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GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

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August 4, 1936

My dear Mr. Secretary:

I refer to the question relative to the issuance of duplicate debentures to replace lost or destroyed Mutual Mortgage Insurance Fund debentures, which was raised in a letter from Mr. Ferguson, General Counsel of the Federal Housing Administration, dated July 21, 1936.

Pursuant to Section 204 of the National Housing Act, as amended, 48 Stat. 1249, 49 Stat. 500 (U.S.C., title 12, sec. 1710) regulations are being prepared with regard to debentures to be issued in payment of insured mortgages, as provided in that Act. While such debentures are required to be paid out of the Mutual Mortgage Insurance Fund set up by the statute, it is also provided that certain of the debentures shall be guaranteed as to principal and interest by the United States. The Attorney General has held, in an opinion dated October 9, 1935, that "if the Federal Housing Administrator should fail, upon demand by a bona fide creditor and holder, to pay either interest or principal when due, the United States would then become obligated to make such payments and the obligation would not be conditioned upon the institution of any proceeding by the holder against the Administrator or against the fund set up as provided in the statute."

The question has now arisen whether provisions may be validly inserted in the regulations covering the issuance of

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duplicate debentures for originals that have been lost or destroyed. In so far as concerns bonds of the United States this contingency is covered by Sections 3702 to 3705, inclusive, of the Revised Statutes, as amended, (U.S.C., title 31, sec. 735 to 738, inclusive).

A similar question arose some time ago concerning the bonds of the Home Owners Loan Corporation and the Federal Farm Mortgage Corporation as to which likewise the obligation of the United States was that of a guarantor of principal and interest. The Attorney General had reached, as to those bonds, a conclusion similar to that reached by him in his opinion of October 9, 1935, as to Federal Housing Administration bonds, to wit, that the obligation of the United States as guarantor was unconditional and did not depend upon the institution of any proceeding by the holder for payment. In an opinion dated October 14, 1935, the Attorney General ruled that there was a double authority for the promulgation of regulations governing the issuance of duplicates for lost or destroyed bonds. In so far as the United States was obligated to pay the principal and interest of the bonds, Sections 3702 to 3705 of the Revised Statutes were deemed applicable, and hence it was stated that the Secretary of the Treasury, acting "on behalf of the United States as guarantor and exercising the power and discretion vested in him by the statutes concerning duplicates of Government obligations", must concur in the exercise of the power to issue such

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duplicates. On the other hand, the issuing corporations were held to have an implied power to provide for the issuance of duplicates.

The Attorney General said:

"A corporation necessarily has the power to do that which a court of equity would require them to do and, therefore, it must ordinarily be within the implied powers of the corporation to issue duplicates of lost or defaced bonds in proper cases. In considering this, further considering the policy of the Congress, as evidenced by the legislation above mentioned, I cannot doubt that it is within the power of the Home Owners Loan Corporation and the Federal Farm Mortgage Corporation to adopt for their bonds provisions of the Federal statutes and regulations concerning lost, destroyed or defaced bonds of the United States -- in the absence of controlling statutory provisions."

The conclusion that the Home Owners Loan Corporation and the Federal Farm Mortgage Corporation had the implied power to issue duplicates is, in part, based upon the fact that being suable they could in a proper case be in effect compelled by a court of equity at the instance of a holder to issue duplicates.

It is believed that there is no substantial basis for a distinction between a Federal corporation and the Federal Housing Administrator in the present respect, and that the conclusion reached by the General Counsel for the Federal Housing Administrator in his letter to the Secretary of the Treasury dated July 21, 1936, to this effect is correct.

The Federal Housing Administration has been set up by Congress and the Federal Housing Administrator designated in order to carry on within the limitations of the Act certain insurance

activities. Congress necessarily implied that the Administration should have the authority to do all things necessary to enable the Administration to engage in those activities.

The Federal Housing Administration, like the usual Federal corporation, is an entity created by Congress. The Administrator is merely the person whom Congress has designated to exercise the powers of the Federal Housing Administration. The similarity of the Federal Housing Administration to the usual Federal corporation is further indicated by the specific provision of the Act (Section 1) that the Administrator shall be authorized in carrying out the provisions of title II "in his official capacity to sue and be sued in any court of competent jurisdiction, State or Federal." The limited liability feature of the Mutual Mortgage Insurance Fund against which the debentures guaranteed by the United States are to be issued is substantially similar to that of the Home Owners Loan Corporation or the Federal Farm Mortgage Corporation whose liability is limited to the assets available for satisfaction of the bonds issued by those corporations. Throughout the Act there are other indicia of this similarity of the Federal Housing Administrator to a corporate entity, and in this respect he may be considered as akin to a corporation sole. See Governor v. Allen, (1847) 27 Tenn. 176; 1 Fletcher, Cyclopedia of the Law of Private Corporations, (Per. ed. 1931), Secs. 50-53;

Note, 26 Mich. Law Review 545 (1928); and Note, 12 Minn. Law Review 295 (1928). Since the issuance of duplicates for lost or destroyed debentures is something which a corporation could be compelled to do by suit in a court of equity, Congress may be presumed to have conferred upon the Administrator the power to take comparable action.

I conclude that within the reasoning of the Attorney General in his opinion of October 14, 1935, regulations may be prescribed governing the issuance of such duplicates, and that such regulations should provide that duplicates of debentures guaranteed by the United States can be issued only upon the concurrence of both the Secretary of the Treasury and the Federal Housing Administrator. In view of the possible doubts in the matter, however, it is suggested that the question be referred to the Attorney General for his opinion.

Very truly yours,

Harman Oliphant
General Counsel.

The Honorable

The Secretary of the Treasury.

*OK.
Please
refer
to
att General
1/10/36*

CONFERENCE WITH THE PRESIDENT AT RINE PARK, AUGUST 4, 1936.

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Those present besides the President were -

The Secretary of the Treasury,

Harford Tugwell,

Anthony Williams,

Corrington Gill,

Aederal Peoples,

Mr. Reynolds,

Mr. Barvelt,

Mr. Fellows,

Mr. Kenna,

Mr. Bennett and Mr. Collins (Boil Explosion),

Mr. Bell.

The President asked the Secretary of the Treasury if he wanted to start the conference. The Secretary replied that he did not know as he was not informed as to the purpose of the conference. I was under the impression that no one at the conference understood why it was being called except possibly Mr. Williams, who thought it was for the purpose of determining how much money the North Progress Administration would need for the second quarter of the fiscal year 1937.

The President then said that he would like to have a report on drought conditions. Mr. Tugwell gave an informal report of conditions in the western drought states, and stated that the situation was very well in hand at the present time, although the drought area was rapidly extending throughout other states. He said that there were about 10,000 relief cases and 35,000 WPA cases in North Dakota. He thought that the drought in that section had been most devastating as compared with any other section but there was very good feeling because the farmers had been able to dispose of most of their cattle except foundation herds at fairly good prices. He said that it would be necessary to make food loans to maintain the foundation herds. He said that business was about the same as North Dakota.

Mr. Williams then explained to some extent the conditions in Kansas, Nebraska, Colorado and parts of Missouri, particularly as to the effect that the drought situation had had on the WPA program. He said that he feels that the drought conditions will have cost the WPA approximately \$25,000,000 by October 1. He expects that by September 1 there will be 150,000 to 200,000 additional cases on WPA rolls because of drought conditions.

Mr. Tugwell stated that he has been figuring on \$40,000,000 for grants and loans in the drought area up to January, 1937. He feels that the entire \$85,000,000 limited to this kind of work under the 1936 appropriation act will have been exhausted by late February. The fact remains that because of the drought he is now about \$40,000,000 short in his program.

The President then took up the question of money for the WPA for the second quarter of this fiscal year. Mr. Williams said that he hoped the President understood that the \$350,000,000 previously allocated to last up to October 1 was to be considered on an expenditure basis and not on an obligation basis. The President said "yes", he understood that in limiting the \$350,000,000 to October 1 he was thinking of actual cash outlay from the Treasury.

Mr. Williams then explained that they would need a substantial amount of money for the second quarter; that it was highly important that they receive a lump sum in advance so that they could plan their program ahead and work out arrangements with sponsors. If they receive a substantial allocation for this period it would enable them to get larger contributions from local sponsors. He explained that in many cases where they haven't provided the local sponsors that there is enough money available to complete a project the local sponsors refuse to make any contribution. He said

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that the WPA has been getting on an average of \$12 to \$13 per man in contributions but he feels that if they can promise enough funds to complete the projects under consideration the contribution can be substantially increased.

The President said that he would allocate at this time \$100,000,000 so that they could begin their program on the next quarter but with the distinct understanding that not one dollar of it would be expended (disbursed from the Treasury) before October 1.

He told Mr. Williams that he should submit justification for his additional requirements for the second quarter to the Director of the Budget for transmission to the President during the week of August 16.

scub

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

DATE: August 4, 3 p.m.

NO.: 242

CONFIDENTIAL - FROM FLACK FOR TREASURY

An order prohibiting the use of registered marks for the payment of German exports to the United States is today being issued by the Reichsbank, according to information received from a reliable source. This is corollary to the prohibition of the use of aski marks for the payment of exports to the United States, issued on July 31, 1936, by the Foreign Exchange Office. Interested private parties have been told by German officials that this action is a result of the application of countervailing duties. It is apparently an attempt to remove the practices which led to the countervailing duty action by the United States, in order to prepare relations between German and American trade for a future new approach to the trade problem. An initial step in this direction is understood to have been the sudden recalling of Brinkmann from America by Schacht.

I have further confidential information that the Cotton Control office told one of the largest American cotton dealers here that aski balances would be released after August 3 to avoid freezing of customers for German goods

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goods in the United States could be found willing to pay the necessary duty.

No indication of any change in the scrip procedure has been planned as yet. The new President of the Bank of France, Labyerie, is here now paying an initial visit to Schacht for the purpose of discussing economic and financial relations between France and Germany. The press has stressed constant friendly relations between bank of issue presidents of all countries regardless of political relations and has welcomed Labyerie's visit. Press also states that Schacht will return visit in Paris at the end of this month. This exchange of visits may lead to a new economic and clearing agreement between France and Germany (see despatch No. 2833, dated May 18).

The revenues of the Reich for the first quarter of the current fiscal year exceeded those of last year by four hundred million marks.

In well-informed American financial circles, the opinion was expressed recently that it would not be surprising if when some international currency stabilization was attained, Germany might be given a twenty-million pound loan by the British if political conditions then permitted. This would enable Germany to devalue advantageously and maintain its foreign trade under the new conditions.

August 5, 1938

At a meeting in the Secretary's office, at which were present Mr. Bell, Mr. Taylor, Mr. Oliphant and Mr. Gaston, Mr. Bell brought up the request of the AAA and Federal Surplus Commodity Corporation for a loan from the Commodity Credit Corporation to purchase seed wheat for sale through dealers to drought stricken farmers in the spring season next year. He explained that the funds of the Federal Surplus Commodity Corporation are obtained through grants which Harry Hopkins made to the Governors of States for relief and the Governors would give the money to the Corporation so that it could buy commodities for relief purposes. He said they have \$11,000,000 of these funds in the Treasury which belongs, in effect, to the Governors of the States. The Comptroller General claims the money still has Federal strings on it. Bell further explained that if they go out and buy commodities and sell them, the proceeds must be covered into the Miscellaneous Receipts of the Treasury and, in other words, is not a revolving fund, which is not what the Corporation wants. What they want to do is to borrow the money from the Commodity Credit Corporation and the Federal Surplus Commodity Corporation will guarantee repayment.

Taylor said the picture of what they want has changed a little. The present plan, he said, is to have the Federal Surplus Commodity Corporation purchase the grain which will be warehouses and the warehouse receipts will be turned over to the Federal Reserve Bank in Minneapolis which, in turn, as agent of the RFC, will certify that the grain is there. RFC, on the basis of that collateral, will loan the money to the Commodity Credit Corporation which, in turn, will loan it to the Federal Surplus Commodity Corporation. This arrangement, he explained, is to get around the Comptroller General's decision. Then the plan is to hold the grain, sell it to dealers in the spring -- not to farmers -- with certain arrangements about maximum profits.

The Secretary, without hesitation, said "This thing is very simple. Bill Myers can take care of it if that's what they want, only do it through the co-ops." He said the whole matter could be settled in five minutes by having Farmers National Grain Corporation, acting as the agent of the Government, do the buying and selling.

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Bell questioned whether the Surplus Commodity Corporation could do something indirectly that it could not do directly.

Olipphant offered the suggestion that the Executive Order setting up Tugwell's organization had been amended by a later order, on Sept. 26, 1935, by adding a paragraph authorizing them to administer approved projects involving any stricken agricultural areas and he felt that Tugwell's organization had authority to do this job.

HM, Jr. and Bell both disagreed, saying that Tugwell would have to get the money out of the 1 billion 4. HM, Jr. reiterated his opinion that the whole matter could be handled by FCA.

At this point, Secretary Wallace and his assistant, Mr. Tapp, together with Mr. Goodloe from the Commodity Credit Corporation came in. Governor Myers was supposed to be there, but through a misunderstanding he had not been invited, so a telephone call was placed for him.

HM, Jr. explained to Secretary Wallace that he had been having a "dress rehearsal" while waiting for him and that while he hesitated to speak without Governor Myers being present, he was of the opinion that the purchase of the seed wheat for sale to the farmers of the drought stricken areas in the spring could be handled by Farm Credit Administration. Mr. Tapp wasn't sure that Farmers National had the storage and other facilities to cover the territory affected, but added they would be "very happy" if it could be handled through Farmers National. HM, Jr. remarked that he thought it seemed a perfectly clean sort of way to do it.

Governor Myers joined the group at this stage of the discussion and the matter was explained to him. HM, Jr. told Governor Myers that his suggestion, subject to Governor Myers' approval, was that Farmers National buy this seed wheat and have it financed by the Central group. Myers' reply was, "I don't see any reason why it can't be done." He added that Farmers National was quite strong in the Northwest spring wheat territory. He thought the plan was workable, the same as it was in the matter of butter purchases, and said that as soon as he had opportunity to do a little exploratory work he would get in touch with Secretary Wallace.

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Governor Myers asked Mr. Bell if there was any serious doubt as to the validity of the method and Bell replied that he thought there was a legal question to be worked out. Upon being asked the question by HM, Jr.: "But you prefer this to the other?" Mr. Bell answered, "Absolutely!"

August 5, 1936.

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MEMORANDUM:

Secretary Morgenthau called Chief Moran and Assistant Chief Murphy of the Secret Service to his office to discuss the reported investigation by Secret Service operatives at St. Paul and Chicago of certain activities of agents of the Federal Bureau of Investigation of the Department of Justice. Mr. Gaston and Mr. McReynolds were present. The Secretary asked Mr. Murphy for a report of the incident and Mr. Murphy stated that the instruction or suggestion made to the Secret Service operatives was made at his own instance and on his own responsibility, without the knowledge or approval of anyone else, and proceeded, at some length, to justify the action taken by him on the grounds that the Secret Service operatives are required to assist and cooperate with F. B. I. agents, from time to time, in making arrests, and he felt that it was his duty, for the protection of his own men, to find out whether the stories which had been told him of ruthless and indefensible killings by F. B. I. agents were true. The Secretary told Mr. Murphy that any investigation or inquiry by Secret Service operatives, or any other Treasury employees, into the activities of F. B. I. agents, or employees of any other Department outside of the Treasury, was indefensible and without justification, and could not be excused. He told Mr. Murphy and Chief Moran that if the Secret Service had any complaint to make about F. B. I. agents, or any other Service, it was their duty to

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report the matter to the Secretary of the Treasury, to be handled between the Secretary and the head of the other department involved.

The Secretary stated that he would confer during the day with the Attorney General, and would undertake to dispose of this matter very promptly.

August 5, 1936

Upon returning to the office after lunching with the Attorney General, HM, Jr. called in Oliphant, Taylor, McReynolds and Gaston and told them the following:

"Here is the story, confidentially. The Attorney General had a long list of complaints and one of the reasons he did not want to see you, Mac, he said, was because he had a suspicion that Murphy did not -- now get this! -- that it was his own idea that somebody, other than the Chief, had given Murphy this thought. He thought it was Irey, Harold Graves or McReynolds! I told him I could not answer that; I did not know. He said that Courtney Ryley Cooper wrote in and said a fellow by the name of Forrest Wilson, of Cosmopolitan was shooting off his mouth attacking the Department of Justice and when Courtney Ryley Cooper asked what the source of his information was, he said it was Joe Murphy.

"I have had Murphy in here. He never heard of Forrest Wilson; never talked to him. He satisfied me that this idea, when he went out there to St. Paul originally, was his own. I don't think he got it from anyone. All excited about this thing and used bad judgment. As I told him, 'The unfortunate thing about this is I was trying you out to see whether you had the ability to head the Service after the first of January and certainly, after this episode, I can't appoint you because it is notice to the world that the Treasury approves your investigation of the Department of Justice.'

"Cummings is terribly upset because in part of this thing they make certain accusations against him and Wood, at the White House, is supposed to talk to newspaper people and you, Mac, were supposed recently to have told some Heart fellow something. He had about five pages of documents, most of it about Murphy.

"So I kept saying, 'What do you want me to do? I will do anything you want.' He wouldn't make any suggestion. I kept saying, 'What do you want me to do?' Finally I said, 'I am going to write you a letter, which I am going to give out publicly, saying

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how I feel about this matter. It was the first time he smiled and he said, 'I always knew you were frank and honest and did the right thing, and I think that would be wonderful.'

"Lamar Hardy came in here and told us that Narcotics were not getting the higher-ups and would we give him a couple of Treasury men to investigate Narcotics in New York. We did. They made the investigation and found there was nothing to it and dropped it. Now, if Hardy had asked J. Edgar Hoover to give him men to investigate Narcotics, I would be sore as a boil.

"Murphy said to me, The reason we are so sore is this bill did not pass and if it did pass everybody in Secret Service would have gotten a raise. I said, Yes; but when you did this in St. Paul, early in May, no one knew the bill would not pass. As a matter of fact, Chief Moran has always been opposed to the bill.

"I told Murphy, 'You had no right.' He said he did not want to send his men to make joint arrests with the Department of Justice. I said, 'If you didn't want to do this, come and tell me.' I don't believe anybody told Murphy to do this except himself."

McReynolds agreed with the Secretary, saying, "Emphatically no! Joe told me nobody suggested it to him. It did not occur to him until he got out there and I think that's the way it started."

Continuing, HM, Jr. said, "He told Boatright, 'When you drop in any place, look into the records and see how Green was killed and let me know.' Cummings makes a good point -- how can Boatright make an investigation for three months without writing a report to somebody. He said, 'Our men have to make a report each day. If they make an investigation they shouldn't it is brought to our attention.'"

McReynolds informed the Secretary, "There is a daily report. There was a daily report made by Boatright on every day that he made inquiry on this case in St. Paul." Asked by the Secretary, "What

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happened to the report, McReynolds answered, "It's downstairs." HM, Jr. then remarked, "Then the Chief knew about it," but McReynolds said, "He did not know about it. They had them filed by a clerk down there. But the Chief did not see it. Boatright reported every day." HM, Jr.'s reaction to this disclosure was, "And it's right here in the building! That's worse! I feel it is the manly thing to do to write Cummings a letter." The group's reaction to this was as follows: McReynolds: "I never dreamed that you would do anything else; Oliphant: "It's the Henry Morgenthau, Jr. way of doing things."; Taylor: "I think it would look better than any other way. It's the only way to doing it. Talking about publicity, you will get favorable publicity rather than an accumulation of this other stuff."

The Secretary then proceeded to dictate draft of letter to the Attorney General. (See Exhibit I attached.) After discussion and revision, it was again copied and carbon of the letter actually sent to the Attorney General is also attached.

Note: On August 6, at his press conference, the Secretary gave the newspaper men copies of his letter. Attached is stenographic report of the press conference.

On August 7, the Attorney General wrote to the Secretary acknowledging receipt of the letter of August 5. It is attached hereto.

My dear Mr. Attorney General:

I returned to my office today after a vacation and immediately have gone into the reports from statements in the press relating to investigation by members of the ^{United States} Secret Service of activities of ~~the~~ ^{certains agents of the} Federal Bureau of Investigation.

I was deeply shocked to learn ^{from these reports} that certain members of the Secret Service had taken it upon themselves to investigate ac-

tivities of the FBI. The action taken by these men is one ^{heavily disapprove} which I ~~personally~~ ^{personally} ~~abhor~~, have absolutely no sympathy with and will not permit ~~to~~ by any member of the Treasury Department.

I wish to take this opportunity to ^{express my deep regrets} ~~publicly apologize~~ to ^{you and} ~~the~~ ^{your} Department of Justice for the ~~irresponsible action of these~~ ^{men} and wish to assure you ~~and members of your Department~~ that suitable disciplinary action will be taken.

Yours sincerely,

August 5, 1936

Exhibit 140

My dear Mr. Attorney General:

Upon my return to the office today after several weeks' absence, there were laid before me the reports which I ordered prepared as soon as I read statements in the press relating to investigation by members of the United States Secret Service of certain agents of the Federal Bureau of Investigation.

I was deeply shocked to learn from these reports that certain members of the Secret Service had taken it upon themselves to investigate activities of the Federal Bureau of Investigation. The action taken by these men is one which I heartily disapprove and will not permit by any member of the Treasury Department.

I wish to take this opportunity to express my deep regret to you and your Department for this irresponsible action and to assure you that suitable disciplinary measures will be taken.

Yours sincerely,

The Honorable

The Attorney General.

THE ATTORNEY GENERAL
WASHINGTON

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August 7, 1936.

My dear Mr. Secretary:

This will acknowledge your very gracious
letter of August 5, of which I am highly appreciative.
I think you handled the difficult situation admirably.

With sincerest regards,

Faithfully yours,

A handwritten signature in dark ink, appearing to read "Norman Thomsen". The signature is written in a cursive, flowing style with a large initial "N".

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

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, August 5, 1936.

Press Service
No. 8-5

The following Decision by the Commissioner of Customs has been approved by the Secretary of the Treasury.

(T. D. 48463)

Countervailing Duties—German Products

Treasury Decision 48360 not applicable to certain importations of cameras, calf and kid leather, and surgical instruments.

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

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

Reference is made to Treasury Decision 48360, approved June 4, 1936, in which it was announced that countervailing duties would be imposed upon certain German products.

The Department is now in receipt of official advice to the effect that for any transactions concluded after July 25, 1936, which cover the indirect or direct exportation of the following goods to the United States, viz.: Photographic apparatus, calf and goat leather, and surgical instruments, the German Government will neither authorize the use of the scrip and bond procedure nor permit the payment of a public or private premium or subsidy, nor the employment of other German means of payment than reichmarks freely convertible into foreign currencies or free reichmarks usable within the country.

In view of the foregoing, the provisions of Treasury Decision 48360 shall not apply to direct or indirect imports from Germany of the following commodities named in that decision:

Cameras
Calf and kid leather
Surgical instruments

if the Collector of Customs concerned shall be satisfied by documentary evidence that the contract of purchase or other agreement pursuant to which they were exported from Germany was entered into after July 25, 1936.

(signed) Frank Dow

Acting Commissioner of Customs.

APPROVED; August 4, 1936.

(signed) Wayne C. Taylor

Acting Secretary of the Treasury.

-oOo-

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MEMORANDUM

August 5, 1936

At a meeting of the Subcommittee on German Standstill Credits held this afternoon, there was a brief discussion of the situation created by the recent withdrawal by Germany of the privilege of using Aaski and registered Marks for the payment of exports to this country. It appeared to be the consensus of opinion that the Germans had no alternative in view of the action taken by Washington, and that Washington in turn was bound by law to do what it did.

It appeared to be the view of those present that the only thing which the American Committee could do at the moment would be to explore the possibilities of obtaining some further concessions from Germany in connection with travel Marks or benevolent remittances. It was decided to cable to Mr. Gibson, Chairman of the Committee, who is in Berlin and ask him whether he thought it advisable to attempt such an arrangement.



THE SECRETARY OF THE TREASURY
WASHINGTON

8/5/36

MEMORANDUM FOR THE PRESIDENT:

Press dispatches from Berlin report that the German Government, in retaliation for countervailing duty action taken by the United States, has decreed the discontinuance of the use of ASKI marks and private barter transactions in German-American trade. The immediate cause for the German measures was stated to be a new United States requirement of additional information on consular invoices which would facilitate both the collection of the countervailing duties and also the designation of additional articles to which such duties apply.

