

DIARY

Book 28

July 1 - July 31, 1936

	Book	Page
American Red Cross		
Letter to HMJr from Howard J. Simons, Secretary, Board of Trustees, Endowment Fund - 7/23/36.....	XXVIII	112-115
Memorandum on Red Cross bond holdings - 7/25/36.....		127

- B -

Budget

HMJr decides "to phone FDR and set stage so Bell will get favorable hearing" - 7/6/36.....	94
Bell tells HMJr, FDR is not giving out budget summary until August 10, when there will be a fireside talk - 7/8/36.....	94
HMJr decides to talk to FDR again; consults "Missy" - 7/9/36.....	95
a) Reads Gertrude Stein's "More About Money" to "Missy"	96

- C -

Campaign, Democratic

Gibbons transmits Customs Collector Haas' request for leave of absence without pay, in order that he may participate - 7/23/36.....	117
a) At first, HMJr refuses	
b) Since FDR is permitting Farley and Murphy to do this, he changes his mind - 7/28/36.....	160

China, HMJr-Chinese delegation conversations, Book LXXVIII, page 190

Chinese Embassy transmits confidential memorandum from Kung	
a) General outline of charter of Central Reserve Bank of China.....	133-144
b) Chen informs Minister of Finance that Secretary of Treasury will arrange that Federal Reserve Bank send someone to China for six months to assist in monetary reform.....	145-150
Kung tells Cyril Rogers he hopes he can stay in China longer - 6/27/36.....	158

Commodity Credit Corporation

See Reconstruction Finance Corporation	93-f
--	------

Countervailing Duties

Taylor tells HMJr "German proposition is coming to a head"; asks if order of June 4 can be postponed ten days;	
HMJr tells him he is not going to permit pressure from State Department - 7/9/36.....	97
Taylor and Johnson (Customs) fly to consult HMJr; they disagree, so HMJr consults Oliphant; Oliphant advises against any further extension - 7/10/36.....	98
(Oliphant memorandum confirming - on page 116)	
Johnson (Customs) memorandum on postponement - 7/11/36.....	99A-102
Treasury Decision 48360 amended, 7/22/36.....	108
Customs letter of instructions - 7/29/36.....	161-162

- C - (Continued)

Book Page

Crowley, Leo T.

- Conference with HMJr - McReynolds present - 7/2/36
 (McReynolds memorandum)..... XIXIII 92-93
 a) HMJr tells Crowley he thinks he should resign
 b) HMJr recommends that Crowley see FDR

- E -

Eccles, Marriner S.

- See Excess Reserve Requirements - 7/15/36..... 98
 Excess Reserve Requirements
 HMJr surprised to read in paper of 50% increase; calls
 Eccles, who uses excuse "HMJr was out of town" - 7/15/36.. 98

- F -

Federal Reserve Board

- See Excess Reserve Requirements - 7/15/36..... 98
 Farbach, G. E. (Mrs.)
 See Correspondence

- G -

Germany

See Countervailing Duties

Glavis, Louis R.

- Conference with HMJr and McReynolds, concerning investigation
 of certain income tax returns - 7/2/36
 (McReynolds memorandum)..... 90
 Government Bond Market

- HMJr and Eccles confer concerning support of; HMJr consults
 Harrison also; tells Harrison, Treasury will go "joint" in
 any purchase of long-term bonds - 7/15/36..... 99

- I -

Income Tax Litigation - Survey

- Oliphant transmits interim report - 7/23/36..... 118-120

- P -

Public Works Administration

- Berlew and Hackett see Bell; apparently Hopkins gives them
 only cripples off relief rolls - 7/8/36..... 94
 Bell sees FDR before Hackett; Hackett tells FDR story about
 Hopkins; FDR amazed - tells Bell to investigate..... 97
 a) Bell asks HMJr for some engineers from Procurement
 Division; HMJr tells Bell he can call on Peoples himself
 HMJr wires FDR to postpone OK'ing Budget Bureau's request to
 allocate \$20 million (to be used as grants) out of
 \$300 million revolving fund until Bell, Peoples, and HMJr
 can discuss whole question of unemployment - 7/22/36..... 109,126
 FDR's wire to Bureau of Budget..... 121

- P - (Continued)

Public Works Administration (Continued)

	Book	Page
Budget memorandum to FDR - 7/22/36.....	XXVIII	122
FDR wires answer to HMJr.....		125

- R -

Reconstruction Finance Corporation

Conference in HMJr's office: Jones, Taylor, Mulligan, and Bell present (Bell memorandum) 7/2/36.....		91
a) Reduction discussed in rate of interest from 2 $\frac{3}{4}$ % to 2 $\frac{1}{4}$ % on notes of Reconstruction Finance Corporation issued to Treasury for advance on general account		
b) Borrowing of funds in the market by Commodity Credit Corporation to pay off Reconstruction Finance Corporation loans which, in turn, would pay off notes held by Treasury, also discussed		
1. On July 15, Taylor tells HMJr Commodity Credit issue of \$150 million was "complete flop" - only \$12 million sold; HMJr talks to Harrison, Jesse Jones.....		99

- S -

Secret Service

McReynolds transmits copy of report made by Boatwright (St. Paul, Minnesota) to Chief Moran - 7/17/36.....		103-107
McReynolds memorandum on facts "as adduced from exhaustive examination of all agents involved" - 7/25/36.....		128-131

Speeches by HMJr

Radio, July 1, 1936: financial status of Nation		1-11
a) Reading copy.....		12-16
b) Mimeographed release.....		17-19
c) Outline as dictated to Mrs. Klotz at home, June 24...		20-26
d) Gaston's outline - not used.....		27-28
e) "Morgenthauts" given by Kiplinger.....		29-40
f) Draft considered June 29.....		41-51
g) Willis outline and working copy.....		52-62
h) Draft used by FDR when HMJr called June 30.....		63-64
i) FDR's suggested ending.....		65-77
j) Copy used at conference in HMJr's office June 30....		78
k) HMJr's reading copy for news-reel July 1.....		
l) Tentative list of Columbia Broadcasting System stations available.....		79
m) Draft discussed with FDR at 2:30, July 1.....		80-89
n) Requests for copy of speech.....		89 A-C

Stabilization

Bewley's last conference with HMJr before sailing - 7/22/36..		110-110 B
a) HMJr outlines conditions upon which he will give up gold to London		
b) HMJr states preference for agreement between England, France, and United States, rather than just England and United States		

- U -

Book Page

United States Savings Bonds

Sales have reached $\$ \frac{1}{2}$ billion mark, maturity value -

7/10/36..... XXVIII 93 A-E

The Secretary's reading copy.

1

July 1, 1936

Last night the Treasury closed its books for the fiscal year 1936, which includes the twelve months from July first, 1935 to June 30, 1936. The Government has been operating during this period on a financial program laid down in the early months of 1935.

The stockholders of a business enterprise are interested in having at the close of each business year an accounting made to them by the financial officers of the company. It is customary to furnish them with facts and figures on the year's operations. The Government of the United States is your business. You are its stockholders.

Tonight I am going to report to you on the finances of the Government for the year just ended and give you the results.

1458
133

1325

- 2 -

The man who is responsible for the conduct of a business enterprise estimates, just before the new year begins, what the expenses will be and what receipts he can reasonably expect. He then plans the year's activities on the basis of these estimates. But the Government, under the law, has to estimate each fall its receipts and expenditures for a fiscal year which will not begin until more than six months later. Thus, nearly two years ago, in the fall of 1934, estimates were prepared for the fiscal year which began last July, and which ended last night. At that time, nearly two years ago, it looked as if our revenues would total just under 4 billion dollars and our expenditures, excluding debt retirement, would amount to almost 8 billion dollars. On this basis we

1325
137

1188

- 3 -

would have shown a net deficit for the year of almost 4 billion dollars.

You and I cannot always tell when we make our business plans what unforeseen and extraordinary events may increase our expenses or reduce our revenues. The manufacturer whose plant is situated in a flood area may have his calculations upset by a disastrous flood. His income may be reduced. His expenditures may be increased.

The business of the Government also is subject to unforeseen and extraordinary events. Scarcely had the Congress met last January, when two events completely changed the budget outlook. First, the prospective revenues were cut down as a result of the decision of the Supreme Court that the Agricultural

$\frac{1}{4}$ through

118
116
1072

Adjustment Act was unconstitutional. This meant a loss to the Treasury, in 1936, of nearly half a billion dollars. Second, prospective expenditures were increased by an Act of Congress directing the immediate payment of the veterans' Adjusted Service Certificates. To provide for the payment of these certificates which, under their original terms were not due until 1945, the expenditure program for 1936 was increased by 1 billion 700 million dollars.

Let us see what the results were.

The actual receipts coming in to the Treasury during the year which ended last night aggregated 4 billion 116 million dollars. This is 316 million dollars more than came in during the fiscal year 1935, notwithstanding the loss of 444 million dollars through

1072
132
—
940

the elimination of processing taxes. But revenue from other sources increased 760 million dollars, a gain of 23 per cent, due in large part to improvement in business and agricultural conditions.

Our revenues come mainly from two sources -- income taxes and miscellaneous internal revenue. Of the income taxes, corporation and individual income taxes amounted to nearly a billion and a half for the year that just closed -- an increase over 1935 of 30 per cent. The miscellaneous taxes brought in over 2 billion dollars -- an increase of 20 per cent. Customs receipts rose 12 per cent.

We spent during the year 8 billion 500 million dollars, excluding debt retirement. Three and a half billion was for ordinary operation of the Government.

940

121

819

- 6 -

Approximately 3 billion 300 million was for recovery and relief. The net excess of expenditures over receipts was 4 billion 400 million. But leaving out of consideration the payment to veterans of 1 billion 700 million, the excess of expenditures over receipts for the fiscal year just ended is 2 billion 700 million.

As we have seen, ordinary operating expenses accounted for three and one-half billion dollars, of which National defense took three-quarters of a billion; annual continuing payments to veterans nearly 600 million; interest on the public debt another three-quarters of a billion; agricultural aid, one-half billion; and the other ordinary operating expenses of the Government, 900 million.

819
119.
—
700

- 7 -

How were the recovery and relief expenditures of 3 billion 300 million dollars divided? ^{pause} We expended for large permanent public works under the emergency program 800 million. Direct relief required just under half a billion. In addition we provided about a billion and a quarter for work relief in the form of smaller public works, ^{pause} most of them of permanent value, ^{pause} and nearly half a billion for CCC camps. Aid to home owners and other miscellaneous expenditures took more than 250 million.

Two important facts stand out. On the one hand is an increase in Federal revenue. On the other, is a decrease in Federal expenditures aside from the payment to veterans.

As I have shown you, your Government spent 8 billion 500 million dollars during the year which ended last

700
138
—
562

night. We want you to know where the Treasury got this money. We had 1 billion 800 million cash in our general fund at the beginning of the year. Our revenue receipts were just over 4 billion dollars. The other two and one-half billion that we spent had to be borrowed. As a matter of fact, we borrowed more than 5 billion dollars net, but we have 2 billion 700 million left in our cash balance to meet the expenditures of coming months, including the redemption of the veterans' bonds.

The business man takes inventory at the end of his business year. Let us do likewise. We have a gross public debt of 33-3/4 billion dollars. What have we in our inventory as offsets against this amount? We do not, as does the business man, include additions to our plant. Our public buildings, our other public

576.2

147

415

-9-

works projects and our land acquisitions are treated as outright expenditures and, while they are truly assets of the Government, they are not included in our financial statement.

The first of our cash assets is the General Fund balance -- the money we have in our cash drawer and on deposit in the bank. The General Fund balance yesterday was 2 billion 700 million dollars. The Government has another important cash asset. It is the 2 billion dollar Stabilization Fund, which will ultimately be used to retire a like amount of public debt.

In addition we have certain assets representing obligations due us upon which the Treasury will realize cash and which will ultimately be available for debt retirement. These recoverable assets -- loans to home

*3/4 through**415
125
290*

-10-

owners, to farmers, to railroads, to banks and insurance companies, to States and cities -- now total more than 4 billion dollars. These three items -- cash on hand, Stabilization Fund, and recoverable loans -- provide an offset of 8 and 3/4 billion dollars to the 33 and 3/4 billion dollar public debt. Let me repeat -- these three items provide an offset of 8 and 3/4 billion dollars to the 33 and 3/4 billion dollar public debt.

An outstanding development in connection with the Government's financing during the past 3 years is the fact that we have reduced the average rate of interest nearly one-fourth. This reduction means an annual saving of more than 260 million dollars.

The Government has led the way in reduction of interest charges. The individual business man has been able to follow in the footsteps of his Government

29.0
149

141

-11-

in reducing his own interest charges and in refunding the debt of his own business. During the twelve months ended June 30, 1936, business corporations registered with the Securities and Exchange Commission more than 2 and 1/2 billion dollars of securities for the refunding of indebtedness. The approximate average reduction in the gross rate of interest paid by these private business corporations was 1 and 1/4 per cent which would mean a saving to these corporations of more than 30 million dollars a year in interest charges.

All of us have a vital interest in the fiscal affairs of our Government. We may derive real encouragement and satisfaction from these facts: National income is rising; as a result, ^{house} Federal revenue is increasing; Federal expenditures are on the decline, and the Nation's business is continuing to show steady improvement.

141

TREASURY DEPARTMENT

Press Service
No. 7-78

The following text of a radio address by Secretary Morgenthau is for release AFTER DELIVERY, which is scheduled to begin at 10:15 Eastern Standard Time, Wednesday evening, July 1. The address will be broadcast by the National Broadcasting Company and the Columbia Broadcasting System over national networks of both systems.

Last night the Treasury closed its books for the fiscal year 1936, which includes the twelve months from July 1, 1935 to June 30, 1936. The Government has been operating during this period on a financial program laid down in the early months of 1935.

The stockholders of a business enterprise are interested in having at the close of each business year an accounting made to them by the financial officers of the company. It is customary to furnish them with facts and figures on the year's operations. The Government of the United States is your business. You are its stockholders.

Tonight I am going to report to you on the finances of the Government for the year just ended and give you the results.

The man who is responsible for the conduct of a business enterprise estimates just before the new year begins what the expenses will be and what receipts he can reasonably expect. He then plans the year's activities on the basis of these estimates. But the Government under the law has to estimate each Fall its receipts and expenditures for a fiscal year which will not begin until more than six months later. Thus, nearly two years ago, in the Fall of 1934, estimates were prepared for the fiscal year which began last July, and which ended last night. At that time, nearly two years ago, it looked as if our revenues would total just under 4 billion dollars and our expenditures, excluding debt retirement, would amount to almost 8 billion dollars. On this basis we would have shown a net deficit for the year of almost 4 billion dollars.

You and I cannot always tell when we make our business plans what unforeseen and extraordinary events may increase our expenses or reduce our revenues. The manufacturer whose plant is situated in a flood area may have his calculations upset by a disastrous flood. His income may be reduced. His expenditures may be increased.

The business of the Government also is subject to unforeseen and extraordinary events. Scarcely had the present Congress met last January when two events completely changed the budget outlook. First, the prospective revenues were cut down as a result of the decision of the Supreme Court that the Agricultural Adjustment Act was unconstitutional. This meant a loss to the Treasury, in 1936, of nearly half a billion dollars. Second, prospective expenditures were increased by an Act of Congress directing the immediate payment of the veterans' Adjusted Service Certificates. To provide for the payment of these certificates which, under their original terms were not due until 1945, the expenditure program for 1936 was increased by 1 billion 700 million dollars.

Let us see what the results were.

The actual receipts coming in to the Treasury during the year which ended last night aggregated 4 billion 116 million dollars. This is 316 million dollars more than came in during the fiscal year 1935, notwithstanding the loss of 444 million dollars through the elimination of processing taxes. But revenue from other sources increased 760 million dollars, a gain of 23 per cent, due in large part to improvement in business and agricultural conditions.

Our revenues come mainly from two sources — income taxes and miscellaneous internal revenue. Of the income taxes corporation and individual income taxes amounted to nearly a billion and a half for the year that just closed — an increase over 1935 of 30 per cent. The miscellaneous taxes brought in over

2 billion dollars -- an increase of 20 per cent. Customs receipts rose 12 per cent.

We spent during the year 8 billion 500 million dollars, excluding debt retirement. Three and a half billion was for ordinary operation of the Government. Approximately 3 billion three hundred million was for recovery and relief. The net excess of expenditures over receipts was four billion four hundred million. But leaving out of consideration the payment to veterans of 1 billion 700 million, the excess of expenditures over receipts for the fiscal year just ended is 2 billion 700 million.

As we have seen, ordinary operating expenses accounted for three and one-half billion dollars of which National defense took three-quarters of a billion; annual continuing payments to veterans nearly 600 million; interest on the public debt another three-quarters of a billion; agricultural aid one-half billion, and the other ordinary operating expenses of the Government nine hundred million.

How were the recovery and relief expenditures of three billion three hundred million dollars divided? We expended for large permanent public works under the emergency program 800 million. Direct relief required just under half a billion. In addition we provided about a billion and a quarter for work relief in the form of smaller public works, most of them of permanent value, and nearly half a billion for CCC camps. Aid to home owners and other miscellaneous expenditures took more than 250 million.

Two important facts stand out. On the one hand is an increase in Federal revenue. On the other is a decrease in Federal expenditures aside from the payment to veterans.

As I have shown you, your government spent 8 billion 500 million dollars during the year which ended last night. We want you to know where the Treasury

got this money. We had 1 billion 800 million dollars cash in our General Fund at the beginning of the year. Our revenue receipts were just over four billion dollars. The other two and one-half billion that we spent had to be borrowed. As a matter of fact, we borrowed more than five billion dollars net, but we have two billion 700 million left in our cash balance to meet the expenditures of coming months, including the redemption of the veterans' bonds.

The business man takes inventory at the end of his business year. Let us do likewise. We have a gross public debt of 33 and three-quarters billion dollars. What have we in our inventory as offsets against this amount? We do not, as does the business man, include additions to our plant. Our public buildings, our other public works projects, and our land acquisitions are treated as outright expenditures and, while they are truly assets of the Government, they are not included in our financial statement.

The first of our cash assets is the General Fund balance — the money we have in our cash drawer and on deposit in the bank. The General Fund balance yesterday was 2 billion 700 million dollars. The Government has another important cash asset. It is the 2 billion dollar Stabilization Fund, which will ultimately be used to retire a like amount of public debt.

In addition we have certain assets representing obligations due us upon which the Treasury will realize cash and which will ultimately be available for debt retirement. These recoverable assets — loans to home owners, to farmers, to railroads, to banks and insurance companies, to States and cities — now total more than 4 billion dollars. These three items — cash on hand, Stabilization Fund, and recoverable loans — provide an offset of 8 and three-quarters billion dollars to the 33 and three-quarters billion dollar public debt.

An outstanding development in connection with the Government's financing during the past 3 years is the fact that we have reduced the average rate of

-5-

interest nearly one-fourth. This reduction means an annual saving of more than 260 million dollars.

The Government has led the way in reduction of interest charges. The individual business man has been able to follow in the footsteps of his Government in reducing his own interest charges and in refunding the debt of his own business. During the twelve months ended June 30, 1936, business corporations registered with the Securities and Exchange Commission more than $2\frac{1}{2}$ billion dollars of securities for the refunding of indebtedness. The approximate average reduction in the gross rate of interest paid by these private business corporations was $1\frac{1}{4}$ per cent, which would mean a saving to these corporations of more than 30 million dollars a year in interest charges.

All of us have a vital interest in the fiscal affairs of our government. We may derive real encouragement and satisfaction from these facts: National income is rising; as a result Federal revenue is increasing; Federal expenditures are on the decline, and the Nation's business is continuing to show steady improvement.

ooOoo

The Secretary's outline of the speech dictated to Mrs. Klotz at the meeting at the Secretary's home, Wednesday, June 24.

17

Last night the government closed its business for the fiscal year. I am going to try and explain our position in terms that I would apply to your business or mine. Each fall the Treasury sits down and makes estimates for receipts and expenditures for the coming year beginning July 1st. In November and December, 1934, we prepared for the President estimates which he announced in his Budget Message of January, 1935 in which he estimated that during the 12 months beginning July one, 1935 and running until June 30, 1936 our receipts would be millions of dollars and our expenditures would be millions of dollars. In this period no body could foresee that two major upsets would happen (1) that Congress would vote the immediate payment of the bonus at a cost of \$ and (2) that the Supreme Court would declare the AAA unconstitutional and that through this act we would lose estimated revenues ofmillion dollars.

The situation is similar to a company which was situated in the flood area and had its factory incapacitated for three months and, therefore, lost a considerable amount of its sales and then besides this had to make repairs to its factory which was not included in its financial program. Instead of a flood we had a similar situation strike our Budget (1) due to an act of Congress and (2) due to the Supreme Court decision.

First let us look at the actual picture which shows that our expenditures were million dollars in excess of our estimates in the late fall of 1934 and our actual receipts were \$..... more than our original estimates. Now let us look

- 2 -

at the picture. If we had not had these two situations arise which could not have been possible to foresee ~~xxxx~~(1) our total receipts would have been \$..... or percent increase over our original estimates and (2) our expenditures would have been \$..... or per cent less than our estimates. When one considers that in running the financial end of the government that you have to estimate 18 months in advance it seems to me that the results accomplished during the year which has just closed have proven to have been very satisfactory, and if applied to your own business I am sure that you would have every reason also to be satisfied.

