

## MEETING ON INTERNAL REVENUE MATTERS

June 8, 1937  
10:45 A.M.

Present: Mr. Magill  
Mr. Oliphant  
Mr. McReynolds  
Mr. Helvering  
Mr. Shafroth  
Mr. Ryan

H.M.Jr: Now, what I want to do is this. I want to have a frank talk and get a little here, a little there; and everybody can take your shirt off - I mean his coat off and roll up his sleeves. But I want to get you people together and call a spade a spade, and then we want to go places, see?

Now, I don't know whether you (Magill) want to get yours off your chest first or not.

Magill: As you will.

H.M.Jr: What?

Magill: Just as you will.

H.M.Jr: Let's everybody - different people have different things on their chest, and let's get them off. And frankly, as far as I'm concerned, my main thing is, I've been waiting here now for a number of weeks to get this question settled as to where the responsibility of - I don't know whether to say of the General Counsel's office - begins and ends, where Internal Revenue's begins and ends; and I've been trying to get it settled among yourselves. We're not getting anywhere, and it isn't the most difficult thing in the world, and I'm getting a little impatient, and if it can't be settled this week by you men yourselves - you're all of age - then I'll take a piece of pencil and paper and write the ticket on Monday myself.

Oliphant: This surprises me a good deal, because I thought we were moving very rapidly on the basis of the last conference with Magill towards a solution.

H.M.Jr: Well, I got the impression "no" - that's why I asked this meeting. I get a little here, a little there, now, so I got the impression they weren't getting anywhere. Each week I'm told that next week it will be done, and I don't know how many weeks - I haven't got

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my diary - I don't know how many weeks, but each week it's been postponed till next week, and I don't know why the thing should be put off each week. We're all of age and....

Helvering: You want to speak very candidly, do you?

H.M.Jr: You can't talk too candidly for me.

Helvering: Well, Mr. Shafroth and I haven't been really able to sit down together on this thing, and so we just talked about this before we came in here.

Shafroth: We've discussed it briefly on two other occasions too, Mr. Helvering.

Helvering: But Mr. Secretary, when you call for a thing that takes a survey of the whole Bureau throughout all the states - if I'm going to get that, then I've got men to reach, because I've got to keep them going, see that it.....

H.M.Jr: What's that? I don't get that.

Helvering: For instance, this thing....

H.M.Jr: What's that?

Helvering: That is, all these farm evasions. The day this was called for was the day Mr. Shafroth and I had - were going to have a meeting.

H.M.Jr: Now wait a minute, let's be - that required sending a telegram out, didn't it, to 38 men?

Helvering: Yes, and form a unit over here to.....

H.M.Jr: But you didn't have to do that yourself.

Helvering: Well, if I just told them to do this.....

H.M.Jr: Well, that was a telegram that went out - was it Friday?

Helvering: Friday.

H.M.Jr: Well, that was a 20-word telegram; and you didn't get any answers till Monday.

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- Helvering: Yes, that's true.
- H.M.Jr: But I shouldn't think that that would tie up the whole works.
- Helvering: But I had to see that that was carried out, and that's the way it's been. We had a tentative conference to.....
- Shafroth: From the brief conversations you and I have had, I think we are very close to getting the whole thing settled between us.
- H.M.Jr: Look, today is Tuesday the eighth. I'm going to leave town today at noon - I hope to leave; I won't be back till Sunday night. Is it unreasonable to ask that this particular thing that I am talking about - there are three things on the agenda - is it unreasonable to ask that that thing be settled by Monday?
- Shafroth: Not as far as I'm concerned. I think we can get it settled, don't you, Mr. Helvering?
- Helvering: Yes.
- Oliphant: I want to say this. It is reasonable to get it. I don't want you to get - I think you're misinformed if you have a feeling that there is any reluctance on the part of the people here to get together and solve the problem. It seemed to be much clearer on the basis of the last discussion with Mr. Helvering and Guy, where we all - it was agreed that - I mean Guy and Morrison.....
- H.M.Jr: I guess Mr. Helvering and Guy could do it all right.
- Oliphant: ...that Helvering and Shafroth could get together and draw the thing up.
- H.M.Jr: No, I mean Helvering and Guy.
- Oliphant: But seriously, it is important, in a sense, for the spirit in which the place is operated.
- H.M.Jr: Well, that's why I called a meeting, because I was sensing that we weren't getting anywhere. I don't

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know how many weeks it's been. Guy says he was scheduled for last Friday, and I think it's the third meeting we've had in this office.

Helvering: Well, one day Mr. Shafroth and I were all ready and you (Shafroth) had to go to St. Louis for something.

Shafroth: Yes - Kansas City.

H.M.Jr: Well listen, boys, is it fair to ask for a settlement by Monday?

Shafroth: By Monday. Monday's O.K.

H.M.Jr: I won't think up any bright ideas between now and Monday, except what else we've got on the ticket.

Shafroth: I think we can get it ironed out by Monday, don't you?

Helvering: Oh yes.

H.M.Jr: Are you (Shafroth) going out of town this week?

Shafroth: No.

H.M.Jr: Are you, Guy?

Helvering: No.

H.M.Jr: Well then, we'll pray for a settlement by Monday.

Shafroth: Settlement by Monday.

H.M.Jr: Otherwise, papa does it. Huh? I will say this; if I do it, I've got to start fresh, because I've got to - I haven't - it isn't as though I had in mind what I want, because I haven't. But I want this thing settled, because I think we've got a lot of things, and with this settled then we can all move as a team.

Oliphant: The exact point at which it stands right now, as Guy was drawing the thing - Morrison has drawn it up and sent it over to me; I haven't yet had a chance to look at it. They were going to sit down and lay

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the two things down together and iron out the differences.

H.M.Jr: Well, are they ironed out?

Oliphant: I couldn't get to it yesterday.

H.M.Jr: When they iron out the differences - am I rushing you too much?

Oliphant: No. Now, we got together in Magill's office and it was agreed, after we discussed the thing all the way around, that Shafroth and Helvering would get together and draw the thing up.

H.M.Jr: What are you boys doing this afternoon?

Shafroth: We're doing that.

H.M.Jr: Attaboy.

Shafroth: Is that right? Does that suit you?

Helvering: Yes

H.M.Jr: After you fellows get something, then Oliphant wants to take a look at it.

Oliphant: Well, Morrison sent his over to me for any suggestions before he took it up - before he put his draft along with Helvering's in order to iron out the differences - minor differences.

H.M.Jr: Well, are Magill, Oliphant and Shafroth agreed on this?

Shafroth: Yes, we're together.

H.M.Jr: It's the question of Shafroth and Helvering getting together?

Shafroth: That's right.

H.M.Jr: Well then, it looks as though you - if you fellows get together this afternoon - today's Tuesday - the chances of my getting something by Monday are pretty good? Huh?

Helvering: I think so.

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H.M.Jr: All right. I'm in dead earnest; if I don't get something.....

Helvering: Well, I want to restate what Mr. Oliphant said. There hasn't been any disposition to hold the thing up at all.

Magill: No, I think that's very true.

H.M.Jr: But just for one reason or other - all very nice excuses - there's been - it's just been a chain of circumstances, that's all. What? Right?

Helvering: Well, that's so.

H.M.Jr: All right. Now, do you (Magill) want to add anything to this?

Magill: No, I think you covered that perfectly. Subject to getting the excise tax resolution through and the tax investigation through Congress this week, I am at your disposal, whenever you people can agree on.....

H.M.Jr: I mean have I left anything uncovered? Mac, you want to add your fine Italian hand?

McR: Nothing to add. I think you've got it going at....

H.M.Jr: What?

McR: I think you'll get your answer by Monday.

H.M.Jr: You think I'll write it Monday?

McR: No, I think you'll get your answer by Monday and that you will be satisfied with it.

H.M.Jr: You think so?

McR: I don't anticipate any difficulty.

H.M.Jr: What are the odds on it?

McR: I'll give you even money.

H.M.Jr: I'll take you - 25 cents they don't.

McR: You're betting they don't? Well, you'd just as well pay me.

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H.M.Jr: 25 cents.

Shafroth: He's going to have to split with us if he wins, Mac.

McR: If I lose, I'm going to collect a dollar apiece from you boys.

H.M.Jr: You (Magill) want any piece of my 25 cents?

Magill: You're betting they won't?

H.M.Jr: I'm betting 25 cents they won't.

Magill: I think I've got to stay in a position of neutrality.

H.M.Jr: All right.

Now, next thing, tax investigation. You want to talk on that, Ryan?

Ryan: Yes.

H.M.Jr: Go ahead.

Ryan: Maybe Morrie should talk, but I'm glad to.

H.M.Jr: Well, the reason that I called on you instead of Morrie was that - on account of the last talk I had with you, and seeing the President.

Ryan: Well, I'll be very glad to. I think I can give you the picture and I should.

H.M.Jr: I think you should.

Ryan: I entered into this job in good faith, earnest and enthusiastic. I had in the outset some qualifications as to my ability to handle the job, but I wanted to do my share and take the work on.

We got the files on Friday. Morrison and I started in. We called in several men in the shop down there and started going over these files. The more I studied the question, saw the problems arising, the more I saw my unfitness for handling that job. I recognize my shortcomings. My temperament isn't that of an

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investigator or a prosecutor. My temperament is more along the line of weighing each side and seeing each side. That's been my training. And in going over these files I began to see each side of the question.

I also began to understand what would develop as any particular item was brought before the committee; that is, all of the ramifications, the opposite side - the combative side coming in and presenting their picture. And seeing the great many questions that might arise in the fight before the committee on this particular item, I began to realize immediately my shortcomings as far as the tax background is concerned, the complete understanding of the tax laws and their history, and the application of the laws over a broad general field, realizing that the man that handles this has to be able to work on his feet, think quickly and accurately, and have far-seeing vision as to any particular position on what might be said; that is, the effect that it might have on the Bureau and our general taxing situation.

I have been down here four months, I have worked hard, and I have - my vision has been directed at one case at a time. A good many cases have gone over the desk, but I decide one thing at a time, and forget that, and move on to the next problem. I haven't accumulated - and that's one thing that's worried me; I think I've handled my work fairly well in deciding each case, but I haven't accumulated a very broad, sound background upon which I can draw as far as the statutes are concerned, and the regulations and the history behind them. Now, that could be supplemented to a certain extent by having able men around me; but nevertheless, the fellow that leads off should have that certainty, he should have that faith in himself, that he is able to handle any situation of that kind that comes up. I lack that.

I also lack this temperament which it seems to me is absolutely necessary for the successful handling of this job. Certain fellows have a more or less judicial temperament, and others love to get in and fight on their feet and investigate and pull out and win their point.

Do I make myself clear?

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H.M.Jr: Entirely.

Ryan: As to that?

H.M.Jr: Oh yes.

Ryan: Now, my - I'll repeat it again - my point of view is to weigh each side and, if there are some dangers on one side, to recognize them immediately and weigh the thing, and if the dangers are too great or the problems are too great, "Well," I say, "that fellow is entitled to this decision here."

H.M.Jr: Well, you see, as I say, this will be a confessional meeting, see?

Ryan: Yes.

H.M.Jr: Now, Magill talked to me Saturday morning and told me that Shafroth wanted to talk to me about this thing and I should get hold of the two of you and give you a pep talk. I frankly said I needed every ounce of strength that I had to make this very delicate decision that only one person could make, and that was how to sell 800 million dollars worth of securities, and I just couldn't spare any energy that I had Saturday to talk to you two guys.

Ryan: Well, Mr. Morgenthau....

H.M.Jr: No, and it was a very, very delicate decision. Well, I happened to make the right one; but the day I'm wrong - can't decide 800 million dollars wrong more than once. So I told Magill perfectly frankly that I couldn't do it. Therefore we're having this meeting today, see? I mean I knew what was in your mind.

And what I wanted to say was this, that if you feel that way I wouldn't want you to take this job.

Ryan: Well, I shouldn't - I mean we want this thing to be a success, and the thing to do when you recognize a weakness is to be perfectly frank.

H.M.Jr: It's much better to do it in this room and be entirely frank....

Ryan: Why, certainly.

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H.M.Jr: ....than to start this thing; because you're going to have opposing you the smartest tax lawyers in America.....

Ryan: No question about it.

H.M.Jr: ...who are going to fight every 32d of an inch. Now, for example, the President told me that Sunday arrived in town ex-Senator - what's his name?

Magill: Hastings.

H.M.Jr: ...Hastings, whose sole job has been - is to keep the name of the Hughes firm from being made public; and he's going to stay here until he's - he either wins or is defeated, see?

And - I mean this is the kind of thing that - it doesn't have to be trained for, but it needs a Johnny Mack who loves it, see? - who loves it and is willing if necessary, if his back is against a wall, to be just a little bit rougher than the opposition. I've seen John Mack go through a case - I mean he doesn't handle tax matters, but when he's on his feet he can think a little bit faster than the other fellow, and - because they'll never know what rough stuff he'll pull if necessary. I mean that he'll be just a little bit rougher than the opposition if necessary, and I've seen him pull stuff that would just make a New York City lawyer who's got ten years of the New York bar "refinement" but who formerly came from the states, just blush inwardly when John goes after him. Now, that's what this thing needs.

Ryan: And it also needs - I mean to have that you've got to have a background of confidence of your general subject matter.

H.M.Jr: Well, this is the kind of thing that - I mean goes against all of my training that I have had - I wouldn't spend two seconds selling this job to anybody. I just wouldn't spend two seconds - I wouldn't spend one second trying to sell it to them. I mean either you want to do it, see - you want to do it very, very much, or you feel this way; then if you feel this way - then I'd say you are constitutionally unfitted for it.

Ryan: Yes, that's my impression, my judgment. I can go

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farther, but that's... I mean we've got a good many other items.

- H.M.Jr: I wouldn't spend one split second after your speech. And I don't think any the less of you.
- Ryan: No, I'm not blushing about it at all. I went into it in perfect good faith and that's my best judgment, and it's sound judgment too.
- H.M.Jr: That's your best judgment, and I say that you are constitutionally not the person.
- Ryan: Not fit for the job.
- H.M.Jr: No.
- Ryan: That's right.
- H.M.Jr: No. I'd say that the thing to do is to find somebody who is itching to do the job. You've got to have something of the Joan of Arc in you burning if you want to do this thing. Now, I don't say that the person who does this has to get rough, but if the other side gets rough he has to have enough of this thing in him that he can get just as rough as the other side.
- And I think the statement which I made last night in answer to Mr. J. P. Morgan - the President discussed it at great length and he said he was so glad I did, because he said, as he put it, that J. P. Morgan is a "sweetie," but he's living in 1890, and the American people will not agree with him, the American people will not agree with Mr. Morgan.
- Oliphant: They've moved forward.
- H.M.Jr: And that he is living in the 1890's; he's living on a country estate in England.
- I certainly had to get a laugh out of the new Prime Minister; he said he's going to take the 600-odd utility companies in England and knock their heads together and he's going to tell which companies are going to gobble which. Did you see that?
- Helvering: No, I didn't see that.

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H.M.Jr: Yes, Mr. Chamberlain said there's too many utility companies.

Magill: That's conservatism in England.

H.M.Jr: He said, "We've got to divide up the territory, but I'm going to tell which company's going to absorb which. I want a good job and I want a low utility rate."

Well, Ryan, I'm tickled to death that you said just what you said, and I admire you for it, see, and that doesn't mean that you are one bit less useful in the work that you're doing, the work that we asked you to come to do. But I think we've all got to put our heads together to find somebody that wants to do it and is fitted to do it. See?

McR: Of course, in the meantime your investigative end is going forward. They aren't stopping that; that can go on - full job.

H.M.Jr: Let's just leave that where it is, and we can come back. I've got one other thing. You (Magill) better take this.

Magill: I read that revenue agents' report - report of the revenue agents' conference....

H.M.Jr: Just talk the way you talked to me this morning.

Magill: ...and I was very much disappointed with it, because as I got the situation it is about like this: You remember Russell and Sherwood and McReynolds and Wood and yourself (Helvering) and myself at one time and another discussed this business of the local procedure. The matter that lay closest to my heart in the whole business was to prevent this endless sending out of 30-day letters and then 60-day letters which are insufficiently grounded and on which our percentage of success is not so good.

Now, I assume the reason why those 30-day letters get sent out as they do now and there are a lot of points raised which aren't any good and which we have to abandon, winning too small a percentage of our cases, is because these examining agents make

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these points that really aren't so hot, and which could be prevented if the efforts of the examining agents were more closely supervised, etc. And I thought that we had all agreed upon a plan of procedure which we all thought would eliminate a good part of that difficulty.

Now, I'm quite as agreeable as anyone to varying this plan of procedure to suit local conditions in particular places where your manpower varies. But as I get this report of this revenue agents' conference, what happens is that we send out this preliminary letter and suggest to these people that this is what we're going to do and we'd like to have their ideas, and they come in and have a meeting and prepare these reports which are now sent out, or are going to be sent out, in which they say everything is perfect the way it is and we don't want to change a bit, because to change it would be to spoil it. And so far as I can see then, what you and I and McReynolds and everybody else has done for the past four or five months in trying to work this out, they simply throw in the ashcan.

Now, the decentralization business, the idea of having Dallas and San Francisco and New York embark upon a program similar to Cleveland, is all right, but as I see it we ought to do something much more far-reaching than that. You've got all these other offices. And I dislike two things. First, I dislike to see San Francisco, Dallas, and New York set up on just the same basis as Cleveland, without any change, when, as I take it, we know now or ought to that there are certain improvements which could be made on Cleveland.

And then, secondly, that, as I say - that all this work which Wood and McReynolds and all the rest of us have done, to try to improve this local procedure - we had this conference of revenue agents take a look at it and they say, "Well, we won't do that because to do so might be to reflect on the examining agents," or something of the kind. Well, as I see it, they need to be reflected on, because their production record isn't good.

Now, I don't particularly care whether we improve it in the way that you and I worked out, or McReynolds and Russell, or whether they improve it some other

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way; but I do most strongly object to spending several months working out a program and then having them come down and say, "Everything is perfect the way it is, so we won't change it." I mean what's the use? I don't get it. I mean I don't see why it should have worked out that way. Do you (Helvering)?

Helvering: Well, I haven't studied that report in detail yet.

Magill: Well, the whole thing - I read the whole report over the weekend, and the whole report is the same old story that "Everything is all right in the best of all possible worlds; we got a fine bunch of fellows and they're all doing their job perfectly, and if they're just allowed to keep on the way they are, everything will be rosy." Well, I'd be glad to agree with them, except that as far as I can get anything out of the record what they report just isn't so. I mean the work isn't being perfectly done and we're not winning as many cases as we should; we've got too many deficiencies; we get too many 30-day letters. I've been on the receiving end of these 30-day letters, and I know they laugh at them, because in the big ones three out of every four points they make, I would say, are simply silly; and they are silly in a way that is, to my way of thinking, most discreditable to the Bureau, because in the ones that I have surveyed, in practice the point they make is good - I mean there is a deficiency and we know there is a deficiency; returns are being made up these days deliberately with deficiencies; taxpayers are generally doing that. But the reason that the agent will give as to why there is a deficiency is, as I say, just silly, and we go to court on that reason and you get licked, and it ought not to be. The money is there if we will go out and collect it.

Now, I don't know - that is one reason why I suggested bringing up this point at this time - I don't know what is the proper procedure if that.... The thing is in kind of a bad shape because we have had this conference and these fellows make these reports and they are all mimeographed, and I suppose they've gone out, haven't they?

Helvering: Yes.

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- Magill: I don't know - and there you are - I don't know what else better that you can do except that instead of approaching them gently now and saying, "Well, this is what we propose and we think this is a good idea, and think about it," I suppose now what we've got to do is hit them over the head with a ball bat and say, "Whether you like it or not, this is what we're going to do," and not to kid themselves into thinking that what they're doing is so perfect.
- Oliphant: I encountered the same attitude. I've been trying to work two years on a proposed revision of the administrative set-up and among our lawyers I encountered the general attitude "Well, everything is all right."
- Magill: I would understand it - I mean if there were some difference of opinion between you (Hilvering) and me, or between Charlie Russell and me, or Bill Sherwood and me, and they'd been telling me, "Well, this thing that Wood has worked out and that Mac has gone over and that you propose is all wet" .....
- Hilvering: Well, I really think so. I think it is the most nonsensical thing I ever read.
- H.M.Jr: What is?
- Hilvering: Wood's report. We couldn't possibly have enough men to carry out his recommendations unless we get a ten million dollar increase in appropriation.
- Magill: Well, then I - then I guess I've been kidding myself because as I understood it these letters were all gone over - Mac handled it - and....
- Hilvering: I'm only referring to that proposed set-up for examination in offices of the taxpayer by the agents of all this matter.
- Magill: Well now, as I was going to say, I think Mac's got to take the chair, because Mac worked these things out on my behalf with Charlie Russell and with Sherwood, and these letters went out. Now, as I understood, everybody agreed that this was a good idea. Now, maybe they didn't; maybe.....
- Hilvering: I may not have the same thing in mind you're talking about.

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H.M. Jr: I don't know what the so-called Wood report is.

Magill: Well, Herbert Wood, who is a tax lawyer - been in the Bureau before - had been working for Mac for some time before I came here. He had various proposals as to reorganization and reform in the Bureau; some of them I agreed with and some of them I didn't. I went over it with Mac and then went over it with him while you were in Florida; went over it with Russell and Sherwood. Well, as I pictured it, we finally arrived at a conclusion as to what we thought was a workable procedure that would be an improvement over what we had; and at that point I suggested that Russell and Sherwood work out a letter which would go out to the Internal Revenue agents outlining the changes which we wanted to make, and the letter was worked out with Mac.

There were, as I recall it, two sets of letters. One letter was to go to the agents generally, and the other was to go to the agents in San Francisco, Dallas, and New York, where we proposed to put in this.....

H.M. Jr: Well, what happened to them?

Magill: Well, these letters went out prior to this Internal Revenue agents' conference, and the idea was, as I understood it, to tell them, "This is what we're going to do. Now come down here and ask us any questions about it that you want to, and then go back and put them into effect."

McR: I'll get copies of those things that have actually gone.

H.M. Jr: Just a second; wait a second. We're getting down, if you don't mind - for the time that I got, it's too much administrative detail, see? All I want to say is this, and I'll say it here. I brought Magill down to do a job; I'll back him a hundred percent, see? It's a tough thing - I don't know - but I'm willing to say this: I'll take it blind; just as the Congressman from Massachusetts got you on your feet when you got up there and he said, "Mr. Morgenthau said when Mr. Magill testified three years ago that he had his confidence and could talk for him. Is that still true?" Well, it is still true, see?

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Now, the way I feel is, up to now we have been smart enough here in the Treasury to keep one jump ahead of Congressional investigation, and I see the writing on the wall and I think there are a lot of things that are here which are damn difficult to answer. And I think if all of us in this room are smart enough, we can keep one jump ahead of the Congressional investigation.

(Has conversation on White House phone with Charles West - separately transcribed)

Now, may I say, let's get order or precedence on this thing. We've got our investigation and these rush jobs; we've got to keep that thing moving, and I'd almost say that thing would come first, wouldn't you (Magill)?

Magill: I'd say so.

H.M.Jr: Then they're going to have this meeting this afternoon, Helvering and Shafroth, and they're going to try to get together this afternoon and tomorrow and solve that thing. Then I would say if they get that, all the time keeping this thing going, investigating, getting that staff, then this letter which - I don't understand what you fellows want - I would take that up next, see, if you haven't got what you want, and I take it that you (Magill) and Mac together run that thing, because Mac wrote the letter, most likely. I would say that just as soon as these two fellows get together on this thing, which has been on the griddle, I would take up that other thing.

Now, does that suit you?

Magill: Yes, fine. I think I.....

H.M.Jr: Would you do it in that order? (To McReynolds)

McR: : Yes. I just want to say this. I think Mr. ....

H.M.Jr: Is that the order you'd like to do it in, because you can't do too many things, and then there are these things which I want Helvering to talk to me about - these other emergency things. Now, I think that

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early next week we can get together and if these agents aren't approaching our customers in the proper way, I'd like to go into it myself, see? I mean if they're not doing it the way we think.....

- Helvering: Don't get the idea that I'm defending everything these agents do. Some of them are old, staid fellows that have got certain prescribed rules they go by, and you've got to jar them out of that.
- McR: I just want to make one short statement. Guy is - the thing that he refers to, that he thinks is silly, with the limitations we have on money and manpower particularly, is merely an ideal, and that was gradually sifted out of the... I started Wood; I was responsible for Wood putting that up as something to work toward. That was gradually sifted out of the program and worked into - back to where we thought we could work it. And the letter - the reason I started out a minute ago - I think the letter that we had in mind and finally agreed on has actually gone out, Ros.
- Magill: It's gone out. I think there is no question about that.
- McR: And it's gone since the conference.
- Magill: Well, what I'm - what worried me were these reports in the conference.
- McR: I haven't seen those.
- H.M.Jr: But is this - has the letter gone out, the one that Magill wanted?
- McR: The one that he wanted.
- Oliphant: When did it go out?
- McR: Since the conference.
- H.M.Jr: Go get it. Have you sent?
- Magill: I haven't seen the letter since the conference.
- McR: You saw the letter before. It's the same letter we

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agreed on before, and I don't think it is necessary to go into the thing here in detail, but.....

