you?

H.M.Jr: In a half an hour?

M: Yes

H.M.Jr: I think so, if - if - if he'll work.

M: Well, let's make him work. (Laughs)

H.M.Jr: (Laughs)

M: God, he's been awful today, Henry, between you and me.

H.M.Jr: Is it going to be after the press conference?

M: Yes, at 11 o'clock.

H.M.Jr: Swell. Thank you, Mac.

M: O.K.

H.M.Jr: Thank you.

May 21, 1937
12:30 P.M.

H.M.Jr: Hello.

Operator: Jesse Jones. Go ahead.

H.M.Jr: Hello.

Jesse Jones: Hello, how are you?

H.M.Jr: Oh, pretty well for an old man. How are you?

J: Oh, pretty good.

H.M.Jr: Uh-huh.

J: Well, I hadn't heard from you; I didn't know what time or when, and I thought I ought to call up and bum you for that lunch again.

H.M.Jr: All right. I'll tell you what I'll do. I don't know how I'm fixed, but how about.... Just let me take a look.

J: Any time that suits you, just....

H.M.Jr: Well, just a second, old man. How about next Wednesday?

J: Ah - all right, I think it's fine.

H.M.Jr: One o'clock?

J: One o'clock at your place?

H.M.Jr: At my place.

J: You don't want to go with me?

H.M.Jr: Oh, we can sit here and put our feet on....

J: I like it better there.

H.M.Jr:put our feet on the desk.

J: I like it better there.

H.M.Jr: Well....

J: But I did - I did at least want to offer, you see.

H.M.Jr: I got it.

J: All right, I'll be there; that's fine, Henry. Any news with you?

H.M.Jr: Not a thing.

J: All right. I think you're a hundred percent right on that little blast I saw in the paper this morning.

H.M.Jr: About these - ah....

J: The conferences.

H.M.Jr: Oh, You get nice bellyaches and all that sort of stuff, but that's about all.

J: That's right.

H.M.Jr: Yes. Will Rogers had it right.

J: That's right.

H.M.Jr: O.K.

J: Goodbye.

PARAPHRASE OF SECTION ONE

TELEGRAM NO. 668 of MAY 21, 1937, from the
AMERICAN EMBASSY, PARIS.

Paris exchange market rather quiet. French control yielded some sterling at 110.84 and pushed rate down to 110.81. Forward franc more offered. French rentes down 10 to 60 centimes. Treasury bonds of 1934 which must be deposited by June 4 if cashing option is to be availed of in October are particularly low. Both French and international shares weaker for no special reason. Indian gold price rising. Amsterdam contracting some forward gold purchases.

Other than the interview which I reported in my telegram No. 651 of May 20, 5 p.m., I am reliably informed that Baudoin and Rist, the two non-governmental members of the Committee set up for the direction of the French exchange stabilization fund, have been insisting vigorously with the Prime Minister this week that unless immediate retrenchment steps are taken the French financial situation is desperate.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTIONS TWO, THREE AND FOUR
of telegram No. 668 of May 21, 1937, from Paris.

It is said that Baudoin presented a memorandum to Blum in which his views on the subject were set forth. It is said that Blum was very depressed, and that he admitted the seriousness of the situation as well as the wisdom of the memorandum presented by Baudoin. He stated, however, that it was politically impossible to follow the memorandum, and he desired that it be retained by Baudoin, but the latter insisted that the document be kept by Blum.

I have received information - which fits in with my own purely personal opinion - to the effect that Baudoin and Rist, the first of whom has a very good reputation as a practical banker, and the second a distinguished record as the leading economist of France, will continue to press Blum for drastic budget action and for lifting of barriers to trade. Should there be continued the deterioration now going on, it appears almost certain that before a crisis comes Baudoin and Rist will probably resign from the Exchange Control Committee, and make it known in their resignations and possibly in statements to the public that the reason they have quit the committee is because their recommendations were not followed by the Government. Baudoin and Rist are both loyal and capable citizens

- 3 -

citizens but it cannot be expected that they will take part indefinitely in a committee which in the face of the governmental economic and financial policies being pursued has practically no chance of success.

Baudoin and Rist and certain technical men of the Bank of France are becoming more and more disgusted with the lack of common sense and honesty/^{constantly} displayed by Rueff, the Treasury Committee member. Rueff declared only two days ago that the present situation of the Treasury was exceptionally favorable when he was questioned about it. This startling statement was enlarged upon by Rueff, who said that the Treasury still had over one billion francs in its account with the Bank of France, that it could draw over two billion more from the Bank of France, and that the City of Paris loan and other similar scattered sources would produce one or two billion francs. Rueff added, furthermore, that the Treasury would be faced with the necessity of borrowing only (repeat only) twenty-five billion francs for the remainder of the year.

These statements, my informant insisted, were made in all seriousness and not in jest. Minister Auriol, furthermore, is said to be so buoyed up by the optimism of Rueff that he also fails to realize how serious the situation really is. It is said that Prime Minister Blum
himself

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himself is entirely cognizant of the dangers of the problems confronting him, and to have expressed the opinion that he has not a single official in the Ministry of Finance who can be of any service to him in the emergency facing him.

This morning I was confidentially informed at the Bank of France that this week there had been strong pressure upon the franc. The French exchange control lost 50,000,000 francs yesterday, and 100,000,000 francs on Wednesday. The funds total resources in gold and in foreign exchange were 3,350,000,000 francs as of today.

END MESSAGE.

BULLITT.

EA:LWW

MM

GRAY

LONDON

Dated May 21, 1937

Rec'd. 2:36pm.

Secretary of State

Washington, D.C.

301, May 21, 7pm.

FOR TREASURY FROM BUTTERWORTH.

Sir Frederick Phillips began the meeting at the British Treasury today by saying that although the Coronation had smothered everything for the past two weeks the difficult problems seemed to remain; however, the City was feeling better after the receipt of good unemployment and trade returns. Phillips said that they had no indications of any decided change in the French situation; that the exhibition was making haste slowly; if it were a success no doubt it would stimulate further the economic improvement which was going on. The consensus of opinion seemed to be that no decided change was to be expected until about October and the question was of course was any one willing to assume Blum's responsibilities.

Phillips asked whether we had any information regarding the reasons for the recent Japanese gold shipments to the United States and he said that he knew of no adequate reason why they should ship gold particularly at this time and he queried why Japan's balance of payments should require gold shipments

FILE COPY

A. LOCKHEAR

MEM 301, May 21, 7pm. from London. -2-

shipments now when their export trade was at its all time high. Phillips then mentioned that Argentina had been absorbing amounts of gold and he inquired as to Brazil which he felt also ought to be in a position to do likewise. I then thought it opportune to ask him about the Empire countries and he replied that South Africa had of course increased its holdings considerably and no doubt would continue to do so; that Australia and New Zealand had reduced their gold holdings and in the case of Australia she might not be able to afford to hold increased quantities of gold. As for Canada "she handles that question herself". Phillips also mentioned that the British had recently bought considerable quantities of gold from time to time and in reply to a question he said that the best estimate he was able to get some weeks ago about the amount of hoarded gold remaining in London was one hundred thirty million pounds but it was very difficult to obtain an accurate figure. #

In response to a query in this general connection Phillips said that thus far the Imperial Conference had touched on no monetary or economic question except to approve the Imperial Economic Committee report which was relatively unimportant in itself; that its efforts to date had been solely in the field of foreign and allied defense questions.

BINGHAM

KLP
GW

May 21, 1937

I saw Parker Gilbert and Leffingwell last night at my house.

Parker Gilbert said we ought to keep our sterilization fund, but he thinks we ought to stop sterilizing any more gold. He said the only way we can keep gold from coming here is to raise prices by letting the gold go into the Federal Reserve System. Business is hesitating.

Leffingwell said to me, "You might as well recognize that they have you in a corner on your next financing. Give them a short-term obligation and do not argue this time, but do not let them get you there again."

I think I convinced him that we are going to balance the budget and after two hours' talk I believe I convinced them that if the country could be convinced the budget would be balanced a lot of other worries would drop by the wayside.

GROUP MEETING

May 21, 1937
9:30 A.M.

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

H.M.Jr: And say, you (Taylor) might find out from Herbie Feis if he knows anything now from Norman Davis.

Taylor: I reported to you that he didn't.

H.M.Jr: Well, I heard some of the things that Norman's advocating. They sound pretty phony to me. I hope he likes my story too.

Mac?

McR: Nothing particular. I've got a group of these housing people coming in next week; that is, I expect them. I talked to a lot of them on the telephone.

H.M.Jr: Well, we've got a meeting Monday morning, haven't we?

McR: Yes, but I'm arranging for these fellows to come in and ask these questions direct of these housing men - whether they'll build.

H.M.Jr: Well, when they coming?

McR: Well, they'll probably - I'm not bringing them all together; I don't want a meeting. I'll talk to them individually, because they gang up when they get together. And I expect to have them over a period of at least four days next week.

H.M.Jr: All right.

McR: I've got some information about what Lehman Brothers had offered the New York housing authority in selling housing bonds for them. One of their men will be down here.

H.M.Jr: Fine.

McR: To find out just what the market is.

H.M.Jr: Swell. Which man is coming down from there?

-2-

McR: I don't know yet. Matt's pretty well acquainted with those boys, and he already had a letter that they had written the New York housing authority last July, offering to buy 11 million dollars worth; they offered to sell 3 $\frac{1}{2}$ % bonds, pay 96 for it.

H.M.Jr: What coupon?

McR: Semi-annual.

H.M.Jr: What rate?

McR: Three and a half.

H.M.Jr: How much?

McR: Three and a half.

(Oliphant comes in)

Oliphant: Sorry to be late.

H.M.Jr: What you going to do about it?

Oliphant: Well, you better call my wife. I was out with her doing business.

McR: She has him under control.

Oliphant: I had to pick it out.

H.M.Jr: All right.

McR: He has all the signs.

H.M.Jr: George?

Haas: I have nothing this morning.

Roche: Nothing special, sir.

H.M.Jr: Wayne?

Taylor: (Nods nothing)

H.M.Jr: Herbert?

Gaston: Elmer Irey gave me a report over the telephone about this Lew Schneider. Their man Murphy went around to see him and he was very defiant, and he said that it was confidential information; wouldn't tell anybody; wouldn't tell the Secretary, wouldn't tell the President. And he finally said that he did see somebody's report in some brokerage office; that is, he mentioned one which he saw, which our men understood was that of a member - of an employee of the Securities and Exchange Commission. But as to the Treasury, he wouldn't say where he got the information or where it was.

H.M.Jr: Could you serve him a summons?

Oliphant: What's the case?

Gaston: In the confidential pink sheet of the Whirligig.....

H.M.Jr: You're (Oliphant) a scream this morning.

Gaston: In the confidential pink sheet of the Whirligig....

Oliphant: I'm not quite sober. I went to this man's (Gaston) house party last night.

H.M.Jr: Want a little bicarbonate?

Oliphant: I'm full of bicarbonate.

(Hearty laughter)

Taylor: Double bromo.

Oliphant: This man Gaston - never went to his house parties before.

H.M.Jr: Well, when Herman comes to, will you ask him about Lew Schneider?

Gaston: I'll ask him about Lew Schneider.

H.M.Jr: All right.

Shall we pass you (Oliphant)?

Oliphant: No.

- H.M.Jr: Herbert says yes.
- Magill: It affected Herbert's hair.
- Oliphant: After repeated telephone conversations with Mr. Igoe, it was agreed we should not investigate the jury panel in the Malone case.
- H.M.Jr: You know, you told me that once, but I'm always glad to hear it again.
- Oliphant: And Mr. Igoe intends to fight it out on the Yellowley contempt charge, because he went in yesterday and moved to strike out paragraphs 2, 3, 4, and 5, which were those paragraphs setting up that it was not unlawful because they didn't discuss anything having anything to do with the pending investigation.
- H.M.Jr: Where were paragraphs 2, 3, 4, and 5?
- Oliphant: In the answer.
- H.M.Jr: Our answer?
- Oliphant: Yes. And he moved to strike out those.
- H.M.Jr: Has he the right to do that?
- Oliphant: Oh yes. And the Judge, Wilkinson, will hear that motion to strike out. I am confident that Wilkinson will deny the motion.
- H.M.Jr: What else?
- Oliphant: That's all.
- H.M.Jr: And we are free of Mr. Pegler?
- Gaston: Yes, I talked to Mr. Irej about it.
- H.M.Jr: They didn't, by any chance, sell him a bill of goods that we were in any way responsible for that thing? I mean they didn't try to....
- Gaston: Oh no, he didn't say that. I said we couldn't add anything to what Mr. Cummings said at the time that they dropped the cases: that the Treasury's recommendation was against it. I said, of course, that

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naturally the men who are investigating the case always want to go ahead and prosecute. And I called Pegler up and told him that the spot we were in was that the criminal end of it was entirely in the Department of Justice and as to the civil end, if anything came out, it had to come out in the normal way, through petition to the Board of Tax Appeals.

H.M.Jr: There's the stuff Herman's given me from the Department of Justice. I can't carry any more.

Now, have those papers (in Oliphant's hands) anything to do with this meeting?

Oliphant: No.

Magill: You doubtless noticed that Mr. Doughton introduced a bill to extend the excise taxes.

H.M.Jr: Yes, sir.

Magill: And I presume we'll have a hearing by Monday in executive session.

H.M.Jr: Yes, sir.

Magill: I've been having some correspondence and also telephone conversations with the State Department regarding....

H.M.Jr: Wormholes?

Magill: No.proposals for two treaties: an addendum to the French treaty respecting double taxation, and a so-called multilateral treaty respecting double taxation of business firms. Those negotiations will be with Netherlands, Switzerland, and Italy; they want to conduct them this summer. We have men down in the Bureau who are extremely anxious to go on this trip and negotiate these treaties; but, so far as I can see, with our present revenue program, we can't spare anybody who is good enough to negotiate with those people.

H.M.Jr: That isn't what you told them. I hear you stuck out your chin and said, "We've got troubles enough."

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Now, you've had trips for the last three years. Now you'll stay right here and tend to business."

Magill: Well, that's what I told the Bureau fellows, but that isn't what I told the State Department.

H.M.Jr: What did you tell them?

Magill: I told the State Department what I just told you. But what I want to know is, is that satisfactory?

H.M.Jr: Listen, if we have anybody right now that knows anything about taxes in the Bureau, I say, "Keep him here right now."

Magill: We don't have many, but I'm saying that.

H.M.Jr: All right, anything else?

Magill: That's all.

H.M.Jr: Now, you want to see me?

Magill: I would like to.

H.M.Jr: Alone?

Magill: Yes.

H.M.Jr: O.K. Class is over.

May 21, 1937.

MEMORANDUM

The Secretary, accompanied by Mr. Magill, Mr. Oliphant and Mr. Gaston, saw the President at 11:40 today, the original appointment having been for 11:00. The Secretary handed the President three documents, copies of which are attached. (1) A letter from the Secretary to the President reporting on methods of income tax avoidance and evasion as shown in the current returns for 1936 and returns for other years, in which the names of various persons employing these devices were used. (2) A similar letter in which names were omitted. (3) A letter from the Secretary to the President on the subject of taxation of non-resident aliens.

The President read with great care and interest document No. 1 and frequently expressed his satisfaction at having the information available. During the meeting he mentioned that he had information from another source that more than one hundred corporations had been formed in Nassau, Bahamas, by Americans, and that he had heard also that Prince Edward Island and Fredericton, New Brunswick were being used in the same way. He also suggested that we look into the ownership of William Randolph Hearst of a magazine in England, which in turn is the owner of record of Mr. Hearst's castle in Wales. This ownership appears to be on the theory that the castle is used to enter-

- 2 -

tain advertisers in the magazine, but the President thought investigation would show that it was never used except when Mr. Hearst occupies it himself. Mr. Magill told the President that we had had an agent making an investigation in Nassau and that as a matter of fact there were considerably more than one hundred such corporations there. He doubted that Prince Edward Island would be extensively used since it was subject to Canadian jurisdiction, while Newfoundland, which is also being used, is not.

The President asked for additional names, twenty-five or more. He said that it was his present idea to use this material in a radio address and that about the same time, or soon afterward, he might send a message to Congress proposing legislation for closing loopholes in the tax laws. The Secretary raised the question of the timing, since he regarded it as important not to interfere with the excise tax renewal legislation, which is about to be introduced. In addition to additional names the President asked that the Treasury Department start the preparation of a bill. The President said that in any event his radio address would not be before about the middle of June, which would allow time for the other legislation to get out of the way. He said that his purpose in asking for additional names was so as not to make the thing too discriminatory.

The Secretary said that he wanted to raise the question later of the legality and the propriety of naming names publicly, but that there was plenty of time to consider that point and that we would

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submit later a memorandum on the subject. The President agreed that there was time enough to consider this point and he would give it consideration.

The whole interview lasted about forty minutes. When the party emerged from the President's office they were met by newspaper men who immediately wanted to know what the object of the visit was and what had occurred. The Secretary told them that he wished to consult Steve Early before saying anything to them. We all went to Early's office and it was agreed there that the Secretary should limit his statement to the newspaper men to saying that he had presented to the President an interim report on our studies of tax collections and returns. There was some conversation with Mr. Early about the propriety of having the President name names in a radio address and Early agreed that it would be a mistake.

The Secretary then saw the newspaper men outside Mr. Early's office and told them just what had been agreed upon and declined, in response to various questions, to enlarge on it in any way.

-c0c-

*Special
Investigation*

The investigation of the income tax returns for each successive year reveals the stubborn fight of wealthy individuals and corporations against the payment of their fair share of the expenses of their Government. Although Mr. Justice Holmes said: "Taxes are what we pay for civilized society", too many citizens want the civilization, but grumble at the price. We are eliminating one by one, devices for tax avoidance and evasion and loopholes in the law, but each one eliminated seems to cause an increased use of the remaining schemes. Sales between husbands and wives are no longer popular, since the Mitchell case; legislation following the Federal investigation largely stopped tax evasion through security partnerships; and educational trusts of the pictures in one's house have had too much publicity to commend them to further use. But we still have too many cases of what I may call legalized fraud -- that is, the defeat of taxes through shady legal devices which have no business purpose or utility, and to which a down-right honest man would not resort.

This Administration has demanded a higher standard of morality in commercial dealings. We need a higher standard of morality in the dealings of the citizen with his Government.

To give point to my statements, I want to list below some of the devices which have caused our 1937 revenues to fall below our expectations. The Treasury's audit of the 5,500,000 returns for 1936 is only

Now

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beginning, but an initial check has revealed these facts which I believe the country ought to know.

The principal devices which are now being employed by wealthy citizens for the purpose of defeating the income taxes which would normally be payable by them, are the following:

1. Foreign personal holding corporations organized in the Bahamas, Panama, and Newfoundland, where taxes are low and corporation laws lax.

Americans have formed 64 such companies in the Bahamas alone in 1935 and 1936, and 22 more were organized by Americans in the Bahamas during the past six weeks. Panama and Newfoundland seem to be even more fertile territory since their corporation laws make it more difficult to ascertain who the actual stockholders are. Moreover, the stockholders have resorted to all manner of devices to prevent the acquisition of information regarding their companies. Thus, one wealthy woman originally organized her personal holding company in the Island of Guernsey, and then moved it to Panama. She keeps the corporate books in Newfoundland. Another individual has a \$5 million Bahamas corporation and in an attempt to prevent the Bureau of Internal Revenue from catching up with him, moves his home address from one small hamlet in Canada to another in the United States each year. Another individual believes that he has been so successful in removing his assets from the United States to the Bahamas that he is defying the Treasury to collect a tax upon a \$250,000 fee he has received; and by way of insult, he has offered to compromise his admitted tax liability of \$35,000 for past

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years by a payment of \$1700.