How do we finance the government's business? We sell securities which are simply a promise on the part of the government to pay. During the past 12 months we have actually sold billion dollars and have had mature billion dollars or a net increase in our debt of billion dollars. People who buy government bonds are vitally interested in our balance sheet and they want to assure themselves that the state of a nation's business is getting steadily better and by that they mean that our revenue is increasing, our expenditures are decreasing and the wealth of the United States government is also on the increase. These are the factors which go into making the credit of your government good or bad. The fact that we have been able to sell our securities at a constantly lower interest rate is the best proof that our credit has been steadily rising. In the past 12 months our public debt has risen from 28 billion to 34 billion dollars. What is the explanation of this increase? A billion

and a half increase is in our cash drawer billion dollars is on our books due to the bonus, a billion and a half we have given away for relief purposes and the rest of it has gone into public buildings, public works, etc. I believe that this money will prove to be a good investment on behalf of the public.

Let's examine further the Public Debt. I have just explained to you the increase since last year. I will now give you an accounting of the rest of the 28 billion which is made up as follows:

Stabilization Fund 2 billion dollars.

Complete breakdown of the offsets
to public debt which we can recover

The remarkable factor in connection with the government's finances during the past three years is the fact that we have been able to reduce our interest charges about one and a half per cent, with the result that the cost of carrying the public debt to-day is less than it was in 1933.

To sum up, for the past three years our receipts have increased each year over the preceding year. Our deficit exclusive of the bonus and the Supreme Court decision on the AAA would have shown a decrease each year for the last three years. Our interest charges have steadily declined with the result that the credit of the United States to-day was never better.

For those people who like detailed figures they can look in tomorrow's papers for tables which have been furnished the President tonight.

Draft I.

June 24, 1936

20

Discussed at the meeting at the Secretary's home. Prepared by Gaston; not used.

Outline of Radio Address by the Secretary
Wednesday Evening, July 1, 1936.

The Government keeps its books on a yearly basis. The Government's accounting year, which is known as the fiscal year, begins on July 1 and ends on June 30. The fiscal year 1936 came to an end at midnight last night. While the status of the Government's financial accounts is shown every day in the Daily Treasury Statement, it is customary at the end of each year to review the financial accounts as of the close of the year. The Treasury will issue such a review and I am giving the essentials of it over the radio tonight through the kindness of the National Broadcasting Company and the Columbia Broadcasting System, so that the facts of the Government's financial position and operations during the past year may be understood.

The Treasury Department received during the year revenues of \$4,150 millions. It disbursed during the year for the ordinary operation of the Government, for recovery and relief and for other extraordinary expenses, excluding debt retirement, a total of \$8,600 millions. The excess of expenditures over receipts was thus approximately \$4,500 millions. The President's Budget Message of January, 1935, predicted receipts for the fiscal year 1936 of \$3,992 millions and total expenditures of \$7,884 millions. Both receipts and expenditures are thus greater than were predicted at that time. The

- 2 -

revised estimate for the fiscal year 1936, contained in the President's Budget Message of January 3, 1936, predicted revenues of \$4,411 millions and expenditures of \$7,093 millions.

Two events, which occurred after the President's Budget Message was sent to the Congress in January of this year, have disturbed the Budget picture both on the receipts side and on the expenditures side. First was the decision of the Supreme Court declaring the Agricultural Adjustment Act unconstitutional. The President had anticipated revenue of \$529,000,000 from processing taxes, but because of this decision revenues from this source were only \$67,000,000. In spite of this loss of \$462,000,000 in revenue, the revenue receipts are larger than the President had estimated in January, 1935. The revenues for 1936 were about \$350,000,000 greater than for the fiscal year 1935, although receipts from processing taxes were \$460,000,000 less. In other words revenues of the Government from other sources increased \$810,000,000 during the year, approximately a 25 per cent increase, which has been due in large part to improvement in business conditions.

The other important event affecting the status of the Government's finances was the action of the Congress in ordering the immediate payment of the veterans' bonus at the 1945 maturity value. On this account the

-3-

Government's expenditures during the fiscal year have been increased approximately \$2,200 million. Without this expenditure the total of the Government's expenditures would have been \$6,900 millions instead of \$9,100 millions and the excess of expenditures over receipts would have been approximately \$2,800 millions instead of \$4,500 millions. The essential fact is that there is a striking increase in Federal revenue and a sharp decrease in Federal expenditures aside from the payment to the veterans.

On the revenue side receipts from Internal Revenue taxation are of the greatest interest. These come from two main sources -- from income taxes and from miscellaneous internal revenue, which includes estate and gift taxes, as well as various forms of excise taxes. The yield of the income tax increased from approximately \$1,099,000,000 in the fiscal year 1935 to \$1,435 million in the fiscal year that has just closed, an increase of about 33 per cent. Miscellaneous internal revenue increased from \$1,657,000,000 to \$1,993 million, an increase of about 20 per cent. Customs receipts, the yield of the tariff on imports, increased from \$343,000,000 last year to \$387 million this year, an increase of 13 per cent.

On the expenditure side, the total or ordinary expenditures of the Government, the cost of operating the regular activities of the Government, showed little change. Deducting the one item of the payment of the soldiers' bonus, the figures are: Approximately \$3,721 million for 1935 and \$3,850 million for 1936.

Recovery and relief expenditures, which were \$3,655 million in 1935 were \$3,450 million in the fiscal year 1936. This is a decrease of \$205 million.

The status of the public debt at the close of the year reflects borrowing to meet the excess of expenditures both for relief purposes and for the payment of the soldiers' bonus. The gross public debt as of June 30 was \$34,300 million, which is an increase of approximately 5.6 billions over the public debt on June 30, 1935, but two billions of this increase is due to the bonus payment. The obligation to the veterans has really been a debt of the Government since 1925, when the original adjusted service bill was passed, but it has never been included in the listed debt. The General Fund balance -- the Government's cash on hand -- has increased about \$1,000 million during the year, so that the net increase in the debt is about \$4,600 million.

In considering the public debt it should be borne in mind that the Government has certain cash assets which reduce the net obligation materially. A private business would list among its assets not only bills owed to it but its physical properties in the way of land, buildings and equipment. The Government does not do this; it lists all its plant and construction items as outright expenditures and they do not appear upon the Government's balance sheet.

Thus in figuring what the debt of a business enterprise is, it is customary to do so upon the basis of the liquidating value of its assets. If it has cash and assets which can be turned into cash, the total of these is considered a proper deduction from its gross debt.

-5-

The Government has substantial amounts of cash and cash assets which may legitimately be considered as offsets to the total of its outstanding obligations. They reduce the amount of taxes which would be required to retire the present debt. It cannot be said, as of today, that the American people will have to pay \$34,300 millions in taxes to pay off the public debt of that amount. For a part of it could be paid off with the cash and cash assets on hand.

The first of these items is the General Fund balance representing the cash in the Treasury and on deposit to the account of the Treasury, less checks outstanding and other immediate cash obligations. The General Fund balance on June 30 was \$2,800 million, leaving a net debt, less the cash balance of \$31,500 million. But the Government has another important cash asset. There is two billion dollars in the Stabilization Fund, which is used to maintain the value and stability of the American currency and it ultimately will be available for the retirement of the public debt. Subtracting this from the amount of the public debt, less the General Fund balance, would reduce the public debt to \$29,500 million.

The Government also has other substantial book assets in the form of repayable loans made to the public through various agencies wholly owned by the Government and in addition an investment in other agencies which have been financed partly from Government funds and partly from private funds. The Government's equity, or proprietary interest, in these two classes of agencies amounts to a total of more than four billion dollars. It was \$4,350 million on May 29th of this year. If

the amount of all three of these assets — the cash on hand, the Stabilization Fund and the repayable loans and investments — is deducted from the gross public debt, the resulting net figure is \$25,500 million.

There is, however, a substantial difference between the situation at that time and the situation today. That difference is in the interest rate and consequently in the cost of carrying the debt. The computed rate of interest on the public debt at the end of the fiscal year 1919 was substantially more than four per cent. The Government's interest payments averaged more than a billion dollars annually for the fiscal years 1920, 1921, 1922 and 1923. In contrast the computed rate of interest on the present interest-bearing debt is just over $2\frac{1}{2}$ per cent and the computed interest charges, on a yearly basis, on the whole of the present interest-bearing debt are approximately \$800,000,000. That is, although the gross debt is approximately ten billions greater than it was in 1920, the interest burden is about four-fifths as great. This has an important bearing on the Government's present position.

A summary of the general situation of the Government's finances at the close of the fiscal year is this: Receipts have been materially higher than were anticipated either when the Budget for 1936 was sent to Congress in January, 1935, or leaving aside processing taxes, when revised estimates for 1936 were submitted in January of 1936. Except for the single item of the soldiers' bonus expenditures have corresponded very closely with the President's revised forecasts in January 1936. The gross public debt has reached an all time high point, but the Government possesses assets which offset the gross debt sufficiently to bring

-7-

it to a level no higher than the post-war debt. The annual interest charges - the cost to the Government of carrying the debt - are less than they were in the years immediately following the World War. The soundness of the Government's credit is attested by the extremely low rates at which the Government is able to borrow funds, and the ready market for Government securities.

ooOoo

MORGENTHAU THOUGHTS

Market for gov't bonds, year ago and now.
(Doesn't the market, after all, reflect what hard-boiled investors think of gov't credit?)

Carrying charges on the public debt.
(It isn't the face amount of the debt, so much as the cost of carrying it. This is a point which laymen don't recognize. Goldenweiser talks this a lot.)

Government has filled a hole in our economy which in normal times is filled by private activity. A few billions more of government debt should be compared with many billions of private debt which would have been created IF times were normal. (Economists can check on this view and amplify it. It's a good point for laymen who worry over pub. debt.)

Taxes taken from the pockets of people flow back into the pockets of people. Government merely promotes flow, circulation. Depends on USE of the money by gov't.

Treasury policies are non-partisan. The tax-collecting machinery is non-partisan. (There are rumors this isn't true. If you think it IS true, you might say it. But the suggestion isn't firm; better think it over.)

Compare our Treasury position with that of other nations. Don't go into detail. Just leave an impression of how good we are, relatively.

"How are we going to pay for all this?"
By taxes, of course. But hark back to
point above, that taxes go BACK to people

Should not the Treasury begin now to refund
its billions of short term paper into long
term bonds?

Ratio of consumer taxes to other taxes (graduated
ability-to-pay taxes)?

Sharp rise in liquor taxes...are people
growing increasingly alcoholic or is this
result of curbing bootleggers?

War Debts???

What about the secret stabilization fund?
Has it been dissipated? When will the public
be given an accounting of it?

How much inflation is there in the silver
purchase program...How many new say-so
dollars created from seigniorage?

Merits, if any, of silver purchase program?

Relations of tax collectors to taxpayers?
Is hardboiled policy to be pursued, getting
the last cent, suspecting everybody of
evasion? Or is it the policy to assume most
people honest, and make reasonable allowance
for human errors?

June 27, 1936.

This is the draft of speech as it was worked on the evening of June 29 in the Secretary's office.

Last night the Treasury closed its books for the fiscal year 1936. The Government has been operating during this period on a financial program laid down in the early months of 1935.

The stockholders of a business enterprise are interested at the close of each business year to have an accounting made to them by the financial officers of the company. It is customary to furnish them with facts and figures on the year's operations. The Government of the United States is your business. You are its stockholders.

Tonight I am going to discuss the finances of *the gov.*

for the year just ended and give you the results ~~of the~~
~~year's operations.~~

II

The man who is responsible for the conduct of a business enterprise estimates in advance what the expenses will be and what the receipts will be and he plans the year's activities on the basis of these estimates. In a similar manner, the Government estimates each fall its receipts and expenditures for the coming year. Thus, in November 1934, estimates were prepared covering the operations of the fiscal year which began eight months later, that is, July 1, 1935, and ended last month. The President submitted these estimates to the Congress in his budget message of January 1, 1935. At that time it looked as if our revenues would aggregate just under 4 billion dollars and our expenditures, excluding debt retirement, almost 8 billion dollars. This would have shown a net deficit for the year of almost 4 billion dollars.

-

You and I cannot always tell in our business what unusual and extraordinary occurrences may operate to increase our expenses or reduce our revenues. The concern which is situated in a flood area may have its calculations upset by a disastrous flood. Its revenues may be reduced. Expenditures may be increased by need of repairs and replacements.

The business of the Government also is subject to uncertainties. Scarcely had the President made public his revised estimates of 1936 income and expense than two occurrences completely changed the budget outlook. The prospective revenues were cut down as a result of the decision of the Supreme Court of the United States that the Agricultural Adjustment Act was unconstitutional. This meant a loss to the Treasury, in 1936, of almost half a billion dollars. Prospective expenditures were increased by an Act of Congress directing the immediate payment of the bonus. To provide for the payment of the Adjusted Service Certificates which,

IV

under their original terms were not due until 1945, the expenditure program was increased by 1 billion 700 million dollars.

Let us see what the results were.

The actual receipts coming in to the Treasury during the year which ended last night aggregated 4 billion 150 million dollars. This is 350 million dollars more than came in during the fiscal year 1935. And yet in 1935 we collected more than half a billion dollars in processing taxes. Leaving out of consideration the processing taxes, the increase in revenue in the year just ended over the year which preceded it is 810 million dollars, a 25 per cent rise, due in large part to improvement in business conditions.

Our ordinary revenues come mainly from two sources -- income taxes and miscellaneous receipts. Corporations and individuals paid in nearly a billion and a half in

IV (a)

34

income taxes for the year that just closed -- an increase over 1935 of 33 per cent. Miscellaneous taxes brought in over 2 billion dollars -- an increase of 20 per cent. Customs receipts also showed a substantial rise.

We spent during the year 8 billion 500 million dollars. excluding debt retirement. Three and a half billion was for ordinary operation of the Government. Approximately five billion was for recovery and relief and other extraordinary purposes. The net excess of expenditures over receipts was four and a half billion dollars. But leaving out of consideration the bonus payment of 1 billion 700 million dollars, the excess of expenditures over receipts for the fiscal year just ended is 2 billion 800 million dollars.

As stated before, regular expenditures of the Government accounted for three and a half billion, of which general departmental expenditures ^{ran} ~~ran~~ nearly half a billion dollars. National defense took three quarters of a billion. Annual continuing payments to veterans ran half a billion. Interest on the public debt took three quarters of a billion. One-half billion went for Agricultural Aid.

VI.
How is the five billion of extraordinary expense made up? One and three quarter billions has been spent for the soldiers' bonus. We expended for public works under the emergency program 800 million. We gave away for direct relief just under half a billion and in addition provided about a billion and a quarter for work relief and nearly half a billion for CCC camps. Aid to home owners took more than 200 million. *H* Two facts stand out. On the one hand is the striking increase in Federal revenue, which, in spite of the loss of half a billion dollars of processing taxes, is greater than the estimate. The other is the decrease in Federal expenditures, aside from the extraordinary payment to veterans.

Where did the Treasury get the 8 billion 500 million dollars which it spent during the year ended last night? We had a billion and a half cash in our working balance at the beginning of the year. Our revenue receipts were just over four billion dollars. The other three billion that we spent had to be borrowed. As a matter of fact, we borrowed almost twice that amount, but we have half of it left in our cash balance to meet the expenditures of coming months, including the redemption of the veterans' bonds.

During the past 12 months we have sold six billion 400 million dollars of bonds, notes and bills for cash and we have refunded, or paid off in cash, maturing obligations in an amount of five billion 600 million dollars. Investors in our securities have a vital interest in fiscal affairs of the Government and they see encouragement in the fact that national income is rising, that Federal revenue is increasing,

that Federal expenditures are on the decline, and that the nation's business shows substantial improvement.

A remarkable factor in connection with the Government's finances during the past year and, as a matter of fact during the past three years, is that we have been able to reduce the rate of interest which we pay on the public debt. Since 1933 it has been reduced by 1-1/2 per cent. The result is that with a gross debt considerably greater than that which we had at the end of the war, the actual interest cost is materially less. The benefit of this was not fully realized ~~in~~ *until* 1936. Interest on the debt in 1935 was 821 million dollars; in 1936, on a much higher debt, it was only 745 million.

The business man takes inventory at the end of his business year. Let us do likewise. We have a public debt of 34 billion dollars. It has increased in the last 3 years 13 billion dollars. What have we in our inventory as offsets against this amount? We cannot, as does the business man, include additions to our plant. Our public buildings, our

other public works projects, and our land acquisitions are treated as outright expenditures and, while they are truly assets of the Government, they are not included in our financial statement. We do have certain assets representing obligations due us upon which the Treasury may realize cash and which will ultimately be available for debt retirement. These recoverable assets -- loans to home owners, to farmers, to railroads, to banks and insurance companies, to States and cities -- have increased since 3 years ago by more than 2 billion dollars. We have cash on hand of approximately 3 billion dollars more than we had 3 years ago. We have a gold Stabilization Fund of 2 billion dollars which may ultimately be used for retirement of the public debt.

To sum up, for the past three years our receipts have increased each year over the preceding year, our deficit, leaving out of consideration the veterans' bonus, has shown a decrease each year for the last 3 years. Our interest

charges have steadily declined and the credit of the Government has steadily improved.

Detailed figures on the year's operations will be released at the Treasury tomorrow. We shall be very glad to furnish any interested person with a copy.

1. Getting the picture & parallel of Govt financial operations
(for the men in the street)
2. What is the Jewish financial report — Total Revenue.
Total Expenditures.
Credit or Debit Balance.
3. How does this compare with previous years —
in amount & per cent of
income or losses.
4. of what were the Expenditures made up.
5. of what were the receipts made up.
6. Recent composite summary —
7. What is the picture in terms of present outlook.
+ indications for tomorrow —
encouraging or not —

note In discussing receipts & expenditures, I believe it would help
to keep them consistently in the same order.

copy of Draft

That money from July 1st 1935 to June 30th 1936

Last night the Treasury closed its books for the fiscal year 1936. The Government has been operating during this period on a financial program ^{estimated ahead and} laid down in the early months of 1935.

The stockholders of a business enterprise are interested at the close of each business year to have an accounting made to them by the financial officers of the company. It is customary to furnish them with the facts and figures on the year's operations. The Government of the United States is your business. You are its stockholders.

Tonight I am going to ^{report to you on} ~~discuss~~ the finances of ^{you} the Government for the year just ended. ^{I shall endeavor to} and give you the results ^{of these operations as simply and clearly as possible.}

The man who is responsible for the conduct of a large business enterprise estimates in advance what the expenses

-2-

will be and what ~~the~~ receipts ^{he can reasonably afford.} ~~will be~~ and ~~he~~ ^{then} plans the year's activities on the basis of these estimates. In

a similar manner, the Government estimates each fall its ^{anticipated} ~~institutions and its probable,~~

receipts and expenditures for the coming year. Thus,

in November 1934, estimates were prepared, ^{to cover government} ~~covering the~~ operations ^{for} of the fiscal year which ^{did not begin until} ~~began eight months~~ later, ^{which} ~~that is,~~ July 1, 1935, and ended last month. The

President submitted these estimates to the Congress in

his budget message of January 1, 1935. At that time

it looked as if our ^{while our receipt} ~~revenues~~ ^{total} would aggregate just under

4 billion ~~dollars and our~~ expenditures, excluding debt

^{would amount to} retirement, almost 8 billion dollars. This would have

shown a net deficit for the year of almost 4 billion

dollars.

^{In estimating business budgets,} always ^{unforeseen}
 "You and I cannot tell in our business what unusual
 and extraordinary ^{circumstances} ^{occur} occurrences may operate to increase our

-3-

expenses or reduce our revenues. ^{a business} ~~The concern~~ which is situated in a flood area may have its calculations ^{suddenly} upset by a disastrous flood. ^{anticipated services} Its revenues ~~may be~~ reduced.

9/1 Expenditures may be ^{materially} increased by ^{the unexpected} need of repairs and replacements.

The business of the Government also is subject to uncertainties. Scarcely had the President made public his revised estimates of 1936 income and expense than two occurrences completely changed the budget outlook. The prospective revenues were cut down as a result of the decision of the Supreme Court of the United States that the Agricultural Adjustment Act was unconstitutional.

Thus, the Supreme Court decision in this instance resulted in
 This meant ^{a loss to the Treasury, in 1936, of almost} half a billion dollars ^{of expected revenue. (Following this sudden cut of revenue)}
^{the Government} ~~prospective~~ expenditures were ^{also} increased, by an Act of Congress directing the immediate

*main briefly how this would have brought
 anticipated revenues to the Treasury.*

-4-

~~Under~~ *Under the original terms*

payment of the bonus. ~~To provide for the payment of~~
 the Adjusted Service Certificates ~~which, under their~~ *did not require Treasury expenditures*
~~original terms were not due until 1945, the expenditure~~ *But the Act of Congress directs*
~~program was increased by 1 billion 700 million dollars.~~ *their immediate payment automatically added to the Government's expenditure program.*

Let us see what the results were.

~~The actual receipts coming in to The Treasury~~

received 4 Billion 150 million dollars
 during the year which ended last night. ~~aggregated~~
~~4 billion 150 million dollars.~~ *fiscal* *sum of* This is 350 million

~~dollars more than came in during the fiscal year 1935.~~ *of* *namely a 25% increase in Government revenues.*
~~And yet in 1935 we collected more than half a billion~~ *yet this is not the whole picture. For in 1935 Government received*
 dollars in processing taxes, *which he did not receive in 1934.* Leaving out of consider-

the government's expenditure which being reduced are not to be considered.
 ation the processing taxes, the increase in revenue in
 the year just ended over the year which preceded it is
 810 million dollars, ~~a 95 per cent rise, due in large~~
~~part to improvement in business conditions.~~

Our ordinary revenues come mainly from two sources —

-5-

income taxes and miscellaneous receipts. Corporations and individuals paid in nearly a billion and a half in income taxes for the year that just closed -- an increase over 1935 of 33 per cent. Miscellaneous taxes brought in over 2 billion dollars -- an increase of 20 per cent.