- H.M.Jr: Well, let Magill take a look at the letter.
- McR: I had it on my desk this morning. It just came back from Guy this - yesterday evening.
- Magill: What worried me was these reports of the conference.
- H.M.Jr: But notwithstanding the conference....
- McR: The letters have gone out the way you wanted them.
- Magill: Well, that's approaching it.
- McR: I think there's no difference.
- H.M.Jr: Let's hope not.
- Now, you (Helvering) got something for me?
- Helvering: Well, we made a survey and we find not so many in number in answer to these telegrams, but quite a list of them here on that.
- H.M.Jr: May I look at it?
- Helvering: These top ones there are the ones we had returns in the Bureau on, and the others are by districts.
- H.M.Jr: Well, let me do a little reading. "Returns in the Washington Division, 35. Mr. DuPont deducted \$81,000 from his farm." This is the farm blanks, you see. "Mr. Harry J. Haskell, of Wilmington, made a deduction of \$35,000." Well, they don't - "Miss Helen White Eustis" - but they don't say how much, do they? It's blank after that; I wonder what that means.
- Helvering: Well, evidently, it's about \$25,000, but the auditor who found that report didn't jot down the amount.
- H.M.Jr: Oh well.... "Harold Rice, of Honolulu deducted \$60,000. Talbot Laska deducted \$27,000. Charles McManus, of Spring Lake, New Jersey, deducted \$32,000. Hamilton Keene deducted \$37,000. William Kincaid deducted \$24,000."

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Magill: Now, what's that, '35?

Helvering: '35, yes.

Magill: Well, I wonder if those losses perhaps don't appear on that 1040-F; because, you know, on McManus, for instance - he was one of our cases in the President's report, and he deducted \$125,000 on that chicken farm according to the last information we had.

H.M.Jr: Say, here's a peach. "W. R. Coe" - this is in response to a telegram - "of Brooklyn, offices at the Chrysler Building in New York" - has anybody ever heard....

Oliphant: He's a racing man, has a big string.

H.M.Jr: .... - "reported net tax income of \$1,575,000 after deducting a loss of \$51,000 for operating a sheep ranch in Wyoming and a horse-breeding farm in Kentucky and a racing stable at Belmont."

Oliphant: That's he.

H.M.Jr: "Mr. Kilmer, of Buffalo - net loss from operating a farm, \$118,000."

Magill: That's a racing stable.

Oliphant: That's a racing stable, - Kilmer.

H.M.Jr: Harry Yates - I know him; he's got a Holstein farm - took a loss of \$54,000.

Helvering: That telegram perhaps should have been elaborated a little more, telling them to send in the amounts; but all we asked in the telegram - well, there's a copy - was the name and address.

Magill: I'm curious about those because they are so small. It would indicate that there must be more of this incorporated country place business than what we have known about.

H.M.Jr: They don't give the amounts. "Ambrose Clark" - isn't that Singer Sewing Machine?

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- Magill: I think so.
- Helvering: Well, all of those are in excess of \$25,000, but in sending the telegram we told them to give the name and address of all those over \$25,000, and some of the agents wrote the amounts and some didn't.
- H.M.Jr: Samuel Riddle -
- Oliphant: Riddle farms.
- H.M.Jr: - \$108,000 loss.
- Magill: Well, Guy, if you had a corporation - if you had a corporation and you had a couple million dollars of securities, and the income from the securities were used to take care of the losses, all that would be shown in a thing like this would be the net, wouldn't it? In other words, you might be losing \$250,000 on your farm operations, but if you had \$200,000 of interest on securities which were going into the same company, you'd only show a \$50,000 loss.
- Shafroth: Put your farm blank would show your loss. It would have to be attached.
- Magill: I wonder if it would.
- H.M.Jr: Well, you can't find - there's no place for securities losses.
- Helvering: The farm loss only shows the net.
- H.M.Jr: On the farm alone? I don't think you show it on the farm blank.
- Magill: I wonder if they'd figure it - I'm just feeling, groping around here; there's something back of this; there's more than meets the eye.
- H.M.Jr: Well now, the immediate thing, it seems to me, is where we're at - Ros, you're up against it now - on this chief investigator. Now, before we get on that, is there anything as to this meeting - anybody want to say anything? I've been doing a lot of talking. Anybody got anything?

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Helvering: I'd just like to ask one question about the set-up of this proposition to handle this. Are you figuring on having three - really three units, aren't you - the investigating unit, and the fellows handling the tax returns, and the attorney.

H.M.Jr: Ask Magill that question.

Magill: Well, I think that the picture we had had was this: to have an investigating unit and an attorney, and then you'd probably need an administrative head; but I think that as we had it in our own mind whoever took charge of the investigation should have associated with him people who were able to do the auditing of the returns.

Helvering: Well now, investigators generally - you take Mr. Ireys unit; they know investigation if you tell them what you want; they're good at that. But there's only about six of his men - maybe I'm wrong - there's six of them that I've depended on to go out and make audits together with the investigation. When you go beyond that, we don't have many men that know about the auditing of returns. Now, if that's true, I was just suggesting you ought to know, before we start after anything, that the audit is correct on it.

Magill: Yes. Well, I think that's probably true. Of course, as far as I've thought about it, the attorney, whoever he may be, presumably takes these cases that we have given him and such others as may occur to him, and starts from that end. They commence to get the material from the Bureau with respect to these particular instances and then the others that he may think about.

What I would really like to see is the sort of thing I've been wishing we had for a month or two; that is, I wish we had somebody from the Income Tax Unit who had kept his eyes open for these things in the past, who is a person of experience and could advise the attorney or advise the investigator as to where he might hope to look, what he might hope to find; now, in other words, a person who is not only a successful auditor but a person who's got a nose for these discrepancies that ought to be gone into. We need a

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person with a good deal of initiative.

As far as the sheer auditing and seeing that the attorney doesn't get his feet wet in what he's presenting to the committee, I assume we'd have to have several auditors associated with him to do that job.

- McR: Guy, in talking with Elmer, it is my understanding that your special advisory group and Charlie Russell's group have both already detailed to work with him some of their - two or three of the very best men they have got, right along the very line that Ros is talking about now.
- Magill: Would that do it?
- Helvering: What I'm getting at is, you might have a certain case and the man handling that case in the Bureau might be a good auditor but he has no original ideas; and if you had somebody who was a head of that under you to choose men over there to do the work - maybe they've done that - but I think you ought to have that unit.
- McR: Elmer has developed - he's got the contacts with people - the two places in your Bureau where you'd find them, and he told me yesterday that the man who is attached....
- Magill: Well, I wonder why wouldn't this be - could you ask Irey to see what he has done and let me know whether these men that he's been talking about to Russell are satisfactory for this purpose or not. If they're not, I'd be glad to know it and make other arrangements.
- Helvering: We'll have to talk to Russell then. The last time I had a conference with Irey, he was arranging this space and all that kind of stuff.
- McR: Anderson's taking care of that.
- H.M.Jr: Who is?
- McR: Anderson, one of Irey's men. I've arranged - rented the space and ordered the equipment. Burford is going to help Irey. Anderson is just taking over the routine administrative detail. I got hold of Procurement, made them dig up the equipment.

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- Magill: Well now, does that care for that, because if it doesn't, why.....
- Helvering: Well, I'd like to find out just what they've done, because I think you're going to find you call a certain man over in your Unit there - Income Tax - and he won't have a single bright idea. He's just a good auditor on the figures before him. And I think somebody over there who knows those men should be in charge of that particular end of it.
- Magill: I think you're quite right, because that's what we've found all along - difficulty locating the information.
- McR: It was my understanding from my last talk with Elmer that both the head of the conference and the head of - your Deputy in charge of Income Tax had already undertaken to designate somebody to help on this investigation, the best men that they could suggest with a view to the qualifications that you are talking about. Now, I think probably you'd be satisfied with the arrangements Elmer has made, but I think it would be an excellent thing for you to talk to him about it.
- Magill: I don't know whether you have had this in mind or not, but let's bring it out. Do you think they ought to be set up in some separate group or work with Ireys?
- Helvering: No, I think the whole thing's got to work together. But when you get in a case like - look at Ford's, for instance; the fellow sits down and there's the General Counsel's ruling of 1929 that the farm loss is deductible. He audits the figures, makes the audit, but he has no further.....
- Oliphant: Passes right over the interesting stuff.
- Helvering: Passes right over the interesting stuff.
- Magill: That's right. If you will check that with Ireys and see whether that's all right or not - if it should be done some other way, let me know and we'll do it.
- H.M.Jr: Well, if Oliphant, Magill and Mac could stay for another minute to talk about another matter.....
- Helvering: May I say just one thing right here in the room?

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H.M. Jr: Surely.

Helvering: I've had two Senators and three Congressmen ask me, "What's the matter with the Internal Revenue? Why haven't you been doing the job?" This letter of the President and all these things throws that interpretation; a lot of fellows interpret that on the Hill that the Internal Revenue Bureau hasn't been doing the kind of job it should, because things wouldn't happen....

Magill: "ell, you know, part of that, Guy - what they're trying to do is in part to excuse themselves, because their other criticism is, "Why didn't we correct this four years ago," and they're just looking around to find a place to put the blame.

Helvering: Well, I just wanted to mention it, because you've got to be on your guard about that.

H.M. Jr: I know, but listen, this is something very - they'll try to smear everybody; don't you think that these rich boys aren't going to spend plenty of money.

Helvering: I don't care; I'd rather enjoy that, but...

H.M. Jr: Well, after all, the Senate's got to explain, don't they, why they didn't take the House bill last year. I wouldn't let that worry me.

Helvering: Oh, I'm not worrying about it. I'm just saying that if the thing isn't watched pretty carefully, you're going to have a full investigation of the Treasury and especially the Internal Revenue.

Magill: Well that, also speaking in the room, is one reason why it is highly important for us to get a first-rate attorney and get him started immediately.

Oliphant: Get the jump on them.

Magill: If it could have been Ryan, it would have been ideal, because then you've got your own attorney coming up and appearing before them right away and getting started, and it can't be an investigation of the Bureau.

Oliphant: It won't be, if we grab it.

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Helvering: Outside of time, I don't care how much they investigate it, but just the time that they have.....

H.M.Jr: All right, thank you.

Ryan: Goodbye.

Conversation with Charles West, Undersecretary  
of the Interior, on White House phone, re HOUSING

June 8, 1937  
11:10 A.M.

H.M. Jr: Yes, Charlie. - - Oh, this is Charles "Housing"  
West. Ha, ha, ha! - - Yes.

I'm not going to be bothered by anything. I only  
had one worry, and that was to put Charlie House -  
Charlie West into a slum clearance. Don't forget,  
though, as I walked into the President's yesterday,  
you buttonholed me and said, "Henry, I'm willing  
to do this now." Remember? - - You did. I'll  
never let you forget it.

- - -

All I know from what Wagner told me was that seven  
dollars a room was too high, see, and that he wants  
something lower. Now, that's all I got out of  
Wagner. - - No, no. - No, I do not. - -  
No, I do not. - -

The formula I worked out? - - You mean - you're  
talking of the one in the President's handwriting. - -  
Well, the one that I worked out is the one that I  
am willing to stand on and recommend to the President  
and to the country as a sound way to get low-rent  
housing. - - Okey-doke.

Now, the President, as far as I know - all that I  
know from the President, his own lips, is that his  
only objection to my plan was that it didn't give us  
a cheap enough room, but - and then when I showed the  
President his own memorandum, he said, "Well, what's  
the matter with that?" And the only thing I've got  
that he's committed to is to ten million dollars a  
year. Now, does that check all around? - - What? -  
All right.

When those boys get through, they ought to make a  
mural of you, McReynolds, and me; they ought to paint  
a mural of you and me. - - O.K. But listen,  
when they do I don't want our back towards the Court. -  
- All right. Thank you.

June 8, 1937  
11:46 a.m.

H.M.Jr: Hello?

Helvering: Hello?

H.M.Jr: Yes.

Oliphant: Now, I wanted Guy Helvering to tell you this.

H.M.Jr: Yes.

Helvering: He's called me for advice and he sent the men out. Mr. Dwight's representatives, two of them, were in here to see me, and have presented a letter signed by Dwight - there are several pages of it -

H.M.Jr: Yes.

H: Explaining his situation and how he's endeavored to get this question settled before. They have presented me this letter; also a check which is the entire tax on interest - two hundred sixty-seven five naught six fifty.

H.M.Jr: Well - ah - two hundred and sixty-seven what?

H: \$267,506.50.

H.M.Jr: Yes.

H: Also waivers of restrictions on the assessment of the tax and all that.

H.M.Jr: Yes.

HE: The regular form. And then a compromise to be accepted settling the whole matter, -

H.M.Jr: Yes.

H: - without any prejudice.

H.M.Jr: Yes.

H: This amount represents simply the tax for the 4 years under discretion.

H.M.Jr: Yes.

H: About fifty-three, four or five thousand dollars each year and the interest.

H.M.Jr: Yes.

H: Then he offered a compromise to have this all settled. Now, I have refused to accept this letter. It's on my desk, but I refused to accept it under existing circumstances.

H.M.Jr: Yes.

H: But they rather think that I should accept it.

H.M.Jr: Who is they?

H: These two attorneys - Mr. Brooks and Mr. Cuthill.

H.M.Jr: Where are they now?

H: They just stepped out of the office while I was talking to you.

H.M.Jr: Oh, well, I mean are you and Oliphant in the same room?

H: No, we're on the same line. I'm over at my office and Oliphant is in his office.

H.M.Jr: Well, are these attorneys working for the Treasury.

Oliphant: Oh, no. No, they're representing Mr. Dwight.

H.M.Jr: Oh, well, it so happens Magill is here himself in my room.

O: That's what I thought.

H.M.Jr: You did.

O: Yes.

H.M.Jr: You smelled him?

O: No, I've been trying to get him and they said he was -

H.M.Jr: Oh.

- O: I was trying to get it cleared up and I tried to get him. My notion is about it - Guy asked me for my advice, -
- H.M.Jr: Oh.
- O: I think the thing ought to be handled just as if it was John Jones of Padonk, Iowa - just proceed to handle it in the regular way.
- H.M.Jr: And how would that be?
- Helvering: Just accept this as an offering compromise.
- H.M.Jr: Accept it as an offering compromise?
- H: Yes.
- H.M.Jr: For consideration as.
- H: Yes, I mean for consideration as an offering compromise.
- H.M.Jr: Yes. And what does that mean? What does that mean to consider it - you mean you'll take it under consideration?
- O: Yes, that's it.
- H.M.Jr: What do you do with the check?  
Hello there?
- H.M.Jr: What do you do with the check?
- Helvering: Well, of course, if they offer us a check then we'd send that to the Collector in New York for him to - if later we accepted the offer.
- H.M.Jr: Well, what would you do if somebody else came in and owed you for four years? Would you take the stuff or would you check on the penalty?
- H: Well, that's a question in this case on account of his 1932 return citing the - what this was; that is, this interest on an amount of money he borrowed to pay for an insurance -
- H.M.Jr: Oh, yes.

H.M.Jr: In other words it is one of the cases.

H: Yes.

H.M.Jr: Well, supposing - supposing you - what - what's the technical language - you accept it as what?

H: Take it under advisement.

H.M.Jr: Yes, I understand that. Now just a minute.

(Pause)

H.M.Jr: Well, it seems that we all seem to think you ought to take it under advisement.

H: Yes.

H.M.Jr: See?

H: Well, if that's all right, it's -

H.M.Jr: Magill says definitely you should not accept it.

H: Well, we haven't. Mr. Secretary, they have a regular offering compromise here attached to all the other papers, -

H.M.Jr: Yes.

H: - in which it reads that these compacts for the calendar years '32, '33, '34 - '32, '33, '34 and '35 - they run 56 thousand, 53 thousand, 57 thousand, and 62 thousand.

H.M.Jr: Yes.

H: That added together with the interest up to June 7, yesterday, amounts to \$267,506. Now that is all set out in the open compromise - the offering compromise reads \$267,506.50 is hereby tendered voluntarily of the said liability; to wit, all tax deficiencies, interest thereon, and penalties, if any.

H.M.Jr: Yes, now, look - hello?

Yes.

H.M.Jr: If anybody else walked into your office you wouldn't give them a yes or no on the spot.

H: Oh, no, no, no.

H.M.Jr: Well, I'd take it under advisement and let it go through the mill just the way Oliphant said.

H: This fellow is from Podunk and I'd take it under advisement and let your people look at it, and you will let him know within a reasonable time. And if he doesn't want to leave the check there, why let him take it home. I wouldn't give him a yes or no.

Well, I'm not going to do that.

H.M.Jr: Well, as far as -

H: I didn't want to accept it in my office at all, unless we were free to give this consideration as an offering compromise.

H.M.Jr: Well, I mean I can only repeat what I said to you - you take the whole matter under advisement.

Yes.

H.M.Jr: Is that right, Herman?

Oliphant: Oh, yes. That's right.

H.M.Jr: Well, Guy, I'm going to hang up. I don't feel that I can contribute any more.

O: Well, I just thought you might be interested in it.

H.M.Jr: Well, I am.

O: And I wanted - I wanted Magill to know about it. He's on the line, isn't he?

H.M.Jr: Well, we've got the loud speaker on.

O: That's fine.

H.M.Jr: I am - I am particularly interested at this time.

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O: That's right.

H.M.Jr: And I appreciate your calling me, and I've had my lunch, and I'm going to leave here in two minutes.

O: I thought you might leave us a good taste of it.

H.M.Jr: It's not quite big enough.

(Laughter)

That is not my mouth; I mean the check.

(Laughter)

H: Okay.

H.M.Jr: Thank you.

MG

PLAIN

London

Dated June 8, 1937.

Rec'd 12:55 p.m.

Secretary of State,  
Washington.

Rush 359, June 8, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Chancellor of the Exchequer answered a number of questions in the House of Commons this afternoon by the following statement:

"I am glad of the opportunity of making a statement with a view to removing some of the misconceptions which have been prevalent. British monetary policy remains as laid down by my predecessor in his statement to the World Economic Conference in 1933 and in the declaration by the delegates of the British Commonwealth at the same conference and in the tripartite declaration of September last. No change in this policy is contemplated or has come before the Imperial Conference. This policy does not involve an obligation on us to buy gold at fixed prices but it does involve the purchase or sale of gold for the purpose of checking undue fluctuations in exchange rates. We have never hesitated and will not

hesitate

MG

Page 2,  
#359 from London

hesitate to buy and sell gold for this purpose. As was made clear yesterday the arrangements made under the tripartite declaration which require close contact between the respective treasuries have been working to the full satisfaction of the governments concerned and no modification or extension of these arrangements is under consideration. Points of detail are under constant review.

I am informed that the bulk of the recent offerings of gold in the London market have been due to dishoarding".

The following supplementary, (that is extemporaneous) questions and answers were then made: asked "Is it not a fact that the purchases of gold by the Exchange Equalization Fund were at a considerable discount and does not that indicate that there has not been the wholehearted and complete cooperation between the authorities here and the authorities in Washington we could have wished and will he give an assurance that in future there will be wholehearted and effective cooperation between our authorities and those in Washington for the purchase of surplus gold and that pending a final international solution of this problem the British Government will do everything in its power to maintain the sterling value of gold

MG

Page 3,  
#359 from London

of gold and commodity prices in the British empire". Sir John Simon replied "As regards the second part of the question as to whether the Government will do all they can to maintain market prices the answer to that I think follows quite clearly from the reply I have already given. As regards the more technical point of the widening discount on the London market, that is, as the honorable member knows a highly technical question. I do not consider the circumstances have indicated any want of cooperation. I am inclined to think and I am advised that this highly technical question has had attributed to it an importance which it does not merit".

Asked further "Have I understood correctly the Chancellor in saying there is no indication of returning to the gold standard and establishing a fixed relationship between sterling and gold" Sir John Simon said "My statement was that we intended to continue on the course we have followed and that there is no ground for supposing we are contemplating a change. Ultimate future questions will I think have to be considered when they arise."

Asked whether it could be understood from his reply that "We are to go on indefinitely buying gold we do not want

MG

Page 4,  
#359 from London

want in order to keep up the price of gold we have" the Chancellor of the Exchequer said "I should make it quite plain that if one is asked to make a new declaration I see no occasion for a new declaration of policy and indeed there is nothing new to declare".

The amount of gold at fixing was larger than had been generally anticipated and the official purchases greater than yesterday and the discount was 4 pence as against  $2\frac{1}{2}$  pence. These developments have been unfavorably commented upon in the City.

Although the rate does not reflect it the City believes that pressure on the franc has increased of late and considerable importance is attached to recent weakness in French Government bonds the 3% perpetuals being below sixty the lowest figure since the Poincare franc was established.

BINGHAM

CSB

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 8, 1937, 5 p.m.

NO.: 756

FROM COCHRAN.

This evening I visited the Bank of France. The French control's average daily losses last week until Friday were 25,000,000 francs; they rose to 100,000,000 on Friday.

In London Saturday was a bad day for the franc. The losses were around 100,000,000 francs yesterday. Situation was exceptionally bad today, the control having spent 260,000,000[amount questioned] francs by 5:30 p.m. The gold and exchange reserves of the French stabilization fund were reduced to approximately 2,600,000,000 francs. Should the next few days witness controversial debates and uncertainties on the French financial program - as seems probable - the reserves of the French control may be so reduced that it will have to buy gold from the Bank of France.

This evening Baudoin/<sup>was</sup>called by Premier Blum for a conference. There is suspicion on the part of friends of Baudoin and Rist as to whether these two are still pondering over the question of whether to resign from the Technical Committee. I had a conversation with Professor Rist a few days ago, at which time he mentioned this subject. He significantly remarked that governments do not like to

- 2 -

see their technical advisers precipitate political crises, while the advisers themselves do not like to continue as such when their advice is not taken or when a futile situation prevails.

BULLITT.

EA:LWW

RECEIVED

JUN 8 1951

TREASURY DEPARTMENT  
DIVISION OF FINANCE  
WASHINGTON, D.C.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 8, 1937, 5 p.m.

NO.: 752

FROM COCHRAN.

Since yesterday noon there has been serious deterioration on the French market. The only important buyer of francs has been the French control, which yielded a large amount of sterling at a quotation of 110.83. More offerings of forward franc with widening of discount. Rentes down 95 centimes to 1.15 francs in spite of purchases by Caisse des Depots. Also weakness in French shares.

This deterioration of the market is the result of uncertainty as to the tax program which the Minister of Finance is submitting for consideration, and also of the fear that shortly a political as well as a financial crisis may develop because of the lack of resources of the Government for meeting financial requirements, and possible opposition to the program of the Government by the French Parliament.

Finally resigned as General Manager of the Bank de Paris et des Pays Bas. This action is attributed directly to differences with his President, Moreau. It is generally interpreted as being significant of the growing distrust for the French New Deal on the part of responsible Paris bankers.

BULLITT.

EA:LWW

23 Wall Street  
New York

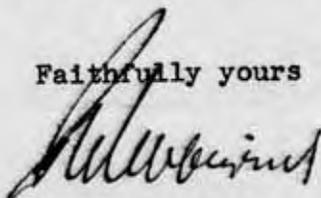
June 9, 1937

Dear Mr. Secretary:

For your information I enclose a copy of a statement which Mr. Morgan has made about taxes from his home on Long Island. I felt sure that his views had been misinterpreted, and I feel equally sure that you will be glad to know it.

I am, my dear Mr. Secretary, with great respect

Faithfully yours



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

Enclosure

R E L E A S E Morning Newspapers, Thursday, June 10, 1937

Statement by Mr. J. P. Morgan.

My interview on shipboard with newspaper men last Monday took place before I had seen President Roosevelt's Message on income tax evasion, with Secretary Morgenthau's letter. I am surprised at the interpretation that some people seem to have put on my offhand remarks, for I certainly have no sympathy with tax-dodging or tax evasion and had no thought of defending such practices. What I feel strongly is that when a taxpayer has complied with all the terms of the law, he should not be held up to obloquy for not having paid more than he owed.

June 9, 1937

JUN 12 1937

23 Wall Street  
New York

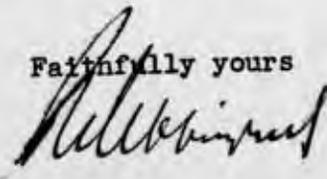
June 8, 1937

Dear Mr. Secretary:

I am sorry for Mr. Morgan's remarks about taxes to the ship news reporters in the fog down the bay yesterday. They do not reflect the views of the active partners, and I cannot believe they are Mr. Morgan's considered views. Rather they seemed to be just the hasty and irritable expressions of a sick man. Mr. Morgan is too ill for his partners to confer with him seriously, and this may preclude his or our making any public expression of our real views. I have felt however that this personal and private expression was owing to you.

I am, my dear Mr. Secretary, with great respect

Faithfully yours



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

CORRECTION

June 9, 1937

In paraphrase of section 8 of telegram No. 746, Paris, June 8, 1937, page 1, line 2, word "(omission)" should be deleted and the phrase "ought to be kept in" inserted; also on page 1, line 4, delete "(omission)" and insert "hold".

LMS

GRAY

London

Dated June 9, 1937

Rec'd 2:46 p. m.

Secretary of State,  
Washington.

364, June 9, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Although the amount of gold offered at fixing was comparatively small (160 bars) the discount continued at 4 pence. Several arbitragers state that the publication in today's DAILY MAIL of an article by Professor Cassell entitled "the price of gold should be cut" tended to weaken the confidence engendered by the recent statements of the President and the Chancellor of the Exchequer.