In an informal conversation with the Acting Chief Counsel of Customs yesterday, Dr. Baer of the German Foreign Office stated that the true facts are as follows: The German procedures which have required the application of countervailing duties in the United States are considered in Germany as falling into three general categories, namely, (a) ASKI marks and private barter transactions, (b) registered and similar marks, and (c) scrip and bond procedures. By three separate decrees the German Government has ordered that none of these procedures, nor any other procedure known to be considered by the United States Treasury as requiring the application of countervailing duties, shall be permitted in connection with goods shipped to the United States pursuant to any contract entered into after August 3, 1936. Whether the ban extends to goods on the United States "free list," upon which countervailing duties cannot be imposed under the law, is not clear.

It would appear that the press reports relate only to the decree applying to the first category, and that information concerning the two other decrees has not yet been communicated to the American press.

The German Ambassador now has instructions to convey to the Government of the United States official assurances concerning the effect of the decrees mentioned. Such communication may be delayed for a day or two pending consideration of the exact form of the communication.

REPORT ON SECRETARY MORGENTHAU'S
PRESS CONFERENCE, AUGUST 6, 1936.

- H.M. JR.: I just want to read you a letter. I've got some copies here. I have written the Attorney General as follows: (Reads letter).
- Q. How many are you going to fire, Mr. Secretary?
- A. I am not firing anybody, but I am demoting two men.
- Q. Could we have their names?
- A. I've demoted Murphy, who is Assistant Chief.
- Q. To what title?
- A. He was Assistant Chief, and now he has been put down one grade, and will be put in charge of some city which I haven't had a chance to pick yet; and Boatwright, who is in charge of St. Paul, was demoted and put in the field.
- Q. Who was that, Mr. Secretary?
- A. Grady Boatwright.
- Q. How about Callahan?
- A. Nothing.
- Q. What was Boatwright demoted to, Mr. Secretary?
- A. He goes out in the field. He was in charge of St. Paul. Nothing has happened which I regret more, and these men are responsible. They started it and there is no argument about it.
- Q. Is it your opinion that Callahan was following orders?
- A. He wasn't involved in this thing.
- Q. He was called down here?
- A. Yes. Examined, questioned, etc., but in no way involved.
- Q. Did you find out how it originated?
- A. While I was away the reports in the newspaper were forwarded to me, and I immediately ordered an investigation.
- Q. The investigation of the Department of Justice agents--how did that originate?

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A. It originated with these two men who are being disciplined.

Q. What was their purpose?

A. It's a long story. I mean this is the best explanation I can give, and this is off the record, and you men who come here regularly--it's a matter of jealousy between these two organizations. There is nothing vicious about this thing. Murphy thought that he was going to have something and in case of a consolidation of the two bureaus, he wanted to have something to be able to fight next year at the proposed consolidation of the two bureaus, and he wanted to keep Secret Service a separate organization; there is nothing vicious. I suppose between the Army and Navy, there is tremendous jealousy and one is trying to do something against the other all the time, and Murphy thought he would have something, so when it came up he could say, we don't want to go under the Department of Justice for such and such a reason. That's his explanation, and he has been in the service for thirty-five years, with no blemish on his record. He is a fine fellow and I believe him. He exceeded his authority. I am absolutely satisfied myself and he swears upon the Bible that this is thoroughly his own idea, and he took it upon himself to do this thing. He had no business to do it. He's got to be a soldier and take his medicine.

Q. Have you named a successor to these two men?

A. No, I haven't had a chance yet. I got in yesterday, but what I'm telling you as the reason, I would appreciate it if you would keep it. That's the reason; I don't believe there is anything more back of it.

Q. We may use that without quoting you?

A. No, I don't see why.

GASTON: I think perhaps that it should be explained that Boatwright's offense was that he exceeded the instructions Murphy gave him.

H.M.JR.: Not only exceeded his instructions, but didn't tell the truth about it.

Q. Mr. Secretary, is Boatwright a veteran of the service too? How long has he been in service?

A. I don't know. Many, many years.

Q. What were the instructions given by Murphy specifically?

A. I don't want to say.

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- Q. Was anyone else involved in this?
- A. No, just these two.
- Q. Did you discuss this personally with the Attorney General this morning, Mr. Secretary?
- A. Yes.
- Q. Is this satisfactory to him?
- A. When you people get over there he'll tell you, but I think you will find it entirely satisfactory. Don't quote me on that, but I am telling you that I know he is satisfied because it was up to me to satisfy him. I think he had it coming to him.
- Q. You went to him?
- A. Absolutely. I think he had it coming to him. I know if the thing was reversed, I wouldn't like it. I mean it's just the kind of thing I've never stood for and won't stand for.
- Q. You say you went to him--did he come over here?
- A. I called him up yesterday and asked him to have lunch with me and we had a couple of hours on that.
- Q. That clears it up, but I thought he was pretty mad about it.
- A. This wasn't the start. I called him long distance and we had lunch yesterday and we spent two hours on it and he paid me a courtesy call this morning. I initiated this thing, and I wanted to settle it promptly and to his satisfaction because I think he had it coming to him.
- Q. Have you issued any orders to the Secret Service as a result of this?
- A. I issued the orders verbally to Chief Moran early this morning just before you men came in.
- Q. You've decided where you are going to send Murphy?
- A. I haven't had time. Does that answer everything?
- Q. Mr. Secretary, what about the consolidation of the law enforcement agencies?
- A. They've got how many committees studying these reorganizations now? There are about three committees; I suppose they are

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coming to study them and make recommendations to Congress.

Q. You are still in favor of consolidating?

A. I think in the Treasury it would have given us a more efficient and more economical organization. I understand twenty years ago the Post Office Department had five agencies and they consolidated them into the present Post Office inspectors and that's worked out very well. They had five different branches in the Post Office and they consolidated them into the Post Office inspectors, and we propose to do just what the P.O. did 20 years ago.

Q. Is it true that Mr. Glavis would have been selected for that post if this bill had gotten through Congress?

A. What is that song, "Is It True What They Say About Dixie?"

Q. No.

A. The President says he doesn't like "if stories," but I don't like "is it true stories."

Q. Did I understand you to say Mr. Murphy is to go to Richmond?

A. No. It hasn't been decided yet. I will wait until I get a recommendation from the chief.

Q. Mr. Secretary, is it too early to talk about the September financing?

A. Oh, yes, but you'll be among the first to know it, Bob.

Q. What about your mid-year budget summary like you had last year. When is that coming out?

A. I don't know. Guess you'll have to be a little more patient.

Q. Are you planning to make any campaign speeches?

A. I can't answer that.

Q. I mean in the immediate future?

A. Nothing in the next day or two.

Q. Well, in the next week or two?

A. I don't know what my plans are.

Q. Anything on the Under Secretary?

A. No.

Q. Anything new on the German situation?

A. No, but, very much off the record, I think the stories that are being written now--you are all off on the wrong foot and I think there will be something in the next day or two which will give the thing a much more favorable picture from the standpoint of United States business, and I think the present lead they are taking--they are off on the wrong foot. I think when this thing does break in the next day or two, you will find American business gets the break, but I want you to wait as I understand there are a series of decrees coming through, so far only one, and when they do I think they will show American business will get a distinct break, but that's very much in the room.

Q. Mr. Secretary, do you think the increase in the reserve requirements of member banks will affect your financing problems?

A. It won't have any affect one way or the other.

Q. Were you apprized of the Board's intention before they acted?

A. Mr. Eccles and I work on a very friendly basis.

Q. Any changes in the high command under you in this department contemplated or hoped for?

A. With the exception of this one thing, everybody in the Treasury as far as I know, is very happy. I know I am. I had a good vacation and am ready for work. With this one exception--I wanted to get that out of the way--I don't know of any troubles.

Q. Have you made the decision on Senator Glass's coins yet?

A. Gee, that's a tough one--no, but the Senator is waiting, and believe me--do you people know the story?

Q. I am familiar with some of the background.

A. Don't write it yet.

Q. I think it's been written.

A. The Senate passed a bill ordering a medal; the House passed a bill ordering a coin, and the Engrossing Office then engrossed the bill for a medal and the President signed that bill. The medal doesn't do them any good; what they want is a coin. I'm talking now--I'm always arbitrary--I said to the Senator, "Why, don't you be arbitrary?" I told him I was perfectly willing to go to jail for Miss O'Reilly and for the rest, and

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he said, "You don't have to, I will go to jail for you." So I'm waiting for a legal opinion. I want to do anything I can because I'm devoted to him, but I don't know, it looks as though it is almost impossible, I don't know if there has ever been a precedent for it--where two Houses passed a different bill--the medal doesn't do them any good because they can't sell them and make any profit. They want to sell the coin for the Fair.

- Q. Would that be legal, signing a bill which wasn't passed by the two Houses?
- A. You're asking me, a farmer?
- Q. What's the harm in that--the fact they passed two bills?
- A. We'll have a decision here in an hour. If you'll wait an hour I'll give you the whole story. I promised the Senator the story between now and noon, so Herbert will send it down between now and 12 o'clock.
- Q. Anything new on stabilization?
- A. No.
- Q. Will you be here all during August, Mr. Secretary?
- A. Except for week-ends.

August 7, 1936

Before Governor Winant, of the Social Security Board, came in to see the Secretary today, the latter had a "dress rehearsal" with McReynolds, Bell and Taylor, to discuss the setting up of the machinery for the administration of the unemployment insurance work.

Mr. Bell explained the problem as follows: "This is to get a record of those people who will participate in the Old Age Reserve Account. There are about 30,000,000 who will eventually retire and gets benefits." HM, Jr. inquired, "How about records on unemployment insurance?" and Bell said that was not involved; they will get that largely through the Employment Service."

HM, Jr. then told the group the following: "Old Age Insurance starts in January, 1937. We offered to do the work for them last November and I made a statement at Cabinet, a few months ago, when Miss Perkins said this was the best run agency and I said it was the worst and she turned white and laid me out and I said, It is the worst mess in Washington. And now they see you, Bell, and want us to pull this thing out and I am not going to do it without the President knowing about it. Suppose they take Collins over there and he doesn't make good, and the Treasury is the one that falls down on the job." Bell replied, "The Treasury will not do it. They merely want the loan of people from the Treasury. It's their responsibility." HM, Jr. continued, "But the Treasury can't do it. It is physically impossible. And another thing: the President has instructed them not to start until November 15; doesn't want any signs of regimentation prior to election. In a month and a half they can't physically register 30,000,000 people!" Bell expressed this opinion as follows: "What they should do is to have the Act extended for one year and it should be put through in the first ten days of Congress."

Mr. McReynolds then advised the Secretary of the following: "Some of their Advisory Committee asked my advice about ten days ago and I told them the only practical thing was not to attempt to start their collections on the first of January but to get an extension and do what they should have done in the last year. It would be so hopeless. Inside of a month they would have 25,000,000 names dumped in on them. It is physically impossible in a period of five months."

HM, Jr. then said, "If the President has given those instructions then I disagree with him 1,000 percent. I think

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he is just as wrong as when he said we should not pay the bonus bonds until after the first of July, and I will tell you why. If it is caught on to the fact that we are not doing our end on Old Age Insurance, my god! that's all Brother Townsend needs.'" Mr. Bell interpolated, "That was told me in strictest confidence."

Continuing, HM, Jr. said, "We went ahead and charged the bonus to the last fiscal year and did not tell him about it until afterwards. If he wants to hold this thing up until the 15th of November, I think he is absolutely wrong."

Bell then told the group the following: "Governor Winant, head of Social Security, said he thought he had it fixed last April that he could get O'Neill from the Guaranty Trust Company to supervise this division and he went up to see O'Neill and O'Neill sent him to Potter, Chairman of the Board. Potter said, We don't want him to go, but will let him go if President Roosevelt requests it. Winant told the President and the President said he would and Winant went abroad and apparently in the last days of Congress instead of the President requesting it, McIntyre did. I think the Board felt that that was not a sufficient request and if Mr. O'Neill wanted to come, he could come on his own responsibility, the indication or intimation being that if his job was available when he got back he could have it; otherwise he would have to go somewhere else and take what he could, so O'Neill would not come."

The Secretary then said to the group, "You and I and we all in the Treasury burn ourselves out, and I don't go away and leave a job. Let somebody bring this to the President's attention before we do anything. We jump in there and take another one of Bell's men and the first thing you (Bell) break down physically and I am not going to do it." Bell said, "I would really be the first of September before we could help, and that's too late."

At this point, Governor Winant joined the group and the following is complete report of the discussion which took place.

HM, Jr.: Bell called me up last night. I thought this thing was so serious, I wanted to get the story myself.

Winant: You know the Act? You know the taxing features of it?

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HM, Jr: I would be delighted if you would take it for granted.

Winant: I want to talk on the Old Age Benefit sections, and under that the taxing features of the Old Age benefits you collect the taxes and in turn we, with only implied authority, are responsible for setting up wage records and a man's benefits are based on the accumulation of wages over a year. You don't begin paying benefits -- old age benefits -- for five years. In the interim you have to pay death benefits and it is estimated that approximately 500 people die a day. That would make, roughly, 180,000 claims that we might have to pay in the first year. The maximum claim, as I remember it, would be about \$15.00 on a \$3,000 salary which is the maximum salary considered. Therefore, those claims over that first year would be relatively small.

I think it might be possible to get Congress to make some fixed provision in regard to it, rather than having to figure them down to the last cent. The 180,000 claims (if we set up 100 offices around the country, and we plan to have more than that) would not be difficult to handle, based on private life experience. I tell you that as a preliminary introduction because the need of handling those claims has impressed some people in the field that we should have a complete accounting at the very outset, as of January 1.

Now, taxes begin as of January 1, and we have to make a record of a man's wage experience from January 1 on. We have been assuming that we would try to conduct, and we plan to conduct, a voluntary registration. Difference of opinion in the Board as to the time of conducting that registration exists. The business men on Mr. Roper's Advisory Committee and there is a sub-committee of 9 with Mr. ? of the Eastman Kodak Company either appeared themselves or else sent their technical experts and they are keen to have a voluntary registration so that every man in their factory can have a number as of January 1. There was a difference in the Board as to when we should begin this registration. One of the members of the Board wanted to see us begin some months ago. Two of us thought it was a matter of major policy, so we discussed it with the President who felt it was a mistake to commence this type of registration just prior to the campaign and during the campaign period. We found, as we put out information on the Act, that you would get supporting and attacking comment and the interpretations

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were very confusing even to a man who knew the Act and all its implications and, therefore, to get a clear field in order to conduct an educational campaign it seemed best to postpone. The Census also told us that they never had a successful census in an election year. And, of course, there has to be greater exactitude than in handling the census because errors don't balance off. Every man's account has to be accurate.

We have had some contacts with the Post Office. They will cooperate with us. Personally, I felt that if you could cloak us with the authority of the Treasury that we would get a more accurate registration.

HM, Jr: Isn't there some question in some people's minds as to your legal right to do it?

Winant: Yes; but on the other hand, the intention of the Congress that we should have it and the implied power is confirmed in their appropriation.

HM, Jr: Oh, yes. I don't think there is any question that Congress wants you to do it, but the question of once you start somebody may bring suit.

Winant: Yes, there is that possibility.

Bell: But there is nothing to bring a suit on here. You have no authority to enforce your requirements.

Winant: There are two points at issue. If we move forward, under the cloak of your authority, you are assuming to get the information that is necessary to identify, we will say, the taxpayer -- which is what we are authorized to do. There is a question of whether you might start out on November 15 to do that rather than waiting until the tax accumulates as of January 1. In my judgment there is very little authority that would allow us to compel registration. I think we would have, even this year, to move on a voluntary registration base.

HM, Jr: As I see the thing, Bell tells me the President has told you he did not want to register these people until after election and the question is, if you do it after election whether you will do it voluntarily?

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Winant: You mean if you give us authority of assume that authority?

HM, Jr: If you are going to do it on or after November 15th. It's a physical impossibility to do it between the 15th of November and January 1, voluntarily or otherwise. Might just as well forget it. I raise the point that I think the President is making a great mistake to wait until after election. I think if they are going to do it they ought to do it now, because we open ourselves to the attack that we have been given this by Congress to do and we are not going to do it, and sometime or other somebody will get on to the fact that we will not be ready the first of January and will have to ask for an extension of one year.

Winant: Every person who registered is so much to the good.

HM, Jr: But you can't do it in six weeks. It's a physical impossibility on any basis.

Bell: The Governor's point is that you could register part of them.

HM, Jr: I hate to see these things start and then -- take AAA for example, the grief we went through until they got out their checks. I would much rather come out and say we can't do it than to do it in a half-baked way.

Winant: There is this difference: that the retirement payments will not have to be made for five years and the only payments that would have to be made in the interim are these death claims.

HM, Jr: On the soldiers' bonus, where the soldier died before payment, we paid the claim immediately; took it out of the Court of Claims. How many were there, Dan?

Bell: About 80. Up to \$2,000 we took them out of the Court of Claims and even out of Probate Court.

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Winant: But granted we had 500 deaths a day and you would have 100 offices, that should not be a difficult thing to handle.

HM,Jr: But your offices are not set up.

Winant: But we have gone a long way towards setting them up.

HM,Jr: But the thing you said yesterday, you wanted somebody from Bell's office to help you.

Winant: We do. We need a man who has had this type of experience.

HM,Jr: I think you need more than one. In the room here -- I would like to be very frank.

Winant: Very glad to have you frank.

HM,Jr: But I have known this situation existed for six months. I said so once in Cabinet and Miss Perkins sat on me hard. She was saying everything was lovely. She got very angry and I could not help it. One person isn't going to do. I think this is something that should again be brought to the President's attention and, personally, I think this is a big important social question and I don't think we can afford to muff it by not being ready on our organization side. You are dealing with a group of people 60 years old or older.

Winant: Sixty-five years old. But they don't get benefits for five years, but the family gets death benefits, and to have the offices to handle an average of 500 claims a day would not be difficult.

Bell: It might be difficult unless you had your procedure worked out, which I understand you haven't. Another source of criticism is in the States that are ready to go -- the ones who have complied have their organization set up and they are now hollering for numbers and you are not prepared to give them numbers.

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Winant: The only State which is doing so in New York State.

Bell: And on January 1 your taxpayer is going to holler for numbers to put on his payroll.

HM,Jr: Who handles it up there for Governor Lehman or does that come under Labor or Welfare?

Winant: It's a combination of three or four different groups.

HM,Jr: They want numbers?

Winant: Yes, they would like numbers.

HM,Jr: Does this include everybody who works?

Winant: No, it includes all industrial workers, agricultural labor, domestic service.

HM,Jr: What are they going to say up in New York if we don't give them any numbers?

Winant: There is still a difference of opinion as to whether they need the name of the individual. The employer group don't feel that they do.

HM,Jr: Do you mind if I ask Governor Lehman?

Winant: I would rather you did not, because we are working satisfactorily with the New York group. They want authority to proceed themselves to get these names if we don't. They plan to have them as of the first of the year and they can do that under the Unemployment Compensation Act. We are not obligated to give them the numbers. One thing the Social Security Board might be obligated to do is to allow them to have the funds to get the numbers themselves. That's under a different section of the Act.

HM,Jr: Do you think it is a mistake to register these people before election?

Winant: Yes, I do.

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HM, Jr: Why?

Winant: Because I think you get charged with regimentation and you get a bad flare-back.

Taylor: But if you do it on a voluntary basis? You can start voluntary registration at any time without being open to the charge of regimentation.

HM, Jr: Let's be political for a minute. Who is going to charge us with regimentation? Governor Landon?

Winant: No individual.

HM, Jr: Let's say we come back and say, How would you do it? How is the law in Kansas?

Winant: The Republican platform throws out about two-thirds of the Social Security Act.

HM, Jr: I believe if we have something, we either believe in it or not. If it is something to be proud about, why crawl under the bed about the thing? Here we are in August and we are not set up to do it on any basis.

Winant: I don't think that. I think we have gone much farther than you think we have. What we need is a man who has had ---

HM, Jr.: Before I lend the name or the cloak or assistance of the Treasury I want to know when I jump where I am going to land. I have not been around Washington for 3½ years, and 4 years with Roosevelt in New York, not to know. McReynolds helped set up Harry Hopkins, Leo Crowley and SEC. Three different organizations that we have helped, in other words, and of course Farm Credit and Housing, and before I go into anything else I want to know, if the Treasury is going to lend its name to the thing, I want to know what is the end of the rope. Furthermore, over and above that, the President has drained the Treasury so dry that all of us here are overworked and we have about reached our limit and before I take it on and let anybody give his brains or health to anything new I want to know

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where the thing is going. Bell has three jobs. Everybody has a lot of jobs. And before we get in on anything, I would like to know how is the thing going to be handled? Either this thing is a good thing and we are proud about it or else it's lousy and so we are against it.

Winant: I don't entirely agree.

HM, Jr: Either we have a New Deal and we are proud of it or we have something that is no good and stop it. You are afraid to register the people because you are going to be accused of regimentation. Of course, General Johnson argued before the Senate Committee about voluntary census. I don't believe you can do it. You can draft in time of war, but I don't believe you can do these things on a voluntary basis and before I get on this thing I want to talk to the President and I would like you there, but the position I take is that I will not get into anything outside of the Treasury unless the President gives us written instructions -- not unless he says, Morgen-thau, here are your written orders; I want you to do it.

Winant: I understand that.

HM, Jr: And these two men who know the procedure thing better than anyone in Washington, they have just gone through the bonus thing which was a perfectly Herculean task, and before we take on anything else I would be delighted to go with you to the President. I don't know whether you agree with me, Wayne?

Taylor: Entirely! If you have a problem of registration, go ahead as though it were routine.

Winant: You don't want to exaggerate what the man is going to get, because he gets nothing for five years. You have quite a different thing with the bonus where you are going to give a man immediately a considerable sum of money.

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HM, Jr.: But you are going to have 500 widows every day.

Winant: And I believe we will be adequately equipped to handle them.

HM, Jr.: From what you know, do you think so, Mac?

McReynolds: The thing is, without adequate preparation, the job is so stupendous in the matter of building up records and these things have to come in. And you are proposing to collect this tax monthly; presumably with 25 or 30 million returns coming in every month, it isn't a question of what you are going to pay out eventually on that. You might be able to take care of your 500 claims a day, if that happens to be all, one way or another, but you have got a necessary accounting record of the amount that's deducted from the pay every month of 25 or 30 million people who in the future at some time, some of them from day to day because of their dependence on the man who dies, and some beginning five years from now. Benefit claims are dependent on the accounting record of the amount that is deducted from that man's pay every month and the volume, the size, of the job of maintaining those records, getting them out -- if you start without your system completely set up, your organization there, your machinery there that you have to use in developing that, you will get a stack that you will never get out from under. That's what I am afraid of. It's the biggest job, in volume, that anybody ever tackled and I am afraid to get buried under it. On the question of identification -- we started last November and made some appraisal of the job, but I did not follow it very far. It has to be organized.

HM, Jr.: We offered to do this last November.

McReynolds: Yes, we did, but the Court decided it was their job and they wanted to do it, so we stopped our study.

Winant: That was just the keeping of the wage record.

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HM, Jr: But that's where you start.

Winant: Yes; that's the big job. The law directs us to do it.

McReynolds: There was never any disagreement between us.

Bell: Aside from all these other considerations and after sleeping on it overnight, I just question whether we could give Governor Winant the help he wants. I think we have so much to do in the next four months that I don't think it would be fair to the Treasury to undertake it and I don't think it would be unfair to Winant. I would love to help him. He's in a hole and I would like to tackle the job.

Winant: I don't think we are in a hole, except to find a competent individual.

Bell: I think you are in a hole on it.

HM, Jr: I have said so for months. I have seen this thing coming and coming. There has been no indication that you would be ready the first week in January.

McReynolds: Almost a year ago I looked at the thing very carefully. We wanted to cooperate with the Board and do it. But as I appraised this thing almost a year ago, somebody has to take responsibility for determining what the system will be, what kind of record they will have and how it will be applied. Two people can't do it. That's the reason why I suggested to them that we take it over and do that part. They decided the responsibility was theirs and they ought to do it. That settled it as far as I was concerned. We can't undertake to do it as a Treasury job without having control of the procedure. All we can do is cooperate. If we had the men, we would be glad to loan them. We can't kill them.