Customs receipts also showed a substantial rise.

~~The Government spent 8 billion 500 million dollars during the year.~~
We spent during the year 8 billion 500 million

dollars, excluding debt retirement. Three and a half

billion was for ordinary operation of the Government, such as

Approximately 5 billion was for recovery and ~~for~~ relief

and other extraordinary purposes. ^{These expenditures} The net excess of

expenditures over receipts ^{of} was four and a half billion

dollars. But leaving out of consideration the bonus

payment of 1 billion 700 million dollars, the excess of

expenditures over receipts for the fiscal year just ended

is 2 billion 800 million dollars.

-6-

As stated before, regular expenditures of the Government accounted for three and a half billion, of which general departmental expenditures ran nearly half a billion dollars. National defense took three quarters of a billion, Annual continuing payments to veterans ran half a billion. Interest on the public debt took three quarters of a billion. One-half billion went for Agricultural Aid.

How is the 5 billion of extraordinary expense made up? One and three quarter billions has been spent for the soldiers' bonus. We expended for public works under the emergency program 800 million. We gave away for direct relief just under half a billion and in addition provided about a billion and a quarter for work relief and nearly half a billion for CCC camps. Aid to home owners took more than 200 million.

-7-

this financial report,

Two facts stand out. On the one hand is the

striking increase in Federal revenue which, in spite of the loss of half a billion dollars of processing taxes, is greater than the estimate. The other is the decrease in Federal expenditures, aside from the extraordinary payment to veterans.

As I have shown here, *the Government spent*

~~Where did the Treasury get the 8 billion 500~~

million dollars ~~which it spent~~ during the year, ^{which} ended

he want you to know where the Treasury got this money.
last night? We had a billion and a half cash in our

working balance at the beginning of the year. Our revenue receipts were just over four billion dollars.

The other 3 billion that we spent had to be borrowed.

As a matter of fact, we borrowed almost twice that amount. But we have half of it left in our cash balance to meet the expenditures of coming months, including the redemption of the veterans' bonds.

-8-

During the past 12 months we have sold 6 billion 400 million dollars of bonds, notes and bills for cash and we have refunded, or paid off in cash, maturing obligations in an amount of 5 billion 800 million dollars. Investors in our securities have a vital interest in fiscal affairs of the Government, and they see encouragement in the fact that national income is rising, that Federal revenue is increasing, that Federal expenditures are on the decline, and that the nation's business shows substantial improvement.

One important
~~A remarkable~~ factor in connection with the Government's finances *should be brought to your attention: During the past year, and* ~~during the past year and~~ as a matter of fact, during the past three years, ~~is that~~ we have been able to reduce the rate of interest which we pay on the public debt. Since 1933 it has been reduced by 1-1/2 per cent. The result is that with a gross debt considerably

-9-

greater than that which we had at the end of the war, the actual interest cost is materially less. The benefit of this was not fully realized until 1936. Interest on the debt in 1935 was 821 million dollars; in 1936, on a much higher debt, it was only 745 million.

The business man takes inventory at the end of his business year. Let us do likewise, *and review the present financial condition of the government* We have a public debt of 34 billion dollars. It has increased in the last 3 years 13 billion dollars. What have we in our inventory as offsets against this amount? We cannot, as does the business man, include additions to our plant. Our public buildings, our other public works projects, and our land acquisitions are treated as outright expenditures and, while they are truly assets of the Government, they are not included in our financial statement. We do have certain assets representing

-10-

obligations due us upon which the Treasury may realize cash and which will ultimately be available for debt retirement. *(a broad estimate of these would total about -----)* These recoverable assets -- loans to home owners, to farmers, to railroads, to banks and insurance companies, to States and cities -- have increased since 3 years ago by more than 2 billion dollars. We have cash on hand of approximately 3 billion dollars more than we had 3 years ago. We have a gold Stabilization Fund of 2 billion dollars which may ultimately be used for retirement of the public debt.

To sum up, for the past 3 years our receipts have increased each year over the preceding year; our deficit, leaving out of consideration the veterans' bonus, has shown a decrease each year for the last 3 years. Our interest charges have steadily declined and the credit of the Government has steadily improved.

This is the draft used by the President when Secretary Morgenthau called on him Wednesday, June 30.

52

- 1 -

Last night the Treasury closed its books for the fiscal year 1936. The Government has been operating during this period on a financial program laid down in the early months of 1935.

The stockholders of a business enterprise are interested in having at the close of each business year an accounting made to them by the financial officers of the company. It is customary to furnish them with facts and figures on the year's operations. The Government of the United States is your business. You are its stockholders.

Tonight I am going to discuss the finances of the Government for the year just ended and give you the results.

- 2 -

The man who is responsible for the conduct of a business enterprise estimates in advance what the expenses will be and what the receipts will be and he plans the year's activities on the basis of these estimates. In a similar manner, the Government estimates each fall its receipts and expenditures ~~for the coming year~~. ^{A commencing more than 6 months later} Thus, in November 1934, estimates were prepared for the fiscal year which began eight months later, that is, July 1, 1935, and which ended last night. The President submitted these estimates to the Congress in his budget message of January 3, 1935. At that time it looked as if our revenues would ^{total} ~~aggregate~~ just under 4 billion dollars and our expenditures, excluding debt retirement, almost 8 billion dollars. On this basis we would have shown a net deficit for the year of almost 4 billion dollars.

You and I cannot always tell in our business what unusual and extraordinary occurrences may operate to increase our expenses or reduce our revenues. The manufacturer who is situated in a flood area may have his calculations upset by a disastrous flood. His income may be reduced. His expenditures may be increased.

The business of the Government also is subject to unusual and extraordinary occurrences. Scarcely had the President made public his revised estimates of 1936 income and expense when two events completely changed the budget outlook. First, the prospective revenues were cut down as a result of the decision of the Supreme Court of the United States that the Agricultural Adjustment Act was unconstitutional. This meant a loss to the Treasury, in 1936, of almost half a billion dollars. Second, prospective expenditures were increased by an Act of Congress

- 4 -

directing the immediate payment of the bonus. To provide for the payment of the Adjusted Service Certificates which, under their original terms were not due until 1945, the expenditure program was increased by 1 billion 700 million dollars.

Let us see what the results were.

The actual receipts coming in to the Treasury during the year which ended last night aggregated 4 billion 150 million dollars. This is 350 million dollars more than came in during the fiscal year 1935. And yet in 1935 we collected more than half a billion dollars in processing taxes. Leaving out of consideration the processing taxes, the revenue for 1936 is 810 million dollars greater than that of the previous year. This is a 25 per cent increase, due in large part to improvement in business ^{and agricultural} conditions.

Our revenues come mainly from two sources -- income

taxes and miscellaneous internal revenue. ⁵⁶ *Of the income Taxes* Corporations and individuals paid in nearly a billion and a half ~~in~~ ~~income taxes~~ for the year that just closed -- an increase over 1935 of 33 per cent. TH Miscellaneous taxes brought in over 2 billion dollars -- an increase of 20 per cent. Customs receipts also showed a substantial rise.

We spent during the year 8 billion 500 million dollars, excluding debt retirement. Three and a half billion was for ordinary operation of the Government. Approximately 3 billion three hundred million was for recovery and relief. The net excess of expenditures over receipts was four and a half billion dollars. But leaving out of consideration the payment to veterans of 1 billion 700 million dollars, the excess of expenditures over receipts for the fiscal year just ended is 2 billion 800 million dollars.

As we have seen, regular expenditures of the Government

- 6 -

accounted for three and a half billion, of which general departmental expenditures ran nearly half a billion dollars. National defense took three quarters of a billion. Annual continuing payments to veterans ran half a billion. Interest on the public debt took three quarters of a billion. One-half billion went for Agricultural Aid.

How were the recovery and relief expenditures of three billion three hundred million divided? We expended for *large* public works under the emergency program 800 million.

Direct relief required just under half a billion and in addition we provided about a billion and a quarter for work *in the form of smaller public works most of them of permanent value.* relief and nearly half a billion for CCC camps. Aid to [^]home owners took more than 200 million.

Two facts stand out. On the one hand is the striking increase in Federal revenue, which, in spite of the loss of ~~half~~ a billion dollars of processing taxes, is greater

than the estimate. On the other is the decrease in Federal expenditures, aside from the payment to veterans.

Where did the Treasury get the 8 billion 500 million dollars which it spent during the year ended last night? We had a billion and a half cash in our working balance at the beginning of the year. Our revenue receipts were just over four billion dollars. The other three billion that we spent had to be borrowed. As a matter of fact, we borrowed almost twice that amount, but we have half of it left in our cash balance to meet the expenditures of coming months, including the redemption of the veterans' bonds.

During the past 12 months we have sold six billion 400 million dollars of bonds, notes and bills for cash and we have refunded, or paid off in cash, maturing obligations in an amount of five billion 600 million dollars. Investors in our securities have a vital interest in fiscal affairs

of the Government and they see encouragement in the fact that national income is rising, that Federal revenue is increasing, that Federal expenditures are on the decline, and that the nation's business shows substantial improvement.

A remarkable factor in connection with the Government's finances during the past year and, as a matter of fact during the past three years, is that we have been able to reduce the rate of interest which we pay on the public debt. Since 1933 it has been reduced by 1-1/2 per cent. *From 7% to 5-1/2% - 1/2%* ~~The result is~~ that with a gross debt considerably greater than that which we had at the end of the war, the actual interest cost is materially less. The benefit of this reduced rate was not fully realized until 1936. Interest on the debt in 1935 was 821 million dollars; in 1936, on a higher debt, it was only 745 million.

- 9 -

The Government has led the way in reduction of interest charges. The individual business man has been able to follow in the footsteps of his Government in reducing his own interest charges ^{at his bank} and in refunding the debt of his own business. During the 12 months just ended private business has refunded a total of billion dollars, with an annual interest saving of million dollars. During the same period private business was able to borrow billion dollars in new money from the American public.

The business man takes inventory at the end of his business year. Let us do likewise. We have ⁹⁵⁰⁰ a public _^ debt of 34 billion dollars. It has increased in the last 3 years 13 billion dollars. What have we in our inventory as offsets against this amount? We do not, as does the business man, include additions to our plant. Our public buildings, our other public works projects, and our land

- 10 -

acquisitions are treated as outright expenditures and, while they are truly assets of the Government, they are not included in our financial statement. We do have certain assets representing obligations due us upon which the Treasury ^{will} ~~may~~ realize cash and which will ultimately be available for debt retirement. These recoverable assets -- loans to home owners, to farmers, to railroads, to banks and insurance companies, to States and cities -- have increased since 3 years ago by more than 2 billion dollars. We have cash on hand of approximately 3 billion dollars more than we had 3 years ago. We have a Stabilization Fund of 2 billion dollars which ^{can} ~~may~~ ultimately be used for retirement of the public debt.

> To sum up, for the past three years our receipts have increased each year over the preceding year, our deficit, leaving out of consideration the veterans' bonus,

has shown a decrease each year for the last 3 years. Our interest charges have steadily declined and the credit of the Government has steadily improved.

This was the suggestion of The President for use at the end of the speech. (June 30, 1936)

63

I have made this factual and dispassionate statement in order to show to you by simple and official figures that the Government of the United States is not broke, is not going broke and is definitely headed towards a balanced budget. Furthermore, as the figures show, expenditures are decreasing and with the continued pick-up of business the income of the Treasury is increasing. The excellent credit and the low interest rates prove the confidence of those who lend money to the Government.

It would have been easy for me to inveigh against certain types of headlines, editorials and political campaigners who do not hesitate to use figures -- generally inaccurate figures -- to make you believe that the national debt is unbearable and the nation is headed for bankruptcy. I do not do this because of the usual common sense of the American people and because I am

certain that nearly all of them know, first, that we have taken and are taking care of the emergency depression needs and, secondly, that the Treasury and the Administration as a whole, are just as anxious to keep the Government solvent and balance its books as any individual would be.

65
This is the copy used at the meeting in the Secretary's
office Wednesday, June 30.

- 1 -

Last night the Treasury closed its books for the
fiscal year 1936. The Government has been operating
during this period on a financial program laid down in
the early months of 1935.

The stockholders of a business enterprise are
interested in having at the close of each business year
an accounting made to them by the financial officers
of the company. It is customary to furnish them with
facts and figures on the year's operations. The
Government of the United States is your business. You
are its stockholders.

Tonight I am going to discuss the finances of the
Government for the year just ended and give you the
results.

- 2 -

The man who is responsible for the conduct of a business enterprise estimates in advance what the expenses will be and what the receipts will be and he plans the year's activities on the basis of these estimates. In a similar manner, the Government estimates each fall its receipts and expenditures for a coming year commencing more than six months later. Thus, in November 1934, estimates were prepared for the fiscal year which began eight months later, that is, July 1, 1935, and which ended last night. The President submitted these estimates to the Congress in his budget message of January 3, 1935. At that time it looked as if our revenues would total just under 4 billion dollars and our expenditures, excluding debt retirement, almost 8 billion dollars. On this basis we would have shown a net deficit for the year of almost 4 billion dollars.

You and I cannot always tell in our business what ~~unforeseen~~^{events} ~~unusual~~ and extraordinary ~~occurrences~~^{events} may ~~operate to~~ increase our expenses or reduce our revenues. The manufacturer who is situated in a flood area may have his calculations upset by a disastrous flood. His income may be reduced. His expenditures may be increased.

The business of the Government also is subject to ~~unforeseen~~^{events} ~~unusual~~ and extraordinary ~~occurrences~~^{events}. Scarcely had the President made public his revised estimates of 1936 income and expense when two events completely changed the budget outlook. First, the prospective revenues were cut down as a result of the decision of the Supreme Court ~~of the~~ ~~United States~~ that the Agricultural Adjustment Act was unconstitutional. This meant a loss to the Treasury, in 1936, of over half a billion dollars. Second, prospective expenditures were increased by an Act of Congress

- 4 -

directing the immediate payment of the ~~bonus~~. To provide for the payment of the ~~Adjusted Service~~ Certificates which, under their original terms were not due until 1945, the expenditure program for 1936 was increased by 1 billion 700 million dollars.

Let us see what the results were.

The actual receipts coming in to the Treasury during the year which ended last night aggregated 4 billion 150 million dollars. This is 350 million dollars more than ~~was~~ ~~came in~~ during the fiscal year 1935. And yet in 1935 we collected more than half a billion dollars in processing taxes. Leaving out of consideration the processing taxes, the revenue for 1936 is 810 million dollars greater than that of the previous year. This is a 25 per cent increase, due in large part to improvement in business and agricultural conditions.

Our revenues come mainly from two sources -- income taxes and miscellaneous internal revenue. Of the income taxes corporations and individuals paid in nearly a billion and a half for the year that just closed -- an increase over 1935 of 33%. The miscellaneous taxes brought in over 2 billion dollars -- an increase of 20 per cent. Customs receipts also showed a substantial rise.

We spent during the year 8 billion 500 million dollars, excluding debt retirement. Three and a half billion was for ordinary operation of the Government. Approximately 3 billion three hundred million was for recovery and relief. The net excess of expenditures over receipts was four and a half billion dollars. But leaving out of consideration the payment to veterans of 1 billion 700 million dollars, the excess of expenditures over receipts for the fiscal year just ended is 2 billion 800 million dollars.

As we have seen, ~~regular~~ ^{ordinary} expenditures of the Government

accounted for three and one-half billion, of which National defense took three-quarters of a billion; annual continuing payments to veterans of over one-half billion; interest on the public debt another three-quarters of a billion; agricultural aid one-half billion, and the other ~~regular~~ ^{emergency} operating expenses of the Government amounted to one-half billion.

How were the recovery and relief expenditures of three billion three hundred million ^{dollars} divided? We expended for large permanent public works under the emergency program 800 million. Direct relief required just under half a billion and in addition we provided about a billion and a quarter for work relief in the form of smaller public works most of them of permanent value and nearly half a billion for CCC camps. Aid to home owners took more than 200 million.

Two facts stand out. On the one hand is the striking increase in Federal revenue, which, in spite of the loss of half a billion dollars of processing taxes, is greater

- 7 -

than the estimate. On the other is the decrease in Federal expenditures, aside from the payment to veterans.

Where did the Treasury get the 8 billion 500 million dollars which it spent during the year ended last night? We had a billion dollars cash in our working balance at the beginning of the year. Our revenue receipts were just over four billion dollars. The other three and one-half billion that we spent had to be borrowed. As a matter of fact, we borrowed almost twice that amount, but we have two billion 500 million left in our cash balance to meet the expenditures of coming months, including the redemption of the veterans' bonds.

During the past 12 months we have sold six billion 400 million dollars of bonds, notes and bills for cash and we have refunded, or paid off in cash, maturing obligations in an amount of five billion 600 million dollars. ~~Investors~~
Every citizen has
~~in our securities have~~ a vital interest in fiscal affairs

-8-

of the Government and ~~that~~^{he} see encouragement in the fact that ^{the} national income is rising, that Federal revenue is increasing, that Federal expenditures are on the decline, and that the nation's business shows substantial improvement.

A remarkable factor in connection with the Government's finances during the past year, and, for that matter, during the past three years, is the substantial reduction that we have been able to make in the rate of interest that we pay on the public debt. During the past three years, the average rate of interest on the total interest-bearing debt of the Government has been reduced from 3.35 per cent to about 2.5 per cent. This is a reduction of more than one-fourth. Applied to the total amount of the Government's interest-bearing debt now outstanding, this reduction means a saving to the Nation of about 280 million dollars a year in interest costs.

-9-

The Government has led the way in reduction of interest charges. The individual business man has been able to follow in the footsteps of his Government in reducing his own interest charges and in refunding the debt of his own business. During the eleven months ended May 31, 1936, business corporations registered with the Securities and Exchange Commission more than $3\frac{1}{2}$ billion dollars of securities for the refunding of indebtedness. The approximate average reduction in the gross rate of interest was $1\frac{1}{2}$ percent which would mean a saving to these corporations of more than 30 million dollars a year in interest charges.

The business man takes inventory at the end of his business year. Let us do likewise. We have a gross public debt of 34 billion dollars. What have we in our inventory as offsets against this amount?

-10-

We do not, as does the business man, include additions to our plant. Our public buildings, our other public works projects, and our land acquisitions are treated as outright expenditures and, while they are true assets of the Government, they are not included in our financial statement.

The first of our cash assets is the General Fund balance -- the money we have in our cash drawer and on deposit in the bank. The General Fund balance yesterday was 3 billion dollars. The Government has another important cash asset. It is the 2 billion dollar stabilization fund, which may ultimately be used to retire a like amount of public debt.

In addition we have certain assets representing obligations due us upon which the Treasury ^{will} ~~may~~ realize cash and which will ultimately be available for debt

-10-

Investors in our securities have a vital interest in the fiscal affairs of government and there exist today many encouraging factors. The national income is rising. It is \$ greater than last year. For the past 3 years government revenue has increased each year over the year before. The Federal revenue is \$ greater today than a year ago. Federal expenditures are declining. Leaving out of consideration the recently authorized payment of the veterans bonus, the Federal deficit has decreased during the past year by \$.

Our interest charges have steadily declined and correspondingly the credit of the Government has steadily improved. The nation's business has shown, and continues to show, substantial gains.

12
- 12 -

interest charges have steadily declined and the credit of the Government has steadily improved.

I have made this factual and ~~dispassionate~~ statement in order to show to you by ~~simple and~~ official figures that the Government of the United States ~~is not broke~~, is ~~not going broke and is~~ definitely headed towards a balanced budget. ~~Furthermore, as the figures show, expenditures are decreasing and with the continued pick-up of business the income of the Treasury is increasing. The excellent credit and the low interest rates prove the confidence of those who~~ lend money to the Government.

It would have been easy for me to inveigh against certain types of headlines, editorials and political campaigners who do not hesitate to use figures -- generally inaccurate figures -- to make you believe that the national debt is unbearable and the nation is headed for bankruptcy.

I do not do this because of the usual common sense of the American people and because I am certain that nearly all of them know, first, that we have taken and are taking care of the emergency depression needs and, secondly, that *the are earnestly working towards this end.* Treasury and the Administration as a whole, ~~are just as~~ ~~anxious to keep the Government solvent and balance its books~~ ~~as any individual would be.~~

This was the Secretary's reading copy for the news reel cameras on July 1, 1936.

On the night of June thirtieth the Treasury closed its books for the fiscal year 1936.

In a survey of the record, two facts stand out. First is the striking increase in Federal revenues, which were greater than those of last year, in spite of the loss of 400 million dollars in processing taxes. Second is the decrease in Federal expenditures -- aside from the payment of a billion seven hundred million to the veterans.

All of us have a vital interest in the fiscal affairs of the Government. We may derive real encouragement and satisfaction from these facts: National income is rising; Federal revenue is increasing; Federal expenditures are on the decline, and the Nation's business is continuing to show steady improvement.