In the course of a luncheon conversation Graham Towers, Governor of the Canadian Central Bank, expressed his personal and confidential view that the gold problem would sooner or later have to be dealt with by the important trading nations particularly the United States and the British Empire and he was inclined to the view that as soon as public opinion was thought to be prepared for action a reduction in the price of gold should be undertaken. In this connection he stressed that since it could only be dealt with once it was necessary to effect a sufficiently drastic reduction in the price to

put

LMS 2-No. 364, June 9, 7 p. m., from London.

put the annual gold production on such a basis that it could be easily absorbed in the world's monetary system.

Towers considered that attempts to restrict supply except by means of reducing the price were impractical. In this connection he cited the difficulty which governments would meet in obtaining sufficient powers and/or in enforcing the allocation of quotas among their own producers, the stimulation to dishoarding which any such step would effect and the fact that an attempt to impose a restriction scheme such as had been employed in rubber and copper would accentuate the commodity rather than the monetary aspect of gold. Towers took the line that gold should be more than a commodity; that whereas it could not be allowed to play the domineering part it did in the 20's it could be a useful servant and one should be willing to pay reasonable wages for its assistance. Furthermore the alternatives to employing gold in the world monetary system were impractical under present conditions.

Towers emphasized the estimate that current production plus some dishoarding would mean that in the next five years the world would have to absorb approximately eight billion dollars of gold; that although France had lost some billion dollars of gold since the depression, given the state of

Europe

LMS 3-No. 364, June 9, 7 p. m., from London.

Europe and the social revolution, which is now taking place there, it seemed unlikely that France would reabsorb the whole of that amount in the next few years. It likewise did not seem probable that the rest of the world would be able to absorb more than a billion or so dollars in the five-year period. Therefore one was faced with the problem of who would take the rest and on what terms?. As regards Canada, he said, like the other dominions its gold-absorbing capacity depended upon its balance of payments; that if the next two years were very favorable, with good wheat crops marketable at high prices, he could not imagine Canada absorbing more than between 100 and 150 million dollars of gold. No doubt South Africa would be able to take much larger quantities and Australia might likewise be able to take some. However except for the gold-producing countries the doubt now cast upon the permanency of the present price of gold meant that no responsible financial authority who did not have gold profit up his sleeve would think of increasing his gold holdings for the present.

Towers seemed to expect a second wave of dehoarding to be started from India in the not too distant future, as the gold scare slowly penetrates that country. He mentioned that no one knew the amount of gold bullion held

in

LMS 4-No. 364, June 9, 7 p. m., from London.

in India, but since the turn of the century the net imports of gold into India amounted to about 550,000,000 pounds, and thus far India had only exported since 1931 some 40% of that.

Other factors likewise tended to force gold out of hoarding in India such as (1) the fact that elaborate gold collecting organizations had been built up which depended for their profit on dehoarding; (2) the gradual change in the attitude toward hoarding not only due to the penetration of normal banking methods but also the amenities of life were gradually becoming more desirable than, say, a gold bracelet.

Towers further emphasized the effect a continuance of the uncertainty surrounding gold might have on recovery and cited this as another factor weighing on the side of action being taken sooner rather than later. At the same time he pointed out the danger of commodity price deflation if the gold price was reduced unless public opinion were carefully prepared, for the public had been given the idea that commodity prices rose because gold had increased in value and therefore they might well believe that the reverse was true.

Towers particularly emphasized that the above were his personal and confidential views.

BINGHAM

HPD

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 9, 1937, 5 p.m.

NO.: 760

FROM COCHRAN.

There is growing flight from the franc, with "wise" domestic capital leaving. An estimate by market operators was that French control has lost around three million pounds today, pegging the franc against sterling at 110.90. Yesterday it was let slip from 83 to 110.90. There is a tight money market, and it is rumored that tomorrow noon the discount rate will be increased. There is heavy intervention by Caisse des Depots to prevent more than a few centimes decline in rentes. On October 4 of this year the holders of approximately six billion francs of the outstanding total of between eight and nine billion francs of the 3, 6 and 9-year Treasury bonds opted on June 4 are to be repaid, which far exceeds the anticipation of the Treasury. The immediate tax and general financing plans of the Government have not yet been decided upon. Tomorrow there will be debates in the Chamber on a measure for giving the Government full customs powers, and the rider preventing exchange control except by legislative act is attached to this measure. There will be debate in the Senate on the deficiency bills which called forth the bitter attack by Flandin, before the Chamber passed them.

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The French press, although reproducing freely the statements by Simon and British press comments thereon, has today been paying much more attention to the internal financial situation than to the gold problem.

END SECTION ONE.

BULLITT.

EA:LWW

RB

GRAY

Paris

Dated June 9, 1937

Rec'd 2:35 p. m.

Secretary of State  
Washington.

760, June 9, 5 p. m. (SECTION TWO)

LE CAPITAL, Paris, said today in a tone  
representative of other French financial papers:

"The success of the subscription to the  
American Treasury bonds exceeds the most optimistic  
predictions. The issue of 800 million dollars in two  
tranches of equal importance, one at one and three  
eights percent and the other at one and three fourths  
has been covered approximately sixfold. Monsieur  
Morgenthau had to close the subscription books.  
These magnificent results come from the same cause  
as the influx of gold which has just raised such  
(warm?)  
warn arguments, that is the first class credit of  
the United States and the solidity at every test  
of the dollar which is on the way to steal the role  
of gold as refuge for the whole world's capital."

Liamby has invoiced to Johnson Matthey 5,826,000  
francs gold bars NORMANDIE. (END OF MESSAGE)

BULLITT

CSB

Wednesday 246  
June 9, 1937

The problem of <sup>closing</sup> ~~plugging~~ loopholes in tax laws is a continuing and ever-present ~~one~~. It is never settled by any particular legislation. Tax administration today requires a succession of laws to prevent the use of ingenious devices which distort the original purpose of the act and which create what to the average man seems unethical and unwarranted avoidance of taxes.

This is not the result of activities on the part of any particular group of persons, ~~who can be designated and eliminated~~. Nor is it the result of concerted action on the part of taxpayers as a whole. It is caused by pressures which come from deep-seated attitudes in <sup>certain quarters</sup> ~~this country~~ toward taxation. These attitudes and these pressures must be realistically considered as part of the problem of tax administration. I will describe them briefly because they furnish the background against which tax administration must operate.

In the first place, we have developed in this country a ~~large~~ and ingenious group of lawyers and accountants who make their living by showing to people who can afford to employ them ways by which they may pay the least possible taxes. This <sup>maybe</sup> ~~is~~, of course, a legitimate business. Nevertheless, by virtue of its highly competitive character, it brings about the following situation. The ordinary accepted standard by which <sup>many</sup> ~~the~~ wealthy taxpayer judges the efficiency of his tax attorney is the amount that he can save in taxes. The most ingenious attorney, therefore, becomes the most

- 2 -

*He feels that*

successful and the most sought after. <sup>^</sup> His sole duty is toward his client. If he is honest, he will not condone perjury but he feels no moral or social responsibility to the Government. Therefore, if he can invent a new scheme for circumventing the intent of tax laws, which will be upheld by the courts, he is well within the ethics of his profession, regardless of the unfortunate effect that such a scheme will have upon the general <sup>applications</sup> ~~administration~~ of such laws. We have now a bar of registered attorneys and tax accountants numbering approximately 45,000. Against them are pitted some 2800 field agents actively engaged in tax investigations for the Government. The contest is, of course, unequal. The ~~salary~~ <sup>fee</sup> of the ~~average~~ tax lawyer exceeds by thousands of per cent the pay of his opponent employed by the Government. In this manner the most resourceful brains of the legal world are engaged in actively trying to avoid taxes for their clients. <sup>who received their early training from</sup> Men, ~~trained~~ <sup>trained</sup> by the Government, use the skill they acquire in that service <sup>and these are</sup> against the younger men who take their places. The Government then becomes a training <sup>many of</sup> school for its opponents.

I am not attaching any blame to anyone <sup>in particular</sup> for this situation. I am only pointing out that it exists and that it is one of the reasons requiring continual revision of the tax laws.

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A second factor which creates the problem which now confronts us is the fact that tax avoidance, as opposed to tax evasion, is <sup>by many</sup> considered a legitimate and honorable aim. ~~Our general business ethics permit an honest and upright man to take advantage of any possible loophole in the law without a sense of moral guilt.~~

The case of a man who <sup>refuses to pay</sup> ~~uses complicated arguments to avoid his~~ gambling debts and that of the individual who stretches the language of the Bankruptcy Act to avoid commercial debt is viewed by the public in a different light. Here there is a social force which restrains respectable individuals from pushing legal technicalities to the limit. On the other hand, there is a generally accepted doctrine that debt avoidance is respectable and only debt evasion immoral. Where private obligations are concerned, the same people who now hire ingenious attorneys to cut down their taxes would scorn to use the same subtle devices in avoiding payments to their creditors. Here again I am simply calling attention to an existing attitude. The ethics of tax avoidance have grown up out of a variety of circumstances and the problem is not solved by blaming anyone. It is only important to recognize those ethics as an existing fact because they are a very important element in the problem which faces the Treasury.

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I hope that in the future an atmosphere may be created in which men will hesitate to use ingenious devices to avoid the payment of taxes. Nevertheless, that happens to be <sup>the</sup> our present attitude toward <sup>of some persons</sup> payment to the Government. (In other words, <sup>if</sup> we are realists, we will recognize that tax administration has become a very intricate game in which the Government in the ~~public~~ <sup>of the</sup> mind takes the position of the aggressor in spite of the fact that its own forces are hopelessly inadequate as compared with those arraigned against it.

A third factor in the situation is the difficulty of distinguishing, at least before a case is tried, between tax avoidance which is supposed to be proper, and tax evasion which is supposed to be immoral. I will not attempt to define these terms. ~~Speaking as a layman, tax avoidance seems to me to be any scheme which does not require perjury, and in defense of which elaborate briefs may be written.~~ Tax evasion is any scheme which cannot be plausibly supported. So hazy is the line between tax evasion and tax avoidance that it is always possible to classify any complicated scheme as tax avoidance, so long as there is no absolute certainty that it will be adjudged invalid at the end of long litigation.

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These attitudes have created what might be called the sporting theory of tax administration. So long as these attitudes exist, the process of tax legislation will be somewhat as follows: A law will be passed; ingenious devices for circumventing its application to individuals will be tried out. This will take time. Finally, when sufficient of those devices have become current so that a great loss in governmental revenue begins to appear, legislation will have to be drafted specifically directed at the new tax-avoidance inventions which have appeared since the last law.

Today because of the variety of devices to avoid taxes, the situation <sup>calls for remedial legislation</sup> ~~has become somewhat out of hand~~. That this is a recurring situation is illustrated by the tax history of the last few years. Prior to 1934, the provisions permitting deductions for losses resulting from stock sales had become one of the largest loopholes in our tax administration. Ingenious use of these deduction provisions permitted individuals to establish losses by exchanging stocks with each other and calling the transaction a sale. ~~Perhaps it was a sale in the eyes of the law.~~ However, it was the kind of a sale which would never have taken place had it not been for the desire to avoid taxes. That loophole was plugged in 1934. Since that date new devices of even greater complexity and ingenuity have been developed, imitated and copied until they are now in very general

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use. As is usual in such cases it takes time before sufficient interest is created to demand reform. For example, in 1935 - two years ago - under my instructions, Mr. Robert <sup>H.</sup> Jackson called to the attention of the Committee on Finance <sup>many</sup> ~~most~~ of the methods of tax evasion which are now the subject of this inquiry. The use of those devices were then less serious obstructions in the collection of revenue and nothing was done about them. Resort to them has now increased to such an extent that some reform is imperative.

Of course the attitudes which create this continuous task of circumventing new tax avoidance devices cannot be legislated away. The immediate objective in the present emergency is practical tax legislation. Nevertheless, I am hopeful that the continued publicity which hearings of this sort give with respect to the game of tax avoidance may help to create an atmosphere in tax administration in which men will hesitate to use these artificial devices to avoid the payment of taxes just as today they hesitate to use such devices to escape the payment of private debts. ~~I cite as an illustration an attitude which I hope may make tax administration easier in the future, the practices of Mr. John D. Rockefeller, Jr. An examination of his returns year after year discloses no attempts to push the letter of the law to its limit, and no use of elaborate subterfuges or corporate forms for the sole purpose of avoiding his normal~~

put some of this back

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tax burden. Perhaps continued publicity given to the more fantastic methods of tax avoidance now considered legitimate may make such an attitude the rule rather than the exception. This may be an important by-product of public hearings on current tax devices.

I will therefore attempt briefly to describe in terms which the average taxpayer may understand, the general character of the methods now in use. One characteristic runs through all of them. It is the creation of a multiple personality in the taxpayer. By this device he ceases to be a single individual and becomes a whole group of people, some of whom are earning money while others are losing it. He divides himself into several people, sometimes incorporated and sometimes not. He purports to carry on business transactions with his family at arms-length. Often he convinces himself that these separate people actually exist. Each one of these imaginary individuals into which the taxpayer divides himself deals and trades with all the other imaginary individuals.

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The total result is a series of losses which would not have been deductible for tax purposes had the taxpayer remained a single personality. The different methods by which the parts of this multiple personality deal with each other are varied and intricate. We will attempt to classify them later. They are, however, of this general character. A taxpayer creates a separate personality to engage in an activity which is a hobby or a luxury or an ordinary living expense or even a method of investing funds. He then charges the expenses and the losses of such activity against himself. Thus, he is able to pay interest to himself, to charge himself for vacations and pleasures, to give himself pensions, to be his own insurance company and so on. These transactions partake of the same unreal character as if a small taxpayer incorporated his household kitchen ~~as~~<sup>as</sup> a restaurant and deducted the expenses and losses from his taxable income because he had so few customers.

Practically all of the devices which we will cite later would look absurd if applied to persons of small incomes whose activities were necessarily more restricted. They are important as tax-dodging devices only for the very rich. Not only do they look absurd when applied to the small taxpayer but they are also too expensive to be useful unless large sums are involved.

The analogies which are used to support these devices are found in the corporate structure by which business in this country is conducted.

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The distinguishing feature, however, between the corporation used for a business purpose and the corporation used for a tax avoidance purpose is the fact that in the latter case were it not for the tax laws no such corporations would have been formed.

The use of the corporate device in order to split a single man into a number of personalities is often extraordinarily intricate. However, of late some tax attorneys have felt that it was not necessary to go to so much trouble. They have in effect split individuals up into different persons without bothering to incorporate. A rich man runs a ~~farm~~ <sup>racine stable</sup> as a hobby. He calls himself a ~~dirt farmer~~ <sup>horse breeder</sup> and in this character loses money very heavily indeed. ~~He is not fitted to be a farmer~~ <sup>because he demands</sup> too much luxury on his farm. This raises his expenses. He then charges off the loss on his ~~farm~~ <sup>racine stable</sup> against his income. No small taxpayer would think of calling himself a ~~professional golfer~~ <sup>golf instructor</sup> and then charge the expense of his golf game against his income because he got no ~~patronage~~ <sup>pupils</sup>. However, we find an individual who in one capacity charters a pleasure yacht to himself at a great loss and deducts it from his income because though as a business man he is successful, as a professional yachtsman he is a heavy loser. These instances are not yet as frequent as the use of the complicated corporate personality which is harder to see through. Nevertheless, unless legislative action is soon taken such pleasant methods of taking vacations and getting rid of taxes at the same time will be imitated and constitute a serious threat to the revenue.

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~~None of these people or activities can be called criminal.~~ Most of them have talked themselves into believing that the methods which they use are socially legitimate. They profess complete personal irresponsibility, contending that if their methods are wrong it is the duty of the tax administration to ferret them out and to conduct long and expensive litigation in order to determine their validity. The individual believes that he is morally entitled to take the <sup>shotting</sup> chance and that he has nothing to lose and everything to gain by taking it.

The device of the multiple personality of the single taxpayer is of course not the only loophole which requires immediate attention. Mr. Magill, who will follow me, will undertake to classify the principal ones for you in detail.

I will only summarize the principal schemes which are being devised, copied and imitated today. They may be divided roughly into three classes. # First, there is the device of making the taxpayer a multiple personality whose characters deal with each other, which we have just described. # Second, there is a variation on that device by which the taxpayer deals with his family at arms-length and creates taxable losses out of the performance of personal obligations which he owes to them. He takes his wife into partnership with him. He splits his income between himself and his children instead of maintaining them. # The third device is one where the individual doing business in this country makes it appear by a series of corporate personalities which he controls that he is actually doing business abroad in some country where <sup>he</sup> it cannot be taxed. In other words, transfers of title which might result in taxable income are made to appear to have occurred outside of the United States.

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We do not know how extensively this latter device is being used. We do know that within the last two years, 585 foreign corporations have been formed which probably represent business interests in America. We do not know how many have been used for tax avoidance purposes, but we do know that some have been so used. We believe, however, that the use of this device is spreading. In any event, even if it should prove to be not very extensively used, just now it is most important that its possible growth be stopped before vested interests arise which make it a still more difficult problem to deal with in the future.

For these reasons I believe that the use of the multiple personality by the taxpayer has now reached the stage where <sup>congress should consider</sup> ~~legislation~~ ~~is imperative~~. The process of fighting in the courts all the different schemes which may be woven around this concept is too slow for efficient tax administration. We intend to give examples of a large number of extreme cases, not all of which would be upheld by the courts but many of which are sufficiently plausible, so that they can delay and hinder tax collection. It is the history of tax litigation that it takes years to finally outlaw a tax avoidance device which once gets a foothold among tax attorneys. In the meanwhile, the Government revenue is impaired in two ways. First, by the actual loss of revenue involved in specific cases,

*concrete legislation.*

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and second, by the <sup>expenditure of</sup> ~~fact that~~ the time and energy of the personnel and the tax-enforcing agencies is so largely occupied in litigation.

It is true that many of the devices which we have referred to are being limited and restricted by the courts. Nevertheless, the situation is still sufficiently confused so that a great deal of litigation is required because each case deals with only the particular facts involved and distinctions in intricate situations can always be made.

And what effect has the increasing use of these devices on revenues? That, of course, cannot be exactly determined. Nevertheless, it is a substantial factor which is cumulative in effect, just as the influence of a continued course of sharp practices in bankruptcy cases tends to reduce the total dividends to creditors. The nearest guess which we can make of the loss in revenues caused by such practices in the tax field has been arrived at in the following way:

As you know, each November the Treasury Department is required to make an estimate of the revenue of the Federal Government for the balance of the current fiscal year ending on the following June 30th. I need hardly say that the problem of estimating the revenue is an exceedingly complicated one; and that some margin of error in the annual estimates, resting as they do upon forecasts

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of business conditions, prices, and a host of other factors, is inevitable. I take great satisfaction in the accuracy of the revenue forecasts made since I assumed the responsibilities of the office of the Secretary of the Treasury. The first estimate of income tax receipts made under my supervision was for the fiscal year 1935. Actual receipts for that year proved to be 4.6 per cent greater than my estimate. In the following fiscal year, 1936, actual receipts were only 1.5 per cent under my estimate for that year. For the fiscal year 1937, the Treasury Department employed the same methods and the same personnel in making the revenue estimates as had been employed in the two preceding years. When, therefore, the <sup>March 15<sup>th</sup></sup> ~~current~~ income tax collections indicated that <sup>total</sup> income tax receipts for the fiscal year 1937 might be as much as 10.4 per cent below the estimate made last November, I became ~~greatly~~ concerned. I realized fully, as I am sure you do, that all the care in the world could not always prevent a substantial error from entering into our revenue estimates, for, as I have already said, these estimates depend upon forecasts of the future; and the capacity is not given to mere human beings to foretell the future with accuracy. I was aware also that my predecessors in the Treasury Department had over-estimated the Government's income tax receipts in the three years 1931, 1932, and 1933, by 15.1 per cent, 7.3 per cent, and 13.3 per cent, respectively.

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Nevertheless, I ~~was concerned that~~ I decided to investigate the details, so far as possible, of our March, 1937, income tax collections. This investigation disclosed the following very significant fact: Collections in certain areas where there is a considerable concentration of wealth and income had not increased by as large a percentage as had the total income tax receipts for the country as a whole. In connection with this fact it is particularly important to note that dividends represent a larger percentage of the net income of people with large incomes than they do for people with small incomes. We knew that dividend disbursements by corporations during the calendar year 1936 had increased materially over those of the preceding calendar year.

It seemed reasonable to suppose, therefore, that part at least of the discrepancy between our original estimate of income tax receipts and the receipts that might be estimated on the basis of our actual collections in March, 1937, might be due to a wider use of various methods of tax evasion and tax avoidance. And, when ~~the Under Secretary of the Treasury~~, Mr. Roswell Magill, undertook a field investigation of this possibility at my request, he found much to support this conclusion.

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Mr. Magill will describe to you in some detail the character of his investigation. Necessarily, it was a quick survey, but the audit of the 1936 returns will undoubtedly disclose additional data to enable us to determine with greater accuracy the methods of avoidance employed by some taxpayers. In this connection, it must be borne in mind that the Bureau of Internal Revenue faces tremendous physical problems in the audit of the returns and in its effort to prevent tax evasion and avoidance. There were about 6 million returns filed for the taxable year 1936, and it has been our experience in the past that only about 500,000 can be ~~properly~~ audited with the force of about 3,000 men that we have available.

I believe that it may be appropriate to say a few words regarding the Bureau's progress in the last few years in connection with the making of these detailed audits. Prior to 1935, the field investigations of returns were not commenced until approximately 1 year after the filing and were not completed until about 2 years after filing. At present, field investigations are begun  $3\frac{1}{2}$  months after filing and are completed approximately  $15\frac{1}{2}$  months after filing - an advance in the conduct of the work of field investigations of approximately 9 months. ~~This is an~~  
~~nearly current as the control and movement of returns will presently~~  
~~permit.~~

The collection of additional taxes, a substantial portion of which represents recoveries in instances when tax avoidance or evasion has been attempted, has constantly been increasing. Our revenue agents'

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recommendations for the assessment of additional taxes increased from \$203 million in 1934 to \$355 million in 1936. Experience has shown that, through litigation or agreement with the taxpayer, about 70 per cent of these recommended additional taxes are ultimately collected by the Treasury. For the first ten months of the present fiscal year, agreements with taxpayers for the collection of additional taxes have been secured amounting to about \$130 million, and <sup>Commissioner Helvering</sup> ~~the Bureau~~ has informed me that ~~he~~ <sup>it</sup> is confident ~~it~~ will collect by agreements more taxes during this fiscal year than it has ever collected in that manner at any time in its history.

Undoubtedly, prevention of tax avoidance and evasion would be aided by an examination of a greater volume of returns. I think that ~~probably~~ <sup>fully</sup> ~~about~~ 750,000 returns, rather than the present 500,000, deserve yearly audit. However, in consideration of the small personnel of the Department compared with the very large number of accountants and attorneys who are constantly engaged in the preparation of returns and in the defense of the taxpayers' position, the record of the Bureau is ~~striking~~. With our limited force, we must collect the maximum of revenue, and we must do so in such a way that we are not years behind in our work.

These tax avoidance devices to which I have alluded have affected revenues of the Government in the following ways:

(1) They create the belief that rich men with expensive attorneys do not have to pay taxes. There is just enough truth in this to have far reaching consequences on the morale of hundreds of thousands of

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taxpayers. No one can possibly calculate how many petty evasions which can never be detected among 6 million returns are due to the belief that cleverness rather than fairness is a proper criterion of the taxpayer. Thus, tax ethics generally today are where business ethics and trade practices were in the nineties.

(2) In the highly competitive situation which exists among expert tax attorneys, plausible devices spread rapidly and tax evasion and avoidance increases without anyone realizing the extent of the impairment of tax administration until the end of the taxable year. Even then an exact estimate of the effect of tax avoidance is impossible.

(3) Vested interests grow up in tax avoidance devices in the course of time so that it becomes very difficult to change them after they receive a semi-respectable standing. This factor makes quick action advisable to decapitate new schemes before they achieve the force and respectability of law.

(4) After tax avoidance devices have become an accepted part of tax law, any attempt to change them is heralded as a persecution of the rich. Today, for example, we are met by the charge made in ~~many~~<sup>some</sup> quarters that this attempt on the part of the Treasury, forced on us by a gradual accumulation of tax avoidance devices ~~under~~<sup>since the passage of</sup> the Revenue Act of 1934, is an attack on wealth. Actually, anyone who gives the matter unbiased consideration will realize that it is for the benefit of the rich to plug loopholes in tax laws, since this raises more revenues without raising rates.

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~~We have used the example of John D. Rockefeller to illustrate a proper attitude toward tax collection. Rockefeller is not helped, indeed he is injured by the general public impression caused by the use of fantastic devices to avoid taxes.~~ The prevalence of the devices we are going to describe has cast a suspicion on many rich men who do not deserve such suspicion. There is certainly no possible advantage to the conscientious man of large income to allow fantastic schemes of tax avoidance to continue.

(5) And finally there is a very important question of the revenue. Those tax devices which defeat the intent of Congress but which nevertheless are legal, cost the Government huge sums, ~~which Congress never actually intended to give away.~~ Those tax devices which are plausible, though not legal, create continual and expensive litigation. No collecting agency can operate effectively if it is hampered at every turn by law-suits.

The whole reason for our appearance at this time is to assure ourselves that we are going to receive every dollar that we counted on for the fiscal year ~~1937~~-38, in order that we may balance the budget without coming to Congress with requests for new taxes.

I therefore consider it imperative to call these matters to the attention of Congress at this time. We will present the matter in the following way:

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First, we will give you a general classification of the types of tax devices which will form a framework for the specific cases which will be presented later. We will then present in considerable detail specific instances so that procedural methods to remedy such situations may be considered in the light of the actual practices now existing.