Still another individual showed a large net loss on his personal return for 1936. In considerable part, the loss was due to the large deduction he claims for interest on a loan made to him by his personal holding company. But the man in question is no object of charity, for his personal holding company, organized in Canada, had an income of over \$1,500,000 from American dividends in 1936, though it has not yet filed a return.

Perhaps the most flagrant case of this character is that of a retired American Army officer with valuable American securities which he desires to sell. To insulate himself from our tax laws, he suddenly became a naturalized British subject, and six days later organized four Bahamas corporations to hold his securities. He and his lawyers think that he can now sell his securities free from American taxes on his profits.

Two New York insurance agents have caused the organization of insurance companies in the Bahamas with a view to enabling taxpayers to secure fake deductions for interest through an ingenious scheme for the issuance of life insurance policies. Americans who went into the scheme purported to pay a large single premium for their policies, but immediately borrowed back practically the entire sum. Under the plan the so-called policy-holders sought to obtain a large deduction for interest on this loan, although the fact was that no interest was really paid. By this means five Americans sought to evade nearly \$550,000 in income taxes in the years 1932 to 1936. This fraud was discovered by the Treasury's

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investigators and all of the taxpayers have now submitted offers to pay the full amount of taxes evaded, plus interest.

2. Domestic personal holding companies:

The rates of tax applicable to personal holding companies were reduced in 1936 and are not now sufficiently high to discourage the use of such companies as a means of avoiding the surtaxes. The personal holding companies whose returns have been examined by the Treasury would have paid 21.7 percent more in taxes on their 1936 returns if the applicable tax rates had not previously been reduced. Thus, one large personal holding company distributed none of its income in 1936; and its sole stockholder saved \$322,933 in taxes. In another case, a man and his wife saved \$791,000 through the use of personal holding companies in 1936. In a third case, the personal holding company reported over \$500,000 of net income but the total taxes paid by the two stockholders were less than \$60,000, due principally to credits for payments on indebtedness the holding company presently incurred in accumulating properties for its owners.

Another favorite device is to organize a considerable number of personal holding companies, not only for the sake of reducing the tax, but of increasing the Treasury's difficulties in auditing transactions between companies. At last accounts one man was interested in some 94 companies scattered all over the country; two other individuals were utilizing 23 personal holding companies.

Our income tax laws expressly deny any deduction for personal expenses or living expenses in computing taxable net income. If this were not true, the principle of taxation in accordance with ability to

pay could readily be defeated. Yet many wealthy taxpayers today are dodging these express provisions of the law by incorporating their yachts or their country places, along with securities yielding an income sufficient to pay the entire expenses of operation. Hundreds of thousands of dollars in income taxes are annually saved in this way. One wealthy woman has improved on the general plan by causing her personal holding company, which owns her country place, to employ her husband at a salary to manage it. She can thereby supply him with pocket-money, and in effect secure a deduction for the expense of maintaining him. In a similar category, are the deductions some individual taxpayers are taking for interest on loans to them by their personal holding companies, and for interest on loans to them by their family trusts.

3. The creation of multiple trusts for relatives and dependents:

Splitting income two ways, between husband and wife, reduces income taxes and leaves the family income intact. Splitting the family income many ways by means of many trusts, all for the same beneficiaries, may effect a much greater saving, while leaving the money actually in the same hands. For the creator of the trust often constitutes himself or his wife as trustee, and thus retains full control over the investment and disposition of the fund itself and of its income. One thrifty taxpayer has formed 64 trusts for the benefit of four members of his immediate family, and thereby claims to have saved them over \$400,000 in one year in taxes. Another thrifty pair have constituted 40 trusts for their relatives, and a prominent lawyer and his wife utilize 16 trusts for the same purpose. Numbered brokerage accounts are maintained, and only at the end of the year are the beneficial owners identified.

In this way innumerable transactions are carried on, often between accounts, which do not actually affect the beneficial interests of their owners, but which are designed solely to reduce tax liability.

4. Percentage Depletion.

This is perhaps the best example of legalized theft from the United States Treasury which the revenue laws still permit. Since 1923, the large oil and mining corporations have been entitled to deduct from 5 to 27½ percent of their gross income as an allowance for the depletion of their mines or wells, and the deduction may be taken even though the cost of the property has been completely recovered. Thus, in 1934, one company deducted nearly \$3 millions under this provision, although it had already completely recovered the cost of its property. The amount of the deduction was a sheer gift from the United States to this taxpayer and its stockholders and the revenue that we lost thereby was \$618,517. Similar annual losses of revenue in the cases of a few other typical companies are \$504,000; \$667,000; \$318,000; \$272,000; \$247,000; \$202,000; and \$152,000. The Secretary of the Treasury recommended in 1934 that this provision be eliminated but nothing was done, presumably because of the heavy pressure from the large oil and mining companies which are profiting immensely at the expense of other taxpayers.

5. The division of income between husband and wife, particularly in the 8 community property states:

This is another legalized fraud on the revenues at the expense of taxpayers in the 40 states which do not have community property law. A New York resident with a salary of \$100,000 pays about \$22,525 Federal

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income tax; a Californian with the same salary may cause one half to be reported by his wife and the Federal income taxes payable by the two will be only \$18,626. The total loss of revenue due to this unjustifiable discrimination against the residents of 40 states runs into the millions.

Such legalized avoidance breeds outright evasion. Recently professional men in other states have attempted to secure a similar tax saving by taking wives and minor children into partnerships. Thus the Treasury has unearthed the case of a brokerage firm which late in 1935 admitted into partnership the four minor children of one of the partners, two boys and two girls. Their counsel and advice will undoubtedly be extremely helpful to the firm in conducting its dealings with its customers.

One of the most disheartening facts disclosed by our investigation is that lawyers of high standing at the bar are advising their clients to utilize devious tax avoidance devices, and they are actively using them themselves. A recent case decided by the Sixth Circuit, Norman v. Commissioner, illustrates the point, and also the long struggle which the Treasury confronts in ferreting out tax evaders and in collecting from them. One Norman, desired to sell two lots of stock in 1929 at a large profit. Advised by his lawyer brother, he transferred the stock to himself as trustee to accumulate the income for his own benefit for five years, and thereafter to distribute it to himself. He was, therefore, not only settlor and trustee, but sole beneficiary. Having sold the stock during the next week as "trustee" at a profit, he contended that

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the trust, not he, was taxable thereon. The court has just now, eight years later, decided in favor of the Treasury, and we can not collect the tax and interest. Even so, one dissenting circuit judge could not see Morzman, the individual, behind the legal mask of Morzman, the trustee, for Morzman the sole beneficiary.

In conclusion, I have two observations to make from the evidence before me. In the first place, the instances I have given above are disclosed by a quick check of comparatively few returns. Most of the large corporation returns have not yet been filed. The general audit of 1936 returns is just beginning. I regret to say that I am afraid the cases I have digested above are symptomatic of a large number of others, which will be disclosed by a careful audit. In the second place, the ordinary salaried man and the small merchant does not resort to these or similar devices. The great bulk of our 5,500,000 returns are honestly made. Legalized avoidance or evasion by the so-called leaders of the business-community is not only demoralizing to the revenues; it is demoralizing to those who practice it as well. It throws an additional burden of taxation upon the other members of the community who are less able to bear it, and who are already cheerfully bearing their fair share. The success of our revenue system depends equally upon fair administration by the Treasury, and upon completely honest returns by the taxpayers. We have a right to expect higher standards of morality in high places than the 1936 returns disclose.

Sincerely,

Revised
Mr. President also
letter

My dear Mr. President:

In your budget message of April 20, 1937, you advised the Congress that the Treasury would be ready next November to discuss amendments to the revenue laws to stop loopholes and to increase administrative effectiveness. The Treasury is now engaged in a general survey of the revenue laws and their administration, in order that the requisite information may be supplied to the appropriate committees of the Congress in compliance with your message. At the outset, we have found that our present tax laws discriminate in favor of the wealthy non-resident alien; and do not adequately discourage the formation by our citizens of foreign personal holding corporations, in both cases to the disadvantage of the revenues. Since both defects can be promptly corrected, without reference to any general overhauling of the revenue laws, I desire to bring them to your attention at this time.

The 1936 Act eliminated the requirement that a non-resident alien, (without United States office or business) should file a return; fixed the withholding rate for individuals at 10 percent; and freed the non-resident alien from taxation on American capital gains. Since the total Federal tax upon a citizen or resident amounts to 10 percent of his total net income at about \$25,000, (in the case of a married individual with no dependents), the withholding rate is too low as applied to non-resident

RW

alien individuals with American incomes of more than \$25,000, and too high as applied to such individuals with American incomes of less than that amount. Moreover, in fairness to our citizens and residents, who are subject to tax upon their capital gains, non-resident aliens should be given similar treatment.

With a view to obtaining these objectives, I recommend that the withholding rate applicable to non-resident alien individuals should be increased to 35 percent; with the proviso that if the alien will file a return showing his entire American income, including capital gains in this country, there shall be refunded to him any excess of the tax withheld over the tax shown to be due on the return at the rates applicable to American citizens. In this way, the taxes of non-resident aliens on their American incomes will be brought to a parity with those of our citizens with corresponding incomes. Since the alien's domicile is the only place which can take into account his entire income and his personal status, he should receive his personal exemption from his domicile. I, therefore, recommend that no personal exemption be allowed by this country to non-resident aliens.

Foreign corporations having no American business should be subjected to the same withholding rate. Since the undistributed profits tax can not readily be applied to such corporations, I suggest that their American incomes, including capital gains, be subjected to graduated rates, corresponding as nearly as may be to the average rates imposed upon American corporations with similar incomes.

- 3 -

Some American citizens have organized foreign personal holding corporations, with the obvious design of avoiding the surtaxes upon their individual incomes, as well as our corporation taxes. I see no reason why we need recognize the existence of the corporate fiction in these cases. Hence, I recommend that American citizens or residents owning any interests in foreign personal holding corporations be required to disclose their holdings upon their individual returns and that the stockholders be taxed upon their share of the corporate earnings whether distributed to them as dividends or not. To increase the effectiveness of these provisions, persons forming such corporations, or their American advisers, should be required to file information returns with the Commissioner of Internal Revenue.

I have not attempted to set forth all the details of my recommendations, but I should be glad to discuss them with you at your convenience.

Faithfully,

The President,
The White House.

HL:ce

207-A

THE SECRETARY OF THE TREASURY
WASHINGTON
OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE TO AVOID
PAYMENT OF POSTAGE, \$300

The President,
The White House.

My dear Mr. President:

The investigation of the income tax returns for each successive year reveals the increasingly stubborn fight of wealthy individuals and corporations against the payment of their fair share of the expenses of their Government. Although Mr. Justice Holmes said: "Taxes are what we pay for civilized society," too many citizens want the civilization at a discount. We are eliminating, one by one, devices for tax avoidance and evasion and loopholes in the law, but each one eliminated seems to cause an increased use of the remaining schemes. Sales between husbands and wives are no longer popular, since the Mitchell case; legislation following the Pecora investigation largely stopped tax evasion through security partnerships; and educational trusts of the pictures kept in one's house had too much publicity in the Hollen case to commend them to further use. But we still have too many cases of what I may call moral fraud -- that is, the defeat of taxes through doubtful legal devices which have no real business purpose nor utility, and to which a downright honest man would not resort to reduce his taxes.

Your Administration has been notable for demanding a higher standard of morality in commercial dealings. We need a higher standard of morality in the dealings of the citizen with his Government.

RWH

To give point to my statements, I want to list below some of the devices which have caused our 1937 revenues to be less than they should have been, and the names of the taxpayers employing them. Our audit of the 5,500,000 returns for 1936 is only beginning, but our initial check has revealed these facts, which I believe you ought to know at once.

1. The creation of multiple trusts for relatives and dependents.

Splitting income two ways, between husband and wife, reduces income taxes, and leaves the family income intact. Splitting the family income by means of many trusts may effect a greater saving, while leaving the money actually in the same hands. Thus, Mr. Louis Klamstein of Baltimore has established 64 different trusts in favor of his wife and three children. The beneficiaries thereby claimed a tax saving in one year of \$485,257. Mr. Charles E. Merrill and Mr. Edwin C. Lynch of Merrill, Lynch & Company, 40 Wall Street, New York, have 40 trust funds, as well as 23 personal holding corporations. They operate a great many numbered brokerage accounts and only at the end of the year identify for whose benefit the account has been operated. In this way innumerable transactions are carried on between the different corporations and trusts which have no effect upon the beneficial interest of Merrill and Lynch, but which are designed to reduce their tax liability very greatly. Grenville Clark of Root, Clark, Buckner & Ballantine, and his wife, have 16 trusts. There are undoubtedly a great many more instances of the same sort which will be disclosed in our audit of the 1936 returns.

2. Foreign personal holding corporations organized in the Bahamas, Panama, and Newfoundland, where taxes are low and corporation laws lax.

Americans have formed 54 such companies in the Bahamas alone in the last two years and 72 more were organized by Americans in the Bahamas during the past six weeks. Panama and Newfoundland seem to be even more fertile territory since their corporation laws make it more difficult to ascertain who the actual stockholders are. However, the stockholders have resorted to all manner of devices to prevent the acquisition of information regarding their companies. Thus, Mrs. Dorothy Whitney Thibault originally organized her personal holding company in the Island of Barbados and then moved it to Panama and the corporate books are kept in Newfoundland. George Westinghouse, Jr. has a \$3 million Bahamas corporation and in an attempt to prevent the Bureau of Internal Revenue from establishing up with him, moves his home address from one small hamlet to another each year. He reported from Sanction, Vancouver Island, British Columbia one year; the year before he reported from Sealord, Washington. The Bureau having secured access to the records of the International Corporation Company of New York, which is active in forming Bahamas and Panama corporations, it now organizes such corporations through its Paris subsidiary, International Corporation Company S. A., free from the possibility of our investigations.

Wallace Groves of the General Investment Corporation has two Bahamas corporations with a nominal capitalization. His General Investment Corporation, which is reported to have cost the public a loss of \$67 millions between 1932 and 1936 out of total assets of \$77 millions, is under investigation by the SEC, and Mr. Groves seems to have left the country. One of the transactions disclosed by the investigation was the sale of

the Finance Act 1936, on which one Phillip De Bende was paid a commission of \$250,000. De Bende caused the commission to be paid to the Bahamas Company and to defray on to collect the tax upon it. By way of insult he has offered to compound his admitted tax liability of \$33,000 for past years by a payment of \$1,700.

Another indication of the magnitude which this avoidance of tax avoidance may assume is afforded by the case of Jules S. Sachs of New York. Mr. Sachs's personal return showed no taxable income for 1936. He has disclosed, however, that Mr. Sachs, his two daughters, and trusts in favor of the daughters own the Zennah Development Company, Ltd. of Canada, which had income from American dividends in the amount of \$1,606,000. No return has yet been filed for this corporation. It is interesting to note further that Mr. Sachs deducted \$89,400 on his personal return as interest on a loan made to him by his personal holding company.

The most flagrant case of this character is perhaps that of Jacob Sobel, formerly a Lieutenant Colonel in the United States Army. Sobel was the owner of all the stock of the Sobel Dry Shaver Company of Connecticut. On December 18, 1935, he became a British subject through naturalization in Canada. He had been drawing a pension from the United States Army and he inquired from the Secretary of War if he could continue to draw his pension. The Secretary advised him on February 5, 1936 that he was no longer entitled to a pension and he was directed to return the retirement pay checks he had received after December 18th. On December 24, 1935, six days after his naturalization, Sobel formed Sobel Industries, Ltd. in the Bahamas and transferred to it his stock in the Connecticut

company. He thereby evaded the provision of our Law imposing a 25 percent tax on transfers of securities to foreign corporations. He owns the stock of three other Bahamas corporations, the purpose of which is not yet clear. The Intelligence Unit is now investigating Colonel Soble's case with a view to fraud charges.

3. Bahamas Insurance Companies

A New York insurance agent caused the organization of two insurance companies in the Bahamas with a view to enabling taxpayers to secure fake deductions for interest through an ingenious scheme for the issuance of large life insurance policies. Americans who went into the scheme purported to pay a large single premium for their policies, but immediately borrowed back practically the entire sum. Under the plan, the so-called "policy-holder" sought to obtain a large deduction for interest on this loan, although the fact was that no interest was really paid. By this means six Americans, Mr. Richard H. Dwyght, Henry K. Love, Mr. Jacob Schuch, Mr. Lawrence Katz, Mr. George Thomas, and Dr. Winfield Ayres sought to evade nearly 95% of income taxes in the years 1932 to 1935. The fraud was discovered by the Special Intelligence Unit and all of the taxpayers have now submitted offers to pay the full amount of taxes evaded, plus interest. Mr. Dwyght is a senior partner in the law firm of Hughes, Sherman & Dwyght, 100 Broadway, New York.

4. Domestic Personal Holding Companies

The rules of tax applicable to personal holding companies were revised in 1935 and are not now sufficiently high to discourage the use of such companies as a valuable means of avoiding the surtaxes. The personal

holding companies that we have examined would have paid 51.7 percent more in taxes on their 1936 returns if the applicable tax rates had not previously been reduced. Thus, the personal holding company owned by the late Mr. Charles Hayden distributed more of its income in 1936 and Mr. Hayden thereby saved \$322,958 in taxes. Mr. and Mrs. Alfred P. Stern had their personal holding companies distribute a portion of the corporate earnings; but the use of the companies saved the Sterns \$791,054 in 1936. Mr. and Mrs. Roy V. Howard have employed a personal holding company to great advantage in the purchase of additional newspaper properties. In 1936, their personal holding company reported over \$500,000 of net income but the total taxes paid by the two Howards were less than \$50,000. If the personal holding company were not in existence, they would have had to pay over \$200,000 in additional taxes. The Schaefer Breeding Company of Brooklyn, an operating company owned by two brothers and their wives, showed an increase of net income from \$1,050,204 in 1935 to \$1,825,460 in 1936; but distributed only \$300,000 in dividends in 1936 as against \$900,000 in 1935. If the dividends had kept pace with the increased earnings, the Treasury would have collected \$246,073 additional in taxes.

Another favorite device is to organize a considerable number of personal holding companies for the sake of reducing the tax and of increasing the Treasury's difficulties in studying transactions between companies. I have already referred to the 23 personal holding companies of Mr. Charles E. Merrill and Mr. Edwin G. Lynch. According to our last

report (for 1933), Mr. William Randolph Hearst was interested in some 96 companies scattered all over the United States and England. We have not yet been able to discover how many companies he now utilizes, for their returns are filed all over the country, and the job of untangling their tangled transactions is tremendous.

5. Incorporated yachts and country places

Mr. Alfred P. Sloan's yacht is owned by Hess Corporation, one of his personal holding companies, along with \$3 million in securities. He rents the yacht from his company and the company uses its income from securities to pay depreciation on the yacht, the wages of the captain and crew, and the expenses of operating the yacht. None of these items would be deductible if Mr. Sloan owned the yacht personally. A great many wealthy taxpayers are utilizing a similar arrangement for the operation of their country places. Other wealthy taxpayers using this method, the value of their country places and the tax savings they are effecting, are:

	Value of country place	Tax savings
Alfred I. Du Pont (now deceased)	\$1,039,521	\$59,000
Mr. & Mrs. Myron C. Taylor	1,000,000	15,000
Wm. H. Crocker & family	750,000	40,000
Wilhelmina Du Pont Hess	421,000	60,000
Harvey D. Gibson	975,000	20,000
Jacob Aron	1,166,857	20,000
Mr. & Mrs. Henry Ittelson	565,000	30,000

Mrs. Hess has improved on the general plan by causing her personal holding company which owns her country place to pay her husband a salary for managing it. She thereby supplies him with pocket money, and in effect secures a deduction for the expense of maintaining him.