Bell: If it had been last spring, we might have helped. But now we have the Budget summation in September. I don't see how I can let my organization go. Bartelt will be upstairs and I will be in

the Budget and I can't let Collins go.

HM, Jr.: I am seeing the President tomorrow. I am going to mention this to him and see what he says.

Winant: Would you tell him I would like to see him?

HM, Jr.: I will tell him you would like to see him. I will tell him it is very important that he see you.

Winant: I would like to ask you one question. Do you feel we have the authority today to require registration?

HM, Jr.: I would have to ask my General Counsel. I wouldn't pretend to answer.

Winant: A minute ago, you said you don't like to go on a voluntary basis.

HM, Jr.: Because I don't think you would get results.

Winant: That's the thing that is troubling me all along.

Bell: I think you have authority to request but no authority to enforce your request.

Winant: That's it exactly. So that leaves it on a voluntary basis. It isn't true, Mr. Secretary, that we tried to attack it in a half-hearted spirit. If the authority was there, we would have proceeded. It then comes down to the question of whether you will proceed in the midst of an election or whether you decide to wait since you are asking for something on a voluntary basis. That is as we understand it.

Bell: I can't help but think most people would comply with a United States Government request.

Winant: Another thing. Granted everybody

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today complies; a large number of people say, Yes; we will be glad to give the information today. That information won't be correct information as of January 1.

Bell: At the same time you have registration you have to have transfer slips ready.

Winant: It really is complicated business. The English have never had registration and they have been going for 19 years.

HM, Jr: I am not setting myself up as an authority because that would be stupid. I have not studied the thing, but I do feel this is important enough, since it has been brought to my attention, to bring it to the President's attention and let him do what he wants.

Winant: Thank you. And I very much want to talk to him.

HM, Jr: I will tell him, because it is very important.

McReynolds: Your registration ties right in with what system they use for accounting. When you are dealing with a large number of names there is so much chance for errors. It seems to me some system ought to be automatically set up where error could not occur on registration number. So it would tie up with your tax return and the forms would be prepared by mechanical process with the repetition of the number by mechanical process, so you would be handling the number in every case; you would not be dependent on somebody's copy.

HM, Jr: Mac, I think we have gone as far as we can.

ooo-ooo

DATE August 8, 1936

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Capital gains and losses: tax provisions, rates, and yield

Tax legislation covering preferential treatment for capital gains was first incorporated in the 1921 Revenue Act. Congress provided for a flat rate of 12½ percent against all gains from capital assets, to be availed of at the option of taxpayers other than corporations. Generally speaking, a capital asset, as defined in the Statute, is any type of property held for more than two years except stock in trade or other property which ordinarily goes into inventory if on hand at the close of the year. Apart from (1) liberalizing the restrictions determining capital assets and (2) tightening up of statutory provisions so as to eliminate loopholes for treating capital losses as ordinary losses, the 1924, 1926, 1928, and 1932 Acts follow the 1921 Act.

For the period 1922 to 1933, inclusive, the amounts of capital net gains and the resulting tax thereon were as follows:

Years	Capital net gain	12½ percent tax on capital net gain
(Thousands of dollars)		
1922	249,248	31,566
1923	305,394	38,174
1924	389,148	48,644
1925	940,569	117,571
1926	912,917	114,115
1927	1,081,186	135,149
1928	1,879,780	234,973
1929	2,346,704	293,338
1930	556,392	69,549
1931	169,949	21,244
1932	50,074	6,259
1933	133,616	16,702

The capital net losses and 12½ percent tax credit thereon for the period above, in cases where the capital net losses could not be offset against corresponding taxpayers' capital net gains, were as follows:

Secretary Morgenthau - 2

Years	Capital net losses (not offset)	12½ percent tax credit on capital net losses (not offset)
(Thousands of dollars)		
1922*	-	-
1923*	-	-
1924	72,288	9,036
1925	61,272	7,659
1926	34,576	4,322
1927	48,224	6,028
1928	41,008	5,126
1929	43,024	5,378
1930	80,896	10,112
1931	193,480	24,185
1932	575,320	71,915
1933	407,192	50,899

*Not segregated, in view of provisions of the 1921 Act permitting treatment as ordinary losses.

A consolidation of the two tables shows the following result:

Years	Capital net gains or net losses (after offset)	12½ percent tax on net gains or 12½ percent tax credit on net losses (after offset)
(Thousands of dollars)		
1922**	249,248	31,156
1923**	305,394	38,174
1924	316,860	39,608
1925	879,297	109,912
1926	878,341	109,793
1927	1,032,962	129,121
1928	1,838,772	229,847
1929	2,303,680	287,960
1930	475,496	59,437
1931	23,531	2,941
1932	525,246	65,656
1933	273,576	34,197

**Not reduced by total capital losses; data unavailable.

The 1934 Revenue Act reflects a complete change in the method of taxing capital gains and losses. The two-year limitation in the definition of what constitutes a capital asset has been eliminated, so also has the flat tax rate of 12½ percent. In lieu thereof only certain percentages of the gains or losses from sales of capital assets are recognized for tax purposes and made subject to regular normal tax and surtax, as follows:

100 per centum if the capital asset has been held for not more than 1 year;

80 per centum if the capital asset has been held for more than 1 year but not for more than 2 years;

60 per centum if the capital asset has been held for more than 2 years but not for more than 5 years;

40 per centum if the capital asset has been held for more than 5 years but not for more than 10 years;

30 per centum if the capital asset has been held for more than 10 years."

In addition, an important change covering capital losses was also incorporated in the 1934 Revenue Act. It provides that such losses are allowable only in an amount equal to the capital gains plus \$2,000.00.

The provisions of the 1936 Act dealing with capital gains and losses follow the 1934 Act.

For the year 1934 the available figures, to date, on capital gains are contained in the Preliminary Report, Statistics of Income, for 1934, which covers returns filed through August 1935. The capital net gain figure reported amounts to \$21,687,000. This, of course, represents not the entire capital net gain but that portion of the capital net gain which, by reason of the statutory provision dealing with the length of time the capital assets were held, is the amount made subject to the ordinary normal tax and surtax. A study is now in progress which, when completed, will indicate by a series of break-downs the complete amounts of capital net gains, whether taxed or not, for the various income classes, thus affording a view of the loss in revenue attributable to the present treatment for capital gains and losses.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

48

August 8, 1936

The Acting Director,
Bureau of the Budget,
Washington, D. C.

Sir:

Pursuant to your recent request, the Procurement Division has carried forward a field study relative to labor conditions existing on PWA and WPA projects and the relation existing between the two organizations with respect to employment.

From July 17 to August 3, 8 District Engineers and 10 Engineering Inspectors covered nineteen states. In addition thereto reports were received from 250 Construction Engineers located in various parts of the United States. The communities visited and reported upon are shown by dots on the attached map. There is also attached a general summary chart outlining certain governing conditions prevailing in the 44 states reported upon.

In general, it is found that there is a shortage of skilled construction labor existing throughout the United States. There is apparently a marked pickup in private construction work, which conclusion is confirmed by data of building permits for 257 identical cities. These data show that the average monthly building permits were \$31,000,000 in 1934, \$54,000,000 in 1935, and for the first 5 months in 1936, \$70,000,000.

It is found that generally WPA and PWA cooperate closely in the disposition of labor, especially in the last month or two. However, there are several marked exceptions to this rule, but it is believed that orders recently issued by the WPA should correct the situation.

The statements and recommendations given below necessarily are subject to revision, due to constantly changing economic conditions. With this explanation, the following views are presented:

WPA ROLLS:

A. In general WPA rolls embrace compilations of the number of employables broken down into the following categories:

1. Number of employables employed upon WPA projects.
2. Number of employables employed upon other projects.
3. Number of employables awaiting reassignment.
4. Number of employables awaiting initial assignment.
5. Total number of employables in all of the foregoing categories.

B. The WPA rolls generally break down the above-noted figures into females and males.

C. The WPA rolls generally further classify all registrants into one of four classes:

1. Professional and technical.
2. Skilled.
3. Semi-skilled.
4. Unskilled.

D. There is generally no method of telling from WPA rolls without reference to detailed registration cards, which is a long, tedious and impossible process, just what skills or semi-skills are available.

Whence It Appears:

1. That WPA reports as to adequacy of skilled, semi-skilled or unskilled labor for construction projects are inaccurate and misleading for the reason that while the total numbers registered and classified are definitely stated, there may be no available persons of skills and qualifications required for a specific project. For example, WPA rolls may show 100 skilled employables, all of whom may be skilled textile workers, automobile mechanics and machine tool operators and, therefore, not qualified as skilled bricklayers, carpenters, etc. This is precisely the condition which seems to prevail with respect to construction employables.

Consequently Recommend:

1. That WPA rolls be completely reclassified and more accurate classifications be designated so as to reveal a clearer and more exact picture of available employables.

2. That in the making of the proposed reclassification an earnest effort be made to determine by properly qualified and experienced examiners the proper classification and degree of skill

under which each registrant shall be catalogued.

3. That in the making of such reclassification, persons unfit either by age, infirmity, habitual indolence and idleness be denied registration for work relief.

4. That in the making of such reclassification, persons whose usual and normal line of endeavor is and has been such that they have been accustomed to work only a portion of the year and to living upon accumulated surplus or family aid, or even public help, until the recurrence of their seasonal activity, shall be denied registration for work relief.

SKILLED LABOR SUPPLY:

A. There is a clearly apparent shortage of skilled construction mechanics, particularly bricklayers, plasterers and finish carpenters, and the volume of work under way has created a "seller's market" in these trades.

B. The shortage in skilled construction mechanics is probably induced by the following conditions:

1. General pickup in construction activities.
2. The widespread lack of construction operations during a period of approximately eight years has discouraged entrance of young men into the skilled trades with the results:
 - (a) That young men who might have desired to learn the trades by becoming helpers to their fathers or other skilled mechanics have been denied opportunity.
 - (b) That young men who might have desired to enter organized labor as apprentices were denied the opportunity by union regulations.
3. The active membership of labor unions has dwindled to a total very materially below its 1926 level; the decrease being generally accounted for by death, age, failure to pay union dues, physical infirmity, and drifting into other lines of employment and individual small scale enterprises. This also applies to non-union mechanics, except as to dues.

C. Field examinations of WPA projects indicate that the quality of many of these projects is such as to show that skilled mechanics were available for those projects, either directly from WPA rolls or through efforts of WPA sponsors, often at times when a shortage prevailed upon FWA projects.

D. It is generally believed, although no documentary evidence is furnished, that in many places where the prevailing wage is high and where a skilled mechanic has to work only 7½ to 10 days to earn the established monthly WPA wage, these men are earning substantial sums in their spare time and thus depriving unemployed non-relief workers of employment.

E. The greater number of PWA projects are being built with union labor. In numerous instances, non-union contractors have found it necessary and expedient to declare their jobs union in order to secure a sufficient number of qualified workmen - an action which automatically prevents the employment of men from work relief rolls.

Recommend:

1. Eliminate from WPA activities all construction projects requiring skilled labor in excess of 10% of the number of men required in the construction thereof, whether said 10% be paid by WPA, or sponsor, or any other.

2. No PWA project requiring skilled labor in excess of 10% of the number of men required in the construction of said project, shall be approved where it would set up active competition for the services of skilled mechanics otherwise required in the construction of private enterprises.

130-HOUR WORK MONTH:

- A. The maximum number of hours, with some exceptions, which a workman may be employed upon PWA work is 130 hours per month for which he is paid at a definite hourly rate.

- B. The WPA worker may work a maximum number of hours which is determined by the gross amount he can earn in any month divided by the prevailing rate of pay per hour established for his classification.

Therefore, It Is Noted;

1. That the arrangement for PWA is unsatisfactory and impractical in that

- (a) It causes work to be practically suspended upon contract jobs after approximately the 20th of the month.
- (b) It gives workmen an opportunity to procure small jobs of five and ten days duration which can be performed during this off period and thus prevent other less efficient but unemployed workers from getting employment.

Recommend:

1. Adopt the 40-hour work week for all PWA projects, with the understanding that time lost cannot be made up in the next or succeeding weeks.

UNSKILLED LABOR SUPPLY:

There is an apparent ample supply of unskilled labor.

However, It Is Noted:

A. That whenever contractors have gone union for skilled labor, the unions insist that unskilled labor be also union if there is a local having jurisdiction. This has the effect of preventing contractors from employing workers from relief rolls.

Recommend:

1. That when men are assigned to PWA projects, as a result of the reclassification hereinbefore recommended, care be taken to refer labor that is qualified, fit and able to perform the duties assigned it without delays in assignment and with the minimum of inconvenience to the contractor.

RETENTION OF WORKMEN BY WPA:

A. There is every indication that, in isolated cases, WPA is holding the better labor already employed on its own projects for the completion thereof, while, at the same time, issuing "exemptions" to PWA contractors or furnishing unsatisfactory labor of an "awaiting assignment" classification.

Recommend:

1. Conform with instructions of WPA Washington office and close down WPA projects if necessary in order to furnish PWA the required labor.

SUMMARY

Present Condition:

1. WPA rolls inaccurate, incomplete and ineffective.
2. Skilled labor shortage prevails generally.
3. 130-hour work month, inefficient and impractical.
4. WPA in some instances fails to release men to PWA.

5. WPA competes with PWA for projects.

6. In many cases, WPA workers are earning substantial amounts in private enterprise.

Suggests:

1. Complete reclassification and purging of WPA rolls.

2. Eliminate quota system by WPA.

3. Immediate reduction in amount of the monthly security wage.

4. WPA projects limited to the type requiring not over 10% skilled labor.

5. PWA projects to embrace all projects requiring over 10% of skilled labor.

6. PWA projects to be financed by grants only, ranging from 30% for projects having large percentage of unskilled labor to a lower percentage (say 15%) for projects having large percentage of skilled labor and embracing purchase of equipment.

7. All PWA projects to operate on 40-hour weekly basis.

8. WPA release any man required for PWA or private work, regardless of effect upon WPA progress.

9. PWA to be relieved of necessity of procuring its skilled labor from any designated source. Unskilled labor to be procured from a disassociated agency with power to draft qualified men from WPA projects for use of PWA projects.

Probable Results From Above Suggestions:

1. Material reduction in WPA expenditures due to removal of unemployables and habitual indolents, cancellation of quota system, and reduction in amount of security wage.

2. Limiting WPA to projects requiring less than 10% skilled labor will eliminate competition with PWA and private enterprise.

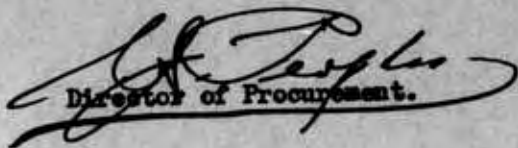
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5. Exemption of PWA from taking skilled workers from relief rolls will tend to widen competition and encourage the labor supply to move, as in normal times, to location of work supply, thereby balancing excesses and shortages of labor.

6. Limitation of hours suggested for PWA is sufficient to produce economical construction but, due to the desire of skilled mechanics to work longer hours, will not prevent their flow to private enterprise.

Respectfully submitted,


Director of Procurement.



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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

55

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Respectfully submitted,

Director of Procurement.

EXTRACTS FROM REPORTS OF ENGINEER EXAMINERS ON
EMPLOYMENT SITUATION IN THE UNITED STATES

62

CALIFORNIA (Newman)

Some of the conditions that are being complained of in the building trades at the present time are:

that bootlegging of WPA employables is going on, and they are making more money than in normal times;

that idling and shirking, etc., is done on PWA jobs, in the endeavor to stay on relief, with consequent waste and expense;

that improper classification of mechanics by MRS and WPA is being done by girl clerks, and not building trades mechanics, etc.;

that skilled labor is on relief, when it is wanted for private employment;

that Army Engineers are competing with private contractors doing Government work, for the same skilled men;

that WPA workers at the Glendale, California, Municipal Projects, doing excavating and grading at \$1.41 per cubic yard, watching contractor across the street, on the PWA High school, using a machine for the same work, at 20¢ per cubic yard, were figuring among themselves how they might all chip in a nickel or a dime each and have that contractor do their work with his machine while they could then sit under a tree;

DISTRICT OF COLUMBIA, MARYLAND, and VIRGINIA: (McAllister)

There is a scarcity of the best skilled building mechanics.
There are a few skilled mechanics available of secondary grade.
There is a surplus of common labor.

Contractors are not objecting to employing of WPA workmen, provided that the men transferred are of the classification requested. Complaint is registered that WPA employables certified as "carpenters" are allowed to proceed with setting of door trim, etc., only to find that the employable is nothing more or less

than a "Wood butcher", therefore, the trim must be removed and the "wood butcher" released, although the contractor is required to bear the expense for wages covering time employed and also the cost of new material.

Due to the large amount of residential construction now under way the projects of the WPA might for the time being be restricted to work such as roads, sewers, sidewalks, etc., which would give employment to common labor, the skilled labor being taken care of by outside general construction which will probably be in progress up to the latter part of this year. It is believed, however, that building construction by the PWA and WPA should be scheduled to be taken up immediately when a slack appears in the employment of skilled labor.

CONNECTICUT (Goddard)

There is apparently no question that men are poorly classified, and that this is one of the reasons why PWA contractors object to WPA men, for example, take the case of a man who was classified as a mechanic and transferred to a PWA job. It was true that his trade "used to be" that of a mechanic, but he had not worked as a mechanic for 25 years, had no tools, and was not physically fit for an outdoor job. The mechanic did not get the job. The contractor lost money. The job was delayed.

It is also believed that there should be a definite understanding of the class or type of work to be done by PWA and WPA with price limits. A study of the data contained in Exhibits "C" to "G" inclusive, will show that these two organizations are in direct competition with each other in this state. In fact, there has been instances where PWA has turned a job down and the job has later been approved by WPA. As an example, direct reference is made to the Griswold High School Project, (WPA District #2, WPA Project #758), which was disapproved by PWA and then approved by WPA. This project is distinctly the contract type of job referred to below.

GEORGIA (Richey)

During the survey and inspection at several projects visited, I found that various workmen, both skilled and unskilled, would rather have employment with the WPA than with the PWA. The reason for this is that, private, or PWA projects are performed under a contract, and the contractor demands more and better work than is usually demanded on WPA projects. Also, considering the amount earned on the WPA project plus a certain amount earned in doing odd jobs often would equal what would be paid on the PWA project.

The engineer on the County Court House at Fort Valley, Ga., (Report on this project forwarded) "advises that various workmen assigned were unqualified, as cited below:

- 2 mentally unbalanced
- 4 physically incapable
- 3 "carpenters", had no knowledge of the trade.

ILLINOIS (Packard)

As a rule, the common labor, which constitutes the bulk of labor on WP rolls is not suited for construction work and naturally, is not acceptable to the general contractor on PW work, except possibly in connection with sewer work and water works in small non-union communities.

My impression is that contractors are willing to accept almost any type of skilled or unskilled labor, where they can do a fair day's work economically.

INDIANA (Hein)

From WPA work examined it is believed that the general efficiency of workmen is about 50%, but this will gradually improve in this state, as at present time men not physically able or willing to work are being dropped from relief rolls.

Employables transferred to PWA rolls are usually selected by contractor and the poorer class of workmen are not kept so that efficiency on PWA projects is much better, would consider same from 85% to 90%.

KANSAS (Collier)

With respect to the men classed as employable on the WPA rolls there are from 15 to 20 percent that actually are not employable on account of age or physical infirmities. These get on the rolls perhaps through the zeal of county officials handling relief to reduce their own relief load. Then there are a certain number - percentage unknown - that are on the fringe, as may be said, and who are employable in the sense that they must have certain kinds of jobs requiring little responsibility or no great physical ability.

These two last classes, together with a small percentage that naturally are indolent, will be fixtures on the relief rolls and no sort of work scheme would greatly offset their number. It appears illogical to have the WPA charged with finding employment for these people.

It would perhaps be beyond the scope of this report to suggest fundamental changes in the two organizations as regards their activities, but a better distribution of labor could be made if all construction activities were centered in one of them and non-construction work placed in the other. This would eliminate competition for workmen, would enable an eligible roll of workers for construction purposes to be maintained wherein the men were properly graded, and allow projects to be prosecuted in such numbers and locations as would best distribute the work, something apparently not possible with the present set-up. It would tend, moreover, to improve the morale of the workers.

MASSACHUSETTS (Schurg)

There is a tendency on the part of the official immediately in charge of a project, or his subordinates, to encourage WPA workers to remain on a WPA job, in order to expedite the completion of the WPA project. There is no evidence that such procedure has been authorized by the proper Administrative authorities. In fact, evidence available is to the contrary.

There is some opportunity for workers at present to secure employment in private work where the work week for the unions is 40 hours. This gives the worker the opportunity to earn considerable more than under the present PWA job rate and with only 130 hours for the month. The result is, contractors believe, that the most efficient workers will drift gradually to private work where he also may be employed over 8 hours a day, which was common practice in 1929. In fact, skilled workers could not be induced to accept employment unless permitted to work overtime in trades such as bricklaying, plastering, etc.

The contractors for all PWA projects, particularly on those being erected under PWA state jurisdiction, express the opinion that a 40-hour work week must be authorized as an inducement to retain the workers.

Increase from 130 hours per month (the working hours per month under jurisdiction of State PWA Administrator) to 40 hours per week has already been authorized by the State PWA Administrator to take care of shortage of labor available in the nature of pipe layers, machinery operators, and carpenters.

MICHIGAN (Larkin)

Skilled mechanics and the higher class semi-skilled construction workers are scarce in this area because:

1. Many have gone into the factories (they are the younger men naturally, as the factories won't hire the older ones).
2. There have been no apprentices for eight years.
3. Eight years make serious inroads numerically in any craft.
4. Many skills and semi-skills have gone into other occupations and probably won't return at all to the building trades.

In reference to the last paragraph of your #4: Out of 88 PWA projects instances were of record on 53, or 60% of the total jobs, where men had refused to work on PWA jobs; and returned to WPA (or disappeared in any event). The general claim was that the work was too hard. The total number of such refusals would be considerable, and it constituted a quite serious impediment to the contractors. PWA has instances on 20 projects where these men were reassigned to WPA jobs. In addition to the above PWA has records of 47 projects out of the total of 88 on which ill, crippled, unqualified and unemployable WPA labor was referred and refused by the contractor.

MISSOURI (Post)

The work of WPA and PWA has not been sufficiently coordinated either as to timing or distribution to prevent shortages of labor of some classifications in certain instances.

PWA and WPA projects have not been properly distributed or timed throughout the state to make the most efficient use of the unemployed.

Projects (PWA and WPA) should be allocated on the basis of unemployment in the various localities. It is probably more helpful to keep men off of relief than it is to take men off of relief. It is better to use capable men, unemployed but not on relief than to use less capable or experienced men from relief rolls.

PWA is handicapped by union restrictions and influence. The unions are more interested in maintaining the unions than they are in the general problem of solving community unemployment.

WPA is handicapped by local influences and lack of balance between projects and available labor of suitable physical qualifications and experience.

NEW JERSEY (Dillingham)

A common laborer receives .50 per hour on WPA work for 121 hours per month or \$60.50 per month. This amount is apid regardless of weather or the amount of actual work performed, which averages not over 20 hours of real hard work.

With a contractor on PWA work, this laborer would receive .50 per hour for 130 hours maximum per month, but this time might be cut down due to rainy weather or days when his services were not required, which would average even less than the 121 hours on WPA work. This man prefers to stay with WPA and take it easy. Probably this accounts for the State Highway Projects showing only six percent of WPA workers.

The WPA rolls show about 850 carpenters (one of the trades shortage is reported). These men work 60 hours per month and receive \$85.00. This leaves 100 hours to put in on private or contract work if the man so desires. The WPA Superintendent or Foreman will arrange the hour or working days to cover the last two days of one week and the first two of the next week and this gives the workman a nice stretch for other work and he can always slip off a couple of days to come back to fill in with WPA and possibly he arranges with another WPA worker to fill his job, while back putting in his time with WPA.

This set-up gives the ambitious man an opportunity to make more money than in good times and lasy workmen a chance to make a living without working.