Time: 11:15 to 11:30 PM Eastern Daylight, 10:15-10:30 PM Standard 79
Joint broadcast by CBS - NBC

Tentative List of CBS Stations Available

WABC - New York City
WOKO - Albany, N. Y.
WCAO - Baltimore, Md.
WAAB - Boston, Mass.
WGR - Buffalo, N. Y.
WKRC - Cincinnati, Ohio
WHK - Cleveland, Ohio
WDR - Hartford, Conn.
WJAS - Pittsburgh, Pa.
WFBL - Syracuse, N. Y.
WBNS - Columbus, Ohio
WHEC - Rochester, N. Y.
WSPD - Toledo, Ohio
WORC - Worcester, Mass.
WNBF - Binghamton, N. Y.
WQAM - Miami, Fla.
WDBO - Orlando, Fla.
WDAE - Tampa, Fla.
WPG - Atlantic City, N. J.
WLBZ - Bangor, Maine
WBRC - Birmingham, Ala.
WSMK - Dayton, Ohio
WMMN - Fairmont, W. Va.
WBIG - Greensboro, N. C.
WHP - Harrisburg, Pa.
WFEA - Manchester, N. H.
WREC - Memphis, Tenn.
WALA - Mobile, Alabama
CKAC - Montreal, Quebec
WLAC - Nashville, Tenn.
WMBG - Richmond, Va.
WDBJ - Roanoke, Virginia
WSBT - South Bend, Ind.
CFRB - Toronto, Canada
WIBX - Utica, N. Y.
WSJS - Winston-Salem, N.C.
WTOC - Savannah, Georgia
WHAS - Louisville, Ky.
WNOX - Knoxville, Tenn.
WBBM - Chicago, Ill.
WMBD - Peoria, Ill.
WCCO - Minneapolis, Minn.
WOC - Davenport, Iowa
KRNT - Des Moines, Iowa
KSCJ - Sioux City, Iowa
WJSV - Washington

This draft was discussed with the President at 2:30 on Thursday, July 1.

- 1 -

80

Last night the Treasury closed its books for the fiscal year 1936, which includes the twelve months from July ^{first} 1, 1935 to June 30, 1936. The Government has been operating during this period on a financial program laid down in the early months of 1935.

The stockholders of a business enterprise are interested in having at the close of each business year an accounting made to them by the financial officers of the company. It is customary to furnish them with facts and figures on the year's operations. The Government of the United States is your business. You are its stockholders.

Tonight I am going to report to you on the finances of the Government for the year just ended and give you the results. ~~I shall endeavor to give you the results of these operations as simply and clearly as possible.~~

- 2 -

The man who is responsible for the conduct of a business enterprise estimates ^{just before the new year begins} ~~in advance~~ what the expenses will be and what receipts he can reasonably expect. He

then plans the year's activities on the basis of these estimates. ^{But} ~~In a similar manner~~, the Government estimates ^{has under the law to}

each fall its receipts and expenditures for ^a the fiscal year

which will ^{not} begin ^{until} more than six months later. Thus, ^{nearly 2 years ago, in} ~~in~~

^{the Fall of 1934} November 1934, estimates were prepared for the fiscal year

which began ^{last} July ~~3~~, 1935, and which ended last night. ~~The~~

~~President submitted these estimates to the Congress in his~~

~~budget message of January 3, 1935.~~ ^{nearly 2 years ago} At that time it looked

as if our revenues would total just under 4 billion dollars

and our expenditures, excluding debt retirement, would amount

to almost 8 billion dollars. On this basis we would have

shown a net deficit for the year of almost 4 billion dollars.

- 3 -

You and I cannot always tell when we make our business plans what unforeseen and extraordinary events may increase our expenses or reduce our revenues. The manufacturer whose plant is situated in a flood area may have his calculations upset by a disastrous flood. His income may be reduced. His expenditures may be increased.

The business of the Government also is subject to unforeseen and extraordinary events. Scarcely had the *present Congress met last January* President made public his revised estimates of 1936 income ~~and expense~~ when two events completely changed the budget outlook. First, the prospective revenues were cut down as a result of the decision of the Supreme Court that the Agricultural Adjustment Act was unconstitutional. This meant a loss to the Treasury, in 1936, of over half a billion dollars. Second, prospective expenditures were increased by an Act of Congress directing the immediate payment of the veterans' Adjusted Service Certificates.

1500

- 4 -

To provide for the payment of these certificates which, under their original terms were not due until 1945, the expenditure program for 1936 was increased by 1 billion 700 million dollars.

Let us see what the results were.

The actual receipts coming in to the Treasury during the year which ended last night aggregated 4 billion 150 million dollars. This is 350 million dollars more than came in during the fiscal year 1935, notwithstanding the loss of 460 million dollars through the elimination of processing taxes. But revenue from other sources increased 810 million dollars, a gain of 25 per cent, due in large part to improvement in business and agricultural conditions.

Our revenues come mainly from two sources -- income taxes and miscellaneous internal revenue. Of the income taxes corporations and individual income taxes amounted to

154

- 5 -

nearly a billion and a half for the year that just closed -- an increase over 1935 of 33 per cent. The miscellaneous taxes brought in over 2 billion dollars -- an increase of 20 per cent. Customs receipts also showed a substantial rise.

We spent ^{or loaned} during the year 8 billion 500 million dollars, excluding debt retirement. Three and a half billion was for ordinary operation of the Government. Approximately 3 billion three hundred million was for recovery and relief. The net excess of expenditures over receipts was four and a half billion. But leaving out of consideration the payment to veterans of 1 billion 700 million, the excess of expenditures over receipts for the fiscal year just ended is 2 billion 800 million.

As we have seen, ordinary operating expenses accounted for three and one-half billion dollars of which National defense took three-quarters of a billion; annual continuing payments to veterans over one-half billion; interest on

164

the public debt another three-quarters of a billion; agricultural aid one-half billion, and the other ordinary operating expenses of the Government one-half billion.

How were the recovery and relief expenditures of three billion three hundred million dollars divided? ^{Pause} We expended for large permanent public works under the emergency program 800 million. Direct relief required just under half a billion. In addition we provided about a billion and a quarter for work relief in the form of smaller public works, ^{Pause} most of them of permanent value, ^{Pause} and nearly half a billion for CCC camps. Aid to home owners and other miscellaneous expenditures took more than 250 million.

Two important facts stand out. On the one hand is the increase in Federal revenue. On the other is the decrease in federal expenditures aside from the payment to veterans.

144

- 7 -

As I have shown you, your government spent ^{or loaned} 8 billion 500 million dollars during the year which ended last night. We want you to know where the Treasury got this money. We had a billion dollars cash in our working balance at the beginning of the year. Our revenue receipts were just over four billion dollars. The other three and one-half billion that we spent had to be borrowed. As a matter of fact, we borrowed almost twice that amount, but we have two billion 500 million left in our cash balance to meet the expenditures of coming months, including the redemption of the veterans' bonds.

The business man takes inventory at the end of his business year. Let us do likewise. We have a gross public debt of 34 billion dollars. What have we in our inventory as offsets against this amount? We do not, as does the business man, include additions to our plant. Our public buildings, our other public works projects,

- 8 -

and our land acquisitions are treated as outright expenditures and, while they are truly assets of the Government, they are not included in our financial statement.

The first of our cash assets is the General Fund balance -- the money we have in our cash drawer and on deposit in the bank. The General Fund balance yesterday was 3 billion dollars. The Government has another important cash asset. It is the 2 billion dollar stabilization fund, which may ultimately be used to retire a like amount of public debt.

In addition we have certain assets representing obligations due us upon which the Treasury will realize cash and which will ultimately be available for debt retirement. These recoverable assets -- loans to home owners, to farmers, to railroads, to banks and insurance companies, to States and cities -- now total more than 4 billion dollars. These three items -- cash on hand,

147

⁹
-10-

Stabilization Fund, and recoverable loans -- provide a 9 billion dollar offset to the 34 billion dollar public debt. *Repeat*

During the past 12 months we have sold six billion 400 million dollars of bonds, notes and bills for cash and we have refunded, or paid off in cash, maturing obligations in the amount of five billion 600 million dollars.

An outstanding development in connection with the Government's financing during the past 3 years is the fact that we have reduced the average rate of interest more than one-fourth. This 25 per cent reduction means an annual saving of more than 280 million dollars.

- 10 -

The Government has led the way in reduction of interest charges. The individual business man has been able to follow in the footsteps of his Government in reducing his own interest charges and in refunding the debt of his own business. During the twelve months ended June 30, 1936, business corporations registered with the Securities and Exchange Commission more than $2\frac{1}{2}$ billion dollars of securities for the refunding of indebtedness. The approximate average reduction in the gross rate of interest ^{*paid by these private business corporations*} was $1\frac{1}{4}$ per cent which would mean a saving to these corporations of more than 30 million dollars a year in interest charges.

All of us have a vital interest in the fiscal affairs of our government. We may derive real encouragement and satisfaction from these facts: National income is rising; ^{*As a result*} Federal revenue is increasing; Federal expenditures are on the decline, and the Nation's business is continuing to show steady improvement.

158

Requests for copy of Secretary Morgenthau's Radio Address of July 1, 1936. (No replies by letter.)

Date of Request	Name	Address	Date of Copy Sent
7/16/36	Ruth Hardin, Document Librarian	Northwestern University Library, Evanston, Illinois.	7/21/36
7/23/36	W. B. Wagner	Superior Oil Company (of Calif.), Gulf Building, Houston, Texas.	7/30/36
7/15/36	Robt. L. McWilliams, First Asst. U. S. Att'y.	422 Post Office Building, San Francisco, California.	7/29/36
7/14/36	Lester DeJardin	Gervais, Oregon.	7/29/36
7/20/36	George M. B. Hawley	Geneva, New York	7/29/36
7/20/36	J. L. Toure	Steiner, Rouse & Company, 25 Broad Street, New York, New York.	7/29/36
7/22/36	Marian Dickerman (written on stationery of Mrs. F. D. Roosevelt)	<i>Ans by letter</i> Eastport, Maine.	7/28/36
7/20/36	A. D. Pettyjohn, President	United Cigarette Machine Co., Inc., Lynchburg, Virginia.	7/21/36
7/18/36	A. C. Rudine, Attorney at Law	Faulkton, South Dakota.	7/21/36

Requests for copy of Secretary Morgenthau's Radio Address of July 1, 1936. (Replies by letter.)

Date of Request Telephone request	Name	Address	Date of Reply
	Hon. Key Pittman, USS		7/30/36 by EBF
7/27/36	Charles R. Booth	910 Summit Avenue New York City	See Alpha File C. R. Booth
7/24/36	Arnold F. Gates	7016 St. Clair Avenue Cleveland, Ohio	7/28/36
7/2/36	Judge Ewing Cockrell	10 Doden Lane Flushing, L.I., N. Y.	See Alpha File Judge Ewing Cockrell
7/1/36	William Tracy Page	1725 N. Edgemont St., Hollywood, California	7/11/36
7/7/36	Mrs. Leonard Schreck	2536 Tuxedo Avenue Detroit, Michigan	7/13/36 See Alpha File Mrs. Leonard Schreck
7/9/36	Louise H. Rutan	4254 Highland Avenue East San Diego, Calif.	7/23/36
7/2/36	Anna Olivia Gibbs Assistant Librarian	The Lehman Corporation 1 South William Street New York, New York	7/14/36 by EBF
7/20/36	Frank S. Rorko	718 University Avenue Grand Forks, North Dakota	7/24/36 by EBF
7/2/36	John Kurth	142-02 Franklin Avenue, Flushing, L.I., New York	7/6/36 by GEF
7/2/36	George W. Stengel	R. R. #7 Sidney, Ohio	7/6/36 by GEF

Requests for copy of Secretary Morgenthau's Radio Address of July 1, 1936. (Replies by letter.)

Date of Request Telegram request	Name	Address	Date of Reply
7/1/36	Joseph A. Maynard Collector of Customs	Boston, Massachusetts	7/6/36
7/1/36	Frederic A. Willis	Columbia Broadcasting System, Inc., 485 Madison Avenue New York, New York	7/6/36

MEMORANDUM

July 2, 1936.

At 12:45 a conference was held between Secretary Morgenthau and Mr. Louis R. Glavis - Mr. McReynolds being present.

Mr. Glavis asked that Internal Revenue make an investigation of the income tax returns of Mr. Skelly, an oil man in Oklahoma, a Mr. Edmonston, of New York City, and a printing firm in Chicago; the purpose of the investigation being to disclose their financial activities in connection with the Republican political campaign.

Secretary Morgenthau explained to Mr. Glavis that during all the time of his incumbency as Secretary of the Treasury he had not authorized any investigations of income tax returns, except on a showing of failure to pay taxes properly due and in the absence of such a showing in these cases, he did not feel justified in complying with his request.

Mr. Glavis stated that a request for access to these returns would probably be made by the Senate Committee investigating campaign expenses, and left with the understanding that no disclosure would be made by Treasury except on a request from a source legally entitled to the information.

McR:gmc

July 2, 1936.

MEMORANDUM OF CONFERENCE IN THE SECRETARY'S OFFICE ON RECONSTRUCTION
FINANCE CORPORATION MATTERS

Besides the Secretary, Mr. Jesse Jones, Mr. Wayne Taylor, Mr. H. A. Mulligan and Mr. Bell were present.

The first question discussed was request of the Chairman of the Reconstruction Finance Corporation as outlined in his letter of June 24, 1936, for reduction in the rate of interest from $2\frac{3}{4}\%$ to $2\frac{1}{4}\%$ on the notes of the Reconstruction Finance Corporation issued to the Treasury for advance on general account. After some discussion and study of the list of classes of loans showing the present interest or dividend rate and the proposed rate, the Secretary advised Mr. Jones that he was willing to reduce the rate as requested if Mr. Jones would definitely agree to pass this reduction on to the creditors of the Reconstruction Finance Corporation. Mr. Jones agreed to this. He also agreed to issue a press statement which will embody this understanding.

We then discussed the matter of the Commodity Credit Corporation borrowing funds in the market for the purpose of paying off the Reconstruction Finance Corporation loans which in turn would pay off the notes held by the Treasury. Mr. Jones stated that he had run into some legal difficulties with the Chase National Bank which he had asked to form a syndicate for the purpose of selling these notes. He thinks, however, that the matter could be worked out on another line and probably about the 15th of July he would be in a position to offer for sale to the public $\frac{1}{2}\%$ notes maturing six months hence, or about January 25, 1937. The Secretary agreed he should try to do this and that the amount should be anywhere from one hundred to one hundred sixty million dollars.

WJB

MEMORANDUM

92

July 2, 1936.

At the request of Secretary Morgenthau, Mr. Leo T. Crowley came to his office at 12:15 on July 2nd, 1936, to discuss the charges that were made in a report of National Bank Examiner Brown and which were presented by Comptroller O'Connor. Mr. McReynolds also attended the conference.

The Secretary explained to Mr. Crowley that Mr. McReynolds had turned over to him (Mr. Crowley) a copy of the report several weeks ago for the purpose of enabling him to make an explanation or reply to the allegations contained in the Brown report; that he (the Secretary) had not pressed Mr. Crowley for a statement because he desired that all the time and opportunity necessary should be given for consideration of the report by Mr. Crowley; that upon receipt of Mr. Crowley's letter of July 1, 1936, addressed to Mr. McReynolds, it was apparent that no reply was forthcoming; and that in view of the fact that he (the Secretary) was leaving today for a vacation, he felt that he should discuss the matter with Mr. Crowley before leaving rather than let the matter drift for the month he will be away from the office.

Secretary Morgenthau reminded Mr. Crowley that he was in no way responsible for the development of these charges and the report of National Bank Examiner Brown, but that many of the statements contained in the report and presented as facts looked bad, particularly in view of ~~the fact~~ Mr. Crowley's position as the head of the organization protecting thousands

- 2 -

of bank depositors.

Mr. Crowley asked the Secretary, after some extended conversation, whether it was the Secretary's belief that he (Mr. Crowley) should resign his present position. The Secretary told him that he felt Mr. Crowley should resign.

Secretary Morgenthau told Mr. Crowley that his (Mr. Crowley's) services in the various capacities in which he had come into contact with him had been eminently satisfactory and that he had no criticism whatever to make of the way he is now handling the job of Chairman of the Federal Deposit Insurance Corporation, but he felt the knowledge of the facts, presented in the Brown report, by so many bankers and others, particularly in the Chicago district, created too great a danger of criticism against the President for holding him (Mr. Crowley) in his present place to make it desirable for him to remain. The Secretary stated, however, that Mr. Crowley was not responsible to him and that he (the Secretary) did not propose to do anything further about the matter, but that he felt Mr. Crowley should personally discuss the situation with the President.

The Secretary was considerate and very quiet and showed no feeling or agitation during the discussion, although Mr. Crowley became almost hysterical.

Mr. Crowley stated that he would go home and think the matter over and then decide what to do.

McR:gmc

TREASURY DEPARTMENT

93A

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, July 10, 1936.
7-9-36.

Press Service
No. 7-87

Wayne C. Taylor, Acting Secretary of the Treasury, announced today that the one-half billion dollar mark, maturity value, of sales of United States Savings Bonds had been passed.

Savings Bonds were first made available on March 1, 1935. For the 10 months period from that date to the end of the year, purchases amounted to a maturity value of \$259,000,000 or an average daily sale for each business day for that period of approximately \$1,000,000, maturity value. Purchases from January 1, 1936, to July 6, represent maturity value of \$241,000,000 or an average daily sale of approximately \$1,535,000 for each business day, reflecting a 50 per cent increase in the average daily sales for the year 1936 over 1935.

Purchases for the new fiscal year beginning the first day of this month are at an increased rate averaging a daily maturity value of \$1,823,700, which is in excess of 80 per cent increase over the daily average sales for the year 1935. Average daily sales in July, 1936, are approximately 75 per cent ahead of average sales for July, 1935.

United States Savings Bonds may be purchased at all Post Offices of the first and second classes, at most of the third class, and at some of the fourth class offices or direct-by-mail from the Treasurer of the United States, or any Federal Reserve Bank. The direct-by-mail sales have likewise shown a consistent ratio of increase during the last several months. The upward trend of sales is apparently due not only to increasing numbers of new purchasers but to the purchases made by present owners at regular intervals.

To date there have been issued approximately 1,700,000 Savings Bonds. As the limitation of individual ownership is restricted by law to \$10,000, maturity value, issued during any calendar year, the sales have been attained only through wide distribution to investors throughout the nation. A large percentage of the

-2-

Individuals and corporations that purchased during the year 1935 the \$10,000; maturity value, legal limit, have purchased a similar amount for the calendar year 1936. Many have indicated their intention of making these maximum purchases each calendar year.

United States Savings Bonds are sold in denominations from \$25 to \$1,000, maturity value. The \$100, maturity value bond — \$75, purchase price — is proving by far to be the most popular, especially among those who are purchasing Savings Bonds under the new Regular Purchase Plan recently announced by the Treasury Department. This plan provides that upon request, the Treasury Department will mail a memorandum statement each week, each month, or at other regular intervals as the purchaser may elect.

Many who are thus putting aside in Savings Bonds a portion of their present income for future needs are doing so for the express intention of creating funds for the education of children, creation of cash estates, care of dependents, and for travel and recreation at some future time.

A United States Savings Bond matures exactly 10 years from its issue date for a sum one-third more than its purchase price. Hence, if these bonds are bought at regular intervals and are not redeemed prior to maturity, the maturity value will be payable, at the same intervals as the purchases, 10 years from the respective issue dates.

For example, a \$100 denomination bond (present price \$75) purchased each month for 120 successive months will result, if each bond is held to maturity, in an ownership of \$12,000, maturity value, of these bonds, payable during the following 10 years by the United States Government on the first day of each month at the rate of \$100 per month.

United States Savings Bonds may be redeemed at any time after 60 days from date of issue and the redemption value is never less than the purchase price. Nevertheless the owners of Savings Bonds are showing a commendable determination to hold on to their investments, for only about three per cent of the total amount of the bonds issued to date have been redeemed.

Tabulation of the audited returns from the sale of United States Savings Bonds in the several states and possessions from March 1, 1935, to May 1, 1936, arranged in order of their total sales is herewith attached. Likewise, there is attached the preliminary report of sales, similarly arranged, for the month of May, 1936.

For the month of May, the State of Iowa, with the sale of \$1,823,962, maturity value, led all the other state with Illinois a close second. Missouri has third place and New York, fourth in the May sales.

For the fourteen months period (from offering date March 1, 1935, to April 30, 1936) the States of Illinois leads by a wide margin, followed by New York, Ohio, Missouri, Iowa and Pennsylvania in the order named.

UNITED STATES SAVINGS BOND

March 1, 1935, to 13D

Sales by States

May 1, 1936. -

Total 14 months

State	April, 1936	
Illinois	2,416,762.50	\$ 31,359,787.50
New York	1,898,156.25	21,811,171.25
* District of Columbia	3,020,793.75	20,496,000.00
Ohio	1,258,762.50	19,399,143.75
Missouri	1,107,750.00	16,670,381.25
Iowa	1,161,637.50	16,035,712.50
Pennsylvania	1,231,106.25	15,411,731.25
Minnesota	1,679,606.25	15,091,360.00
Michigan	1,108,406.25	13,131,843.75
Kansas	699,562.50	13,128,975.00
Texas	833,812.50	12,760,462.50
California	931,856.25	12,625,818.75
Indiana	697,650.00	11,144,775.00
Wisconsin	801,768.75	10,858,293.75
Nebraska	619,350.00	8,665,612.50
Oklahoma	372,862.50	5,418,112.50
Massachusetts	436,987.50	5,366,868.75
New Jersey	411,581.25	4,834,087.50
Washington	349,743.75	4,765,875.00
North Carolina	351,262.50	4,748,962.50
Kentucky	215,043.75	4,328,706.25
Colorado	478,256.25	4,095,843.75
Oregon	343,593.75	4,015,706.25
West Virginia	204,600.00	3,620,006.25
Tennessee	241,031.25	3,443,681.25
Virginia	272,775.00	3,458,606.25
Florida	265,987.50	3,367,293.75
Montana	268,687.50	3,277,087.50
Georgia	159,562.50	3,196,575.00
North Dakota	260,531.25	3,057,450.00
Louisiana	262,387.50	2,506,462.50
Maryland	205,237.50	2,435,700.00
South Dakota	228,918.75	2,433,112.50
Arkansas	171,393.75	2,380,293.75
Mississippi	153,750.00	2,182,106.25
Alabama	209,175.00	1,800,131.25
South Carolina	121,631.25	1,627,725.00
Connecticut	137,868.75	1,333,537.50
Maine	84,750.00	1,128,600.00
Utah	94,537.50	961,500.00
Idaho	75,675.00	934,331.25
Wyoming	66,262.50	743,831.25
Arizona	56,962.50	704,362.50
New Mexico	40,987.50	671,287.50
New Hampshire	45,018.75	665,587.50
Rhode Island	33,543.75	661,668.75
Vermont	33,375.00	473,662.50
Nevada	38,268.75	388,031.25
Hawaii	12,637.50	207,937.50
Delaware	18,281.25	150,075.00
Alaska	1,537.50	90,037.50
Puerto Rico	11,981.25	59,906.25
Virgin Islands	1,125.00	26,943.75
Samoa	168.75	5,062.50
Guam	2,550.00	3,000.00
Total - Cash Receipts	\$26,207,512.50	\$324,060,825.00
Maturity Value	24,943,350.00	432,031,100.00

* Includes mail orders.