In the presentation of the various methods of tax avoidance many cases will appear in which the Treasury has been unable to get full information. There will be other cases discussed in which the individuals named may desire to appear before the Committee voluntarily in order to rebut inferences which we have drawn from their returns. If under these circumstances witnesses are called or voluntarily appear before the Committee, I would respectfully request that someone representing the Treasury be permitted to ask them questions when the members of the Committee have finished.

June 10, 1937.

Memorandum In Re: Settlement of cases pending  
in Board of Tax Appeals.

In handling and settling cases which have been filed with the Board of Tax Appeals, the following plan will be put into effect:

As soon as a case is received in the Appeals Division, the lawyer to whom the case is assigned will prepare for the Chief Counsel a statement of all the facts and questions appearing from the file to be involved in the case, including such information as has been obtained by the Technical Staff in those cases considered in the ninety-day status. The memorandum will indicate matters which it is apparent can be stipulated and those upon which a contest seems advisable. The attorney will, in the preparation of such memorandum, obtain as complete a mastery of the case as is possible from the study of the files and from all other information then available. The cases will then be handed on the following basis:

- (1) Cases depending primarily on questions of law or in which the facts are stipulated, will be retained in the General Counsel's office.
- (2) Special cases of unusual importance appearing to require unusual and continuous prudential treatment; i.e., such cases as the Associated Gas & Electric case, the Mellon case, the Washob-duFont cases, etc., will be retained in the General Counsel's office.
- (3) Cases involving special litigation policy and not susceptible of settlement because of a desire to litigate the question involved to a final conclusion will be retained in the General Counsel's office.

(4) The balance and bulk of cases will be referred to the Technical Staff for settlement and the gathering of material for the defense.

(5) All cases will be set for trial as soon as possible and the Technical Staff at the time of the setting will be notified to return the case to the General Counsel's office thirty days prior to the trial date.

(6) The General Counsel's office will not review or re-examine in detail a settlement made by the Technical Staff but will check the file only so far as is necessary to verify the accuracy of representations which the General Counsel's office has to make to the Board of Tax Appeals in the stipulation closing the case. Where, in the exceptional case, errors are thus encountered, the General Counsel's office will call them to the attention of the Commissioner of Internal Revenue for further consideration.

(7) Cases not settled in the Technical Staff prior to return to the General Counsel's office will be tried or settled by the office of the General Counsel.

(8) In returning the cases to the General Counsel's office, there will be no formal recommendation of defense or no defense, but a memorandum will be prepared stating the negotiations which have been had relative to settlement together with a statement of the reasons why settlement was not effected.

(9) During settlement negotiations in each of the offices, the advice of the other will be freely sought as to matters within its special competence.

(10) The cooperation of the Technical Staff and the General Counsel's office in the field will continue as in the past.

(11) Recommendations by the Chief Counsel to the Department of Justice for the prosecution of criminal cases shall be approved personally by the Commissioner of Internal Revenue before being forward.

*Lucy M. Behar*  
Commissioner of Internal Revenue.

*Norman D. Smith*  
Chief Counsel,  
Bureau of Internal Revenue.

APPROVED:

*Russell Maguire*  
Under Secretary of the Treasury.

*mrv*



DEPARTMENT OF STATE  
WASHINGTON

2603

In reply refer to  
FE 711.9411/25

June 10, 1937

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, with reference to this Department's letter of June 8, 1937, in regard to Chinese loan negotiations with Great Britain, encloses, for the information of the Secretary of the Treasury, a copy of that portion of telegram No. 356 of June 8, noon, from the American Ambassador at London, which relates to the subject under reference.

Enclosure:  
From Embassy London  
No. 356, June 8, noon,  
in part.

RECEIVED  
JUN 11 1937  
DEPARTMENT OF STATE  
WASHINGTON, D. C.

514

Department of State

  
BUREAU  
DIVISION

FE

ENCLOSURE  
TO

Letter drafted .....

ADDRESSED TO

Treasury.

Excerpt from a telegram (No. 356) under  
date June 8, 1937, from the American  
Ambassador at London.

As regards Chinese negotiations for a loan in London, Cadogan said the 2,700,000 pounds Canton-Meishan loan, details of which had already been submitted to the various consortium groups, although still under negotiation in the matter of final security, was virtually settled. Meanwhile Kung's negotiations with Treasury had gone on but were not completed. The Foreign Office understands Kung will visit the United States and return to London about mid-July during which time it is expected the negotiations on this loan particularly in the matter of satisfactory security will continue. Cadogan said that the other loans proposed by the Chinese Minister for Railways were merely remote possibilities and in any case in all these negotiations Kung also held the whip hand since even in the matter of railway loans the question of final security was one which fell within his province.

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1937

TELEGRAMS  
RECEIVED AT WASHINGTON  
JULY 11 1937

OFFICE CORRESPONDENCE

DATE June 10, 1957.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnekeWITH BANK OF ENGLAND.

Mr. Bolton called me at 11:40 today. They were having a rough time in London, <sup>with the French franc</sup> he said. The gold business, for the moment, although it had cast what just now looked like a permanent cloud over the stock market (which seemed to be in for a permanent depression) had ceased to be a big influence in the foreign exchange market. The amount dishoarded daily had shrunk to somewhere from 300,000 to 400,000 pounds a day (compared with 1,500,000 to 2,000,000 pounds before). The amount still hoarded in London, Bolton guessed at between 60,000,000 and 80,000,000 pounds. He promised to give me more accurate figures later on if he could.

In France things were very bad: rentes were unsaleable but for official support. If it were not for the latter his conjecture was that they would not be quoted at all. The demand for sterling <sup>and the consequent loss to the franc</sup> was tremendous, probably 10,000,000 to 12,000,000 pounds for the past three days. The position was as bad as it had ever been. It was difficult now to think of it in any other terms than a crisis. Nobody could picture exactly what might happen but things must come to a breaking point very soon. The basis of it all was the French Treasury position stimulated by rumors of <sup>a</sup> tremendous increase in taxation which had become necessary because of the complete inability of the government to raise loans.

I asked Bolton whether he had sold more dollars in addition to the \$5,000,000 he mentioned in his cable this morning. He replied that they were just watching the market as the franc rate might plunge down at any moment. I mentioned that we had been buying sterling here

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 10, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnobeWITH BANK OF ENGLAND.

- 2 -

since opening, ~~and~~ having taken in so far about 1/4 million pounds, and gained the impression that he considered that a helpful step.

Bolton inquired whether we had had any further news about our Swiss friends. I told him no, but that I thought I might have something for him in a few days. I mentioned, however, that according to a cable just received, another \$12,000,000 worth of gold were on the way here to be earmarked by us upon arrival. In reply to my question whether the Swiss, by any chance, had bought <sup>gold</sup> sterling in London, Bolton said that, on the contrary, they had been selling.

LWK:KMC

RECEIVED  
JUN 11 1937  
FEDERAL RESERVE BANK  
OF NEW YORK  
100 WALL STREET  
NEW YORK 20, N. Y.

RE

GRAY

London

Dated June 10, 1937

Rec'd 3:40 p. m.

Secretary of State

Washington.

368, June 10, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

My impression of the trend of the discussion of the "gold question" which took place at the Tuesday Club last night may be of interest inasmuch as the members of that organization are influential. In the first place although the "gold question" was interpreted to include nearly all the important current economic and financial problems it was clear that there was a profound and deep seated feeling that the supply of that metal was in excess of the demand and that important action in the monetary field for this as well as other reasons would have to be taken in the not distant future.

Secondly, despite Falk's attempt to remove the price level from the field of discussion by emphasizing that the problem arose not out of a deficiency but through an excess of gold which was at the moment being handled

RB

-2-#368, June 10, 7 p. m. from  
London

handled by sterilization methods, it continued to play an all important part. There was virtually unanimous agreement that prices should rise slowly but none the less surely and Henderson evoked every possible effort by emphasizing the long term need of a higher level of money incomes which in turn required rising prices in order that the debt structure could be carried and that in effect this meant and rightly so lower real incomes for the rentier; "this is the way to swindle the rentier". Incidentally Henderson likewise took the line that the price of gold would probably have to be reduced but that this really meant stabilization and that should not occur until prices had risen further.

Thirdly, there was rather general criticism of the Bank of England's recent methods in operating the equalization fund in allowing a discount to develop in the price of gold on the American shipping parity and in this connection Sir George Schuster emphasized the suspicions which this policy had evoked in the American banking community. Likewise there was a fairly general appreciation of the burden which the United States had in the main been carrying and support for Great Britain playing a more active part.

RB

-3-#368, June 10, 7 p. m. from London

part. Reference was frequently made to America's "unenviable position" as the only genuine buyer of gold; Coutts put it that "the dollar was not so much tied to gold as gold was tied to the dollar". In this connection Schuster reiterated the views which he recently published on returning from his trip to the United States which can be found in THE TIMES of June 3 and are worthy of note.

Fourthly, the feeling was general that confidence in gold as an international medium of value had been somewhat impaired and incidentally its war chest value had been reduced; probably the majority of those present agreed with Brand that although the real problem was distribution and that it was hard to see how stabilization would, ipso facto, prevent the stabilizing countries from continuing to acquire the surplus gold, nevertheless, a reduction in price would probably prove desirable if accomplished jointly and swiftly with authoritative assurances that it did not mean deflation.

Incidentally today's TIMES contains a letter from Keynes which begins as follows:

"The gold problem presents two distinct aspects. Should the dehoarding process, which was bound to occur  
some day

RB

-4-#368, June 10, 7 p.m. from London

someday, cause the authorities to modify their existing gold policy? Will the present price of gold cause an excessive quantity to be mined over a period of years and in the long run? The statements of Sir John Simon and President Roosevelt answer the first question quite clearly in the negative, and imply that the second question has not yet been considered but that both governments will keep their hands free to deal with it in the light of future circumstances. This attitude seems sensible. Private dehoarding is a non recurrent event which has been long foreseen, and the maximum amount is small compared with the stocks already in the hands of governments; while no one can answer the second question until we know how much gold output is going to increase, whether war or fear of the fear of war will curtail the use of substitutes for gold, whether the existing maldistribution of gold stocks is to continue indefinitely, at what level money wages will settle down (particularly in the United States), and whether we are going to find ourselves, say three years hence, with good or bad employment.

Nevertheless, I believe that Sir John Simon could help if he could be a little more explicit on certain matters

RB

-5-#368, June 10, 7 p.m. from London

matters."

After emphasizing that Great Britain may actually need all the gold it now has to offset abnormal foreign balances held in London, Keynes concludes "if, on the other hand, the figures indicate (which would be contrary to my present expectation) that we have all the surplus gold we can reasonably require and that additional purchases, though we make them for the common good, are rather a nuisance, then let us modify the desire of our policy accordingly. For example, this would clearly indicate that the embargo on foreign lending should be raised at once. It would be crack-brained to complain of a surfeit of gold and at the same time try to increase it by maintaining an embargo which dates from the period when we had a deficiency. There are also other ways in which we could reverse our former efforts to find means of economizing the use of gold.

In particular we could ask the Dominions, India and the Crown Colonies to reconsider their policy which was at one time extremely helpful to us of handing their gold reserves to us in exchange for sterling balances. Australia is the outstanding example of this but for the whole empire it amounts to a great deal. Indeed  
it would

RB

-6-#368, June 10, 7 p.m. from London

it would be well for the Imperial Conference before they disburse to consider whether they could not help us to carry the weight of gold -- and this might be desirable even if the amount of the gold is not offered from the standpoint of the Empire as a whole -- by exchanging their sterilizing resources for earmarked gold. Since many of them <sup>(are?)</sup> or gold producers they have much to gain from the restoration of confidence which this would undoubtedly effect".

One hundred thirty-seven bars were offered at fixing of which the market took a fair proportion; the discount was 3 pence. London continues to receive pessimistic reports from Paris on the French outlook.

BINGHAM

CSB

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 10, 1937, 5 p.m.

NO.: 762

FROM COCHRAN.

Apparently the pressure on the French franc is as heavy today as yesterday; French control is yielding sterling freely at 110.90; widening to 3.20 in discount on three-month francs against sterling.

The June 4 statement of the Bank of France showed a decline of Treasury deposit account from one billion ten million francs to two hundred and ninety eight million; credits to Government showed no increase. There was a rise from 55.33 to 55.56 in coverage, due to deposits dropping off a great deal. The discount rate has not been changed.

Very uneasy atmosphere on the market continues, with no clarification of (omission) government's financial program, and with the recurrent fear that some drastic move may take place over the weekend.

Communist deputy Thorez in a political speech last night attacked by name Rist, Baudoin and Rueff whom he accuses in their capacities of technical advisers of collaboration with the capitalist interests in making financial difficulties for the Government of France.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION TWO, TELEGRAM NO. 762 of June 10, 1937, from the American Embassy, Paris.

The former British resident manager of the BIS, Porters, had lunch with me today. He is now the London representative of Standard Oil, and had come to Paris to look into French conditions. He said the French situation was worrying the City tremendously because of the threat of a political crisis on top of a break down financially, with as yet no outstanding opposition forces to step in and correct conditions.

The gold scare had not yet been eliminated in London, he said, since even the article by Cassell which favors a lowering in the price of gold of twenty percent had caused a temporary flare-up with dumping of gold shares, and so on, yesterday. According to Porters the British share market has been hit so severely by the recent gold crisis that he does not look for a real pickup before the summer is over.

Porters referred to the diminution in housing construction, which if it were not for the armament program, would be seriously felt.

At noon today Pennachio talked with Rowe Dutton, the Financial Counsellor of the British Embassy. Pennachio told me he found Dutton quite pessimistic over the financial outlook for France. He did not think that anyone knew what to do to save the situation, yet he did not expect a change in Government. Today Cobbold of the Bank of England is in Paris consulting with Bank of France

officials

- 2 -

officials and with Dutton enroute to Basel for the week-end meeting of BIS officials.

END OF MESSAGE.

BULLITT.

RECEIVED

JUN 11 1952

TREASURY DEPARTMENT  
Office of the Director  
Foreign Affairs and Consular Service

EA:LWW

FEDERAL RESERVE BANK  
OF NEW YORK

280

## OFFICE CORRESPONDENCE

DATE July 11, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeDE NEDERLANDSCHE BANK

Mr. de Jong called me at 10:28 today. In reply to my question, he stated that everybody was very much worried about Paris and nobody knew what was going to happen. There were all kinds of rumors, the latest one to the effect that the French Cabinet Ministers could not agree among themselves. The franc being the center of attention today everywhere, the gold problem has completely been forgotten. In Amsterdam, all markets, including the commodity markets, were calm and unchanged.

  
LWK:KMC

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 11, 1937, 11 a.m.

NO.: 766

RUSH

FROM COCHRAN.

STRICTLY CONFIDENTIAL.

This morning at 10 o'clock I visited the Bank of France. The French control on Thursday lost 635 million francs in foreign exchange; it lost 398 million on Wednesday, and 307 million on Tuesday. I had given the figure as 260 million up to 5:30 p.m. on Tuesday in my telegram No. 756 of June 8, 6 p.m. The gold and foreign exchange balance of the French stabilization fund was therefore approximately one and one-half billion francs this morning.

END SECTION ONE.

BULLITT.

PARAPHRASE OF SECTIONS TWO AND THREE OF TELEGRAM NO. 766 of June 11, 1937, from the American Embassy, Paris.

The Bank of France statement to be issued next Thursday as of June 10 will not show any new drawing by the Treasury on its remaining credit of 2,200,000 francs with the Bank of France. The Treasury during the past few days has been able to get the Caisse des Depots et Consignations to purchase Treasury notes by using the Caisse's ready cash resources. This practice cannot go on much longer, but so far it has obviated the necessity of the Treasury calling directly upon the Bank of France for aid.

Today the debates on fiscal and financial policies which began yesterday will continue in the Chamber and Senate. Therefore the situation is uncertain and the Bank of France expects that heavy pressure on the franc will have to be met. There has been no emphasis in the press on the serious financial situation of the Government, and there have been no important repercussions on the public from the speeches made in the debates yesterday. These speeches will be summarized in a separate telegram.

I was informed at the Bank that so far there is no plan to take any new monetary action over the weekend. The Basel meeting of the BIS officials will not be attended by the Bank of France Governor. Governor Labeyrie is, however,

- 2 -

however, not withdrawing invitations to a dinner in Basel which he had issued to BIS colleagues, lest the various central banks become nervous and suspicious that some change is meant by his remaining in Paris. Only on Sunday will they learn of his absence.

END OF MESSAGE.

BULLIT.

EA:LWW

RECEIVED  
JUN 11 1957  
INTERNAL SECURITY  
DIVISION OF THE FBI  
WASHINGTON, D. C.

FEDERAL RESERVE BANK  
OF NEW YORK

284

OFFICE CORRESPONDENCE

DATE June 11, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnokaWITH BANK OF FRANCE.

Mr. Cariguel called me at 11:17 today. They were having a bad time in the exchange market. Yesterday had been heavy; today was heavier still. So far they had today lost £5,500,000. There were lots of new reports out but he himself knew absolutely nothing definite. The government bond market was very good but that did not mean much. The other security markets were idle. People in Paris just now did not trust anything except currency and hoarding was very definitely noticeable. Last night everybody had felt certain that a cabinet change was inevitable. This morning, he was told, there was no longer the same measure of certainty. There would be no cabinet change over the weekend; of that there was absolutely no question for the time being. The Expert Committee, whose resignation had been rumored yesterday, was still functioning. He himself had seen them this morning.

LWK:KMC

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 11, 1937.

CONFIDENTIAL FILES \_\_\_\_\_

SUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnokeWITH BANK OF ENGLAND.

I called Mr. Bolton at 12:10 today. They were still sort of pulling hard over there, he said. The position in Paris was, in his opinion, if anything, a trifle worse than yesterday. Nevertheless, according to his information, no cabinet crisis was expected in Paris over the weekend. At the moment, things looked perfectly quiet on the surface (after a rather bad two hours between 12 and 2:30 o'clock) but to him it looked like a surface quietness which might be broken at any moment. Some people in Paris seemed to think that they could pull through for the summer; he himself did not see how the French could get through if, as he understood, the Government's solution of its troubles was to borrow more money from the Bank of France by discounting Treasury bills. Once such borrowing became generally known in France, there would be a wholesale flight from the currency and that would be too much for the Government to handle. There was a very bad feeling there now and the present franc market was just a one-way market.

I referred to yesterday's rumor that the Treasury had borrowed 2,000,000,000 francs from the Bank of France but that the latter's statement had not shown this item. Bolton thought that that could not be correct because he was sure that the Governor of the Bank of France was not the sort of man who would remain in office and allow his report to go out inaccurately.


 LWK:KMC

MJD

GRAY

London

Dated June 11, 1937.

Rec'd. 1:15 p. m.

Secretary of State,  
Washington.

371, June 11, 4 p. m.

FOR TREASURY FROM BUTTERWORTH.

At a meeting at the British Treasury today with Phillips and Bewley the latter stated that the Imperial conference would probably issue a monetary statement in essence reaffirming the 1933 declaration; it would not deal with the gold situation.

Phillips said that no sooner had one thing begun to end than another thing began to happen--that once again a crisis was hovering over France. While we were discussing the French position in general terms Phillips received a telephone report from the Bank of England's equalization fund department to the effect that pressure on the franc had been unusually heavy yesterday--"it was one of the worst days they have had", and that the forward rates on the franc are again widening. Phillips was obviously disturbed at the prospect of receiving substantial amounts of French gold. I asked about how much  
gold

MJD --2-- No. 371, June 11, 4 p. m., from London

gold the French fund still had and he said that he was attempting to obtain accurate information about it but that he knew that although in the spring the fund had been low he understood that the dishoarding of gold in France had been persistent and continuous and the total figure might be substantial. A reference to his statement made at a previous meeting that thus far no one could be found who would be willing to take Blum's place occasioned the reply that if the crisis broke it now would not matter whether any one was anxious to take Blum's place or not; that the financial situation might well compel action. In the course of the discussion it appeared evident that Phillips was anxious to believe--though I did not feel he was really convinced--that the scare aspect of the gold dehoarding crisis was past. Be that as it may, he did say that in his opinion no great change in Indian dehoarding was to be expected (see in contrast Tower's view which probably reflects Bank of England opinion, paragraph 5, my 364, June 9, 7 p. m.). Phillips took the line that gold would continue to come out of India because of India's bad trading position, and particularly because the products which India imported had all risen in price while India's exports such as jute remained at a comparatively very low level. On the other hand

MJD --5-- No. 371, June 11, 4 p. m., from London

hand Phillips said he did not expect India even if her foreign trade situation should rapidly change to become an importer of gold; she might absorb her own production but her hoarding would certainly in the first instance be directed to silver at the present price.

The position in the gold market remains about the same; 300 bars were offered at fixing today the major portion of which was officially taken by the authorities at a  $3\frac{1}{2}$  pence discount.

The flight from the franc continues unabated with late dealings particularly heavy. It is probable that today's losses will be found to be as large as yesterday's. London is once again visited by Frenchmen desirous of removing their funds from that country.

BINGHAM

HPD

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1941  
Foreign Office  
London

RE

GRAY

Paris

Dated June 11, 1937

Rec'd 5:20 p. m.

Secretary of State  
Washington.

768, June 11, 4 p. m.

FROM COCHRAN.

Chamber debate yesterday on the request of the Government for full customs powers once more provided Reynaud with the occasion to outline his views on the general policy of the Government and Flandin with the opportunity to present a close analysis of the bill under discussion.

Reynaud pointed out that in spite of devaluation French prices exceeded world prices which had led to an invasion by foreign merchandise. He illustrated the resulting damage to French industry by announcing that orders passed in the textile trade during April 1937 did not even amount to one fourth of orders taken in April 1936. He especially emphasized that the Government in envisaging increased tariffs had apparently forgotten the tripartite monetary arrangement which called for progressive reduction of quotas and of exchange

RB

-2-#768, June 11, 4 p.m. from Paris

exchange control. At the moment when the entire world was re-awakening economically France was proposing to isolate itself, he said, and in this respect he referred ironically to Bonnet's reported statement at San Francisco that the principles of the policy of the French Government as concerns improvement of economic relations conform with the principles of the policy of the United States Government.

Turning to the financial problem Reynaud foresaw considerable difficulties for the Government in raising the necessary funds to pay its way. He referred in some detail to statement attributed to Jouhaux last Sunday to the effect that labor would maintain the present Government in office by force if necessary and condemned the dictatorship of the masses in the Government.

END OF SECTION ONE.

BULLITT

SMS

NPL

RB

GRAY

Paris

Dated June 11, 1937

Rec'd 3:05 p. m.

Secretary of State

Washington.

768, June 11, 4 p. m. (SECTION TWO)

he urge the government to tell the workers the truth about the situation and to make them understand that continuation of the present policy would lead all to disaster.

After a lengthy criticism of the Government's policy and change of front relating to tariffs Flandin insisted that full customs powers were not necessary, that the protection required could be found in the quota system and claimed that in reality the powers demanded by the Government would undoubtedly be used for combinations and bargaining to which he would refuse to be a party. His reference to the decrees of October 2 last reducing tariffs and quotas led the Minister of National Economy to protest that the gesture of customs demobilization by France had not been followed by foreign countries and therefore the government had to change its policy

BULLITT

RR

CSB

RB

GRAY

Paris

Dated June 11, 1937

Rec'd 5:25 p. m.

Secretary of State  
Washington.

768, June 11, 4 p. m. (SECTION THREE)

Before Senate yesterday approved bill providing for adjustment of the 1936 budget the reporter of the Senate Finance Committee, Gardey, and the President of that Committee, Caillaux, took the opportunity of reviewing the financial problem which is evidently rapidly coming to a head.

Statements and explanations furnished by Gardey present considerable interest providing a picture of the financial and economic situation which may be accepted as being complete and accurate (?) the limited and therefore obscure explanations and statistics coming from other official sources.

Gardey surveyed budgetary situation and declared that for the current year probable deficit of the ordinary budget will reach 9,000,000,000 francs. He recalled the Government's attempt to solve the financial and economic  
problem

RB

-2-#768, June 11, 4 p.m. from  
Paris (SECTION THREE)

problem through vast public expenditures and summarized results to date. Quoting fiscal revenue returns which he considered the most certain of economic barometers he found that indirect taxes were only 85,000,000 in excess of estimates for the first four months of the year and that receipts from the business turn-over tax were 12 percent less than estimates in spite of higher prices. He quoted statistics showing that the decrease in unemployment during the past two months was not appreciably more than during the same period of 1936. The improvement noted early in 1937 in cars loaded had not been maintained and the same was true regarding maritime transport. Production had slightly increased but improvement was chiefly confined to metallurgy. Textile, paper, automobile, and rubber industries showed substantial

BULLITT

SMS

NPL

RB

GRAY

Paris

Dated June 11, 1937

Rec'd 5:14 p. m.

Secretary of State

Washington.

768, June 11, 4 p. m. (SECTION FOUR)

diminution. Export trade was at a stand still. While production in foreign countries had recovered to the 1929 level if not better in France, production was about one third less than prior to the crisis.

Taking up the problem of the Treasury, Gardey recalled Auriol's recent statement that 10,144,000,000 francs were required for the first quarter of 1937 and 20,133,000,000 for the rest of the year. Gardey could not agree with this estimate and insisted that the budget would be double that estimated by the Government and that in his calculations Auriol had overlooked several payments not to mention the railway deficit.

