

● PSF

Treasury Department ; Henry Morgenthau, Jr.

1937

File PSF  
Morgenthau

January 15, 1937.

Memo to Pres.  
From H. Morgenthau

Enc. extract from Cochran's cable of Jan. 12th reporting  
conversation with Schacht.

SEE--Germany-Foreign File-Drawer 2--1937

PSF: Morgenthau

file  
revised

THE SECRETARY OF THE TREASURY  
WASHINGTON

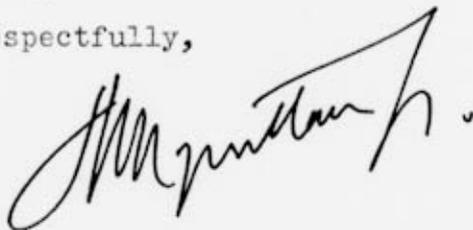
January 21, 1937.

My dear Mr. President:

I am inclosing herewith a clipping from today's New York Times which I think throws considerable light on the financial situation in Japan.

Frankly, I am quite worried about the Japanese situation and I am doing everything possible to be prepared for any emergency such as the possible depreciation of the yen.

Respectfully,



The President,  
The White House.

# JAPAN CLARIFIES EXCHANGE CURBS

## Says the Difficulties Here in Getting Yen Will Be Ended by New Regulations

### TO STABILIZE CURRENCY

## Tokyo Declares Value Will Not Be Changed—Is Ready to Export Gold if Necessary

Wireless to THE NEW YORK TIMES.

TOKYO, Jan. 20.—The present difficulties of American business men in obtaining Japanese exchange are purely technical and due to delays involved in the new regulations.

There will be no difficulty regarding cotton future contracts. "If the futures are not too far off." The sole object of the new regulations is to stabilize yen exchange. The government is determined and fully prepared to maintain the yen at its present value.

Those assurances were given this correspondent today by Elgo Fukai, Governor of the Bank of Japan. He was answering statements cabled from Washington declaring that the Treasury was being bombarded by complaints that American business men could not obtain Japanese exchange and grumblings of local traders that the new regulations are imposing an intolerable amount of clerical work and causing unconscionable delays in foreign exchange transactions.

"The present delays," said Mr. Fukai, "are due to procedure that has thrown extra work on banks and officials. We are trying to expedite matters—this bank alone has engaged thirty extra clerks—but, meantime, delays must be acquiesced in."

"In a few days import bills and exchange contracts will again be coming into the market. It was necessary to stabilize the situation by slowing down applications for unnecessary imports. That is the effect aimed at."

#### Many Factors Are Seen

"Many factors have combined to create difficulties which the new regulations are intended to meet. They are partly due to the effect of world-wide rising prices and partly to efforts to anticipate higher tariffs. Traders, since November, have been rushing import contracts and the heavy exchange demands have been causing the currency to fluctuate. If this tendency had been allowed to go on without control, an exchange situation quite at variance with the actual position might have arisen. The regulations were framed to prevent that."

"The broad question of Japan's international balance of payments will be taken up later. The government is now assembling material for a general review preparatory to measures to improve Japan's balance. Apart from restriction of imports or increase of exports, the government has certain resources that can be used to lessen the strain on the exchanges."

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PSF: Morgenthau

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The broad question of Japan's international balance of payments will be taken up later. The government is now assembling material for a general review preparatory to measures to improve Japan's balance. Apart from restriction of imports or increase of exports, the government has certain resources that can be used to lessen the strain on the exchanges.

"For example, the government has been allowing Japanese companies to buy out foreign holdings in Japanese enterprises, and this has intensified the strain on the Exchange. It has been curtailed."

Governor Fukai, in an important passage, declared the yen would be supported at the present level.

"Baba [the Finance Minister] has officially declared that is the government's policy," he said. "No one in Japan now thinks of further depreciation. Even exporters who, when Japan left gold, wanted greater devaluation, have changed their attitude. Our policy aims at stabilization. Those regulations are intended to prevent fluctuations and diminish monetary uncertainty."

**Government Ready to Act**

In this connection, it was learned from other reliable sources, that the government was even prepared to export gold, if necessary, to maintain the yen. Japan's gold reserve, though still officially valued at 550,000,000 yen, is worth, in present currency, more than 1,700,000,000. This provides complete coverage for the note issue, now approximately 1,400,000,000 and leaves 300,000,000 free.

Taking all the factors into account, foreign bankers here accept the government's assurances that the yen can be maintained free from any sudden or violent fluctuations. This confidence, however, is not unlimited nor unreserved. The immediate difficulties caused by the rush of speculative imports can be relieved by regulations, but the fundamental causes of the yen's weakness lie deeper.

There is genuine fear that continuance of heavy, unproductive State expenditure financed by borrowing will ultimately inevitably tend toward inflation. Japan, like Germany, has plenty of skillful financiers who realize the danger and will use all means to prevent flight from the yen. These will involve necessary measures of control, which can hardly be exercised without checking enterprise and ultimately accentuating the evils of the situation.

**Trade at a Standstill**

By The Associated Press.

TOKYO, Jan. 20.—Japan's entire import trade, including her commerce with the United States, was disclosed today to have been at a standstill since Jan. 8, when the government took over control of foreign exchange.

Bankers disclosed that not one application for imports into Japan had been granted in the almost two weeks since an exchange control ordinance went into effect.

Although no American business houses dealing in imports have lodged complaints with the United States Embassy here, authoritative sources declared there was no indication when trade would be restored.

**NO DEALINGS IN YEN HERE**

Applications for Permits Thought to Have Accumulated in Japan

Dealings in the Japanese yen came to a standstill here yesterday. So far as could be learned at the leading banks, no transactions were done and quotations were uncertain.

The current uncertainty over the

**Continued From Page Thirty-one**

yen is ascribed by bankers here largely to the fact that the licensing system, announced on Jan. 8, had been put into effect without warning and apparently without adequate preparation for carrying out its provisions. The result of this was that applications for exchange permits have piled up without receiving prompt attention from the Japanese authorities.

Other foreign exchanges were dull but inclined to soften against the dollar. The pound sterling dropped 3-16 cent to \$4.90 1-16, the franc fell 1/4 point to 4.66 1/2 cents, the guilder was unchanged at 54.76 cents, the belga lost 1/4 point to 16.85 1/2 cents and the Swiss franc went down 1/4 point to 22.95 1/2 cents.

The engagement of \$3,824,000 gold abroad for shipment here was reported yesterday to the Federal Reserve Bank of New York. The sum included \$1,790,000 in England, \$1,684,000 in Switzerland and \$350,000 in India. A shipment of \$1,452,000 gold from England arrived here yesterday, the Reserve Bank reported. It also announced that \$106,000 gold had been released from earmark.

Chicago Board of Trade



TREASURY DEPARTMENT

WASHINGTON

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personal*

*H. Mung*

JAN 25 1937

*Treas*

My dear Mr. President:

Reference is made to my letter to you dated October 24, 1935 relative to certain information transmitted to you and in turn passed on by you to the Treasury Department to the effect that one Jules Bache had transferred substantial parts of his fortune to Nassau for the purpose of putting it beyond the reach of the taxing authorities.

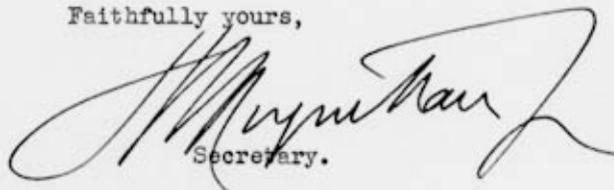
You were informed in that letter that, although similar charges involving persons connected with J. S. Bache and Company were made to the Bureau of Internal Revenue during the year 1933 and such charges were, after careful investigation by internal revenue agents and officials of the customs, found to be erroneous, the Bureau had been directed to make a supplemental investigation to determine whether there is any basis in fact for the information transmitted to you.

I have now received a report from Deputy Commissioner Russell summarizing the results of a thorough investigation by a revenue agent, covering the taxable years 1932, 1933, and 1934, of the financial affairs of Jules S. Bache individually, and

also of the partners of Jules S. Bache and Company, other individuals connected with that firm, and certain foreign corporations with which Mr. Bache is closely associated. The agent's report disclosed some possible additional tax liability in the cases of the various partners of J. S. Bache and Company but did not disclose any tax liability in any of the cases investigated which was the result of attempts at tax evasion.

Mr. Russell's memorandum, as well as the revenue agent's report, are available upon request should you desire to see them.

Faithfully yours,



Secretary.

The President

The White House.

*BSF  
Morgenthau*

January 25, 1937.

Memo to Pres.  
From H. Morgenthau

In re-visit from Chinese Amb. who gave him secret and conf. message from T. V. Soong who wanted Morgenthau to know that attached article in N.Y. Times -headed-ANTI-CHIANG PLOT IS LAID TO NANKING-~~is~~ is true story of what had taken place in China recently.

SEE--China-Foreign File-Drawer 2--1937

BF  
File - Morgenthau  
(S) Drawer 1-37

January 26, 1937.

Letter to Pres.  
From Morgenthau

Encloses cable from Bill Bullitt and copy of his answer  
to him.

In re-Rueff stating that favorable progress was being made  
in the negotiations for the loan in London of four  
and a half to five billion francs to the French railroads.

SEE--Wm. Bullitt-Foreign File-(S) Drawer 2--1937

February 11, 1937.

Dear Henry:-

This seems to be a matter so personal to you that I know you will want to help your old friend Mrs. Rainey. Considering the long separation, I am sure your Elinor would not mind.

F. D. R.

Feb 8/37

# Boston Traveler

MONDAY, FEBRUARY 8, 1937

## All Is Not Lost



As louder grows the outcry against the President's suggestion that the Supreme Court be rejuvenated, more reasonable does his suggestion appear. The opposition rises to chorus the misinformation that the President is attempting boldly to do something unAmerican.

What the President is doing is exactly constitutional, so much so that the constitution itself plainly states that the President, with the consent of the Senate, may appoint Supreme Court judges. And it does not say how many.

On the other hand, nowhere in the constitution does it say that the Supreme Court has power to nullify acts of Congress. The court just took that power to itself. President Roosevelt is not even challenging that condition.

No man can successfully deny that President Roosevelt is attempting to pad the court in the hope that his pet legislation may get a more sympathetic ear. But does anyone seriously believe that President Roosevelt is going to pack the court with reds or fascists?

The worst that can be said is that the legislation he would have approved might be dangerously experimental. Here seems to be just criticism until the fact is realized that, first the Senate would have to confirm the appointees of the President; second, it is unlikely that men (or women) who have reached Supreme Court stature would sell out their country.

Finally, all is not lost. The law enlarging the court could be repealed and the court cut down if danger threatened. To be candid, when the Supreme Court, right or wrong, ruled that neither federal nor state governments had the right to protect women and children from industrial exploitation, the majority who so voted outraged the sense of justice of many common-sense citizens. To bring about this hairsplitting distinction, the court impliedly enslaved women and children by resort to an (14th) amendment which was passed in 1869 to consolidate the freedom of emancipated slaves.

Fear not, the republic is not galloping to ruin.

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PRIVATE AND ~~CONFIDENTIAL~~

THE WHITE HOUSE  
WASHINGTON

March 5, 1937.

BF  
File  
Morgenthau

Memorandum for  
The Secretary of the Treasury

Please very confidentially let  
me have your slant on this.

F.D.R.

Encloses-Letter to Pres. from Cordell Hull  
Dated-March 2, 1937

In re-matter of China Consortium Agreement  
of 1920.

Letter enc. from Amembassy, London, Eng. re-  
lating to same thing-Dated-Feb. 26, 1937

Draft of letter for Pres. approval to  
Amembassy in answer to theirs of Feb. 26th  
attached--not sent--still pending Pres.  
approval.

Enc-6page memo on China Consortium-letter from  
Atherton attached in regard to it.

THE SECRETARY OF THE TREASURY  
WASHINGTON

March 9, 1937

PSF

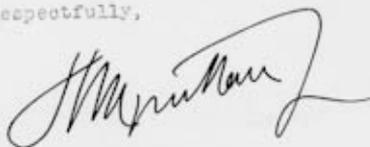
*Foley  
Magnuson*

My dear Mr. President:

I am sending you herewith two documents: (1) copy of a memorandum that Ambassador Bonnet handed me at 2:30 on Monday, March 8th, and (2) a document handed to me by Mr. Mallet at 5:40.