Regraded Unclassified

-5-
Preliminary Statement of Sales of
United States Savings Bonds
for May, 1936, by States and Possessions.

STATE	SALE PRICE
Iowa	\$1,823,962.50
Illinois	1,821,900.00
Missouri	1,382,625.00
New York	1,226,981.25
Pennsylvania	1,145,400.00
Ohio	1,104,468.75
Minnesota	961,387.50
Michigan	720,093.75
Texas	679,687.50
Wisconsin	678,787.50
California	665,718.75
Indiana	622,593.75
Nebraska	544,500.00
Kansas	492,937.50
Massachusetts	472,125.00
Maryland	416,681.25
New Jersey	402,881.25
Oklahoma	323,887.50
Colorado	317,531.25
Washington	299,943.75
West Virginia	254,962.50
Florida	253,537.50
Oregon	237,262.50
North Dakota	221,700.00
Kentucky	221,681.25
North Carolina	200,625.00
Montana	190,406.25
Virginia	179,681.25
Louisiana	165,525.00
Tennessee	157,331.25
South Dakota	141,900.00
Mississippi	141,656.25
Georgia	133,106.25
Connecticut	123,600.00
Alabama	115,125.00
South Carolina	109,950.00
Arkansas	95,037.50
Maine	84,675.00
New Mexico	75,937.50
Idaho	67,368.75
Arizona	46,425.00
Rhode Island	44,081.25
New Hampshire	40,106.25
Utah	38,456.25
Wyoming	34,593.75
Vermont	30,318.75
Hawaii	25,875.00
Puerto Rico	20,681.25
Nevada	15,675.00
Alaska	13,237.50
Delaware	10,125.00
Samoa	168.75
District of Columbia (Includes Direct-by-Mail Returns)	2,323,856.25

TOTAL

11,919,762.50

My dear J.E. would like to see all
of original letters on my radio
talk. Please! H. M. Tr.

93-F

MEMORANDUM FOR MR. MORGENTHAU

July 8, 1936.

Letter from Miss June Hamilton Rhodes enclosed. I
have acknowledged it thanking her for her comments and
wishing her a happy trip abroad.

- filed in official file

Letter from Virginia E. Jenckes of Indiana saying
that she has been renominated and is facing a very diffi-
cult battle in her District. She says, "I will greatly
appreciate any statement you might make or assistance you
might give, directly or indirectly, which will insure
the election of President Roosevelt and myself". She en-
closes a list of the counties and cities in her Congressional
District. I have acknowledged as tactfully and evasively as
possible. Do you wish any further answer sent either by you
or from this office?

There has arrived in this office a package with the card
of Dr. H. H. Kung. The labels indicate that it contains tea
and porcelain. This merchandise has been carefully locked in
your safe by Mr. B. McHugh, and when I find Dr. Kung's address
I will prepare a letter of thanks for you and send you.

J.E.

(Extract filed under Jenckes in Pers. File)
(Copy filed with Kung corres. in Gifts folder)

July 6th

Talked to Bell who said he was going to see FDR next day with figures for July Budget summation. He said it was going to be an awful tight squeeze to keep expenditures for the 1937 fiscal year down under previous year. After giving the matter a great deal of thought I decided it was my job to call the President and try and set stage so that Bell would get favorable hearing.

July 7th

I called the President about 9:20 a.m. and told him I thought it most important that he keep expenditures for this year under previous year. He listened. Sounded in good humor - asked after family - sent them his love. Said he hated to go to New York to dedicate Tri-Borough bridge but the Mayor had urged him to come "to blanket Bob Moses". I finished my talk by urging him to give Bell a sympathetic hearing and concluded by saying "this is my morning prayer".

July 8th

Wayne Taylor told me Germans are going to make some kind of a proposition to us.

Bell told me that the President had promised Ickes he would give him 50 million out of the 300 million fund. I was very much disturbed because, as I told Bell, if we once start spending from that fund it will all go.

Colonel Hackett & Berlew had called on Bell. Bell said he was sympathetic to them. Felt that Hopkins had given them raw deal by holding back on them and giving them cripples, etc. Bell then told me on refiguring he found he could not cut Navy 100 million as he had figured as all the ships were under contract. I told him I agreed we could not take the money away from the Navy under those circumstances but we should tell the President of this change before he saw Hackett on Thursday. Bell said he had just left the President and that the President had decided not to give out his budget summation until August 10th and then he would give one of his fireside talks. Bell said first he was very angry but on thinking it over decided it was all for the best because if the President waited until he spoke he would have to have good figures in order to make a good showing. I agreed but said I would like

him to both, namely, give out Budget summation and give his fireside talk. Bell said President thought of that but said Budget summation would lose its news value if he gave his talk a month later. Can't help but feel that President has seen how well my talk went and wants to do the same thing. This is what happened last year.

Taylor talked more about Germans but said he was still waiting on them.

Again gave careful thought to whether I should call President again and decided I should.

July 9th

First called Miss LeHand at 9:00 a.m. - read her aloud Gertrude Stein, page 30, July 11th issue, Saturday Evening Post. She liked it. I think it is a perfectly remarkable piece of writing and asked her if she thought it would irritate the President and she said no. I asked her to show it to the President and she said she would. (See page 3 for this article)

At 9:20 a.m. I called the President and told him I understood he was going on the air in August. He said "that is right". I said you have just launched the good ship 1937. This month she is on her shakedown cruise. We don't know what it will cost to run the government this month. Why don't you wait until August. Don't spend any of the 300 million before August. He said it would be too late to put people to work this fall if he waited until August. I told him that if he made his speech it was most important to show we are spending less this year than last; that politically it would be grand for him to say Congress voted 300 million but that he had not spend it (a la Gertrude Stein). He only got irritated once a little but the rest of the time he listened very closely. I closed by urging him to hold off allotting Ickes the 50 million until August. He said Bell had promised him a lot of figures and he could not tell what he would do until he saw Bell. He closed by asking me in a very friendly way to call him at Hyde Park either Sunday or Monday.

I then called Bell and urged him very strongly to see the President before he saw Hackett and tell him (the President) that he (Bell) could not cut the Navy the way he had intended to and, therefore, it would be nip and tuck as to whether our expenditures would be less for this year than last. I tried my best to buck Bell up, as I felt he was sympathetic to Ickes'-Hackett cause. He promised he would try and see President first and explain why he should not allot any of the 300 million.

MORE ABOUT MONEY

By GERTRUDE STEIN

WHEN the parliament was invented by England long ago it was mostly done to keep the king from spending too much money.

Since then every country has a parliament but who is there to stop the parliaments from spending too much money. If anybody starts spending money they never stop themselves. If they stop, it is because somebody stops them. And who is to stop congress from spending too much money. Everybody has to think about that now.

In France the chamber has been doing the same thing spending too much money and so everybody voted for the communists hoping that the communists would stop them. Now everybody thinks that

the chamber under the communists will just go on spending the money and so a great many frenchmen are thinking of getting back a king, and that the king will stop the french parliament from spending money.

That is funny. Parliament was invented to stop a king spending money and now the french are thinking of getting back a king to stop the parliament from spending all their money.

In America where, ever since George Washington, nobody really can imagine a king, who is to stop congress from spending too much money. They will not stop themselves, that is certain. Everybody has to think about that now. Who is to stop them.

- 4 -

Spoke to Bell about 7 p.m. He had seen the President ahead of Hackett. The President, Bell and H. M. Jr., are not practical about this allotting of money (tis to laugh). He made Bell stay while he saw Hackett. The President told Hackett he would not give him any money for grants unless he took all of the people off relief rolls. Then Hackett hit the ceiling and told the President what he had told Bell the day before, namely, that Hopkins only gave him people off the sick list, etc., and that Hopkins paid his men more money so that they preferred to work for Hopkins rather than Ickes. The President got mad and turned to Bell and said, "why has this information been with-held from me". Bell said he heard it only the day before and the President told Bell to investigate. The President told Hackett he would have to consult the Mayors of each city and find out how many unemployed they had before he would approve any projects. Hackett said this would take months as Hopkins' latest unemployment figures were January. The President said, "that is ridiculous - send the approved projects to me on the boat".

Later Bell called me and told me the above. He said, "can I have a couple of engineers from Peoples". I said, "a couple - take Peoples' and a dozen engineers and go out and find the truth but be sure and have the President O.K. Peoples' going".

Of course if the President had taken my plan of studying each area and then calling all of the emergency agencies together in that area we would be miles along by now. Also I suggested that having Hopkins check himself was all wrong. I have also said you cannot correct these situations until they go radically wrong.

Taylor called a couple of times. Read me statement on stabilization for President to give Paul Mallon. I made a few changes and told Taylor to read it over the telephone to Viner which he did.

Taylor then told me German proposition was coming to head. Sounded me out about postponing order of June 4th ten days. I told him very firmly I was not going to have pressure put on me by State Department the way they did in the Canadian liquor situation and that the order stood. If, however, American importers could show that they had bonafied contracts prior to June 4th I would be willing to consider each individual contract on its merits. He said he was satisfied.

Taylor also said Germans have worked out some new proposition whereby they would sell us goods on a dollar basis. I then suggested that he and Johnson had better fly up Friday and see me.

July 10

W. C. Taylor and Johnson flew here to see me about countervailing duties. Taylor wanted me to give extension to those importers in U. S. who had real contracts prior to June 4th. Johnson held, under the law, I had no right to do this. However, if I was going to do this I had better extend the time to these special cases until September 1st.

It seemed only fair to me to give these cases the extension as they stood to make serious losses through no fault of theirs. Inasmuch as Taylor and Johnson disagreed I called H. O. He was very emphatic that if I did give these people further extension I would be both false to my oath of office and break the law. Under those circumstances there was nothing for me to do but sit tight which I did.

Wayne Taylor told me about developments of German mission. To date they had gotten nowhere.

July 13th

Called President to say goodbye. Made up my mind to be cheerful and not talk business. Don't want him to think everytime I call him I have something unpleasant to bring to his attention. Never heard him more cheerful. Said everything was fine. Certainly he does not seem to be worrying. Said he would be back in Hyde Park August 1st.

July 15th

Picked up morning paper and read to my great surprise that Federal Reserve Board had increased excess reserve requirements by 50%. I was very much put out to think that Eccles would do this without first speaking to me. Decided to call him and he talked for 30 minutes. His excuse was that I was out of town. That he thought he had cleared it with me last April, etc., etc. Very sorry. Of course he would have talked to me if I had been in town. That he had seen the President a week before and cleared it with him. President asked him if it was O.K. with the Treasury and Eccles told the President yes. Eccles conversation did not have ring of sincerity to it. I certainly put the fear of God into him and doubt if he will pull off another fast one. I can't make Eccles out unless he wants to be important and show his independence.

We then talked about supporting the market. I told him that I thought Wall Street and Eastern Press would approve but that Father Coughlin and Lemke would attack him. Eccles asked me how I felt about it. I told him I had not studied the question

in three months. However, if he was going to do it now was the best time. Eccles said he had talked to Governor Harrison of New York the night before and told him to sell shorts and buy longs. Eccles said he wanted to see me before he left in August for a six weeks' vacation.

I called Governor Harrison at 9:55 a.m. He said Eccles had told him to try and peg bond market. We both agreed that was all wrong. Harrison was in a hurry and somewhat excited. I told him on the spur of the moment that Treasury would go joint account with him on any of purchases they made of long bonds. He was pleased.

Then got hold of Taylor and Bell and told them what I had done. Told Taylor to watch bond market like a hawk.

Later in morning Taylor told me that Con-Credit note issue of 150 million was complete flop. Had been handled unbelievably badly by Jones. Only 12 million had been sold. Legal work not done. Letters had gone out late. Made up my mind just could not let issue be a flop - would react very badly on whole administration. Got hold of Governor Harrison and found out that the banks had been asking a lot of questions about issue which he could not answer. Got hold of Jesse Jones in Colorado Springs. To my surprise he admitted that details about issue had not been handled well. I suggested to Jesse Jones that he call Governor Harrison direct and try and get him interested. He said he would. Everyone takes for granted that the Treasury issues go well, smoothly and successfully but let R. F. C. or Farm Credit try it once. One of the reasons our issues go so well is that I try to leave nothing to chance and the Treasury has a swell permanent staff.

99A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 11, 1936.

TO Secretary Morgenthau,
(Through Mr. Oliphant)
FROM W. R. Johnson, Acting Chief Counsel of Customs.

Re: Postponement of effective date of countervailing
duty order of June 4, 1936.

Handwritten: Forwarded by 3:30 p.m. 7/13/36

The suggestion has been made that the countervailing duty order of June 4, 1936, relating to certain German products, be amended so that its provisions would not apply to articles imported prior to August 15, 1936, if such articles are imported pursuant to a contract of purchase entered into in good faith prior to June 4, 1936.

In my opinion, such a postponement would be in violation of Section 303 of the Tariff Act of 1930 (U. S. C. title 19, sec. 1303), and could not be justified.

Section 303 provides in plain terms that whenever any bounty or grant has been paid or bestowed upon the manufacture, production, or export of any article or merchandise which is dutiable under the Tariff Act of 1930, then upon the importation of any such article or merchandise into the United States there shall be levied and paid an additional duty equal to the net amount of the bounty or grant. The law further provides that

"The Secretary of the Treasury shall make all regulations he may deem necessary for the identification of such articles and merchandise and for the assessment and collection of such additional duties."

There is no authority in the quoted provision, or elsewhere in the countervailing duty law, under which the Secretary of the Treasury may, for reasons of equity, exempt from the application of countervailing duties goods in connection with the shipment of which to the United States bounties or grants have been paid or bestowed. An established and uniform practice followed for many

-2-

years and with intervening tariff legislation not disturbing it, justifies the postponement of the application of countervailing duties, after the necessity for their imposition has been determined, until thirty days have expired after notice has been published that the new duties are to be imposed. This practice, however, is definite and uniform as to the thirty-day period, and it cannot be advanced as any legal justification for a different period or a different form of postponement of the exercise of the duty imposed by the countervailing duty law upon the Secretary of the Treasury.

W. R. Johnson

July 11, 1936.

Secretary Morgenthau,
(Through Mr. Oliphant)
W. R. Johnson, Acting Chief Counsel of Customs.

RE: Postponement of effective date of countervailing
duty order of June 4, 1936.

The suggestion has been made that the countervailing duty order of June 4, 1936, relating to certain German products, be amended so that its provisions would not apply to articles imported prior to August 15, 1936, if such articles are imported pursuant to a contract of purchase entered into in good faith prior to June 4, 1936.

In my opinion, such a postponement would be in violation of Section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1303), and could not be justified.

Section 303 provides in plain terms that whenever any bounty or grant has been paid or bestowed upon the manufacture, production, or export of any article or merchandise which is dutiable under the Tariff Act of 1930, then upon the importation of any such article or merchandise into the United States there shall be levied and paid an additional duty equal to the net amount of the bounty or grant. The law further provides that

"The Secretary of the Treasury shall make all regulations he may deem necessary for the identification of such articles and merchandise and for the assessment and collection of such additional duties."

There is no authority in the quoted provision, or elsewhere in the countervailing duty law, under which the Secretary of the Treasury may, for reasons of equity, exempt from the application of countervailing duties goods in connection with the shipment of which to the United States bounties or grants have been paid or bestowed. An established and uniform practice followed for many years and with intervening tariff legislation not disturbing it, justifies the postponement of the application of countervailing duties, after the necessity for their imposition has been determined, until thirty days have expired after notice has been published that the new duties are to be imposed. This practice, however, is definite and uniform as to the thirty-day period, and it cannot be advanced as any legal justification for a different period or a different form of postponement of the exercise of the duty imposed by the countervailing duty law upon the Secretary of the Treasury.

(Signed) W. R. Johnson.

July 11, 1936.

*File
countervailing duties*

To Secretary Morgenthau,
(Through Mr. Oliphant)
W. R. Johnson, Acting Chief Counsel of Customs.

Re: Postponement of effective date of countervailing
duty order of June 4, 1936.

The suggestion has been made that the countervailing duty order of June 4, 1936, relating to certain German products, be amended so that its provisions would not apply to articles imported prior to August 15, 1936, if such articles are imported pursuant to a contract of purchase entered into in good faith prior to June 4, 1936.

In my opinion, such a postponement would be in violation of Section 303 of the Tariff Act of 1930 (U. S. C. title 19, sec. 1303), and could not be justified.

Section 303 provides in plain terms that whenever any bounty or grant has been paid or bestowed upon the manufacture, production, or export of any article or merchandise which is dutiable under the Tariff Act of 1930, then upon the importation of any such article or merchandise into the United States there shall be levied and paid an additional duty equal to the net amount of the bounty or grant. The law further provides that

"The Secretary of the Treasury shall make all regulations he may deem necessary for the identification of such articles and merchandise and for the assessment and collection of such additional duties."

There is no authority in the quoted provision, or elsewhere in the countervailing duty law, under which the Secretary of the Treasury may, for reasons of equity, exempt from the application of countervailing duties goods in connection with the shipment of which to the United States bounties or grants have been paid or bestowed. An established and uniform practice followed for many

-2-

years and with intervening tariff legislation not disturbing it, justifies the postponement of the application of countervailing duties, after the necessity for their imposition has been determined, until thirty days have expired after notice has been published that the new duties are to be imposed. This practice, however, is definite and uniform as to the thirty-day period, and it cannot be advanced as any legal justification for a different period or a different form of postponement of the exercise of the duty imposed by the countervailing duty law upon the Secretary of the Treasury.

(Signed) W. R. Johnson.



TREASURY DEPARTMENT

WASHINGTON

Confidential 103

* July 17, 1936.

Memorandum for the Secretary:

I attach for your information copy of a report made by Boatwright to Chief Moran, which indicates his authority for making the inquiry he did make relating to the activities of agents of the Bureau of Investigation. The report of the Operative in Charge at Chicago indicates that similar instructions were given them from the same source.

Instructions have been issued to Joe Murphy and to the Operative in Charge at Chicago to be in the Office of Chief Moran next Monday morning.

It is not possible of course to form a final judgment without an opportunity to discuss this matter with Murphy direct, but the indications are that there will be no disagreement as to the fact that Murphy personally requested the Agents in Charge at both Chicago and St. Paul to make certain inquiries with respect to the actions of Department of Justice Agents in the Dillinger case. It is hard for me to conceive any justification for this request by Murphy. There was no possible use he could properly make of the information requested, and the fact that the inquiry was being made was almost certain to become known to the Department of Justice.

- 2 -

Chief Moran told me this afternoon that Steve Early had telephoned him today that the White House was interested to have a copy of whatever report may be prepared concerning this incident.

As I see the situation at present, the only administrative problem to be solved is the extent to which Murphy's usefulness to the Secret Service has been destroyed by his action in this case. I shall of course give you a report of the facts as they are developed next Monday when I get Murphy and the Operatives in Charge at Chicago and St. Paul together.

A handwritten signature, likely of the author, consisting of stylized, overlapping letters.

SAINT PAUL

563

Saint Paul, Minn.,
July 14, 1934.

Mr. W. H. Moran, Chief,
Secret Service Division,
Treasury Department,
Washington, D. C.

Sir:

Reference is made to your telegram of July 13, 1934 relative to an article which appeared in the Washington Herald on Sunday, July 12, 1934, in which it is stated that a Saint Paul Secret Service Agent is quoted as having stated we are going to have J. Edgar Hoover out of office in a short time, then Moran of Secret Service will be put in charge of all Investigative Bureaus if he is not too old, but anyhow we are going to get Hoover. Reference is also made to your letter of July 13, 1934 received today by air mail relative to Agents of the Secret Service Division here having been interrogating former employees of the Department of Justice, messengers, laborers and others regarding the shooting of one Green by Agents of the Department of Justice during one of their gangster or kidnaping investigations, and I wish to submit the following report in connection with same.

When Assistant Chief, Joseph E. Murphy, was here on May 12, 1934, in connection with other official matters, he at that time stated that he would like to have all the details in connection with the shooting of Eddie Green by Department of Justice Agents of Saint Paul, and instructed that I make the necessary investigation. Again, when Assistant Chief Murphy was here on June 29th and 30th, he asked me if I had completed the investigation, and I advised him that I had not; that about a half dozen people had been interviewed at that time because I had been proceeding very cautiously to avoid any suspicion, and about a half dozen more were to be interviewed before the investigation would be completed and ready to be put into a report. Assistant Chief Murphy at that time stated that he would like to have the report by the time he would return to Washington, which would be about the end of July. He also stated that the Chicago office was checking there on the Dillinger killing. For what purpose he wanted this information, Assistant Chief Murphy did not state.

I realized at the beginning that an investigation of this kind would have to be conducted with extreme diplomacy, and gave it a great deal of careful thought before proceeding. I also realized at the time that something similar to what has happened, would take place, and went about this matter very cautiously and discreetly.