6. Deductions for non-business interests, losses, etc.

Taxpayers are still taking large deductions for interest on loans to them by their own personal holding companies or on loans to them by their family trusts. I have already mentioned the deduction of \$89,400

which Mr. Jules S. Dache took on the loan to him by his Canadian corporation. Mrs. Nathan L. Miller, wife of former Governor Miller, took a deduction of \$35,639 in her 1936 return for a loan to her by her husband as trustee for their seven daughters.

7. Percentage depletion

This is perhaps the best example of legalized theft from the United States Treasury which the revenue laws still permit. Since 1928, the large oil and mining corporations have been entitled to deduct from 5 to 27½ percent of their gross income as an allowance for the depletion of their mines or wells, and the deduction may be taken even though the cost of the property has been completely recovered. Thus, in 1936, the Benestake Mining Company deducted \$2,922,722 under this provision, although it had already completely recovered the cost of its property. The amount of the deduction was a sheer gift from the United States to this taxpayer, and the revenue that we lost thereby was \$218,517. The similar loss of revenue in the case of the Gulf Production Company of Pittsburgh was \$584,955 (1935); Texas Gulf Sulphur Company, \$413,009 (1935), \$557,487 (1936); Shell Oil Company, \$512,452 (1935); Sun Oil Company, \$272,041 (1934), \$267,091 (1935); Stanolind Oil & Gas Company, \$202,244 (1934); Amerada Petroleum Corporation, \$152,025 (1935). I recommended in 1934 that this provision be eliminated but nothing was done, presumably because of the heavy pressure from the large oil and mining companies which are profiting immensely at the expense of other taxpayers.

F. Violation of income between husband and wife, particularly in the 8 community property states

This is another legislated fraud on the revenues at the expense of taxpayers in the 40 states which do not have community property laws. A New York resident with a salary of \$100,000 pays about \$32,500 Federal income tax in California with the same salary may cause one half to be reported by his wife, and the Federal income taxes payable by the two will be only \$15,600. The loss of revenue due to the refusal of members of Congress from the community property states to permit the taxation of their citizens on the same basis as citizens from the other 40 states runs into the millions.

The existence of this legislated discrimination has stimulated the formation of fake partnerships between husbands and wives and their children in other states. Thus, at the end of 1935, Greenberry & Company, a New York brokerage firm, took into partnership the four minor children (two boys and two girls) of C. K. Reynolds, one of the partners. The tax saving to Mr. Reynolds in 1936 amounted to \$25,000.

9. Increasing purchases of tax-exempt bonds by wealthy citizens

The last statistics which we have show enormous holdings of tax-exempt state and municipal bonds by our wealthiest citizens. Our records are very incomplete since these individuals do not report fully what their actual holdings are, but our last compilation shows that John D. Rockefeller, Jr. owned over \$12 millions of state and municipal bonds; Frederick W. Vanderbilt, \$28,700,000; H. Spivey Wilco, \$31,895,000; Harry O. Thompson, \$17,776,000; the late H. H. H. Green, \$14,254,000. Such returns as we have been able to check for 1936 indicate a gradual increase in these holdings.

One of the most disheartening facts disclosed by our investigation is that lawyers of high standing at the bar are advising their clients to utilize devious tax avoidance devices, and they are actively using them themselves. Mr. Dwight and Mr. Clark, prominent New York lawyers, are mentioned above. Among the New York law firms which have formed Panama, Bahamas, or Newfoundland corporations for their clients, are Sullivan & Cronwell; Palmer & Searles; White, Sims & Houston; and Davis, Polk, Wardwell, Gardiner and Reed.

A recent case decided by the Sixth Circuit, Morman v. Commissioner, illustrates the same point, and also the long struggle which the Treasury confronts in ferreting out tax evaders and in collecting from them. One Morman, desired to sell two lots of stock in 1929 at a large profit. Advised by his lawyer brother, he transferred the stock to himself as trustee to accumulate the income for his own benefit for five years, and thereafter to distribute it to himself. He was, therefore, not only settler and trustee, but sole beneficiary. Having sold the stock during the next week as "trustee" at a profit, he contended that the trust, not he, was taxable thereon. The court has just now, eight years later, decided in favor of the Treasury, and we can now collect the tax and interest. Even so, one dissenting circuit judge could not see Morman, the individual, behind the legal mask of Morman, the trustee, for Morman the sole beneficiary.

In conclusion, I have two observations to make from the evidence before me. In the first place, the instances I have given above were disclosed by a quick check of comparatively few returns. Most of the

large corporation returns have not yet been filed. The general audit of 1936 returns is just beginning. I regret to say that I am afraid the cases I have digested above are symptomatic of a large number of others, which will be disclosed by a careful audit. In the second place, the ordinary salaried man and the small merchant does not resort to these or similar devices. The great bulk of our 5,500,000 returns are honestly made. Legalized avoidance or evasion by the so-called leaders of the business-community is not only demoralizing to the revenues; it is demoralizing to those who practice it as well. It throws an additional burden of taxation upon the other members of the community who are less able to bear it, and who are already cheerfully bearing their fair share. The success of our revenue system depends equally upon fair administration by the Treasury, and upon completely honest returns by the taxpayers. We have a right to expect higher standards of morality in high places than the 1936 returns disclose.

Faithfully,

The President,

The White House.

WHE

May 21, 1937

Mr. Magill came in to discuss the speech which he had prepared for the President's radio broadcast on taxes.

He said, "I am very much disturbed about naming names over the radio. I think it would be very serious and unfortunate, as far as the President is concerned and also as far as you and I are concerned. If the President comes out with this speech, anybody could add up and say that what he is giving out is what Magill dug out and has given him. In the first place, this is only scratching the surface because for every Alfred Sloan there are twelve others who are just as objectionable. Looking at it as a scholar, this is not a good report and will reflect on anybody who will make it. (He is referring to the speech using the names.)

"I do not like his giving the speech, because we are in the midst of revising the tax laws. As far as I personally am concerned, there is nothing worse from my personal point of view than his making this speech. I think the President is entitled to being given this speech even if he does not use it." HM, Jr's comment was, "And so what!" Magill answered, "In the first place, I judge from what you said and from what the President said that he feels it necessary that something of this kind should be given out. He is the best judge of that. While I think this speech without names is immensely less effective, I think to anybody who had not read the speech with the names it would be effective."

The Secretary then said, "Let's leave the question of names to one side. I am opposed to his giving the names. I do not think he will do it because it will stir up class hatred unnecessarily. Suppose the President just makes the methods public that the taxpayers are using, then what happens?" Mr. Magill replied, "The Joint Committee on Taxation will do something or the President will tell them to do something."

Mr. Morgenthau then said, "My feeling is this: that the President can write a letter of this kind with names and address it to the Chairman of the Joint Committee on Taxation and ask them to make an extensive study in cooperation with the Bureau of Internal Revenue looking forward to next

Fall. Let it spread that way." Magill said, "That is the best way to do."

Continuing, HM, Jr. said, "Oliphant does not agree with that. He has had it in his mind for some time that we ought to have something like the Pecora investigation. If he puts this thing in while this legislation is pending to extend the excise tax, you will have all kinds of amendments tacked on to that. I have put the word "confidential" on the speech with the names in it and it may irritate the President, but I just can't help it. You know, this sudden awakening of the moral indignation of this Administration will have a terrific effect. Mrs. Morgenthau's reaction was that she enjoyed hearing the speech and her question was, "Are they not doing this under the law?" Magill replied, "In most cases, yes. The worst examples of evasion are the two items which he will not give and that is the percentage of depletion of the community property business."

1. 7.10. R send letter to H. + K. ~~for~~ illustrations + ask for investigation

2.) They appoint sub comm + they report back to comm of whole.

3. Have legislation ready 3 wks

World gold production and gold movements

(In millions of dollars at \$35 an ounce)

	Gold production		Net gold movements - net imports (+), net exports (-)					
	World production	World production outside U.S.	U.S.	U.K.	France	Netherlands	Switzerland	Belgium
1934	958	862	1,132	716	- 409	- 123	- 46	6
1935	1,050	939	1,739	370	- 818	- 199	- 231	9
1936	1,222	1,072	1,117	1,170	- 1,194 ^{1/}	63 ^{1/}	122	10
1937								
January	105	94	121	- 26	*	*	- 0.1	.1
February	101	91	120	122	*	*	- 17	.1
March	<u>106</u>	<u>94</u>	<u>154</u>	<u>78</u>	*	*	<u>0.6</u>	*
Total 1st 3 months	312	279	395	74	*	*	- 16.5	*
April	*	*	216	10	*	*	*	*
Week ending:								
May 7	*	*	36	*	*	*	*	*
May 14	*	*	34	*	*	*	*	*

Treasury Department, Division of Research and Statistics.

May 24, 1937.

^{1/} Nine months, no figures reported since September 1936.

* Figures not available.

Gold reserves of Central Banks and governments ^{2/}
(In millions of dollars at \$35 per fine ounce)

End of-	United States	United Kingdom	France	Netherlands	Switzerland
1934	8,238	1,584	5,445	573	624
1935	10,125	1,648	4,395	438	454
1936	11,258	2,584	2,995	490	655
1937					
Jan.	11,358	2,584	2,846	558	657
Feb.	11,436	2,584	2,846	598	657
Mar.	11,574	2,584	2,846	626	657
April	11,799	2,585	2,846	670	635

Estimated holdings in:

	(Millions of dollars)
British Equalization Acct.	- 1,750 ^{1/}
French Stabilization Fund	- 160 ^{1/}
Netherlands Equalization Fund	- 165 ^{1/}
Swiss Equalization Fund	- 100 ^{1/}

^{1/} Our own estimates.

^{2/} The recorded foreign exchange holdings of the above listed Central Banks are small.

Treasury Department, Division of Research and Statistics.

May 24, 1937.

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May 22, 1937

For: Secretary Morgenthau

Prepared by: Mr. Soltzer *MS*

In addition to the accompanying three memoranda, I have prepared a draft memorandum entitled "Considerations Affecting the Desirable Volume of Bill Issues," which I discussed with Mr. Taylor, but on which I should like to do a little more work. The substance of this memorandum is that an increase of from \$500 millions to \$1,000 millions in the outstanding volume of bill issues could be justified, if found otherwise desirable, on the basis of

(a) The prospective net balance of cash receipts over cash expenditures during the fiscal year 1938, exclusive of gold sterilization expenditures;

(b) The special character of our gold sterilization expenditures;

(c) The absolute level of estimated receipts;

(d) The success of Great Britain in maintaining outstanding a bill volume ranging between some \$3,000 millions and \$4,000 millions since 1932, with a total interest-bearing internal debt approximating \$34,000 millions, and a level of annual receipts substantially below that currently estimated for the United States;

(e) The need of banks for a larger volume of short-term, easily marketable paper to supplement the now inadequate volume of bank acceptances and other open-market paper;

(f) The alteration of the fiscal position of the Federal Government from one involving steady new borrowing to one in which substantial debt reduction is in prospect.

Supplementing these materials, we are working on several alternative methods of the timing and maturities of bill issues. If, for example, it were decided to substitute 6-months bills for our present series of 9-months bills, weekly issue of \$75 millions in place of \$50 millions would ultimately be necessary to maintain outstanding the same level of bills. If the 6-months bills were issued in the amount of \$75 millions weekly at the beginning, we would accumulate during the first six months some \$650 millions of new money; but an equal net amount of bills would be retired during the ensuing three months.

* 5-19. Short Term Character of *Internal Debt* *Financial Requirements*
5-19. Relative Advantages of a 9% and a shorter term rate
5-20. Notes on *Int. Debt*

Secretary Morgenthau - 2

A variation of this alternative, to take another example, would involve the issuance of \$75 millions weekly of bills to mature mainly around the middle of next March, when income-tax receipts alone are estimated to approximate \$900 millions, and total receipts for the month \$1,200 millions. Under this alternative, likewise, we could pick up some \$650 millions of new money, of which some \$150 millions would be repaid in December, and some \$500 millions next March.

We are also investigating the possibilities of reviving the use of Treasury certificates of indebtedness to supplement Treasury bills in meeting the short-term needs of both the Treasury and the money markets. The data thus far gathered appear to indicate that Treasury certificates of indebtedness possess a wider appeal among interior banks and corporations than Treasury bills, because no competitive bidding is necessary and a coupon rate of interest is offered. The disadvantage, from the Treasury's standpoint, is, of course, that the coupon rate must be fixed in advance, rather than be determined by competitive bidding; but an offsetting advantage may be the wider distribution of the certificates in the interior, and the resultant diminished reliance upon the New York market alone for our short-term financing. This is a subject that might well be discussed with the Federal Reserve authorities.

Attachments

Fm
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: May 22, 1937

TO Secretary Morgenthau

FROM A. Lockhead

In 1940 and 1941 the only open quarterly date is in September as the Treasury has outstanding the following issues in these years:

<u>Issue</u>	<u>Current Bid Price</u>	<u>Yield</u>	<u>Amount Outstanding (in millions)</u>
1-5/8% due 3/15/40	100 26/32	1.33	\$ 1,378
1-1/2% " 6/15/40	100 11/32	1.38	738
1-1/2% " 12/15/40	100 4/32	1.46	737
1-1/2% " 3/15/41	100 1/32	1.49	677
1-3/8% " 6/15/41	99 18/32	1.48	504
1-1/4% " 12/15/41	99 29/32	1.50	204

Listed below are possibilities maturing in September, 1940 and 1941 and a five-year note maturing in June 1942:

	<u>Estimated Market Basis</u>	<u>Probable Premium</u>
1-1/2% 9/15/40 (3 yrs. 3 mos.)	1.43	7/32nds
1-5/8% " " "	1.43	20/32nds
1-5/8% 9/15/41 (4 yrs. 3 mos.)	1.50	16/32nds
1-3/4% " " "	1.50	1 point- 1/32nd
1-3/4% 6/15/42 (5 years)	1.55	30/32nds

The Government Security Market

Week ended May 22, 1937

Small gains by Treasury bonds on the first and the last two days of the past week exceeded slightly losses on the other three days with the net result that the average price as of the close Saturday was about $1/8$ th of a point higher than that of the previous week. Individual gains ranged from 1 to $7/32$ nds. Volume picked up slightly on several days but for the week as a whole continued to be small as little interest was shown on either side of the market and trading was mostly in small lots. Saturday's closing prices for the bonds, on the average, were about $1-1/4$ points above those of April 1, when the market reached approximately its lowest level of the year. F.F.M.C. issues were extremely quiet and showed little price change for the week, while H.O.L.C. issues advanced 2 and $3/32$ nds.

Although the Treasury note market remained very quiet, a firm tone prevailed throughout the week with the exception of one day when most of the issues lost $1/32$ nd. Demand was principally for the 1939, 1940 and 1941 maturities and these finished 1 to $4/32$ nds higher relative to the previous week's close. The average yield on 1 to 5 year notes declined 0.04 per cent to 1.19 per cent.

J. M. A. Harris

FS

GRAY

Paris

Dated May 22, 1937

Rec'd 10 a. m.

Secretary of State,
Washington.

671, May 22, 1 p. m.

FROM COCHRAN.

Reference my 668, May 21, 5 p. m.

Agence Economique et Financiere today reports that at hearing before Chamber Finance Committee, Minister of Finance Auriol yesterday insisted upon the "satisfactory" situation of the Treasury. He stated that the state had at its disposal as of May 20 outside of the normal budgetary receipts more than 4,000,000,000 francs. He explained this total as follows: advances which could still be obtained from the Bank of France amounted to 2,300,000,000, 400,000,000 were provided by the last loan of the City of Paris more than 1,000,000,000 remained in the Treasury's account at the Bank of France 317,000,000 were produced by the recent issue of Colonial loans and 300,000,000 were being produced from the recent loan issue for the Caisse des Pensions. The Minister expressed hope that the demands for cashing of the 4 $\frac{1}{2}$ %

1934

FS 2-No. 671, May 22, 1, p.m. from Paris

1934 Treasury bonds which mature in October and of which the total is 9,000,000,000 francs will be less important than might be feared.

KLP:WWC

BULLITT

MJD

GRAY

Bombay

Dated May 22, 1937.

Rec'd. 5:35 a. m.

Secretary of State,
Washington.

May 22, 11 a. m.

FOR THE SECRETARY OF THE TREASURY.

Silver market continues featureless with demand principally from interior and ready price generally about rupees 53 per 100 tolas. Stocks on hand about 32,500 bars and average daily off-take about 120 bars. A shipment valued at about 96,000 pounds (sterling) reported from London.

Gold market uncertain but strengthened at the close by steady American dollar. During the week ready gold improved from rupees 34-8-6 to rupees 34-10 per tola.

HOHENHIAL.

VHC
GV

TO: MRS. KLOTZ

230

From: MR. GRAVES

HOTEL DE LA PAIX - GENEVE

Sunday, May 23, 1937

MEMORANDUM FOR THE SECRETARY.

Subject: Narcotic Smuggling - Europe.

Have been down here for several days, sitting in on the meetings of the Seizure Committee. Have picked up quite a little which I figure will be of use to us in diagnosing the trend of smuggling traffic, what to expect from certain countries, etc. I have been particularly interested in, and have cultivated the friendship of, the enforcement members of the Committee (the policemen, so to speak) and have found them, with possibly one exception, to be on the "up and up" with regard to a desire to really do something. The enforcement officers in question are Charman of Canada, Coles of England, Russell Pasha of Egypt, Einthoven of Holland, Schultz of Austria (he is also head of the European International Police Bureau), Mondanel of France. Also here unofficially are Thomas of Berlin (he can not come to a League meeting as his government does not go in for same), and Dr. Huber of Basle, a gentleman who knows considerable about the Swiss situation in his canton, which was formerly a bad place for illicit factories. Anslinger arranged for the latter two to come here quietly so we could talk to them. We have had two private conferences with these gentlemen, one at our hotel here and one at Einthoven's hotel. After the conference at our hotel, we (Anslinger, Wait, and I) threw a party for them which was quite an affair, and did no harm for the general cause.

The committee meetings have been quite interesting. The line of demarcation is quite apparent, between those who are here to cover up, or, let us say, tone down the report of, what has happened in the way of seizures of narcotics originating from, or taking place in, their own countries (in this group are Huo of China, Yokojama of Japan, Vasconcelos of Portugal, the Siamese representative, and the Turkish representative; I would also class Mondanel of France with this group), and the enforcement members above mentioned. The most important things to my mind which have been clearly developed by the analysis of seizures during 1936 and the first quarter of 1937 are these:

(a) Iran (Persia) is the worst offender in point of source as shown by the numerous seizures of Iranian opium. Most of it came by way of Macao, but the fact remains it is Iranian opium. We should watch this source for a direct smuggling angle, instead of over the Far East.

(b) Macao is as bad as, or worse than, ever, in spite of the fact that Portugal made a play of changing the governor and prosecuting several officials who were notoriously crooked.

(c) The situation as regards Japanese controlled territory is the same as last year. Yokojama says he is trying to get the law changed to provide sufficient penalties, but I note there has been no progress made.

(d) China is the same as regards looseness of control.