I think you will agree that the French document is unique.

Respectfully,



The President,  
The White House.

Copy of message sent by the  
Chancellor of the Exchequer to  
French Minister of Finance

Position appears to be that despite objections felt both by His Majesty's Government and the United States Government to appointment of paying agents in the United Kingdom and the United States respectively French Government have publicly committed themselves to exchange option participation which in their view can only be made effective by appointment of paying agents abroad.

His Majesty's Government do not understand why this situation should have arisen. Not only their objection to appointment of paying agents in London but their general criticism of principle of an exchange of option which when applied to so great a loan may contain many embarrassments for them have been repeatedly notified to French Government. Nor do His Majesty's Government understand how the French Government's proposals could proceed in any case in their present form in view of objections made by the United States Government to paying agents in New York. Chancellor of the Exchequer cannot  
express/

express approval of proposals which he has informed both the United States and French Governments that he dislikes; nor does he see how the tripartite agreement can be worked in that spirit of cooperation which should inspire it if views of parties in a matter so closely connected with that agreement receive so small consideration.

If therefore French Government decide to proceed they must do so on their own responsibility. If they consider they are so far committed by (group undecypherable) statement that it is not possible for them to withdraw you may inform them that the Chancellor of the Exchequer desires that the following points should be clearly understood.

1. It is obviously within the power of the French Government to undertake payment of interest in francs in France and that is still true even if number of francs to be paid is made to vary in accordance with current value of franc in terms of sterling or gold or any other standard.

But/

But a promise to pay in actual sterling commits the French Government to an undertaking which is not in their power to implement unless they are able to obtain sterling. It is not clearly stated whether undertaking to make repayment in sterling applies to interest only or to interest and capital. But in any case there is no promise or undertaking expressed or implied on the part of His Majesty's Government that they will in fact assist.

2. No issue can be made in London and no quotation can be given on London Stock Exchange and French Government should undertake not to invite or facilitate subscriptions from British source.

AMBASSADE  
DE LA RÉPUBLIQUE FRANÇAISE  
AUX ÉTATS-UNIS

*Washington, le* March 8, 1937.

Since the loan about to be issued in France provides for a guarantee as well as for an option of exchange, the French Government wishes to take the necessary steps in order to allow the payment of the coupons by an American bank to be designated later.

1o- The French Government does not appeal to American citizens residing either in France or in the United States for subscriptions to the loan;

2o- No quotation of the new bonds in the United States will be requested by the French Government;

3o- The French Government will deposit in advance in the United States the necessary funds for the payment of the coupons of the loan which would eventually be cashed in American banks.

In this regard, the French Government desires to call the attention of the American Government upon the following:

a)- At the present time, it is customary for American banks to pay without charge the principal or the interest of several French or foreign loans, namely the coupons of the Suez Canal Company and

the

the principal of the bonds of the French loan of 1920. Such practice is provided for by private agreements.

b)- It does not appear to the French Government that the Johnson Act might in any way forbid such practice, since it is specified that no subscriptions will be solicited from American citizens or persons residing in the United States, and since funds necessary for the payment of the coupons will be supplied in advance in such a manner that the American bank which would be entrusted with such payment could never be without provision.

c)- In the opinion of the French Government, there can be no doubt as to the lawful character of the proposed procedure. Therefore, if the French Government has sought to secure the opinion of the American Government, it was as a matter of courtesy and also to give the proof of its friendly interpretation of the monetary tripartite agreement. In fact, it is the opinion of the French Government that no American bank which it might approach could base a refusal upon any American legal text. Furthermore, neither the French Government nor any French bank would refuse to satisfy a similar request which might be presented in France.

The French Government wishes to point out that it has at all times respected the letter as well as the spirit of the tripartite monetary agreement. It does not think it necessary to insist upon the

serious

serious consequences that might result either from the institution in France of a policy of control of exchange or from any other measures to which it remains firmly opposed and the result of which would inevitably be to precipitate towards the United States a new exodus of funds, the danger of which the American Government is fully aware.

The French Government is all the more confident that a favorable answer will be given by the United States Government that on several occasions, it received the assurance of all the American cooperation compatible with existing American legislations. Such assurances were recently reiterated by the Secretary of the Treasury during his conversations with the French Ambassador.

It would appear to the French Government that the matter now submitted to the consideration of the American Government would give to the latter a special opportunity for cooperation, due to the fact that the wishes expressed by the French Government do not seem to be in contradiction with existing legislations./.

PSF: Morgenthau

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~

April 6, 1937.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you speak to me  
confidentially about Senator  
Copeland?

F. D. R.

PSF: Morgenthau

THE WHITE HOUSE  
WASHINGTON

Morgenthau

~~CONFIDENTIAL~~

May 25, 1937.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you look into the qualifications of Mr. Temple W. Seay for Board of Tax Appeals or some similar position? He is a resident of the District and a Vestryman at my church.

F. D. R.

Mr. Seay's business address is  
Board of Tax Appeals  
and his home address is  
3118 - 45th Street,  
Washington, D. C.

PSF HM, jr

See -  
Tax Message Draft  
Drafter 2-1937

THE SECRETARY OF THE TREASURY  
WASHINGTON

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Personal

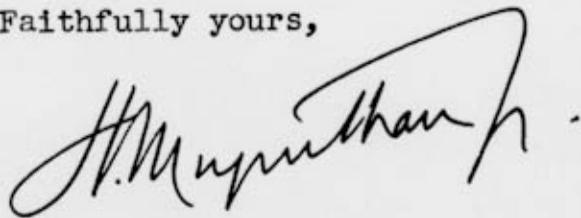
May 26, 1937.

My dear Mr. President:

Complying with your request I am sending you herewith, by hand, a report on our recent investigation of income tax returns for 1936 and letters of transmittal for your signature to Senator Harrison and Congressman Doughton.

Mr. Magill and I will be pleased to call on you any time tomorrow morning as convenient for you.

Faithfully yours,



The President,

The White House.

TELEGRAM

*file  
confidential*

The White House  
Washington

*File  
Morgenthau  
(1) BF*

WX July 1, 1937.

To The President,  
HP

On my return from the wedding last night at 8:45, I found the following awaiting me:

*(sent 1)* - "LONDON (Undated) Received 5:38 p.m. June 30.

To Secretary of State: Urgent and Rush.

For Treasury from Butterworth.

Inasmuch as telephone connection was so poor and British Treasury has now informed me that they feel that a decision by Mr. Morgenthau tonight, regardless of the fact that it will not reach here until the early hours of the morning, is highly desirable (Repeat highly desirable) I am putting on the direct wire the Chancellor of the Exchequer's message to the Secretary of the Treasury, together with the Chancellor's proposed reply to Bonnet.

The former reads as follows:

"I have received written reply from Bonnet together with further oral message to-day. Gist of his statements is that French ~~bank~~ equalization account can and will obtain gold from bank of France for purpose of supporting franc and that it is not their intention to allow franc to fluctuate without control. On the other hand they anticipate a drop when markets reopen. In their view pre-existing arrangements for technical cooperation between exchange funds can be resumed with sole difference that franc will not be held within previous gold limits. They pressed strongly for reply to-day as to whether we regard this new departure as coming within tripartite monetary agreement. While these explanations make position clearer in certain directions there is of course no certainty as to level of which franc will be allowed to fall or as to success with which they will control fluctuations thereafter. My feeling is that it will be desirable to continue arrangements envisaged in tripartite monetary agreement for present but it will be impossible to decide on our final attitude until we have some experience of what happens. I am anxious to avoid a position in which we should announce that tripartite monetary agreement continued in full force and then on finding that the situation was developing on unsatisfactory lines should ourselves be compelled to appear later as bringing agreement to an end so far as ~~fr~~ France is concerned. I should explain that it seems to us that the whole question whether the franc can be sustained and therefore whether France can continue inside the

TELEGRAM

The White House  
Washington Sheet 2

tripartite monetary agreement is mainly governed by the reality or otherwise of the budgetary reforms which the new French Government are now foreshadowing. Unless we have some clearly defined point at which they can hold the franc, we should be powerless to intervene in the whole matter. With this in mind I propose to send following reply to Bonnet if you see no objection".

The draft reply to Monsieur Bonnet, reads as follows:

"The Chancellor thanks Monsieur Bonnet for the messages communicated to-day by Monsieur Monick. In view of the insistent demands made in the British Parliament for an immediate statement, and bearing in mind the representations which Monsieur Bonnet made, the Chancellor this afternoon made following statement in the House of Commons, of which he understands Monsieur Bonnet already has a copy. The Chancellor is glad to have the further indications given of the measures which the French Government propose to take in connection with the exchange value of the franc. He has noted that the French Equalization account both can and will obtain gold from the Bank of France for the purpose of supporting the franc henceforward. At the same time the Chancellor is not unnaturally anxious as to the immediate position which may arise following the reopening of the market when it is anticipated that a fall in the franc may take place. The Chancellor cannot conceal that a movement of this kind may cause considerable apprehension in this country and will render His Majesty's Government's position difficult. The Chancellor has noted that it is Monsieur Bonnet's intention to continue the same type of practical arrangements for management of the franc as have recently been in force in cooperation with the British and United States authorities. In view of the general character of the decision reached by the French Government which, as indicated in his message yesterday, the Chancellor feels may have more serious repercussions than the French government have assumed, the Chancellor cannot avoid apprehension both on the score of the level to which the franc may fall and on the difficulty of controlling it and he remains for his part uncertain how far and in what way the authorities in this country would be able to continue reciprocal arrangements on the lines which have been followed up to now. He can only suggest that the development of the matter must be carefully watched and further consultations take place as soon as it is seen how the exchange situation of the franc actually develops in the immediate future. So

TELEGRAM

The White House  
Washington

Sheet 3

So far as under the proposed arrangements the franc is kept relatively steady and not too far from recent level, he is willing that the practice under tripartite monetary agreement should continue but he would like to know before business opens on the 1st July to what precise level as compared with recent weeks Monsieur Bonnet will allow the franc to move."

BINGHAM.

Et

After three hours work with the assistance of the following people, Mr. Wayne C. Taylor, Mr. Herman Oliphant, Mr. Clarence Oppen, Mr. Archie Lohead, Dr. Harry White, Dr. Jacob Viner, Dr. Winfield Reifler and Dr. Herbert Feiss, and the especially able representation on the part of Mr. Butterworth, of the American Embassy, in London, I telephoned at twelve o'clock Eastern Standard time, the following message to Butterworth for Sir John Simon.

(Insert) — Thank you for the expression of your views transmitted to me on June 29 and 30. I regret that a brief absence precluded an immediate comment on your proposed reply to Monsieur Bonnet.

Taking into consideration the limited time within which Monsieur Bonnet was able to operate and the extreme difficulties of the situation which faced him on his arrival, I feel that his failure to consult completely with our two treasuries is understandable.

I share your apprehension over the repercussions which might arise from an undervalued or unduly fluctuating franc, but I believe that we can best minimize these dangers by avoiding, in-sofar as possible, any move on our part which might add to any lack of confidence in the future of the franc.

In the present juncture of world affairs, I trust you will agree with me that it is of prime importance to preserve the beneficial effects which resulted from the tripartite declaration and its ensuing arrangements. It was thus demonstrated that great democratic nations could, with mutual confidence, create and carry out cooperative measures.

In view of all these considerations, it is my conviction that every reasonable effort should be made to make it possible for France to continue as a participant in the tripartite declaration.

It is therefore my sincere hope and desire that you and I may present to Monsieur Bonnet similar messages

TELEGRAM

The White House  
Washington

Sheet 4.

somewhat along the following lines:

Now that the French Ministry of Finance has been given the powers which it sought to meet the present situation, I look forward to a continuation of close cooperation between our treasuries under the tripartite declaration.

May I express to you the sincere hope that France will soon emerge from the temporary difficulties with which she is now confronted.