In connection with this matter, I have interviewed Mr. George F. Sullivan, United States District Attorney; Mr. Linus J. Hammond, Assistant U.S. District Attorney of St. Paul, Minnesota; Mr. Charles J. Tierney, Inspector of Detectives, St. Paul Police Department; Mrs. Antonia Leonard, owner of the house at 778 Bond Street, St. Paul where the shooting took place; Mrs. Leonard's daughter, Mrs. Edward Caposius, 322 North Aveon Street, St. Paul; Mr. and Mrs. Arthur B. Copley, who live at 780 Bond Street, across the street from where the shooting took place. Also interviewed Oscar G. Hall, Attorney at Law, 200 Grand Building, South Saint Paul, Minnesota, who was a former Department of Justice Agent who participated, or was on the scene, when Green was shot. Mrs. Leonard, Mrs. Caposius, and Mrs. and Mrs. Arthur B. Copley were interviewed under the pretext that I was preparing an article on gangsters for a magazine, and my true identity was not disclosed to them.

Under my direction, Operatives Lauren P. Jackson, and Fremont E. Street of this office, interviewed Mrs. Leona Goodman; Lucy Jackson, sister of Mrs. Goodman; and Moses Gardner, brother of Mrs. Leona Goodman, negroes who occupied the house at 778 Bond Street, St. Paul, Minn. where Eddie Green called for his suitcase or grip taken there by these negroes on the early evening of April 3, 1934, and after he had obtained the grip and was leaving the house, he was shot to death from the rear by three Department of Justice Agents who were concealed in the house where he had called for the grip.

From time to time, prior to this investigation when in conversations with Mr. George F. Sullivan and Mr. Linus J. Hammond of the United States District Attorney's office, they have very freely discussed with me the activities of the Agents of the Bureau of Investigation of St. Paul, and have very freely criticized their operations and handling of various cases to me. Therefore, I felt free to approach them on this matter. Mr. Charles J. Tierney, Inspector of Detectives, St. Paul Police Department, is a very close friend of mine, having worked together a number of times on cases that either concerned this office or his, and he from time to time has furnished this office with every cooperation and valuable information, as well as calling here frequently on friendly calls. Therefore, I felt free to talk with Inspector Tierney. Before approaching Oscar G. Hall, a former Department of Justice Agent, whom I know in Washington before coming here, and who was forced to resign from the Bureau of Investigation after the shooting of Green, I made discreet inquiries and learned that he was very bitter towards the Federal Bureau of Investigation and its Director. Therefore, I felt safe in calling upon him one afternoon when I gradually led up to the subject for which I called. He was very free to give me all the details as he knew them, and at the same time, expressed himself very bitterly towards the Director, other officials, and Agents, of the Bureau of Investigation.

I have, at no time, been questioned by newspaper men or any one else who would cause this matter to receive publicity in the press, and neither have I made any statements to any one that we were going to get J. Edgar Hoover out of office, or any similar statement, which is all ridiculous to me. Having in mind at all times, while these inquiries were being made, that if any publicity was given to same, I would temporarily discontinue the matter until further instructions. And I do not have the slightest idea who could have furnished the story to the Washington Herald. I have checked every known source here, including all the local newspapers, the two reporters who cover this building for the St. Paul and Minneapolis papers, and the various press associations

To: CHIEF: 7/14/36

-5-

who have denied furnishing the story to the Washington Herald, or having any connection with same.

I might further state that Mr. George F. Sullivan, United States District Attorney, and Mr. James J. Hammond, Assistant United States Attorney, who handled the Green affair for the Agents of the Bureau, have given me verbatim all the details as they knew them, and Inspector Tierney has likewise done the same, and I do not have reason to believe that these gentlemen, after doing this, would then give the matter to the press.

As far as our investigation is concerned, pertaining to this matter, it has been completed, and I had in mind writing the report today, but will now await your instructions before submitting same. Will also cooperate to the fullest extent with representatives of the Intelligence Unit who may be sent here, and will give them all the true facts.

Respectfully submitted,

Grady L. Boatwright

GRADY L. BOATWRIGHT,
Operative in Charge.

(U. S.)

COUNTERVAILING DUTIES -- T. D. 45549 AMENDED.

Treasury Decision 45549, of June 4, 1936, respecting countervailing duties on certain articles imported from Germany amended to exclude from its operation gifts and articles purchased at retail for personal use.

**TREASURY DEPARTMENT
OFFICE OF THE COMMISSIONER OF CUSTOMS
WASHINGTON, D. C.**

JUL 22 1936

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

Treasury Decision 45549, dated June 4, 1936, is hereby amended by adding the following paragraph after the list showing the names of the articles and the percentages of invoice value to be deposited as estimated duties:

The provisions of this decision shall not be applied to importations consisting of gifts for the personal use of the donor or articles purchased at retail for personal use. Entries covering such gifts or purchases may be liquidated without reference to any question of countervailing duty.

(Signed) Wayne C. Taylor

Acting Secretary of the Treasury.

100-100127 7-2-36

July 22, 1936

FOR PRESIDENT ROOSEVELT

7:00 P.M.

BUDGET BUREAU FORWARDED TO YOU TODAY REQUEST OF PUBLIC WORKS THAT YOU ALLOCATE APPROXIMATELY TWENTY MILLION DOLLARS TO BE USED IN THE FORM OF GRANTS OUT OF THE THREE HUNDRED MILLION DOLLAR REVOLVING FUND STOP I MOST SINCERELY BEG OF YOU TO WITHHOLD YOUR APPROVAL UNTIL BELL, PEOPLES AND I CAN TALK OVER WITH YOU THE WHOLE QUESTION OF UNEMPLOYMENT IN RELATION TO THIS YEAR'S DEFICIT STOP THIS DECISION WILL DEMONSTRATE TO THE COUNTRY ONCE AND FOR ALL WHETHER OR NOT YOU REALLY INTEND TO CURTAIL EXPENDITURES STOP WOULD APPRECIATE ANSWER
BEST REGARDS

MORGENTHAU

Operator Cook took message at White House over telephone.

Pres Roosevelt

✓

July 27, 1936
7:00 P.M.



WIARRO CLUB
WIARRO, MASS.

Budget Bureau forwarded
to you today for
~~your approval~~ request
of Public Works that
you allocate about
approximately 20 million
dollars, ^{to be used} in the form
of grants out of the
300 million dollar ^{reverting} fund
to the

~~st/~~ This decision will
~~decide~~ ^{determine} ~~the~~ ^{country} once ~~it~~ and
for all whether ~~we~~
~~you~~ or not ^{really} ~~you~~
intend to ~~curtail~~
~~emergency~~ ~~expend~~
curtail expenditures
~~in~~ ~~the~~ ~~future~~

Murphy

~~Case~~ - operator - Cook
took message at white
House via telephone

2/ I ~~most~~ ^{most} sincerely beg
you ~~not to~~ ~~off~~
withhold your opinion
until Bell Peoples
and I can talk over
with you the whole
~~fixed~~ question ~~in~~
~~relation to the~~ ~~body~~
~~deficit and~~ ~~of~~ ~~our~~
unemployment in relation
to this years deficit.
~~Stop I consider this~~
~~request one of the most~~

BRITISH EMBASSY,
WASHINGTON, D.C.

July 16th, 1936.

Dear Mr. Secretary:

I hear from Wayne Taylor that you would like to have another talk with me before I sail for England and that you suggested that I might come up to Wianno before leaving. I should be exceedingly glad to do so. My boat sails on the 23rd, so that, if it would suit your convenience, the best day for me to come would be the 22nd. If I took the night train to Boston, there is a train on - the only one in the morning I think - which gets to West Barnstable, which I believe is your station, at 9.52.

I will do that if I don't hear to the contrary, but if the 22nd doesn't suit you, and you would let me know, I would do my best to arrange another time.

Yours sincerely,

T. M. S. Taylor
✓

The Honourable
Henry Morgenthau, Jr.,
Wianno,
Massachusetts.

July 22, 1936

Bewley, Financial Attache of the British Embassy came to see me at my request.

We talked about how we would handle an emergency. He said he would come back to the United States if necessary. I asked him if he thought I should see Norman. He said, "No", inasmuch as Norman had not asked definitely to see me.

I said I would appreciate knowing how they felt about the Chinese monetary program. I asked him if he had anything in his mind which I had not answered. He said I never had told him whether or not we would give him gold.

I told him that we had recently sterilized fifty million dollars of gold in case we wanted to give it up (implying for England). That was a secret fund. Furthermore that we would only give up gold to England under the following conditions:

1. That, for example (I stressed that the following figures were purely hypothetical) we would give up gold when the pound reached \$5.00.
2. England would give us gold when the pound went below \$4.90. He said, "But you could buy gold in the open market in London if you wished". I said that was satisfactory that the British Government would have to agree to furnish the gold -- we did not care from what source. This seemed to faze him considerably.
3. I said furthermore that I much preferred to have the agreement between England, France and the United States rather than just between England and ourselves. I said however, that if the situation should again get critical, I would not let things go smash, but would step in and do whatever we could to help.

Of course I went further in this conversation than I ever have before, but in view of the fact that Bewley was returning to England the next day, it seemed wise to open up to him.

I also felt him out by saying that I doubted whether we'd get anywhere for the next several months. In spite

- 2 -

of the fact that I had told the French repeatedly that they must take the initiative and speak to the British.

I also said that I further doubted whether we would get anywhere until we had another crisis like in June. Also that I supposed the British would want to wait and see the outcome of our elections.

Bewley stayed for lunch and I sent him back to Boston in a Coast Guard plane.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

111

DATE July 23, 1956

TO Secretary Morgenthau
FROM Herman Oliphant

I have made inquiry, and cannot find that anyone from the Bureau of Internal Revenue has spoken at any of the Virginia meetings. It occurs to me that Kennedy may have had in mind the address by Parker, of the Joint Committee, copy of which is enclosed.

HO

Attachment

NATIONAL OFFICERS

FRANKLIN D. ROOSEVELT, PRESIDENT
 CHARLES EVANS HUGHES, VICE PRESIDENT
 HERBERT HOOVER, VICE PRESIDENT
 STANLEY REED, COUNSELOR
 T. JEFFERSON COOLIDGE, TREASURER
 NABEL T. BOARDMAN, SECRETARY

NATIONAL EXECUTIVE OFFICERS

CARY T. GRAYSON, CHAIRMAN
 JAMES L. FISHER, VICE CHAIRMAN
 JAMES K. MCCLINTOCK, VICE CHAIRMAN
 ERNEST J. SWIFT, VICE CHAIRMAN



THE AMERICAN RED CROSS

THE BOARD OF TRUSTEES

OF THE

ENDOWMENT FUND

WASHINGTON, D. C.

July 23, 1936

BOARD OF TRUSTEES

HENRY MORGENTHAU, JR., CHAIRMAN
 T. JEFFERSON COOLIDGE
 HENRY P. DAVIDSON
 HOWARD W. FENTON
 WILLIAM D. HOOVER
 WILLIAM A. JULIAN
 HARRY G. NEEM
 CORCORAN THOM
 FELIX M. WARBURG

112

HOWARD J. SIMONS, SECRETARY

JAMES A. HENDRIX, ASSISTANT SECRETARY
 THE WASHINGTON LOAN AND TRUST CO., TREASURER

Hon. Henry Morgenthau, Jr.,
 Secretary of the Treasury,
 Washington, D. C.

My dear Mr. Secretary:

Late in December of 1935 the Trustees of the Endowment Fund of the American National Red Cross approved in writing the gradual liquidation on an upward scale of the following listed lower grade railroad holdings. There are shown below the amounts originally held in the Endowment Fund portfolio, the amounts sold, the amounts remaining unliquidated as of July 1, 1936 and the range of the upward scale of prices at which the unliquidated securities are to be sold.

	Original Amount	Sold	To be Liquidated	Price Range for Future Disposal
Cleveland, Cincinnati, Chicago & St. Louis 4 1/2's, 1977	490 M	290 M	200 M	95 to 98 1/2
Southern Pacific, 4 1/2's, 1969	200 M	150 M	50 M	92 1/2 to 95
New York Central, 4 1/2's, 2013	542 M	317 M	225 M	90 to 97
New York Central, 5's, 2013	228 M	203 M	25 M	99
	1,460 M	960 M	500 M	

The above-reported sales were executed during the winter on a rising market and the Board of Trustees authorized reinvestment of the proceeds of those sales. The present trend of the market is again upward and one block of the securities still to be liquidated has been sold since the first of July, namely, 25 M of the New York Central, 4 1/2's of 2013. If the market continues upward it is reasonable to suppose that during the summer months there may be additional sales which will result in a cash accumulation in the principal of the Fund.

It is, of course, desirable that this cash be reinvested as promptly as the sales are completed. After consultation with Standard Statistics I drafted a proposed vote, two copies of which are attached. You will note that there are listed in the vote three of the issues of the Federal Government. In the opinion of Standard Statistics the 2 7/8's of 1960-55 are the most attractive by reason of the larger yield to maturity. However, the others are suggested by reason of the fact that the present holdings of this particular issue are quite substantial and the Trustees may wish to diversify the maturities to some extent by purchasing the moderately shorter bonds. If it is your preference that all of the possible available cash be invested in only one or two of these issues will you please check the issue or issues which you prefer when you return one signed copy of the vote for the Documents of Record of the Endowment Fund? I shall be guided by the majority opinion.

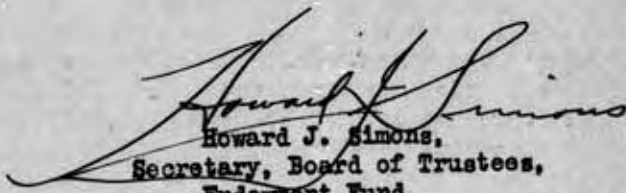
Hon. Henry Morgenthau

July 23, 1936

For your information, approximately 38% of the portfolio is now represented by United States government direct and guaranteed obligations. This compares with one-half of one percent which was invested in such media as of April 12, 1935.

In view of the fact that possible further liquidation of the above bonds will in any event be gradual, there has been incorporated in the attached vote a limitation of \$200,000 by reason of the fact that the Trustees might later want to consider other purchases.

Sincerely yours,


Howard J. Simons,
Secretary, Board of Trustees,
Endowment Fund,
American National Red Cross.

Dated _____

The undersigned, one of the members of the Board of Trustees of the American National Red Cross Endowment Fund, does hereby authorize and approve the following resolution:

VOTED: That the Washington Loan and Trust Company, Treasurer of the Board of Trustees of the Endowment Fund of the American National Red Cross, be instructed by the Secretary or Assistant Secretary for the Board to invest such proceeds as may possibly be realized during the next two months from further sales on an upward scale of the four lower grade railroad bonds originally authorized to be liquidated as of December 31, 1935, in the following securities, with the understanding that should the proceeds of the sales of the bonds listed in the vote of December 31, 1935 amount to more than \$200,000.00 reinvestment of proceeds in excess of that amount is subject to further consideration of the Trustees:

**Present Yield
to Maturity**

U. S. Treasury 2 7/8's, 1960-55	2.73
U. S. Treasury 2 3/4's, 1954-51	2.68
U. S. Treasury 3's, 1948-46	2.44

Member, Board of Trustees,
Endowment Fund,
American National Red Cross.

Dated _____

The undersigned, one of the members of the Board of Trustees of the American National Red Cross Endowment Fund, does hereby authorize and approve the following resolution:

VOTED: That the Washington Loan and Trust Company, Treasurer of the Board of Trustees of the Endowment Fund of the American National Red Cross, be instructed by the Secretary or Assistant Secretary for the Board to invest such proceeds as may possibly be realized during the next two months from further sales on an upward scale of the four lower grade railroad bonds originally authorized to be liquidated as of December 31, 1935, in the following securities, with the understanding that should the proceeds of the sales of the bonds listed in the vote of December 31, 1935 amount to more than \$200,000.00 reinvestment of proceeds in excess of that amount is subject to further consideration of the Trustees:

Present Yield
to Maturity

U. S. Treasury 2 7/8's, 1960-55	2.73
U. S. Treasury 2 3/4's, 1954-51	2.66
U. S. Treasury 3's, 1948-46	2.44

Member, Board of Trustees,
Endowment Fund,
American National Red Cross.

Herman Countervailing Duties
File 116
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1936

TO Secretary Morgenthau
FROM Herman Oliphant

Referring to our long-distance telephone conversation of July 10, relating to the suggestion that the countervailing duty order of June 4, 1936 be amended so as not to apply to the importation of articles prior to August 15, 1936, if they were under contract entered into before June 4, 1936, I confirm what I told you in such telephone conversation. Under the language of the statute, countervailing duties are immediately effective, and there is no provision of statutory law authorizing their postponement.

There is to be distinguished the long-standing and uniform practice of allowing 30 days after notice has been published. When such period was first allowed, such allowance was in violation of law, and such violation would not make lawful its repetition. This 30-day period of notice is now warranted by the fact that Congress has legislated on the subject a number of times since it was first extended, and may be fairly said to have ratified the original unauthorized Act.

While it is doubtful that any legal proceedings would lie against the Secretary of the Treasury if he amended the countervailing duty order as indicated, his obligation not to do so is none the less absolute, its performance resting in the sanction of the oath of a public officer.

I enclose a duplicate of the original memorandum on this subject, addressed to you by Mr. Johnson, Chief Counsel in the Bureau of Customs.

H.O.

Attachment.

July 23, 1936.

MEMORANDUM:

On Wednesday, July 22, Assistant Secretary Gibbons communicated by telephone to Secretary Morgenthau, who was absent from the city on vacation, the request of Customs Collector Haas, that he be given leave of absence without pay from his official position to enable him to participate in the political campaign between now and November 1st. The Secretary denied the request for leave of absence without pay for this purpose but informed Assistant Secretary Gibbons that if Collector Haas should decide to resign so that he could participate in the political campaign Secretary Morgenthau would undertake to reappoint him to his present position of Collector of Customs on the 15th of November, 1936.

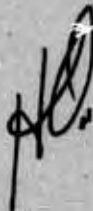
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 25, 1956

TO Secretary Morgenthau
FROM Herman Oliphant

For your information I attach a brief description (which I asked Dr. Yntema to make) of a study we are working on with Haas' cooperation. It is an interim report and is meant merely to keep you generally advised. Copies are being sent to Dr. Haas and Mr. Helvering.



The survey of income tax litigation was initiated by the General Counsel of the Treasury in May, 1935, in order to provide specific factual information as to the operation of the existing system of tax appeals. The purpose being to provide a basis for administrative and legislative measures calculated to increase the efficiency of the present system, an exhaustive analysis of one-third of the cases closed in 1934 in which an appeal was filed in the Board of Tax Appeals, a total of 2812 cases, has been made. Each individual case is analyzed so as to show the significant facts as to (1) the occupation, etc. of the taxpayer, (2) the dates marking the intervals of time taken at each stage in the progress of the case, (3) the method of closing the case, (4) the sources of income and deductions therefrom, (5) the nature of the issues in dispute, (6) the respective attorneys or accountants, and (7) the amounts involved, including amounts actually collected by April, 1936. All this information has been transcribed upon tabulating cards, which have been punched and verified and are now ready to be sorted mechanically.

The tabulation of the data described, now in process, will provide representative detailed information, not now available, on a variety of questions pertinent in forming judgments as to the system of tax appeals and in devising administrative and legislative measures for the improvement thereof. For example, the survey will indicate:

1. Disparities between the amounts disputed and the amounts of tax, payment of which is delayed by appeal.
2. Time consumed, e.g., between appeal filed and trial, between trial and entry of final order by the Board, between opinion and final order, between decree and final closing of case. This information will be suggestive as to the stages at which the present system is ineffective or dilatory.

3. Types of income or deductions which are most frequently in dispute. Such data will indicate, among other things, the features of the present tax structure which give rise to litigation.
4. Basis of controversy, - accounting method, valuation, uncertainty as to law, insufficiency of present methods of tax-reporting, etc.
5. Effectiveness of representation of the Government's claims. Incidentally, the showing on this question will throw light upon the types of situations in which tax litigation is occasioned by improper assessment of deficiencies, as well as upon the amount of tax collected above the original return.

The information upon these and related matters, which will shortly be available as a result of this survey, will be valuable in determining and substantiating the measures which are needed to clear up the present difficulties in the system of tax appeals.

1936

(COPY)

NAVAL MESSAGE

RECEIVED AT NAVY DEPARTMENT

PLA 4

FROM PRESIDENT

ROUTINE

TO EDO WASHINGTON

RESTRICTED

WHITE FORTY-FIVE

4424 FOR MR CHARLES FULLAWAY BUREAU OF BUDGET WASHINGTON D C
FROM FRANKLIN D ROOSEVELT

DESIRE TO APPROVE AT THIS TIME ONLY THE THREE HUNDRED FIFTY TWO PROJECTS
IN THE NEW PUBLIC WORKS PROGRAM FOR WHICH SUFFICIENT WORKERS WILL BE
AVAILABLE STOP THESE CALL FOR GRANTS OF TWENTY TWO MILLION SEVEN HUNDRED
FORTY TWO THOUSAND AND THIRTY FOUR DOLLARS AND LOANS OF TWO MILLION AND
ONE HUNDRED FORTY TWO THOUSAND DOLLARS PARAGRAPH PLEASE REQUIRE HOWEVER
TWO ADDITIONAL COMMITMENTS BY PUBLIC WORKS ADMINISTRATION COLON FIRST
THAT WORK ON EACH PROJECT MUST COMMENCE BY OCTOBER FIRST AND REACH SUB-
STANTIAL PEAK BEFORE END OF CALENDAR YEAR PERIOD SECOND THAT ALL WORK TO
BE COMPLETED BEFORE OCTOBER ONE NINETEEN THIRTY SEVEN PARAGRAPH P.W.A.
PROMISED EMPLOYMENT TOTALS ON EACH JOB MONTH BY MONTH STOP THIS SHOULD
BE SUBMITTED AT ONCE STOP WILL TAKE UP ADDITIONAL PROJECTS ON MY RETURN

FOR IN CODE ROOM 1445 24 JULY 1936

JUL 22 1936

MEMORANDUM FOR THE PRESIDENT:

Attached is a list of non-Federal projects presented by the administrator of Public Works for inclusion in the Public Works program. The list contains 806 projects which will require \$50,453,065 in grants, on a 45% basis, and \$5,252,300 in loans.