The sponsors of WPA projects are anxious to have their work completed, but the WPA organization is desirous of continuing this class of work and taking over PWA work and any other Federal construction possible to keep that organization operating and they are not giving the PWA or other federal projects any more help than is necessary to appear to be complying with regulations.

NEW YORK (England)

Another important consideration would be for government agencies to get together with respect to type of projects undertaken and limit the one (PWA) to projects suitable for contract labor, and the other (WPA) only to projects where the work undertaken would only require the lightest tupe unskilled labor who at their best are not competent to find jobs or work in regular channels of construction or business, or for men who have reached an age when they are not wanted, etc., etc.

NEW YORK CITY (McCulloch)

In the cases cited at the close of the preceding paragraph the total monthly earnings of employables on work relief rolls are at least as great and probably greater than if they were employed solely by private enterprise. A survey of the records substantiates the fact that WPA employees tend to remain on WPA work. The percentage of employees now on PWA work and who were obtained from WPA rolls is practically negligible. Yet there are great numbers of employees qualified for this work now engaged in active operations for WPA. The work of the latter is so large, moreover, in construction operations that WPA finds it necessary to go outside of the relief rolls to obtain the necessary workers.

As I have stated in my case reports on certain WPA projects, figures obtained from the National Reemployment Service indicate on WPA operations at the present time that of some 3,500 bricklayers, 17% are non-relief; of some 13,600 carpenters, 28% are non-relief; of some 1,200 sheet-metal workers, 26% are non-relief; of some 900 dockworkers, 44% are non-relief. Of the entire total of some 42,000 skilled workers on WPA rolls, 17% are non-relief; of some 10,500 semi-skilled workers, 10% are non-relief; and of some 67,000 unskilled workers, $\frac{1}{3}$ of 1% are non-relief. It will be understood that these figures refer to the engineering branch of WPA and not to its service branch.

NORTH CAROLINA (Hunter)

There are two classes of persons on relief work rolls - one class embraces honest, self-respecting individuals who are down on their luck; the other embraces those sorry, indolent individuals often diseased, that have and probably always will be public charges wholly or in part. There is every indication that the members of the former class are doing all they can to become independent and are accepting off jobs or permanent jobs at every opportunity. There is also equal indication that the latter class is sitting around on the court house steps.

The scale for common labor may be, in the case of the less industrious workers, somewhat more than it has habitually received. The better unskilled workers undoubtedly have been used to receiving more money but again these industrious individuals may be supplementing their WPA earnings by private odd jobs. The absence of skilled workers from WPA rolls clearly indicates that WPA wages are not attractive to them.

OHIO (Holden)

The employables certified by the WPA to the PWA are of a variable character but of a better and more uniformly qualified

standard. In spite of all conditions, however, on both WPA and PWA operations there seems to lie a blanket of disinterest and irresponsibility that makes no apology to the slogan "six o'clock and pay day."

The spirit of real endeavor, the desire to produce well and abundantly, the friendly competition which should exist between fellow craftsmen seem to be entirely lacking. The air of the average job suggests that a sentence has been imposed and that the time must be served but in the easiest way.

The most efficient, workmanlike and economical operations are undoubtedly those manned by employees obtained in the open market.

The costs of WPA construction are greatly in excess of other organized construction and appear to be uncontrolled. This condition is logically the result of the untrained labor employed and in many cases the inexperienced and inefficient supervision in charge of the project.

The most efficient and workmanlike job inspected was admittedly costing 20% more than a comparable job in private work under contract.

It is definitely determined, by actual investigation and reliable report, that a shortage of skilled labor exists, not only in the localities examined, but generally throughout the state of Ohio. Private construction is enjoying an unanticipated and apparently healthy revival of business and a considerable number of the better skilled employables from the WPA relief rolls are being absorbed by private enterprise. As to the shortage and the reasons therefore this subject has been commented on in some detail in a previous report to which I refer you. Unless unusual seasonal declines develop it is predicted that skilled labor conditions will shortly assume acute and serious proportions. Delays, inferior workmanship, increased costs and general dissatisfaction on the part of the owners, architects and contractors are being charged to a deficiency of properly skilled labor.

Contractors with whom I had the opportunity to discuss labor conditions stoutly disclaim any resistance to accepting employables from WPA rolls. They were prepared to accept the conditions when they were awarded the job and feel that it is a situation over which they have no control and must be endured with other unfavorable emergencies which arise on a job.

They are frankly skeptical of all labor on relief rolls, but accept them, try them, keep those that are reasonably qualified and discharge the rest.

PENNSYLVANIA (Stephens)

The rates established for WPA workers are more advantageous to the workers than the minimum rates established for PWA contracts. This has worked a great hardship on PWA contractors. Further, the long delays in obtaining WPA workers; the fact that many were found to be incompetent; and the insufficient number provided has caused serious delays to the work so that many PWA contractors are far behind their schedule and are claiming extension of time to avoid payment of penalties.

Attention is called to letter of July 29, 1936, of State Director Andrews, refusing request that skilled labor because of its scarcity be granted an extension of working hours on Docket #Pa. 1048R Boro. of Lewistown, Mifflin Co. (Grant 29454, Total 65454), whereas on July 28, 1936 in spite of the present difficulty in obtaining skilled labor, a grant under Docket #1017 of \$164,772 has of that date been issued to the Boro of Lewistown for another school building. This would indicate that the availability of labor was not taken into account in connection with this allotment.

It became very evident that the classifications on WPA rolls are very inaccurate and misleading and information obtained from them cannot be depended upon.

There was a definite preference of unskilled workers to remain on WPA. On the other hand, skilled workers preferred PWA and private employment.

Unskilled labor preferred WPA because their income therefrom was greater than that received from PWA and also from private employment. Skilled labor were much more willing than unskilled to leave WPA apparently obtaining more money from PWA.

Unquestionably WPA has not only held on to the men needed to complete their projects but has transferred the less competent men to PWA when the request for same became insistent.

SOUTH CAROLINA (Hunter)

There is an apparent ample but questionable real supply of common labor. In numerous instances, labor furnished by USES has been discharged by contractors as unfit or unqualified. One case was reported where out of six men furnished the contractor upon a requisition he was furnished one man with a wooden leg, one man paralyzed on one side, one man partially blind, one man subject to "dizzy spells" and the other two were so scared when they went to the second floor of the building that they asked to be discharged. The WPA rolls embrace all sorts and conditions of people including those indolent and incompetent cases which

would be public charges under any conditions. In assigning labor to PWA projects, it appears that WPA or USES takes little if any care to determine the fitness or qualifications of any unskilled workman and that no real effort is made to place upon PWA work any unskilled worker currently assigned to WPA work.

TEXAS (Porter)

There is a definite shortage of qualified skilled mechanics throughout the State, especially in the communities of Houston, Galveston, Fort Worth, Amarillo, Longview, and Denton, and the gap is filled at these density points by drawing the best skilled labor from the less favored communities of Texas and about 20% from other states. Many mechanics are referred by WPA, NRS and Unions, as skilled, but a large portion are unqualified and can easily be placed in the intermediate class. There is a general sufficiency of intermediate class and common labor, however, a large portion of the common labor referred by WPA and NRS for the building and better construction work are total unqualified for this type of work, but are generally satisfactory for the prevalent road labor work, cotton picking work, agricultural field work, etc. Contractors complain that a large number of common laborers referred have to be tried out and trained for several days or a week to handle themselves on construction work, buildings, etc.

All skilled mechanics prefer work with private enterprise then next in sequence with PWA under any circumstances and the less qualified mechanics in the intermediate bracket prefer private enterprise and next in sequence WPA. As to common labor, about 50% prefer private enterprise and PWA and about 50% prefer WPA and relief rolls.

The enormous amount of work in the past five months in Dallas and Fort Worth in connection with the Texas Centennial has pulled skilled labor from all Texas communities to these focal points, but are now dispersing and they are now migrating to the focal points where PWA has a density of operations, such as Austin, Denton, Houston, Lubbock and San Antonio.

There is little excuse for any qualified skilled or intermediate skilled and able-bodied common laborer not finding work under existing conditions and many of the unemployables should be developed into employables and it can be said reliably that the large relief rolls can be attributed to some extent by the breakdown of the family support.

It appears that the public roads and Texas Highway and farm-to-market roads can take care of a large portion of the rural and urban labor better than the PWA or WPA.

ANALYSIS OF AVAILABILITY OF LABOR FROM SURVEY BY PUBLIC BUILDINGS BRANCH OF PROCUREMENT DIVISION

State	No. of Towns	Shortage of Skilled Labor	Common	Pickup in Priv. Constr.	Remarks by Engineer Examiners (Exclusive of Construction Engineers)
ALABAMA	3	3	1		
ARIZONA	2	2			
ARKANSAS	1	1			
CALIFORNIA	24	11		Res. & Bus. (Considerable)	General shortage skilled labor (Newman)
COLORADO	3	3		General	General shortage skilled labor (Goddard)
CONNECTICUT	9	7			
DELAWARE	1				
FLORIDA	6	4		Slight	General Shortage Skilled Labor (Richey)
GEORGIA	12	10			
IDAHO	3	1		Slight	No general shortage of skilled labor (Packard)
ILLINOIS	12	4		Slight	
INDIANA	9	8		Res. Constr.	General shortage of skilled labor through state (Rein)
IOWA	2	2			
KANSAS	17	9		Very slight	No general shortage of skilled labor (Collier)
KENTUCKY	5	1			
LOUISIANA	3				
MAINE	2				
MARYLAND	5	1		Slight	General shortage of skilled labor (McAllister)
MASSACHUSETTS	7	1		Res. & Indus. Considerable	Slight shortage of skilled labor
MICHIGAN	17	15		Res. & Indus. Considerable	General shortage of skilled labor - common labor being Unionized (Larkin)
MINNESOTA	8	6			
MISSISSIPPI	5	4			
MISSOURI	10	3		Res. Constr. Generally	No shortage as a state if distributed (Post)
MONTANA	3	2			
NEBRASKA	1	1			
NEVADA		No report			
NEW HAMPSHIRE	1	1			
NEW JERSEY	17	6		Res. Bus. Considerable	No real shortage of skilled now, but approaching tendency for constructors (PMA) to claim shortage to support petition for increased hours (Dillingham)
NEW MEXICO		No report			
NEW YORK	51	32	2	Slight Upstate much N.Y.C. Res: Constr.	General shortage of skilled labor, especially in rural communities (McCulloch-England) General shortage open shop skilled labor. No surplus of any kind of skilled (Hunter)
N.C. CAROLINA	8	4			
N.D. DAKOTA		No report			
OHIO	11	10		Res. & Indus. Considerable	General shortage skilled labor (Holden)
OKLAHOMA	5	4			
OREGON	7	5		Slight	General shortage skilled labor (Langner)
PENNSYLVANIA	32	12		Res. & Indus. Metro. areas	General shortage skilled labor. Artificial shortage being created around Philadelphia (Stevens)
RHODE ISLAND	1	1			
S.C. CAROLINA	5	4		Res. Constr.	General shortage skilled labor (Hunter)
S.D. DAKOTA	1				
TENNESSEE	4	4			
TEXAS	18	18	1	Res. & Indus. General	General shortage skilled labor (Porter)
UTAH		No report			
VERMONT	2	2	2		
VIRGINIA	5	5			
WASHINGTON	3			Slight	No real shortage skilled labor (Langner)
W. VIRGINIA	2	2			
WISCONSIN	3	3			
WYOMING	2	2			
PUEBLO RICO	2	1			
Dist. of Columbia				Fed. & Res. Fed. Res. & Bus. Considerable	Shortage around San Juan General shortage skilled labor (McAllister)
	350	215	6		

By memorandum report dated August 8, 1936
Procurement Division to Director of the Budget



Conference in the Secretary's Office, August 10, 1936

Present - The Secretary
Mr. Gill
Mr. Haas
Miss Lonigan

Mr. Gill stated that WPA was employing at present 2,300,000 people. An additional 50,000 workers were on the drought relief program. Drought relief might rise to 150,000.

WPA employment should remain constant through August and September. In October the program should increase as follows, said Mr. Gill -

July to September		2,350,000
October	+ 50,000	2,400,000
November	+250,000	2,650,000
December	+250,000	2,900,000

Exclusive of drought relief

The average cost of WPA employment is practically constant at \$65 per man per month. This includes materials and overhead but not any contribution from the States.

On this basis the Secretary estimated that the July, August, and September program would cost \$152,750,000 a month. Mr. Gill's figure was \$150,000,000 to \$155,000,000 a month, exclusive of drought relief.

The cost for the December estimates would be \$188,500,000, exclusive of drought.

* * * * *

The Secretary asked Mr. Gill if WPA could certainly get through the next three months on the \$375,000,000 allotment.

Mr. Gill stated that the \$380,000,000 allotment had never been a specific request from WPA for a definite period. They had asked for \$400,000,000 in a lump sum, "to get going," because it cost so much more to buy materials in small quantities. Miss Chauncy located the original request for \$380,000,000, in the record of a request from Mr. Hopkins to the Secretary over the telephone.

Mr. Gill said that WPA was making absolutely no contribution to direct relief.

* * * * *

The Secretary asked Mr. Gill, "What would you recommend to cut relief rolls?"

The Secretary mentioned the million workers on direct relief but eligible for WPA employment who had never been transferred to WPA. Mr. Gill said that that number had now been cut to 300,000 in the most recent reports from the field staff. Miss Lonigan mentioned that, therefore, number of unemployed on relief, but not on WPA, had dropped 70 percent since January.

The Secretary asked how much time had elapsed since a thoroughly scientific check had been made of the relief rolls.

Mr. Gill said a complete check would involve a rehiring of the 30,000 workers on the old FERA administrative staff. At present the WPA was checking the rolls to see if all workers were actually in need of relief. They took WPA pay rolls and looked for similarity in names to be sure there were not two workers from one family. They also checked WPA pay rolls against old relief records. They called in the local relief agency to make a check from their old records or by visits. The WPA was paying \$100,000 a month to State relief agencies for this service.

The Secretary stated that regardless of cost nothing would be so good as a scientific monthly check of the relief rolls. He asked Mr. Gill how they justified the very high rate of relief in the Rocky Mountain States, higher than in any other part of the country.

Mr. Gill replied that he knew Utah, that Utah had a good set-up, and the figures there are just as good as they had been two years ago. In Mississippi the State Relief Administration went out entirely with the end of FERA. It was costing WPA \$10,000 a month to do their own investigating. He said their social work staff had just been making an investigation and were convinced that WPA rolls were valid relief rolls. Practically all the workers if let go would go back on direct relief and be certified to WPA all over again.

The Secretary asked, "What would I do to get on relief rolls?" Mr. Gill explained that in the District he would apply to the local relief agency which would make an investigation checking bank records, etc. If they decided after investigation that he was in need he would then be certified to WPA as eligible for work. He could not get work now, because no one can get WPA employment unless a WPA worker dies or goes back to private employment.

The Secretary asked where the U. S. Employment Service came into the picture. Mr. Gill said that all workers when certified were registered with the USES who got their occupation history. Workers were drawn by WPA from their rolls according to the kinds of workers they needed.

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The Secretary asked if that was not ^{an} unnecessary wrinkle. Mr. Gill said it had been a disastrous wrinkle in many States. The WPA had had to go round it. They had authority to do this. It would not be unnecessary if the Government was really building a public employment service. It would not be possible to tell private employers to use the service if the Government refused to do so.

The Secretary asked if it were two years since the relief rolls had been thoroughly checked. Mr. Gill said it was a year and three months.

Mr. Gill said that to use relief staffs to investigate WPA workers would tie the works program up to relief again. The Secretary said, "But I thought that is just what you wanted to do." Mr. Gill said they did in one way but they wanted to put the blame on the local agencies for determining which workers, and how many, were really in need. Then the WPA merely said they would give so much employment to those certified by local agencies.

The Secretary said, "But the Federal Government gets most of the blame." Mr. Gill said they got a very unfair share of the blame.

The Secretary asked if Mr. Gill would be willing to make a study of relief rolls in certain typical areas.

1. A large city
2. A farm State not in the drought area
3. A drought State
4. A Southern State

Mr. Gill said, "We can give you affidavits that everybody on WPA has been investigated and is in need." The Secretary said that suspicions had been fed to him, right or wrong, that relief rolls were padded. He was merely asking Mr. Gill to look at the situation.

The President frequently stated, said the Secretary, that in Hyde Park the Highway Commissioners chose the people and certified they were in need before they were given employment in local highway work. The President was satisfied that local people had control of certifications. If that were so, what proof would WPA have that the certification was correct.

Mr. Gill answered that the relief rolls were supposed to have been checked by the local relief agency. The Secretary asked Mr. Gill to take the opposite view for the time being, to assume "Mr. Morgenthau is suspicious. I'll give him a fair test."

The Secretary said he was raising only one question: are they or are they not in need. He would be wholly satisfied with the report from Mr. Gill's own people.

Mr. Gill quoted again the reports of the social workers to Mr. Williams on whether WPA workers were really in need. He said twelve States at the top showed that WPA workers were 100 percent in need. The list varied from there down to 50 percent.

Miss Lonigan raised the question that the phrase, "in need," was not a standard, that a great many people might be in need but not sufficiently in need to justify Governmental aid.

The Secretary said that of course there must be a common yardstick. Mr. Gill said that a yardstick was applied from State to State. Miss Lonigan said that it had apparently been difficult in New York City to maintain the same yardstick from one section of the city to another.

The Secretary said that the question of the yardstick was vital. He might want to spend a few days checking the actual situation in individual families with Mr. Gill, without any publicity, merely to gain knowledge. The Secretary also raised the point that WPA workers were afraid to take jobs because it was so hard to get back on relief rolls.

The Secretary asked Mr. Gill to call him before he left on Thursday and give him an outline how he was going to handle the question. He defined two questions on which he wanted information -

1. Are the 2,300,000 WPA workers worthy of jobs?
2. What can we do with unexpended funds to get other agencies than WPA to take people off relief rolls?

Mr. Gill said there was a short answer to the second question - nothing could be done. The other agencies, like PWA, had all their work under contract and could not change.

The Secretary asked Mr. Gill why New York City was not a good city to investigate. Mr. Gill said that New York City was not typical but it was important. It constituted one-tenth of the problem. The Secretary asked, "Why can't you get New York City straightened out?" Mr. Gill answered that they had a very strong woman in charge in New York City, Charlotte Carr. She and Dorothy Kahn in Philadelphia were the two strongest women in the Public Welfare field. The difficulty was that they did not believe in the Works Program.

The Secretary asked Miss Lonigan if she knew them. Miss Lonigan said they needed strong women. It was a man-size job. She mentioned that Miss Carr and Miss Kahn were dealing with the people who had been dropped from Federal relief, the old, the sick, the poor, and the most desperately in need. Their attitude came in part from seeing the contrast between these very needy people dropped from relief rolls and the able-bodied workers who had jobs with WPA.

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Mr. Gill said that unless something was done to decrease the number of unemployed nothing could be done to reduce the number of people at work on WPA. Miss Lonigan mentioned that that was a two-way argument. Other people were claiming that it was the high wages paid on WPA which kept the number of unemployed so high. It could be used both ways.

Mr. Gill said that it was not possible that WPA was interfering with private employment. He knew the farm labor situation particularly well. Whenever there was a demand for farm labor the local offices were closed down. They were closed down in the Colorado beet-sugar fields at present. Miss Lonigan mentioned that the farm labor situation was more than State-wide, that the regular supply of farm workers from outside the States had been concentrated in transient camps. Mr. Gill said that these hoboes who wandered from job to job had merely been depressing the labor market.

The Secretary reminded Mr. Gill again that he would like an outline of the proposed program by Thursday.

FLOOD CONTROL CONFERENCE WITH THE PRESIDENT ON AUGUST 10, 1936.

Those present besides the President were -

General Harthan,
Mr. Delano,
Mr. Williams,
Mr. Fockner,
Captain Clay,
Mr. Welman,
Colonel McHaffey,
Mr. Bennett,
Mr. Roll.

The President had a report before him apparently submitted by the National Resources Board, from which he read a number of projects. He indicated certain of these projects which he had approved but he wanted arrangements to be made by the Corps of Engineers and the Works Progress Administration whereby all of the labor would be taken from the WPA rolls. Mr. Williams explained that this would cost the WPA approximately 15 to 20% more in labor than they were paying on their work because they would not be able to get local contributions on these flood control projects. The President said he understood that but the amount of money involved would not be large and that the WPA should attempt to absorb it.

The President then switched to certain other projects which will be taken care of through Civilian Conservation Corps camps. Mr. Fockner said that there are two factors involved in creating CCC camps on these flood control projects, one, the political factor, which the President fully understood, on account of which he would no doubt get considerable pressure when he transferred these camps from one locality to another. The President said he realized this ~~but~~ the communities would have to understand that this was only a temporary transfer and that as soon as the work was completed they would return to the other camps. Mr. Fockner

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then said that another factor involved was the policy laid down by the President in directing his organization to reduce the number of camps. The President said "yes", he realized this, but this was a special case and would have to be taken care of. Mr. Fechner said that he understood in these three areas the War Department desired to establish twelve camps. The President said that we would compromise and establish one camp in each area in order to get the work started.

Mr. Fechner then raised the question as to the additional cost which would be necessary for him to build new camps. He stated that administrative expenses would be larger because of this move and it would cost him a great deal of money. He said that of course he could go ahead on the basis of his present funds but that he was afraid he would not have enough money to last him until March 31, 1937. I told the President that I thought there was such a relatively small amount of money involved in Mr. Fechner's matter that it was my opinion when he came to renew his enlistments he could let them lag for a few days and make up any excess cost that would be involved in setting up these few additional camps. Mr. Fechner thought that might be done.

Then General Markham raised the question as to where they would get the money to buy the necessary supplies and equipment with which to perform this work. He said that the Corps of Engineers would probably need as much as \$2,500,000 for expenditure up to March 31, 1937, to carry this work forward. I told the President that I did not believe he should allocate any money out of the \$1,425,000,000 for supplies and equipment if it could in any way be avoided, and I also told him that I thought the Corps of Engineers should review all of their projects under construction

which are payable from funds previously allocated to them with a view to transferring any unobligated balances to the \$4,800,000,000 which would be reallocated to the Corps of Engineers for this particular work. Captain Clay said they would do this and he thought there was every possibility that they would get a substantial part of the funds required.

It was understood that the projects in the report on the President's desk on which he indicated his approval would be later submitted to the Bureau of the Budget for formal letters of approval. (See note)

Then Mr. Bennett raised the question of soil erosion and reforestation on not only these particular projects before the President but the general policy with respect to this work. The President said that he thought soil erosion was largely a matter of education and that while some of the publicity had been very good he thought we should get a little better publicity than we had in the past. The President said that the educational work which is now being done on private lands cannot become a permanent thing - that it is not the function of the Federal Government to take over the soil conservation problem of every farm in the United States. He was of the opinion that they could do this educational work in various localities either on Federal or State or privately owned lands but that it would be a very good thing if we could get a substantial contribution from the State or county concerned. After all, the local community is the one which is primarily benefited.

NOTE.- Since this conference the President has approved Flood control projects amounting to \$11,644,864.00 payable from WPA funds.

WPA

WPA

August 10, 1936

The Secretary had Viner, Haas, Taylor, Gaston and Oliphant meeting with him this afternoon to discuss the proposed study of ineffective tax schedules.

He told the group that he discussed the attached draft of letter with the President when they lunched together today. The President, he said, liked everything until he got down to nuisance taxes and capital gains. The President wanted that part changed to read something like this: "There are a number of schedules to which attention has been directed and the equity of them from the point of view of the public as a whole and also the point of view of the special groups which pay them. I am listing them merely for information of the Committee, so this list may not be inclusive of all changes which should be studied." The Secretary explained that the President's thought was that when we list the so-called "nuisance taxes" we don't list enough and when we get down to capital gains that that should be one of three or four similar examples.

HM, Jr. then told the group that the President asked as to timing. He thought he wanted it next week to give out from Hyde Park. "So I made this suggestion," the Secretary said, "which he liked very much -- that he invite Pat Harrison and Bob Doughton to come to Hyde Park and discuss next year's tax legislation and then, as a result of that, he would give out a sort of informal memorandum of what they discussed." Oliphant inquired if the President insisted on its being that early and HM, Jr. replied, "Either that or when he gets back, which will not be until September 11."