At seven o'clock this morning Butterworth telephoned me the following message from Sir John Simon which I took over the telephone and is consequently not letter perfect:

(Insert 3)

I am most grateful for your message. I fully agree with you as to the importance of preserving the beneficial effect of the tripartite declaration.

I am sending to Mr. Bonnet a message in the terms you suggested and I am telling him that I understand that you are sending a similar message and that I suggest that if Mr. Bonnet desires and if you agree, the two messages should be released simultaneously at 5 p.m. London time, for publication. I should also like to have you consent to say in the House of Commons at any time after 3 p.m., that I have sent this message and that you have sent a similar message. At the same time I am sending to Mr. Bonnet a confidential, personal message along the lines of the draft communicated to you yesterday with the substance of which I assume you are in general agreement. The possibilities of maintaining with the French authorities the full measure of cooperation envisaged in the tripartite agreement and prestige of that declaration in the eyes of the world must, I feel, depend on the franc being kept relatively stable at a reasonable rate, and I feel that you would agree for me to tell Bonnet frankly of my convictions ~~in~~ on this.

At 9:15 Eastern Standard time I gave out the following message to the American press. I have sent to Finance Minister Bonnet of France which is identical with a message being sent by the British Government.

(Insert 4)

"Now that the French Ministry of Finance has been given the powers which it sought to meet the present situation I look forward to a continuation of close cooperation between our treasuries under the tripartite declaration. May I express to you the sincere hope that France will

TELEGRAM

The White House  
Washington

Sheet 5

soon emerge from the temporary difficulties with which she is now confronted."

I was sorry that I was unable to reach you on account of your being at the wedding. I sincerely hope that the action which I have taken meets with your entire approval.

Henry Morgenthau, Jr.

PSF: Morgenthau

DEPARTMENT OF STATE

THE SECRETARY

*file.  
Confidential*

July 21, 1937.

MEMORANDUM FOR MISS Le HAND

Respectfully returned to  
the President with the thanks  
of the Secretary and Under  
Secretary.

PSF: Morgenthau

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 13, 1937.

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Japan and U. S. cotton.

~~Confidential~~

1. Japan imports about 2 billion pounds of cotton. One-third by quantity and almost one-half by value comes from the United States. The remainder, almost entirely short staple, comes chiefly from British India.

	1936	
	<u>By value</u>	<u>By quantity</u>
United States	44 percent	33 percent
British India	37 "	50 "
Egypt	5 "	4 "
China	2 "	1 "
Africa, Brazil, etc.	12 "	12 "

2. Indian cotton used in Japan is the short staple variety which can be used only in the coarser yarns and cloths. About two-thirds of Japan's output consists of these coarser cloths and yarns.

3. About one-third of Japan's cotton machinery uses long staple cotton, but almost all of it can very easily and quickly be adapted to use the shorter staple. The absence of American cotton would lower the quality of the product but would not affect Japan's ability to produce cotton manufactures.

4. If Japan could not obtain U. S. cotton, 1/3 to 1/2 her cotton industry would have to produce coarser yarns and cloths, or obtain long staple cotton from Egypt, Brazil or India. These three countries together produce three times the amount of longer staple cotton required by Japan. However, Japan would have to compete with textile industries of all other nations if she had to have her supply from those sources. Moreover, Egyptian cotton is much more expensive than American cotton, while most of the Indian and Brazilian long staple is of poorer quality.

5. Japan's exports of cotton yarns and cotton textiles in 1936 amounted to about 550 million yen, or about 20 percent of her total exports. Of this 20 percent of her total exports, somewhat more than a half consists of cotton goods manufactured from American cotton.

6. Conclusion:

If Japan is not able to obtain cotton from the United States, a maximum of 10 percent (or \$90,000,000) of her exports will be affected. She can reduce this percentage by:

- (1) Using up her stocks of American cotton. She now has from two to three months' supply on hand.
- (2) By bidding higher for more Egyptian, Brazilian and Indian long staple cotton, causing Great Britain and Europe to take more of the American cotton.
- (3) She could shift from the finer to the coarser cotton yarns and cloths.
- (4) Possibly "bootleg" American cotton in the form of cotton yarn manufactured in a third country.

These alternatives would make it less profitable for Japan to export finer cotton goods, but in time of war profitability is a minor factor.

Altogether, Japan's inability to obtain cotton from the U. S. would not seriously interfere with her economy, would not substantially lower her standard of living, and would not significantly hamper her power to conduct a war.

Form 6088  
TREASURY DEPARTMENT  
U. S. COAST GUARD  
Ed. Sept. 1930

*file  
personal*

*BF  
HM, jr*

# U. S. COAST GUARD

OFFICIAL DISPATCH

UNIT HEADQUARTERS

DATE 29 JULY 37

INCOMING HEADING

CG66 Z QUAH V QUAT GR 20

FROM

SECRETARY OF TREASURY

TO (FOR ACTION)

HEADQUARTERS

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

0029 FOLLOWING FOR PRESIDENT AND MRS ROOSEVELT QUOTE HAD  
FINE CROSSING FAMILY ALL WELL BEST REGARDS SIGNED MORGENTHAU  
UNQUOTE 1215

TOR 1851 NAVY # 66

Operator's Recd.

Initials of "ACTION" officer.

PSF: Morgenthau  
Treas

THE WHITE HOUSE  
WASHINGTON

August 2, 1937.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Rather serious news affecting  
the Treasury Department has just come.

It is understood that the head  
of the Department was caught sitting  
in a bedroom on a lounge with Joan  
Crawford and that if the Comptroller  
of the Currency had not discovered it  
and inserted Mrs. M., there would have  
been a real scandal. I am not telling  
the Under Secretary or any of the  
Assistant Secretaries, as they might  
all start for California.

After this word of admonition  
I can still hope that you are having  
a grand time in Honolulu and nearby  
places. Congress is still here and  
so am I. That is, as the TIMES would  
say "All the news that's fit to print."

F. D. R.

ROYAL HAWAIIAN HOTEL  
SEASIDE HOTEL  
THE GOLF CLUB

CABLE ADDRESS  
ROYALHOTEL



Aug. 5, 1937.

ROYAL HAWAIIAN HOTEL  
HONOLULU, HAWAII

my dear Mr. President:

Enclosed  
herewith find a photograph  
of the famous Crawford -  
Morgenthau bedroom scene.

Please note that Elinor  
generously left me one  
corner of the sofa.

Day by day I am going more  
Kamaaina and feel very  
Molowa. So far my Opu  
has not disgraced me. We  
are going to the Island of

Hawaiiia apropos. We are  
all having a marvelous Hooma  
We hope to catch a Moloka  
while we are there.

I know you will be pleased  
to know that everybody  
has been most hospitable  
to us thanks to your letter to the  
<sup>Hillinghams.</sup>  
Aloha  
from your Hoaloha.  
Henry.

P.S. Please keep this picture  
for me as it is the only copy  
I have. I want it for my grand-  
children.

and very confidential  
Mr. [unclear]

White House

the President

The President  
White House

Personal and very confidential  
from, H. Maguire Jr

ia after. We are

ring a marvelous hor

to catch a Mate

we are there.

know you will be

now that everybody

can meet Kishita

Thanks to your letter to the

from your Haka.

Henry.

Please put this letter  
as it is the only copy  
I want it for my grand-



THE SECRETARY OF THE TREASURY  
WASHINGTON

September 5, 1937

BSP  
H.M. J.

File  
Personal

My dear Mr. President:

It was extremely difficult this time to make up my mind as to what was the best kind of securities to offer the holders of the maturing notes, as the advice that I received was very muddled. However, having made the decision, I now feel confident that the financing will be a success.

The money market in New York is extremely tight and will get more so as the crops begin to move. I have reason to believe that this is not displeasing to the New York bankers. Mr. Ransom, Acting Chairman of the Federal Reserve Board, approached me today in behalf of Mr. Eccles and himself, and they both feel that we must do something to ease the money market at once. I am in complete agreement with them as to the need of some action on the part of the Federal Government. I am hopeful that by the end of the week we will be in agreement as to what the best program should be. I would like to have an opportunity to lay it before you on Friday, the 10th, as I think we should announce it on Monday, the 13th.

When I see you I also would like to have a general talk with you and have you bring me up-to-date as to what has happened during my absence. Possibly you will find time to take me for a drive, and we can go and look at our Washington Hollow property.

With kind regards, I remain, as ever,

Very sincerely yours,

Honorable Franklin D. Roosevelt,  
The President,  
c/o Mr. Rudolph Forster,  
The White House,  
Washington, D. C.

Henry M. Thornton L.



THE SECRETARY OF THE TREASURY  
WASHINGTON

October 5, 1937

PSF; Morgenthau

865,  
1200,  
540,  
4

My dear Mr. President:

This morning's newspapers indicate that you are thinking of calling a special session of Congress for the middle of November. Before you definitely decide upon this course, I am very anxious to have an opportunity to discuss it with you at some length.

During your trip out West I have been working very hard on the whole Budget situation and I know you will be interested in having the information I have collected with the assistance of the Bureau of the Budget.

The regular activities of the Government, this year, will cost approximately \$5,400,000,000. You put down a tentative figure for next year of \$5,000,000,000. This year Public Works of all descriptions will cost approximately \$886,000,000. Next year if Congress does not appropriate another dollar, we are obligated to spend \$695,000,000. This does not include any amount to cover the balance of \$190,000,000 of the apportionment for good roads made by the Secretary of Agriculture to the States in December, 1936, for which Congress did not provide the necessary funds. Inasmuch as this is a moral obligation it would be necessary to add to the \$695,000,000 for Public Works an additional estimated expenditure of \$170,000,000 or a total of \$865,000,000 for the next fiscal year.

This year we will spend out of the Treasury for Unemployment Relief and C. C. C. approximately \$1,665,000,000. If we should ask for \$1,000,000,000 for Relief and \$200,000,000 for C. C. C. the total for those two purposes for 1938 - 1939 would be \$1,200,000,000.

Agricultural Adjustment, this year, will cost approximately \$475,000,000 and next year, because of the cotton commitment, may be as much as \$65,000,000 more, or a total of \$540,000,000.

Social Security and miscellaneous items come to another \$978,000,000 for this year. Other items, including \$200,000,000

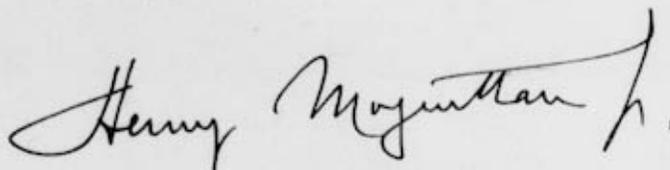
for Debt Retirement, bring the total expenditure for this year up to \$7,446,000,000.

You will see from the above figures that not allowing for any new appropriations for Public Works and including only the statutory sinking fund item for Debt Retirement (\$585,000,000) we are obligated to spend, next year, a total of approximately \$7,375,000,000. The best revenue estimate we have at this time, provided that the tax rates stay as they are, would be that the 1938 - 1939 receipts will be approximately \$7,100,000,000. In other words, on the basis of present commitments and today's expectation of revenue for the fiscal year 1938 - 1939 we are likely to fall \$275,000,000 short of a true Budget balance, including sinking fund requirements.

I believe that you and I are equally determined to balance the Budget for 1938 - 1939, including a reasonable amount for Debt Retirement. In order to accomplish this, it seems to me extremely important that before you obligate yourself to spend anything at all in addition to the commitments already made for 1938 - 1939, you give Mr. Bell and me an opportunity to go into this situation with you fully and examine it yourself with the utmost care.

I am,

Faithfully yours,

A handwritten signature in cursive script, reading "Henry Maguire". The signature is written in dark ink and is positioned to the right of the typed name "The President".

The President,

Hyde Park, New York.

THE SECRETARY OF THE TREASURY  
WASHINGTON

October 19, 1937

My dear Mr. President:

I am sending you herewith another memorandum, prepared from telegraphic reports, on current United States trade with Japan. I hope you will find this of interest.

Faithfully,

*W. M. C. Sullivan*

The President,  
The White House.