(e) Yugoslavia is a place which will bear watching, just as we have thought.

(f) Turkey will also bear watching.

Interesting high lights which have come to the surface are these:

(a) There is $\frac{1}{2}$ ton of heroin on the Island of Macao, which is the collective amount of several years seizures. The explanation of the Macao authorities as to why this has not been legally disposed of is that it is in their museum as an exhibit. It would be interesting to know how much is some type of white powder substitution. Also, the seizure off Hongkong of some 400 kilos of raw opium, sold to a fishing junk for use of its crew, is of considerable interest.

(b) Nine tons of raw opium was sold by the Prince of the Shan States (India) to Siam without benefit of League machinery. The Siamese officials got frightened regarding the operation and tried to camouflage the transaction as a seizure, the payment of reward for information being exactly the amount of the agreed purchase price. (This came to light over a year ago, but it is still a matter of embarrassment to Siam.)

(c) Approximately a ton of opium passed through the port of Marseilles in transit, without the legal machinery of a transit permit so far as has been ascertained.

(d) There are stocks of opium in certain free ports, notably Hamburg, which have been stored there by League permission, pending transfer by sale. (Personally I think this is dangerous, particularly from what our informers tell us in Hamburg. I had this brought to the attention of Thomas purposely two or three times. He says he will look into the question of possible clandestine removal. Strange to say, he apparently knew nothing about it.)

Out of the general discussion of international traffickers by the enforcement officers, we were able to turn up one whom we have been neglecting and who is positively identified as important in the Canadian smuggling picture. He is now in Antwerp and we will look into his activities. A great many of the individuals discussed were inter-European smugglers and of no direct interest to us. However, we missed no bets as some of them are in both the European and trans-Atlantic rackets.

At the request of Einthoven, whom I had previously contacted in Rotterdam, I made a speech to the boys as to the trend of smuggling to the

United States over Europe. I was glad to have this request made in this way by one of the European boys. I laid into the subject in a big way, making the point that a considerable percentage of the narcotics was remaining in Europe, instead of all of it going to America, therefore it was up to the European enforcement officers to cooperate with us in breaking it up, due to the danger to their own countries. The gentlemen were much interested, particularly when I cited the Lisman case as a positive example. (Thomas and Schultz asked for more information the next morning.) The recital was perhaps a little disconcerting to Mondanel, particularly the Paris angle, as he had attempted to make the Seizure Committee think that France was not playing a part as concerned a concentration or transshipment point.

I will continue to attend the meetings as long as there is something of value to be gotten out of them. The public hearings of the Advisory Committee start to-morrow.

The fact that the Secretary is so interested in breaking up narcotic smuggling to our country that he has detailed one of his personal assistants to develop all possible out of the foreign phases, has apparently made a favorable impression on certain individuals interested in the matter patriotically and otherwise, as evidenced by the fact that one Mr. May, prominent in this field privately (and also as a League Committee supporter) contacted me after he found I was here and asked for the opportunity of discussing what is being done along certain lines. Mrs. Moorehead is also here, representing the Foreign Policy Association.

Mr. Fuller, by the way, has been quite friendly.

Best regards, Sir.

Respectfully,

THOMPSON.

P.S. In connection with our endeavor to get information on smuggling by cargo, I am proposing to Mr. Wait that our agents at the ports where we have them now working scrutinize all consular certificates on invoices or requests for same made to the consuls there. This, in connection with investigation of any cargo entering United States ports without consular certificates, may be of value.

Sahib (Nick's man) now explains the "mark" by saying that it was given to him by a Russian lady friend. We are observing him closely. While he has not as yet turned up anything of value, we still think he may be of use.

May 24, 1937
9:14 A.M.

H.M.Jr: Hello.

Operator: Governor Harrison.

George Harrison: Hello, this is George Harrison.

H.M.Jr: Good morning.

H: I'm sorry I wasn't here when you called Friday, but I had to go to Atlantic City to a banquet.

H.M.Jr: I hope it - your digestion's all right today.

H: (Laughs) Quite all right.

H.M.Jr: Yes.

H: Yes, it was the New Jersey State Bankers' Convention and I heard that fellow Angas make a speech.

H.M.Jr: Oh yes.

H: Made me darn sore too; I'll tell you about it.

H.M.Jr: Right.

H: Ah - did you have something that you....

H.M.Jr: Well, I - I think that - is Burgess back?

H: He's getting back this morning.

H.M.Jr: Well, I'd like if you fellows would talk it over, because I think at my afternoon press conference, unless you fellows give me some reason, I'm going to tell them that our financing will be June 7th. See?

H: Well, I - I'll talk it over with Burgess but I'm sure there's no reason why you shouldn't. I think that's all right.

H.M.Jr: Because I find that people are going to start taking their weekends Thursday.

H: Yes

H.M.Jr: See?

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H: Yes

H.M.Jr: And it will make it too long.

H: Yes

H.M.Jr: I mean they're not going to be interested in financing over this weekend.

H: No, I think not either.

H.M.Jr: Now...

H: I think it would be a good idea if you'd just relieve their minds about it.

H.M.Jr: Pardon me?

H: I think it would be just as well to relieve their minds about it.

H.M.Jr: That's what I thought.

H: Yes, I see no objection, but I'll talk to Burgess as soon as he gets in.

H.M.Jr: Yes

H: I'm sure he won't, because I talked to him on the telephone when he was up at _____ and he agreed then on June 7th.

H.M.Jr: Now, there are three Potters of the Guaranty Bank.

H: Three what?

H.M.Jr: Three Mr. Potters.

H: Yes

H.M.Jr: Which is the one which is the number one one?

H: W. C.

H.M.Jr: W. C.?

H: Yes

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H.M.Jr: O.K., because I'm going to get in touch with him and see whether he wants to come down this week.

H: I think that would be a good idea.

H.M.Jr: What?

H: Be a good idea.

H.M.Jr: Don't you think so?

H: And - ah - yes, I - I don't know - you mean some time after we've had our meeting tomorrow?

H.M.Jr: Oh yes.

H: Yes

H.M.Jr: Yes

H: I think that's all right.

H.M.Jr: General talk.

H: Yes.

H.M.Jr: I've had quite a few people down. I'm not going to have any of the Government bond fellows down till next week.

H: Yes

H.M.Jr: But I've had two, three people last week and I'm going to have some more.

H: Yes. Anything I can do for you - do for you about it?

H.M.Jr: I don't think so. I think we'll just call them up, straight business, and ask him would he care to come.

H: Yes, I think that's all right.

H.M.Jr: What?

H: I think it's all right.

H.M.Jr: Yes

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H.M.Jr: Well, if you'll talk it over....

H: He'll talk to you about gold probably.

H.M.Jr: That's all right. He can talk to me about anything he wants; it may do him good.

H: Uh-huh. All right; well, I think that's first rate.

H.M.Jr: And then you let me know.

H: Yes, I'll let you know.

H.M.Jr: Thank you.

May 24, 1937
9:24 A.M.

Operator: Operator.

H.M.Jr: Mr. Eccles.

* * * * *

9:26 A.M.

H.M.Jr: Hello.

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello.

Eccles: Hello.

H.M.Jr: Marriner.

E: Good morning.

H.M.Jr: Good morning. I've just got a letter from a Director of one of the Federal Reserve Banks, which reads as follows: "I have received a confidential report from the Federal Reserve Bank here, giving the comments of the Division of Research and Statistics of the Board of Governors on a memorandum prepared on April 30th by the Federal Reserve Bank's Division of Research and Statistics on the possible reaction to a downward revision of the buying price of gold." Ah - I suppose it's impossible that the Secretary of the Treasury should be - could see such a memorandum?

E: Well, I don't know what it is. What's the date of it, you say?

H.M.Jr: April 30th.

E: We haven't a thing over there that you're not welcome to.

H.M.Jr: Well, I suppose I've got to find it out from the Directors of a Bank out in the Middle West.

E: (Laughs) I wouldn't say that. You - you don't want a - a copy of every report that's made over there, do you?

H.M.Jr: I do on gold.

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E: It's on the 30th, you say?

H.M.Jr: Yes, because people go over there and are constantly getting the stuff about gold and that you don't know anything about what the stabilization price is and how can you regulate credit if you don't know what the Treasury is doing and all that sort of stuff and - ah - how am I going to stop rumors if.....

E: We - we haven't had any discussion on.....

H.M.Jr: Oh yes you have.

E:on gold for - ah' - the last time the Open Market Committee met.

H.M.Jr: I told you personally.

E: What is it?

H.M.Jr: You personally. I get it all the time.

E: Well I've talked to some of your people; I've talked to Wayne and I.....

H.M.Jr: No, people outside not connected with the government and then they come over here with the jitters - I don't blame them. When I hear what you tell them I get the jitters.

E: Well why don't you call me - I - I - You.....

H.M.Jr: Well I am calling you.

E: Yes, but you're telling me now. Why don't you call me at the time if I'm saying something that I shouldn't say.

H.M.Jr: Well I'd have to be calling you every hour.

E: Oh (Laughs) you wouldn't have to do any such a thing.

H.M.Jr: Well sure, here's a memorandum that goes out; we're not even - they don't even check it with our Research Staff.

E: Well I don't know anything about it; I don't know what memorandum it can be. What bank did it go to?

H.M.Jr: Chicago.

E: Oh is that the one that went to Wood?

H.M.Jr: I don't know. Yes, the letter is from Wood.

E: Well what Wood did - their - their Research Division in Chicago did something - it wasn't our Research Division here.

H.M.Jr: Well I'm just reading you what it says.

E: Well their Research Division in Chicago did some work, as I recall it, and they send the - a memorandum that their Research Division over here to our Research Division.

H.M.Jr: Well I don't know what it is but.....

E: And Wood wanted me to make a comment on it and I refused to do it.

H.M.Jr: Well then it - he sent me a copy of the letter he wrote you.

E: Yes, and I didn't make a reply.

H.M.Jr: Yes.

E: I didn't make any comment on it.

H.M.Jr: Yes.

E: Well now would you - what are you criticizing me for now?

H.M.Jr: What?

E: I say what are you criticizing me for now?

H.M.Jr: Well what - what I'm - is the - ah - the things that this whole discussion that you have with people that you see on gold and then the fact that you tell people that you see that - how can you expect to manage the credit of the country when you haven't the slightest idea of what's going on in the Stabilization Fund in the Treasury.

- E: I don't do any such a thing; all I simply say is I know nothing about it when they discuss gold with me - I say, "I know nothing about what's going on and I don't expect to know".
- H.M.Jr: Yes.
- E: It isn't my responsibility to know and, so far as the credit situation in the country is concerned, gold is being sterilized and it has no influence on our situation.
- H.M.Jr: Well -
- E: And anybody that tells you to the contrary is not telling you the truth.
- H.M.Jr: Yes, well when I see you tomorrow I'll tell you in more detail.
- E: Well that's - is there any information you want on this - ah.....
- H.M.Jr: Well I'd like to see you as long as Wood is all excited; I'd like to see the memorandum that Wood is excited about.
- E: Well - it's - it's a memorandum that he's - that the Division in Chicago reported on.
- H.M.Jr: Well I mean how can I answer his letter if I don't see the memorandum?
- E: Well I'll - I'll see what they've got over in the division on it and, as I recall, they - it's - it's a report that their own division made and whether Afton, as the Chairman of that Board out there to make a report.....
- H.M.Jr: I see.
- E:and they made a report.....
- H.M.Jr: Yes.
- E:and Wood wrote me this letter.....
- H.M.Jr: Yes.

E:and wanted me to comment on it and I refused to comment.

H.M.Jr: Ah-ha.

E: Now he sent the letter to you and he wants you to comment.

H.M.Jr: Yes, well I can't comment when I don't know what's in report.

E: Well ask him to send you the report because it's - I think it's a report that their own Division made over there.

H.M.Jr: O.K. All right.

E: All right, sir.

GROUP MEETING

May 24, 1937
9:30 A.M.

Present: Mrs Klotz
Mr. McReynolds
Mr. Bell
Mr. Lochhead
Mr. Upham
Dr. Viner
Mr. Gibbons
Mr. Taylor
Mr. Gaston
Mr. Oliphant
Mr. Magill

Magill: I talked to Mr. Doughton over the telephone this morning. He said his Committee was now having hearings on some Customs bill that Hester had brought up, and he thought he better proceed with that; if, however, it takes too long, he said he would interrupt the hearings some time about Wednesday in order to have an executive session on the extension of the excise taxes; he would call me about it.

H.M.Jr: Uh-huh. That's all?

Magill: That's all I have.

Oliphant: A long time ago we called the President's attention to an accumulation of 150,000 cases in the Customs Court in New York. It was discussed in Cabinet and he delegated you and the Attorney General to clean it up; and you designated me to act for you and the Attorney General designated Mr. Jackson, the Assistant Attorney General, to act for him, and we have proceeded with the study - a long story. After a preliminary conference with Jackson, we more or less agreed to go off and do our part of it, and in the course of doing our part of it, a few things turned up that concerned Justice more than it concerned us. The purpose of these letters is to transmit that report to the Attorney General, advising him that I'll be glad to - as General Counsel, to discuss it with him at his convenience; the other papers being a copy of the report transmitted to you over my signature.

(H.M.Jr signs letter)

H.M.Jr: O.K.

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Oliphant: It's a long story.

H.M.Jr: All right.

Oliphant: And I'll turn this over to Mac.

H.M.Jr: Yes.

Oliphant: That's all.

H.M.Jr: Herbert?

Gaston: Various press associations yesterday wanted a statement from you in connection with the death of John D. Rockefeller. I told them I wasn't able to get in contact with you. I supposed you didn't want to express any opinion.

H.M.Jr: Sure I do. Tell them I hope the statement he gave all his money away is grossly exaggerated.

Gaston: They wanted me to tell them how much he had given away and how much taxes his estate was going to have to pay, etc.

H.M.Jr: Anything else?

Gaston: Nothing, no.

H.M.Jr: Wayne?

Taylor: Nothing.

H.M.Jr: Did you get in last night or this morning?

Taylor: Last night.

H.M.Jr: When is Herbert Feis going to have that thing? I don't know whether I'm lunching with the President or not, but I'd like to have it if I am.

Taylor: That's the draft of that ?

H.M.Jr: They were supposed to have a meeting 9:30 Saturday morning.

Taylor: That lasted until 1:15 and I think it's finished; he didn't say whether it was or not.

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H.M.Jr: Could you get in touch with him this morning?

Taylor: Yes.

H.M.Jr: I'd like to have it by one o'clock. Anything else?

Taylor: (Nods nothing)

Gibbons: I have a letter from Joe Kennedy addressed to you, asking if we - if the Coast Guard could tow some 200 ships from Staten Island down to Norfolk. The answer is, we could do it, but we'd be criticized very severely by private industry if....

H.M.Jr: Is Joe going Socialistic?

Gibbons: Well, he says it will cost him \$88,000 to do it by private concerns and he wants - the Navy have no tugs - and I think we shouldn't do it. We have written a letter - prepared a letter for my signature.

H.M.Jr: Well, why shouldn't we do it?

Oliphant: Come out of our budget.

H.M.Jr: What are our boys doing?

Gibbons: Well, it's only a question of policy. You're taking it away from private industry. Now, if you want...

Viner: Using idle Government equipment?

Bell: Be bad if the Government gets the benefit of it.

Gaston: If we don't, it probably won't be done.

H.M.Jr: Is that right?

Gibbons: It won't be done probably, that's right, if we don't do it. They want to bring them down here to around Norfolk. Better facilities for - fire hazard is the principal thing up there.

H.M.Jr: Why not do it?

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Bell: I say yes. If they're going to do it and spend \$88,000 and they can save it by letting some other Government organization do it, I say do it.

H.M.Jr: We've got big boats.

Gibbons: Oh, we say we can do it; we'll do it for a maximum, probably, of \$10,000, where.... But it's just a question of policy whether you want to.

H.M.Jr: Well, what's-her-name, Tugboat Annie up in New York - what's her line?

Magill: Moran.

H.M.Jr: Polly Moran.

Gibbons: King Moran, isn't it?

H.M.Jr: Sure, I'd ride him around. I'd do it for him.

Gibbons: All right.

H.M.Jr: Don't you think so, Dan?

Bell: Oh, I certainly would. Got a good answer to any criticism that comes along - saving the Government money.

H.M.Jr: Sure.

Gibbons: All right.

H.M.Jr: I'd do it fairly fast. I don't know how long the letter's been here.

Gibbons: Oh, it's been answered the 17th. Got in our office the 20th. Today is what, the 23d? This is - the date of this letter is the 22d. So we can get it out today. Shall I sign it?

H.M.Jr: No, I'll sign it.

Gibbons: All right. You just want to....

H.M.Jr: I don't think we can do it for \$10,000.

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Gaston: I think it's only 45 ships he speaks about that are there in that one place.

Gibbons: 49 cargo ships from Staten Island to Fort Eustace, Virginia.

H.M.Jr: All right. Wouldn't you, Dan?

Bell: Why, I certainly would.

H.M.Jr: O.K., all right. Give it to Mac and I'll sign it this morning. Coast Guard haven't got a thing to do. Why don't they do this?

Gibbons: Yes. Well, it was just the question whether you wanted to.

H.M.Jr: No, I'd do it.

Gibbons: Something that should be brought up and get your opinion, I thought, before we sign it.

H.M.Jr: Yes. No, I'd do it. Anything else?

Gibbons: No, that's all.

I think this new bill that's going up this morning will get into Customs on that - on the foreign valuation. I see there's a joker in there that anything can't be purchased in any foreign countries, like Russia or Germany or Italy, where labor conditions are not equal to ours. There's quite a joker in there.

Oliphant: You mean in our bill?

Gibbons: No, this Customs legislation they speak of this morning.

Oliphant: Well, that was prepared in this office. Have you discussed it with Hester?

Gibbons: No, all I saw was what was in the paper about this foreign.....

H.M.Jr: I don't know anything about it.

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Oliphant: Yes, we worked on that over a year.

H.M.Jr: Well, find out. If there is a joker, tell the Legislative Section about it.

Jake?

Viner: Nothing.

H.M.Jr: Upham?

Upham: Nothing.

H.M.Jr: Be here for a while?

Upham: Be glad to.

H.M.Jr: How did you come back?

Upham: I took a streamliner to Iowa, was there Friday and Saturday, came in this morning.

H.M.Jr: How is your mother?

Upham: Oh, pretty difficult to tell; not too good.

H.M.Jr: I might say, if anybody wants to talk to Cy, he's had a most interesting trip, he's written me every day, and he's written most helpful and excellent reports. I think - now, for instance, like in Los Angeles, where you find the Federal Reserve agent was so hostile and generally things like that - I'd tell it to Eccles anyway. He may or may not want to.... I mean things like that. Huh?

Upham: Yes

H.M.Jr: Certainly couldn't call them a lot of New Dealers, could you, especially in Los Angeles?

Upham: That's right.

H.M.Jr: Or the President of the Federal Reserve of San Francisco - he didn't sound so good either.

Upham: Day?

H.M.Jr: Uh-huh.