THE SECRETARY OF THE TREASURY
WASHINGTON

August 10, 1936

Dear Mr. President:

At your request the Treasury Department since the adjournment of Congress has been giving careful attention to the adequacy of the tax structure to meet the revenue needs of the Government and generally to the desirability of additional tax legislation.

We have reached the conclusion that no new taxes and no increases in present tax rates are necessary. Due to continued improvement in business conditions the yield of existing taxes is steadily increasing. Total revenues from sources other than the outlawed processing taxes in the fiscal year 1936 were substantially higher even than our estimates of last January. In addition, the tax structure was strengthened by the Revenue Act of 1936, which constitutes a major improvement in our tax system. With continued recovery, we are steadily approaching a revenue yield which will be entirely adequate to cover the expenditures of Government and to reduce the public debt.

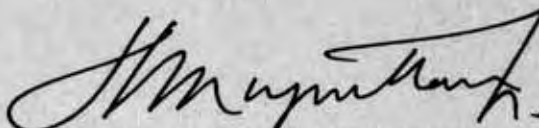
Any changes in the tax structure should, therefore, not be in the direction of ~~new~~ increased taxes. But this very situation makes it possible and timely for us now to consider revision of the tax laws with the purpose of removing any inequities or unnecessary administrative difficulties that may be inherent in the law and abating or modifying taxes that create *inequities* hardships to trade or have other disadvantages which outweigh their revenue yield. *Among such* ~~disadvantages would be that of overlapping areas of taxation that might properly be left to state and local units of Government.~~

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I suggest the desirability of your asking Senator Harrison and Representative Doughton of the Joint Committee on Internal Revenue Taxation to discuss with you the advisability of undertaking soon a thorough examination of the tax laws with the object of making improvements of the character I have outlined.

It goes without saying that we shall be very glad to put the staff of the Treasury Department at the complete disposal of the Committee.

Respectfully,



Secretary of the Treasury.

The President,

The White House.

August 10, 1936

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It goes without saying that we shall be very glad to put the staff of the Treasury Department at the complete disposal of the Committee.

Respectfully,

Secretary of the Treasury.

The President,
The White House.

Mr. Robert L. Doughton,
Chairman,
Joint Committee on Internal Revenue Taxation,
The Capitol.

My dear Mr. Chairman:

You will recall that in my statement of a year ago in summation of the 1936 budget I said:

"The underlying tax structure of the Government is now stronger than ever before in our history, and, as normal business returns, will produce revenues adequate for all essential purposes. The prevailing rate of recovery points to the speedy decline of Federal expenditures for emergency activities. The 1937 budget is now being prepared with a view to sharply decreasing the spread between income and outgo. Thus it is clear to me that the Federal Government under provisions of present tax schedules will not need new taxes or increased rates on existing taxes to meet the expense of its necessary annual operations and to retire its public debt."

In the 1937 budget presented last January, we felt justified, in view of the continued and rapid improvement in business conditions, in revising upward substantially our estimates of expected revenue, and in revising downward our estimates of expenditures. At that time I was able to give notice that only the invalidation of the Agricultural Adjustment Act or the authorization by the Congress of expenditures not contemplated in the budget would require me to request supplementary taxation. The Act was invalidated and the Congress voted immediate payment of the Veterans' Adjusted Compensation

certificates. Pursuant to my recommendations the Congress thereafter passed the Revenue Act of 1936, which provides continuing revenue to replace the processing taxes and to reimburse the Treasury for the additional expenditure and the loss of revenue during the present and past fiscal years.

Actual revenues from all sources other than the invalidated processing taxes during the fiscal year 1936 proved to be substantially higher even than our revised estimates made public last January. Even after the loss of 450 millions in processing taxes they exceeded by approximately 200 millions the ordinary expenditures of the Government, excluding the added payment to the veterans.

The tide of recovery continues to rise and the revenues of the Federal government are increasing, thus bringing us nearer our goal of matching Federal revenue with Federal expenditure and thereafter beginning a steady reduction of the public debt. This continued increase in revenue is coming, and will come, from the increasing prosperity of American citizens.

Additions to our revenue through the Revenue Act of 1936 have been made strictly on the sound principle of taxation according to ability to pay and to benefits received from the Government. It is as true today as it was a year ago to say that the tax structure is now stronger than ever before in our history.

We have no need to consider any new forms or new sources of taxation. On the contrary, the constant acceleration of recovery has now reached a point where I think we can well afford to give

close examination to all of the schedules of internal revenue taxation with the purpose of determining whether any of them may be regarded as unprofitable when the revenue yield on the one hand is weighed against cost of collection, difficulty of enforcement and interference with the free movement of trade on the other.

It is my suggestion, therefore, that the Joint Committee on Internal Revenue Taxation should give careful study to the tax schedules from this point of view prior to the next session of the Congress with the object of facilitating legislation to improve the tax structure.

The schedules to which I think first attention should be given are of the miscellaneous excise taxes which have sometimes been described as "nuisance taxes". These include taxes on the sale of furs, jewelry, sport goods, radio sets, toilet preparations and the like.

In addition I think the time has arrived for a careful study of our system of taxing gains realized on the sale of capital assets. We should reckon with the fact that, although the taxation of capital gains as income is a feature of our tax system of extreme importance to the business world, the tax yield from this source is surprisingly small. We should consider whether the tax rates for such gains are now too high from the standpoint of sound revenue legislation. I hope your Committee will find it opportune to study the subject before the next session so that we may have additional information on which action can be based.

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The Secretary of the Treasury assures me that he will be glad to afford the customary full cooperation of the Treasury Department in any studies that you may decide to undertake.

Sincerely,

Prepared by
Mr. Zucker
Division of Research and Statistics

August 10, 1935

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FOR THE ATTENTION OF SECRETARY MORGENTHAU

Treatment of Capital Gains and Losses
by Great Britain and Other Foreign Countries

(Excerpt from L. H. Parker's speech
on capital gains)

Great Britain, as a general rule, does not tax capital gains and allows no credit or deduction for capital losses. It does tax gains and allows a deduction for losses when such gains or losses result from a trade or business connected with the disposition of the assets sold. For example, Great Britain would not tax the ordinary person when he sold a share of corporate stock, but it would tax a dealer in securities on the gain from the sale of a share of corporate stock. Great Britain would not tax a man who sold his diamond ring at a profit, but it would tax the jewelry store on the gain resulting from the sale of such a ring. In other words, it is reasonably accurate to say in general that Great Britain does not tax capital gains and does not allow deductions for capital losses as defined in our Federal Income Tax Law, and that it does tax the gains and does allow deductions for losses in connection with the sale of those assets which lie outside our Federal definition of capital assets, and which under our law are treated as ordinary income. However, there are some important exceptions to this general statement.

For example, a man who devoted the majority of his time to buying and selling securities for his own account, nevertheless, would be held to be dealing in capital assets under the definition in our Federal law. In England, such a man would be taxed on the gains from such transactions. As another example, in the United States we would consider the selling of stock or bonds by an insurance company as a sale of capital assets. In England, gains or losses arising from such sales would be taken into account for tax purposes on the theory that the buying and selling of securities is a necessary part of the insurance business.

France has a system somewhat similar to England at least as far as individuals are concerned in that it does not tax the ordinary capital gain nor allow a deduction for the ordinary capital loss. The test of taxability is the test of whether or not the transaction is part of the regular business of the taxpayer. For example, a man who occasionally speculates on the stock exchange and realizes a gain is not subject to tax on such gain. On the other hand, a man who habitually and continually speculates on the stock exchange would be subject to tax on his gains.

Secretary Morgenthau - 2

In Germany, capital gains are not taxed ordinarily, but capital gains arising from dealings in securities are taxable if the securities were purchased and sold within a period of one year, and the profit amounted to 1000 reichsmarks or more. Similarly, profits from the sale of real estate purchased within two years from the date of sale are taxable if the profit totals at least Rm 1000. Such transactions are deemed to be "speculative".

Italy taxes capital gains if such gains are derived from transactions entered into for profit. Practically all securities thus come under the scope of the income tax law when sold. On the other hand, if a man sold his house and bought another it appears he would not be taxed on the profit which might be realized.

Canada does not tax capital gains and allows no deduction for capital losses. In general, Canada follows the English system already described.

In view of this brief survey of the practice in foreign countries, it seems fair to conclude that practically all important foreign countries do not tax the individual upon the gain realized from sales of securities or other property when such sales do not occur as a part of his business.

CAPITAL GAINS AND LOSSES

I -- Introductory

The question of the manner in which gains and losses arising from the sale of capital assets should be treated for income tax purposes has long been a subject of controversy. Such divergence of opinion is inevitable from the fact that some contend that capital gains are not properly to be considered as income while others take the opposite view.

Before we can define capital gains and losses, we must define capital assets. This latter definition is in fact the one that offers the chief difficulty. Therefore, the first question is, "What are capital assets"? In a broad sense capital assets probably include all property in which money is invested. The accountant, the economist, and the lawyer would doubtless define the term somewhat differently. However, for tax purposes, capital assets must be defined in a more or less arbitrary manner, thus creating substantial differences in the statutory and non-statutory meaning.

For example, from 1922 to 1933, inclusive, the definition of capital assets as written in our Revenue Acts was substantially as follows:¹

¹Section 101(c), Revenue Act of 1932.

"'Capital assets' means property held by the taxpayer for more than two years (whether or not connected with his trade or business), but does not include stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale in the course of his trade or business."

It is obvious, of course, that the two-year limitation in the definition just quoted is entirely arbitrary and that certain other portions of the definition are also arbitrary even though based on a policy of drawing a line of demarcation between capital assets and those other assets which are directly connected with the regular business of the taxpayer.

Since 1934, the definition of capital assets has been changed, primarily because our system of taxing capital gains and losses has been changed. The definition as contained in existing law is as follows:²

"For the purposes of this title, 'capital assets' means property held by the taxpayer (whether or not connected with his trade or business), but does not include stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business."

It may not be out of place to give a few simple examples of what constitutes capital assets and what do not constitute capital assets under the definition contained in existing law, for it will be found that identical property

²Section 117(b), Revenue Act of 1934.

is not always a capital asset when in the hands of different taxpayers.

A share of United States Steel stock in the hands of the ordinary individual or corporation is a capital asset. A share of United States Steel stock in the hands of a dealer in securities is not a capital asset.

A lot of land in the hands of an individual not primarily engaged in the real estate business is a capital asset. A lot of land in the hands of a real estate dealer is not a capital asset.

A steam shovel is a capital asset when owned by a contractor. A steam shovel is not a capital asset when in the hands of the steam shovel manufacturer.

A diamond ring is a capital asset in the hands of the ordinary person. A diamond ring is not a capital asset in the hands of the jewelry store.

Having covered briefly the definition of capital assets, we now come to the question as to the definition of capital gains and losses. Here again we face different conceptions of what constitute such gains and losses. Some may contend that there is a capital gain or loss by mere appreciation or depreciation in value, but for tax purposes capital gain or loss is only recognized when such gain or loss is realized by the sale or exchange of the capital asset. Moreover, there are even some special exceptions to this

general rule when tax-free exchanges are encountered.

In the ordinary case in our income tax law, capital gain or loss is the difference between the cost, reduced by depreciation and depletion, and the selling price or the value of the property received in exchange. This is not at all a complete definition, since, for example, we must sometimes use March 1, 1913 value in lieu of cost, and sometimes reduce the basis of the property by tax-free dividends received.

Capital net gain or capital net loss is the excess of the total capital gains in one year over the total capital losses in the same year or visa versa.

The United States has taxed capital gains and allowed certain deductions for losses since the inception of our present income tax system in 1913. In fact, even under the Civil War Revenue Act, capital gains and losses were taken into account in computing income. The three general methods which have been employed in the treatment of these gains and losses will be described later.

II -- Practice in Foreign Countries

Let us now note the practice of the more important countries of the world in dealing with capital gains and losses for income tax purposes.

Great Britain, as a general rule, does not tax capital gains and allows no credit or deduction for capital losses. It does tax gains and allows a deduction for losses when such gains or losses result from a trade or business connected with the disposition of the assets sold. For example, Great Britain would not tax the ordinary person when he sold a share of corporate stock, but it would tax a dealer in securities on the gain from the sale of a share of corporate stock. Great Britain would not tax a man who sold his diamond ring at a profit, but it would tax the jewelry store on the gain resulting from the sale of such a ring. In other words, it is reasonably accurate to say in general that Great Britain does not tax capital gains and does not allow deductions for capital losses as defined in our Federal Income Tax Law, and that it does tax the gains and does allow deductions for losses in connection with the sale of those assets which lie outside our Federal definition of capital assets, and which under our law are treated as ordinary income. However, there are some important exceptions to this general statement.

For example, a man who devoted the majority of his time to buying and selling securities for his own account, nevertheless, would be held to be dealing in capital assets under the definition in our Federal law. In England, such

a man would be taxed on the gains from such transactions. As another example, in the United States we would consider the selling of stock or bonds by an insurance company as a sale of capital assets. In England, gains or losses arising from such sales would be taken into account for tax purposes on the theory that the buying and selling of securities is a necessary part of the insurance business.

France has a system somewhat similar to England at least as far as individuals are concerned in that it does not tax the ordinary capital gain nor allow a deduction for the ordinary capital loss. The test of taxability is the test of whether or not the transaction is part of the regular business of the taxpayer. For example, a man who occasionally speculates on the stock exchange and realizes a gain is not subject to tax on such gain. On the other hand, a man who habitually and continually speculates on the stock exchange would be subject to tax on his gains.

In Germany, capital gains are not taxed ordinarily, but capital gains arising from dealings in securities are taxable if the securities were purchased and sold within a period of one year, and the profit amounted to 1000 reichsmarks or more. Similarly, profits from the sale of real estate

Purchased within two years from the date of sale are taxable if the profit totals at least £m 1000. Such transactions are deemed to be "speculative".

Italy taxes capital gains if such gains are derived from transactions entered into for profit. Practically all securities thus come under the scope of the income tax law when sold. On the other hand, if a man sold his house and bought another it appears he would not be taxed on the profit which might be realized.

Canada does not tax capital gains and allows no deduction for capital losses. In general, Canada follows the English system already described.

In view of this brief survey of the practice in foreign countries, it seems fair to conclude that practically all important foreign countries do not tax the individual upon the gain realized from sales of securities or other property when such sales do not occur as a part of his business.

III — Nature of Income from Capital Gains

Whether or not capital gains should be included in our concept of income has long been a debated question. It is true that from a legal standpoint that question has been decided in the affirmative, but many of our economists take the opposite view. Let us first consider the right of the Government to tax capital gains under the Constitution and then consider briefly the viewpoint of some economists.

Constitutional Income

The taxation of capital gains was considered by the Supreme Court long before the constitutional objection to an income tax was raised. This was in 1872, in the case of Gray v. Darlington, 15 Wall 63. The taxpayer had sold Government bonds which he had held for four years, at an advance of \$20,000 over their cost, and was assessed for the full amount of the gain under the Federal Revenue Act of 1867. The Court said, in sweeping terms, that "mere advance in value in no sense constitutes the gains, profits and income specified by the statute. It constitutes and can be treated merely as increase of capital". The statute was peculiar, however, in that it taxed only "gains, profits, and income for the year . . . next preceding" the collection of the tax. The actual decision, therefore, was that the profits from the sale of an asset held four years was not income for the year in which taxed, as required by the

statute. However, it may be inferred from the opinion that capital gains realized in one year could be taxed under the statute.

On this ground, Gray v. Darlington was distinguished in the next important case to arise, Hays v. Gauley Mountain Coal Co., 247 U.S. 188 (1917). The Corporation Excise Tax Act of 1909 taxed corporations on "the entire net income . . . received by it . . . during such year". The Gauley Mountain Coal Company, not empowered to trade in stocks, invested in certain mining shares in 1902 which it sold at a profit in 1911. Thus the Court had to decide whether the sale in question resulted in income to the corporation. The Court applied the definition of "income" used in two previous cases under the same act¹ as "the gain derived from capital, from labor, or from both combined" and said:

" . . . since a conversion of capital often results in gain, the general purpose of the Act of 1909 to measure the tax by the increase from invested property, leads to the inference that that portion of the gross proceeds which represents gain or increase acquired after the taking effect of the act must be regarded as 'gross income';"

The Sixteenth Amendment empowered Congress "to lay and collect taxes on incomes, from whatever source derived". The Supreme Court swiftly decided that "incomes" in the amendment

1. Stratton's Independence v. Howbert, 231 U.S. 399, 415.
Doyle v. Mitchell Bros. Co., 247 U.S. 183, 185.

meant the same thing as "income" in the Corporation Excise Tax Act² and adopted the definition of income employed under that Act, with the significant addition "provided, that it be understood to include profit gained through sale or conversion of capital assets".³ Finally, it was squarely held in a series of cases decided in 1920⁴ that the gain derived from a single, isolated sale of property which has appreciated in value over a series of years is income taxable under the Constitution.

It may be regarded as settled, therefore, that capital gains, as we have defined them, may be taxed by Congress as income under the Constitution.⁵ It may be noted in passing that the Court has clearly indicated that appreciations of capital which have not been realized can not be taxed.⁶

2. Southern P. Co. v. Lowe, 247 U.S. 330, 335

3. Eisner v. Macomber, 252 U.S. 189, 207

4. Merchants' Loan & Trust Co. v. Smietanka, 255 U.S. 509
Hilderado Coal Co. v. Mager, 255 U.S. 522
Goodrich v. Edwards, 255 U.S. 527
Walsh v. Brewster, 255 U.S. 536

5. See also Note (1921) 21 Col. Rev. 163, Constitutionality of Taxing Capital Gains as Income; B. Knollenberg, Taxable Income Under the Sixteenth Amendment, 9 T. M. 87 (1931).

6. Eisner v. Macomber, *supra*, holding that a stock dividend is not "income" to the recipient.

Economic Income

After many years of discussion, there is still lacking an authoritative definition of "income" which is acceptable to all economists. Economists, unlike lawyers, are not compelled to compose their differences before a tribunal. Hence, while the Supreme Court has decided, rightly or wrongly, that capital gains are "income", the question is still in dispute among the leading economic authorities. The answer depends upon a choice between conflicting concepts of "income".

Probably the majority of economists and accountants would disagree with the conclusion of the Supreme Court. Professor Irving Fisher, of Yale University, is one of the leading authorities taking this view, and his book "The Nature of Capital and Income", published more than thirty years ago, is still a landmark in this difficult field. Professor Fisher's view is that "income" consists of services rendered by some kind of capital (including human beings). Under this view, a sum of money received by an individual is income only if it is spent as income, for the satisfaction of human wants. If the money is reinvested, it is still capital, since the individual does not use it to live upon. He believes that receipts by an individual should be taxed according to reasonable expectation, from the nature of the receipt, whether it will be spent as income or reinvested as capital. Ordinary receipts, such as

wages and dividends, may be safely presumed to be expended on current needs. On the other hand capital gains, which are extraordinary receipts from investment, should be presumed to be reinvested as capital. Hence he concludes that -

"The present method of taxing capital gains is illogical and unjust. Under the present practice the mere change of investment, with no true income involved, may cost the taxpayer a huge penalty assessed against gains which are capital, not income, and which relate to transactions of many years past, not the current year. That this is unjust is virtually conceded when exceptions are made permitting the exchange of one stock for another, under certain conditions, thus avoiding specific profit-taking in money form. Evidently if it is permissible to exchange one stock for another, it ought to be equally permissible to sell the one and with the proceeds buy the other."¹

The same result, that capital gains are not properly "income", is reached on a slightly different theory by President Carl C. Flehn, of the University of California.² Believing that the size of his income is no mystery to the man on the street, and that an acceptable definition can be obtained from common understanding, he finds that anticipated recurrence is the most important element of income. If a particular receipt is expected to recur, it is income; if it is isolated and non-recurrent, it is an addition to capital. Recurrence need not be regular, but

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1. The Income Concept in the Light of Experience, page 19 (1927)
 2. Income as Recurrent, Consumable Receipts, 14 Am. Econ. Rev. 1 (1924)

it must be periodic, even though irregular. Therefore, it is his view that the gains and profits which are outside the normal course of business and are non-recurrent, are not income.

The "recurrence" test has some support from other authorities.³ It is disputed by Professor Seligman of Columbia, however, who regards it as outmoded.⁴ It is his theory that the concept of "income" is gradually enlarging. Originally, it comprehended only money receipts from regular, recurrent sources; slowly, it has been expanded to include money's worth as well as money, such as the rental value of a house occupied by the owner and exceptional as well as regular receipts. Finally, income may include not only the usufruct but gains from the disposal of the thing that yields it - capital gains. The proper view of income, as he sees it, is a receipt that occurs over some period of time, which is actually realized, and actually separated from capital. It is in the characteristic of separation that he differs with Professor Fisher. If a given receipt, such as a dividend or profit from the sale of an asset, is physically separated from the capital

3. Professor F. A. Fetter, Principles of Economics

4. Tax Reduction and Tax Exemption, 219 No. Amer. Rev. 443 (1924)
Studies in Public Finance. Are Stock Dividends Income? (1925).

fund, it does not matter that it is returned to capital by reinvestment. The recipient's power over it, to spend it or accumulate it, makes the receipt income. This is, of course, the view which the Supreme Court has taken.

Professor Seligman believes that the concept of income may broaden still further to the account's definition: "the increase of the recipient's economic power between the beginning and the end of the accounting or tax period." This conception is presently used in estimating business or corporate income - the inventory difference in the value of the assets - and its wider application to individuals is urged by Professor Hewitt, of the University of Pennsylvania, who defines individual income as "the flow of commodities and services accruing to an individual."⁵ "Income" in this sense, of course, includes not only realized capital gains, but unrealized capital increments.

These different concepts of income held by various economists are interesting and useful. However, taxation is fundamentally a practical matter and the real tests are revenue and fairness to the taxpayer. Before taking up the practical side of the question, however, it will be well to sketch briefly the history of the Capital Gain and Loss Provisions of our Federal Income Tax laws.

5. William Wallace Hewitt, The Definition of Income and its Application in Federal Taxation. (1925)

IV. HISTORY OF CAPITAL GAIN AND LOSS PROVISIONS.

Civil War Revenue Act.

The first income tax imposed in the United States was during the Civil War. This Act, as amended, specifically included in taxable income the "net profits realized by sales of real estate purchased within the year for which income is estimated * * * and also all income or gains derived from the purchase and sale of stocks or other property, real or personal".

1894.

The 1894 Act, which was declared unconstitutional, taxed gains from the sale of real estate, provided it was purchased within two years preceding the period for which income was estimated.

1913 to 1921.

From 1913 to 1921, inclusive, under the Sixteenth Amendment to the Constitution, our Revenue Acts taxed capital gains in the same manner as any other income, that is, such gains were included with other income and made subject to both normal and surtax at the full rate. Consistently, capital losses were allowed to be deducted in full from gross income in arriving at net income after 1917. In 1916, losses were only allowed to the extent of the gains.

1922 to 1933.

The Revenue Act of 1921, in respect to gains arising in 1922 and subsequent years, made a substantial change in the prior system insofar as individuals were concerned. This Act provided that the excess of capital gains over capital losses, or the capital net gain, arising from the sale of property held over two years could, at the option of the taxpayer, be omitted from his ordinary net income and taxed separately at a flat rate of 12-1/2%. This gave a substantial reduction in tax to those taxpayers who realized capital net gains and were in the higher income tax brackets. Under this Act, if a man had a capital net loss he was permitted to take such loss in full against his other income.

The Revenue Act of 1924, while retaining the same system of taxation in the case of a capital net gain, included a provision which treated capital net losses consistently. That is, it was provided that capital net losses could not thereafter be deducted from ordinary or current income if the result was to reduce the normal and surtax by more than 12-1/2% of the amount of such net loss. When such a result did occur, the taxpayer was entitled to a tax credit of 12-1/2% of the amount of his capital net loss.

The Revenue Acts of 1926 and 1928 made no substantial changes in the method of treating capital gains and losses,

but the Revenue Act of 1932 did make a substantial change in the treatment of losses on the sale of stocks and bonds held for two years or less. This change was brought about by the need of revenue and the practical situation resulting from the depression. Section 23(r) of the Revenue Act of 1932 provided that losses arising from the sale of stocks and bonds held for 2 years or less should be allowed only to the extent of the gains arising from the sale of stocks and bonds held for 2 years or less. In other words, any excess of these losses over gains resulting from short term investments could not be charged off against the other income of the taxpayer. This section did permit such excess, however, to be carried forward one year and applied against short-term gains in such year.