*W. M. C.*  
*W. M. C.*  
*PSF: W. M. C.*

Copy *PSF: Morgenthau*

TREASURY DEPARTMENT  
Inter Office Communication

(Confidential)

October 19, 1937

To Secretary Morgenthau  
From Mr. Haas (Initialed) G. C. H.  
Subject: Current U. S. trade with Japan.

1. United States exports to Japan

	<u>October 1937</u>	<u>October 1936</u>	<u>August 1937</u>
1st Week	\$1,727,000	For whole	For whole
2nd Week	5,746,000	month	month
Both weeks	\$7,473,000	\$26,663,000	\$24,644,000

2. United States imports from Japan

	<u>October 1937</u>	<u>October 1936</u>	<u>August 1937</u>
1st Week	\$3,328,000	For whole	For whole
2nd Week	3,984,000	month	month
Both weeks	\$7,312,000	\$15,930,000	\$16,297,000

(We cannot obtain September trade figures with Japan from the Department of Commerce until the end of this month.)

3. Cotton exports to Japan

1st Week	nil
2nd Week	\$192,000

4. Scrap steel exports to Japan

1st Week	\$ 65,000
2nd Week	354,000

5. Raw silk imports from Japan

1st Week	\$2,040,000
2nd Week	2,087,000

(Average monthly import from Japan in 1936 was \$8 million.)

6. Exports of iron and steel semi-manufactured goods (exclusive of scrap).

Last year the monthly average exports to Japan was less than one-quarter million dollars. In the first two weeks of this month \$3½ million left for Japan.

7. The following items show great decrease in exports to Japan compared with October of last year.

	<u>1st Two weeks</u> <u>October 1937</u>	<u>Month of</u> <u>October 1936</u>
Cotton, unmanufactured	\$192,262	\$16,876,000
Finished iron and steel manufactures	1,000	1,440,000
Vehicles, parts and accessories	149,000	892,000
Wood, unmanufactured	78,000	420,000
Tobacco	5,000	384,000

The fact that the exportation of semi-manufactured iron and steel goods increased sharply over last year while the exports of finished manufactured iron and steel (consisting of hundreds of finished items made of iron and steel, wire, boilers, hardware, etc.) dropped sharply suggests what we would expect, namely, that Japan is concentrating on the production of war materials and has reached capacity in the production of iron and steel, ingots plates, etc.

8. Imports from Japan are approximately the same as last year in makeup and value.

The one item that shows a sharp increase is perilla oil (used as a substitute for linseed oil in paints and varnishes). Last October imports were nil. The first two weeks of this month imports totalled \$272,000.

9. Exports to Manchuria and North China.

This area is, of course, under the control of Japan and, therefore, the fact that half of the \$731,000 of U. S. exports to that area consisted of steel sheets and plates and practically all the remainder of copper and trucks suggests that our exports to those areas constitutes virtually exports for the use of Japanese military forces.

*PSF HM, M*

THE WHITE HOUSE  
WASHINGTON

*file  
Morgan  
(5) Draves 1-1937*

October 20, 1937.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

When you were getting all that money out of me Monday morning while I was in bed, I forgot to tell you that Jim Townsend would be very grateful to get some money from you. I am sending him my annual contribution, as usual, and he is most anxious to get it all in this week.

He says we have an excellent chance to elect Conger Surrogate and also to make definite gains in the Board of Supervisors.

ENOUGH SAID!

F. D. R.

THE SECRETARY OF THE TREASURY  
WASHINGTON

October 20, 1937

*MS.*  
"file  
personal"  
PSF  
HM, jr

My dear Mr. President:

I am sending you herewith a  
copy of letter from Dr. Burgess  
of the Federal Reserve Bank of  
New York which I think will be of  
interest to you at this time.

Sincerely,



The President,  
The White House.

copy

FEDERAL RESERVE BANK  
OF NEW YORK

October 18, 1937.

~~CONFIDENTIAL~~

Dear Mr. Secretary:

New financing last week reached a low ebb. New York Times and Wall Street Journal compilations showed public offerings at \$2,850,000, the lowest for any week since August 6. Our own total, which is larger than the newspaper series because of the inclusion of private placements, temporary borrowing (chiefly governmental tax anticipation loans), and reported awards of municipals (rather than public reofferings thereof by the successful bidders), is \$8,900,000. This is the smallest amount since the week ending February 16, 1935, and is about equal to the lowest levels of the depression. Of this \$8,900,000 total, \$600,000 was municipal borrowing for only a few months and \$2,700,000 was for refunding or exchange, leaving about \$5,600,000 of new, medium or long term investment - \$3,400,000 corporate and \$2,200,000 municipal. Some of the municipals that were offered

publicly in this market moved slowly, several being only partly sold two or three days after their initial offering, despite their very small size.

The syndicate which had underwritten \$48,000,000 of Bethlehem Steel convertible 3 1/2s originally offered to stockholders at 100 and then to the public at 95 1/2, has been terminated, and the unsold bonds, which amounted to approximately \$40,000,000, have been distributed to members of the syndicate. While some of them intend to retain their bonds, at least for the time being, others have offered them in the market, and the bonds have been traded at prices ranging from 81 1/2 to 87. The most recent price is the lowest one. At this lowest price the loss to the underwriters would be in the neighborhood of \$7,000,000. While there are no precise figures on the amounts of bonds which have been sold, they appear to be moving slowly even at these figures.

The underwriters of the \$44,200,000 issue of 5% preferred stock of Pure Oil Co. must pay for that issue in a few days, and under present market conditions a larger loss may be taken on that issue.

Of the issues in the previous week the Continental Can preferred stock is selling at a substantial premium, but bonds of the Central New York Power Corporation and Idaho Power Company are selling at a discount of as much as

two points. The underwriters, however, have distributed all their bonds.

The only sizable offering that now appears probable during the coming week is \$13,000,000 North Boston Lighting Properties 3 1/2 per cent notes to repay loans. An offering of \$8,000,000 St. Joseph Railway, Light, Heat and Power Company first mortgage bonds and serial notes, for refunding, which had also been scheduled, has been postponed because of market conditions. The only large issue which is now scheduled for the following week is \$67,000,000 Appalachian Electric Power Company first mortgage and debenture bonds, for refunding.

The Consolidated Edison Co., which has been planning an issue of \$80,000,000 of which \$60,000,000 would be for the purpose of refunding its 4 1/2 per cent bonds callable at 105, and the balance for new undertakings and current operations, has postponed the refunding part of the proposal as no longer advantageous and proposes to increase the amount of new cash from \$20,000,000 to \$30,000,000. It is reported that the offering will be deferred until December.

A number of smaller issues in registration have been deferred, and dealers are hesitant to proceed with any flotations except those of the highest grade obligations

Federal Reserve Bank of New York - 4 - Hon. Henry Morgenthau, Jr.  
10/18/37.

of relatively short term.

Very truly yours,

(Signed) W. Randolph Burgess

W. Randolph Burgess  
Vice President

Honorable Henry Morgenthau, jr.,  
Secretary of the Treasury,  
Washington, D. C.

WRB:H



*file  
president*

*PSF: Morgenthau*

THE SECRETARY OF THE TREASURY  
WASHINGTON

November 4, 1957.

My dear Mr. President:

As I told you over the telephone last night, I have had to come to the conclusion that we are headed right into another depression.

Last Friday you told the newspapermen that your first interest was the one-third of the Nation who are ill-nourished, ill-clad and ill-housed. This part of our population is also my deep concern and therefore I am bringing this matter again to your attention, in writing.

I hardly need tell you that the first to feel another depression will be this same one-third. This cruel process has already begun.

The question is, Mr. President - what are we going to do to stop it?

As ever,

Faithfully yours to command,

*Henry Morgenthau Jr.*

The President

The White House



THE SECRETARY OF THE TREASURY  
WASHINGTON

November 29, 1937

PST  
H.M. in

My dear Mr. President:

I have sent you, under separate cover, a plan to increase consumption of cotton goods in the United States.

This plan is the result of conferences which I have held with the Cotton Institute. I am most enthusiastic about the possibilities.

The cotton industry has tentatively agreed to put up \$200,000. I am suggesting that the United States Government put up a minimum of \$1,000,000, this money to be secured from Section 32 funds.

Henry Wallace and Dan Bell are coming to my house tonight and we are going over the plan together. If we agree that this is a good move to make at this time, we will send you a radio.

Yours for better and hotter bee-hives,

As ever, sincerely yours,

The President,  
En route to Miami.



*file personal*

THE SECRETARY OF THE TREASURY  
WASHINGTON

*BT-  
H.M. [signature]*

December 1, 1937

My dear Mr. President:

Your two Henrys were walking down town this morning and reached the conclusion that if there is to be Government participation in advertising to enlarge the demand for cotton, it had best come by way of the Commodity Credit rather than by way of Section 32.

Herman Oliphant has satisfied himself as to the legality of this approach and has checked the matter with the Acting Comptroller General.

Tomorrow, Thursday, your two Henrys are eating lunch with Jesse Jones and we hope to have something more specific to report by tomorrow.

You can get up a "hat pool" as to whether the two Henrys will take in Jesse or Jesse will take in the two Henrys.

Sincerely yours,

*Henry Mayntan [signature]*  
*Henry A Walker*

The President,  
Miami, Florida.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

*PSF. Morgenthau*  
1201-S

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

# WESTERN UNION

(36)

SYMBOLS

- DL = Day Letter
- NM = Night Message
- NL = Night Letter
- LC = Deferred Cable
- NLT = Cable Night Letter
- Ship Radiogram

R. B. WHITE  
PRESIDENT

NEWCOMB CARLTON  
CHAIRMAN OF THE BOARD

J. C. WILLEVER  
FIRST VICE-PRESIDENT

The filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination.

Received at NEW SMYRNA FLA

JNH21 43 9 EXTRA= DUPLICATE OF MESSAGE SENT A RR OFC CFM DLY=

~~DEC 5~~ ~~AM 7~~ 39

GOVT=THE WHITEHOUSE WASHINGTON DC 5 6 29P

THE PRESIDENT, PRESIDENTIAL SPECIAL TRAIN FLORIDA EAST COAST RR

BARRING SOME CATASTROPHE IN THE WORLD FEEL TREASURY FINANCING  
 WILL BE GREAT SUCCESS. ATTITUDE TOWARDS TREASURY OBLIGATIONS  
 GREATLY IMPROVED SINCE LAST FINANCING. WOULD APPRECIATE  
 APPOINTMENT TO SEE YOU AT YOUR EARLIEST CONVENIENCE. BEST  
 REGARDS=

HENRY MORGENTHAU JR.

*file  
personal*

THE SECRETARY OF THE TREASURY  
WASHINGTON

December 9, 1937

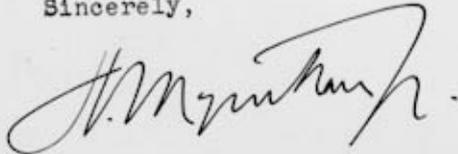
PSF  
file  
filed  
magill

My dear Mr. President:

I have asked Mr. Magill to write a progress report on the tax hearings before the Ways and Means Sub-Committee, for your confidential information. This memorandum is attached hereto.

If after reading it you have any suggestions to make as to the progress made so far or as to the future representations that the Treasury should make in regard to tax revision, we would be more than pleased to receive the same.

Sincerely,



The President,  
The White House.



THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

December 9, 1937

MEMORANDUM FOR THE PRESIDENT:

Since the work of the Ways and Means subcommittee on tax revision is gradually approaching completion it is now possible to summarize the general outlines of the recommendations which have been tentatively adopted. From the beginning the committee has taken the position that the revenue bill should not be reported at the special session but almost every day some member of the committee has urged the necessity of haste; and of restricting the scope of the revision to as few topics as possible. The Treasury has insisted throughout that the tax on capital gains and the undistributed profits tax were only two among the various subjects which should be considered. Nevertheless, the subcommittee has been very reluctant to consider recommendations for improvements in the revenue laws in other respects.