Funds available to the Treasury to meet its requirements were low. The respite afforded by the recent national defense loan was exhausted. Regarding ways and means of raising necessary funds, Gardey could not believe the Government could possibly think of having recourse to the

Bank

RB

-2-#768, June 11, 4 p. m. from  
Paris (SECTION FOUR)

Bank of France. The only way out was through borrowing but the state was finding difficulty in this respect. It could not issue the remainder of the national defense loan and it was not easy to find takers for ordinary Treasury bills.

Gardey briefly surveyed the effect of the policies of the administration, the result to budgetary equilibrium and to production and the failure of devaluation. The result of the experiment of the Popular Front Government was that the social structure of the country had been endangered, increased costs of production would soon undermine the social benefits acquired, and from the financial point of view the state of the public finances had become serious. The Government evidently realized this situation and appeared inclined to return to

BULLITT

SMS

EMB

RB

GRAY

Paris

Dated June 11, 1937

Rec'd 5:35 p. m.

Secretary of State  
Washington.

766, June 11, 4 p. m. (SECTION FIVE)

orthodox principles. However, unless this return was accompanied by appropriate acts and the administration remained its own master success would not be realized. The present situation was abnormal and the country must recover its good sense, tranquillity of mind, and must return to work.

Any attempt to create new resources through any fiscal or technical measure would in the opinion of Gardey provide a brief respite. Everything had to be recommenced -- the budget must be balanced and production must be organized under the authority of an independent government. There must be a return to social peace with reciprocal respect for the right of labor and capital.

Auriol explained at some length budgetary receipts and expenditures during 1936 and ways and means adopted to procure funds for the Treasury. With respect to 1937 the Minister indicated that, contrary to the experience  
of previous

RB

-2-#768, June 11, 4 P. M. from Paris  
(SECTION FIVE)

of previous governments, the present administration found great difficulty in placing short term Treasury bills. On the other hand during the first five months of 1937 the Treasury had issued 15,000,000,000 francs of long or medium term loans, not including the British credit of 40,000,000 pounds. However, the Government realized the necessity to put an end to continued borrowing and M. Auriol declared to the Senate that "it was by successive steps firmly decided upon and courageously followed up that the financial and economic situation could really be restored.

BULLITT

SMS

EMB

RB

GRAY

Paris

Dated June 11, 1937

Rec'd 5:41 p. m.

Secretary of State  
Washington.

768, June 11, 4 p. m. (SECTION SIX)

The Minister then proceeded to quote a series of statistics with the view of demonstrating that present high prices did not risk defeating recovery and that the index of wholesale prices in many instances in 1929 was higher than today.

He continued that notwithstanding claims to the contrary revenue from taxation was satisfactory and announced that for the first five months of 1937 revenue from indirect taxes amounted to 11,996,000,000 compared with estimates of 12,045,000,000.

Finally the Minister recognized that the situation of the Treasury was a difficult one but in this respect he once more invited attention to the burden of the railways and the necessity to maintain advances to the Departments and the Communists. He also bitterly complained of efforts made in certain quarters and by certain newspapers to destroy confidence in the Government and he pathetically  
appealed

RB

-2-#768, June 11, 4 p. m. from  
Paris SECTION SIX

appealed to the Senate and to public opinion to believe that under such circumstances it would have been impossible for any Finance Minister (\*) and to halt export of capital.

However, M. Auriol did not take the Senate into his confidence regarding his plans for raising necessary funds for the Treasury but confined himself in concluding his statement to the indication that the Government intended to continue in its efforts to restore the situation. He said that in a few days plans would be placed before Parliament (?) added that this would not be sufficient unless expatriated and hoarded capital was brought out for investment and that he believed this possible if campaigns against the Government ceased.

BULLITT

SMS

NPL

(\*) Apparent omission

RB

GRAY

Paris

Dated June 11, 1937

Rec'd 5:06 p. m.

Secretary of State

Washington.

768, June 11, 4 p. m. (SECTION SEVEN)

The debate concluded by a few observations from Caillaux who suggested that Auriol had obviously attempted to make the best of a bad case; that nevertheless it was evident that all was not well. He sternly took the Minister to task for his ruinous policy. He awaited in vain, he said, for an indication of ways and means envisaged to raise the 25 to 30 billion francs required by the Treasury and warned the Minister of Finance that if the plan now under preparation was to receive the approval of the Senate it would have to be complete and far reaching. Caillaux insisted that the situation was serious and that the public was obviously aware of it. The so-called consultations and attacks were the lot of all governments and ministers and were not confined to the Popular Front Government as Auriol appeared to believe.

END OF MESSAGE.

BULLITT

SMS

NPL

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 11, 1937, 6 p.m.

NO.: 769

RUSH

FROM COCHRAN.

STRICTLY CONFIDENTIAL.

This evening at 5:45 I had a talk with the Bank of France. My contact informed me that the pressure on the franc today had been even heavier than it was yesterday. It appeared from preliminary calculations that the French control losses for the day would be approximately 100,000,000 francs greater than yesterday; the figure was 635 million francs yesterday. Deducting today's losses would leave the Stabilization Funds balance of gold and foreign exchange <sup>between</sup> ~~six~~ <sup>between</sup> ~~and~~ <sup>between</sup> three-fourths and one billion francs.

BULLITT.

EA:LWW

-COPI-

London, June 11, 1937.

MEMORANDUM FOR THE SECRETARY:Subject: Narcotic Smuggling - Europe.Hamburg.

I have just come from Hamburg where I have been making a survey of the present situation. There is no question that Hamburg is one of the most dangerous ports from the smuggling angle, for several reasons. These are chiefly:

(a) It is a tremendous transshipment port at which vessels from the Far East call frequently, said vessels carrying Chinese in their crews. These Chinese hook up with the local Chinese in the smuggling business such as the notorious Choy Loy.

(b) It is the terminus (lay-over) point of the United States Lines and certain German ships in the trans-Atlantic trade. The lay-over period is of several days duration, this period giving the narcotic carriers in the crews time to make the necessary arrangements ashore.

(c) It is a port of egress, to some extent for opium from Yugoslavia.

(d) It, like Antwerp, has a large tough floating population of crooks, among whom are the seagoing members (beach combers) of this fraternity. Incidentally, Hamburg is a city approximately four times as large as Antwerp, with a correspondingly larger underworld section.

I put Beers (he is now covering Hamburg) to work on an angle which I think is important: The port, in the free-harbor warehouses, is a storage point for stocks of opium, principally Turko-Yugoslav monopoly stocks, Russian stocks to some extent it appears, and some Afghan stock; in addition there is some Yugoslav non-monopoly opium stored there (pre-monopoly) In Hamburg there is an opium market which deals legitimately (supposedly) with these stocks. I "sicked" Beers on to the opium market brokers and the stocks in the free-harbor warehouse. I have a strong hunch that we have missed a bet here. I feel that something funny is going on. This is borne out by the fact that two different independent informers tell us that such is a fact. One of them states flatly that she knows opium is coming out of one of the warehouses on the quiet and going to the United States.

I went around with Beers, drank with him and his informers, and in general watched him work. He is O. K., and an able ally to Scharff. I consider Scharff and Beers in a class by themselves as being much superior to our other European narcotic personnel. This morning, before I took the plane, Beers and I cooked up a scheme to take advantage of a break

-2-

which came our way last night. We found that a consignment of opium from Hamburg was landed O. K. in New York but has not yet been disposed of there. We had one of our informers tell the owner who is here on his ship about a sure customer in New York. This customer, if our plans work out, will be one of John Roberts' men. I will make the arrangement with the New York boys as soon as I arrive there on the WASHINGTON, June 24. (The WASHINGTON will beat the other ship to the States.)

I have dropped in here (London) on my way to Antwerp to look over the personnel of the London office, looking for material suitable for transfer to the narcotic side should it become advisable. Our European personnel on the valuation side in general is not a very prolific field in this respect as regards the Vienna office and not much better in the Berlin office. There seems to be a dearth to some extent of "tough guys." After a short stop at Antwerp to consult Wiley and Dyar, I will go to Paris where I sail for home on the 17th.

Respectfully,

THOMPSON.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Friday, June 11, 1937.

Press Service  
No. 10-54

Acting Secretary of the Treasury Taylor today announced the subscription figures and the basis of allotment for the offering of 1-3/8 percent Treasury Notes of Series D-1939 and of 1-3/4 percent Treasury Notes of Series A-1942.

Reports received from the Federal Reserve banks show that subscriptions for the notes of Series D-1939 aggregate \$2,499,000,000, and subscriptions for the notes of Series A-1942 aggregate \$2,496,000,000. Subscriptions for both series of notes were allotted on the same basis. Subscriptions in amounts up to and including \$1,000 were allotted in full and those in amounts over \$1,000 were allotted 17 percent, but not less than \$1,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

ooOoo

JR

GRAY

Paris

Dated June 12, 1937

Rec'd 9 a.m.

Secretary of State,  
Washington.

772. June 12, noon (SECTION ONE).  
FROM COCHRAN.

Features of the debate on full customs powers which was resumed in the Chamber yesterday related to (one) declaration of spokesman for the Radical Socialists that his colleagues would refuse to vote the project of full powers unless it were embodied in a general plan of revalorization of agricultural products and (two) statement by Paul Bastid, Minister of Commerce, that France intended to remain faithful to the tripartite monetary arrangement. With respect to the latter he said that the French Government remained convinced that the success of the policy embodied in the common declaration was linked with the development of international commerce but immediately proceeded to emphasize that "it was evident that this development did not depend upon France alone".

It is also noted from the official report that

BULLITT

CSB

MND

GRAY

Paris

Dated June 12, 1937.

Rec'd. 11 a. m.

Secretary of State,  
Washington.

772, June 12, noon. (Section Two)

In reply to a question as to whether he or Professor Rist was really head of the Ministry of Commerce Bastid was led to explain the position of the Professor and the relations of the Rist Committee with the Ministry of Commerce. The Minister said that the role of Rist and his committee "was purely administrative". The role of the committee was to propose solutions which (Bastid went on to say) the Minister did not always accept "but in most cases he did accept". In any event Bastid assured the Chamber he insisted upon taking upon himself all responsibility for decisions reached and protested that claims made that the Rist committee did nothing for protection or for French production had no foundation in fact.

The debate on the full customs powers project will be resumed in the Chamber of Deputies on Tuesday morning next.

Early yesterday the debate on resolution  
proposed

MJD --2-- No. 772, June 12, noon from Paris  
(Section Two)

proposed by Regnier (Radical Socialist and former Minister of Finance) perforce of the application of the forty hour law to the hotel industry developed into a veritable interpellation on the government's social policy and wide notice is given in today's press to defeat of Government's demand by 159 votes to 129 for postponement of consideration of Regnier's project and to its final unanimous adoption by Senate. Opinion appears to attach considerable significance to this development from the point of view of the stability of the Government.

Finance Minister Auriol yesterday gave statement to press denying rumor that exchange control would be instituted. (End Message)

BULLITT

CSE

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JUN 12 1947

FEDERAL BUREAU OF INVESTIGATION

U. S. DEPARTMENT OF JUSTICE

WASHINGTON, D. C.

Copy for SECRETARY

MJD

GRAY

London

Dated June 12, 1937.

Rec'd. 9:30 a. m.

Secretary of State,  
Washington.

376, June 12, 1 p. m.

FOR TREASURY FROM BUTTERWORTH.

As instructed I discussed the substance of my 375, June 12, 11 a. m., with Waley and Bewley of the British Treasury. They expressed appreciation that this information had been conveyed to them and said that their initial reaction was that in principle they quite agreed that the adherents to the tripartite monetary agreement ought not to take "difficult individual or selfish courses of action". They state that the British Treasury had no specific information regarding Swiss operations in London; that they would look into the matter and it would be discussed with Montagu Norman and his assistants upon their return from Basel where they might well have already touched on the matter with Bachmann and others. Waley and Bewley added that as soon as the British authorities had had an opportunity to discuss the position they would

MJD --2-- No. 376, June 12, 1 p. m., from London

would communicate with me again.

One hundred thirty bars were offered at fixing at a wider discount, four one half pence some of which represented official purchases.

BINGHAM

HPD

RECEIVED

JUN 12 1946

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

JR

GRAY

London

Dated June 12, 1937

Rec'd 9:40 a.m.

Secretary of State,  
Washington.

375.  
June 12, 11 a.m.

FOR TREASURY, MONGENTHAU FROM BUTTERWORTH.

The following summary of the information which you communicated to me by telephone yesterday afternoon is cabled to you herewith for your records in accordance with your instructions.

Cochran had been ordered to visit Dr. Bachmann on Sunday to give him the following message from you "I am displeased with the manner in which the Swiss have been conducting their exchange operations in the United States and I do not feel that the Swiss are living up to the spirit of the tripartite agreement".

You instructed me to seek an appointment at the British Treasury and communicate the above to them and you gave me the following background information:

Cochran had seen Bachmann about a week ago. Bachmann had not dealt with him in the open and above board fashion; but he had referred to his dollar balances and implied that in the absence of a protest he could continue augmenting them.

The

-2-

JR #375, June 12, 11 a.m., from London.

The Swiss have been deearmarking their American gold and increasing their dollar cash balances by substantial amounts; for example, Thursday they sold \$5,000,000 of gold.

This recent practice had disturbed the Dutch. You inquired whether I had read Cochran's telegraphic report of his recent conversation with Trip and I replied that a copy of this report had not been sent to London. You then explained Trip's expressed reaction was that the Swiss were not playing the game and that he mentioned that his position "if something should happen" would be made difficult if Bachmann were allowed to take this precautionary attitude and he, Trip, did not follow the same course.

Cochran is to communicate with the Dutch and the Belgians, whose behaviour in this and kindred matters has been exemplary, the message from you quoted above in order that they should if they see fit take similar action.

In this connection you referred to the Bank of England's query of Knoke: "What luck are you having with the Swiss". I said that I understood the situation and that I thought the above remark would give me just the opening I needed.

You mentioned that if Bachmann should ask Cochran

what

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JR #375, June 12, 11 a.m., from London.

what you suggested he do with his dollar balances, Cochran was instructed to say that he should use these funds to buy gold in the British market and bring the gold if he wished to the United States and ~~leave~~ it on earmark.

BINGHAM

CSB

RECEIVED

JUN 12 1951

TREASURY DEPARTMENT  
OFFICE OF THE ASSISTANT  
SECRETARY FOR INVESTMENT

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 12, 1937, 10 a.m.

NO.: 771

FROM COCHRAN.

I transmit the following in confirmation of the telephone conversation with Secretary Morgenthau, who telephoned me from New York at 6 p.m. on June 11.

The Secretary inquired about the French internal situation. In answer I summarized my telegrams No. 766 of June 11, 11 a.m. and No. 769 of June 11, 6 p.m. The Government I added could not have its financial and fiscal program ready for consideration before the first of the week, and there was little chance that a political crisis would result before the measures were turned down in committees or debated in Parliament, which at the earliest could not be before the middle of the week. The French stabilization fund in the meantime is losing gold at such a rate that by Tuesday it will probably be obliged to purchase gold from the Bank of France.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION TWO, NO. 771 of June 12, 1937,  
from the American Embassy, Paris.

The public statement of the Bank would not show such a transaction until Thursday of the following (omission).

I was asked by Secretary Morgenthau whether I could telephone a message from him to the Swiss National Bank President, Bachmann. I told the Secretary I was proceeding to Basel on Saturday night and would be seeing Bachmann on Sunday, so he instructed me to deliver the following message to Bachmann orally:

"The Secretary of the Treasury is displeased at the way Bachmann has been conducting foreign exchange operations in the United States. The Secretary does not feel that Bachmann is living up to the spirit of the tripartite agreement. The Secretary sincerely hopes that he will discontinue the practices which he has been following recently."

The Secretary told me, in explanation of the above, that the Swiss National Bank had on balance \$45,000,000 with the Federal Reserve Bank of New York. It also had another \$15,000,000 in United States Governments, thus making the total of \$60,000,000. ~~near to the United States~~ In their earmark account they have \$11,000,000 gold, and on the water they have approximately \$12,000,000. They withdrew another \$5,000,000 from earmark on Thursday evening.

END SECTION TWO.

BULLITT.

PARAPHRASE OF SECTIONS THREE AND FOUR OF TELEGRAM NO. 771 of June 12, 1937, from the American Embassy, Paris.

Once I have given the above-quoted message to Bachmann I am to tell the Belgian and Dutch officials thereof, and suggest that if the same difficulties/are being experienced by them, they might let Bachmann know that they concur with the message from Secretary Morgenthau. I told the Secretary that while I was at Basel I would give this word to Governor Franck of the National Bank of Belgium. The Netherlands Bank Governor, Trip, will not be at Basel, so either while I am at Basel or after my arrival back in Paris on Tuesday morning, I am to telephone him at Amsterdam.

At nine o'clock on Monday morning I am to telephone Mr. Morgenthau at the Treasury, from the Schweitzerhof Hotel in Basel, to report the delivery of the messages to Bachmann of Switzerland and Franck of Belgium. Through Butterworth the Secretary is informing the British, who have asked how we are getting on with the Swiss authorities.

Secretary Morgenthau felt that the Swiss would make the Dutch, Belgians and others nervous if they continued their present practice. He would have no objection, he intimated, to the Swiss following the practice of the Netherlands of selling gold against dollars in New York and purchasing London gold. I was reminded by Secretary Morgenthau that both the Central Banks give us full explanations

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planations of transactions which are undertaken on the market in our country.

I made reference to the trip I recently made to Bern, saying that it had been made to seek the views of the Swiss with instructions to indicate no American uneasiness regarding their practices, and that I had made a simple recital of my conversations in my telegram No. 713 of June 1, 10 a.m. Secretary Morgenthau said that after he had received the Swiss explanation which I had cabled, he expected to give Bachmann his answer in the words quoted above, and added that this attitude was warmly indorsed by the Federal Reserve Bank of New York.

At 10 o'clock on Saturday night I leave Paris and on Tuesday morning I arrive back at 7 o'clock.

END OF MESSAGE.

BULLITT.

EA:LWW

June 14, 1937.  
9:02 a.m.

Cochran: Hello Mr. Morgenthau  
H.M.Jr: Hello Cochran.  
C: Yes.  
H.M.Jr: An - go ahead.  
C: I'm in a hotel here in Basel.  
H.M.Jr: Well all right.  
C: The French are having another bad theory.  
H.M.Jr: What's that?  
C: I say the French are having a very bad day.  
H.M.Jr: Yes.  
C: The French are ready for a discount rate to 6%.  
H.M.Jr: Yes, we got that.  
C: And they lost pretty heavily in the trading here.  
H.M.Jr: Yes.  
C: And on this other matter I saw Bachman yesterday morning at 10:30 .....

H.M.Jr: Yes.  
C: .....and gave him orally your message.  
H.M.Jr: Yes.  
C: He said he'd tell his associate directors.  
H.M.Jr: Yes.  
C: And then I saw him again this noon at 12 o'clock.  
H.M.Jr: Yes.  
C: He gave me their message.

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H.M.Jr: Yes.

C: He outlined the program which they have been following.

H.M.Jr: Yes.

C: They have a certain amount of gold.

H.M.Jr: Yes.

C: Two billion six hundred thirty-one million Swiss francs of gold.....

H.M.Jr: Yes.

C: .....in the bank.....

H.M.Jr: Yes.

C: .....and they had decided some days ago on a policy of not increasing the bank's holdings above that amount.

H.M.Jr: Yes.

C: And they say on the other hand, they assure us that they will not sell any of that and the amount.....

H.M.Jr: Yes.

C: .....which appears in the bank statement.

H.M.Jr: Yes.

C: And they say that that figures out at 493 Swiss Banks at present in Switzerland.....

H.M.Jr: Yes.

C: .....as against 286 in our country.

H.M.Jr: I see.

C: And he says that they don't want to change the gold price and - but they say that they cannot to hold any more gold than that on account of it being prices - price of gold and of war and then they gave me a statement as to the amount in their stabilization fund.

H.M.Jr: Yes.

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- C: That's five hundred thirty-eight million.
- H.M.Jr: Yes.
- C: Ah - that's the total of the fund and of that they now have four hundred and eight million Swiss francs - foreign exchange.
- H.M.Jr: Yes.
- C: It's mostly dollars and a few pounds.....
- H.M.Jr: Yes.
- C: .....and they have fourteen million in Swiss francs.....
- H.M.Jr: Yes.
- C: .....and they have one hundred and sixteen million francs of gold.....
- H.M.Jr: Yes.
- C: .....and their plan - ah - they're thinking of sending the remainder of this to us.
- H.M.Jr: To whom?
- C: About one hundred and sixteen million Swiss francs - that's a little over twenty-five million dollars.
- H.M.Jr: Yes.
- C: They - they propose sending this on over to us and converting it into dollars over the next two or three months.
- H.M.Jr: Yes.
- C: and they said that any gold that comes to the banks from hoarding.....
- H.M.Jr: Yes.
- C: .....ah - ah - would go through the fund, of course, but would be sold in London.
- H.M.Jr: Yes.

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C: They're sending gold in bars from Swiss - have it already in London.

H.M.Jr: Yes.

C: They will dispose of it there and not send any more of that to us.

H.M.Jr: Now repeat that - what they're going to do with this - this last thought I don't get that.

C: Ah - as their bank has to take in gold offered to them by hoarders, some of which is already in London,.....

H.M.Jr: Yes.

C: .....and some of which - coins and so on - is here....

H.M.Jr: Yes.

C: They - they will dispose of that on the London market.

H.M.Jr: Yes.

C: And they promised not to - to - to use our market for the purpose.

H.M.Jr: I see.

C: They - they just wanted to use our market to dispose of the remaining one hundred and sixteen million francs of gold over two or three months.

H.M.Jr: Well why don't they leave it in gold here?

C: Well they insist that they don't want to hold any more gold than that figure.

H.M.Jr: Yes, well how about us?

C: Well that's the point.

H.M.Jr: Ah-ha, well anyway I won't argue over the telephone - I'll just take the report.

C: I'll confirm it by wire.....

H.M.Jr: Yes.

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- C: ....and he says that he was writing explaining their whole position and to get his colleagues to sign a letter with him this week to George Harrison and give me a copy.
- H.M.Jr: Well why send it to George Harrison. He's got nothing to do with it.
- C: I mean that's what he told me.
- H.M.Jr: Well if you could get word to him - the letter should come to me - not to George Harrison.
- C: Yes sir, that's why I wanted to call you and explain it this afternoon; I - I didn't want to tell him not to do it.....
- H.M.Jr: No, to me he should send the letter. George Harrison has nothing to do with it. It's to come through the Swiss Government to me.
- C: Fine, I'll have him address it - want it addressed to you or to me?
- H.M.Jr: No, it's to be addressed to me and let it come through diplomatic channels.
- C: Diplomatic channels.
- H.M.Jr: Yes, this is between governments - it's not between Central Banks.
- C: All right.
- H.M.Jr: I mean it's to follow the same - the same procedure as the tripartite agreement.
- C: All right.
- H.M.Jr: Hello.
- C: Hello - yes.
- H.M.Jr: I mean it's - it's - he can deliver it to you but it's - it's - it's from the Swiss Government to - from the Swiss Treasury to me.

- 6 -

C: All right, I'll get him to - to send it over the signature of his Minister of Finance.

H.M.Jr: If you please.

C: All right, sir.

H.M.Jr: I mean I'm very definite on that.

C: Yes, well I'll - I'll get - ah - these last that Bewley just sent - ah -

H.M.Jr: Yes, well I'm very definite on that.

C: I'll - I'll - I'll get ahold of him as soon as he gets to Zurich. I'll call him from here, you see.

H.M.Jr: Yew, well how did he - how did he receive my message?

C: He'll write it for the signature of - fine - the Minister of Finance addressed to you .....

H.M.Jr: Yes.

C: .....and I'll send it to the diplomatic pouch.

H.M.Jr: Yes, but - ah - but - ah - when you get it cable me the contents.

C: Surely, I'll - I'll cable a summary of it.

H.M.Jr: Now how did he receive my message?

C: He insists that he wants to ah - to

H.M.Jr: But he didn't take any objection to your delivering that message?

C: Oh no - no. He said, "It's awkward not having more frequent and more direct contacts" and I told him that much misunderstanding would be obviated but let us know what he plans to do .....

H.M.Jr: That's right.

C: .....and then go ahead and I told him how the Belgians and the Japanese and so on outlined their programs to us.....

H.M.Jr: That's right.

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C: .....and that we put ourselves out to help the Belgians and we had the French and the Dutch.....

H.M.Jr: That's right.

C: .....when they had a problem.

H.M.Jr: Now - ah

C: He said that after he talked with his colleagues to-day - if they had any change in their program they'd let me know.

H.M.Jr: That's right.

C: So I haven't told him yet the feeling from here, you see?

H.M.Jr: Yes, when will you be back in Paris?

C: I'll be back there at 6:45 in the morning.

H.M.Jr: Tomorrow morning?

C: Yes, I leave here at 10 o'clock tonight.

H.M.Jr: Yes, now just hold the wire a minute please.

C: All right.

(Pause while short conversation is carried on in H.M.Jr's office)

H.M.Jr: Ah - the boys here say the letter should come over Myers' signature.

C: Over Myers' signature?

H.M.Jr: The Minister of Finance.

C: Right.

H.M.Jr: That's right. Are - are the people there disturbed over the French situation?

C: They're very nervous over it.

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



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H.M.Jr: Well you - you - well I overlooked that fact.

C: What's that?

H.M.Jr: You should tell them when you get back.