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- Upham: Well, Eccles knows him pretty well. There are a good many things I might discuss with Eccles if it's all right with you.
- H.M.Jr: Yes, I'm willing. If I was in his shoes, I'd like to know it. I don't know whether he does or not.
- Upham: I think a good many of the banks feel much closer to the Treasury than they do to the Federal Reserve Board, probably because they are doing things for us every day and they seem to think they have more contact here than they do with the Board.
- H.M.Jr: But it was distinctly worth while. And I think right after our financing I'll ask you to go out again. And particularly on those things that Bell keeps pushing all the time, on the Home Owners' Loans.....
- Upham: Federal Savings and Loan Associations.
- Bell: I certainly am pushing on them.
- H.M.Jr: I really think you might almost make a trip particularly on those. But you'd have to have special letters.
- Upham: Probably be better.
- H.M.Jr: I got one comment that Upham made - the further down you go, the harder it is to see anybody; when you get to an Assistant State Manager for Home Owners' loan, almost impossible to see him. What?
- Upham: That's right.
- H.M.Jr: But those things - those particular Associations - I might almost ask you to make a special trip on those.
- McR: Daiger says Federal Savings and Loan is taking over Federal Reserve.
- H.M.Jr: But he's got a lot of interesting information, if anybody wants it. In the whole trip throughout the United States, he found one man who was enthusiastic for our surplus tax - in Seattle. Right? I wish

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you'd tell Magill. He voluntarily makes people's tax returns out; won't charge them anything, just advises. Isn't that right?

Upham: Yes.

H.M.Jr: He makes out frequently hundreds of people's returns for them. He's in the commercial business, but he's - what would you call him?

Upham: He's comptroller of a department store.

H.M.Jr: But out of his interest he makes out these tax returns but doesn't charge anything.

Upham: That's right.

Magill: Better send an agent out and educate him a little. Wonder if he'd like to take our training course.

H.M.Jr: No, this fellow's smart. He might teach us something.

Upham: A money-making business man.

Taylor: Make him an exchange professor down here.

H.M.Jr: Very interesting, that fellow. His attitude is that we don't tax them enough.

Upham: That's right.

H.M.Jr: I'm interested - just to let you know.

Upham: I see. All right.

H.M.Jr: Very interested. But that particular man I think both Magill and Oliphant would be interested in. He sounded like an interesting fellow.

Upham: He is.

Viner: Be nice for him to find somebody that will agree with him.

(Hearty laughter)

Magill: Well, we've got you, Jake, anyhow.

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Viner: That's right. Well, there will be two, you see - two of us.

Lochhead: Nothing.

H.M.Jr: Dan?

Bell: I talked to Baldwin after I saw you Saturday. He said the statement the Secretary made was substantially correct. He'll give me a memorandum late today or tomorrow. Having lunch with Harry today and I'll have a picture there.

H.M.Jr: Just tell him - just so they know - shall I say it?

Bell: Sure.

H.M.Jr: Wallace just sort of casually drops a remark that what they're going to get on the first of July - Resettlement - will last them until the first of October, three months, so.....

Bell: And I talked to Jesse Jones and he'll discuss those matters on Wednesday.

H.M.Jr: You (Taylor) come to lunch Wednesday?

Taylor: (Nods yes)

H.M.Jr: Jesse Jones. (To Mrs Klotz) Bell and myself.

Bell: There are a few unusual transactions in the Stabilization Fund that I'd like to talk to you and Archie about. I think there's a gap there, just a question as to whether the Treasury or the Federal Reserve Bank of New York will be responsible in case of a loss. I think it had better be cleared up.

H.M.Jr: You going to talk about..... I'm a little shaky.

Bell: It's a question of whether the French and the other countries operate under the tripartite agreement - and the British; the British do operate under it, and it is clearly a Stabilization Fund transaction right from the beginning. The French do not operate under the tripartite agreement up until the time they take the gold. Now, it is a question of whether the

-10-

Federal Reserve Bank is operating as a fiscal agent all that time or as a central banking transaction - operation.

Viner: It sounds to me like an old question.

H.M.Jr: What?

Bell: It is important to clear it up before a loss occurs. .

H.M.Jr: O.K. Got lots of nodding heads. I'm not going to look to the right over there (Oliphant). I can tell you where the loss goes; it will be between governments. But anyway, we'll go into it.

Bell: I think the files ought to be cleared.

H.M.Jr: I'd like to leave it this way. I'm saying this to everybody in the room. For the next two weeks I'm on financing, and I'd like to ask your cooperation, that anything other than financing, if it is a matter that has to be handled in the day or the week, I'll do it, but if it doesn't I'd like to put it off up until after the seventh of June. I mean anything other than the financing, if you people need a decision, I'll give you one, but if you don't need one until after the seventh of June I'd like to let it go. But - because it is a pretty tricky job and I'm not going to - I mean if it doesn't go I have nobody to blame but myself; but it will go. So I mean if anybody has something that they want, say, "This thing has to be settled today," I'll settle it; but if it doesn't, let's shove it off until the seventh of June.

Oliphant: May I suggest...

H.M.Jr: And with one exception - just can you hold it please? - and that is that Mac's going on housing and I want to keep pushing that. A few others.

McR: These fellows that were coming in have discovered that somebody's coming in at 10:15, and they have - a half dozen who were scheduled later have telephoned and asked if they could come in the same time. I did the best I could and telephoned them direct, told them it was an individual conference, but I think we might

-11-

just as well let them... They'll get together; that gang will gang up in spite of anything; might just as well let them all come in. They won't all be here; only be a half dozen of them in this morning; and we'll have them strung out, some of them.

H.M.Jr: Give me a memorandum on it, though.

McR: Yes, I'm preparing that.

H.M.Jr: You (Oliphant) want to say something?

Oliphant: I would suggest in that other matter, that it be developed with someone from my shop.

H.M.Jr: What?

Oliphant: That question that Dan raises, about who would be responsible in case of loss. Let Oppen and Lochhead work on it for him (Bell).

Bell: It's a question of giving instructions to New York. But I'll discuss it with Archie and he can develop it right along.

H.M.Jr: Could you - if you need any advice, Clarence Oppen is available.

Anything else?

Had a fine sail down the river, lots of fun.

Gibbons: Did you run into any of that storm? We had a terrific storm.

H.M.Jr: We got it just before we struck Quantico. I never saw anything like it.

Oliphant: What boat were you on?

H.M.Jr: Well, we drove down with the President to Quantico, then got on his boat. But I saw the Congressmen who were down on the boat there with the newspapermen - had a ball game, and they were prematurely wet.

Oliphant: Wet before the storm struck.

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H.M.Jr: Wet before the storm struck.

Oliphant: Were you present when Jack had his hat.....

H.M.Jr: I was right there. I've just got to tell this story (reporter instructed not to record).

- - -

All right.

RE PRESIDENT'S REMARKS ON INCOME TAX EVASION

May 24, 1937
9:50 A.M.

Present: Mrs Klotz
Mr. Magill
Mr. Gaston
Mr. Oliphant

H.M.Jr: The President over the weekend discussed with me the question of how he would handle - "publicizing" is as good a word as any - the various methods used by individuals to escape their income tax. Would you say it that way?

Magill: (Nods yes)

H.M.Jr: It seems that he is discussing it with almost all his callers, and on Friday or Saturday both Senator LaFollette and Senator Black called on him separately and he discussed this question with them, and evidently told them pretty generally what we had given him.

He asked both of them separately whether they thought this should be handled by a Senatorial investigation or whether they should get a resolution through giving the Treasury the power to conduct this investigation, and both Senators were emphatic that the investigation should be conducted by the Treasury.

In discussing the possibility of the investigation, the President asked me, "What's the name of this young fellow that's doing this investigation up in New York?" I said, "Do you mean Tom Dewey?" He said, "Yes." He said, "How would he be?" I said, "He'd be magnificent, but I doubt whether you can get him." "Well," he said, "that's the kind of fellow I want." He said, "If you can't get him, maybe we can get Pecora."

The President had also been talking to some lawyers, and they have advised him that he can name names. And unfortunately, I can't quite remember the legal terms, but he seemed to think that there was a way of getting around it. I did not give him the Treasury memorandum because I didn't want to - I didn't feel it was an opportune time.

-2-

Gaston: Did they advise him you can name names or can't?

H.M.Jr: Can. I wish I could give it, but I - it didn't click with me, because it was something highly - new and highly technical.

Incidentally, Mrs. Roosevelt knows about all of these tax cases; she told Mrs. Morgenthau, and she's against the President naming names.

So that's that.

Oliphant: I happened to run into Bob LaFollette over at Ned Bruce's luncheon Friday; he and Mrs. LaFollette were over there. And he raised this question with me and indicated that after he had finished up his Civil Liberties investigation, he'd be glad to give all of his time to it himself.

H.M.Jr: Now, as opposed to that, LaFollette told the President that he wouldn't touch another investigation for a year, that he was tired out. And he must have seen - and could only have seen the President Friday afternoon or Saturday morning. He told the President that he definitely was through, that he wouldn't touch another one for a year; that he was tired out, and that there really was nobody in the Senate who could do it.

Gaston: You see, he'd been thinking about it after Herman had talked to him, and he then came to the thought, "Well, I just can't do it."

H.M.Jr: He brought it up?

Oliphant: Yes, he brought up the subject, wanted to know what we were doing in the Treasury, and.... You see, both Black and LaFollette are members of the Finance Committee.

H.M.Jr: I told the President that Black and LaFollette had been discussing this with us for over a year, but up to now I'd been opposed to a Senatorial special committee for investigating these special cases, as I didn't feel we were ready for it.

What else?

Oliphant: That's all.

-3-

- H.M.Jr: But it's interesting that LaFollette and Black both wanted the Treasury to do it. Now, with that in mind, how would we do it? I mean I don't quite see what kind of a resolution we could get through to do it. Is it clear with you (Magill)?
- Magill: No, it isn't. I don't see why we need one.
- Gaston: You do to hold public hearings and divulge facts.
- Magill: If you want to divulge publicly what you are digging out, then you do need some kind of authority to do it, but we certainly have no authority ourselves to give out information as to names, etc.
- H.M.Jr: Well, what kind of a committee would you want? What kind of a resolution would you want? - - Think about it.
- Oliphant: I might say this. We have a draft of that resolution that we have worked over several times.....
- H.M.Jr: You mean the Treasury to do it?
- Oliphant:constituting a commission composed of the Commissioner of Internal Revenue and two people to be appointed by the President, reporting to the President and to Congress, and giving that commission power to hold private or public hearings, access to records, and helpful facilities.
- H.M.Jr: The Commissioner and two others?
- Oliphant: The Commissioner of Internal Revenue and two people named by the President.
- Magill: You'd have to be very careful about it or otherwise you're going to run into two things which occur to me. In the first place, you're going to get this difference of opinion or jealousy as between any such commission as this and the Joint Committee on Internal Revenue Taxation, and that would be particularly acute right at this time because the President has told them that he wants them to be ready in November to consider a tax program generally. Well, if you designated a commission of this kind, I can

-4-

see Woughton and his conferees just throwing up their hands and saying.....

H.M.Jr: Well, would you people be thinking about it?

Magill:"Where are we?"

Oliphant: I think he puts his finger on it. Before the President went into this, he'd have to make up his mind.

H.M.Jr: Who put his finger?

Oliphant: Magill, just what he said there.

H.M.Jr: Well....

Oliphant: He can't carry his enemies along with him.

H.M.Jr: This isn't a matters of hours, it's a matter of days; but I want to keep abreast of it. I am reporting this so that you people can be thinking about it. And he's talking to everybody that he sees about this. At lunch Friday he had the Attorney General and Homer Cummings and he must have had - have read the whole memorandum word for word.

Oliphant: Who besides Homer Cummings?

H.M.Jr: Farley.

Gaston: First thing you know, we're going to have a columnist print a whole story.

H.M.Jr: He must have read the whole thing.

Oliphant: The President knows what he's doing, doesn't he?

H.M.Jr: What?

Oliphant: The President knows what he's doing?

H.M.Jr: No, I think he's feeling his way. That's what I mean. No, I think he's feeling his way. No, he doesn't know. I think he's just trying to feel his way on this thing. That's why I want to think about it. I want all the advice I can get, because I'm not sure. I instinctively react to calling names -

-5-

- I don't know - I mean I'd like to see the evil cured, that's what I'd like to see - and the practices stopped.

Gaston: How would it do if we'd feed out a little stuff about the practices and not name anybody to the press, see if that would generate a little demand for an investigation?

H.M.Jr: Well, the President - the way it is now, he is doing just that. And he's having a grand time doing it. I don't want to compete with him.

Oliphant: Well, you're right, it's a major problem.

H.M.Jr: I mean he's doing that right now himself. Well - I mean the Uruguayan Minister comes in here - "Isn't that a wonderful thing? Have you heard?" I said, "What's that?" "About the man who has the incorporated yacht?" The Uruguayan Minister! I says, "Yes, I think I've heard of it."

Oliphant: That's a major problem. That's as deep as that you had with Garner.

H.M.Jr: O.K., gents. Thank you.

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MAY 24 1937

Secretary Morgenthau

Herman Oliphant

Preliminary Memorandum on Public Discussion and
Disclosure of Tax Returns and Tax Cases

This question involves three types of cases: (1) those in the Bureau; (2) those before the courts; and (3) cases pending in the Board of Tax Appeals. Correspondingly, public discussion and disclosure of tax returns and tax cases may not be permissible for one or more of three reasons as follows: (1) possible violation of legislation prohibiting such disclosure; (2) the possibility that such discussion and disclosure would constitute contempt of court; and (3) the possibility of disclosure and discussion being such a violation of the canons of professional ethics as to be meticulously avoided by lawyers, other officers of the court, and public officials generally.

I. Statutory Prohibition

It is, of course, for the Congress to fix the policy with reference to the publicity of income tax returns. It has never left that policy in doubt. Thus, even the Revenue Act of 1926, which constitutes the present law on the subject, embodies a clear policy of relative strictness against disclosure. Legislative history discloses repeated attempts to widen permissible disclosure, but, except for the "pink slip" provision (since repealed), all such attempts have been decisively foisted by the Congress. The strength and age of the legislative

is indicated by the fact that disclosure not provided for, if made by

any officer or employee of the United States, is punishable by fine or imprisonment and dismissal from office. This provision has been law since 1864 and was reenacted from the Revised Statutes without change in the Revenue Act of 1926.

Legislation now limits disclosure to (1) certain committees of the Congress; (2) certain public officers of the States and political subdivisions thereof; (3) the stockholders of corporations as to corporate returns only; and (4) disclosures "upon order of the President and under rulings and regulations prescribed by the Secretary and approved by the President." This last provision is the one in issue.

The frame of the statute and its legislative history indicate that what Congress had in mind in (4) above was not to grant the President an unlimited power but to authorize him to permit inspection of returns for official purposes in particular classes of cases when deemed in the public interest. This clause must be construed as subject to some such limitation, otherwise it would be open to attack as an invalid delegation since no legislative standard is set up.

Consonant with this construction, the practice of the Executive Branch of the Government under the power specified in (4) above has to date been limited to inspection, for example, by public officers, other departments, committees, etc.

Further confirming this construction of the statute is the fact that disclosures may be made only under prescribed and approved regulations.

This negatives the idea that disclosure of a few returns chosen at random would be in accord with the legislative policy. Regulations of the usual sort and not patently arbitrary, which purported to cover sporadic disclosures, could scarcely be framed.

In this connection it is to be observed that the disclosures authorized by the express language of the statute, as well as those heretofore authorized by presidential order, have not singled out specific returns, as in the proposal under discussion. Instead, they have been general in nature.

II. Possible Contempt

The facts in the indictment in any of the criminal tax cases awaiting trial are matters of public record. But they have not been proved. Suppose the president of a bar association should discuss such a case by name, condemning the Government's conduct. That would render an unprejudiced jury and a fair trial more difficult to obtain. Of course, the Government would want to be in a position to contend that this would obstruct the administration of justice and would constitute not merely unprofessional conduct but contempt of court. This, generally, is the situation of tax cases before the courts.

III. Professional Ethics

Since this question arises in connection with possible public condemnation of those practices of taxpayers strictly within the law but bordering on illegality, reference should be made also to the propriety of discussion and disclosure of tax returns and tax cases as judged by those general standards of conduct, applicable not merely to lawyers and other

- 4 -

officers of courts but public officials generally. Prejudicial public discussion of cases pending before the Board of Tax Appeals would not be contempt, but only because the Board has no power to punish for contempt. Such discussion would, however, be a grave breach of professional ethics and any such discussion by the appointing power would be doubly serious. It was these considerations that prevented our noticing Mr. Easkob's public charges that our cases in the Board of Tax Appeals against him and Mr. du Pont were motivated by politics.

In conclusion, it should be stated that none of the foregoing limitations applies to hearings before other courts or proper official bodies. Each may proceed with its own work. Nor do these limitations apply to public investigations authorized by statutes. Such statutes ~~are~~ amend the general legislation on the non-disclosure of tax returns and authorize appropriate disclosure and discussion.

(Signed) Herman Oliphant

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 24 1937

TO Secretary Morgenthau
FROM Herman Oliphant

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- 4 -

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(Signed) Herman Oliphant

Bern, May 24, 1937

Noted
A. Lockhead

3005

No. 4965

Subject: Conversation with Federal
Councillor Motta.

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to transmit herewith a copy of a memorandum of a conversation which I had on May 22nd with Federal Councillor Motta in respect to certain aspects of European policy.

I am transmitting a copy of this memorandum to London, Paris, Rome, Berlin and Brussels.

Respectfully yours,

A true copy of the
signed original

Enclosure:
Memorandum.
File No. 800
HRW/mk
Quintuplicate

Hugh R. Wilson.

CONFIDENTIAL

MEMORANDUM OF CONVERSATION WITH MR. MOTTA

May 22, 1937.

Mr. Motta stated that Mr. Frere, the representative whom Mr. Van Zeeland has chosen for the particular feelers that he is making on the Continent with respect to the possibility of economic rapprochement, had come to Switzerland without previous notice and that therefore, unhappily, both Mr. Obrecht and Mr. Stucki were absent on his arrival. He, Motta, had seen him as well as Dr. Hotz of the Commercial Division.

Motta said there was little for them to discuss so far as Swiss-Belgian relations were concerned, that they had recently consummated a new agreement which greatly increased quotas and, he hoped, was in line with the general aspiration for the elimination of restrictions. Frere, however, had been very interesting in his talk about visits to Italy and Germany.

In Italy, Mr. Frere had encountered a most helpful attitude. The President of the National Bank and others had assured him that they were now maintaining restrictions on exchange purely to protect their gold reserve, as they feared a big slump in the lira if the restrictions were eliminated. If any way could be worked out internationally of avoiding this danger, they would be happy to come in, as they were keen to get rid of both exchange restrictions and restrictions on trade.

In respect to Germany, Frere saw Schacht and Goering.

He

He said that the first made a speech - it is true a witty and intelligent speech - in which he mixed economics, financial matters, relations with Czechoslovakia, German colonial aspirations, and everything else. With Goering, however, he had a satisfactory talk. The latter laid considerably less emphasis on colonial aspiration, which, according to him, was not of the highest importance for Germany. Mr. Frere did not see Hitler and is unaware of how far either of these men was talking for him.

Guido Schmidt, Minister for Foreign Affairs of Austria, had just visited Mr. Motta. He told Mr. Motta that there were some phases of his talks in London and Paris which he was not at liberty to reveal. However, he seemed eminently satisfied that France and England should not make a further joint declaration in respect to Austria, since Schmidt feared that one declaration would merely call out another and that the present reasonably satisfactory situation would be upset. He had been happy to note the real interest in Austria's fate expressed by Eden and other members of the British Government. Schmidt told Motta that, personally, he was convinced that the independence of Austria was one of the cardinal points in Mussolini's program and that, while he might from time to time soft-pedal it, he would never permit an alienation of this independence to Germany.