In the case of 352 projects the Works Progress Administration report sufficient workers will be available. To carry out these projects will require grants of \$22,742,034 and loans of \$2,142,000. In the case of 442 projects the Works Progress Administration report available certified workers to satisfy requirements in part only. Twelve projects are classified as miscellaneous.

The necessary letters will be prepared for your signature upon receipt of advice by radio whether you desire to approve the program in whole or in part.

(Signed) Charles H. Fullaway
Administrative Assistant
For and in the absence of the Acting Director.

(COPY)

THE WHITE HOUSE
WASHINGTON

123

My dear Mr. Administrator:

By virtue of the authority vested in me under the Emergency Relief Appropriation Act of 1935, approved June 22, 1935, you are hereby authorized to use, not to exceed \$22,742,084, from funds received from the sale of securities (available for loans under section 1 of the Emergency Relief Appropriation Act of 1935) for the making of grants, in no case to exceed forty-five per centum of the cost of the project, to aid in financing the projects set forth in the attached schedule of projects provided that the work on each project must be commenced by October 1, 1936, and be so planned as to reach a substantial peak before the end of the calendar year and be completed before October 1, 1937. (O.P. No. 152-1 to 152-352)

In connection with the projects set forth in said attached schedule you are hereby authorized to use funds on hand or to be received from the sale of securities, not to exceed \$2,142,000, for the making of loans as authorized by the Emergency Relief Appropriation Act of 1935.

I have determined with respect to each of the projects listed on the attached schedule that not less than 25 per centum of the aggregate of the loan and grant is to be expended for work under each particular project.

The expenditure of the foregoing funds shall be made in accordance with the provisions of the Emergency Relief Appropriation Act of 1935 under contracts to be entered into between the United States of America and the applicants set forth in the Federal Emergency Administrator of Public Works.

Sincerely yours,

The Honorable,
The Federal Emergency Administrator
of Public Works,
Washington, D. C.

JUL 28 1936

MEMORANDUM FOR THE PRESIDENT:

In accordance with instructions in your radiogram of July 26, 1936 the attached letter, authorizing the Federal Emergency Administrator of Public Works to use \$22,742,034 of funds now available for loans for making grants, has been prepared for your signature with the assistance of representatives of the General Accounting Office and the Public Works Administration. The schedule containing the projects you desire to approve is now in preparation and will be attached when completed.

(SIGNED) CHARLES H. FULLAWAY

Administrative Assistant,
For and in the absence of the
Acting Director.

NAVAL MESSAGE
(NAVY DEPARTMENT)

125

CLASSIFICATION SECRET	ACTION To SECRETARY OF THE TREASURY	Write A.C.B. after address requiring acknowledgment
Transmitted by NAVY 10 JAN 1946 (Signature)	INFORMATION To	
EXTENSION URGENT		
PRIORITY		

URGENT TREASURY 10 JAN 1946
YOUR MESSAGE OF 10 JAN 1946 READING THE FOLLOWING
WILL ADVISE THE TREASURY DEPT THAT THE MESSAGE
HAD NOT YET ARRIVED OUR OFFICE 10 JAN 1946
FOR OUR INFO

CONFIDENTIAL

Telephoned to
Secretary Morgenthau
4:45 pm
Com-WH

TELEGRAM

126

CXX
The White House

VIA NAVAL
COMMUNICATIONS

Washington

(Sent over to Naval
Communications in
triplicate--6:25PM--C)

(PUT IN MOST SECRET CODE)

July 22, 1934

FOR THE PRESIDENT

BUDGET BUREAU FORWARDED TO YOU TODAY REQUEST OF
PUBLIC WORKS THAT YOU ALLOCATE APPROXIMATELY TWENTY MILLION DOLLARS
TO BE USED IN THE FORM OF GRANTS OUT OF THE THREE HUNDRED MILLION
DOLLAR REVOLVING FUND STOP I MOST SINCERELY BEG OF YOU TO WITH-
HOLD YOUR APPROVAL UNTIL BILL COMMA PEOPLES AND I CAN TALK OVER
WITH YOU THE WHOLE QUESTION OF UNEMPLOYMENT IN RELATION TO THIS
YEAR'S DEFICIT STOP THIS DECISION WILL DEMONSTRATE TO THE
COUNTRY ONCE AND FOR ALL WHETHER OR NOT YOU REALLY INTEND
TO CURTAIL EXPENDITURES STOP WOULD APPRECIATE ANSWER BEST
REGARDS.

MORGENTHAU.



COMMISSIONER OF
ACCOUNTS AND DEPOSITS

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

127

July 25, 1936.

TO THE SECRETARY:

The last report from the Red Cross shows bond holdings for the Endowment Fund with book values as follows:

U. S. Government direct obligations - - -	\$4,276,987.51
U. S. Government guaranteed obligations -	605,885.89
All other- - - - -	<u>8,046,581.06</u>
	<u>\$12,929,454.46</u>

The U. S. Government's holdings include

Treasury 2-7/8's, 1955-60 - - - - -	\$1,933,875.00
Treasury 3's, 1946-48- - - - -	516,056.00
Treasury 2-3/4's, 1951-54 - - - - -	None

Attention is invited to the request of Mr. Simons that if it is your preference that all available cash be invested in only one or two of these issues, you indicate your preference by checking the issues to be given preference.

M. Collins



Confidential

TREASURY DEPARTMENT

WASHINGTON

July 25, 1936.

Memorandum for the Secretary:

On the Secret Service matter, the facts in this case as adduced from exhaustive examination of all the agents involved are:

1. When Joe Murphy visited St. Paul on May 12, he, as a result of verbal reports and comment made to him from numerous sources relating to the activities of the agents of the Bureau of Investigation, suggested to Grady Boatwright, the Secret Service Operative in Charge at St. Paul, that he ascertain what the Police records in St. Paul disclosed concerning the killing by F. B. I. Agents of Eddy Green, who was one of the Dillinger gangsters. Murphy cautioned Boatwright to pick ~~up~~ such information only if he could do so when he came in contact with Police officials on regular Government business without exciting suspicion, and to furnish him, Murphy, the information in confidence.

2. Between May 12 and June 29, Boatwright did (a) interview the Head of St. Paul Police Department and secured a copy of the Police report in the Green killing case; (b) interview the U. S. Attorney and Assistant U. S. Attorney, and obtained statements and reports from them with respect to

the same case; and (c) interview five or six residents and eye-witnesses of the killing who live in the neighborhood where the shooting occurred.

3. When Joe Murphy visited St. Paul on June 29 and 30, Boatwright reported orally to him the result of his interviews with the St. Paul Police and the U. S. Attorneys' Offices, but neglected to disclose the fact that he had interviewed individuals outside of those organizations. Murphy expressed surprise at the character and extent of the information furnished by the U. S. Attorney's Office and cautioned Boatwright not to discuss the matter in any way outside of his own organization. There is definite disagreement between Murphy and Boatwright as to the statements in this paragraph, but Murphy's report of what happened on his June visit to St. Paul is substantiated in large part by the testimony of Harry Cooper, Operative in Charge at Omaha, who was present when this matter was discussed by Murphy and Boatwright.

4. Murphy made a similar suggestion to the Secret Service Operative in Charge at Chicago, Mr. Callahan, that he made to Boatwright with respect to obtaining from the Commissioner of Police in Chicago a copy of the Police report on the Dillinger case. In pursuance of this suggestion, one of the operatives in Chicago obtained such reports from the Commissioner of Police and from the Lieutenant in Charge of one of the outlying stations where the killing took place. No other inquiry was made in the Chicago division.

5. After Murphy left St. Paul on June 30, Boatwright interviewed Hall, a former agent of the Bureau of Investigation in St. Paul, who had been dropped from that force since the Green killing, who was very bitter and critical of Mr. Hoover. Hall related to him great and lurid detail the activities of the Hoover Agents and Boatwright undoubtedly discussed the matter with him in great detail. It is obvious that Hall immediately reported Boatwright's interview with him to Hoover's Agents, resulting in the disclosure of everything that had occurred in the matter in the public press.

With respect to Murphy my conclusion is that his original suggestion was improper, unethical, and displayed a lack of the type of judgment the Treasury is entitled to expect from one in his position. The fact that the inquiries made by Boatwright went far beyond the suggestion made by Murphy does not excuse or mitigate Murphy's unjustified action. The fact remains that he did ask a subordinate to inquire concerning the official acts of employees of another Government Department gratuitously and without official justification. The Secretary of the Treasury cannot do less than publicly censure Mr. Murphy for this action and apologize to the Attorney General. It is my opinion that such censure is adequate punishment for a man in Murphy's position. He feels it keenly. He admits the mistake freely, and in view of his long and faithful service it is my opinion no further penalty should be exacted against him.

In the case of Boatwright, it ^{is} my belief that his display of total lack of judgment in making the inquiries he did make in

this case, which were bound to become public and bring disrepute on the Service, considered in connection with his attempts to shield himself at Murphy's expense, in connection with the inquiry I have made, indicate clearly his unavailability as an operative in charge. I recommend that he be relieved of his present position and assigned as an operative under the direct supervision of someone else in another territory.

None of the other operatives are involved in any actions that are subject to censure in any way.

The Attorney General has promised to discuss this matter with me personally as soon as he returns on Tuesday. If you approve my recommendations in this case and the Attorney General is satisfied, I shall ask Mr. Gaston, who Fussell tells me will be back Monday, to prepare a public announcement which will be submitted for your approval before released.

MR

CHINESE EMBASSY
WASHINGTON

July 27, 1936

My dear Mr. Secretary:

With reference to my call on you of last Wednesday afternoon, I am enclosing herewith a confidential memorandum from Dr. Kung to Mr. Morgenthau.

Yours sincerely,

Lao. H. Hsiang

Enclosure:

Confidential memorandum
as above.

Honorable Wayne C. Taylor,
Acting Secretary of the Treasury.

GENERAL OUTLINE OF THE CHARTER

OF THE CENTRAL RESERVE BANK OF CHINA

Capital: \$30 millions, in shares of \$100, viz:

\$20 millions in Class "A" shares

15	"	"	"	"
16	"	"	"	"

Class "E" shares to be taken up by approved Chinese banks (present and future) on the basis of the relative size of their total deposits on 31.12.1935, and not to be sold except in special circumstances. Shareholdings to be adjusted annually.

Shares only to be in Chinese hands. Transfers to require the approval of the Bank.

Board: 11 in all, including a Governor and one Deputy-Governor.

MANAGER and Deputy MANAGER to be elected by the shareholders, subject to approval by the Government; not to be connected with any bank nor to hold a Government appointment; and to remain in office for five years as full time salaried officials.

Other Directors:

- 4 elected by Class "B" shareholders (not more than 3 to be bankers)

Directors to be shareholders; to hold office for three years; to retire by rota and to receive nominal fees. Not more than one to hold a Government position. Directors to be elected by holders of Class "G" shares only in proportion to the "G" shares issued; the remaining Directors to be elected by the General Meeting and approved by the Government.

Local Boards of Management:

To be set up at discretion in a limited number of important centres to advise the Board of local conditions and to consist of:

The Local Manager of Bank,
1 appointed by the Minister of Finance,
1 " " shareholding banks,
1 " " Board of Directors.

Supervisory Committee:

2 appointed from the Ministry of Audit
1 " by the Minister of Finance
1 each to be elected by Class "B" & "C" shareholders.

To hold office for 2 years.

Duties and Powers: A continuing audit of the Bank's affairs; to have access to records and to countersign accounts (audited by professional outside auditors.) No right to interfere in the administration but to veto actions of the Bank violating the terms of the Charter.

General Meetings:

Once a year; within three months of December 31st.

Voting: 1 per share up to 5000 in own right or as proxy; thereafter 1 for each 2 shares.

Shareholders to be registered for 4 months before meetings.

Redemption Committee:

To give expert advice on bills presented to the Bank.

8. Operations: (Permitted)

- (a) dealings in foreign exchange,
- (b) discount of domestic and foreign bills,
- (c) loans on approved collateral at a rate 2% higher than that for bills,
- (d) purchase and sale of bills and securities for open market operations.

9. Operations: (Prohibited)

- (a) payment of interest on deposits (but 2% p.a. may be paid on bank deposits for 2 years),
- (b) guarantees, underwriting and insurance,
- (c) loans on mortgage; acquisition of real estate; engaging in trade,
- (d) repeated renewal of credits.

10. Note Issue and Reserve:

Bank to have sole privilege of issue and to maintain the value of notes throughout China and abroad.

Reserve: A normal working minimum of 40% against notes and demand deposits. Bank rate to be increased $\frac{1}{2}\%$ for each 1% deficiency in cover. If cover falls below 25% on more than three occasions dividends not to be paid on "B" shares. Cover not to fall below 30%.

Reserve to be held in gold, silver and liquid foreign exchange; i.e., balances abroad and prime bills with a maturity not exceeding three months.

11. Deposits to be kept by commercial banks at the Reserve Bank equal to 10% of their sight and 5% of time deposits and to form the basis of a clearing system.

12. Relations with the Government:

All Government banking and exchange business to be concentrated with the Bank.

The Bank to have charge of the service of the National Debt.

Operations of the Bank to be tax-free; no remuneration for the Bank's services.

Temporary loans to the Government up to 1/6th of the Budget revenue of the previous year: to be repaid within three months after the end of the budget year. No other lending of any kind to the Government; all issues of Government debt to be issued to the market through the agency of the Bank.

Taken again:

Only to be issued through and at the request of the Bank.

Bank to maintain the value of coins and to keep an adequate holding; but the Bank to resell any surplus to the Government.

Profits:

20% to General Reserve Fund until this equals capital.

7% dividend on "B" and "C" shares.

Surplus to be divided between the Government and shareholders, subject to (a) a maximum dividend of 12% p.a. and (b) temporary diversion of profits for liquidation of undesirable assets.

A semi-monthly statement of Accounts to be published in a prescribed form.

No alteration to Charter without a majority vote and Government consent. Bank not to be dissolved except by Law.

Strictly Confidential

Extract from report

June 8, 1936

GENERAL OUTLINE OF THE CHARTER
OF THE GENERAL RESERVE BANK OF CHINA

1. Head Office in Shanghai.
2. Capital: \$30 millions, in shares of \$100, viz:

\$30 millions in Class "A" Shares

15	"	"	"B"	"
15	"	"	"C"	"

Class "A" shares to be held by the Government, but to have no voting or dividend rights.

Class "B" shares to be taken up by approved Chinese banks (present and future) on the basis of the relative size of their total deposits on 31.12.1935, and not to be sold except in special circumstances. Shareholdings to be adjusted annually.

Class "C" shares to be issued to the public. Shares not immediately sold to be held by the Government and to carry no dividend or voting rights.

Shares only to be in Chinese hands. Transfers to require the approval of the Bank.

3. Board: 11 in all, including a Governor and one Deputy-Governor. Governor and Deputy Governor to be elected by the shareholders, subject to approval by the Government; not to be connected with any bank nor to hold a Government appointment; and to remain in office for five years as full time salaried officials.

Other Directors

1 appointed by the Government
 4 elected by Class "B" shareholders (not more than 3 to be bankers)
 4 elected by Class "C" shareholders (3 to be engaged in agriculture, commerce and industry respectively)

Directors to be shareholders; to hold office for three years; to retire by rota and to receive nominal fees. Not more than one to hold a Government position. Directors to be elected by holders of Class "C" shares only in proportion to the "C" shares issued; the remaining Directors to be elected by the General Meeting and approved by the Government.

4. Local Board of Management:

To be set up at discretion in a limited number of important centres to advise the Board of local conditions and to consist of:

The Local Manager of Bank,	
1 appointed by the Minister of Finance,	
1 " " shareholding banks,	
1 " " Board of Directors.	

5. Supervisory Committee:

2 appointed from the Ministry of Audit
1 " by the Minister of Finance
1 each to be elected by Class "B" & "C" shareholders.

To hold office for 3 years.

Examination and Powers. A continuing audit of the Bank's affairs; to have access to records and to countersign accounts (audited by professional outside auditors.) No right to interfere in the administration but to vote actions of the Bank violating the terms of the Charter.

6. General Meetings:

Once a year; within three months of December 31st.

Divid: 1 per share up to \$2000 in own right or as proxy; thereafter 1 for each 2 shares.

Shareholders to be registered for 4 months before meetings.

7. Advisory Committee:

To give expert advice on bills presented to the Bank.

8. Transactions: (Permitted)

- (a) dealings in foreign exchange,
- (b) discount of domestic and foreign bills,
- (c) loans on approved collateral at a rate 2% higher than that for bills,
- (d) purchase and sale of bills and securities for open market operations.

9. Transactions: (Prohibited)

- (a) payment of interest on deposits (but 2% p.a. may be paid on bank deposits for 3 years),
- (b) guarantees, underwriting and insurance,
- (c) loans on mortgage; acquisition of real estate; engaging in trade,
- (d) repeated removal of credits.

10. Notes Issue and Reserves:

Bank to have sole privilege of issue and to maintain the value of notes throughout China and abroad.

Backing: A normal working minimum of 40% against notes and demand deposits. Bank rate to be increased $\frac{1}{2}$ % for each 1% deficiency in cover. If cover falls below 30% on more than three occasions dividends not to be paid on "B" shares. Cover not to fall below 30%.

Reserve to be held in gold, silver and liquid foreign exchange; i.e., balances abroad and prime bills with a maturity not exceeding three months.

11. Deposits to be kept by commercial banks at the Reserve Bank equal to 10% of their sight and 5% of time deposits and to form the basis of a clearing system.

12. Relations with the Government:

All Government banking and exchange business to be concentrated with the Bank.

The Bank to have charge of the service of the National Debt.

Operations of the Bank to be tax-free; no remuneration for the Bank's services.

Temporary loans to the Government up to 1/5th of the Budget revenue of the previous year: to be repaid within three months after the end of the budget year. No other lending of any kind to the Government; all issues of Government debt to be issued to the market through the agency of the Bank.

13. Taken coin:

Only to be issued through and at the request of the Bank.

Bank to maintain the value of coins and to keep an adequate holding; but the Bank to recall any surplus to the Government.

14. Profits:

30% to General Reserve Fund until this equals capital.

7% dividend on "B" and "C" shares.

Surplus to be divided between the Government and shareholders, subject to (a) a maximum dividend of 12% p.a. and (b) temporary diversion of profits for liquidation of undesirable assets.

15. A semi-monthly statement of Accounts to be published in a prescribed form.

16. No alteration to Charter without a majority vote and Government consent. Bank not to be dissolved except by Law.

Strictly Confidential

Extract from report

June 8, 1938

GENERAL OUTLINE OF THE CHARTER
OF THE CENTRAL RESERVE BANK OF CHINA

1. Head Office in Shanghai.
2. Capital: \$200 millions, in shares of \$100, viz:

\$20 millions in Class "A" Shares
 15 " " " "
 15 " " " "

Class "A" shares to be held by the Government, but to have no voting or dividend rights.

Class "B" shares to be taken up by approved Chinese banks (present and future) on the basis of the relative size of their total deposits on 31.12.1938, and not to be sold except in special circumstances. Shareholdings to be adjusted annually.

Class "C" shares to be issued to the public. Shares not immediately sold to be held by the Government and to carry no dividend or voting rights.

Shares only to be in Chinese hands. Transfers to require the approval of the Bank.

3. Board: 11 in all, including a Governor and one Deputy-Governor. Governor and Deputy Governor to be elected by the shareholders, subject to approval by the Government; not to be connected with any bank nor to hold a Government appointment; and to remain in office for five years as full time salaried officials.

Other Members

1 appointed by the Government
 4 elected by Class "B" shareholders (not more than 3 to be bankers)
 4 elected by Class "C" shareholders (3 to be engaged in agriculture, commerce and industry respectively)

Directors to be shareholders; to hold office for three years; to retire by rota and to receive nominal fees. Not more than one to hold a Government position. Directors to be elected by holders of Class "C" shares only in proportion to the "C" shares issued; the remaining Directors to be elected by the General Meeting and approved by the Government.

4. Local Board of Management:

To be set up at discretion in a limited number of important centres to advise the Board of local conditions and to consist of:

The Local Manager of Bank,
1 appointed by the Minister of Finance,
1 " " shareholding banks,
1 " " Board of Directors.

5. Supervisory Committee:

2 appointed from the Ministry of Audit
1 " by the Minister of Finance
1 each to be elected by Class "B" & "C" shareholders.

To hold office for 3 years.

Examination and Powers. A continuing audit of the Bank's affairs; to have access to records and to countersign accounts (audited by professional outside auditors.) No right to interfere in the administration but to veto actions of the Bank violating the terms of the Charter.

6. General Meetings:

Once a year; within three months of December 31st.

Entire 1 per share up to 2000 in own right or as proxy; thereafter 1 for each 2 shares.

Shareholders to be registered for 4 months before meetings.

7. Resolutions Committee:

To give expert advice on bills presented to the Bank.