The National Industrial Recovery Act of June 16, 1933, however, took away the right of carrying over to the subsequent year this excess of short-term losses over short-term gains.

1934 to date.

The Revenue Act of 1934 provided entirely new treatment for capital gains and capital losses arising from the sale of capital assets. In the first place, the definition of capital assets was changed so that the two-year limitation was eliminated. In the second place, the flat rate of 12-1/2% was abolished.

The new plan provided for taking into account in computing the net income of individuals a percentage of the capital gain or loss realized, such percentage becoming less according to the length of time for which the asset had been held. The percentages provided for in the law were as follows:

"100 per centum if the capital asset has been held for not more than 1 year;

"80 per centum if the capital asset has been held for more than 1 year but not for more than 2 years;

"60 per centum if the capital asset has been held for more than 2 years but not for more than 5 years;

"40 per centum if the capital asset has been held for more than 5 years but not for more than 10 years;

"30 per centum if the capital asset has been held for more than 10 years."

In other words, this new system, while including capital gains and losses with other income subject to the normal and surtax, gave a reduction in tax on the gains by only including a part of such gain in net income when the asset had been held for more than one year. This reduction was greater as the length of time for which the asset had been held was greater.

However, the deduction of capital losses was severely limited, such losses being allowed only to the extent of the capital gains, plus \$2000.

This same system of treating capital gains and losses originating in the Revenue Act of 1954 has been retained in the Revenue Acts of 1955 and 1956.

V. Reasons for Special Treatment of Capital Gains and Losses.

We have seen that from 1913 to 1921, inclusive, income from capital gains was treated like any other income, and capital losses were deductible from gross income like any other business expense after 1917. What was the reason for changing this system to a 12-1/2% flat rate on capital assets held over two years, as was brought about prospectively by the Revenue Act of 1921?

The Report of the Committee on Ways and Means submitted to the House of Representatives at the time of the introduction of the bill contains the following statement:—

"The sale of farms, mineral properties, and other capital assets is now seriously retarded by the fact that gains and profits earned over a series of years are under the present law taxed as a lump sum (and the amount of surtax greatly enhanced thereby) in the year in which the profit is realized. Many such sales, with their possible profit taking and consequent increase of the tax revenue, have been blocked by this feature of the present law."

In other words, the Congress came to the conclusion that, with a normal rate of 8% and surtax rates going as high as 50%, individuals would refrain from taking profits on account of the magnitude of the tax. This would not only prevent normal business transactions, but might also result in loss of revenue. The Congress was also undoubtedly aware of the fact that, under the law existing at the

time, capital losses were being freely taken to offset ordinary income.

Subsequent results seem to show that the conclusion arrived at by the Congress was correct as to the Proposition of capital gains being retarded by high surtaxes. The relief provision, whether or not sound in all its elements, did bring about a much greater volume of capital transactions. For example, figures prepared by the Special Senate Committee Investigating the Bureau of Internal Revenue, often called the Couzens Committee, showed the following results taken from the income tax returns of 4063 individuals with net incomes of over \$100,000 in 1916:

<u>Year</u>	<u>Capital Gains</u>	<u>Capital Losses</u>
1917	\$ 28,836,826	\$ 19,150,981
1918	7,937,991	65,072,240
1919	36,687,447	124,233,174
1920	10,910,541	216,116,946
1921	10,596,216	160,121,432
1922	95,245,772	87,052,461
1923	78,345,775	101,958,153
1924	101,089,611	53,784,450

It should be noted from these figures that in 1922, the first year in which the capital gain relief provision went into effect, capital gains were twelve times greater than those reported in 1918, when no relief provision was

in effect. It should also be noted that losses in 1922 were only about one-third more than in 1918.

If we go into the higher surtax brackets and examine the returns for a series of years of the 75 individuals who had a net income of over \$1,000,000 in 1924, the impetus given capital transactions by the 12-1/2% provision is shown still more clearly. For example, here are the capital gains of these 75 individuals from 1917 to 1925:

1917	\$ 2,803,233
1918	1,723,990
1919	2,924,452
1920	1,243,069
1921	457,977
1922	12,060,266
1923	14,732,561
1924	53,627,261
1925	62,822,952

In other words, capital gains reported in 1918 by 75 individuals with no relief provision amounted to less than \$2,000,000, while in 1925 these same individuals reported over 31 times as much gain, or over \$62,000,000, under the relief provision.

The losses reported by these same individuals for the same years show no such fluctuation. These losses were as follows:

1917	\$ 16,110,792
1918	23,955,447
1919	36,330,430
1920	42,964,016
1921	41,459,237
1922	44,077,158
1923	40,761,119
1924	34,615,459
1925	45,230,895

It cannot reasonably be doubted, in view of the facts, that the 12-1/2% flat rate of tax did bring about transactions on the part of those in the high surtax brackets which would not have occurred but for this lowered rate. Undoubtedly, also, there was a net gain in revenue to the Government.

However, numerous objections can be raised as to the equity of the 12-1/2% provision. These objections are as follows:—

First, the flat rate of 12-1/2% is not based on any sound or equitable theory and can be defended only on the ground of expediency.

Second, the provision benefits only a comparatively few taxpayers with net incomes of over \$30,000, or approximately 1-1/2 per cent of such taxpayers.

Third, the relief from taxation becomes greater as the net income becomes greater. Therefore, the provision

is not in accord with the principle of ability to pay.

Fourth, the two year limitation is entirely arbitrary and results in the same relief being given for the gain on an asset held 2 years as for an asset held 20 years.

The Joint Committee on Internal Revenue Taxation investigated the subject of capital gains and losses in 1927.¹ The Committee considered three basic questions:—

First, should capital gains and losses be eliminated from the scope of the income tax?

The answer to this question was in the negative, primarily because at that time a loss in revenue could be expected.

Second, should capital gains and losses be included in net income and taxed as ordinary income?

The answer to this question was in the negative, primarily because it was believed that normal business transactions would be seriously retarded by such a course.

Third, should the flat 12-1/2% provision for taxing capital gains, with corresponding treatment for capital losses, be continued?

The answer to this question was in the affirmative in respect to the pending revenue bill, but it was plain from

1. See Report of Joint Committee on Internal Revenue Taxation, dated November 15, 1927.

the discussion in the report that the 12-1/2% provision was not satisfactory and should be continued only up to such time as a better and more equitable method could be found.

The conditions existing at the time of making this report should be noted. In the first place, the maximum normal tax rate was then five per cent and the maximum surtax rate only twenty per cent. In the second place, capital gains were large and capital losses were small. Finally, the relief accorded was not so great as to magnify the inequity of allowing relief to the large taxpayer but not to the small taxpayer.

However, a report was submitted on November 28, 1928, to the Joint Committee by its staff, setting forth a new method, which, while arbitrary, was advocated as being more equitable and as being defensible on the basis of a sound theory. This theory was as follows:--

"The tax on capital gains should approximate the tax which would have been paid if the gain had been realized in uniform annual amounts over the period during which the asset was held. In the same way, the reduction in tax due to losses should approximate the reduction in tax which would have resulted if the loss had been incurred uniformly over the period during which the asset was held."

The report proposed to take into account in computing income a certain percentage of the capital gain or loss, depending on the length of time for which the asset was held.

If the asset was held less than 2 years, 100% of the gain or loss was taken into account; if held for 2 years, but less than 3, 90% of the gain or loss was taken into account; if held for 3 years, but less than 4, 80%; if held for 4 years, but less than 5, 70%; if held for 5 years, but less than 7, 60%; if held for 7 years, but less than 10, 50%; if held for 10 years, but less than 15, 40%; and finally, if the asset was held for more than 15 years, it was proposed not to recognize gain or loss at all.

The report contained this significant statement as to the practical advantages of the proposed plan to the Government:

"In any event, the proposed provision should tend to stabilize the revenue. That is, we should get more revenue in years of depression when it is needed and less in good years when the tax on ordinary income should be sufficient. From the standpoint of the Government, the present period of high prices is an advantageous time to make the change."

This report, made in 1928, undoubtedly laid the foundation for the change made in the treatment of capital gains and losses brought about in 1934.

In 1934 conditions had changed. There was urgent need for revenue, and conditions were far from prosperous. Moreover, a normal rate of 4% and surtax rates reaching 59% were contemplated. Under such rates, the 12-1/2% provision cut the maximum tax from 63% to 12-1/2%, while under the 1926 and 1928 Acts the relief only reduced the maximum tax from 25% to 12-1/2%.

A subcommittee of the Committee on Ways and Means of the House of Representatives issued a report under date of December 4, 1933, in which the following statement is made in respect to capital gains and losses:—

"Our present system has the following defects:

"First. It produces an unstable revenue—large receipts in prosperous years, low receipts in depression years.

"Second. In many instances, the capital gains tax is imposed on the mere increase in monetary value resulting from the depreciation of the dollar instead of on a real increase in value.

"Third. Taxpayers take their losses within the 2-year period and get full benefit therefrom, and delay taking gains until the 2-year period has expired, thereby reducing their taxes.

"Fourth. The relief afforded in transactions of more than 2 years is inequitable. It gives relief only to the large taxpayers with net incomes of over \$16,000.

"Fifth. In some instances, normal business transactions are still prevented on account of the tax.

"Your subcommittee has examined the British system, which disregards these gains and losses for income-tax purposes. The stability of the British Revenue over the last 11 years is in marked contrast to the instability of our own. In that period the maximum British revenue was only 35 per cent above the minimum, while in our own case the percentage of variation was 280 per cent.

"Your subcommittee, however, has been unable to reach the conclusion that we should adopt the British system. It is deemed wiser to attempt a step in this direction without letting capital gains go entirely untaxed."

The final result was that the Revenue Act of 1934 contained the new treatment of capital gains and losses already described earlier in this statement, - the amount of gain or loss taken into account in computing income varying from 100% to 30%, in proportion to the length of time for which the asset had been held. It should be noted, of course, that these reductions in the amount of gains or losses taken into account for income tax purposes are limited to individuals and have no application in respect to corporations.

VI. Possible Improvements in the Method of Treatment of Capital Gains and Losses.

So much for the background of our Federal system of treating capital gains and losses for income tax purposes. Let us first enumerate briefly the defects in our present system and then pass on to a consideration of possible improvements to that system.

Defects in our Present System.

The present system of treating capital gains and losses has one glaring inequitable defect which must be obvious to all and which can only be defended on the ground of expediency. This defect results from the fact that capital gains are added to ordinary income, but capital losses can only be deducted to the extent of the gains, plus \$2000. The \$2000 proposition is only a relief affecting the small taxpayer. Under this system, it is entirely possible for a man to have capital losses of \$1,000,000 and other income of \$1,000,000 and still pay a tax of about \$650,000. Thus, he is poorer at the end of the year by the total amount of the tax.

A second defect of our present system results from the fact that it considers one year only. How much fairer would it be if it would allow the losses of one year to be

offset against the gains of a subsequent year? For instance, a man can start out with \$1,000,000 in capital and in a few years find his capital depleted to \$500,000, and yet in the meantime pay some hundreds of thousands of dollars of tax to the Government.

Finally, our present system interferes to a considerable extent with normal business transactions. It encourages the taking of losses within one year, and discourages the taking of gains until relief can be secured by the reduction in the amount of gain taken into account in computing income based on the length of time for which the asset has been held.

Possible Improvements in Capital Gain and
Loss Provisions

It is extremely difficult to suggest improvements to our present provisions governing the treatment of capital gains and losses, because such treatment must be synchronized with the general structure of our taxing act. For example, the Revenue Act of 1936, just passed by the Congress, contains such substantial changes in the method of taxing corporations as to affect vitally the question of how capital gains and losses should be treated. To illustrate this point it is merely necessary to observe that an examination of the facts will show that the majority of the capital gains in the past have been realized from the sale of corporate stock. The increased value of corporate stock comes about largely, of course, because a considerable portion of the net earnings are retained in surplus and used in increasing the earning power of the corporation. Under the present undistributed profits tax system, the tax on the annual earnings of a corporation may be increased from 15% to 35% if all the earnings are retained for expanding the business of the corporation. We do not intend to go too far outside our subject of capital gains and losses to discuss the merits of the new tax on undistributed profits, but it is proper to observe that if this system is continued, the

question of capital gains will become comparatively unimportant in the long run as a revenue producer.

In fact, under an undistributed profits tax system, a complete adoption of the British system might well be contemplated as the final goal. The undistributed profits tax encourages and may even force the distribution of all corporate earnings either by way of cash dividends, taxable stock dividends, or interest-bearing script. If a stockholder pays annually his full tax on all corporate earnings distributed by way of stock dividends or similar devices, it is obvious that his capital gains will be seriously curtailed, for his basic investment in the corporation will continually increase. On the other hand, under this system, capital losses will undoubtedly exceed capital gains so that the Government would probably be better off if it left capital gains and losses out of account in computing net income.

However, the adoption of the British system, suddenly, would probably be unwise not only from a revenue standpoint but from equitable standpoints. Ordinary income is so easily changed into capital gains that intense study would have to be given to the possibilities of tax avoidance opened up through the sudden adoption of the British plan. For example, if a corporation declares a dividend on December 31st, payable to stockholders of record of January 15 th, it is

obvious that the stock will advance in price between January 1 and January 15, so that a stockholder by selling between those dates may turn dividend income into capital gain income.

Another plan which might find favor is to revise our present system. That is to say, it is entirely possible to make our present bracketed system, dealing with the amount of capital gain or loss to be taken into account, much more scientific. Somewhat more relief might be given, but the brackets could be increased so that the transition from no relief to substantial relief would be so gradual as to interfere only slightly with normal transactions.

Finally, it is suggested, in view of the practical condition, in view of the substantial changes taking place in our general scheme of taking income, and in view of the substantial differences which exist in the nature of ordinary income and the income from capital gains, that consideration be given to a plan whereby capital gains would be subjected to income tax entirely apart from other income.

In other words, suppose we do not add capital gains to other income or subtract capital losses therefrom. Conceive of capital gains and losses going into a separate basket by themselves. Now, if you will imagine a capital gains tax with graduated rates approximating one-half our present tax rates, and imagine capital losses as an offset

against gains with a provision whereby the capital net losses may be carried forward for a period of six years, it will be found that a fairly equitable result will be obtained.

Let us test this system in comparison with our present system in a not unusual case:

Assume a man has the following capital net gains and net losses in a six-year period disregarding his other income.

1936 - Capital net losses		\$100,000
1937 - Capital net gains	\$150,000	
1938 - Capital net losses		50,000
1939 - Capital net gains	150,000	
1940 - Capital net losses		250,000
1941 - Capital net gains	<u>100,000</u>	<u> </u>

Total gains six years \$400,000

Total losses six years \$400,000

Under this example, assuming assets held between one and two years, under existing law the tax would be \$113,650, although the taxpayer's net gains and net losses in the six-year period exactly counterbalanced and he was not one dollar richer at the end of the six years. Under the proposed plan the tax would be \$18,440. And still it would seem that \$18,440 tax would be sufficient for a man who made nothing in a six-year period from his capital transactions. On the other hand, if we assumed assets held over ten years and

assumed that the man had capital net gains every year then the suggested plan would bring in more revenue than the present system and still this might be perfectly fair in respect to such a fortunate individual.

Of course, any such new system would need extensive study but it does seem obvious, from the fact that income from capital gains while realized in one year generally accrues over a period of years, that any fair system of taxing capital gains should give recognition to prior year losses.

In conclusion, permit me to state that, with high tax rates, our income tax system must be made equitable if it is to endure, and that the one-year period is a very short length of time in which to measure income. Moreover, as far as capital gains are concerned our high estate and gift taxes effectually prevent any undue avoidance of tax in the long run from a reasonable and fair system of taxing such gains.

DATE August 10, 1936

TO Secretary Morgenthau
FROM Mr. Haas *HAAS*

Attached is the requested data on the miscellaneous taxes falling under Title IV, Revenue Act of 1932, as amended.

The Bureau of Internal Revenue has no information on the number of taxpayers falling within each type of tax under Title IV. A single business concern may be subject to several of the taxes. In the absence of Internal Revenue records, there have been incorporated in the attached schedule the "number of establishments" and the "value of the annual product" taken from Preliminary Reports of Census of Manufacturing, 1933, Bureau of the Census. These represent census classifications for manufactures paralleling the items appearing under the separate sections of the tax statute and conforming as nearly as possible to the classifications in Title IV.

After due inquiry, it has been ascertained that there are not available any figures which will show the separate cost of collection applicable to each, or to the entire group of miscellaneous taxes. The deputy collectors work on various types of taxes and no job-cost allocation to each type is feasible. The Commissioner's Annual Report for the fiscal year ended June 30, 1935, page 3, shows the cost of collecting each \$100 of internal revenue to be \$1.54. No records have been maintained in the Bureau from which it might be possible to make a break-down of this aggregate result.

The subject matter appearing under the legend "Comment" was supplied by Deputy Commissioner Bliss of the Internal Revenue Bureau.

MINERALRESOURCES, UNITED STATES, REVENUE ACT OF 1932, AS AMENDED

Item	Section	Rate	Yield fiscal 1936	Comment	CENSUS CLASSIFICATION 1/		
					Item	Number of establishments	Value of annual products (Thousands of \$)
1. Lubricating oil	601(c)(1)	4¢ per gal.	\$ 27,102,831.57	The tax on lubricating oil is a good revenue producer, but there has been some laxness and laxity in reporting exemption certificates covering exempt sales. If this situation does not improve, it may be necessary to consider possible amendments to the law.	Lubricating oils and greases not made in petroleum refineries	158	28,702
2. Brewer's wort Liquid malt, etc.	601(c)(2)	15¢ per gal. 5¢ per lb.	25,677.76 982,996.64	The tax on brewer's wort, liquid malt, etc., was imposed to tax the ingredients used by makers of home brew and bootleggers of beer prior to the repeal of the 18th Amendment. While the tax does not raise any administrative difficulties, the revenue from this source is decreasing because of the trend away from such products. Since the conditions responsible for the imposition of this tax are disappearing, there appear to be no compelling reasons for its continuance.	Malt Malt liquor	30 528	27,323 362,540
3. Rubber tires Inner tubes for tires	602	2¢ per lb. 4¢ per lb.	26,432,364.92 5,775,618.11	The tax on tires and tubes is easy of administration, produces substantial revenues, and no change in form will be necessary if Congress decides to continue it.	Rubber tires and inner tubes	44	299,313
4. Toilet preparations (perfumes, cosmetics, etc.)	603	10% of price	8,477,826.71	The tax on toilet preparations, while producing substantial revenues in its present inadequate form, should be amended to equalize the tax burden among competitors by clarifying the intent of Congress as to who is a producer and as to the sale price on which tax will apply. The form taken by any such amendment will possibly also raise a question as to whether the rate of tax should be changed.	Perfumes, cosmetics and other toilet preparations	690	37,048
5. Fur articles	604	10% of price to 6/23/36 3% thereafter	3,321,057.14	The amendment of this section by section 511 of the Revenue Act of 1936, whereby the tax rate was reduced from 10% to 3% and all exemptions as to sale price were removed, has removed some of the more objectionable features, but there still remains a very troublesome accounting problem in determining whether fur is the component material of chief value. In the opinion of this Bureau, this section warrants consideration as to the advisability of its repeal because of the small amount of revenue derived as compared with (1) the number of taxpayers affected, (2) the administrative cost of collection, and (3) the difficulties of uniform application.	Furs, dressed Fur goods	131 1,462	24,568 80,541
6. Automobile truck chassis and bodies	605(a)	3% of price	7,020,281.23	Except for a proposed amendment to tax trailer bodies and chassis for pulling trailers, the comments under 3 above are applicable.	Truck and other commercial bodies 2/ Truck chassis 2/ Truck chassis 2/	- - -	11,670 3,972 41,054
7. Other automobile bodies, chassis, and motorcycles	605(b)	3% of price	48,200,855.20	See comment under 3.	Public conveyance bodies 2/ Other passenger bodies 2/ Bus chassis 2/ Other passenger chassis 2/	- - - -	1,488 167,853 233 3,075
8. Automobile parts and accessories	605(c)	3% of price	7,110,188.33	See comment under 3.	Parts and accessories 2/ Parts and accessories 2/ (Total items in groups 6,7,8 footnoted 2/)	- - 696	486,776 108,688 (671,780)
9. Radio components and phonograph records	607	3% of price	5,075,270.82	The tax on radios should be amended to tax complete radio receiving sets in addition to the present tax on radio components.	(Total items in groups 6,7,8 footnoted 2/)	122	(234,006)
10. Mechanical refrigerators	608	3% of price	7,939,063.75	See comment under 3.	Radio apparatus and phonographs	156	121,802
11. Sporting goods and guns	609	10% of price	5,531,132.72	See comment under 3.	All refrigerators, refrigerating and ice-making apparatus Mechanical refrigerators and refrigerating systems, compressor type	206 -	140,762 84,987
12. Firearms, shells and cartridges	610	10% of price	2,484,574.54	No changes necessary.	Sporting and athletic goods Toys &/, games and playground equipment	176 289	25,267 37,222
13. Cameras and lenses	611	10% of price	577,925.70	The tax collected from this source is negligible and it would appear consideration might be given to its repeal for that reason.	Ammunition and related products Firearms	24 22	27,861 9,234
14. Paper matches in boxes Heavy wooden matches All other matches	612	2¢ per M 5¢ per M 2¢ per M	7,106,399.21	See comment under 3.	Photographic apparatus and materials and projection materials Optical goods	84 103	53,860 26,234
15. Chewing gum	614	3¢ of price	807,279.40	See comment under 15.	Matches	18	26,373
16. Electrical energy	616	3¢ of charge	33,575,179.25	See comment under 3.	Chewing gum	31	41,684
17. Gasoline, kerosene, etc.	617	1¢ per gal. (1¢ per gal. from 6/16/33 to 1/1/34)	177,119,640.07 879,479,080.49	See comment under 3.	Electrical energy	-	-
					Petroleum refining	39	1,378,637

Treasury Department, Division of Research and Statistics.

August 10, 1936.

1/ Selected census industrial classifications (1929) conforming as nearly as possible to the classifications in Table IV.

2/ Made by the "auto body and parts industry."

3/ Made by the "auto chassis industry."

4/ Does not include children's wheel goods and strollers.

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INTER OFFICE COMMUNICATION

DATE August 10, 1936.

To Mr. Oliphant:

FROM W. R. Johnson.

CONFIDENTIAL

German subsidies

The following is a free translation of the effective part of a statement the German Ambassador has been directed by his Government to make to the Government of the United States:

Effective August 3, all existing procedures to aid the German exportation to the United States have been stopped in so far as such procedures could, under the Attorney General's opinion to the Treasury Decision of June 4, give cause to the collection of countervailing duties under section 303 of the Tariff Act.

I have advised Dr. Baer that this statement would probably not result immediately in the action desired by the German Government, namely, the restriction of the application of countervailing duties, in the case of German products, to articles now subject to the order of June 4, which are exported from Germany pursuant to contracts entered into prior to August 3.

In a formal communication about a year ago, the German Government declined to give us information concerning its procedures, because that Government did not believe that such procedures came within the scope of our countervailing duty or dumping laws. It is quite possible that a similar misunderstanding might exist as to the scope of the Attorney General's opinion of June 2, 1936. I feel, therefore, that I could not recommend the action desired by the German Government unless it shall give us more explicit assurances.

I have good reason to believe that a week-end cable from the German Ambassador to his Government suggests that:

1. The Ambassador be authorized to give assurances, in respect of all goods to which countervailing duties could be applied, in terms substantially similar to those used in the assurances given regarding cameras, calf and kid leather, and surgical instruments.
2. The assurances cover not only goods contracted for after August 3, but also goods exported from Germany after some early date, say September 1 or 15, regardless of the date of contract. (This would probably result in a decision of the Treasury that the list of June 4 need not be supplemented by the addition of new articles subject to countervailing duties.)

W. R. Johnson
Regraded U

Regraded Unclassified

August 10, 1936

Mr. Oliphant, Mr. Johnson and Mr. Taylor met with the Secretary today on the subject of countervailing duties. As a result of this conference, it was decided to take the Germans' word that they were no longer giving subsidies and that, therefore, we could withdraw our countervailing duties which were announced on June 4.