Speaking for himself, Motta said that he would rather a thousand times that no attempt at a general conference were made than that an unsuccessful attempt should be made. He never wanted to see another gathering of a general nature unless the ground had been so thoroughly

-3-

thoroughly explored in advance that there was certainty of success. I said that my views corresponded with his and that I could think of nothing that would give a greater setback to the present rather encouraging situation than an abortive general conference.

H. R. W.

HRW/mk

RECEIVED

JUL 2 1937

Division of Research and Statistics
Office of the Director
Department of the Interior

JUL 20 1937

May 24, 1937.
11 a.m.

Governor
Harrison:

Hello Henry

H.M.Jr:

Yes George.

H:

I was talking to Burgess and he agrees with me and he's gone over it with our operating men that June 7th is all right, especially if it's notes.

H.M.Jr:

Ah-ha.

H:

But it's all right anyway; we can handle it.

H.M.Jr:

It's all right anyway.

H;

Yes.

H.M.Jr:

All right.

H:

So I just thought I'd let you know on that.

H.M.Jr:

I find that Mr. Potter is down here testifying before the Wheeler Committee.

H:

Oh yes.

H.M.Jr:

And I think I'll leave him alone.

H:

Oh my.

H.M.Jr:

What?

H:

Well I don't think it would make a bit of difference.

H.M.Jr:

Well -

H:

You may want to get him.

H.M.Jr:

Well I think I'll wait till he gets through testifying.

H:

All right, but I mean - I mean I think you might reserve him, if I may make a suggestion.

H.M.Jr:

Yes.

- 2 -

H: Let him - ask him if, after he was through, he would - ah - let you know - or something like that.

H.M.Jr: Well I thought I'd wait until he got through and see what happens.

H: Yes (laughs) all right, Henry.

H.M.Jr: All right, I mean I might not have to but he'll most likely be in a bad humor and he won't want to be fooling around here.

H: No, I don't think that would be fair.

H.M.Jr: You don't.

H: Oh no, he'd be - I know - I think he'd like very much to have a chance to talk to you.

H.M.Jr: O.K.

H: First rate. Here's Burgess, he'd like to say "Hello" to you.

H.M.Jr: Oh very much.

H.M.Jr: Hello

Burgess: Oh hello, Henry.

H.M.Jr: Hello

B: Just back on the job and thought I wanted to say "Hello" to you.

H.M.Jr: Well I'm awfully glad to hear from you Randolph.

B: Well I'm - I'm about half way back so far - I'm just coming in for a few hours a day for a little while.

H.M.Jr: Are you goind to make it tomorrow down here or not?

B: Well I don't believe I'd better try that, Henry; you see this is the first time I've been back.....

H.M.Jr: Ah-Ha.

- 3 -

B:and they tell me I must only work four or five hours a day and be careful about getting tired.....

H.M.Jr: Ah-ha.

B:and I won't have much to tell you anyway because I haven't been back long enough to size things up much.

H.M.Jr: Ah-ha.

B: But - ah.....

H.M.Jr: Well I wonder why we have a meeting then tomorrow.

B: Well (laughs) - I don't know.

H.M.Jr: Well I think I'm going to call it off and let it go till next week.

B: I - I can be down next week all right and I'm going to be here all this week and talking to people and.....

H.M.Jr: Well I think I'm going to ask - call up Eccles and tell him we'd like to have it a week from Wednesday.

B: Well you wouldn't make George here weep any I'm sure.

H.M.Jr: Well I don't see any sense of having one this week.

B: Let's see - some of these fellows haven't left home already, have they?

H.M.Jr: Well I'll get in touch with them right away.

B: I don't think they have.

H.M.Jr: O.K.

B: First rate.

H.M.Jr: Thank you - glad you're back; we missed you.

B: Goodbye.

Prepared by Mr. Seltzer, Assistant Director
of Research and Statistics; assisted by
Mr. Henry C. Murphy and Mr. Sidney G.
Tickton

F 1075

CONFIDENTIAL

May 24, 1937

For: Secretary Morgenthau
Prepared by: Mr. Seltzer *MS*
Subject: Possible bond offerings for June financing.

1. It appears to be the unanimous opinion of those who have contacted the New York market recently that banks, by and large, are not disposed to add substantially to their Government bond holdings at this time. The recent sharp decline in the Government bond market is believed temporarily to have shaken the confidence of bankers in the stability of the existing level of interest rates. Further, the increases in reserve requirements of member banks, which went into effect on March 1 and May 1 of this year, coupled with the belief of bankers that the demand for commercial loans will continue to increase at a substantial rate, are reported to be exerting an unfavorable influence upon their receptivity to further increases in their bond portfolios at this time.

The case is less clear as respects insurance companies and other institutional investors. Their normal preference is for longer-term bonds rather than for short-term obligations. But they, too, are now believed to be in doubt respecting the stability of the present level of long-term interest rates.

There is attached hereto a table showing the purchases and sales, by quarters during 1936, of Government securities by 30 insurance companies. These companies include some 17 life insurance companies whose purchases of Government securities during 1936 constituted about one-half of the total purchases of Governments during 1936 by 45 large life insurance companies, as reported by the Wall Street Journal. The table is based upon a preliminary survey of the first 1200 pages of the printer's page-proof of Poor's "Insurance Company Investments for 1936."

It will be noted that the 30 companies made net purchases of Government securities during 1936 aggregating \$753 millions, of which 74 percent were bonds; and that 80 percent of the net additions to their bond portfolios had maturities in 1950 and

Secretary Morgenthau - 2

thereafter. However, all of the new Treasury bond offerings during 1936 had final maturities later than 1950. It may be significant, moreover, that although net purchases for the 30 companies were approximately the same in the first and fourth quarters, bond purchases in the fourth quarter were little more than one-half as large as in the first quarter.

On the whole, especially in view of the marked falling off in new corporate issues during the past two months, it is probable that insurance companies would be receptive to a bond offering, though it is impossible to say in what amounts.

2. It is more than ordinarily difficult at present to interpret the prevailing yields on Treasury bonds with reference to a new issue. The going yields are the result of marginal purchases and sales of relatively small blocks of securities. During a period when banks and other important investors are adding to their holdings, the market can be expected to absorb a new issue at yields approximating those previously prevailing. If, however, there is reason to suppose that an important section of the market, such as the banks in the present case, is unlikely to take on more bonds for a time, the absorption of a new offering may be possible only by upward readjustment of yields.

3. It would appear from the following tabulation of outstanding Treasury bonds that no new bond issue with a coupon rate of 2-3/4 percent or less could be sold if its final maturity reached into the 50's. (Yields as of May 24's close.)

2-3/4's	-	1948-51	2.68 percent
2-1/2's	-	1949-53	2.70 percent
2-3/4's	-	1951-54	2.76 percent

4. Judging solely on the basis of current quotations, any one of the following three bond offerings would be relatively attractive to the market (as compared with outstanding issues):

(1)	2-1/2's	6/15/1943-45	{ 6 to 8 years }
(2)	2-5/8's	6/15/1943-47	{ 6 to 10 years }
(3)	2-3/4's	6/15/1942-48	{ 5 to 11 years }

Secretary Morgenthau - 3

5. 2-1/2's of June 15, 1943-45 (6 to 8 years)

The outstanding 3-1/4's of October 15, 1943-45 are selling to yield 2.22 percent. On a yield basis of 2.30 percent, the subject new issue would command a premium of 1-4/32; and on a 2.35 percent basis, a premium of 27/32. On a 2.25 percent basis, the premium would be 1-13/32. These premiums appear ample to insure the success of the issue.

It does not appear that the final maturity of a 2-1/2 percent issue could safely be stretched to 1947. The 2-3/4's of 1945-47 are selling on a 2.42 percent basis. If 2-1/2's of 1945-47 were to sell on a 2.45 percent basis, the premium would be only 12/32. If 2-1/2's of 1943-47 were offered and were to sell on a 2.45 percent basis, the premium would be only 9/32.

A 2-1/2 percent issue of 1943-45 would offer a definitely higher yield to call date than any of the outstanding issues of comparable maturity.

6. 2-5/8's of June 15, 1943-47 (6 to 10 years)

Such an issue would be identical as respects call period and maturity with the outstanding 3-3/8's of 1943-47. These 3-3/8's are selling to yield 2.18 percent to the earliest call date; but their relatively high coupon causes them to be regarded as having an effective maturity in 1943, rather than in 1947. The 2-3/4's of 1945-47, as was noted above, are selling to yield 2.42 percent to their earliest call date. An issue of 2-5/8's of 1943-47 should sell on a yield basis between 2.40 and 2.45 percent, on which bases the premiums would be 1-8/32 and 31/32, respectively. If the market declined so that this issue sold on a 2.50 percent yield basis, the premium would be 22/32.

Judging by the comparable yields obtainable from outstanding issues of similar maturity, this issue should be attractive.

7. 2-3/4's of June 15, 1942-48 (5 to 11 years)

As respects final maturity, such an issue would be identical with the outstanding 3's of 1946-48, which are selling to yield 2.50 percent to the earliest call date, and 2.58 percent to final maturity. Its very early call date may conceivably cause it to sell on a lower yield basis. On a 2.45

Secretary Morgenthau - 4

percent yield basis, such an issue would command a premium of $1-13/32$. On a 2.50 percent yield basis, the premium would be $1-5/32$. Even if the issue sold on no better basis than the $3-1/8$'s of 1946-49 -- 2.55 percent -- the premium would approximate $30/32$. It would appear, therefore, that such an issue would be relatively attractive in the present market.

If the bond market continues to improve, or even in the present market, this issue may be considered too rich. A mechanical method of thinning out the premium would be to move the call date up one year, making the issue a 1941-48 maturity. On a 2.45 percent yield basis, for example, this change would reduce the premium from $1-13/32$ to $1-4/32$; and on a 2.50 percent yield basis, from $1-5/32$ to $30/32$.

An extension of the final maturity by one year -- to 1949 --, though involving a risk which is absent in the preceding method, would also make the issue less rich. The final maturity date, in that case, would be identical with the outstanding $3-1/8$'s of 1946-49, which, as noted, are selling to yield 2.55 percent to the earliest call date. On this yield basis, as we have already noted, the premium on a $2-3/4$ percent bond of 1942-49 would approximate $30/32$. By making the call period begin in 1943, an issue of $2-3/4$'s of 1943-49 would, if it sold on a 2.55 percent yield basis, command a premium of $1-3/32$; on a 2.60 percent yield basis, it would command a premium of $27/32$. A moderate further improvement in the bond market might make such an issue feasible.

8. If any of these possible bond issues be decided upon, it may be desirable to limit the offering to less than half of the total amount of funds to be raised; shorter-term securities being offered for the remainder. Alternatively, the bond could be offered along with shorter-term securities with a limit set only for the total. This method, while having the advantage of giving the market a free choice, has the disadvantage of risking a preponderance of subscriptions for the shorter-term securities, thereby possibly eliciting unfavorable comment on the lack of confidence of investors in the stability of longer-term interest rates.

In view of the recent break in the bond market, and of the large note maturity in September, there is considerable force in the contention that the present financing should be confined to short-term issues; and that such unsatisfied demand for bonds as exists be allowed to absorb the remaining near-term liquidation in this section of the market; and thereby prepare the way for the September refunding operation. It is difficult not to be impressed by the reported reluctance of banks to add substantially at this time to their holdings of Government bonds.

Attachment

Purchases and Sales of Government Securities by Thirty Insurance Companies
By quarters, Calendar year 1936
(In millions of dollars)

	First quarter	Second quarter	Third quarter	Fourth quarter	Date not given	Total
Purchases						
Bills	8.3 ^{1/}	18.2 ^{1/}	4.0	72.6 ^{1/}	-	103.1
Notes maturing before 1940	5.2	2.3	7.2 ^{2/}	40.7 ^{2/}	.6	56.0
Notes maturing 1940 and thereafter.	20.5	18.3	5.5	19.2	7.3	70.8
Bonds maturing before 1950	29.6	26.9	23.9	35.8	12.1	128.3
Bonds maturing 1950 and thereafter.	183.3	85.7	101.4	79.2	18.4	468.0
Total	246.9	151.4	142.0	247.5	38.4	826.2
Sales						
Bills	-	-	-	1.0	-	1.0
Notes maturing before 1940	6.3	17.4	5.0	3.3	-	32.0
Notes maturing 1940 and thereafter.	-	-	-	1.0	-	1.0
Bonds maturing before 1950	6.7	2.5	4.4	1.6	3.3	18.5
Bonds maturing 1950 and thereafter.	4.5	2.4	6.3	7.3	-	20.5
Total	17.5	22.3	15.7	14.2	3.3	73.0
Net						
Bills	8.3	18.2	4.0	71.6	-	102.1
Notes maturing before 1940	- 1.1	-15.1	2.2	37.4	.6	24.0
Notes maturing 1940 and thereafter.	20.5	18.3	5.5	18.2	7.3	69.8
Bonds maturing before 1950	22.9	24.4	19.5	34.2	8.8	109.8
Bonds maturing 1950 and thereafter.	178.8	83.3	95.1	71.9	18.4	447.5
Total	229.4	129.1	126.3	233.3	35.1	753.2

^{1/} Metropolitan Life only.

^{2/} Includes \$36 millions of Metropolitan Life in fourth quarter and \$5 millions in third quarter.

MEETING RE TAX LOOPHOLES

May 24, 1937
3:20 P.M.

Present: Mrs Klotz
Mr. Magill
Mr. Oliphant
Mr. Gaston

H.M.Jr: I'll try to give you people this as intelligently as I know how. The President said that he talked with Joe Robinson and Senator Black last night and he's worked out this whole question of how to handle these loopholes to his satisfaction.

He said he's going to talk first with Pat Harrison and Bob Doughton and come to an understanding with them, so that when he sends them up a letter they will be ready. Now, what he proposes to do is to write them each a letter in which he wants to list - he is under the impression there are eight different devices which are used, which were listed in your - whatever they are, seven, eight, or nine devices, and describe them, and suggest to them that they should appoint - that they should investigate, having made a previous arrangement with them that they would appoint a subcommittee to do this, you see.

Then I asked the President, "How - when will you handle this legislation for hot money?" He said, "Well, you work that out any way you want." I said, "Will you want it in the same letter or do you want it in separate letters?" He said, "Well, work it out and see how it looks." He said, "The understanding is that this subcommittee will then make an investigation and will call for facts and figures and you will then submit to them facts and figures and names. They will then find that there is justification for filling - stopping these loopholes and they will report back to the Joint Committee on Taxation of the House and Senate, and that they will then go ahead and immediately introduce legislation to correct these loopholes."

The President said, "I want you to have legislation ready within three weeks." And then he said, "The understanding is that they will recommend that the Commissioner of Internal Revenue and several others will make this study." So I told him, "Mr. President, if it's just the same to you, instead of designating the Commissioner of Internal Revenue, I wish you'd

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designate the Secretary of the Treasury, and then I will delegate Magill; that's what I brought him down there for." He said, "That's fine, and he can employ whatever assistance he needs."

He said, "I said to Joe Robinson, 'We'll need about a quarter of a million dollars to do this job, and how do you feel about it?' So he said, 'Well, we'll make money on it.'" So he said - the President - "I told Joe we'd make about ten times that." I said, "Ten times? We'll make a hundred times that." "Well, that is as a matter of fact what I told Joe Robinson; we'll collect about 250 million." So I said, "We'll collect between 200 and 300 million. We'll collect 200 million on the husband and wife thing in California, another hundred million on depreciation, and it ought to be good for 25 to a hundred million on these various loopholes - incorporated pocketbook."

So I gave him Oliphant's legal opinion and - which he didn't want to read, because he said, "I've got it all worked out." So I said, "You better take it anyway" and he kept it.

And he seems to have it in mind that this should be introduced in the House just as soon as the House passes the miscellaneous tax bill.

Then he said, "Once we send those names up to the Committee, the holler both for and against giving it out will be so great, we won't be able to resist the pressure."

(Hearty laughter)

And then at the end he said, "Now, just how I'll handle my speech I haven't the slightest idea." And how did I feel about it? I said, "All right." You see, in the first letter we go up, we don't mention any names at all, just the methods. How does it sound to you?

Magill: All right.

H.M.Jr: But he's got this uppermost in his mind, and you see how fast he's traveling and how far he's gone since - when did we see him?

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- H.M.Jr: Oh, I think - he said, "How you going to stop new sources coming in as amendments?" I said, "Tell them no amendments" - put it in his letter.
- Gaston: For instance, tightening up on these holding companies and family trusts and all that sort of thing, will create a tremendous pressure to modify both the surtaxes and the undistributed profits tax, because if we are really going to catch them on this, then they'll want some other form of relief.
- H.M.Jr: If you want to know how I feel, I'll tell you how I feel. I think everything is fine except the bill. I don't want to see any bill.
- Gaston: Well, I feel the same way.
- Oliphant: Do you want to expand that just a little?
- H.M.Jr: Well, take the \$250,000 and bring people in all summer and work on the thing all summer, and then do what we said we'd do, place this information in the hands of Congress after election in the fall, then come in with one bill in January.
- Gaston: That's precisely the way I feel.
- Magill: That's much the best way to do it.
- H.M.Jr: I know, but after all - but look, what's today, Monday? - and look where he was Friday morning. Friday morning he was going to name names and go on the air, he was going to do all of these things. Now he's gotten around to this and I think that - he hasn't talked to Harrison and Doughton and I think when he talks to Harrison and Doughton they'll say, "That's fine, we'll go along, but no bill until next January." Because, after all, he's only talked to Robinson and to Black, and, believe me, Harrison and Doughton can do their own thinking on it. We can just sit tight. It doesn't pay, at this stage of recovery, to get all "het" up. I think if we sit tight - we've traveled this far in 48 hours; in another 48 hours we may get him around to the point where I - which we've wanted right along. Just let's have the group, let's... We must, if he insists on an investigation - we'll have it, but let us do it, hire what counsel we need, if any, and

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Oliphant: Friday morning.

H.M.Jr: - Friday morning. How about you, Herman?

Oliphant: Well, I just don't quite understand how this \$250,000 investigation fits in, do you?

H.M.Jr: That's a special appropriation which will be given to me.

Oliphant: To.....

H.M.Jr: To appoint people, and so forth and so on.

Oliphant: To employ people.

H.M.Jr: Special investigators.

Oliphant: Special investigators to check up on individual taxpayers, is that it?

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

Oliphant: Well, that will come out in time.

H.M.Jr: He simply threw this thing out and he figured we needed somebody, and I don't know. But I mean he's traveling so fast and he's moving so fast; it seemed to me, from what he talked about today, he's moving in the right direction.

Gaston: Could think of ways to use that.

H.M.Jr: What do you think, Herbert?

Gaston: The only thing that at all bothers me is the idea that this may be considered a repudiation of his pledge not to have a general tax bill; but I think you can distinguish very easily between a bill to close up loopholes in the existing law, and which does not seek additional sources of revenue, and a general tax bill, seeking new sources.

H.M.Jr: Yes.

Gaston: Because he has pretty explicitly stated he would not have that.

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control the investigation, do it in a dignified manner, and then come in with a bill next January, as we have said right along.

Gaston: Certainly was good strategy not to start cooling him off before he got steamed up.

H.M.Jr: Well, Herbert, I haven't been with that man over twenty years for nothing. You know, if we opposed him and hadn't given him anything, he would have gotten it somewhere else and he would have lost confidence in the Treasury; what we should do, when he demands something, give it to him.

Magill: He was completely entitled to that and should have had it.

H.M.Jr: Now, what I'd like to ask you, Magill, is this: that if you would begin on this letter, see, write - too sketchy?