The principal subjects upon which action has been taken are outlined below:

1. The undistributed profits tax - The subcommittee has tentatively agreed to a plan which would completely exempt from this tax all corporations having net incomes of \$25,000 or less. Corporations with net incomes in excess of \$25,000 would be subjected to a tax of 20 percent on net income, but would be given a tax credit for dividends distributed, under which, if there were full distribution, the rate of 20 percent would be reduced to between 16 and 17 percent. The Treasury has informed the committee that the rate of 20 percent is too low to

force distributions from corporations controlled by wealthy stockholders; and that the proposed rates would result in a serious loss of revenue to the Treasury. The Treasury has also urged the necessity of strengthening the other provisions of the Revenue Act (section 102) which deal with the accumulation of unreasonable surpluses by corporations. The problem is to substitute a series of objective standards of unreasonable accumulations, in place of the present general provisions which place upon the Treasury the burden of showing that the accumulation of surplus is unreasonable. We are now convinced that the existing provisions can be materially strengthened to insure that corporations that are of considerable size, that are closely held, and that do not distribute earnings shall be subjected to an additional tax. If an effective objective provision can be written into a new section 102, unreasonable accumulations of surplus can be prevented without inflicting hardship upon the general run of small and medium-sized business corporations.

2. Capital gains and losses - The subcommittee has tentatively agreed to tighten the provisions for the deduction of capital losses by providing that one year losses, which are generally speculative in character, shall be deductible only from one year gains. The committee has also agreed that capital losses in excess of gains may be carried over for one year and applied against the capital gains of the later year. Finally, the taxpayer at his option may pay a flat tax on capital gains on the sale of property held for more than one year, the rate varying from approximately 30 percent in the case of property held for two years to approximately 16 percent if the property has been held five years or more.

3. Excise taxes - The subcommittee has tentatively agreed to the repeal of a number of the less justifiable excise taxes, including some of the so-called "nuisance" taxes which annoy the taxpayers and produce small return. It is estimated that about \$25 million would be lost by the repeal of these items.

4. Estate and gift taxes - The subcommittee has tentatively agreed to simplify the schedules of estate and gift taxes and to reduce the exemptions from these levies, with a net result of some increase in expected revenue.

5. Tax-exempt securities and salaries - The Treasury recommended to the Committee statutory amendments to (a) subject the salaries of state officials to the Federal income tax; and (b) include income from tax-exempt Federal, state and municipal securities, issued hereafter, in net income for the purpose of determining the rate at which taxable income should be taxed. There was considerable doubt of the validity of such a statutory provision. The decision in *James v. The Dravo Contracting Company* by the Supreme Court on Monday, December 6th, so strengthened the doubt as to the validity of such a statute that the committee decided not to recommend it at this time.

6. Community property income; Percentage depletion - We will again urge upon the subcommittee the desirability of eliminating the inequities of the revenue laws in these two respects, as pointed out in your message of June 1, 1937. Informal discussions indicate that the individual members of the committee are sharply divided upon these proposals.

7. Simplification of court proceedings in tax cases - Conferences between the Department of Justice and the Treasury are now being held upon proposals to simplify procedure and appeals in tax cases, and in

particular to provide a single form of suit and of appeal, in lieu of the three forms now available. Complete agreement between the two departments has not yet been reached.

8. Declaratory rulings - The Treasury will propose a method of procedure whereby a taxpayer who is about to enter upon a taxable transaction may secure an advance opinion as to the resulting tax liability. Both the taxpayer and the Treasury will be bound by the ruling, if the transaction is then carried out as planned.

The subcommittee will probably report to the full committee about the first of the year. The revenue bill can hardly be drafted for introduction prior to January 15th. Public hearings will probably be held by the Ways and Means Committee after it receives the subcommittee's report, and before the bill is actually completed.

*Russell Maguire*



OFFICE OF THE DIRECTOR

*BSF*  
*H.M.D.*

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 10, 1937

*File*

*treasury*

MEMORANDUM TO THE SECRETARY:

SUBJECT: Estimated Purchases to be made by Government Activities in December, January, and February.

Under date of November 30, 1937, formal request was sent to all Federal activities to report immediately to the Director of Procurement the estimated purchases to be made during the months of December, January, and February. While reports from all agencies have not been received, the reports from the major purchasing activities indicate that purchases during those three months will be as follows:

December 1937	\$ 63,947,785
January 1938	68,713,380
February 1938	<u>67,841,013</u>
Total	\$200,502,178

*- see last page.*

Broken down to thirteen major classifications, the estimated purchases will be as follows:

<u>Type of Commodity</u>	<u>Estimated Amount</u>
Textiles and their products, including clothing, cordage, house-furnishing goods, knit goods, etc.	\$ 10,982,663
Forest products, including furniture, planing mill products, treated lumber, etc.	3,261,426
Chemicals and allied products, such as linseed oil, paints and varnishes, soap, chemicals, etc.	5,568,892
Products of asphalt, coal, and petroleum, including fuel oil, gasoline, lubricating oils, greases, etc.	20,314,594
Leather and its manufactures, including boots, shoes, gloves, etc.	3,706,628
Stone, clay and glass products, such as brick, cement, crushed stone, glass, sand and gravel, tile, etc.	7,496,917

Memorandum to the Secretary

<u>Type of Commodity</u>	<u>Estimated Amount</u>
Iron and steel and their products, such as pipe and fittings, forgings, miscellaneous hardware, metal doors, sash and frames, metal furniture, steel rails, wire rope, etc.	\$ 24,074,486
Nonferrous metals and their alloys, including aluminum manufactures, brass, bronze and copper products, tin, etc.	6,225,585
Machinery (not including trans- portation equipment and electrical equipment), such as engines, turbines, machine tools, power shovels and drag- lines, pumps and pumping equipment, etc.	7,598,587
Electrical machinery, apparatus and supplies, such as batteries, cable and insulated wire, generators, lighting equipment, switchboards, etc.	14,366,996
Transportation equipment, such as aircraft, motor vehicles, etc.	35,200,213
Miscellaneous, which includes brooms and brushes, professional and scientific instruments, paper and allied products, photographic apparatus and materials, etc.	28,256,335
Food and kindred products, such as canned fruits and vegetables, cereals, coffee, condensed milk, flour, etc.	<u>33,448,856</u>
Total	\$200,502,178

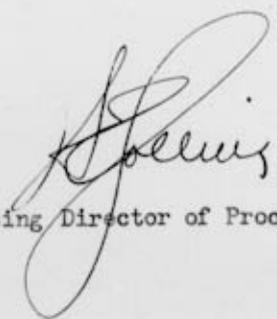
It should be understood that these are estimates only and that actual expenditures may be greater or less than the amounts stated.

These figures include the normal requirements of the Federal Government as well as the increased expenditures that will result from the President's memorandum of November 27 to the Executive Departments and Agencies. A conservative estimate of the result

Memorandum to the Secretary

of his Memorandum is that the normal purchases, exclusive of those to be made for the Works Progress Administration, will be increased in this three month period by ten per cent. As to the Works Progress Administration, it is estimated that, as a result of the President's memorandum, purchases in December and January will be stepped up to \$17,500,000 from a normal of \$7,500,000, or an increase of \$10,000,000. The estimated normal purchases, the estimated total purchases, and the amount of the increased purchases resulting from the President's memorandum are set out below:

	<u>Amount of Estimated Normal Purchases</u>	<u>Amount of Estimated Total Purchases</u>	<u>Amount of Increase Resulting from Memorandum</u>
December	\$ 53,588,895	\$ 63,947,785	\$ 10,358,890
January	57,921,255	68,713,380	10,792,125
February	<u>61,673,648</u>	<u>67,841,013</u>	<u>6,167,365</u>
Totals	\$173,183,798	\$200,502,178	\$ 27,318,380 ←



Acting Director of Procurement.

file  
personal

PS F: Morgenthau

o.k. H. W. J.

**TREASURY DEPARTMENT**

INTER OFFICE COMMUNICATION

DATE DEC 13 1937

TO Secretary Morgenthau  
FROM Herman Oliphant

The following is a report which I gave you on Mr. A. L. Childress, Nashville, Tennessee, during June of last year:

"At Mr. Oliphant's request, Mr. Arthur H. Kent (Assistant General Counsel of the Treasury Department) talked to Dean Arnold of Vanderbilt University about Childress' qualifications for membership on the Board of Tax Appeals. The results of Kent's inquiry are summarized as follows:

"Mr. Childress is not well known in legal circles in Nashville. He practiced law for a limited period many years ago, but for the past ten or fifteen years has been connected with the State Tax Department, in which office he now occupies the position of head auditor. During most of this time he supervised the examination of corporation returns. Dean Arnold was informed by several people in Nashville who know Childress well, that in their judgment Mr. Childress was a man of only mediocre ability. He is commonly referred to as 'Mrs. Childress' husband.'

"At Mr. McReynold's request, the Special Intelligence Unit made inquiry regarding Mr. Childress, and on May 24, 1935, submitted a report, the summary of which is as follows:

"Mr. Childress has general reputation as a man of good character, has a fairly good education and, while admitted to practice law, nearly all of his gainful occupation has been through the holding of appointive offices with the Federal Government and the State of Tennessee. Through unfortunate investments and personal expenditures, he became so deeply involved in debt as to cause recourse to bankruptcy proceedings in 1934 from which he has not been discharged, due to his failure to file application within the statutory period. Various persons prominent in business and political life in Nashville, generally personal friends of the applicant, have made statements to the effect that Mr. Childress has shown lack of energy, initiative, and business foresight, probably due, at least in

part, to ill health, relatively advanced age, and former addiction to excessive use of intoxicating liquor; and that he has not given evidence of possession of considerable legal ability or business acumen. The Agent in Charge concludes his report with a statement that, although Mr. Childress is apparently honest and is generally regarded as a man of good character, he does not present evidence of attainments in the practice of law or of legal ability affording a background specially commending him for the position which he seeks."

June 8, 1936.

*Harman Oliphant*



*file personal.*

THE SECRETARY OF THE TREASURY  
WASHINGTON

*PSF  
H.M.G.*

December 16, 1937

MEMORANDUM FOR THE PRESIDENT:

The present law requires the President to transmit to Congress on the first day of the session a budget containing among other items estimates of the receipts of the Government during the ensuing fiscal year, stated in summary and in detail. In such times as the present it is impossible to estimate with accuracy the receipts for a period of eighteen months in advance, particularly in view of the fact that those receipts are largely composed of income taxes which will be collected on the basis of the incomes of individuals and corporations that are to be realized in large part in the future.

The accuracy of the forecast of revenues to be received during the ensuing fiscal year could be greatly increased if two changes were made in the law. First, the income tax law would be amended to provide that the first half of the tax would be paid on July 15th instead of in two installments on March 15th and June 15th as at present. The requirement that returns be filed on March 15th should be retained. Second, the estimates of receipts for the ensuing fiscal year would be submitted to Congress on April 15th instead of on the first day of the session.

The result of these two changes would be that the estimate of receipts for the ensuing fiscal year would be much more accurate than at present, since the amounts of income taxes to be received during the ensuing fiscal year would be known at the time the estimate of receipts would be made. This is true because the amounts which would be received during the ensuing fiscal year would be based upon the income of the past calendar year; and the income tax returns for that year would be in hand prior to the time that the estimate is made. Although the estimates of receipts other than the income tax would not be materially affected by the proposed changes, the increase in the accuracy of the statement of total expected receipts would be considerable since the receipts from the income tax are by far the largest uncertain factor in present revenue estimates.

*H. M. G.*

FOR THE PRESIDENT TO TAKE UP IN

CABINET ON FRIDAY - Jan. 7, 1938

*bill  
personnel*

BSF  
HM. J

MEMORANDUM OF THE DAYS ACTIVITY

December 30, 1937

To: Secretary Morgenthau  
From: Mr. Magill

Re: Vice President's proposal to reduce the number of Federal taxes to five

The five taxes designated by the Vice President produced the following revenues for the fiscal year, 1937:

Estate Tax	\$ 282,000,000
Liquor Taxes	594,000,000
Tobacco Taxes	552,000,000
Individual and Corporate Income Taxes	2,158,000,000
Gasoline Tax	<u>197,000,000</u>
Total	\$ 3,783,000,000

I assume, although he did not say so, that the Vice President would not repeal the social security taxes and the railroad retirement taxes. If they were left in effect, but the other miscellaneous Internal Revenue taxes not mentioned by the Vice President were repealed, the net loss of revenue for 1937 would have been \$564 millions. Presumably this loss would have to be made up by increases in the rates of the group of taxes mentioned by the Vice President.