August 10, 1936.

Mr. Elmer L. Irey,
Chief, Intelligence Unit,
Bureau of Internal Revenue.

Dear Mr. Irey:

Heretofore you were directed to refrain from further investigation of the personnel of the Secret Service which you had been previously directed to make.

In view of the statements that you have made to me this morning with respect to the falsification of the income tax returns of Thomas J. Callaghan, Operative in Charge of the Secret Service in the Chicago Office, you are directed to continue this investigation and bring it to an immediate conclusion.

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary

August 10, 1936

At the staff meeting this morning, the following were present: McReynolds, Upham, Bell, Taylor, Haas, Gaston and Oliphant.

The Secretary told the group that the President had decided not to go on the air, because, according to the President, "Things are so lovely, why should I talk and spoil it? We will let the other fellows do the talking." When Bell reminded the Secretary that the President had planned to go on the air on the Budget summation, HM, Jr. said, "I know, but the President had decided to let the Budget summation slide out in a week or so."

Bell referred to the Treasury apportionments and noted that the Treasury had only about \$79,000 in reserve out of an appropriation of some \$143,000,000. He said, "I don't think that's enough. The President has sent out a letter asking all Department heads to set up a substantial reserve of 1 or 2% and the Treasury's amounts to only about 1/20th of 1%." McReynolds explained the Treasury reserve by saying, "What you have is my recommendation. We haven't got any more money than we can rightfully use. We don't want to be stubborn but it is my judgment that we will hamper our Treasury activities if we refuse to let them put in their plans for spending the amount we have in the appropriation." HM, Jr. decided the matter by directing that the Treasury set up a 1% reserve as an example to other Departments.

The Secretary inquired from Bell the results of the President's letter and series of orders sent out in June urging economy in expenditures. HM, Jr. said he would like to know if the order was obeyed and if not, by whom. He said everybody is pulling for campaign material and in his judgment this is the best material from the Treasury standpoint that he knows of. HM, Jr. pointed out that the items involved were: (1) impound funds left over from 1936 appropriation; (2) setting up reserves; (3) no increased expenditures in 1938, and suggested that Gaston have copies of the orders and make a study to see what happened. Gaston was of the opinion that all these matters are between the President and the Budget Bureau and that the facts should be given to Steve Early who should give it out through the White House.

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Gaston presented a draft of the proposed letter to the President on taxes and HM, Jr. said the outline was exactly what he wanted, but that he expected to show it to a lot of people before he lets the President sign it. He had in mind Bob La Follette, Landis, Eccles and Charley Michaelson. What he wants to do is to point out three things: 1. no new taxes; 2. do away with a lot of nuisance taxes, and 3. study the capital gains taxes.

After the group left, Gaston remained to show HM, Jr. his draft of letter to the Editor of the New York Herald Tribune (attached hereto) contradicting the information contained in their editorial of August 8th. HM, Jr. decided to show it to the President and perhaps the Attorney General before dispatching it.



THE SECRETARY OF THE TREASURY
WASHINGTON

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The Editor,
The New York Herald Tribune,
New York, New York.

Dear Sir:

I have read the editorial in the Herald Tribune of Saturday in which you refer to an article by Miss Dorothy Thompson and make this statement:

"On Thursday, evidently after reading Miss Thompson's article, Secretary Morgenthau announced that the Treasury Department would continue its efforts to collect sums claimed for unpaid taxes."

The fact is that I had not read Miss Thompson's article until your editorial called attention to it and I made no such announcement.

Miss Thompson also unfortunately departed from the facts in her references to the Treasury Department in connection with the New Orleans cases, due obviously to her misunderstanding of procedure in income tax cases, a misunderstanding which your editorial writer evidently shares. Miss Thompson wrote: "And the Treasury Department announced that despite the Department of Justice, they intended to press the indictments and reopen the charges. They were preparing, it was announced, to give the men ninety days in which to pay or file appeals."

Of course the Treasury Department didn't announce anything of the kind. It would have been an absurdity. The Treasury does not conduct criminal prosecutions of income tax evaders. That is a function of the Department of Justice. The Treasury reports to the Department of Justice any evidence that it has of criminal fraud and evasion in tax matters, and, where decision is reached to prosecute, its agents assist in the presentation of this evidence to grand juries and to courts. The error in the article is the failure to distinguish between criminal prosecution and the civil process for the collection of delinquent taxes.

After the dismissal of the remaining criminal cases in New Orleans the Department was asked whether civil action would be taken to collect tax deficiencies from these defendants. The same reply was made to all newspaper inquiries; that such action would be taken; that the usual and normal procedure would be followed. This procedure is to determine the amount of the

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deficiency, including unpaid taxes, interest and any fraud penalties which may be deemed to be due, and to give notice of a proposed assessment of the amount against the delinquent taxpayer. Formal notice of the proposed assessment is sent to the taxpayer in a so-called "ninety-day letter." If he regards the proposed assessment as unjust he has ninety days in which to file a petition for review with the United States Board of Tax Appeals. If he neither pays the assessment nor petitions for review within the ninety days and in the absence of a prior jeopardy assessment the tax is assessed and demand made for payment.

It is not the custom of the Bureau of Internal Revenue to make these "ninety-day letters" public. The assessment and the pleadings become public after a petition has been filed with the Board, whose proceedings are all matters of public record.

At various times since the remaining New Orleans indictments were dismissed officers of the Department have been asked as to the truth of rumors that the civil cases against these defendants had been "dropped." The reply in each case has been made that the rumors were not true. The Department has not volunteered any announcement on the matter at any time.

It is not exceptional or extraordinary for civil action for the collection of tax deficiencies to be instituted after criminal prosecution has failed. On the contrary, it is the usual procedure. These cases have received and will continue to receive the same treatment by the Department as any other similar tax cases. This means that the Department will seek diligently to collect any sums it believes to be due to the Government.

Yours very truly,

Secretary of the Treasury.

The Editor,
The New York Herald Tribune,
New York.

Dear Sir:

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Yours very truly,

Secretary of the Treasury.

The Editor,
The New York Herald Tribune,
New York

Dear Sir:

~~I have read the editorial in the Herald Tribune of Thursday, August 1st~~

I have read the editorial in the Herald Tribune of Saturday in which you refer to an article by Miss Dorothy Thompson ~~published on Thursday~~ and make this statement:

"On Thursday, evidently after reading Miss Thompson's article, Secretary Morgenthau announced that the Treasury Department would continue ~~in~~ its efforts to collect sums claimed for unpaid taxes."

The fact is that I had not read Miss Thompson's ^{article} ~~critique~~ until your editorial called attention to it and [^] made no such announcement. So far as I can learn there has been no inquiry from the Herald Tribune on the subject. I find that ~~there has been no inquiry from the Herald Tribune on the subject. I find that~~ at the Treasury a reporter for another newspaper did inquire whether it was true that the Department had dropped claims for civil liability against the defendants in the New Orleans cases and was told that it was not true.

Miss Thompson also unfortunately departed from the facts in her references to the Treasury Department in connection with the New Orleans cases, due obviously to her misunderstanding of procedure in income tax cases, a misunderstanding which your editorial writer evidently shares. Miss Thompson wrote: "And the Treasury Department announced that despite the Department of Justice, they intended to press the indictments and reopen the charges. They were preparing, it was announced, to give the men ninety days in which to pay or file appeals." Of course the Treasury Department didn't announce anything of the kind. It would have been an absurdity. The Treasury does

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It is not the custom of the Bureau of Internal Revenue to make these "ninety-day letters" public. The assessment and the pleadings become public after a petition has been filed with the Board, whose proceedings are all matters of

public record.

At various times since the ~~Murphy~~ remaining New Orleans ~~tax cases in which there have been~~ indictments were dismissed ~~the~~ officers of the Department have been asked as to the truth of rumors that the civil cases against these defendants had been "dropped." The reply in each case has been made that the rumors were not true. The Department

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~~the~~ cases have ^{received} and will continue to receive the same treatment by the Department as any other similar tax cases. This means that the Department will seek diligently to collect any sums it believes to be due to the Government.

Yours very truly,

Secretary of the Treasury.

THE WHITE HOUSE
WASHINGTON

Hyde Park, N. Y.,
August 5, 1936.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Is E. G. Bennett still the
Republican member of the F.D.I.C.
Board? I understand he conferred
with Landon at Topeka and may manage
the western campaign. If this is
true, I cannot see how he can justify
remaining.

F. D. R.



August 10, 1936

While at luncheon with the President today, HM, Jr. discussed the attached memorandum and informed the President that Mr. Bennett is no longer connected with FDIC.



OFFICE OF THE DIRECTOR

200 for my diary
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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON August 11, 1936

MEMORANDUM TO THE SECRETARY:

Following the conference in the Office of the Director of the Budget, first with Colonel Hackett and Mr. Foley from PWA, and afterward with Aubrey Williams, Corrie Gill, and Colonel McHaffey, representatives of the WPA, Mr. Aubrey Williams and myself were called to the White House for a conference with the President at 3:40 P.M.

The President, thereupon, told Aubrey Williams, in connection with the general survey, that he wanted three things done:

- (a) On PWA projects a new formula should be adopted under which PWA would agree to reimburse any community for the actual cost of Work Relief labor, either skilled or unskilled, taken off the Work Relief rolls. This reimbursement would represent the amount of the grant that PWA would make on any project up to, but not exceeding 45% of the total cost. In doing this the community, where there was a shortage of skilled labor on Work Relief rolls, could draw from other places in the vicinity such labor as might be needed on the job.

The President illustrated this new formula which would have the effect of displacing the former system of grants on new projects with a formula whereby PWA would reimburse the municipality as far as possible within a limitation of 45% for every dollar spent by the municipality in wages on any PWA project paid for labor taken directly from Relief rolls.

He stated, further, that he had telephoned to Colonel Hackett that afternoon that the same principle must be followed directly in connection with a visit from representatives from Kentucky who wanted \$2,000,000 in prison and school projects approved, and that PWA should be guided accordingly.

- (b) That WPA should undertake, at once, from the record cards in their possession, a definite reclassification of labor on the rolls in any community so that a skilled or unskilled worker would be certified for the character of work he was competent to perform so that a man who was a brickmaker would not be certified as a bricklayer.
- (c) That WPA should take steps to "comb" the Relief rolls to eliminate those employables who are receiving "part time" wages from outside sources and also drawing "part time" wages on the Work Relief rolls.

Mr. Williams said he could, and would, follow out the above instructions.

The meeting was short and to the point, and the press conference immediately followed.

(August 12) The above principles were released at the press conference as appears from the enclosed clipping of the New York Times.

[Signature]
Director of Procurement

August 11, 1936

At the 9:30 group meeting, HM, Jr. said he had talked to Steve Early and Steve Early thinks the tax letter should go out this week because Bilbo has been against Pat Harrison and we want Harrison re-elected. The Secretary asked the group to work on it, having in mind the last two paragraphs should come out.

...will be a...
...labor from one city to another, is a...
...survey undertaken recently by the PWA to an attempt to classify persons on relief rolls by trade and occupation.

Points View in Regional Aid

As an example, he pointed out that a city building a bridge might find that it needed a caisson worker, but had none on its relief roll. In that case the city might hire such a worker from another locality which could supply this demand from its own relief roll, and thereby qualify for reimbursement of the caisson worker's wages. The President observed that there were no geographical limitations to the objective of taking persons off of relief rolls.

When he was asked about regional complaints that relief wages or payments were higher than the market price of labor, Mr. Roosevelt first asked for specific examples and, receiving none, started his own explanation, adding that the administration intended to sit tight in the determination to provide decent living for Americans.

The President said that some complaints of this sort from Texas were found; on investigation, to be due to the fact that employers there wished to employ Americans at the wages they had paid to Mexicans. The same was true, he added, at points on the Canadian border where French Canadians worked for extremely low wages.

As a third example he cited certain areas where canneries were operated, mentioning specifically New Jersey, where he said people would not work for 90 cents a day, and that the labor contractors complained that they could not take people off the relief rolls.

He said that in most cases the trouble seemed to be that the complaining employers did not want to pay a subsistence wage consistent with American labor standards.

...the...

private en... labor. That difficulty, he contended, usually arose from the unwillingness of contractors to pay fair subsistence wages on an American standard. He termed this, in his own words, the Ethiopian in the woodpile.

Will Pay for Relief Labor

The discussion of the new PWA policy arose from a question as to how the administration proposed to use some \$300,000,000 earmarked from the last relief appropriation by Congress for such activities.

Mr. Roosevelt said that the government was displacing the old grant system on new projects with one whereby it will reimburse municipalities, as far as possible with the 45 per cent limitation, for every dollar spent in wages on public works which are paid to labor taken directly from relief rolls.

Thus, projects using a high percentage of unskilled labor, he added, probably would qualify for the full possible grant, while others, which needed considerable skilled labor, a type not widely represented on relief rolls, might receive a much smaller percentage of the cost in the form of a grant or reimbursement.

The President made it clear that municipalities would not be required to abide by the rule of using relief-roll labor in spending their own funds; only in using the money given to them by WPA.

ROOSEVELT REVISES PWA GRANT SYSTEM

Outright Gifts of Funds Hereafter Will Be Based on Number Taken Off Relief Rolls.

45% TO REMAIN MAXIMUM

New Policy Also Will Permit Calling Needed Skilled Jobless From Another City.

Special to THE NEW YORK TIMES.

WASHINGTON, Aug. 11.—Broad revisions in the policy governing Federal grants to municipalities to assist in construction of public works, under which the sole gauge would be the actual number of persons removed from relief rolls, were explained by President Roosevelt at a press conference today.

The old rule under which loans of 55 per cent of the cost of projects and grants covering the remaining 45 per cent were made by the Public Works Administration to approved projects has been discarded, he made clear, except that 45 per cent remains as the maximum limit on gifts in the form of grants.

In his discussion of the PWA program the President announced a broadening of rules to permit cities to bring from other localities special craftsmen not on their relief rolls.

Finally, he took issue with critics of the administration in some localities who have complained that relief payments made it difficult for employers to obtain labor.

August 11, 1936

Gaston took the attached draft of letter over to Steve Early and it was approved without any changes.

August 10, 1936.

The President
The White House

Dear Mr. President:

At your request the Treasury Department since the adjournment of Congress has been giving careful attention to the adequacy of the tax structure to meet the revenue needs of the Government and generally to the desirability of additional tax legislation.

We have reached the conclusion that no new taxes and no increases in present tax rates are necessary. Due to continued improvement in business conditions the yield of existing taxes is steadily increasing. Total revenues from sources other than the outlawed processing taxes in the fiscal year 1936 were substantially higher even than our estimates of last January, ~~which had been revised upward materially.~~ In addition, the tax structure was strengthened by the Revenue Act of 1936, which constitutes a major improvement in our tax system. With continued recovery, we are steadily approaching a revenue yield which will be entirely adequate to cover the expenditures of government and to reduce the public debt.

Any changes in the tax structure should, therefore, not be in the direction of new or increased taxes. But this very situation makes it possible and timely for us now to consider revision of the tax laws with the purpose of removing any inequities or unnecessary administrative difficulties that may be inherent in the law and abating or modifying taxes that create hardships to trade or have other disadvantages which outweigh their revenue yield. Among such disadvantages would be that of over-

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lapping areas of taxation that might properly be left to state and local units of government.

I suggest the desirability of your asking Senator Harrison and Representative Doughton of the Joint Committee on Internal Revenue Taxation to discuss with you the advisability of undertaking soon a thorough examination of the tax laws with the object of making improvements of the character I have outlined.

It goes without saying that we shall be very glad to put the staff of the Treasury Department at the complete disposal of the Committee.

Sincerely,

Secretary of the Treasury.

August 11, 1936

HM, Jr. talked to Steve Early today about the tax letter and Steve Early is going to dictate and send over a draft of what the President wants. Then the President wants HM, Jr. to write him (the President) a letter in which HM, Jr. will say that he is advising the President that the revenue is adequate and we will not need new taxes. Based on that letter the President is going to telephone Harrison and Doughton and ask them to come to Washington to see him tomorrow.

Mr. Early's draft is attached.

8/11.

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It is requested that you write a letter to the President today saying, in effect, that because of improvements in industry, general gains in business and increased returns to the Government by the taxpayers, you and your fiscal advisers are able to advise the President that no new taxes whatever need to be imposed by the next Congress, etc.

The letter also in general terms would point to the need of having a new study undertaken of existing tax schedules.

The letter should suggest in this connection that it might be well to have this study undertaken jointly by the Senate Finance Committee and the Ways and Means Committee of the House.



SUGGESTIONS RELATIVE TO LEGISLATIVE PROGRAM1. Capital gains and losses -

The present scheme (1934 Act) has many of the shortcomings and lacks some of the virtues of the scheme it supplanted. It works inequities in its limitations on losses and still fails to produce the amount of revenue, or even a small portion of the total revenue we should be getting from this source. The only conclusion one can draw is that it is causing people to hold securities rather than to sell and realize their gains, thereby interfering with a free and natural movement of securities and enhancing the danger of another artificial boom on the stock market and its aftermath of inevitable collapse. The percentage provisions of section 117, based on duration of ownership, have not solved the problem. A large part of Parker's strictures on our capital gains system seems to be entirely fair and justified.

The best hope of a solution seems to me to be in a thoroughgoing and consistent secular treatment of capital gains and losses. The rate of tax on the capital net gain should be fixed as nearly as possible at the point where it will yield the maximum revenue. Statistical studies may indicate that rate to be even less than the 12-1/2 per cent optional rate under the old law. In any event it must be low enough so that the tax will not create an artificial clog on the sale of securities or other capital assets which have appreciated in value, thus putting an artificial prop under the market. Possibly a slight graduation in rate based on amount of the net gain during the taxable year might work but it could not be very great. Allow full deduction for losses, but keep capital gains out of the category of ordinary income, thereby protecting the revenue

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from the destructive impact of capital loss deductions from gross income from other sources, which was the curse of the pre-1934 law, and stabilizing to that extent the income tax yield.

At the same time such complete schedular treatment largely removes the inequity of including all capital gain in ordinary income but arbitrarily limiting deduction of losses.

I believe there is ample legal basis for such schedular treatment, if any doubts exist on that score, for the tax can be supported as an excise measured by net income. See in this connection Willcutts v. Bunn. And the Constitution does not require income from different sources to be treated in the same manner by Congress.

2. Percentage depletion.

This is one of the worst rackets in the Income Tax Law, being little less than a bonus to the oil and mining interests. Its political support is so strong, however, there would be little hope of its outright elimination and the substitution of actual cost depletion on a basis similar to depreciation.

There might be some chance, however, of reducing the rates which run up in the case of petroleum to twenty-seven per cent. A reduction of as much as one-third in the rates would have a tax effect of many millions per year.

3. Depreciation.

This is the source of more controversy and litigation by far than any other deduction provision in the law. The chief cause of this time-consuming and wasteful controversy is the effort to find and fix

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a single rate as constituting the reasonable allowance for depreciation of a particular type of asset, as though it were really possible in many, many instances to fix upon a specific rate as the only reasonable allowance.

A change in the law which would allow some flexibility in administration and some margin for the exercise of judgment by taxpayers themselves, as by fixing or authorizing the Commissioner to prescribe minimum and maximum rates could go far towards eliminating this perpetual source of tax litigation. Let the taxpayer elect a rate anywhere between the limits prescribed and then hold him to the election when made. Over a period of years the revenue effect would, I believe, be almost nil, provided the taxpayer is always limited to a recovery of not more than 100 per cent of his depreciable basis, and the saving in costs, both to government and taxpayers, would be great. The moral effects of minimizing this source of quarrel and friction could be very great.

Surely the Bureau now has sufficient data based on experience to arrive at reasonable upper and lower limits with a considerable degree of intelligence and precision.

4. Abolition of the requirement of an oath on tax returns.

A full statement of the pros and cons on Senator Walsh's proposal is in the Treasury files.

I personally can see no real danger and appreciable good in substituting the Massachusetts requirement of a signed statement under the pains and penalties of perjury for the requirement of formal verification.

With the proliferation of federal taxes and corresponding increase in the number of returns required, the notarial costs of swearing to returns must impose a substantial pecuniary burden on many taxpayers. More serious than that is the inconvenience and loss of time involved in many cases in finding a notary. Many taxpayers live at too great a distance from collectors or other public offices to verify their returns there.

5. Problems arising from section 77 and 77b reorganizations.

Careful consideration needs to be given to the rules governing recognition of gain or loss as they now apply to these statutory reorganizations under the Bankruptcy Act as amended. The present reorganization sections were not formulated with cases of this sort particularly in view.

Included in the general problem is the tax treatment of forgiveness of indebtedness incident to plans of reorganization. There is a real possibility that under existing law many of these plans of reorganization as approved by the courts have given rise to new tax liabilities, actual or potential, of such magnitude as to wreck the reorganized enterprises. Congress should define its policy in this regard.

6. The treatment of long term trusts under the estate and gift tax titles.

Miscellaneous amendments to estate tax.

(a) Numerous trusts are being created tying up large masses of property for the full period allowed by the rule against perpetuities. The estate and gift tax rates applicable to such transfers are the same (no more, no less) than the rates applied to present outright and complete donative transfers of property, whether inter vivos or at death.

This situation places a premium on the use of the long term trust as a method of minimizing taxes, since, after we have taxed once, there may not be any opportunity to tax again for two generations or even longer, whereas in the case of the outright and complete transfer, unless the property transferred is dissipated, there will be another taxable transfer within a single generation at the outside.

Serious consideration should be given to the advisability of creating a marked differential in the rates applicable to the two classes of transfers, thereby encouraging full and outright donative transfers of property. Included in the more favored class might be trusts certain to terminate within a period, let us say, of not more than twenty-five years from the date of their creation.

The immediate effect of such a change might be some loss of revenue; the ultimate or long-run effect should be a substantial gain.

(b) Several miscellaneous amendments to the estate tax title are also necessary to overcome the results of certain overly technical and restrictive interpretations of the existing law by the courts. Noteworthy examples are to be found in the St. Louis Union Trust Co. and the Becker cases in the current volume (56) of Supreme Court reports.

(c) The Lonergan amendment nearly went over in the 1936 Act and may do so at another session unless something better can be offered. Congress is concerned and with some reason over the problem of liquidation of estates without too great sacrifice to pay high death duties.

The best alternative I have been able to think out is the

possibility of allowing a fairly substantial discount (5 to 10 per cent) on estate taxes paid within a short period after death. This would encourage foresighted provision of liquid assets for this purpose, but would leave it to the individual whether to resort to insurance or the acquisition of bonds or other liquid securities.

7. Perfecting amendments to 1936 Revenue Act, particularly the new tax on undistributed corporate income.

It is inevitable that the preparation of the Regulations should have revealed some ambiguities and crudities of draftsmanship and that there should be a few vacua which need to be filled. That is always the case with a revenue act introducing important new principles of taxation. I mention only two here.

(a) The dividends paid credit should be governed by the date of disbursement of the dividend by the corporation in the commercial sense. The danger of any revenue lag on the collection of individual normal tax and surtax on dividends received can be readily removed by a simple amendment abrogating the decision of the Supreme Court in the Avery case and compelling individuals to take up in their current income all dividends mailed to them prior to the end of the taxable year.

There is some danger, under the position it has seemed necessary to take in the new regulations to prevent any revenue lag, that a corporation may be denied a dividend paid credit even though the circumstances are such that the Bureau would treat the dividend as constructively received by the shareholders during the corporation's

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taxable (calendar) year and includable in their individual returns for that year.

(b) A provision to provide appropriate special treatment of deficiencies in the return of corporate net income, where not due to fraud, in the computation of undistributed profits tax.

Something of this sort is necessary to prevent oppressive hardship in many cases. Without it, it will be virtually impossible to settle any of these cases. Corporate taxpayers will have everything to gain and little to lose by litigating to the finish. There was rather general agreement during the drafting of the 1936 Act that an appropriate special provision would have to be worked out, but time did not then permit nor immediate practical necessities require the inclusion of a formula in the 1936 law.

8. Consideration of needed changes in the structure or procedure of the Board of Tax Appeals.

Several formal recommendations have already been made and the memoranda are in the Treasury files.