Magill: No, what I would like would be to get a copy of this thing (transcript) or something like it, as soon as I can, because there's one, two, three, four things, and....

H.M.Jr: Then when you've got it let's meet again; we'll leave you alone until you have it.

Oliphant: Until he has a draft.

Magill: The first thing, as I get it there, is for me to draft a letter from the President to these two men, naming these eight or nine instances, whatever they are, no names.

H.M.Jr: That's the first thing, and my own feeling is this. I think there should be two separate letters; I think there should be one on those eight or nine things and one letter on hot money. Now, I may be wrong.

Magill: I think you're right. Two different things.

H.M.Jr: Well, he's all interested in these eight or nine things. He's not interested in - he's lost all interest in hot money. So when I questioned him,

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he said, "Well, handle that any way you want." I said, "Is it all right to put it on paper and look at it?" He said, "You do it any way you want." He said, "I'll do both for you, see?" But my thought is that they be two different pieces of paper.

Magill: Do you see any reason why we shouldn't give the two Chairmen much the same sort of a letter that you gave him on the hot money?

H.M.Jr: Pardon me?

Magill: Do you see any reason why we shouldn't give the two Chairmen much the same letter that we gave him on the hot money?

H.M.Jr: I don't think you can improve on it; I don't think you can improve on it.

Oliphant: I have one question, the question that I asked you (Magill) this morning.

Magill: Transfer tax?

Oliphant: No, it's this. The withholding tax that Magill has worked out there straightens out that whole revenue matter and puts control of investments in long-terms in this country by foreigners - the licensing of the bank deposits would control that. But that leaves uncontrolled things like trade acceptances, in which the money would be forced into licensed bank deposits, etc.

H.M.Jr: Well, if I may interrupt you with this: There is grave doubt here about wanting to license this short-term banking, and up to now the only thing that seems to satisfy everybody is this so-called 35 percent tax.

Oliphant: Well, that is fundamentally a reform in taxation and not an attack on hot money, isn't it?

H.M.Jr: No, I don't think - no, I think that - I think that any move that we make which will be interpreted as a method of taxing aliens who invest in this country, showing that we really mean to go in that direction,

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will be helpful.

Oliphant: Be helpful.

H.M.Jr: See? Will be helpful. I mean that we are not just talking about it.

Oliphant: And you are not thinking in terms of a complete bill of fare yet.

H.M.Jr: No, because it hasn't been offered so I can digest it. And it's - the thing, I think, why we are successful here in the Treasury is that we never do move until we get at least 90 percent agreement, and - well, Taylor and Lochhead, those people, are all opposed to licensing of short-term money. And incidentally, right on that, to show you, today for the first time Switzerland, which has balances here, has invested to the extent of five million thirty in our Governments today.

Oliphant: You see, that would be the effect.

H.M.Jr: Well, it's good.

Oliphant: Uh-huh.

H.M.Jr: Huh?

Oliphant: Well, just in terms of - to be sure my work is being done, I just wanted to see what - how you were envisioning the picture as to what you wanted this day.

H.M.Jr: Well, what I would do - as I remember, I asked Taylor to carry the ball on it, didn't I?

Oliphant: Yes, that was my....

H.M.Jr: What?

Oliphant: That's a long time ago when we came in.

H.M.Jr: Well, within the last month. And the only thing I have heard from him is that he didn't like it, or wasn't satisfied. So I - I have no objection

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to prodding him and seeing where he's feeling, and I'll do that tomorrow morning.

Oliphant: Well, I wasn't sure who had the ball.

Magill: No, I haven't anything on the bank deposits.

H.M.Jr: The way I divided it - only a couple weeks ago when I came back from the farm, I said, "Magill take the tax end, and Taylor take the licensing, the bank deposit end."

Oliphant: Now, what I want to point out is that there is another third as big as either one of those, and that is trade acceptances - pay one-fourth of one percent per year and there is really no income there to be taxed; there is this whole bunch of short-term low interest instruments.

H.M.Jr: Have you written anything?

Oliphant: Well, I've talked a lot about it.

H.M.Jr: Well, will you bring it up again?

Oliphant: Yes, whenever you want me to.

H.M.Jr: Well, just as soon as We'll have a meeting on the financial end of the thing; we'll have Taylor in here at - just at first.

Oliphant: Fine, that takes care of all I have.

H.M.Jr: How's that?

Oliphant: I just want to be sure - three parts; not two, but three.

H.M.Jr: Very important. Thank you, Herman. And we'll have - we'll do that, but in the meantime there is the other thing, the question of the drafting of the legislation which is to come.

Magill: Well, presumably that is either finished or pretty nearly so.

Oliphant: There is only one other question; that is the withholding tax.

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- H.M.Jr: No, the legislation to back up what he's put in the letter.
- Oliphant: Oh, these eight.....
- H.M.Jr: Oh yes, whatever goes into those letters, I want legislation to back it up. And the minute that the President pops it to Harrison and Doughton, then we can work directly with the fellows on the Hill.
- Oliphant: Now, can you take one other question?
- H.M.Jr: Give you two more.
- Oliphant: Now, coming back again to the withholding tax on foreigners, has there been a decision on whether or not the rate would be flexible?
- H.M.Jr: No, it's to be fixed.
- Oliphant: Fixed.
- H.M.Jr: A fixed rate.
- Magill: This probably appears in his minutes. In this letter that I am to write for his signature to the Chairman, is he to suggest a subcommittee?
- H.M.Jr: No.
- Magill: Or is he simply to say, "These loopholes - the Secretary of the Treasury has told me about these loopholes"?
- H.M.Jr: "And I wish you'd investigate it." - "Mr. Harrison, I wish you'd investigate it."
- Magill: Uh-huh.
- H.M.Jr: See? The appointment of the subcommittee is an off-the-record understanding that he has before the letter goes up.
- Now, we can have plenty more meetings on this if we haven't covered it all.
- Magill: How soon do you want these letters for him, right away?

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- H.M.Jr: Oh, I would say if I could have them - well, without pushing too hard, when would you say?
- Magill: Well, I can have them very quickly without pushing me very hard.
- H.M.Jr: Well, what do you call.....
- Magill: I can get them done this afternoon.
- H.M.Jr: I mean could I get them so I could go and see him Wednesday morning and hand them to him?
- Magill: I should think so.
- H.M.Jr: Rather make it Thursday morning?
- Magill: If you want to.
- H.M.Jr: Give it to me Wednesday and then I can hand it to him Thursday.
- Magill: Easily. See, the so-called hot money letter is virtually done.
- H.M.Jr: If I can have them sometime Wednesday, Mrs. Klotz, I'll ask to see him Thursday morning. And then before we send this over we'll have another meeting to see if there is something else.
- Gaston: Why couldn't the letter to Harrison and Doughton simply enclose a copy of the letter of the Secretary to the President? Not have to do it over at all. Call their attention to - "The Secretary of the Treasury has reported this to me."
- H.M.Jr: The names or without - the ones without the names?
- Gaston: Uh-huh.
- H.M.Jr: Well, if you don't mind, I'm two hours behind, and what I'd do is to make a start, and if any question comes up I'm available.



GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

MAY 24 1937

My dear Mr. Secretary:

On January 8, 1935, you addressed a letter to the President calling to his attention the large accumulation of cases in the United States Customs Court and apprising him of the fact that the Legal Division of the Treasury Department was contemplating a thorough-going study of the whole situation in this court in cooperation with a number of members of the New York Bar. You also stated in that letter that there was ample reason to believe that with the cooperation of the Attorney General needed reforms in that court could be put in operation.

On January 9, 1935, the President addressed a joint note to the Attorney General and you expressing the hope that the Treasury Department and the Department of Justice could push the matter in connection with the Customs Court.

You designated me to carry on the Treasury phase of this study and the Attorney General named Joseph R. Jackson, Assistant Attorney General in charge of Customs, as his representative. I communicated with the Attorney General on this matter on January 11, 1935, and conferred with him on the 16th. He arranged for me to confer with Joseph R. Jackson on January 18 concerning general plans for the twofold study.

After the Treasury phase of the study was blocked out, my staff collected and processed the masses of statistical data necessary to give the study reality.

I invited the New York Law Society, which is composed of active members of the Bar in New York, and the Yale School of Law, under whose supervision surveys of this nature had heretofore been conducted, to keep in touch with the collection and preliminary study of this statistical material and to examine the tentative conclusions drawn from our study of this statistical material in the light of the practical experience of this group of lawyers.

On January 22, 1935, Mr. E. S. Greenbaum, representing the New York Law Society, and Mr. Thomas A. Manning, Jr., Solicitor to the Collector of Customs at New York, conferred with Mr. Joseph R. Jackson, Assistant Attorney General, in connection with the proposed study. At this meeting Mr. Jackson offered to the Treasury Department his full cooperation, but suggested that probably the causes for delay in the disposal of customs litigation would be found in those functions which are within the jurisdiction of the Treasury Department, and that a study of these functions would disclose the real point where the system

The Secretary,

2.

had fallen down. He concluded that it would be the better procedure for the Treasury to make a study of these functions, and that, as to any problems which might involve functions of both the Treasury Department and the Department of Justice, he would be glad to cooperate to the fullest extent. He also stated that he and Judge McClelland, Presiding Judge of the Customs Court, had been studying the problem from the viewpoint of their respective jurisdictions.

It was determined, therefore, that the problems in the Treasury Department should be studied so that, when the facts therein were determined and the recommendations were formulated, the matter might be discussed with the Attorney General with a view to coordinating these recommendations with such recommendations in connection with his Department, as the Attorney General might desire to make.

I submit herewith in final form the report of the Treasury's study of customs protest litigation in New York City. This study has, as indicated, been concentrated on the relations of such litigation to the functions of the Treasury Department.

This report contains:

- (a) A statement of the conditions which have caused the existing accumulation of protests and the excessive delay in their disposition;
- (b) A discussion of certain factors contributing to these conditions which might be controlled through action by the Treasury Department; and
- (c) Definite recommendations with respect to such factors.

In the course of the study of customs protest litigation, and as an incidental development of that study, there appeared certain conditions which are within the jurisdiction of the Department of Justice, and which, in my opinion, contribute substantially to the present serious situation. While our study was confined to functions of the Treasury Department, it could not avoid some observation of these other conditions.

It is my opinion that it would be advisable to submit to the Attorney General some suggestions concerning the functions of his Department with respect to the customs protest litigation which have developed as natural by-products of our study so that, when his and your reports are made to the President, he may have had the benefit of our observations. The Attorney General would then be familiar with the Treasury's viewpoint in the matter, and he might desire to incorporate in his portion of the recommendations to be made to the President some or all of our suggestions.

The Secretary,

3.

The suggestions which I believe should be submitted to the Attorney General are as follows:

1. That each protest should be determined by a single judge.

Under the present statute a protest case must be decided by a division of three judges. If the statute were changed to provide for decision by a single judge, approximately three times as many protests could be disposed of by the present number of judges.

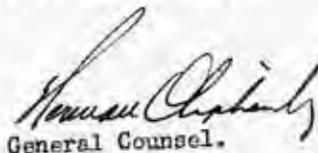
2. That contingent attorneys' fees should be regulated and customs attorneys should be prohibited by statute from sharing their fees with persons other than attorneys as a consideration or an inducement to such persons to place customs business in their hands.

This suggestion parallels a recommendation I have made that legislation be enacted prohibiting the receiving or sharing of fees, or other compensation, by persons not attorneys as an inducement to such persons to place customs claims in the hands of such attorneys.

3. That the present suspension practice should be discontinued except where the protestant agrees to abide by the decision in a test case.

Under the present system a protest may be suspended pending decision in a test case, and after determination of the first test case, it may be suspended again and again pending decisions in other test cases. Thus there is practically no end to the litigation.

Very truly yours,


General Counsel.

The Honorable

The Secretary of the Treasury.

MAY 24 1937

My dear Mr. Attorney General:

I am enclosing herewith a copy of a report of a study made under the direction of Mr. Herman Oliphant, General Counsel of the Treasury Department, of conditions in customs protest litigation in so far as it concerns the functions of the Treasury Department.

During the course of this study of Treasury Department processes, and as an incident thereto, there came to the attention of the persons making the study certain conditions which are within the jurisdiction of your Department. These conditions are referred to in the report.

I have asked Mr. Oliphant to discuss this report with you.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General.

Enclosure.

REPORT TO THE SECRETARY OF THE TREASURY ON THE STUDY OF CERTAIN
PHASES OF THE CONGESTION OF CASES IN THE UNITED
STATES CUSTOMS COURT.

As a beginning of the Treasury's study of congestion of cases in the United States Customs Court, I stated our problem as follows:

There is an accumulation of over 180,000 cases in the Customs Court, with a consequent delay of serious proportions to cases being currently filed. The whole situation needs to be carefully studied by an agency that can bring to the work two things: (1) the skill and patience for a really accurate statistical analysis of the various phases of the problem, and (2) a thorough practical knowledge of the actual operation of our legal practice and procedural mechanics. The purpose is not to be to make a study for the sake of making a study. A definite object would be the formulation of specific and concrete changes in those phases of the present handling of Customs cases responsible for the existing accumulation and delay.

In this spirit a preliminary survey was made and a plan of study formulated. The main survey was commenced in August, 1935, and was finished in November, 1936. A report thereon was made by Mr. Charles U. Sanenow, in immediate charge, to the New York Law Society and Yale Law School Committee containing his formulations of the statistical data and facts otherwise gathered together with certain suggestions of possible remedies for the elimination of the conditions which obtained in the Court. This Committee received this report and

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studied it in conjunction with Mr. Samenow, Mr. Manning, and Mr. Agee, Assistant Solicitor to the Collector of Customs at New York. From the suggestions of Mr. Samenow and their study of these suggestions, the Committee has submitted to me a comprehensive report covering the whole situation. The Committee's report has been thoroughly studied and developed by members of my staff. On the basis of this work, I submit to you my findings and recommendations in connection with the problem.

I. CONDITIONS EXISTING IN PROTEST LITIGATION IN THE CUSTOMS COURT.

The study has developed the fact that congestion in the Customs Court is decreasing somewhat but is intolerable. As a result of this congestion there is a substantial denial of justice both to the Government and to the public at large.

The number of protest cases pending undisposed of before the Customs Court at the end of each fiscal year, beginning with 1931, is as follows:

1931	237,441
1932	222,125
1933	220,577
1934	205,043
1935	181,652
1936	167,851

3.

Although there has been some diminution in the undisposed of cases each year, the average number of cases of this backlog which have been disposed of each year has been only 14,000. On this average it would take almost twelve years to bring the calendar up to date, and, with the continuing revival of trade, an increase in the number of protests filed may reasonably be expected.

A survey of cases decided in the years 1934 and 1935 indicates that 30 per cent were disposed of within one year; 15 per cent within the second year after filing; 15 per cent within the third year after filing; and 40 per cent after the expiration of three years. Twenty-two per cent of the cases were over five years old at the time of decision thereon. However, if a protestant presses his case, a hearing may be had within approximately six months.

Over 80 per cent of the protests filed were eventually abandoned by the importer. The administrative cost under such circumstances is unjustifiable.

In most cases wherein the protest was sustained and refunds paid by the Government, the consuming public received no benefit therefrom. The higher duty paid had already been passed on by the importer to the consuming public and the refunds were mere windfalls to the importer and to his attorney, who usually received one-half of the refund.

II. CAUSES OF UNDUE VOLUME OF PROTEST LITIGATION IN THE CUSTOMS COURT.

Protest litigation is concentrated in the hands of relatively few brokers and attorneys. Eighty-eight brokers filed about three-fifths of all entries protested in 1934-35. Of these eighty-eight about one-fourth filed over a third of all such entries. The leading broker appeared in 10.5 per cent of the protested entries; the next in 5.5 per cent. Ten attorneys filed 90 per cent of all protests, three of them filing almost 50 per cent. The importer himself rarely handles his own customs business.

Protest litigation is speculative, unfounded, and irresponsible to a far greater extent than ordinary litigation. Protests may be filed and pursued without fees, virtually without risk of expense or loss. Only if he wins need the importer pay his attorney anything. Cases are rarely pushed for trial as they would be if the importer desired to settle a real dispute on which the conduct of his business depended. Large numbers of them, suspended pending the determination of "test cases", are suspended again under new test cases where the first ones were decided against the importers. It is to the interest of brokers and attorneys to keep an issue open as long as possible so that a maximum number of protests can be collected and brought in under it. At least 7 per cent of all protests filed are duplicates or multiples, (i. e. protests filed by different attorneys against the same item).

Not infrequently the entire protest process is completed without the knowledge of the importer.

Protests are superficial, stereotyped, and multifarious. They ordinarily inadequately describe the merchandise. The remainder of the protest is a printed or mimeographed form mentioning several paragraphs of the tariff act as claimed to be applicable. These claims are frequently contradictory, many of them more or less irrelevant. Reasons for the claims are seldom stated with any precision, if at all. Of all classification protests, only one-fifth contained one claim each; two-thirds, five claims or less; the remainder, six claims or more. Thus the real nature of the claim is not disclosed but concealed by the typical protest.

Protest litigation develops and matures without the knowledge of the customs officials charged with the functions it challenges. In the case of four-fifths of the protests, there is nothing to apprise the customs authorities of the existence of a dispute until after the whole process of liquidation is complete and the protest itself is filed. This is entirely unnecessary, and deprives the government of opportunities for the special treatment of disputed items which is essential to their fair and efficient handling.

III. RECOMMENDATIONS.

A. Regulate the broker-attorney relationship.

Since the broker, who appears in 98 per cent of the entries filed, is in most instances in complete control of all the customs transactions of the importer, he has control of the protest litigation also. It is usually the broker who hires the attorney, and he has used his strategic position to assure himself of part (usually 50 per cent) of any fee forthcoming in the case. The fee itself is wholly contingent, being 50 per cent of any refund. Brokers justify this fee sharing on the ground that it is compensation for their services in assisting the preparation for trial. Such compensation, however, ought to be fixed by the reasonable value of the services and not by a percentage of the fee. The present system (a) encourages the bargain and sale of protest litigation to attorneys by brokers, (b) allows the importer to litigate without expense, and (c) places the broker in inconsistent positions.

The last is particularly serious. The broker is primarily the importer's agent and should see to it that his principal's goods are entered at the lowest rate allowed by law. To-day there is nothing but the broker's conscience to prevent him from entering the goods at a higher rate and thereby securing for himself 25 per cent of the difference when a protest is finally sustained.

Some brokers are also members of the customs bar. It could hardly be made a crime for them to share fees with their fellow attorneys, but it could be made a cause for the revocation or suspension of their brokers' licenses in view of the close inter-relationship between the evils of fee splitting and the extent of disinterestedness of the broker's activity as broker.

I doubt, however, whether a broker's license could be revoked on the ground of fee splitting under the present statute.

I, therefore, recommend:

1. Enactment of a statute making it a penal offense for any person to receive or share, or to agree to receive or share, any part of any fee or other compensation received by a customs attorney, or any other attorney handling customs claims, as an inducement for that person placing in the hands of such attorney any customs claim or demand for the purpose of collecting such claim or enforcing such demand.
2. Enactment of a statute making it a penal offense for any person, other than a customs or other attorney to receive, or agree to receive, any fee or other compensation in connection with customs claims or demands, the payment of which is dependent upon the final result of the filing or the prosecution of such claims or demands.
3. Enactment of a statute amending section 641 of the Tariff Act of 1930, making as further grounds for the suspension or revocation of a broker's license the acceptance by a broker of any compensation whatsoever in connection with any protest or appeal for reappraisal without the full knowledge and consent of his client, or the acceptance of any contingent fee or compensation in such connection whether it be with or without the knowledge and consent of his client.