8. Operations (Permitted)

143

- (a) dealings in foreign exchange,
- (b) discount of domestic and foreign bills,
- (c) loans on approved collateral at a rate 2% higher than that for bills,
- (d) purchase and sale of bills and securities for open market operations.

9. Operations (Prohibited)

- (a) payment of interest on deposits (but 2% p.a. may be paid on bank deposits for 3 years),
- (b) guarantees, underwriting and insurance,
- (c) loans on mortgage; acquisition of real estate; engaging in trade,
- (d) repeated removal of credits.

10. Note Issue and Reserves

Bank to have sole privilege of issue and to maintain the value of notes throughout China and abroad.

Reserve: A normal working minimum of 40% against notes and demand deposits. Bank rate to be increased $\frac{1}{2}$ % for each 1% deficiency in cover. If cover falls below 30% on more than three occasions dividends not to be paid on "B" shares. Cover not to fall below 30%.

Reserve to be held in gold, silver and liquid foreign exchange; i.e., balances abroad and prime bills with a maturity not exceeding three months.

11. Deposits to be kept by commercial banks at the Reserve Bank equal to 10% of their sight and 5% of time deposits and to form the basis of a clearing system.

12. Relations with the Government:

All Government banking and exchange business to be concentrated with the Bank.

The Bank to have charge of the service of the National Debt.

Operations of the Bank to be tax-free; no remuneration for the Bank's services.

Temporary loans to the Government up to 1/5th of the Budget revenue of the previous year: to be repaid within three months after the end of the budget year. No other lending of any kind to the Government; all issues of Government debt to be issued to the market through the agency of the Bank.

13. Taken coin:

Only to be issued through and at the request of the Bank.

Bank to maintain the value of coins and to keep an adequate holding; but the Bank to recall any surplus to the Government.

14. Profits:

20% to General Reserve Fund until this equals capital.

7% dividend on "B" and "C" shares.

Surplus to be divided between the Government and shareholders, subject to (a) a maximum dividend of 12% p.a. and (b) temporary diversion of profits for liquidation of undesirable assets.

15. A semi-monthly statement of Accounts to be published in a prescribed form.

16. No alteration to Charter without a majority vote and Government consent. Bank not to be dissolved except by Law.

C
O
P
Y

Mr. K. P. Chen has informed the Minister of Finance that the Secretary of the Treasury will be glad to arrange that the Federal Reserve Bank send some one to China for a limited period, say six months, to render assistance in matters pertaining to the monetary reform.

The Minister of Finance greatly appreciates the kind suggestion of the Secretary of the Treasury and deems it very helpful if such an expert could make a visit to China as soon as convenient and particularly for the purpose of effecting collaboration between the Central Bank of China (which is contemplated to be the Central Reserve Bank of China) and the Federal Reserve Bank of New York.

In order to avoid misunderstanding, however, it would be desirable that his coming should have as little publicity as possible. The Minister of Finance is certain that the Secretary of the Treasury will appreciate that there are quarters in which the coming of such an expert would be viewed with suspicion and might even be made the occasion for attributing to such a visit other motives, such as to link the Chinese currency to the U.S. dollar, or even political objects.

The Secretary of the Treasury may know that, since last February, a special committee, of its appointment Professor Bank has been informed, has been studying the reform of the banking system with special reference to the organization of the Central Reserve Bank of China. It will be recalled that the establishment of a reserve bank is one of the principal parts of the currency reform program announced on November 3, 1935.

The Committee consists of: Mr. Jian Chen, Deputy Governor of the Central Bank of China; Mr. S. H. Tai, General Manager, Banking Department of the Central Bank of China; Mr. Y. B. Lynch, Financial Advisor to the Chinese Government attached to the Central Bank of China; Mr. Cyril Rogers of the Bank of England, who has been in China as assistant to Sir Frederick Lyle-Doss; Mr. F. L. Seong, General Manager, Manufacturers' Bank of China; and Dr. Arthur H. Young, Financial Advisor to the Chinese Government. On June 8, the Special Committee submitted to the Minister of Finance its report, which is in the course of being printed, and copies will be sent to the Secretary of the Treasury as soon as practicable. Meanwhile, there is enclosed a summary of the draft charter for the confidential information of the Secretary of the Treasury.

Enclosure:

June 27, 1936.

C
O
P
Y

Mr. H. P. Chen has informed the Minister of Finance that the Secretary of the Treasury will be glad to arrange that the Federal Reserve Bank send some one to China for a limited period, say six months, to render assistance in matters pertaining to the monetary reform.

The Minister of Finance greatly appreciates the kind suggestion of the Secretary of the Treasury and deems it very helpful if such an expert could make a visit to China as soon as convenient and particularly for the purpose of effecting collaboration between the Central Bank of China (which is contemplated to be the Central ~~Reserve~~ Bank of China) and the Federal Reserve Bank of New York.

In order to avoid misunderstanding, however, it would be desirable that his coming should have as little publicity as possible. The Minister of Finance is certain that the Secretary of the Treasury will appreciate that there are quarters in which the coming of such an expert would be viewed with suspicion and might even be made the occasion for attributing to such a visit other motives, such as to link the Chinese currency to the U.S. dollar, or even political objects.

The Secretary of the Treasury may know that, since last February, a special committee, of its appointment Professor Back has been informed, has been studying the reform of the banking system with special reference to the organization of the Central Reserve Bank of China. It will be recalled that the establishment of a reserve bank is one of the principal parts of the currency reform program announced on November 3, 1935.

The Committee consists of: Mr. Jian Chen, Deputy Governor of the Central Bank of China; Mr. T. N. Hsi, General Manager, Banking Department of the Central Bank of China; Mr. F. B. Lynch, Financial Advisor to the Chinese Government attached to the Central Bank of China; Mr. Cyril Rogers of the Bank of England, who has been in China as assistant to Sir Frederick Leith-Ross; Mr. T. L. Soong, General Manager, Manufacturers' Bank of China; and Dr. Arthur H. Young, Financial Advisor to the Chinese Government. On June 8, the Special Committee submitted to the Minister of Finance its report, which is in the course of being printed, and copies will be sent to the Secretary of the Treasury as soon as practicable. Meanwhile, there is enclosed a summary of the draft charter for the confidential information of the Secretary of the Treasury.

Enclosure:

June 27, 1936.

Mr. K. P. Chen has informed the Minister of Finance that the Secretary of the Treasury will be glad to arrange that the Federal Reserve Bank send some one to China for a limited period, say six months, to render assistance in matters pertaining to the monetary reform.

The Minister of Finance greatly appreciates the kind suggestion of the Secretary of the Treasury and deems it very helpful if such an expert could make a visit to China as soon as convenient and particularly for the purpose of effecting collaboration between the Central Bank of China (which is contemplated to be the Central ~~Reserve~~ Bank of China) and the Federal Reserve Bank of New York.

In order to avoid misunderstanding, however, it would be desirable that his coming should have as little publicity as possible. The Minister of Finance is certain that the Secretary of the Treasury will appreciate that there are quarters in which the coming of such an expert would be viewed with suspicion and might even be made the occasion for attributing to such a visit other motives, such as to link the Chinese currency to the U.S. dollar, or even political objects.

The Secretary of the Treasury may know that, since last February, a special committee, of its appointment Professor Bank has been informed, has been studying the reform of the banking system with special reference to the organization of the Central Reserve Bank of China. It will be recalled that the establishment of a reserve bank is one of the principal parts of the currency reform program announced on November 3, 1935.

The Committee consists of: Mr. Jian Chen, Deputy Governor of the Central Bank of China; Mr. T. N. Hsi, General Manager, Banking Department of the Central Bank of China; Mr. F. B. Lynch, Financial Adviser to the Chinese Government attached to the Central Bank of China; Mr. Cyril Rogers of the Bank of England, who has been in China as assistant to Sir Frederick Leith-Ross; Mr. T. L. Soong, General Manager, Manufacturers' Bank of China; and Dr. Arthur H. Young, Financial Adviser to the Chinese Government. On June 8, the Special Committee submitted to the Minister of Finance its report, which is in the course of being printed, and copies will be sent to the Secretary of the Treasury as soon as practicable. Meanwhile, there is enclosed a summary of the draft charter for the confidential information of the Secretary of the Treasury.

Enclosure:

June 27, 1936.

Strictly Confidential

Extract from report

June 2, 1936

151

GENERAL OUTLINE OF THE CHARTER
OF THE CENTRAL RESERVE BANK OF CHINA

1. Head Office in Shanghai.
2. Capital: \$20 millions, in shares of \$100, viz:

\$20 millions in Class "A" Shares
15 " " "B" "
15 " " "C" "

Class "A" shares to be held by the Government, but to have no voting or dividend rights.

Class "B" shares to be taken up by approved Chinese banks (present and future) on the basis of the relative size of their total deposits on 31.12.1935, and not to be sold except in special circumstances. Shareholdings to be adjusted annually.

Class "C" shares to be issued to the public. Shares not immediately sold to be held by the Government and to carry no dividend or voting rights.

Shares only to be in Chinese hands. Transfers to require the approval of the Bank.

3. Board: 11 in all, including a Governor and one Deputy-Governor. Governor and Deputy Governor to be elected by the shareholders, subject to approval by the Government; not to be connected with any bank nor to hold a Government appointment; and to remain in office for five years as full time salaried officials.

Other Directors

1 appointed by the Government
4 elected by Class "B" shareholders (not more than 2 to be bankers)
4 elected by Class "C" shareholders (2 to be engaged in agriculture, commerce and industry respectively)

Directors to be shareholders; to hold office for three years; to retire by rote and to receive minimal fees. Not more than one to hold a Government position. Directors to be elected by holders of Class "C" shares only in proportion to the "C" shares issued; the remaining Directors to be elected by the General Meeting and approved by the Government.

4. Local Board of Management:

To be set up at discretion in a limited number of important centres to advise the Board of local conditions and to consist of:

The Local Manager of Bank,
1 appointed by the Minister of Finance,
1 " " shareholding banks,
1 " " Board of Directors.

5. Summary Committee:

2 appointed from the Ministry of Audit
1 " by the Minister of Finance
1 each to be elected by Class "B" & "C" shareholders.

To hold office for 2 years.

Right and Power. A continuing audit of the Bank's affairs; to have access to records and to countersign accounts (audited by professional outside auditors.) No right to interfere in the administration but to veto actions of the Bank violating the terms of the Charter.

6. General Meetings

Once a year; within three months of December 31st.

Right: 1 per share up to 5000 in own right or as proxy; thereafter 1 for each 2 shares.

Shareholders to be registered for 4 months before meetings.

7. Advisory Committee

To give expert advice on bills presented to the Bank.

8. Operations: (Permitted)

- (a) dealings in foreign exchange,
- (b) discount of domestic and foreign bills,
- (c) loans on approved collateral at a rate 3% higher than that for bills,
- (d) purchase and sale of bills and securities for open market operations.

9. Operations: (Prohibited)

- (a) payment of interest on deposits (but 3% p.a. may be paid on bank deposits for 3 years),
- (b) guarantees, underwriting and insurance,
- (c) loans on mortgage; acquisition of real estate; engaging in trade,
- (d) repeated removal of credits.

10. Note Issue and Reserves:

Bank to have sole privilege of issue and to maintain the value of notes throughout China and abroad.

Reserve: A normal working minimum of 40% against notes and demand deposits. Bank rate to be increased $\frac{1}{2}$ % for each 1% deficiency in cover. If cover falls below 30% on more than three occasions dividends not to be paid on "B" shares. Cover not to fall below 30%.

Reserve to be held in gold, silver and liquid foreign exchange; i.e., balances abroad and prime bills with a maturity not exceeding three months.

11. Deposits to be kept by commercial banks at the Reserve Bank equal to 10% of their sight and 5% of time deposits and to form the basis of a clearing system.

12. Relations with the Government:

All Government banking and exchange business to be concentrated with the Bank.

The Bank to have charge of the service of the National Debt.

Operations of the Bank to be tax-free; no remuneration for the Bank's services.

Temporary loans to the Government up to 1/5th of the Budget revenue of the previous year: to be repaid within three months after the end of the budget year. No other lending of any kind to the Government; all issues of Government debt to be issued to the market through the agency of the Bank.

13. Taken coin:

Only to be issued through and at the request of the Bank.

Bank to maintain the value of coins and to keep an adequate holding; but the Bank to recall any surplus to the Government.

14. Profits:

20% to General Reserve Fund until this equals capital.

7% dividend on "B" and "C" shares.

Surplus to be divided between the Government and shareholders, subject to (a) a maximum dividend of 12% p.a. and (b) temporary diversion of profits for liquidation of undesirable assets.

15. A semi-monthly statement of Accounts to be published in a prescribed form.

16. No alteration to Charter without a majority vote and Government consent. Bank not to be dissolved except by Law.

A CONFIDENTIAL MEMORANDUM
FROM DR. H.H. KUNG, MINISTER OF FINANCE
TO MR. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY

Mr. K. P. Chen has informed the Minister of Finance that the Secretary of the Treasury will be glad to arrange that the Federal Reserve Bank send some one to China for a limited period, say six months, to render assistance in matters pertaining to the monetary reform.

The Minister of Finance greatly appreciates the kind suggestion of the Secretary of the Treasury and deems it very helpful if such an expert could make a visit to China as soon as convenient and particularly for the purpose of effecting collaboration between the Central Bank of China (which is contemplated to be the Central Reserve Bank of China) and the Federal Reserve Bank of New York.

In order to avoid misunderstanding, however, it would be desirable that his coming should have as little publicity as possible. The Minister of Finance is certain that the Secretary of the Treasury will appreciate that there are quarters in which the coming of such an expert would be viewed with suspicion and might even be made the occasion for attributing to such a visit other motives, such as to link the Chinese currency to the U.S. dollar, or even political objects.

The

The Secretary of the Treasury may know that, since last February, a special committee, of its appointment Professor Buck has been informed, has been studying the reform of the banking system with special reference to the organization of the Central Reserve Bank of China. It will be recalled that the establishment of a reserve bank is one of the principal parts of the currency reform program announced on November 3, 1935.

The Committee consists of: Mr. Jian Chen, Deputy Governor of the Central Bank of China; Mr. T. M. Hsi, General Manager, Banking Department of the Central Bank of China; Mr. F. B. Lynch, Financial Adviser to the Chinese Government attached to the Central Bank of China; Mr. Cyril Rogers of the Bank of England, who has been in China as assistant to Sir Frederick Leith-Ross; Mr. T. L. Soong, General Manager, Manufacturers' Bank of China; and Dr. Arthur N. Young, Financial Adviser to the Chinese Government. On June 8, the Special Committee submitted to the Minister of Finance its report, which is in the course of being printed, and copies will be sent to the Secretary of the Treasury as soon as practicable. Meanwhile, there is enclosed a summary of the draft charter for the confidential information of the Secretary of the Treasury.

Enclosure:

June 27, 1936.

CHINESE EMBASSY
WASHINGTON

July 28, 1936

Dear Mr. Taylor:

I am enclosing herewith the original copy of a letter from Dr. Kung to Mr. Cyril Rogers about which I spoke to you over the telephone a few minutes ago.

Please return this copy to me for my file at your early convenience.

Yours sincerely,

Lao Ku Affubye

Enclosure:
Copy of letter
as above.

Honorable Wayne C. Taylor,
Acting Secretary of the Treasury.

C
O
P
Y

158

Shanghai
June 27, 1936

Mr. C. Rogers
Cathay Hotel
Shanghai

Dear Mr. Rogers:

In confirmation of our conversations, I very much hope that you will be able to extend your stay in China for a further period, say three to six months, in order to continue your collaboration concerning the establishment of the Central Reserve Bank of China and measures of banking reform. It is my desire that the Committee consisting of Messrs. Jian Chen, T. M. Hsi, F. B. Lynch, T. L. Soong, Arthur N. Young and yourself, in whose work you have rendered such valuable services, shall continue its work with a view to giving practical effect to these essential reforms.

I would appreciate your making the necessary arrangements with the London authorities, at my instance, in connection with a further stay in China.

I understand that for personal reasons it is necessary for you to make a brief visit to London, but that you could arrange to return to Shanghai within a few weeks. Inasmuch as my request that you remain would entail an extra round-trip between Shanghai and London, I should be glad to defray the expenses of such a journey. Also I should deem it appropriate to provide you an allowance sufficient to cover your living and other expenses incidental to your further stay in China.

Yours faithfully,

H H K
Minister of Finance

C
O
P
YShanghai
June 27, 1936Mr. G. Rogers
Cathay Hotel
Shanghai

Dear Mr. Rogers:

In confirmation of our conversations, I very much hope that you will be able to extend your stay in China for a further period, say three to six months, in order to continue your collaboration concerning the establishment of the Central Reserve Bank of China and measures of banking reform. It is my desire that the Committee consisting of Messrs. Jian Chen, T. H. Hui, F. B. Lynch, T. L. Soong, Arthur H. Young and yourself, in whose work you have rendered such valuable services, shall continue its work with a view to giving practical effect to these essential reforms.

I would appreciate your making the necessary arrangements with the London authorities, at my instance, in connection with a further stay in China.

I understand that for personal reasons it is necessary for you to make a brief visit to London, but that you could arrange to return to Shanghai within a few weeks. Inasmuch as my request that you remain would entail an extra round-trip between Shanghai and London, I should be glad to defray the expenses of such a journey. Also I should deem it appropriate to provide you an allowance sufficient to cover your living and other expenses incidental to your further stay in China.

Yours faithfully,

(Sgd.) H. H. Kung
Minister of Finance

July 28, 1936.

Memorandum:

Secretary Morgenthau discussed with Assistant Secretary Gibbons and Mr. McReynolds over the telephone today the request of Customs Collector Haas for a leave of absence without pay to extend during the current political campaign, the purpose being to enable Collector Haas to participate in that campaign. The Secretary decided that in view of the President's permission to Postmaster General Farley and Governor General Murphy of the Philippines, to take similar leaves of absence for the same purpose, it would not be consistent or appropriate for him to deny this privilege to Collector Haas. He, therefore, approved the Collector taking such a leave of absence.



OFFICE OF THE COMMISSIONER

ADDRESS REPLY TO
COMMISSIONER OF CUSTOMS

IN REPLY REFER TO

164

TREASURY DEPARTMENT

BUREAU OF CUSTOMS

WASHINGTON

BUREAU OF CUSTOMS,
CIRCULAR LETTER NO. 1598.

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

(Instructions to American consular officers in Germany requiring additional information on consular invoices. Refers to Secs. 303, 481 (a) (10), 482 (a), and 592, Tariff Act of 1930 (U.S.C. title 19, secs. 1303, 1481, 1482, and 1592), and Art. 277 (a), Customs Regulations of 1931.)

There is quoted below for your information and guidance a letter dated June 22, 1936, from this Department to the Secretary of State in regard to the preparation of invoices for merchandise shipped from Germany to the United States:

"The Honorable

The Secretary of State.

Sir:

It is requested that you instruct all American consular officers in Germany that all consular invoices certified in Germany under the provisions of Section 482 of the Tariff Act of 1930 on or after July 1, 1936, shall be required, pursuant to Sections 303 and 481 (a) (10) of the Tariff Act of 1930, to contain, for each seller's invoice, or lot of goods, covered by the consular invoice, a separate declaration of the seller, or other person having personal knowledge of the facts, in substantially the following form:

I, _____, do hereby declare that the goods described in the attached invoice have been sold for export to the United States and that I or _____ have received or expect to receive by reason of the shipment of such goods to the United States, the following sums, benefits, and/or privileges:

-3-

The declaration must be complete, and if any sum, benefit, or privilege indicated by the foregoing form has not been received or is not to be received, that fact should be indicated in the appropriate place. If different circumstances apply to different goods covered by the invoice, the facts should be stated in complete detail.

It is further requested that the consular officers be instructed to advise persons executing invoices subject to the foregoing requirement, that under the provisions of Section 592 of the Tariff Act of 1930, as amended by Section 304 (b) of the Anti-smuggling Act of August 5, 1935, any false statement in the required declaration made without reasonable cause to believe the truth thereof, or any willful omission from such declaration, whether or not such false statement or willful omission does or may deprive the United States of the lawful duties or any portion thereof accruing upon the merchandise or any portion thereof, embraced or referred to in the invoice, may subject the merchandise or the value thereof to forfeiture. Under Article 277 (a) of the Customs Regulations of 1931, Collectors of Customs will reject certified invoices which are not in compliance with the requirements covered by this communication.

Your cooperation by prompt transmittal of these instructions will be appreciated.

Very truly yours,

(Signed) Josephine Roche

Acting Secretary of the Treasury."

Inasmuch as these instructions were not transmitted to the American Consulate General in Berlin, Germany, until July 14, 1936, invoices certified in Germany prior to August 1, 1936, should not be rejected because they are not in compliance with the foregoing instructions.

FRANK DOW,
Acting Commissioner of Customs.

Approved July 29, 1936:

WAYNE C. TAYLOR,
Acting Secretary of the Treasury.

-2-

1. Marks _____ subject to special exchange
(amount)
regulations of the German Government or a department,
office, or agency thereof. Such marks are to be
received from a controlled account designated _____.

2. Marks _____ not subject to any special
(amount)
exchange regulations of the German Government or a
department, office, or agency thereof.

3. Foreign exchange to be converted into marks
at _____
(rate of exchange)

4. Permission to acquire scrip for redemption
at the Konversionskasse as follows: _____

5. Permission to acquire bonds abroad for redemp-
tion in Germany as follows: _____

6. Marks _____ from _____
(amount) (department, office, or
agency of the German Government or any political
subdivision thereof, or person, partnership, associa-
tion, cartel, or corporation making payment) in con-
nection with the shipment to the United States of the
goods covered by this invoice, otherwise than in pay-
ment of the purchase price of such goods.

7. Other special aid or privilege as follows: _____