C: All right, I told this noon - the Belgian - he says they have had no difficulty.

H.M.Jr: Yes, well when you get back you can tell the French.

C: He told his assistant - the man that talks with Knoke and said that they had taken about ten million dollars from them - that was all.

H.M.Jr: Ah-ha.

C: And he said he would give my message to and they would decide whether they should speak to or not.

H.M.Jr: All right, Cochran.

C: And they're talking this gold business down here strongly though.

H.M.Jr: All right.

C: I'll give you a wire on it - get it off the first thing in the morning.

H.M.Jr: Thank you.

C: And I'll attend to the letter business this afternoon.

H.M.Jr: Thank you.

C: All right, sir, goodbye.

H.M.Jr: Goodbye.

June 14, 1937.  
9:16 a.m.

Operator: Go ahead.

H.M.Jr: Hello

Knoke: Good morning, Mr. Secretary.

H.M.Jr: Ah - good morning - Knoke, I just talked with Cochran. He had a talk with Bachman.....

K: Yes.

H.M.Jr: .....and what Bachman has worked out - how much gold we have per capita and how much gold the Swiss have per capita.

K: Yes.

H.M.Jr: And they have more gold than we have so they don't see why they can't send us another twenty-five million dollars. Ah - and which they have now in excess of their per capita needs in their stabilization fund. Anything over and above that comes out of dehoarding they are going to send to England but they're not going to take any more gold.

K: Yes.

H.M.Jr: Well we're going to pass it on to the British right away.

K: I see.

H.M.Jr: And he's writing me a long letter and he'll give me a lot of figures and after we get them why - ah - ah - Archie will pass them along to you.

K: Yes, I'd like to - ah - to - ah - check into it here.

H.M.Jr: Yes, well he'll pass them along to you. He'll get them to you by noon to-day; they're typing them out now - it gives a lot of stuff.

K: Yes.

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

K: Are you satisfied with it all?

H.M.Jr: Not at all.

K: Yes.

H.M.Jr: It's a new way of solving the gold problem taking it on a per capita basis.

K: Yes.

H.M.Jr: That's a beauty.

K: I'd just as soon get prepared for all these various arguments and be ready to answer them.

H.M.Jr: Yes, now what about the French situation right now?

K: There's - the only thing - I - I just saw from the London cable that the demands for dollars, particularly from Paris continues.

H.M.Jr: Yes.

K: Ah - the British - the French fund evidently is supporting at the old rate 110.90 - ah - on - by Friday night gold holdings, if the information that has come in and this is correct, the gold holdings must have been down to seven to eight hundred million francs,.....

H.M.Jr: That's right.

K: .....which would be just one more good - one more day and they are out.

H.M.Jr: Yes. Ah - well now - ah - let me ask you a question. Can you work from here as well as you can from New York for a day or so? I mean - what I'm thinking of is I'd like to have you here tomorrow.

K: Well - ah - yes, all right I'll be there tomorrow. I - ah - I can't work quite as well but I think it's worthwhile.

H.M.Jr: Yes, well I've got some things that - that I've got on the hopper and I want you to sit in on them.

K: All right, sir.

- 3 -

H.M.Jr: And will you tell - will you tell the governor?  
K: Yes.  
H.M.Jr: Ah - what do you do come down on the midnight?  
K: Ah.....  
H.M.Jr: Or will you come down this afternoon?  
K: Well I'll probably. Well I - I would prefer to come down in the afternoon if I get away here.  
H.M.Jr: All right, well the point is I'm going to start at the office at 8:30 tomorrow morning.  
K: Yes.  
H.M.Jr: I'll start in at 8:30.  
K: That is 8:30 your time?  
H.M.Jr: Ah - Washington time.  
K: Washington time - all right, I'll be there at 8:30.  
H.M.Jr: I'll start at 8:30.  
K: Yes sir.  
H.M.Jr: Now - ah - the thing that I want you on particularly is what will we do in case France puts in exchange control or - ah - or - ah - devalues further, see?  
K: Yes.  
H.M.Jr: And - ah - ah - one of the things that I have in mind, and I wish you'd be thinking over it - ah - is that if they do that I'm considering as one of the plans - ah - that we'll only buy gold through Central Banks.  
K: Yes.  
H.M.Jr: See?  
K: Yes.  
H.M.Jr: I mean then - then we can sit down each day and we can say to England, "How much would you take," when they offer it to us.

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- K: Yes, that is another question you want for me to do.
- H.M.Jr: Yes - yes, but I mean if they do this thing I think that will be the time to - to announce that we'll only buy gold from Central Banks.
- K: Yes.
- H.M.Jr: Because if the crisis comes these private banks won't take it anyway.
- K: No, I think that is better than definitely demonstrating it.
- H.M.Jr: I know. Well - and this thing is coming to a head and I think - I think that that's the way to handle it. Whether the banks take it or not all - all - 50% of these rumors come from the banks talking with their Directors - "Should we or shouldn't we buy gold?"
- K: Yes.
- H.M.Jr: Well then it gets down to the question that we will decide how much gold we'll buy each day from England and France and then if Switzerland starts doing anything then I'll say, "Well hell, we won't take it that's all you keep it."
- K: Yes. Now that's if the Swiss ship to you - if the Swiss National Bank ships to us here that wouldn't change the situation any you would take that gold.....
- H.M.Jr: Well we - I don't know.
- K: But I mean according to what you - ah.....
- H.M.Jr: Oh now - yes - yes but .....
- K: You'd still be buying - ah - the Swiss gold - that problem wouldn't be solved that way because you'd still be buying from a Central Bank.
- H.M.Jr: But it takes out all these people sitting around in the banks and board rooms - of bank board rooms discussing, "Should or shouldn't we buy this gold?" Think it over.

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K: All right, sir.  
H.M.Jr: Think it over.  
K: Yes.

June 14, 1937

The Secretary spoke to the President over the phone this morning at 9:20. He said, "Good morning, Sir. How do you know about Joan? She's getting along nicely. She went to bed with a 102 fever. The fever went down, but the blood count didn't look right so we took her over and they took out her appendix at Vassar Hospital." When the President inquired who the surgeon was, HM, Jr. replied, "Moffett. He evidently enjoys a very good reputation."

The President then asked if there was any more news from Paris. The Secretary said, "I have been trying to get Bill Bullitt since 7:30. Herbert Feis called me in the middle of the night and read the message to me. It looks as though Bullitt was under great pressure when he sent it. They read it to me."

All that happened this morning is that the French increased their discount rate from 4% to 6% and there is nothing showed up in foreign exchange to show that there will be a collapse today. I talked to Cochran, in Switzerland, and he had nothing new there and I did not bother you because I had nothing to contribute and everybody assured me Friday that it would be all right until Monday, so I said, 'Why bother the President?' Well, La Belle France still has her virtue, but not much gold!

I talked to Robert Jackson Friday night after Magill had talked to him and he is in Philadelphia today, and he and Magill and Oliphant and I were scheduled to go out there tonight to see him, to try to work on him, but he didn't say yes and he didn't say no. But I will tell Magill to be at your office at ten minutes of two."

The Secretary, after the conclusion of the conversation said, "The President wants to know, in case the Congressional Investigation Committee should make a 'flub-dub' of the first one or two cases, could we go ahead on our own and how would we do it and I should ask Oliphant."

June 14, 1937.  
9:37 a.m.

H.M.Jr: Hello

Operator: Congressman Doughton. Go ahead.

H.M.Jr: Hello

Doughton: Hello Mr. Secretary, how are you?

H.M.Jr: Oh fine, how is everything down in North Carolina?

D: I haven't been down there lately. I sat here last week trying to get your excise bill through the house.

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

D: What say?

H.M.Jr: I see you did.

D: Yes, we had a mean fight and that's what I wanted to call you up about.

H.M.Jr: Well I congratulate you on winning a mean fight.

D: Well here's the situation; if we have to fight the Chairman of Committee on Rules and then on some amendments we have to crack the whip on the whole organization I don't know how long we can be able to get this bill through.

H.M.Jr: Well - ah - how much.....

D: Darned old Carter made a mean bitter speech against the whole bill you know.....

H.M.Jr: Yes.

D: .....and attacked it every way he could and then voted against it and - ah - I had to amend that Cole amendment - that fellow with the whip you know he led and worked against it and voted against it and voted his whole delegation against it and I don't know what we're going to do if we don't get better lineup down here with the leaders.

H.M.Jr: Well if you had it easy it wouldn't show how good you are.

- 2 -

- D: How's that?
- H.M.Jr: That just shows how good you are.
- D: Well I know but you can't keep that up you know because a lot of dissention will be down here now - everybody that - so many people with their names all and I just don't know. I just thought I'd tell you so that if anything can be done at that end of the line to get our organization straightened I thought you might take it up with Sam Rayburn - he wouldn't have any influence with Boake Carter but he ought to have some with the whip because he puts them in.
- H.M.Jr: Well is there any complaint against me personally?
- D: Against who?
- H.M.Jr: Me.
- D: What?
- H.M.Jr: Is there any complaint against me personally?
- D: Oh no not against you personally but they're are some just don't want to agree with something that I don't know; the situation down here is not good.
- H.M.Jr: Shall I build them a couple more Post Offices?
- D: We only beat/three votes down here you know on that Cole amendment and that was a more desperate fight than you ever saw.
- H.M.Jr: Well.....
- D: You see when your whip's against you and Chairmah's Rules Committee against you and even trying to get them to change their vote but it shows you how close it is; someone voted against them there trying to get them to change their vote.
- H.M.Jr: Well all I can say again I congratulate you on the way - the masterful way in which you handled it.
- D: Well I thank you and I appreciate that but we're going to run into - I'm fearful if we don't get things lined up a little better down here that some of these days we're going to get into - going to get some of our measures defeated; it looks mean to me.

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H.M.Jr: Ah-ha - well.....

D: Just thought I'd tell you.

H.M.Jr: I - well I appreciate you're calling and I appreciate what you've done.

D: Well thank you very much. I think we can get started on this tax evasion business, won't we tomorrow - day or two?

H.M.Jr: Ah - I understand Wednesday - somebody told me.

D: Well I thought - we have a birthday of the House Members to-day.....

H.M.Jr: Yes.

D: .....and I'm going to have a conference with Pat now at 10:30 about procedure.

H.M.Jr: Yes.

D: And we ought to get started not later than Wednesday I think.

H.M.Jr: Well we're ready.

D: You're ready at that end of the line, are you?

H.M.Jr: Oh, we're always ready.

D: Well that's - I believe you are. That's fine. Well I'll call you again.

H.M.Jr: Thank you.

D: Goodbye.

## RE RESERVES ON FOREIGN DEPOSITS

June 14, 1937  
9:40 A.M.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Taylor  
Mr. White  
Mr. Lochhead  
Mr. Upham  
Dr. Viner  
Mr. McReynolds  
Miss Chauncey

H.M.Jr: I'm crazy to get off this blankety-blankety tax business and get on my regular job, which is this international thing, so I'll give you what - I just talked to the President - what I got. You people - no, you sit here; a little taxes won't hurt - won't sour your disposition.

In the first place, he wants you (Magill) there at ten minutes of two, see? And he asked me a legal question, Herman, so I think you better be there also. The point that he wants us to discuss at that time is - I'm to call up Tommy Corcoran and tell him to be there, and what the President said is this. He expects to see Harrison and Doughton at five o'clock this afternoon and go over the procedure, because it starts Wednesday morning. He said, "I want you fellows to have all the lists ready to go over." The reason he wants Corcoran there - he knows the background of lot of these people, see?

(On phone) Hello. Ask the White House how to get hold of Mr. Tom Corcoran.

Oliphant: R.F.C.

H.M.Jr: (On phone) I think he's with the R.F.C., but ask the White House operator and then put him on this phone.

Then he said, "Ask Oliphant to be studying the fact that if they flub-dub - is the word to use - and don't give us what we want, what would be the normal procedure if we didn't have any committee for the Treasury to go ahead on its own, see? What could we do? Supposing we didn't have any Congressional Committee; what would the Treasury do? Have Oliphant

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study that. If we had no committee, how would we go ahead and conduct this investigation, just as though it's a regular Treasury operation?" See?

So the responsibility is on you fellows. I mean have your names, why you want this person, see, and have the - I think the best thing is to give it to him verbally, and then a little memo - "Person - so-and-so, so-and-so." And then have something, Herman, ready on that.

Then he said, "The thing is to start Wednesday and then you be thinking . . . ." - I suppose I've got to open this thing - what am I going to say when I go up there Wednesday? And then the thing is an executive session, but whatever I say, I'd like to say it as though it was a public hearing.

Magill: How much do you want to say?

H.M.Jr: Where's Herbert Gaston?

Upham: He has lumbago this morning. He's not in.

Magill: How much do you want to say - very much?

H.M.Jr: Very little.

Magill: Well, I'll give you something.

H.M.Jr: Yes.

So I then told the President that Magill and Oliphant and I were scheduled to have supper with Robert Jackson tonight, and going to try to give him the works. He invited us to (words not understandable)

Magill: Is this out at Robert's?

H.M.Jr: So if you people have nothing better to do and if he does get back from Philadelphia, we'll go out there.

Magill: What time?

H.M.Jr: Well, he's going to phone me from Philadelphia when

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he leaves; but I suppose it will be 7:30. So there's that.

Now, I'll have to take this thing cold when we go in to see the President, because I won't have a chance to.....

(On phone) Hello.

Operator: Mr. Corcoran is on his way to the office.

H.M.Jr: (On phone) Well, leave word I want to talk to him.

Operator: All right.

H.M.Jr: Now, is there anything you (Magill) want to ask me on this tax thing?

Magill: No, I don't think so. You've answered what I was going to ask you. And the other thing is to get in contact with the Senator right away on these excise taxes.

H.M.Jr: They don't dare not to .....

Anything else? - because I want to get on gold. Anybody got anything?

Oliphant: 'Here's that letter.

H.M.Jr: What's that?

Oliphant: (Explains in undertones)

H.M.Jr: Herman, I don't know why we should write any letters. Look, if we go out there....

Oliphant: Leave it over until tomorrow.

H.M.Jr: If we go out there we can talk about it. I have something in the back of my head.

Oliphant: Well, we'll hold it.

H.M.Jr: I mean I'd be much more apt to write a letter like this: "I'm delighted to know that Igoe can win a case if he puts the same amount of zeal into it that...." What's his name, that racketeer that they gave \$1200 or \$1800?

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Oliphant: Malone.

H.M.Jr: I mean it shows that if Mr. Igoe can put the same amount of zeal into the racketeer case, that man would be in jail today instead of getting off on a fine of \$1800. "I'm glad to know that Mr. Igoe can do it when he wants to." That's the kind of letter I'd write instead of one of these "bread-and-butter" letters. I'd just....

Oliphant: There's another angle I want to...

H.M.Jr: There is another angle too.

Oliphant: ....that I want to talk over.

H.M.Jr: In view of what's coming, I want to say, "Mr. Igoe's a swell guy." Or the other thing - "I'm glad to see that Mr. Igoe can see the handwriting on the wall. I hope he can continue to read it." I mean something along that line.

Oliphant: Well, I'd say there's another side.

H.M.Jr: Well, you fellows can't get me all worked up and righteous one moment and then say suddenly - to congratulate somebody like Igoe.

McR: I wouldn't congratulate him.

Oliphant: Now wait a minute, Mac.

McR: Not on your life.

Oliphant: It all depends on whether or not this is the beginning of cooperation.

H.M.Jr: "I'm glad to see Igoe can see the handwriting on the wall. I hope this is the beginning of a new life. Yours sincerely, .. Henry Morgenthau, Jr."

Viner: He will cooperate only if you make it worth his while. Where will you get the cash?

H.M.Jr: Well, he's afraid of losing his job. Just think that over, will you?

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Oliphant: Yes, we'll talk it over tonight. We'll talk about the other side of it.

H.M.Jr: Well....

Oliphant: I'm open-minded about it.

H.M.Jr: Good. So am I. But not too open-minded.

All right. Now, you (Magill) are invited to sit in on gold if you want to.

Magill: Better go out and look up lawyers, I should say.

H.M.Jr: You're invited to sit in if you want to.

Oliphant: Do you want me in on it?

H.M.Jr: Yes, I do.

Oliphant: I'd like to send for Clarence Oppen.

H.M.Jr: (On phone) Have Clarence Oppen come in, please.

Magill: You'll want this statement, I suppose, by tomorrow, won't you, or today?

H.M.Jr: If I can take it home - if I don't sleep any better than I did last night, I'll have plenty of time to read it.

Oliphant: Do you want the letter naming names, or.....

H.M.Jr: I haven't got - I don't know what the thing....

(On phone) Hello. - - Hello. - - Yes. Corcoran, I talked a little while ago to the President and he's asked Magill and Oliphant to be over at his office ten minutes of two to go over names of possible counsel for the tax committee on the Hill, and he'd like you there at ten minutes of two also. - - Thank you.

Magill: Herman was just suggesting whether you wanted in your letter names of individuals who resorted to these devices, etc. You meant names of lawyers, from what you said earlier.

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H.M.Jr: "ell, you've got two meetings. One of us is talking about the Wednesday meeting on the Hill and the other person is talking about the meeting with the President; for the President we want lawyers. For Wednesday's meeting I think you meant the names.

But all I want to say is, whatever is in the letter is what I am perfectly willing to have made public. I mean I don't want to say anything there that I know that they - if they repeat, I won't be willing to say publicly.

Magill: Well, from the way the President has talked to me, I don't think you want names on Wednesday.

H.M.Jr: I don't know. But we can ask him that.

Magill: Yes. (Goes out)

McR: (Hands some papers to Secretary) .... . The President asked whether you got that proposed legislation. That is a memorandum merely showing what it does. I don't know any need for you to sign it. The draft of the legislation that is there would do what McIntyre told me that the President wanted to do. I don't think they ought to do anything, but I've merely carried....

H.M.Jr: All right.

McR: ...merely carried out orders.

Your high school children were here.

H.M.Jr: Are they?

McR: They came in Friday.

H.M.Jr: I'll see them right after press conference.

McR: What time is your press conference?

H.M.Jr: About 3:30, tell them.

McR: All right.

(McReynolds goes out)

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(Harris comes in)

H.M.Jr: Have we a bond market?

Harris: Yes, sir. It's generally unchanged. The new issues....

H.M.Jr: How are the new notes?

Harris: Same as closing - 8-10 and 7-8.

H.M.Jr: Yes, all right.

(Harris goes out)

(Oppen comes in)

H.M.Jr: I hope you (Viner) are here for a few days.

Viner: As long as you want me.

H.M.Jr: That may be too long.

Viner: Perhaps a little longer.

H.M.Jr: There are two problems which we have today, and one of them is, what could we do if the French either put on exchange control or devalue further - now, do one of those two things. Incidentally, Bullitt said in his cable that Blum made up his mind he's going to resign.

Oliphant: Who?

H.M.Jr: Blum. And the French cabinet meets at three today. He said in this cable that.....

Viner: Seems to me I spotted this pretty well, didn't I?

H.M.Jr: If you can get any satisfaction out of this, you're good.

Taylor: You said it was going to be in August, Jake.

H.M.Jr: When I was at Waikiki. They fixed it so I could take care of the French before going to Waikiki.

Viner: Go to Waikiki after the deluge instead of before it.

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H.M.Jr: Yes.

And incidentally, before I get started on this thing, Win Riefler was here and he's going to come as adviser to the Stabilization Fund, and I think we'll all be very much delighted. He handled himself abroad beautifully - beautifully - and I think he's going to be a real addition.

Viner: I think that's grand.

H.M.Jr: He handled himself beautifully. He couldn't come today because he said he had to be there so his wife could cry on his shoulder when she heard that the house she wanted costs twice as much as they could afford.

Well, there's one or two things; after all, we ought to get busy today and decide what should we do. One of the things I think we ought to do is to cancel all orders on buying gold and only buy gold through central banks. Then this question gets - I mean it's much easier to handle it, because one of the great troubles is, the Guaranty Trust calls a meeting of its directors "Shall we buy gold?" They sit there for a day, discuss the thing - will they buy gold. They have twenty directors and they go out and they can talk to a hundred people, and at the end of the day the Guaranty Trust decide they won't buy gold.

Incidentally, you (Miss Chauncey) don't have to sit in on this. I mean there's no use doubling up on you. I'm glad you're back.

(Miss Chauncey goes out)

And I can't see - every time there's a crisis we have the same thing - will the banks buy or won't they buy? And I don't see what useful purpose they serve in the present situation. And it is something that I have wanted to do and I haven't had a good excuse to do. But the thing I'd like to discuss is, is that the move we want to make?

Then, for instance, it gets down - when England calls up, they'll say, "Well, we had to take so much gold

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today; we had to take ten million dollars. We'd like to sell you so much." "All right." "How much are you going to take?"

We had this conversation with Bachman today. Bachman says he's going to send us 25 million dollars more gold because he's figured out the per capita gold that Switzerland has got and the United States has got, and they've got more gold per capita than we have; so on that basis he's going to send us 25 million dollars more gold and all the gold that they get out of hoarding he's going to send to England. And his excuse is that they've got more gold per capita than we have.

Viner: What's he going to take, dollar balances or sterling balances?

H.M.Jr: He's putting it all into dollars.

Viner: Oh, dollar balances.

H.M.Jr: So we've got the immediate thing and I don't see much else what we can do, because it gets down to a question of really - of England and ourselves, and the little that Holland and Switzerland do doesn't make much difference.

Now, after all, we're here and you're meeting and I want you people to think about it, and if that's right I want the papers drawn up and ready for whichever way they move. Now, other people may have better ideas than I got, which is perfectly possible, see? And Wayne, if you think wise of it, there is no reason as these meetings go on why we shouldn't pull in Goldenweiser and Gardner, see, and as we know where we're at - see - I mean let them move along with us; there's no use trying to educate them twice. But talk to Marriner; he may want to sit in. But if he doesn't, tell them that maybe beginning tomorrow I'd like to have them sit in. But tell them what we're doing, will you - what we're working on - and if he wants to send Goldenweiser and Gardner over here, O.K. Will you take care of that?

Taylor: (Nods yes)

Oliphant: Want anybody from the State Department?

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- H.M.Jr: When we meet again. It's too early.
- Taylor: That would be more or less true of today's meeting for the Federal Reserve people.
- H.M.Jr: Yes, I think so. Maybe we'll call a meeting for ten tomorrow. See? But I wanted you - when do you think you want them? I don't think today - it's too early.
- Taylor: I think today's a little early. See, you've got Riefler coming down, anybody else you want to come, and....
- H.M.Jr: Now, I had a couple good days with White and these are the things that I'm interested in doing, exploring. In conjunction with the Federal Reserve, I want the legislation drawn up so that we can have them put up a hundred percent reserve against foreign deposits in member banks, but giving the Federal Reserve the option that they can exempt accounts up to a certain amount. And by that I mean to say, for instance, they - before this all happened, 400 million dollars was an average total amount that they kept for working....
- Viner: Reasonable working balance.
- H.M.Jr: .....a working balance. Now, I understand - this is Archie's idea; he thought five to ten thousand dollars - a merchant might perfectly well have to keep up to \$25,000 as a working balance to conduct his business. Well, it wouldn't be very hard to have a quick survey made, and let's say we exempt up to \$25,000.
- Viner: Can't work that way.
- H.M.Jr: Why not?
- Viner: In this country the balances of foreign individuals are not listed as individual balances, but as bank balances, and they are not listed as to separate individual balances except in the accounts of the bank abroad. See? If a Dutchman wants \$50,000 bank balances in New York, the normal way in which he gets it is to go to an Amsterdam bank and say, "I want a \$50,000 balance in New York." That bank says, "All right," and arranges it, and adds \$50,000 to its

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deposits in the New York bank.

Lochhead: Well, first of all, my question was....

H.M.Jr: Do you mind not arguing here? Either right or wrong - one of you is right and one of you....

Viner: We probably - there is probably some other element in it - in what Archie suggests, and - which would bring us closer together.

H.M.Jr: But there is a thought there, and if you could exempt these smaller merchants, these legitimate fellows, it would ease the pressure. See what I mean? Ease the pressure tremendously - the objection to it. Now, there is something which you can get together on. I'm pretty well sold on the idea.

I am pretty well sold on the idea that we should have some kind of legislation so that in case these fellows transfer their funds into short-term securities there is a method of - have a transfer tax.

And then, the third thing what's-his-name is taking care of - the 35 percent withholding tax on dividends. So as far as I can see - I mean I'm not committed to anything but those two things, and Magill's taking care of the withholding tax. They sound very interesting to me, see?

In this thing comes another factor which will have to be decided at the same time: What kind of short-term money are we going to borrow? Seltzer is working on that. Some of the people felt that if we began from now to sell 90-day bills, which the banks need very badly - there's a great shortage - that it would make it too easy for the foreigners to take their accounts out of the foreign balances and put it into 90-day bills.

And of course, in increasing this rate from 26 to a hundred percent, we want to make that permissive. I mean that we can do it....

Taylor: Up to -

H.M.Jr: Yes, in easy stages. Now - I mean.....

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Viner: I'd go further than that. I'd also get the right to levy an excise tax on those foreign deposits, because a hundred percent may not be enough to stop them.

H.M.Jr: Well, those are all points. As to the principles, after a couple days' study on the thing I am sufficiently interested so that I want to explore it to its limit, get the legislation drawn, and I want to go full steam on this thing, see?

I have invited Knoke to come down tomorrow morning to sit in, because he's a good man, I've discovered.

but there's the two things, and I don't see why they won't go along simultaneously: What will we do if the French do this thing? - this is as much as I've got to contribute - and then, this question of handling this gold.