The taxes which would be repealed under the Vice President's proposal may be grouped as follows:

1. Admissions, dues, and initiation fees	\$ 26,000,000
X 2. Capital stock tax	137,000,000
3. Documentary stamp taxes	70,000,000
4. Gift taxes	24,000,000
X 5. Regulatory taxes (oleomargarine, etc.)	3,000,000
6. Sales of automobiles, tires and tubes	167,000,000
7. Sales of sundry commodities	123,000,000
8. Sundry import taxes	<u>14,000,000</u>
Total	\$ 564,000,000

The Ways and Means Subcommittee has agreed to the repeal of ten taxes producing about \$25 millions, mainly in group #7 above.

**Collections and Estimates on Manufacturers' Excise, Miscellaneous, Documentary Stamp, Regulatory and Social Security Taxes, and Excise Taxes on Imports**

	Yield, by fiscal year			Yield, by fiscal year			Yield, by fiscal year		
	1936	1937	1938 (Estimated)	1936	1937	1938 (Estimated)	1936	1937	1938 (Estimated)
<b>I. Taxes on Alcoholic Beverages, Taxes, and Licenses Fees</b>									
Alcoholic beverages to any place.....	\$15,571,000	\$17,028,000							
Alcoholic beverages to carriers, etc.....	1,399,000	1,395,000							
Taxes on alcoholic beverages at places other than distilleries, etc.....			\$19,500,000						
offices, etc.....	117,000	170,000							
licenses of houses in distilleries, etc.....	60,000	51,000							
Taxes on alcoholic beverages sold by producers.....	15,000	35,000							
Dues and initiation fees.....	6,061,000	6,255,000	6,440,000						
TOTAL.....	\$23,675,000	\$25,228,000	\$26,040,000						
<b>II. Automotive Group</b>									
Gasoline.....	\$177,340,000	\$196,573,000	\$205,500,000						
Automobile and motorcycle.....	48,261,000	55,265,000	60,500,000						
Tires and tubes.....	32,205,000	40,209,000	39,750,000						
Lubricating oil.....	27,102,000	35,463,000	31,500,000						
Crude petroleum, transportation.....									
of, by pipe line.....	2,794,000	11,284,000	11,280,000						
Automobile parts or accessories.....	7,110,000	10,056,000	9,900,000						
Automobile trucks.....	7,000,000	9,025,000	9,300,000						
Crude petroleum, sale of.....	564,000	425,000							
Crude petroleum, processing or refining of.....	563,000	437,000	530,000						
Gasoline, recovered from natural gas.....	29,000	29,000							
TOTAL.....	\$309,532,000	\$355,335,000	\$366,530,000						
<b>III. Documentary Stamp Taxes</b>									
Drafts of capital stock.....	\$33,095,000	\$31,261,000	\$32,300,000						
Issues of capital stock.....									
Issues of bonds.....									
Drafts of bonds.....									
Deeds of conveyance.....	26,153,000	26,562,000	31,000,000						
Passage tickets.....									
Foreign insurance policies.....	4,144,000	4,127,000	4,200,000						
Playing cards.....									
Sale of produce for future delivery.....	2,944,000	5,097,000	3,300,000						
Silver bullion sales or transfers.....	50,000	54,000	20,000						
TOTAL.....	\$67,971,000	\$69,355,000	\$75,220,000						
<b>IV. Import Group</b>									
Crude petroleum, etc.....	\$7,160,000	Not available	Not available						
Coal, coke, etc.....	2,437,000								
Copper and copper ores.....									
concentrates, etc.....	2,105,000								
Lumber.....	1,142,000								
Fish and marine oils.....	309,000								
Paraffin and other petroleum wax products.....	113,000								
Gasoline, lubricating oil.....	Not available								
Sulfur, rosin, asphalt, wax, tapers, lampglass and perfilla oils.....									
Impregnated, petrole seed, rapeseed, tapers seed, sesame seed.....									
TOTAL.....	\$13,774,000 1/								
First domestic processing of coconut oil, sesame oil, palm oil, palm kernel oil and ground flower oil 2/.....	\$7,691,000 3/	\$29,628,000 4/	\$20,520,000						
<b>V. Liquor and tobacco taxes</b>									
Liquor taxes.....	\$955,664,000	\$94,245,000	\$43,700,000						
Tobacco.....	509,186,000	452,254,000	500,350,000						
TOTAL.....	\$1,464,850,000	\$1,396,499,000	\$1,213,050,000						
<b>VI. Miscellaneous group, including taxes on commodities in common use</b>									
Electrical energy.....	\$35,575,000	\$35,975,000	\$36,100,000						
Telephone, telegraph, radio, cable facilities, leased wires.....	21,098,000	24,570,000	26,000,000						
Tobacco preparations (essence of tooth paste, toilet soaps, sanitifrices, etc.).....	8,478,000	11,577,000	17,500,000 5/						
Refrigerators, radiators.....	2,319,000	2,313,000	2,800,000						
Radio sets.....	5,075,000	4,754,000	6,800,000						
Brewers' wort and malt syrup.....	1,005,000	822,000	800,000						
Safe deposit boxes.....	1,297,000	2,040,000	2,100,000						
Pistols and revolvers.....	61,000	129,000	Not available						
TOTAL.....	\$79,731,000	\$101,260,000	\$129,100,000 6/						
<b>VII. Miscellaneous group, including taxes on commodities in common use (continued)</b>									
TOTAL (continued).....	\$75,210,000	\$11,562,000	\$99,100,000						
Cigarettes.....	\$5,586,000	\$6,300,000	\$7,150,000						
Sporting goods.....	5,531,000	6,802,000	7,500,000 7/						
Toilet soaps, tooth paste, sanitifrices, etc.....	4,324,000	6,647,000	8/						
Perfumes.....	3,321,000	5,590,000	6,590,000						
Firearms, shells and cartridges.....	3,455,000	3,754,000	3,345,000 9/						
Chewing gum.....	807,000	920,000	930,000						
Cigars and cigars.....	518,000	500,000	5/						
TOTAL from present group.....	\$103,673,000	\$121,267,000	\$129,250,000						
<b>VIII. Regulatory Group</b>									
Crude petroleum, sale of.....									
Crude petroleum, processing or refining of.....									
Gasoline recovered from natural gas.....									
See Automotive Group									
Cleansements.....	\$2,263,504	\$2,346,415							
Savonilles.....	573,492								
Alkylated butter.....	1,300								
Process or renovated butter.....	7,101								
Milk film.....	6,107								
Filled cheese.....									
White phosphorus matches.....	575,640								
Crimes Patents.....									
Circulation of state bank notes.....									
Firearms and machine guns.....									
TOTAL.....	\$2,779,500	\$2,346,415							
Brewers' wort and malt syrup.....									
See Group VI									
<b>IX. Social Security Taxes</b>									
Tax on Employment of 8 or more (Title IX).....		\$58,113,000							
Tax on Employers (Title VIII).....		103,670,000							
Tax on Employees (Title VIII).....		103,670,000	\$65,535,000						
Tax on Self-employed Employees.....	\$24,000	89,200	158,200,000						
Tax on Self-employed Employers.....	24,000	200,000							
TOTAL.....	\$48,000	\$287,762,200	\$218,735,000						
TOTAL (High Groups).....	\$1,556,705,000 1/	\$2,029,471,390 10/	\$2,277,800,000 11/						

1/ Exclusive of collections on imports of certain vegetable oils, gasoline and lubricating oil.  
 2/ Listed with import group for convenience, because its purpose is, like the excise taxes on imports, protection of domestic industries.  
 3/ Includes \$15,960,329 allocated to Philippine Islands Trust Fund Account.  
 4/ Includes \$17,175,000 allocated to Philippine Islands Trust Fund Account.  
 5/ Includes tooth paste, toilet soaps, sanitifrices, etc.  
 6/ Exclusive of collections on pistols and revolvers.  
 7/ Includes estimated collections on cigars and cigars because separate data not available.  
 8/ Not separately available.  
 9/ Includes estimated collections on pistols and revolvers.  
 10/ Exclusive of collections on import taxes.  
 11/ Exclusive of estimated collections on taxes on carriers and their employees, import and regulatory taxes.

12 - 10 - 11/11/37

*file BF  
Henry Morgenthau*

Letters from Henry Morgenthau to President  
in re-tax evaders

Pres. cited cases in his Tax message

Names attached of some of the evaders listed  
in corres.

SEE--Special folder-Tax message draft-Drawer 2--1937

"his private"

PSF  
H.M.G. 17

THE WHITE HOUSE  
WASHINGTON

My dear Mr. President:

May I congratulate  
you from the bottom  
of my heart on having  
signed the letters today  
which will fix a date  
that men must be  
at work under the  
four billion program.

Everybody in the Treasury  
is simply thrilled to  
the tips of their toes at  
your masterly stroke.  
affectionately,

Henry

A BILL

Treasury

To authorize the Secretary of the Treasury to purchase silver, issue silver certificates, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Silver Purchase Act of 1934."

Sec. 2. It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one-fourth of the monetary value of such stocks in silver.

Sec. 3. The Secretary of the Treasury is authorized and directed to purchase silver, at home or abroad, for present or future delivery with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates, at such times and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest: Provided, That no purchases of silver shall be made hereunder (a) at a price in excess of the monetary value thereof or (b) whenever and so long as the monetary value of the stocks of silver is equal to or greater than 25 per centum of the monetary value of the stocks of gold and silver: And provided further, That no purchases of silver situated in the continental United States on May 1, 1934 shall be made hereunder at a price in excess of 50 cents a fine ounce.

Sec. 4. Whenever and so long as the market price of silver exceeds its monetary value or the monetary value of the stocks of silver is greater than 25 per centum of the monetary value of the stocks of gold and silver, the Secretary of the Treasury may, with the approval of the President and subject to the provisions of Section 5, sell any silver

acquired under the authority of this Act, at home or abroad, for present or future delivery, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest.

Sec. 5. The Secretary of the Treasury is authorized and directed to issue silver certificates in such denominations as he may from time to time prescribe in a face amount not less than the cost of all silver purchased under the authority of Section 3. There shall be maintained in the Treasury as security for all silver certificates heretofore or hereafter issued and at the time outstanding an amount of silver in bullion and standard silver dollars of a monetary value equal to the face amount of such silver certificates. All silver certificates heretofore or hereafter issued shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, and shall be redeemable on demand at the Treasury of the United States in standard silver dollars; and the Secretary of the Treasury is authorized to coin standard silver dollars for such redemption.

Sec. 6. Whenever in his judgment such action is necessary to effectuate the policy of this Act, the Secretary of the Treasury is authorized, with the approval of the President, to investigate, regulate or prohibit, by means of licenses or otherwise, the acquisition, importation, exportation or transportation of silver and of contracts and other arrangements made with respect thereto; and to require the filing of reports deemed by him reasonably necessary in connection therewith. Whoever wilfully violates the provisions of any license, order, rule or regulation issued pursuant to the authorization contained in this section, shall, upon

conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than 10 years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

Sec. 7. Whenever in the judgment of the President such action is necessary to regulate the value of the money of the United States, he may by Executive order require the delivery to the United States mints of any or all silver by whomsoever owned or possessed. The silver so delivered shall be coined into standard silver dollars or otherwise added to the monetary stocks of the United States as the President may determine; and there shall be returned therefor in standard silver dollars, or any other coin or currency of the United States, the monetary value of the silver so delivered less such deductions for seigniorage, brassage, coinage, and other mint charges as the Secretary of the Treasury with the approval of the President shall have determined: Provided, That, in no case, shall the value of the amount returned therefor be less than the fair value at the time of such Order of the silver required to be delivered as such value is determined by the market price over a reasonable period terminating at the time of such Order. The Secretary of the Treasury shall pay all necessary costs of the transportation of such silver and standard silver dollars, coin or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any silver withheld in violation of any Executive order issued under this section or of any regulations issued pursuant thereto shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture,

seizure and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of any such Executive order or regulation shall be subject to a penalty equal to twice the monetary value of the silver in respect of which such failure occurred.