8.

In connection with recommendation (1) above, there should be, of course, an exception in the case of agreements made between customs attorneys, or between customs attorneys and other attorneys licensed to practice by the laws of any State, territory, insular possession or the District of Columbia.

In connection with recommendation (3), the statute will apply to all brokers whether they are attorneys or not.

B. Require protests to comply with regulations of the Secretary of the Treasury with respect to their form, content, and authorization.

As I have said, the typical protest today is obscure, multifarious, and often directed to more than one entry. In general these protests have been held to comply with the prevailing liberal interpretation of the present statute. But they excessively handicap the Government in all stages of the litigation (administrative handling, collector's review, preparation for trial, and trial); and they permit the protestant to initiate litigation without having any definite claim in mind.

The statute, section 514 of the Tariff Act of 1930 (U. S. C., title 19, sec. 1514), permits protests to be filed by the importer or his agent, and regulations (arts. 296 and 850 of the Customs Regulations of 1931, as amended) require that there be on file in the office of the collector of customs a power of attorney which covers authority to file protests. But there have often been duplicate or multiple overlapping powers of attorney. Moreover, it seems that a protest is valid if filed by one appearing upon the hearing to have been authorized as agent, even though there was not compliance with the regulations.

9.

As a practical matter there has been nothing in the process, from beginning to end, which requires that a protest be called to the importer's attention. Hence in part the irresponsible character of the litigation, noted above.

This situation probably cannot be wholly rectified by department regulations under the present statute. Regulations, if reasonable and consonant with law, are valid; but their effect is not uniform. If a statute gives a right but specifically provides for its exercise subject to departmental regulations, then regulations made under that Act are mandatory and bind any tribunal where the right is called into question. But if the statute itself prescribes the manner and form of exercising the right, then regulations made under the general power of a department head to administer the details of his department (such as that conferred by section 624, Tariff Act of 1930; U. S. C., title 19, sec. 1624) are merely directory and do not bind the rights of parties except where they are being dealt with by that department. So where a court considers that a protest conforms to the requirements of present section 514, it will regard that protest as valid, whatever customs regulations it may violate.

I do not believe, however, that a statute can effectively prescribe matters of form, content, and the like, in detail. These matters should be dealt with by the department concerned, which knows them intimately and can observe and respond to changing needs.

I, therefore, recommend:

1. Amendment of section 514 of the Tariff Act of 1930, to provide that no protest shall be valid unless it conforms to rules and regulations prescribed by the Secretary of the Treasury with respect to its form, content, and authorization.
 2. The promulgation of Treasury Regulations providing
 - a. that a protest may relate only to a single entry,
 - b. that a protest must clearly identify the protested items (perhaps by invoice number) and state the paragraph claimed to be applicable to each item with the reasons for such claim, alternative claims to be set forth in separate counts,
 - c. that where the protest is signed by an agent he must be authorized either (1) by a blanket power of attorney for the filing of protests, valid for no more than two years, filed with the collector of customs at the port of entry, only one of which blanket powers may be effective at any one time for any one importer, or (2) by a power of attorney authorizing the filing of specific protests and revoking pro tanto any blanket power of attorney on file.
- C. Provide for a protest fee.

The absence of such fee encourages speculation in customs litigation. There is probably no other tribunal in the country where litigants may enter all kinds of claims utterly without expense to themselves though the event be adverse. There are fees and costs even in small claims courts. A filing fee of \$10 must accompany income tax appeals. These charges not only help to defray the expense of the machinery the claimant sets in motion, but they tend to insure the bona fides of claims.

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I, therefore, recommend:

The enactment of a statute providing a fee of \$1 for each protest, plus \$1 for each alternative claim stated in such protest, all fees to be returned if the protest is sustained.

D. Bind the importer to his entered rate.

Today even though the collector on liquidation agrees with the rate at which merchandise has been entered, a protest against that liquidation may be filed. Indeed, in 80 per cent of the protests filed in 1934-35 the goods had been liquidated as entered. This 80 per cent is doubtless made up in large part of speculative ventures though it probably includes some bona fide litigation since the entry clerk, by rejecting entries in which he finds that too low a rate has been selected, in effect requires the entry to reflect his judgment of the proper rate rather than the importer's in cases where the latter might be the lower of the two. No record of the rejected entries was kept during the period of study.

The results of the present situation in this regard are clear. Only one out of each ten packages covered by the ordinary entry is sent to the examiner for inspection and only relatively little of the merchandise is actually seen, probably about 2 per cent, so that merchandise which is later the subject of protest is often never examined. A more complete examination in the case of all entries is impracticable. But it would be necessary under the present system to insure adequate treatment of cases where there might be a dispute, since there is no way of telling these cases apart from the rest except

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where the examiner disagrees with the entered rate (i. e. in 20 per cent of the cases later protested). If, however, entries which might be protested were earmarked from the beginning there would be ample opportunity for fuller investigation in these cases. The examiner has sufficient power to take all necessary samples and may even request the collector to order all merchandiss covered by the entry returned to customs custody.

This earmarking could be accomplished by binding the importer to his entered rate except where that is noted as made under duress. Such a provision would be futile, however, unless there were machinery to prevent the unlimited filing of duress entries and entries carrying too low a rate.

The proposals that follow would, if carried out, have another result, also. They would altogether remove a possible means whereby a broker might profit at his client's expense by entering merchandise at too high a rate and collecting part of the refund.

I, therefore, recommend:

1. Enactment of a statute providing that protests shall be valid only if made on items (a) entered under a duress notation stating the rate and paragraph claimed to be applicable, or (b) on which the liquidated rate is greater than the entered rate.
2. The inclusion in this statute of provision for a fee of \$1.00 for the privilege of making a duress notation as to each item so noted, this fee to be returned if the importer's claim is sustained either by the collector or the court.

13.

3. The enactment of statute providing for rejection by the entry clerk of all entries on which he finds a wrong rate has been selected or wrong provision of law cited. This accords with present theoretical practice, but would provide greater assurance of effective action.

If the above recommendations are adopted and attain the results predicted for them, they will reduce the number of protests filed and largely confine the remainder to cases which represent a real dispute, clearly indicated. This would enable the collector to review his liquidation far more effectively than he now can. He should avail himself of this opportunity by providing a careful investigation of the facts and law in each case, with a view to making his own decision on review or preparing the controversy for trial, as the case may be.

E. Administrative action.

The following administrative changes are recommended for immediate adoption:

1. Change the present bulletin notice of liquidation. Cf. C. R. 1931, arts. 820(b), 821, 849(c) and (d). All liquidations are now posted on a bulletin available to brokers and attorneys. Where the rate has been advanced on liquidation this fact appears on the bulletin notice, and the consignee is also notified of it by mail. This information promiscuously disclosed by the bulletin notice is an invaluable aid to the unauthorized filing of protests and an encouragement to the solicitation of protest business which I believe is prevalent. Abolition of this notice and substitution of notice by mail to the real consignee is therefore recommended. If that is too costly to be practicable, I recommend at least that liquidations be not posted where they are greater than the entered rate (notice of these is now sent the consignee by mail).

14.

2. Enforcement of article 1449(e) of the Customs Regulations of 1931, as amended, which prohibits what was found to be the present practice of free examination of all entries in Rooms 508 and 523 in the New York customhouse. Information gained from the bulletin notice is now followed up in this way by unauthorized brokers' and attorneys' clerks.
3. Enforce section 481(a) of the Tariff Act of 1930 (U. S. C., title 19, sec. 1481(a)) and article 269(b) of the Customs Regulations of 1931, covering description of merchandise in consular invoices. Widespread disregard of these requirements with resulting illegibility of invoices was found.
4. Abolish the routine nature of the present review of protests by the appraising officers. Under present practice this appears to be a mere rubber stamp process, with the general use of mimeograph answers. Further, it consumes an undue amount of the 90 days allowed the collector for his review.

Herman Chabert

MAY 24 1937

May 24, 1937.

Saturday night on the cutter "POTOMAC" with the President:

He and I were sitting on deck - beautiful moonlit night, after 10 o'clock, when the rest had left us - he started to talk. He said, "If Brandeis resigns, whom do you think I should appoint to succeed him - Landis or Frankfurter?" I told him, that I would appoint Landis by all means. He said, "Frankfurter would rate a more popular opinion" to which I replied, "Yes, I suppose he would, but I believe that the public would have more confidence in Landis". He said, "Well I think I would have a terrible time getting Frankfurter confirmed" and I replied, "Yes, you certainly would." I do not know whether it is worthwhile". He said, "One of the troubles with Frankfurter is that he is over-brilliant.

You could tell from the President's conversation that he really would like to appoint Frankfurter but that he was hesitating largely on account of the unfavorable public reaction to such an appointment.

I then took courage and said to him, "What are you going to do about Joe Robinson?" He said, "I cannot appoint him" and I said, "Why not?" and he said, "Because he is not sufficiently liberal". I said, "I am certainly glad to hear you talk that way. The things that you have done and talked to me about the last ten days have encouraged me tremendously because, I said, after all I am a reformer". The President said, "Up to now I have been too tired to do some of the things that I would like to do".

The President said, "However, if I had three vacancies I might be able to sandwich in Joe Robinson". The President told me that he had absolutely no idea who was going to resign from the Court and who was not. He felt quite confident that we would get a favorable decision on the Social Security Act.

Next the President said, "I cannot help but think who will carry on as my successor after 1940." He said, "Take Wallace, he thinks the same as we do but he is a poor Administrator" to which I replied, "He certainly is". He said, "Governor Earle might do". I said, "I thought he had a lot of women troubles and he said he had but that he was getting over them". He said his heart is in the right place as far as the people go". Then, he said, "take Herbert Lehman, he might do, but he hasn't got a sense of humor. He would just die if he was President from worry". I said, "what about Farley, will he run for Governor?" and the President said, "I don't think so because I don't think he could be elected". I differed with him.

I said, "Would Farley run for President?" and the President said quite emphatically that he would not. I said, "I don't think the country is ready for a Catholic and he agreed. I said, "What about Hull?" and he said, "He is too sick a man". He then spoke well of Senator Barkley as a possibility.

Then he said, "Now I have got somebody who has a good voice on the radio, popular with the people and thinks the way I do and this was the only person he really got enthusiastic about and I said, " Who"? and he replied, "Harry Hopkins".

after this conversation was over, I thought a lot about it and I am not at all sure that he did not expect me to say, "Well, of course, Franklin you are the only person who can succeed yourself - but if that was what he was after I did not rise to the bait.

The President asked me what was going on in England and I gave him a brief summary and he said, "What about France" and I replied, " Well if you want me to give you betting odds I would say that the chances of Blum staying in from now until January 1st were about as two is to five." I said, " What do you think" and he replied, "I think he has three chances out of five if you specify the rest of this year".

I asked him how well a person Jesse Jones was and he said not particularly well. However, he said, "He is an active candidate for President and has the backing of the Vice-President."

* * * * *

May 26, 1937.

When I had lunch with the President Monday, in talking about the Court he said, "I need three vacancies". I asked him, " Through resignation or Legislation" and he said, "It does not matter much which but I would prefer through Legislation." This is the first time that he has admitted to me that if he got sufficient resignations he would let his so-called Court Plan die.

MEMORANDUM

May 24th, 1937.

To: Secretary Morgenthau

At your direction the following persons are participating with me in a study of the proposed legislation for low-cost housing and slum clearance: Matt Daiger, John Ihlder, Clarence Oppen and Wesley Lindow. We have called Mr. Gray and Mr. Foley, of the P W A Housing Division, for information and consultation in this connection also.

Beginning this morning we are undertaking to confer during this week with as many as practicable of the officials of state and city housing authorities for the specific purpose of ascertaining from them whether the authorities they represent would be able legally and otherwise to initiate housing projects if Federal aid to such projects were limited as indicated on the formula which the President recently handed to you.

The persons to be interviewed for the purpose indicated are as follows:

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|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Bleeker Marquette,
Better Housing League,
Cincinnati, Ohio. | John Carroll,
Mass. State Board of Housing,
Boston, Mass. |
| Miles R. Frisbie,
Municipal Housing Authority,
Schenectady, New York. | Frederick L. Ackerman,
Architect,
New York City. |
| Coleman Woodbury, Director,
Nat'l. Ass'n. of Housing,
Chicago, Illinois. | Ernest J. Bohn,
Cleveland Metropolitan
Housing Authority,
Cleveland, Ohio. |
| P. L. Strait,
Youngstown Metropolitan
Housing Authority,
Youngstown, Ohio. | Dr. Kenneth P. Vinsel,
Louisville Advisory Committee
on Housing,
Louisville, Kentucky. |
| Harry L. Luftman,
New Jersey State Housing,
Newark, N. J. | |

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Sergei N. Grimm,
Syracuse Housing Authority,
Syracuse, New York.

Theodore T. McCroskey,
Municipal Housing Authority
of the City of Yonkers,
Yonkers, New York.


McReynolds

May 24, 1937.
3:59 p.m.

H.M.Jr: Hello

Operator: Chairman Eccles.

H.M.Jr: Hello

Eccles: Hello.

H.M.Jr: We got a good bond - ah - note - what do you call it - bill rate, didn 't we?

E: Ah - I've just been in a meeting since - ah.....

H.M.Jr: Well they just brought it in.....

E:and I haven't seen it.

H.M.Jr:and - ah - 115 days - this is the New York is .435 and against last week in New York .48 and the 273 is .617 as against.....

E: .617 as against .68 last week.

H.M.Jr: That's right.

E: I talked to George Harrison about 12:30 and asked him what the market looked like and he said the dealers were pretty well cleaned up except the Discount Corporation had held - ah - ah - over some bills because they wanted to - ah - try to create a market for them and have them in inventory continuously rather than get in the habit of - ah - of having to get their shelves cleaned up each week.

H.M.Jr: Well they'll make money on it.

E: Of course, they will and he said that it looked like - ah - the market for bills - it was his impression that they were going to get in better bids to-day than they've had before.

H.M.Jr: Good.

E: And I think the country as a whole - I think they're going to find more banks throughout the country - ah - ah - coming into the bill market.

H.M.Jr: Yes.

E: Ah - I was just in a meeting with the Board - just an informal - ah - meeting that we had - ah - discussing the whole question of Open Market as a Board rather than as an Executive Committee.....

H.M.Jr: Yes.

E:ah - the idea being that what we should try to do is to - is to create a real bill market here - that the Bank of England, of course, can buy bills directly and then they buy these bills and they sell them to the market and - based upon the funds available...

H.M.Jr: Yes.

E:and I was trying to devise a scheme here where the Reserve System could stand ready to fix - fix rates - in other words, on government bills.....

H.M.Jr: Yes.

E:ah - for Member Banks just like they do on Bankers' acceptances - Bankers' acceptances in the twenty - there was a lot of them held by the banks and the Reserve System bought from the banks and they stand ready to-day to pay Bankers' acceptances at a rate of one half, you see?

H.M.Jr: Yes.

E: Now our money market to-day is the government bill market.....

H.M.Jr: Yes.

E:and I - I'm just trying to see if we can legally devise some method whereby the Reserve System of each of the Reserve Banks stand ready to take from their Member Banks government bills at lower than these regular - lower than the discount rates, you see, that we make for commercial paper.

H.M.Jr: Yes.

- E: Ah - and - and we won't have to fuss each week then as an Open Market operation but the Member Bank itself would be in a position - if it should have to lose deposits - they should be transferred from one part of the country to the other - ah - where they could merely sell bills to the Reserve Bank, you see, and in that case they would be willing to run much closer and be willing to invest their surplus funds in bills and it would create, it seems to me, a better bill market. We were just discussing that.....
- H.M.Jr: Yes, well it sounds very interesting.
- E:ah - some means of getting it as a continuous operating process so we don't have to be worrying and fussing about it, you see?
- H.M.Jr : Yes. Now you know this morning when I read that Wood letter to you I was under the distinct impression that that was a paper that came out of Washington; I didn't realize that it came out of Chicago and, of course, they're two entirely separate things so of.....
- E: Yes, well I was pretty much upset this morning - I - I - I - I didn't know what you were talking about.
- H.M.Jr: Well I read the things three times and they had all these fancy titles in there and I didn't realize that they had exactly the same thing in Chicago that they had in Washington here.
- E: Well each of these Reserve Banks.....
- H.M.Jr: Yes.
- E:have - ah - ah - an Economist. They - they - of course, we can't stop them; they've got a perfect right I suppose.....
- H.M.Jr: Oh sure.
- E:and it's a good thing for them to have someone there - for instance, up in New York they've got Williams and they've got quite a big division up there. Chicago has got a much smaller one; some of the little banks - some of the smaller banks have got practically nothing but in Chicago, Wood, who is on that board.....
- H.M.Jr: Yes.

E:has asked that Division, I think, to give him information to make this study.

H.M.Jr: Yes.

E: I knew that that's why they did it. I think they initiated it and then they've made that study and have apparently sent it over here to the Division to - ah - to see what criticism or comment they'd make on it.

H.M.Jr: Well -

E: Well the Division over/ here, as a matter of routine, had - had merely made some comment or criticism and I didn't know a damn thing about it until I got Wood's letter. Wood wrote me a letter.....

H.M.Jr: He sent me a copy of it.

E:which - and - ah - ah - and - ah - ah - in - in - in - in - in my reply to Wood I refused to comment; I didn't - I didn't.....

H.M.Jr: Well the two things - I mean - I mean what upset me was the thought that a thing like that would go out of Washington without doing us the courtesy of showing it to Wood anymore than I'd write - ah - something on - ah - excess reserves and send it out without first showing it to you, see?

E: Well, of course, I wouldn't blame you under those circumstances. We - we wouldn't do anything like that.

H.M.Jr: I was wrong because I thought that it came out of Washington, you see, and I couldn't understand it and - ah - ah - that's that anyway.

E: Well here's the - here's the.....

H.M.Jr: Now tomorrow, if you're free, I'd love to have you come over at one o'clock and let's have another heart to heart talk.

E: Well I'll be - I'll - I think we should - I - I - because I've been a little upset here and I don't - it isn't.

H.M.Jr: Well that's no reason.....

- E: You and I have got to - we've got to have mutual confidence - ah - hell - we - I get so upset I just can't function.
- H.M.Jr: Well I - I - that's the last thing in the world I want to happen to you or even be partly responsible for.
- E: (Laughs) Now this is the letter I wrote to Woods. I said, "The comments in your letter of May 14th with reference to the inflow of gold are particularly interesting and I hope I may have an opportunity to talk over this large and complex problem with you some time when you come down to Washington. I shall not venture to go into the matter in the space of a letter but I want you to know that I appreciate having your views and, even though we may not always see eye to eye I am glad to get your slant on these mutual problems". Now I couldn't have said much less. "With kind regards". Now that's - I just passed it off that way.
- H.M.Jr: Well, of course, the thing that I suggest is that they're lots of people that want to make trouble between us.
- E: Well they'll always be that and the main thing we've got to do is to - ah - if we hear anything about each other - if we have occasion to believe it, by gosh is to - ah - is to - ah.....
- H.M.Jr: Talk it out.
- E: Is to talk it out before coming to opinions or conclusions and I think if we do that they're not going to get very far at creating a breach.
- H.M.Jr: That's right.
- E: Well I'll be glad to come over tomorrow at one then, eh?
- H.M.Jr: You come alone.
- E: Yes, all right, I will.
- H.M.Jr: O.K.
- E: Goodbye.