Now, do you (Oliphant) see any legal difficulties to this?

Oliphant: (Nods no)

H.M.Jr: Huh? Of course, this question of increasing excess reserves would be a bill to be introduced - I think should be introduced jointly by the Fed and ourselves. I think it ought to go to Banking and Currency and I think we ought to make a joint statement.

It always takes time in order for these things to clear in my brain, and we had nice June weather up there, and I had Harry White for two hours over at the farm while he talked at me. And - now, we've got those lists of those banks, and taking the national banks - is it about down to 15 banks?

White: 13, I think - 13 or 15.

Oliphant: Which?

H.M.Jr: The foreign deposits.

Lochhead: 13 member banks and 13 non-member banks - about 26 banks take care of about one billion 500 million out of one billion 600 million.

H.M.Jr: But the 13 banks....

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- Viner: That makes it harder rather than easier to deal with.
- H.M.Jr: Why?
- Viner: It means that those banks are specializing in those accounts and for them it's going to be - it may be their disaster; they'd have to adjust their whole affairs.
- H.M.Jr: Well, they're the biggest banks in the country.
- Viner: Nevertheless, if it is as big as that, it may be something that....
- H.M.Jr: Well, we'll do it very slowly. Harry and I figured that we'd do it a hundred million dollars at a time, we'd do it in stages of a hundred million.
- Lochhead: After all this excess money....
- Viner: But there isn't much excess money in New York now.
- Lochhead: There are excess foreign deposits if they've been specializing.
- H.M.Jr: Now, don't forget, that's the reason the question of bills is very important - so that they won't sell their Governments. They'd have the 90-day bill to go into. Do you get it? I mean if they've got enough 90-day money, 90-day bills, they won't worry so much about their excess reserves. I saw a lot of bankers, and the thing that keeps them on Uneasy Street is that there is a - such a shortage of bills; if they had 90-day bills they'd quit worrying.
- And then - now, J. P. Morgan - he would either have to go out of business or become a national bank.
- Viner: That's just what I had in mind.
- Oliphant: I don't see why. We'd require J. P. Morgan to put up a special deposit with the Federal Reserve equal to the amount of foreign business he wants to do, and keep making the deposit good.
- H.M.Jr: Well, if you don't mind, I disagree. I thought that J. P. Morgan would come into the Federal Reserve and become a national bank.

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- Taylor: Why not?
- H.M.Jr: I disagree with you (Oliphant) entirely.
- Oliphant: I'm talking about the least that can be done. But I do think the solution is relatively simple.
- H.M.Jr: But it's a very great surprise to me - this thing will get down to about 15 banks, and it's a great thing for the Fed, because we've been all over this thing, how we'd handle this thing, and - now, somebody had an idea, which I disagree with completely, that they'd try to some day use this as a leverage on the state banks. I wouldn't do it. We'd say, "These foreign deposits can only be made with national banks in the Federal Reserve System."
- Taylor: Member banks.
- H.M.Jr: Well, aren't all national banks....
- Taylor: But if you had a member who wasn't a national, you see....
- Viner: You mean member banks, not national.
- Taylor: All national banks are members, but you've got some members that aren't national.
- Viner: There aren't as many national banks as there are banks in the System.
- H.M.Jr: All right, then, member banks.
- Viner: A national bank must be a member bank.
- H.M.Jr: I'm talking about member banks.
- It's a great thing to get away from this place for a little while.
- I can't see anything the matter with this thing. I can't see - it seems to me it's a move to make.....
- Oliphant: I think it's a good program.
- White: There's one further point which I don't know whether you want to have us consider.
- H.M.Jr: Go ahead.

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- White: And that is Wayne Taylor's proposal with respect to this validating tax, which is part of this same problem.
- H.M.Jr: But you haven't thought that thing through.
- White: Well, we've thought it through so that this group could push it a little if you want to.
- H.M.Jr: What you gave me over the weekend was predigested, ruminated on; this other thing, you said, wasn't ready.
- White: But this would be one of the ways of getting.....
- H.M.Jr: O.K. What do you mean by validating?
- White: I'll explain it to you.
- Viner: I think the program is the right program; you have to go to it before long. But I still am worried about the general situation, its jittery nature now.
- H.M.Jr: I was too before I got my 800 million.
- Viner: Well, I wasn't thinking only of the Treasury immediately - perhaps the Treasury next year.....
- H.M.Jr: Listen, old man, if this thing - if we can all agree, or 90 percent of us can agree, see; I want a 90 percent agreement on this thing. This is my responsibility; this will or will not help the strikes, but it will remove one less source of worry in the financial picture. Now, the thing right now - I never made such an exhaustive study of business as I did prior to this financing, and the only thing I could find that was wrong in the horizon was the strikes. Now, I made an exhaustive check all over the country; take the strikes away and this thing is all right. But take the strike thing away and then you're right back on the gold thing - "What's Morgenthau going to do with this billion dollars?" Now, under the smoke screen of the strikes and everything, let's get our house in order. I mean if we didn't have the strikes, this whole thing would be concentrated on this thing.
- Viner: That's right.

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- H.M.Jr: Now, I've sat here - you've seen me work before - until I could satisfy myself. Now I'm satisfied that this is all right. Fortunately, the President has enough confidence in me that he'd be willing to wait and put no pressure on me, wouldn't let anybody put any pressure on me, and we'll take - whatever he's done - he must have told Wallace and the rest of them to lay off. But it looks pretty good, this does - this program that I'm talking about.
- Viner: When would you - have you got in mind about what time that would be - the proposal would be submitted to Congress?
- H.M.Jr: At once.
- Viner: Thinking of this month?
- H.M.Jr: I'd like to get it through just as fast as we can work - just as fast as we can work. The bill drafting on this thing is not a very difficult thing.
- Oliphant: No, a good deal of work has been done on it.
- H.M.Jr: The bill drafting isn't difficult.  
The hundred percent thing, I don't know how far Eccles has gone, and in talking about it, if you (Oliphant) will agree to talk to his counsel.....
- Viner: If the English adopted the same thing, that any outside bank that keeps reserves in sterling has to have a hundred percent reserve - I mean that the English bank has to have a hundred percent reserve in gold, the problem would be largely solved.
- Oliphant: You're not talking about hundred percent reserve in gold. In gold?
- Viner: Well, ours would be hundred percent reserve at the Federal Reserve.
- Lochhead: It would be really in gold, because we'd really release that amount of gold to match off the reserves.

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H.M.Jr: Jake, while we're talking, plus our own crowd that I've got down, who do you think - any other brains we should have?

Viner: Williams.

H.M.Jr: You want Williams here?

Viner: I don't know anybody else that would be important, if Riefiler's going to be here.

H.M.Jr: (On phone) Professor Williams of Harvard, please. But I'll take that right after Bullitt. When's Bullitt coming on? - - All right. Well, right after that, Professor Williams of Harvard.

Viner: And I'd ask Feis.

H.M.Jr: Sure, when we get....

Viner: I mean at any stage. But I'd get his judgment on it.

H.M.Jr: When we get going.

Now, what I'd like to do, if it's - is it agreeable to you that - I don't sleep very late - I mean we can do this thing in bits in - to start, say, 8:30 tomorrow morning. Anybody it isn't agreeable to? What? Then we'll run through till we get tired, then stop. I mean aren't you all awake and around by 8:30?

Viner: Oh sure.

H.M.Jr: What?

Viner: We can be.

Olipphant; Pretty hot at 8:30.

H.M.Jr: I couldn't sleep after five this morning. But lets say 8:30. Huh? Is it all right with you, Wayne?

Taylor: (Nods yes)

Olipphant: We might go on daylight saving while we're doing this job.

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- H.M.Jr: Well, of course, that will - I'll say that I'll - I'm going to stop at four, see? So if I start at 8:30 - I mean I'll stop at four. That gets me while I'm the freshest. So we'll go from 8:30 to ten, an hour and a half - no interruptions. The reason I'm sorry - I don't want the boys hanging around my door while I'm doing this thing - isn't Gaston coming down today?
- Upham: I'm afraid not.
- Taylor: I'll talk to Marriner and tell him tomorrow morning, or do you want him to be held off a little longer?
- H.M.Jr: I think let Marriner be here at 8:30 tomorrow morning - just as well. I mean I've done in my own brain - I've done enough work on this thing, see? Don't you think you'd have him in here?
- Viner: I'd have him participate as much as he wants to. I'd let him know what the schedule is.
- Taylor: Say that the schedule is to start at 8:30 tomorrow morning.
- Viner: And they're invited for as much as they want to be in on the discussion. Remember - particularly if out of this emerges a bill that both of you are going to sponsor.
- H.M.Jr: Well, there's two separate things.
- Viner: I know, but one of them is a bill that both would sponsor.
- H.M.Jr: Right, the hundred percent thing.
- Taylor: Part of the same picture. But the transfer thing - that would go to Banking and Currency.
- H.M.Jr: What about your validation of securities? That would go to Banking and Currency.
- Taylor: Well, I don't think so.

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- Oliphant: They have some special circumstances, and the transfer tax would go to Finance.
- Viner: Banking and Currency - does that mean Steagall?
- Oliphant: Yes
- Viner: Is he easy to handle on this thing?
- H.M.Jr: Well, that's the reason, you see, this thing - I don't think it will get mixed up into the business of state banks versus national banks. Somebody had the bright idea of trying to bring pressure to bear on it, but that clears it out, you see. Steagall - the only thing the matter with Steagall is, he's got nothing to do.
- Viner: Of course, there will be this thing. It will be the first bill - Federal statute, I think, that imposes any sort of reserve requirements on non-member banks.
- Taylor: This won't be on non-member banks.
- Viner: It won't be on non-members?
- Taylor: The non-member banks will not be able to have foreign deposits.
- White: They have to become member banks if they want to hold foreign deposits.
- Viner: That's where you'll get Steagall up.
- Taylor: Only 13 banks - this isn't his baby.
- Oliphant: I think it's the best - well, the most difficult angle of the problem is the foreign balances; the other three angles.... - I think it's the best bite at that cherry that anybody's thought of taking yet.
- H.M.Jr: Don't think it's mine. I've been listening to this thing now for months, but it's just a question of so much fog I couldn't see. You (Upham) got anything you want to say?
- Upham: No, I agree with that (Oliphant). I think it sounds

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fine. I would think there might be some unconstitutionality about prohibiting non-member banks from holding foreign balances, but maybe not.

- Oliphant: Not in view of the attitude of the Supreme Court towards foreign relations.
- Taylor: Foreign commerce. That is if there ever was any.
- Upham: If it can be done, I should think it would be a good thing.
- H.M.Jr: I'd also tell Herbert Feis we're starting at 8:30 tomorrow morning, see? So they can come or not, as they choose.
- Oliphant: I'd be rather inclined to insist on it, because of the foreign angle, because you know how it is when we work things up and....
- H.M.Jr: Well, I'm going to be different this time. If I think it is right, the hell with the god damn foreigners. Now, I told Herbert Feis that if he pushed me into a corner on this thing and then he'd be angry when I did do it - he wouldn't like it.... Now, I can't sit here and always think about the foreigner and Mr. Hull's trade treaties; god, we've tied ourselves up in a double knot with these god damn trade treaties. And so what? I told them, "Now, if I sell this to the President and Congress, Mr. Hull and the rest of them can like it," and that's just the way I feel.
- Oliphant: I think they'll probably go along with you on it.
- H.M.Jr: I can't always worry about what the man abroad thinks about the American policy.
- Viner: They'll think you've suddenly stopped being a sucker, that's what they'll think.
- H.M.Jr: Now, for the first time Eccles has changed; he's keeping his mouth shut, and he's locked the trap of that fellow over there - what's his name?
- Taylor: Thurston.

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H.M.Jr: Thurston isn't talking any more.

Upham: I haven't heard of him or seen him for months.

H.M.Jr: No one else has either.

White: This isn't the same thing.

H.M.Jr: I mean Mr. Eccles - you don't hear Elliot Thurston any more slipping the stories out of the side of his mouth.

Taylor: Had a special issue of "muzzles" two months ago.

Viner: Who was he talking to, press representatives or.....

H.M.Jr: Yes. And if a person wants to be generous, Mr. Eccles doesn't know about it.

Viner: Well, be generous.

H.M.Jr: I have been. And I'll say this: I think this country is better off. And when these phases pass and we've <sup>got</sup> this solution, we will then look back and if we are successful in handling this thing, there's enough credit to go around for everybody.

Viner: Oh, lots of it.

H.M.Jr: I don't see any use in prolonging this thing. I'm waiting for Bullitt.

Now Wayne, you want to hold the meetings in your office? I don't know of anything more important, and I'd keep pushing this thing; - I don't see why I have to hit it again before 8:30 tomorrow morning, unless there are questions to be answered. I'll be available after lunch. What?

Taylor: That's all right.

H.M.Jr: What do you (White) think?

White: I think we'd like to see you once before you meet the large group.

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H.M.Jr: Well, why not say depending on what time I come back from the White House. Other than the White House, I have only two meetings this afternoon. I've got the press conference and I've got to see three children. And what about Mr. Stamp?

Taylor: Can't come tomorrow; leaves town.

Upham: Sailing Wednesday.

H.M.Jr: What?

Upham: Sailing Wednesday, I think.

Taylor: I'll call him at noon.

H.M.Jr: I made this appointment.... Tell him 3:20.

Viner: He's a nice person.

H.M.Jr: Is he? I don't like him.

Viner: Don't you?

H.M.Jr: But I'll see him.

Viner: Tells better stories than American after-dinner speakers.

H.M.Jr: He isn't the type of English I like. I like lot of Englishmen, but I don't like him; but I'll see him. Will you be here, Wayne?

Taylor: At 3: - what?

H.M.Jr: 3:20, when Josiah comes.

All right, gents. I feel awful good about it.

White: Did you say you were going to see us before you meet the large group?

H.M.Jr: Yes, I will, sure.

June 14, 1937.  
10:29 a.m.

H.M.Jr: Hello.

Operator: Ambassador Bullitt.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello

B: Hello Henry.

H.M.Jr: How are you?

B: Fine, how are you boy?

H.M.Jr: Oh I'm pretty well. How is grandpa?

B: Everything turned out very nicely.

H.M.Jr: It did.

B: Henry.

H.M.Jr: Yes.

B: When you call me for heaven's sakes tell your people to call me over the direct French telephone.

H.M.Jr: Over the French?

B: You called again to-day over the English and that's why it faded away - you couldn't get any good connections at all and I've got this call through the French phone.

H.M.Jr: Is this on the French phone?

B: This is on the French phone and there's the same on this as there is on the British and the difference is that in this case the French hear it and in the other the British do,

H.M.Jr: I get you. All right.

B: Don't let the British tell you there's no .  
It's just that they want to hear it.

H.M.Jr: I see.

- 2 -

B: Now - ah .....

H.M.Jr: I saw - ah - your cables of Saturday.

B: Good.

H.M.Jr: So - ah - I - is there - is the situation the same as you described it?

B: Ah - it is precisely the same - ah - with several changes which I can give you at once.

H.M.Jr: Thank you.

B: Ah - the - ah - at noon to-day the Bank of France suddenly raised its discount rates from four to six per cent.....

H.M.Jr: Yes, we got that.

B: Ah - you have that already?

H.M.Jr: Yes.

B: .....in an effort to stop flight of capital and has also raised its present day rate from four to six per cent.

H.M.Jr: Yes.

B: Ah - on the security market rates were up from but the general feeling was that the improvement was due to official support.

H.M.Jr: Ah-ha.

B: Ah - the exchange market was pretty uneasy and this and - our information is that the yielded very large amounts of below the rate of 110.90.

H.M.Jr: Ah-ha.

B: Ah - the dollar is firm at .2247.

H.M.Jr: Ah-ha.

B: Ah - the forward rate on sterling is up two points for one month and five points for three months.

- 3 -

H.M.Jr: Yes.

B: Ah - our information is that there's been no surface; it's all on the flight of funds.

H.M.Jr: Yes.

B: The - ah - ah - I saw an extremely important gentleman at luncheon to-day whom I shall see again this evening..

H.M.Jr: You're having supper with him tonight?

B: Yes.

H.M.Jr: I know.

B: And he was - he was extremely cheerful.

H.M.Jr: Oh fine.

B: Ah - full of smiles and so on.

H.M.Jr: Ah-ha.

B: Whether that means - ah - ah a prospect of laying down a burden of responsibility or not I do not yet know.

H.M.Jr: Ah-ha.

B: I will let you know this evening.

H.M.Jr: I see.

B: In any case the single interesting development is that might succeed. Our not to succeed.

H.M.Jr: I see.

B: Ah - they'd much rather have present incumbents take responsibility for granted.

H.M.Jr: Ah-ha.

B: And, therefore, you have a comic situation in which the best friends of the present incumbents are saying "If he can't get out for God's sake stay in."

H.M.Jr: Well that doesn't help much, does it?

B: What?

H.M.Jr: I say that doesn't help much, does it?

B: No that's exactly - but that's exactly the situation.

H.M.Jr: Ah-ha. Well I suppose you'll let us know that through cables.

B: Yes I will. I'll let you know tonight what is developing.

H.M.Jr: Well - ah - the your.....

B: In the meanwhile the general public is entirely unaware that things on the whole are as unpleasant as they are.

H.M.Jr: Ah-ha.

B: And - ah - that is the present status.

H.M.Jr: Well that's just what I wanted to know.

B: Yes, there's nothing - there's nothing particularly startling beyond the things that I've told you. There's a cabinet meeting on now at which the matter is being debated.

H.M.Jr: Well thank you very very much.

B: Not at all. How are you?

H.M.Jr: Oh I'm fine.

B: How is the President, in good shape?

H.M.Jr: Yes, I talked to him this morning and I'm seeing him at lunch and he sounded full of pep.

B: All right, give him a little embrace for me.

H.M.Jr: I'll do that. Thank you.

B: Good luck, Henry.

H.M.Jr: Goodbye.

B: Goodbye.

June 14, 1937.  
10:38 a.m.

H.M.Jr: Cordell.

Hull: What's going on?

H.M.Jr: Well I just talked to Bill Bullitt on the telephone....

H: Yes.

H.M.Jr: .....and he said, without mentioning his name, that he had seen Blum and that Blum seemed much more cheerful.

H: Oh.

H.M.Jr: And that the great trouble was that Blum's enemies wanted him to stay in; his friends wanted him to get out but that they can't find anybody to succeed him.

H: I see.

H.M.Jr: And that.....

H: Ah - Bill you know telegraphed us Saturday night that he had decided to get out.

H.M.Jr: I know and Feis telephoned that to me late Saturday night.....

H: Yes sir, and I telegraphed it - I wired the President on a little matter and I put that in.....

H.M.Jr: Yes.

H: .....without quoting Bill - I'll quote Bill hereafter.

H.M.Jr: Yes, that was a funny cable anyway.

H: Yes.

H.M.Jr: Because he gives that long cable and then at the end he says the fellow's going to get out.

- 2 -

H: Yes, I suppose that came - that sounded like it came to him just as he was closing his telegram.

H.M.Jr: Yes, and it sounded as though he was under great pressure when he wrote it.

H: Yes - yes, that's true.

H.M.Jr: But - ah .....

H: You tell the President that we - ah - ah - we were just quoting Bill without saying so on that.

H.M.Jr: Well I - I.....

H: It would be interesting to see - I don't know what's ahead over there - I.....

H.M.Jr: Well we're watching it and - ah - I wanted to tell you that we - we're - we're - very very confidentially we're working very hard on this gold thing and we're beginning to see light and I'm going to ask Feis to sit in with us beginning tomorrow.

H: Yes.

H.M.Jr: And - ah - I think it's important and he .....

H: You're going to talk to - you're going to talk to - I guess he'll be around as he generally does - Stamp.

H.M.Jr: Who?

H: Sir Josiah Stamp.

H.M.Jr: Yes, he's coming in at 3:20 .....

H: Yes.

H.M.Jr: .....but I'm going to keep my mouth shut and just listen.

H: Ah - you might ask some questions on that.

H.M.Jr: Do you think so?

H: Ah - you want to get their viewpoint; he's pretty close in, you know.

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H.M.Jr: Are you - are you seeing him?

H: Yes, he's at my door now.

H.M.Jr: Ah-ha. Well if there's anything that you want me to ask him.....

H: No, nothing - I have nothing....

H.M.Jr: No, I mean after you've seen him....

H: Yes.

H.M.Jr: .... if there's something that you think.....

H: Exactly.

H.M.Jr: .....would be helpful.

H: I'm not going to discuss monetary things.....

H.M.Jr: No.

H: .....you understand so I won't know.

H.M.Jr: But - ah - I feel much more cheerful on this question of gold because I think we've got an answer.

H: I see. Well that's very interesting.

H.M.Jr: And I'm starting at 8:30 tomorrow and, incidentally, Win Riefler got permission to act as Consultant to the Treasury.....

H: Yes.

H.M.Jr: .....from his Institute.

H: You begin to make some more headway?

H.M.Jr: I say we - I say Riefler - you know Win Riefler?

H: Yes sir, I know him.

H.M.Jr: Well he's got permission to act as Consultant to the Treasury.

H: Oh I see. That's fine.

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H.M.Jr: So he's going to sit in from now on.

H: Yes, that's fine.

H.M.Jr: So - but I feel much more cheerful and I think maybe within a week I'll have something.

H: All right, thank you Henry so much.

H.M.Jr: Goodbye.

June 14, 1937.  
10:38 a.m.

H.M.Jr: Mr. Williams.

Professor Williams: Yes.

H.M.Jr: Morgenthau.

W: Oh yes, Mr. Morgenthau.

H.M.Jr: Where are you?

W: I'm in Cambridge to-day.

H.M.Jr: Oh. Now look I'd like very much to have your advice and services for the next couple of days.

W: Yes.

H.M.Jr: Do you suppose you could get down here tomorrow morning?

W: Well I could except that a- ah - I'm - I'm dated for a Canadian-American Conference at Kingston, Ontario, and I would need to call New York. Mr. Young is Chairman of it.

H.M.Jr: Well I think this is pretty ....

W: I'd have to call him and clear it with him but I think the answer would be, "Yes," I could come.

H.M.Jr: Well I consider this important. I've got Knoke coming down.

W: Yes.

H.M.Jr: So if you don't mind.

W: Yes, well I'll tell you what I'll do.

H.M.Jr: Yes.

W: I'll call New York this morning.

H.M.Jr: Yes, I'll - suppose I call Harrison and tell him that I'd like you and Knoke.

W: I wish you would because I think that would - he knows about my plans.

H.M.Jr: Righto.

W: And then I'll get in touch with you later in the day.

H.M.Jr: Ah - will you - well we're going.....

W: Maybe I can come down all right.

H.M.Jr: Pardon me?

W: All right, in the morning.

H.M.Jr: Yes, I'm starting at 8:30 at the Treasury.

W: Yes.

H.M.Jr: 8:30.

W: And I'll come straight from the train.

H.M.Jr: Righto.

W: All right.

H.M.Jr: I'll call Harrison.

W: Yes.

H.M.Jr: Thank you.

W: Goodbye.

H.M.Jr: Hello.

(The above Hello sounded like an afterthought but it was too late as Williams had already hung up)



DEPARTMENT OF STATE  
WASHINGTON

June 14, 1937.

My dear Mr. Secretary:

I enclose a paraphrase of cables Nos. 774,  
775, and 776 received from Paris on June 12.  
These, I understand, were communicated to you by  
telephone Saturday evening.

Sincerely yours,

Enclosure:  
Paraphrase of Nos.  
774, 775 and 776  
from Paris. June 12.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 12, 1937, 5 p.m.

NO.: 774

RUSH

FOR THE SECRETARY.

STRICTLY CONFIDENTIAL.

In many telegrams for the past months we have predicted the demarche; this has now arrived, and at the moment it appears that Blum will prefer to fall during the week to come.

The probability is that on Monday the French equalization fund will be drained of its last franc. Almost no one in Paris knows this, and no panic exists. The best informed bankers and politicians do not even know that only about 750 million francs remain in the equalization fund today. The Government moreover has been able to conceal the fact that the loss yesterday was approximately 750 million francs, and that it was 638 million francs the day before.

Last night I saw Blum for a brief time. Blum was nervous and exhausted, yet he regarded the financial situation as extremely critical at the present moment. From Blum as well as from Auriol and Delbos I got the impression that the Government had not yet decided whether it would try to survive or would choose a favorable

issue

- 2 -

issue on which to go down.

Blum practically dared the Senate to throw him out on the issue of the forty-hour law yesterday afternoon but he receded from his position after an adjournment of one hour.

I said to Blum today that I considered the financial situation extremely critical. His reply was that "it is more than critical; the end may come much more quickly than anyone believes". Then he said with a gesture of weariness and disgust: "I have had enough! Everything that I have attempted to do has been blocked".

I questioned Blum as to whether a definite course of action had been decided upon, that is, on what issue he would choose to fall, and he said that a decision had not yet been reached, but tomorrow it might be. Then again he might wait until Monday evening to do so. There is to be a meeting of the Cabinet on Monday afternoon at 3 o'clock at Blum's request. I was invited by Blum to have dinner with him on Monday evening. He said he would let me know definitely what he decided to do at that time.

END SECTION ONE.

BULLITT.

SECTION TWO. No. 775 of June 12, 5 p.m.

Continuing my 774.