Sec. 8. Schedule A of Title VIII of the Revenue Act of 1926, as amended (relating to stamp taxes), is amended by adding at the end thereof a new subdivision to read as follows:

"10. Silver, etc., sales and transfers: On all transfers of any interest in silver bullion, if the price for which such interest is or is to be transferred exceeds the total of the cost thereof and allowed expenses, 50 per centum of the amount of such excess. On every such transfer there shall be made and delivered by the transferor to the transferee a memorandum to which there shall be affixed lawful stamps in value equal to the tax thereon. Every such memorandum shall show the date thereof, the names and addresses of the transferor and transferee, the interest in silver bullion to which it refers, the price for which such interest is or is to be transferred and the cost thereof and the allowed expenses. Any person liable to pay the tax under this subdivision (or any one who acts in the matter as agent or broker for any such person) who is a party to any such transfer, or who in pursuance of any such transfer delivers any silver bullion or interest therein, without a memorandum stating truly and completely the information herein required, or who delivers any such memorandum without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000 or be imprisoned not more than six months, or both. Stamps affixed under this subdivision shall be canceled (in lieu of the manner provided in Section 804) by such officers and in such manner as regulations under this subdivision shall prescribe. Such officers shall cancel such stamps only if it appears that the proper tax is being paid, and when stamps with respect to any transfer are so canceled, the transferor and not the transferee shall be liable for any additional tax found due or penalty with respect to such transfer. The provisions of this subdivision shall extend to all transfers in the United States of any interest in silver bullion, and to all such transfers outside the United States if either party thereto is a resident of the United States or is a citizen of the United States who has been a resident thereof within three months before the date of the transfer or if such silver bullion or interest therein is situated in the United States;

and shall extend to transfers to the United States Government (the tax in such cases to be payable by the transferor), but shall not extend to transfers of silver bullion by deposit or delivery at a United States mint under proclamation by the President or in compliance with any Executive order issued pursuant to Section 7 of the Silver Purchase Act of 1934. The tax under this subdivision on transfers enumerated in subdivision 4 shall be in addition to the tax under such subdivision. This subdivision shall apply (1) with respect to all transfers of any interest in silver bullion after the enactment of the Silver Purchase Act of 1934, and (2) with respect to all transfers of any interest in silver bullion on or after May 15, 1934, and prior to the enactment of the Silver Purchase Act of 1934, except that in such cases it shall be paid by the transferor in such manner and at such time as the Commissioner with the approval of the Secretary of the Treasury may by regulations proscribe, and the requirement of a memorandum of such transfer shall not apply.

"As used in this subdivision-

"The term 'cost' means the cost of the interest in silver bullion to the transferor, except that (a) in case of silver bullion produced from materials containing silver which has not previously entered into industrial, commercial, or monetary use, the cost to a transferor who is the producer shall be deemed to be the market price at the time of production determined in accordance with regulations issued hereunder; (b) in the case of an interest in silver bullion acquired by the transferor otherwise than for valuable consideration, the cost shall be deemed to be the cost thereof to the last previous transferor by whom it was acquired for a valuable consideration; and (c) in the case of any interest in silver bullion acquired by the transferor (after April 15, 1934, and before the tax under this subdivision takes effect) in a wash sale, the cost shall be deemed to be the cost to him of the interest transferred by him in such wash sale, but with proper adjustment, in accordance with regulations under this subdivision, when such interests are in silver bullion for delivery at different times.

"The term 'transfer' means a sale, agreement of sale, agreement to sell, memorandum of sale or delivery of, or transfer, whether made by assignment in blank or by any delivery, or by any paper or agreement or memorandum or any other evidence of transfer or sale; or means to make a transfer as so defined.

"The term 'interest in silver bullion' means any title or claim to, or interest in, any silver bullion or contract therefor.

"The term 'allowed expenses' means usual and necessary expenses actually incurred in holding, refining, or transporting the interest in silver bullion as to which an interest is transferred, (including storage, insurance, and transportation charges but not including interest, taxes or charges in the nature of overhead), determined in accordance with regulations issued hereunder.

"The term 'memorandum' means a bill, memorandum, agreement, or other evidence of a transfer.

"The term 'wash sale' means a transaction involving the transfer of an interest in silver bullion and, within thirty days before or after such transfer, the acquisition by the same person of an interest in silver bullion. Only so much of the interest so acquired as does not exceed the interest so transferred, and only so much of the interest so transferred as does not exceed the interest so acquired, shall be deemed to be included in the wash sale.

"The term 'silver bullion' means silver which has been melted, smelted, or refined and is in such state or condition that its value depends primarily upon the silver content and not upon its form."

Sec. 9. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary of the Treasury may deem necessary or proper to carry out the purposes of this Act, or of any order issued hereunder.

Sec. 10. As used in this Act:

The term "person" means an individual, partnership, association or corporation;

The term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska;

The term "monetary value" means a value calculated on the basis of one dollar for an amount of silver or gold equal to the amount at the time contained in the standard silver dollar and the gold dollar, respectively;

The term "stocks of silver" means the total amount of silver at the time owned by the United States (whether or not held as security for outstanding currency of the United States) and of silver contained in coins of the United States at the time outstanding;

The term "stocks of gold" means the total amount of gold at the time owned by the United States, whether or not held as a reserve or as security for any outstanding currency of the United States; and

The term "silver bullion" means silver which has been melted, smelted, or refined and is in such state or condition that its value depends primarily upon the silver content and not upon its form.

Sec. 11. In addition to any sums appropriated by Section 3, there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$500,000 which shall be available for expenditure under the direction of the President and in his discretion, for any purpose in connection with the carrying out of this Act; and there are hereby authorized to be appropriated annually such additional sums as may be necessary for such purposes.

Sec. 12. The right to alter, amend or repeal this Act is hereby expressly reserved. If any provision of this Act or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Sec. 13. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed, but the authority conferred in this Act upon the President and the Secretary of the Treasury is declared to be supplemental to the authority heretofore conferred.

BF  
Treasury

file Treasury  
This is Winthrop Address  
Treasury in 1933 in 1934

There is one very important objective which the Congress can attain, and that is to so amend our banking legislation as to protect the sound bankers of this country from the unfair competition of bank management which fails to measure up to the high standard of conduct which their profession calls for. This result should be accomplished by legislation which will not only prohibit specified practices, but which also will bring about above all else complete divorcement in interest between commercial and investment banking. The Congress, by the enactment of the Glass-Steagall bill, now known as the Banking Act of 1933, has already taken action designed to eliminate many bad practices. The Banking Act of 1933 does not, however, fully accomplish the purposes which the Congress had in view - purposes which I believe are demanded by both sound banking experience and enlightened public opinion. It is accordingly necessary to address further efforts to that end. \* \* \* \* \*

(2)

The commercial bank's credit function is very definitely governed by its responsibility to meet its deposit liabilities on demand. It must not seek excessive profits by taking undue credit risks and it can not wisely tie up its funds in long-term credits however safe they may be. Its primary credit function is performed by lending money for short periods to finance self-liquidating commercial transactions - largely in the movement of goods and crops through the various stages of production and distribution; and in the making of short-term loans against good collateral. The commercial bank cannot safely make loans to a borrower who lacks capital of his own or who cannot in the normal course of his business repay the loan within a reasonable period of time. It is within this framework that the commercial bank renders sound and constructive service to the industry, trade and agriculture of the country.

The investment banker also renders necessary and effective service to the industry, trade and agriculture of the country. He does it by meeting long-term needs, providing funds for plant and equipment or for permanent working capital. He does, and should, take speculative risks of a sort unsuitable to the commercial bank in providing capital funds for new and promising enterprises, even though the major volume of his transactions is naturally to be found in providing additional capital for industries well established and less uncertain in their prospects. With every new issue, moreover, he takes the risk that the public may not readily absorb the new securities which he brings out and that his own capital may be tied up for a long period of time. This last distinction between investment and commercial banking emphasizes the wisdom of the legislation forbidding investment bankers from taking deposits.

Although there should be a sharp delineation between the activities of commercial banks and those of investment bankers,

there are certain points of contact between them, whereby they complement each other. It is perfectly proper, for example, that commercial banks should lend to investment bankers, on short term, funds necessary to carry a new issue of securities while it is in the process of being marketed. Such a loan, always secured by collateral and carefully scrutinized by the commercial bank, performs an essential service. The commercial bank or banks making such a loan, however, should be absolutely free from interest in the issue, and immunized from possible influence arising from interlocking interests with the investment bankers participating in it.

Again, a commercial bank frequently finds that its own customers require permanent financing. A rapidly growing business needs additional permanent working capital. The commercial bank properly affords temporary financing to the enterprise, but permanent provision for adequate working capital or for plant or equipment requires long-term credit. When such long-term credit is required, the services of the investment banker are needed. But in such cases the investment banker himself should be free from control or influence by the commercial bank which suggests or introduces the business. The investment banker should be in a position to form an absolutely independent judgment as to the wisdom of issuing the credit and as to the conditions under which it shall be issued. The commercial bank should not be in a position to exert any pressure whatever arising out of a dual financial interest. \* \* \* \* \*

The wisdom of effecting a clear differentiation of function and separation in interest between commercial banking and investment banking was recognized in the Glass-Steagall Bill, passed last June and now known as the Banking Act of 1933. The history of that act and its general provisions indicate a clear intent on the part of the Congress to effect, once and for all, a complete separation between commercial banks and investment bankers. I believe that the public is likewise under the impression that the act effectively accomplished that purpose.

Careful analysis of the act and observation of its subsequent operation, however, show that all the purposes intended are not effectively achieved, and that further amendments to the act will be necessary if its purposes are to be accomplished.

I submit that the provisions of the Banking Act of 1933 and of section 8 of the Clayton Act show that the legislative policy of the Congress is -

1. That there be a divorcement of the commercial banking business from the investment banking business;
2. That there be no interlocking of management between the commercial banking business and the investment banking business;
3. (Based in part upon another policy) that there shall be no interlocking of management between commercial banks themselves operating in the same community; and

4. That the enforcement of this legislative policy shall not work in a discriminatory manner unfavorable to the successful operation of national banks, or of member banks of the Federal Reserve System; \* \* \* \* \*

In making such amendments to the Banking Act designed to separate absolutely the business of commercial and investment banking, you will of course take account of the fact that there are varying definitions of investment banking embodied in the present law.

I suggest accordingly the wisdom of drafting a carefully phrased definition of the business of dealing in securities. For the sake of clarity, such definition should be so drawn as to exclude any organization which sells, either through itself or through a subsidiary, no securities other than those issued by itself. Likewise, it should exclude, for the same reason, those buying and selling securities solely as brokers or agents.

The law now undertakes to exclude certain interlocking relationships between banks. In reclassifying the qualifications of directors which may involve such overlapping of interests, directors of banking institutions should not be prohibited from at the same time acting as directors of corporations, such as, for example, the District Corporation of New York, which deal primarily in the obligations of the United States Government in bankers acceptances or trade acceptances. Such corporations assist in the functioning of an important part of the machinery of the Federal Reserve Act. Likewise an American bank director should not be forbidden from serving as a director of the Bank for International Settlements which functions in connection with the foreign commerce of the United States. Parenthetically, I would also suggest that national banks be expressly permitted to hold the stock of these banking institutions.

The Secy:

The big point now is to let the Senators who favor the plan know that the President will back them up. This is especially true of Guffey, Black & La Follette. Clark, Barkley and Connally should <sup>also</sup> know how the President feels. Very sincerely,  
H. O.

STATUS OF TAX BILL

*for Argentina  
"Desmonte"  
20p.  
BF*

I. Summary of the Finance Committee's Plan and of its Results

A. The items in the Committee plan (they will be enumerated and in each case the corresponding recommendation of the President's message will be stated):

1. Exempt from corporate income and undistributed earnings taxes \$1,000 of income of corporations having incomes of \$20,000 or less.
2. Retain corporation income tax and raise it to 18% flat. The President's message recommended repealing this and the other two corporate taxes.
3. Levy a flat 7% tax on undistributed earnings, regardless of size of corporate income and of percent of earnings retained. The President's message in substance recommended a tax on undistributed earnings equivalent to personal income normal and surtaxes, with no corporate tax if full distribution.
4. The Committee's plan would place the individual normal tax of 4% on dividends. The message recommended its imposition, but only in conjunction with repeal of all present corporation taxes.
5. The Committee would retain the present capital stock and excess profits taxes indefinitely at full present rates. The message recommended their repeal.

B. What the results of this plan would be:

1. This plan would safeguard the revenue just as the retention of the present graduated corporate income tax would; but the estimate under this plan is based on the same data as the Budget estimates and the yield of the House bill; and it cuts down the risk only to the extent of the larger percent of revenue collected at the source.

2. Since all the additional revenue required could be obtained by stopping the avoidance of surtaxes or collecting their equivalent from corporations retaining earnings, as the Message recommended, the following results of the Committee's plan must be viewed as samples of the extreme measures which are being suggested as ~~the~~ alternatives to getting the revenue needed by making existing surtax rates effective on a relatively small minority now avoiding them:

a. A corporation earning \$100,000, paying \$18,000 to the Government in taxes and distributing all of the balance would have to pay a further tax of 7% on the \$18,000, that is, would have to borrow money or dip into its surplus in order to pay its full tax.

b. The plan increases the tax of the great body of corporations, which are not operated to enable stockholders to avoid

surtaxes. The increase in their tax, assuming full distribution of current earnings, would be from about 28 to 54; and, apart from the \$1000 exemption, the smaller the corporation the bigger the increase, such larger increase affecting a vast body of the corporations of the country. And they pay this increase even though they distribute all their earnings. If they add to their reserve 30% of their statutory net income, their taxes would be increased from 42 to 71%.

d. Stockholders, under the plan recommended in the message, would pay the 4% normal and surtaxes. Under this plan stockholders with incomes up to about \$6,000 in corporations with incomes of \$10,000 for example would have taken out of their share a tax increase of 34% over present law, although earnings were fully distributed; and if 30% of earnings were reinvested, the increase would be about 51%.

3. The President's message stated two objectives -- equalizing the tax burden on business earnings and stopping surtax avoidance. Re-

taining even the present corporate income tax of from 12½ to 15% would be an abandonment of the first objective, and the 7% supertax proposed would be nothing but lip service to the second objective. It would not prevent those with large incomes leaving earnings in corporations to escape the surtax.

6. This plan would increase the taxes of vast numbers of corporations and stockholders as contrasted with the less than 60 thousand people, not now carrying their due share of the tax burden on that portion of their real income represented by withheld profits, whose taxes would be increased by the House Bill.

7. The corporate tax recommended in the President's message was constructive from a business point of view since its direct burden was more largely on stockholders. This plan might well be adverse from a business point of view since its direct burden is more largely upon corporate business.

8. This plan is unjust and indefensible. It departs more than present laws from the principle of ability to pay. Its serious consideration cannot be understood except as reflecting the type of desperate expedients being proposed as alternatives to facing the responsibility of getting the money needed by merely stopping surtax avoidance in the high income brackets, as the House rates would. The President, the Secretary of the Treasury, the

Commissioner of Internal Revenue and others speaking for the Treasury are all on record that the additional funds required can be obtained by making the personal income tax rates on business profits effective on the minority in the high brackets now avoiding them. The adoption of any such plan would constitute a serious political liability in the face of that record, particularly in view of the fact that already some 60% of our revenues are coming from the consumer class.

PRELIMINARY ESTIMATE

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Morganstein  
's Personal  
Box*

	Additional Revenue (million dollars)
1. Repeal capital stock and excess profits tax	\$ (-) 168
2. Impose present corporate tax rate (12½ percent to 15 percent) on statutory net income as defined in present law, which includes 10 percent of inter-corporate dividends received	-
3. Define adjusted net income as the statutory net income less corporate income taxes plus 90 percent of dividends received. Define undistributed adjusted net income as adjusted net income less the dividend credit, less a special exemption of \$15,000 to all corporations. Impose a tax on undistributed adjusted net income equal to the sum of the following:	
25 percent on the amount of the undistributed adjusted net income which is not in excess of 20 percent of the adjusted net income; 35 percent on the amount of the undistributed adjusted net income which is in excess of 20 percent and not in excess of 40 percent of the adjusted net income; and 45 percent of the amount of the undistributed adjusted net income which is in excess of 40 percent of the adjusted net income	
Yield of such tax on undistributed adjusted net income and of surtax on dividends to individuals	\$ 790
TOTAL ADDITIONAL REVENUE	\$ 622

If the percent of intercorporate dividends now subject to corporate income tax be increased from 10 percent to 13 1/3 percent, the additional yield would be \$5 million. If from 10 percent to 16 2/3 percent, the additional yield would be \$ 10 million.

	Additional Revenue (million dollars)
1. Retain capital stock and excess profits tax	\$ -
2. Impose present corporate tax rate (12½ percent to 15 percent) on statutory net income as defined in present law, which includes 10 percent of inter-corporate dividends received	-
3. Define adjusted net income as the statutory net income less corporate income taxes plus 90 percent of dividends received. Define undistributed adjusted net income as adjusted net income less the dividend credit, less a special exemption of \$15,000 to all corporations. Impose a tax on undistributed adjusted net income equal to the sum of the following:	
15 percent on the amount of the undistributed adjusted net income which is not in excess of 20 percent of the adjusted net income; 25 percent on the amount of the undistributed adjusted net income which is in excess of 20 percent and not in excess of 40 percent of the adjusted net income; and 40 percent of the amount of the undistributed adjusted net income which is in excess of 40 percent of the adjusted net income.	
Yield of such tax on undistributed adjusted net income and of surtax on dividends to individuals.	\$ 630
TOTAL ADDITIONAL REVENUE	\$ 630

These estimates assume no changes in existing law other than those cited above and that the new bill will contain provisions which will prohibit all avoidance of the above taxes.

(The letter has to be on the principles rather than the changes in the House or Senate relating to the Treasury suggestions. Letter not more than a page and a half. Keep saying that this hits the little fellow.)

Note: He does not want to say "Under the plan recommended by the President.)

My dear Mr. Chairman:

In continuance of our conversation of the other day, I feel that it is only right that I should give you certain broad conclusions on the amendments to the tax bill proposed by the Finance Committee.

In my message I suggested (give the principles, emphasizing the amount that could be raised by stopping the leaks).

It seems to me that the Committee draft violates these principles as follows:

The House bill retains the principles in greater part. I am told that the complex calculations in the House bill can be avoided by much simpler amendments.

INTERCORPORATE DIVIDEND TAX

BF

file  
Morganthau  
Pres. mem.  
copy

(1) An intercorporate dividend tax will yield \$100,000,000 for each 1% of tax.

(Estimate of Helvering, Commissioner of Internal Revenue and Jackson, former General Counsel of the Bureau of Internal Revenue).

(2) There is such a tax at the rate of 1½% in the existing tax law as adopted last year,

(provided as a matter of mechanics by decreasing to 85% the 100% exemption from normal tax previously allowed to corporations on dividends received from subsidiaries).

(3) This existing tax has not been changed in the draft bill presently being considered by the Senate Finance Committee. An increase in such tax from 1½ to 3%, yielding \$150,000,000, would require simply a change in percentage figures in the presently existing tax law. Stanley Reed, Solicitor General, has carefully prepared draft language for increasing the intercorporate dividend tax in this way or in alternative ways.

(4) The intercorporate dividend tax in the present tax law was enacted last year pursuant to Presidential recommendation. This tax, and the threat of an indefinite future increase in it, were considered the most effective ways to compel the folding up of unnecessary intermediate holding companies and ultimate compliance with the Public Utility Holding Company Act by utility companies. The threat of this tax has already caused strenuous activity to eliminate intermediate companies in holding company structures, not only in the utility field (Niagara Hudson and Consolidated Gas have been especially active) but also in the industrial holding company field (Bethlehem Steel has been especially active).

✓ Senator Harrison Sen ~~P. Jollette~~

" King " ~~Metcalfe~~

" George " ~~Hastings~~

" Walsh " ~~Cappes~~

" Barkley " #

" Connolly \_\_\_\_\_

" Gore ✓

" Cortigan ✓

" Bailey

" Clark

" Byrd

" Loheryan

" Black

" Gerry

" ~~Guffey~~

" ~~Cruz~~

" ~~Kegeo~~

For Missy  
to File in  
Personal File

[1933?]

PSF  
Morganthau

CONFIDENTIAL

CONFIDENTIAL

(2/14)

FROM - SECRETARY OF THE TREASURY  
TO - PRESIDENT

NEWSPAPERS TUESDAY MORNING WILL CARRY ANNOUNCEMENT OF  
TREASURY FINANCING PERIOD THE FINANCIAL COMMUNITY HAS ONE OF  
THE WORST ATTACKS OF JITTERS THAT I HAVE SEEN IN LONG TIME  
PERIOD IF YOU HAVE MADE UP YOUR MIND THAT YOU ARE NOT GOING  
TO CALL AN EXTRA SESSION OF CONGRESS AN ANNOUNCEMENT FROM  
YOU TO THIS EFFECT IN MONDAYS MORNING NEWSPAPERS WOULD COME  
PSYCHOLOGICALLY AT THE RIGHT TIME ANSWER WOULD BE  
APPRECIATED

CONFIDENTIAL

TOD 1245

0005 Secretary Treasury  
any no statement possible. Confidential financing  
will go through all right. Domestic situation  
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R. S. S. S.

PSF

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Pres  
Treasury -

The following provisions with reference to the monetary use of gold and silver are now in the statute books, having been enacted on the dates indicated at the end of each of these provisions and never having been repealed:

"Section 311. Policy of United States as to bimetallism. It is hereby declared to be the policy of the United States to continue the use of both gold and silver as standard money, and to coin both gold and silver into money of equal intrinsic and exchangeable value, such equality to be secured through international agreement, or by such safeguards of legislation as will insure the maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts. And it is hereby further declared that the efforts of the Government should be steadily directed to the establishment of such a safe system of bimetallism as will maintain at all times the equal power of every dollar coined or issued by the United States, in the markets and in the payment of debts. (Nov. 1, 1893, c. 8, 28 Stat.4.)"

"§ 312. International monetary conference commissioners. Whenever the President of the United States shall determine that the United States should be represented at any international conference called by the United States or any other country with a view to securing by international agreement a fixity of relative value between gold and silver as money by means of a common ratio, between these metals, with free mintage at such ratio, he may appoint five or more commissioners to such international conference; and for compensation of said commissioners, and for all reasonable expenses connected therewith, to be approved by the Secretary of State, including the proportion to be paid by the United States of the joint expenses of any such conference, the sum of \$100,000, or so much thereof as may be necessary, is appropriated. (Mar. 3, 1897, c. 376, § 1, 29 Stat. 624.)"

"§ 313. International bimetallism. The provisions of sections 146, 313, 314, 320, 406, 408, 411, 429, 455, and 751 of this title and sections 51, 101, and 178 of Title 12, Banks and Banking, are not intended to preclude the accomplishment of international bimetallism whenever conditions shall make it expedient and practicable to secure the same by concurrent action of the leading commercial nations of the world and at a ratio which shall insure permanence of relative value between gold and silver. (Mar. 14, 1900, c. 41, § 14, 31 Stat.49.)"

file 5

1. It would be appropriate by formal enactment to express it to be the sense of the Congress that we should look forward, as an ultimate objective, to having about a fourth of the monetary value of the metallic reserves of the country in the form of silver. The expression of a more definitive congressional position on this matter at this time would not be in the public interest.
2. In order that the President may have the powers required to move toward this ultimate objective as conditions may make such movement wise, it would be useful to have supplemental, but not directing, legislation authorizing the Secretary of the Treasury to buy and sell silver in such amounts, at such prices, and upon such terms and conditions as may be deemed most advantageous to the public interest.
3. In connection with any authority conferred upon the Treasury to purchase silver, it would be desirable to have legislation authorizing the Executive to prevent excessive profits on any silver which might be so purchased by condemnation, taxation or import regulation.
4. The nation's general and vital interest in its foreign trade relations would make unwise any legislation which contemplated the payment of what would amount to bonuses on the export of American products by the acquisition of foreign silver at premiums above its world price.

J.M.G.