It is still barely possible that Blum may continue in office for some time, in spite of his attitude today. It would be preferred by the Radical Socialists and the Center parties that Blum incur the onus of a resounding financial crash rather than have him go down just before that happened. The Prime Minister has nevertheless lost his resilience and vigor to such an extent that I consider it probable that before the end of next week he will be out of office.

Who will succeed Blum is by no means certain. The leaders of the Radical Socialist party who hope to succeed him are engaged in a multitude of intrigues just now.

For instance Herriot is leader of a group which has the following project under consideration -

Should Blum turn in his resignation Lebrun would first invite the President of the Senate, Jean Nenev, to form a government; this would be refused by Jean Nenev. Then Herriot would be invited to do so, and he would go through the motions. Finally Herriot would make a deal which would establish Chautemps as Prime Minister and the Minister for Foreign Affairs would be Herriot himself.

There is equally vigorous intrigue on the part of Daladier. Daladier would be preferred by (?) Chautemps. Daladier has even managed to keep on friendly terms with de la Roque, who is leader of the Croix de Feu. He has said that he would use the army to shoot down ruth-

- 2 -

lessly any (?) who attempted to produce violent (?).  
Should the new Prime Minister be Daladier, Delbos might  
remain as Minister for Foreign Affairs; for Minister of  
Finance both Flandin and Reynaud have been named(?).

END SECTION TWO.

BULLITT.

SECTION THREE. No. 776 of June 12, 5 p.m.

Continuing my 775.

Possibly a night's sleep will put Blum into a more belligerent frame of mind. He may then acquire a few additional billion francs for the Treasury by drawing on the Bank of France for gold, and by stripping various savings organizations of the Government. He may thus be able "to wriggle through", as he has said to me so often.

Even the great capitalists and the very bankers who are now sending their money abroad and have an intense dislike for Blum are loath to face the consequences of having him forced out of office. I was for instance told by Maurice de Rothschild the night before last that he was convinced that Blum would not go out because the banking community did not want to face the disorders which the fall would bring about.

A policy of retrenchment will have to be inaugurated by any government which follows Blum's. For a government of the Center to cut the interest rate on the National debt would be almost impossible, and to (?) the huge sums now being spent for national defense would be equally difficult. (?) public works and alteration of the new "social laws" would be the only field (?) reduction of government expenditures. Nation wide strikes and bloodshed will almost certainly be provoked by an attempt to abolish or alter greatly the "social laws". The realization

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- 2 -

tion that to be (?) of France today is an extraordinarily thankless task therefore dampens the desire of the Right and Center to eliminate Blum.

The Government of France is living far beyond its income, and no easy way out of the situation is presented. I personally believe that Blum still holds the power for making the ultimate decision as to the continuation or fall of the Government. He had this afternoon decided to resign from his position.

END OF MESSAGE.

BULLITT.

EA:LWW

June 14, 1937.

My dear Mr. Welles:

On behalf of the Secretary I am acknowledging your letter of June 4th, which encloses a copy of the message transmitted by the British Government to Sir Ronald Lindsay.

Sincerely yours,

H. S. Klotz,  
Private Secretary.

Honorable Sumner Welles,  
Under Secretary of State,  
Department of State,  
Washington, D. C.

OKF/abs

TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY

O  
**EXPEDITE**

6/11/37

4:35 p.m.

TO: MRS. FORBUSH

Mr. McHugh asked me to ask you if an acknowledgment is necessary to the attached letter.

U. S. GOVERNMENT PRINTING OFFICE: 1931 2-15774 mas  
(He is holding rest of file for Miss Chauncey)

EXPEDITE

182501A DES 0612041

6/5/37

Mr. McHugh says that the Secy. said  
o. k. to file this.

mas

Mr. McHugh -

Letter of 5/31/37 from  
R. C. Lindsey, British  
Embassy referred to  
Miss Chauncey 6/2/37-

MRS. FORBUSH  
ROOM 470

ADDRESS OFFICIAL COMMUNICATIONS TO  
THE SECRETARY OF STATE  
WASHINGTON, D. C.



DEPARTMENT OF STATE  
WASHINGTON

June 4, 1937

375

My dear Mr. Secretary:

I transmit herewith a copy of the message given to Sir Ronald Lindsay for his Government in reply to the memorandum which the Chancellor of the Exchequer addressed to you.

Sincerely yours,

A handwritten signature in black ink, appearing to be "W. H. Murray", written over the typed name "Under Secretary".

Under Secretary.

Enclosure:  
Memorandum,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

## MEMORANDUM

The message recently transmitted by the Chancellor of the Exchequer to the Secretary of the Treasury has been read with interest. The confidence shown by Mr. Chamberlain in thus communicating his appraisal of the international outlook as seen by the British Government and his observations in regard to the bearing of various policies of this country upon that situation are greatly appreciated.

Deeply concerned over the absence of a trustworthy basis in international relations and the presence of a constant menace to peace, this Government has been doing its utmost to formulate and to bring about effective application of a program which might serve to bring countries together on a more satisfactory basis than that which now obtains. If this Government emphasizes somewhat more than does Mr. Chamberlain the economic aspect

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of the matters which he discusses, it does so because it genuinely believes that if trade relations between nations can be broadened on lines and under conditions where it serves to advance economic welfare, existing political tensions would be thereby eased.

We therefore welcome the affirmation of Mr. Chamberlain that, although he believes that certain political ambitions lie at the root of the economic difficulties in Europe, he recognizes the advisability of trying all practicable means to ease the economic position. We realize that because of the intertwining of economic and political aspects of the present-day situation the British Government feels that it must at all stages keep its actions in the two fields closely related to each other.

This Government welcomes and of course wholly agrees with Mr. Chamberlain's statement as regards the far-reaching effects that would follow the conclusion of a commercial agreement between the United States and the United Kingdom. In its reply to the British Government's memorandum of April 13, the Government of the United

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States gave full indication of its willingness to examine every feasible possibility of arriving at satisfactory terms for such an agreement. This Government believes that it is wholly within the range of practical possibilities to negotiate a comprehensive trade agreement between the two countries of such a character as would have a most beneficial effect upon Anglo-American trade and would, at the same time, serve as a model of the type of contractual arrangements among nations that can and will make for stable and prosperous trade conditions. This Government is convinced that the memorandum transmitted by it to the British Government on May 18 provides a fair and feasible basis for such an agreement.

In this general field we see an opportunity for the two Governments to work together without delay in making a constructive move toward world peace, and nothing is of more paramount urgency at this stage.

With regard to the situation in the Far East, we concur in the opinion that orderly stability is desirable

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and we believe that measures which may be expected to contribute toward ensuring harmonious cooperation for the protection and development of the interests of all the powers concerned in that area should be sought, and, when and where discovered, be given support.

There are various matters in and with regard to the Far East in relation to which rights and obligations of the United States and those of Great Britain are alike; also, various matters in relation to which the interests, concerns and objectives of the two countries have many aspects in common. The principles of policy of the two countries are expressed in the Washington Conference treaties, most of which treaties we regard as being still legally in effect. One of the most important of these principles is that of equality of commercial opportunity. That principle has always had and continues to have this Government's hearty support.

In the event of resort by any country or countries to measures of aggression in the Far East, we would expect

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to endeavor to afford within the limits of our general policy appropriate protection to our legitimate interests, but we are not, as we assume the British Government would not be, in position to state in advance what methods of protection this country would employ. It is the traditional policy of this country not to enter into these types of agreement which constitute or which suggest alliances. We feel that the governments principally interested in the Far East should endeavor constantly to exercise a wholesome and restraining influence toward conserving and safeguarding the rights and interests of all concerned, and toward preventing friction and development of tensions. We believe that consultation between and among the powers most interested, followed by procedure on parallel lines and concurrently, tends to promote the effectiveness of such efforts. As regards impairments or threatened impairments in the Far East of common or similar interests of the United States and of Great Britain, we shall continue earnestly to desire that there may be

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found satisfactory means for collaboration as in the past between our two Governments.

We note the statement that in the opinion of the British Government there are signs that Japan may realize that the recent trend of its policy has not been to its advantage and that Japan is contemplating a change in the direction of better cooperation with her neighbors in the Far East and with the powers which have great interests there. It appears to us that developments within and among the principal countries of the Far East are producing a trend toward or favorable to stabilization of the general situation there. We feel that with regard to Japan and China there are now actively at work within and between those two countries forces operating in the direction of peace. We are not oblivious to the fact that developments in the Far East may in due course call for the making of new political agreements, but we are of the opinion that if and when the time comes to proceed with the negotiation of such new agreements, the principles upon which they

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should advantageously be based could not deviate far from those to which the interested powers are already committed in treaties at present in existence.

During recent years the United States has faced -- as has the British Empire -- serious problems arising out of the sudden and marked expansion of Japanese trade. It has been our aim and effort to devise means whereby the interests of our own producers may be safeguarded and at the same time there may be avoided, as far as possible, restraint upon natural and reciprocally beneficial trade. We have made substantial progress toward solving in a mutually satisfactory manner some of the problems involved, and we are currently devoting constant attention to that subject. It is our firm belief that progressive adjustment of trade problems in the Far East, and elsewhere, would contribute to an improvement in political relations in that region.

In general, it is our belief that the powers can in all probability best contribute toward bringing about

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conditions of stability and security in the Far East by endeavoring to cultivate good will and confidence by promoting healthy trade relations and while closely observing the trend of events which from recent developments may indicate that the peoples of the Far East are approaching a state of mind wherein those peoples will themselves be able to perceive that pathways of cooperation are the pathways of advantage. As circumstances permit we shall be prepared as heretofore to give hearty support to measures which may appear to give substantial promise of contributing toward stabilization of the situation in that part of the world.

In regard to the Chancellor's observations as to the possible trends and results of pending neutrality legislation in the United States, the Chancellor is of course informed of the recent legislative enactment.

It may be pointed out that the Joint Resolution of May 1, 1937 (Pub. Res., No. 37, 75th Cong., 1st Sess.), does not provide for the imposition of an embargo on

-2-

exports of any commodities other than arms, ammunition, and implements of war. This legislation does not prohibit exportation of other commodities; it merely provides that if the President shall find that the placing of restrictions on the export of articles from the United States to belligerent states, et cetera, is necessary to promote the security or preserve the peace of the United States or to protect the lives or commerce of citizens of the United States and shall so proclaim, it shall thereafter be unlawful to export such articles until the American interest therein shall have been divested, i.e., until title shall have passed to the foreign consignees. Similarly the President is authorized to prohibit the transport of belligerents by American vessels of commodities designated by him.

The resolution gives the President considerable discretion. It allows him to determine whether, in view of the then existing situation, these provisions should be invoked and permits him to make exceptions as to commerce

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on lakes, rivers and inland waters, and on or over lands bordering on the United States. It also permits him to change, modify, or revoke in whole or in part any proclamation or proclamations previously issued by him in the given premises.

The Government of the United States is convinced that, as regards all of the points raised in the Chancellor's message, the crucial problem confronting the world today relates to the guiding principles which will, in the immediate future, underlie the basic policy and action of the important nations in their international relations. The possibility is clearly not precluded that the ideas of national exclusiveness and its inevitable concomitant of international hostility and strife, may become dominant over a sufficiently large part of the earth to engulf the entire world in a possible succession of destructive conflicts. On the other hand, the Government of the United States firmly believes that an opportunity exists today for directing national policies into a channel of political

-11-

and economic cooperation, based upon a common-sense harmonization of national interests and upon a spirit of mutual friendliness and fair-dealing. In the achievement of this aim the Government of the United States is prepared to collaborate in every way compatible with its legitimate sphere of action. It is convinced that the British Government, actuated by the same desires, is equally concerned with the imperative need of exploring all possible avenues that may lead to the same end.

Department of State,

Washington,

A true &  
the signed  
and,

Regraded Unclassified

June 14, 1937.  
10:43 a.m.

George  
Harrison: Hello

H.M.Jr: Hello George.

H: Good morning, Henry.

H. M. Jr: How are you?

H: Well I'm first rate, thank you.

H.M.Jr: George, I would like to borrow the services of Professor Williams and Knoke - ah - for tomorrow, see?

H: Yes.

H.M.Jr: And then when you come down Wednesday maybe by that time - ah - I'll have something that we may be able to talk about something that we can get your advice on.

H: Yes, well Knoke will come then. I told him, of course, to go ahead.

H.M.Jr: Well we'd like Williams also.

H: Well now I don't know where I can get Williams.

H.M.Jr: I called him up.

H: Oh you did get him.

H.M.Jr: He said he had something but my arrangements is - are with him that I could use him as Professor of Harvard if it doesn't interfere with the bank.....

H: Yes.

H.M.Jr: .....and he said he had something in Canada.....

H: Yes.

H.M.Jr: .....but he said he'd like to come down as long as I asked him.....

H: Yes.

H.M.Jr: .....and he said he'd call the bank, so I said I'd call you.

H: Well I was afraid he hadn't left - afraid he might have left but if he hasn't that's all right.

H.M.Jr: He has not.

H: Yes.

H.M.Jr: And then I - I - I - when would you come down?

H: Well I've got to come down - I'm coming down tonight anyway.....

H.M.Jr: You are.

H: .....because Eccles has got a meeting for us tomorrow afternoon right after lunch.

H.M.Jr: I see. Well - ah - if you were here would you like to sit in?

H: Yes, I'd like it very much.

H.M.Jr: Well we start at 8:30 tomorrow morning.

H: Well I may be there. (laughs)

H.M.Jr: My office.

H: All right, sir, first rate.

H.M.Jr: Well that's - I mean we would be more than pleased to have you.

H: Well if you would I'd like very much to be there.

H.M.Jr: Righto.

H: All right.

H.M.Jr: Thank you.

H: Goodbye.

June 14, 1937.  
11:30 a.m.

H.M.Jr: Hello

Operator: Senator Byrnes.

H.M.Jr: Hello

B: Hello Mr. Morgenthau.

H.M.Jr: How are you, sir?

B: Oh very fine. Say I - in view of the fact that the - at least my understanding - I hadn't checked up on it that the Commission of Mr. Haas who was Collector of Customs in your - I think it was the 30th District expires around July 31st.....

H.M.Jr: Yes.

B: .....ah - if there's to be a reappointment there I imagine his name ought to come down before long.

H.M.Jr: Yes, it should. There's no reason why it wouldn't either.

B: Is there any reason why it shouldn't come down?

H.M.Jr: No - ah - I don't know why - they - they seem to wait until the last week or two but - ah - I'll - I'll see that it's sent up right away.

B: Oh well that's fine.

H.M.Jr: I'll see that it's sent up right away.

B: Oh well that's fine Mr. Morgenthau. We're in a snarl down here and God only knows what's going to happen; I - I wish we could get this program out of the way and get out of here but if they were all of my frame of mind we'd have immediate action on all these bills.

H.M.Jr: Right. There's no - I mean sitting at this end of the avenue I don't - I think everybody's pretty well made up their mind how they're going to vote.

B:

- 2 -

- B: I don't know why it is that we can't sit down at the table with someone in the Executive Department and know exactly what this is and then go ahead and put it through and be done with it.
- H.M.Jr: Right.
- B: After all, there's nothing - no finality - if we make an error we can change it next year.
- H.M.Jr: And we're sure - we'll make errors.
- B: Why obviously and I'm not one who wants to hold up his hands and say, "The world is going to the dogs because we've made some error". We can certainly correct it if we do.
- H.M.Jr: Right.
- B: But they - we just drag along here so on a lot of stuff. Well I didn't mean to talk politics to you.
- H.M.Jr: I know, well I'm always glad to hear from you and I'll give word to have Haas' name go right up.
- B: Oh all right, fine.
- H.M.Jr: Thank you.

JR

GRAY

Paris

Dated June 14, 1937

Rec'd 2:25 p.m.

Secretary of State,  
Washington.

781. June 14, 5 p.m.  
FOR THE TREASURY.

The exchange market today was nervous and uneasy and the fund again yielded large amounts of sterling in order to hold the rate at 110.90. The dollar is firm at 22.47. The forward rate for sterling moved up 2 francs for one month and to 5 francs for three months.

At midday the Bank of France suddenly raised its discount rate from 4 to 6 per cent in an effort to stop flight of capital and also raised its 30 day rate from 4 to 6 per cent.

On the security market rentes were up from 50 to 80 centimes but according to our market contact the general feeling is that the improvement was due to the official supporters. Other securities also showed slight gains although dealings were agitated.

While no official announcement has been noted in this connection it appears likely that the Minister of Finance will present his financial projects to a Council of the  
Cabinet

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JR #781, June 14, 5 p.m., from Paris.

Cabinet late this afternoon, and to a Council of Ministers tomorrow. If approved by the latter it is said that the Government intends to lay its draft bill before the Chamber tomorrow afternoon and to ask the Chamber Finance Committee to examine it without delay. As the committee will probably desire to hear the Minister of Finance it is thought that its report will not be available before Friday and that under these circumstances the Chamber may be able to complete its first reading of the bill on Sunday next. As the report of the Senate Finance Committee will probably not reach the Senate before Thursday, June 24 final action by Parliament is not looked for before end of the month.

BULLITT

KLP

LMS

GRAY

London

Dated June 14, 1937

Rec'd 2:30 p. m.

Secretary of State,  
Washington.

380, June 14, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Pressure on the franc was not as great today as during the latter part of last week. This was not so much due to any easement effected through the increase in the Bank of France rediscount rate but to the awaiting of the French Government's proposals.

In the course of a conversation which he particularly emphasized was private and strictly confidential Monick, French Financial Attache, said that he could not but admit that the position in France was becoming increasingly precarious; that it was indeed sad to see the result of fruitful labor dissipated and the contrast was dishearteningly vivid between the recovery going on in Switzerland and Holland and the financial deterioration taking place in France. Monick obviously felt that the Blum Government in general and Blum in particular was losing authority and control of the situation and he seemed to believe that a definite crisis was inevitable. He was not at all sure that this current movement would be the beginning of the

real

LMS 2-No. 380, June 14, 6 p. m., from London.

real crisis and he rather expected that various palliative measures would be undertaken including perhaps the taking of the gold profit up to 11 francs which would amount to about  $4\frac{1}{2}$  milliards. He expressed the further conviction that Blum could not depart from the principles laid down in the tripartite agreement; that exchange control was politically out of the question and that therefore the economic and financial policy of both this Government and the new Government which must follow on any crisis was to all intents and purposes fixed. On the other hand the rate of exchange would have to be modified, for France would no doubt have "to dive deep" and hold the franc at a further depreciated level in order to attract back the capital that had fled abroad and then gradually appreciate the currency as conditions at home improved.

Monick particularly stressed the personal and confidential character of the above.

BINGHAM

RA:WWC

Copy for SECRETARY

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: June 14, 1937, 4 p.m.

NO.: 343

FROM SECRETARY OF THE TREASURY -

FOR BUTTERWORTH.

By telephone Cochran reported that he saw Bachmann yesterday and again today. The Swiss told Cochran that some days ago they decided on a program of not increasing the holdings of gold of the Swiss National Bank, and that they will sell in the London market any further gold acquired by the Bank from hoardings. It is also the plan of the Swiss Bank to dispose of the remainder of the gold in their Stabilization Fund (amounting to about \$25,000,000) in the United States. We have made no comment on this plan, pending receipt of confirmation of this call.

HULL

EA:LWW

STRICTLY CONFIDENTIAL

## PARAPHRASE OF TELEGRAM RECEIVED

NO.: 780

FROM: American Embassy, Paris

DATE: June 14, 1937, 4 p.m.

I lunched with Blum today but there were so many others present that I had no opportunity to ascertain his decision. This evening I expect to dine with him alone and be able to telegraph definitely. His aspect of today was free of care and so greatly different from that of Friday and Saturday that I am certain that he has arrived at some decision but I am unable to say as to whether it is a decision to fall on some politically advantageous issue or to carry on with his fight. Blumel and Moch, who are his two most intimate advisers, are counseling him to act before the crash comes and abandon the premiership. On the other hand, the Radical Socialists are so terrified of assuming responsibility for the Government of France at the present time that they are doing everything possible to retain Blum in his present office. Advice is being given by Herriot, Chautemps and Daladier to their followers to vote for any new taxes that may be proposed by Blum, in the belief that such measures will not be sufficient to stave off the financial

-2-

cial collapse and that Blum can be forced to take the onus of the crash. Any statements which Blum may make I shall telegraph to the Department tonight.

BULLITT

EA:HF:EB

June 14, 1937.  
4:46 p.m.

H.M.Jr: Hello

Operator: Mr. Helvering. Go ahead.

H.M.Jr: Hello

Helvering: Hello

H.M.Jr: Guy.

H: Yes.

H.M.Jr: Henry talking.

H: Yes.

H.M.Jr: Ah - when Mrs. Roosevelt brought up the question about the broad - the money that the Broadcasting Company paid - ah - who did I ask over in the Bureau? The question was raised whether the money would be paid directly to the Friends society, you see, it didn't go to her at all. I got a ruling on that from somebody over there.

H: Well I - I don't get just what.....

H.M.Jr: Well Mrs. Roosevelt goes on the air.

H: Yes.

H.M.Jr: Let's say they pay her - they - they pay her a thousand dollars a night, let's say.

H: Yes.

H.M.Jr: The money goes to the Society of Friends - the Quakers.

H: I see.

H.M.Jr: It does not go to her.

H: Yes.

H.M.Jr: The Associated Press is asking about it. I remember that we asked somebody to give me a ruling on it and we said if the money was paid directly to the Society of the Friends that - ah - ah - that she wouldn't have to pay any tax. Have you any recollection of it?

- 2 -

H: Well it seems to me I have the Rules and Regulations - gave a ruling on that if I'm not mistaken but I don't recall right off-hand about it.

H.M.Jr: Well the - the AP is waiting for an answer.

H: What?

H.M.Jr: The Associated Press is waiting for an answer.

H: (Laughs)

H.M.Jr: Magill asked Charlie Russell and he can't remember but I - I know that we got a ruling on it.

H: Ah-ha.

Helvering: Well let me - I'll try and get Mr. Saunders from the head of Rules and Regulations. I think that's where it was but I don't recall definitely about it. It seems to me I remember something about that.

H.M.Jr: Well will you look it up and - and will you let - ah - ah - Magill know?

H: Yes.

H.M.Jr: Please.

H: All right.

H.M.Jr: Will you let Magill know.

H: Yes, I'll find out if we can right away. I don't know whether they've left down there or not but.....

H.M.Jr: Well please.

H: .....I'll try and get it right away.

H.M.Jr: Thank you.

4:57 p.m.

H.M.Jr: Hello - hello

H: Hello

H.M.Jr: This is Henry talking, Guy.

- 8 -

H: What?

H.M.Jr: Henry Morgenthau.

H: Oh, yes.

H.M.Jr: Magill's here with me.

H: Yes.

H.M.Jr: Go ahead.

H: I checked down there and there's nobody in the file room now.

H.M.Jr: Yes.

H: Those are what I call our subject cases.

H.M.Jr: Yes.

H: And we - I told the - I got ahold of Mr. Briggs who is the head of it but (laughs) he don't know anything about the file. He don't recall any specific ruling on that.....

H.M.Jr: Ah-ha.

H: .....but he said that the first thing in the morning he'd have that file checked.

H.M.Jr: Well I can't remember and Mrs. Roosevelt is out of town for a couple of hours but I have a sort of vague notion that they did talk to us - I know what she does.

H: Yes.

H.M.Jr: Ah - the broadcasting company let's say pays a thousand dollars - the sponsor does, you see, to have her go on the air.....

H: Yes.

H.M.Jr: .....and they pay that directly to the Society of Friends.

H: Well, of course, it wouldn't be income to her anyhow.

- 4 -

H.M.Jr: Well - ah - she earns it but as I understand it we gave her a ruling. Now this is just my memory on it.....

H: Ah-ha.

H.M.Jr: .....that - ah - there have been other cases like that and that she was told as long as the money was paid directly to the Society of Friends that she would pay no tax.

H: Yes.

H.M.Jr: But they.....

H: Of course, they're trying to - I suppose somebody is trying to put it under the heading that she should receive that and then pay it out to them and only be entitled to 15%.

H.M.Jr: Yes, well when he comes in in the morning if they'll look it up, will you.

H: I'll - I'll check the whole file.

H.M.Jr: Thank you.

H: You bet.

H.M.Jr: Thank you. Good night.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED.

FROM: American Embassy, Tokyo, Japan

DATE: June 14, 1937, 6 p.m.

NO.: 158

FOR SECRETARY MORGENTHAU.

According to Domei report appearing today in local press, financial and business circles generally fear that Finance Ministry "must eventually enforce" some system of drastic financial control together with managed economy to meet the budget problem caused by the increase in military appropriations and the necessity of raising a large amount for increased industrial production.

It is the opinion of the Embassy that any attempt at present to describe the measures which are probably under contemplation would be conjectural; these measures were set forth in our telegram No. 138 of May 28. It may be, however, that the appearance at this time of the press report referred to above from a semi-official source may have been initiated by the Government in order to place upon the military the responsibility for contemplated inability of the Government to implement measures for improvement in national economy because of the heavy military budget.

GREW.

EA:LWW

June 14, 1937

My dear Mr. Winchell:

Thanks for your nice letter of June 9th.

If I had known in advance of your Sunday night broadcast that you were going to mention our financing, I would have been encouraged to lower the interest rate.

To be serious for a moment, in these difficult times it is nice to know that the Treasury can count on Walter Winchell as a friend.

Yours sincerely,

Henry Morgenthau, Jr.

Mr. Walter Winchell,  
Twentieth Century-Fox Film Corporation,  
Beverly Hills, California.