Of chief importance is some adequate provision to secure the government's interest pending the Board's determination of the correct tax liability, and to prevent resort to the Board for mere purposes of delay, such as a bond or other satisfactory security.

9. Miscellaneous excise taxes.

Several of these can be repealed without great loss of revenue. With others, the rates could probably be reduced without proportionate

reduction in yield, where the tax is so high now as to restrict consumption materially or work economic dislocation in the industries affected.

The retention of any manufacturer's excise taxes should be accompanied by amendments to prevent evasion or avoidance by the use of subsidiary sales corporations. A vicious form of cutthroat competition can result in such cases. The problems can be solved by levying the tax at the point where the product is first sold to a purchaser outside the affiliated group and on the basis of the price at which such sale (assuming it is bona fide and at arms' length) is made.

10. Credits for dependents.

There is a widespread feeling that the present age limitation (18 years) on the credit for dependents is unjust to parents who are supporting their children in school or college.

I do not know what, if any, consideration has been given recently to the advisability of liberalizing somewhat this particular exemption or just how costly it would be in terms of revenue.

From the point of view of equity to individual taxpayers and the canon of ability to pay there is a great deal to be said for it. As it now is, many struggling parents lose the benefit of this exemption at the very time they need it the most.

I recognize that any tampering with the individual credit provisions opens up a very large field and that that may be deemed inadvisable at this time. The suggestion is wholly tentative and careful study would be necessary as to how far such a liberalization could be carried without serious loss of revenue.

11. Mutual insurance companies other than life.

The present law with respect to this class of insurance companies needs careful restudy and some overhauling to prevent loss of revenue to which the government is justly entitled.

A number of companies have hidden behind the skirts of the small farmers' mutuals who have been consciously favored by Congress and are escaping tax on income derived from large investment surpluses. This should be stopped but some amendment of the existing law is necessary to do it.

12. Taking the racket out of the Statute of Limitations.

One of the greatest improvements in the direction of equity and prevention of sterile litigation would be the finding of a legislative formula which would make the SIL sufficiently flexible so as to deprive both taxpayers and government of any incentive to take unfair advantage of mistakes made by either as to the proper timing of items of income or of deductions.

As it is, save where he is foiled by judicial application of uncertain and amorphous principles of estoppel, the taxpayer may and frequently does obtain a refund after it is too late for the Commissioner to assess a deficiency by throwing an item of income into an earlier year or a deduction into a later one. And not infrequently the Bureau collects what is really a second tax on the same income in converse situations.

The drafting of a satisfactory formula to stop this outrageous

- 10 -

process is a matter of great difficulty; some think it insoluble. We have been working on it and Lusk believes we are making some progress towards a workable solution. If we can solve it and get the necessary legislation, it will be a great contribution to sound tax administration and most of Prof. Maguire's strictures in that stimulating article in the Harvard Law Review will have been answered.

Arthur Kent
August 11, 1936



TREASURY DEPARTMENT

161

WASHINGTON

August 11, 1936.

MEMORANDUM FOR THE SECRETARY:

As you requested, I saw Mr. Aldrich, Chief Post Office Inspector, this morning with regard to the Highland Post matter.

Mr. Aldrich informed me that this publication was now, and had been for some months, under the surveillance of the postal authorities, and that the subject had been given personal attention by Postmaster General Farley.

He informed me further, however, that in the opinion of the Solicitor for the Post Office Department none of the questionable matter published in this paper, while scurrilous and defamatory in the extreme, was such as to warrant action by the postal authorities. The law appears to prohibit the circulation in the mails of newspapers carrying obscene matter only and has no application in cases where the matter is scurrilous or defamatory, as in the present case.

Mr. Aldrich advised me, incidentally, that the Highland Post is a newspaper of some 40 years standing but with a negligible circulation at the present time. Its use of the mails involves only approximately 30 pounds in the county of publication and approximately 10 pounds outside the county, each week, indicating an aggregate circulation of less than 1,000 copies.

Mr. Aldrich advised that this newspaper would be kept under close surveillance and should it at any time overstep the limits of the postal laws prompt action will be taken by the postal authorities.

The copies of the newspaper which you gave me are returned herewith.

GRAVES.

August 11, 1936

At the 9:30 group meeting, HM, Jr said he had talked to Steve Early and Steve Early thinks the tax letter should go out this week because Bilbo has been against Pat Harrison and we want Harrison re-elected. The Secretary asked the group to work on it, having in mind the last two paragraphs should come out.

The Secretary also told the group that after the letter is out of the way, he wants our people to start thinking about someone making a speech. This is the picture he wants to paint: that for the next three or five years with business recovery we can expect under the present tax basis a revenue of so many billions and with so many billion dollars we can do the following: we will spend so much for regular Government expenses; so much for public works; so much for Social Security which would include unemployment. We can set aside so much to retire the public debt. And last of all at the end of the speech say, We can look forward to what is our objective for the next four years from a financial standpoint. He said to the group, "Everybody around the President is saying that the President has nothing to say. Well, the above is something that he can say."

The men present were very enthusiastic with the Secretary's idea, but Viner said, "The program is a splendid one, but will the President set a figure and in this way tie his hands?"

August 11, 1936

Leon Henderson was in. Found out what he was doing. He's economic advisor to Charley Michelson. Asked him if I could talk to him about matters in strict confidence. He said yes. Told him about tax letter that I was going to write to the President. Very enthusiastic.

Then sketched to him my plan about a speech for the President, entitled "The Next Four Years." His comment was, "What you have told me, Mr. Morgenthau, is the best news I have had yet. I would like to enlist with you." Expect to use him from now on.

August 11, 1936

Lunched with the Attorney General today. I told him I thought it would be mutually advantageous if Bob Jackson would try the Louisiana tax cases. Cummings said he had a telegram from the President saying that I had made that suggestion. On receipt of the telegram he got in touch with Bob Jackson through his secretary, who advised Cummings that Jackson did not want to try the cases. However, Cummings said he would personally contact Jackson and let me know. He said he thought it would be better if I would not write the letter to the Herald-Tribune because we were "in the clear" on this matter and he was on the spot and if I wrote the letter they would only come back and ask him what he is going to do about it. So I agreed not to write the letter.

Neither of us mentioned the implications involved in this case, although I did tell him that Irey had told me that somebody had two men down there checking up and I took it for granted that it was the Republican party.

TREASURY DEPARTMENT

165

INTER OFFICE COMMUNICATION

DATE August 12, 1936

TO The Secretary

FROM Miss Lonigan *cl*

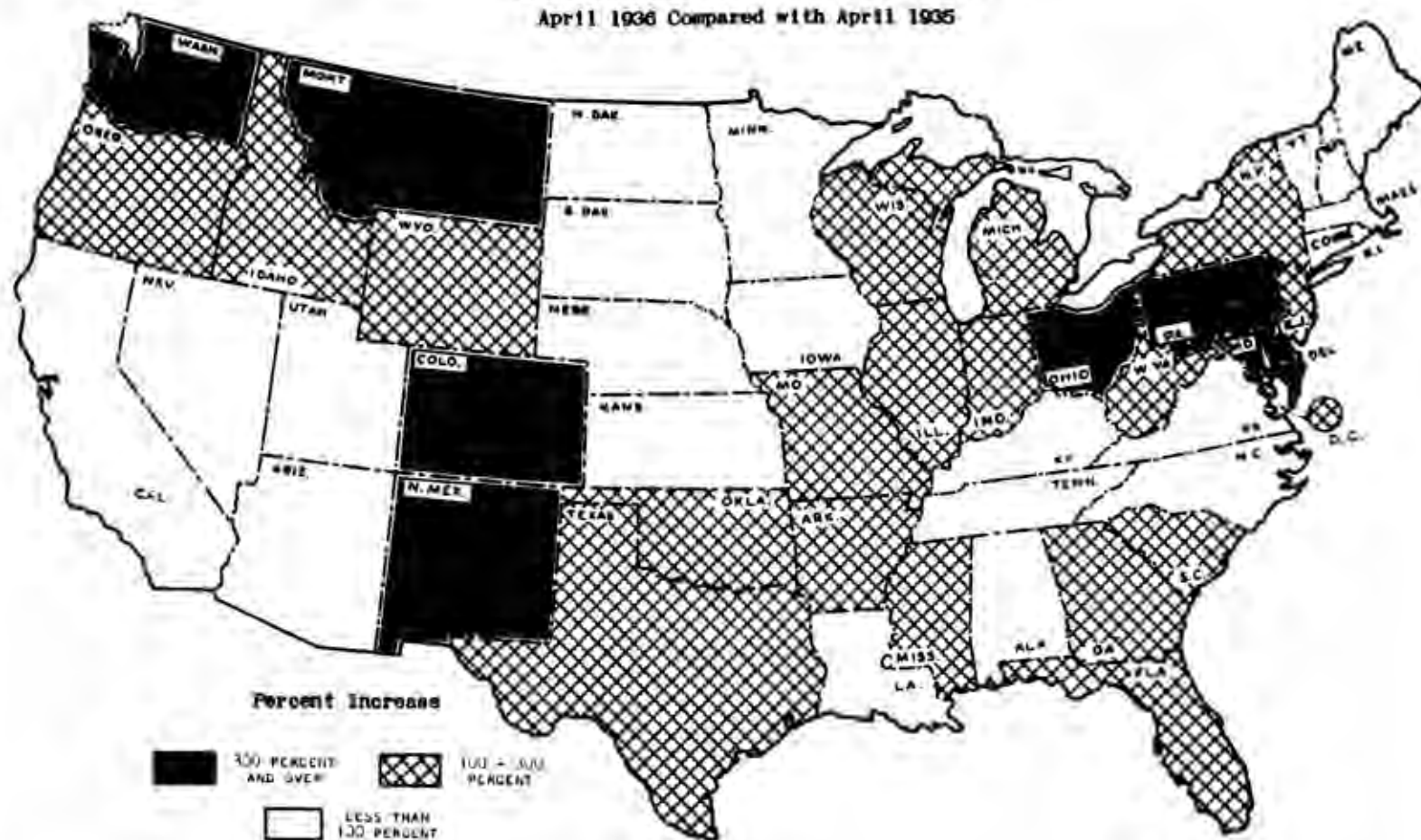
The attached tables are for reference if you wish figures for the separate States.

In nearly all the Mountain States, and most of the Wheat States, both work relief expenditures and Federal contributions were abnormally high in 1935.

You might wish to compare proposed drought relief expenditures with the increase in work expenditures in those areas since 1935.

State comparisons for June will be ready within a few days.

April 1936 Compared with April 1935

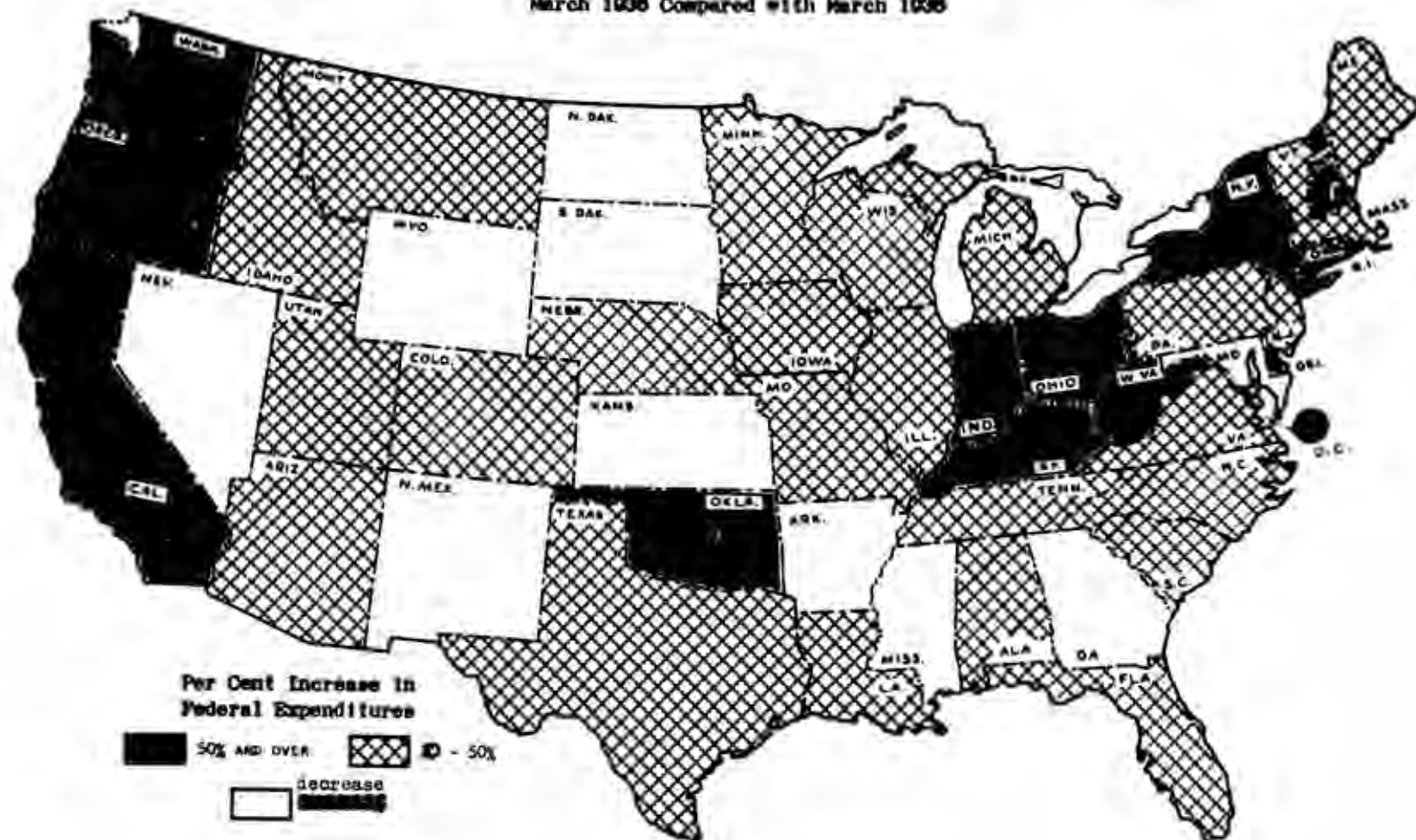


South Dakota and Nevada are decreases

Rising Trend of Work Relief Expenditures

	April 1935	April 1936	Percent increase
<u>New England</u>	<u>\$9,290,000</u>	<u>\$14,040,000</u>	<u>51</u>
Maine	410,000	690,000	67
New Hampshire	270,000	520,000	90
Vermont	220,000	300,000	41
Massachusetts	6,520,000	9,530,000	46
Rhode Island	530,000	970,000	84
Connecticut	1,340,000	2,030,000	51
<u>Middle Atlantic</u>	<u>18,300,000</u>	<u>55,790,000</u>	<u>205</u>
New York City)			
New York - Up State)	12,530,000	30,540,000	144
New Jersey	1,750,000	6,450,000	269
Pennsylvania	4,020,000	18,800,000	368
<u>East North Central</u>	<u>12,680,000</u>	<u>41,290,000</u>	<u>226</u>
Ohio	2,150,000	12,760,000	493
Indiana	2,440,000	5,120,000	110
Illinois	4,520,000	12,380,000	174
Michigan	2,280,000	6,600,000	190
Wisconsin	1,290,000	4,430,000	244
<u>West North Central</u>	<u>9,850,000</u>	<u>16,550,000</u>	<u>68</u>
Minnesota	2,360,000	4,440,000	89
Iowa	980,000	1,870,000	91
Missouri	1,270,000	4,820,000	281
North Dakota	720,000	790,000	9
South Dakota	1,360,000	840,000	- 38
Nebraska	1,040,000	1,480,000	43
Kansas	2,130,000	2,300,000	8
<u>South Atlantic</u>	<u>5,800,000</u>	<u>13,940,000</u>	<u>140</u>
Delaware	1,000	200,000	13,980
Maryland	300,000	1,270,000	323
District of Columbia	380,000	1,490,000	290
Virginia	860,000	1,550,000	81
West Virginia	1,050,000	2,740,000	160
North Carolina	830,000	1,540,000	87
South Carolina	400,000	1,290,000	160
Georgia	1,040,000	2,130,000	105
Florida	840,000	1,700,000	103
<u>East South Central</u>	<u>3,590,000</u>	<u>7,170,000</u>	<u>100</u>
Kentucky	1,050,000	2,080,000	99
Tennessee	1,040,000	1,940,000	88
Alabama	960,000	1,600,000	67
Mississippi	540,000	1,530,000	183
<u>West South Central</u>	<u>5,320,000</u>	<u>11,920,000</u>	<u>124</u>
Arkansas	610,000	1,430,000	134
Louisiana	1,290,000	2,190,000	69
Oklahoma	1,090,000	2,920,000	168
Texas	2,330,000	5,380,000	131
<u>Mountain</u>	<u>2,410,000</u>	<u>7,180,000</u>	<u>197</u>
Montana	160,000	1,120,000	600
Idaho	270,000	710,000	160
Wyoming	150,000	330,000	120
Colorado	610,000	2,580,000	323
New Mexico	110,000	660,000	504
Arizona	430,000	760,000	76
Utah	480,000	840,000	77
Nevada	200,000	160,000	- 19
<u>Pacific</u>	<u>7,850,000</u>	<u>14,300,000</u>	<u>92</u>
Washington	240,000	2,740,000	1,062
Oregon	560,000	1,300,000	130
California	6,850,000	10,660,000	56
<u>Grand Total</u>	<u>\$15,290,000</u>	<u>\$182,570,000</u>	<u>114</u>

FEDERAL EMERGENCY RELIEF ADMINISTRATION - WORKS PROGRESS ADMINISTRATION
Federal Expenditures
March 1936 Compared with March 1935



Federal Expenditures

169

	March 1935	March 1936	Percent increase
<u>New England</u>	<u>\$8,700,000</u>	<u>\$13,550,000</u>	<u>55</u>
Maine	580,000	740,000	28
New Hampshire	280,000	530,000	88
Vermont	210,000	290,000	38
Massachusetts	6,090,000	8,930,000	47
Rhode Island	310,000	980,000	221
Connecticut	1,240,000	2,090,000	68
<u>Middle Atlantic</u>	<u>42,670,000</u>	<u>57,410,000</u>	<u>35</u>
New York City)			
New York - Up State)	19,490,000	31,720,000	63
New Jersey	4,660,000	6,950,000	49
Pennsylvania	18,520,000	18,730,000	1
<u>East North Central</u>	<u>30,550,000</u>	<u>42,850,000</u>	<u>40</u>
Ohio	8,140,000	12,740,000	57
Indiana	3,100,000	5,430,000	75
Illinois	9,840,000	12,930,000	31
Michigan	5,010,000	6,970,000	39
Wisconsin	4,450,000	4,770,000	7
<u>West North Central</u>	<u>16,790,000</u>	<u>17,680,000</u>	<u>5</u>
Minnesota	4,450,000	4,690,000	5
Iowa	1,450,000	2,060,000	42
Missouri	4,000,000	5,190,000	30
North Dakota	1,510,000	790,000	- 48
South Dakota	1,600,000	980,000	- 39
Nebraska	1,370,000	1,580,000	16
Kansas	2,420,000	2,390,000	- 1
<u>South Atlantic</u>	<u>13,520,000</u>	<u>14,640,000</u>	<u>8</u>
Delaware	60,000	230,000	301
Maryland	1,820,000	1,360,000	- 25
District of Columbia	720,000	1,280,000	76
Virginia	1,220,000	1,650,000	34
West Virginia	1,880,000	3,030,000	61
North Carolina	1,670,000	1,730,000	3
South Carolina	1,500,000	1,490,000	*
Georgia	2,930,000	2,110,000	- 28
Florida	1,710,000	1,770,000	3
<u>East South Central</u>	<u>6,870,000</u>	<u>7,810,000</u>	<u>14</u>
Kentucky	1,460,000	2,400,000	65
Tennessee	1,830,000	2,090,000	15
Alabama	1,850,000	1,870,000	1
Mississippi	1,740,000	1,450,000	- 17
<u>West South Central</u>	<u>10,250,000</u>	<u>13,630,000</u>	<u>33</u>
Arkansas	2,030,000	1,570,000	- 23
Louisiana	2,150,000	2,680,000	25
Oklahoma	1,980,000	3,930,000	98
Texas	4,090,000	5,460,000	34
<u>Mountain</u>	<u>7,010,000</u>	<u>7,650,000</u>	<u>9</u>
Montana	900,000	1,160,000	28
Idaho	600,000	750,000	25
Wyoming	360,000	350,000	- 2
Colorado	2,190,000	2,520,000	15
New Mexico	940,000	780,000	- 17
Arizona	820,000	830,000	2
Utah	940,000	1,090,000	17
Nevada	260,000	160,000	- 38
<u>Pacific</u>	<u>9,980,000</u>	<u>16,310,000</u>	<u>63</u>
Washington	1,700,000	3,080,000	82
Oregon	940,000	1,400,000	49
California	7,340,000	11,820,000	61
<u>United States</u>	<u>\$146,350,000</u>	<u>\$191,530,000a</u>	<u>31</u>

* Less than one half of one percent decrease.

a An additional item of Federal funds of about \$2 million, contributed to States for direct relief, is not included.

CONFERENCE WITH THE PRESIDENT ON AUGUST 12, 1936.

In discussing the requirements of the Works Progress Administration for the second quarter of the fiscal year 1936 I told the President that Mr. Williams had advised me that he had conferred with the President last night and that he had agreed to approve \$250,000,000 in addition to the \$100,000,000 approved at the Hyde Park conference. I told the President that I had brought over a letter for his signature allocating \$250,000,000, as suggested by Mr. Williams, but that the Secretary of the Treasury and I feel very strongly that if this money were allocated it would be obligated - certainly spent - in the early part of the quarter that this organization would be back for more funds by the middle of September, and that we believed \$100,000,000 would be sufficient at this time, with the understanding that the President would review the situation upon his return from the west about September 10. The President then drew up a schedule of what he had in mind for the whole fiscal year for the Works Progress Administration program of expenditures. He said he had told Mr. Williams that the Secretary of the Treasury and the Director of the Bureau of the Budget were quite right in their insistence upon the reduction of expenditures, and also upon their insistence that the \$1,425,000,000 should last until June 30, 1937. He saw no reason, however, why we should not go to Congress for additional funds to reimburse the \$1,425,000,000 for any expenditures made therefrom on account of drought relief. Mr. Williams had told him that he believed that the WPA and the Resettlement Administration would be able to justify as much as \$375,000,000

- 2 -

on this account. With that in mind he then drew up the following schedules

Amount of funds available.....	\$1,425,000,000
Allocations to be made to the Resettlement Administration and other Federal agencies	<u>200,000,000</u>
Funds available for WPA	1,225,000,000
To be expended as follows:	
July - September	\$360,000,000
October - December	420,000,000
January - March	450,000,000
April - June	<u>370,000,000</u>
	<u>1,600,000,000</u>
Deficit.....	\$375,000,000

The President then signed the letter which I had placed before him, but he changed the amount from \$250 M to \$150 M.

At the same time the President wrote a long-hand note to Aubrey Williams as follows:

"Aubrey -

I have given (at Hyde Park) \$100,000,000 for advance obligation for Oct. Nov. Dec. The totals for these 3 mos. should not exceed 410 M. Therefore as you want want to obligate 100% why isn't a total advance of 250 millions enough?

F.D.R."

Copy of the schedule worked out by the President and of his long-hand note to Mr. Williams are attached.

Attachments (2)

swb

THE WHITE HOUSE
WASHINGTON

August 12, 1936

My dear Mr. Administrator:

At Hyde Park, on August 4, 1936, Mr. Williams and Mr. Gill requested me to make an immediate allocation to your Administration of \$100,000,000, for expenditure after October 1, 1936, in order that obligations might be incurred against such funds. At the same time, they requested me to advise them of the amount that would be available for November and December in order that your State Administrators might be in a better position to arrange for contributions from sponsors.

I have allocated the \$100,000,000 then requested, together with an additional \$150,000,000 requested by Mr. Williams on August 11, 1936, with the distinct understanding that no part of the funds will be expended prior to October 1, 1936.

It is my desire that, so far as possible, expenditure of Federal funds on projects started hereafter shall be limited to the amount that is actually paid to certified workers and that, outside of drought stricken areas, at least 90% of the entire Federal funds expended upon any project shall represent payments to such certified workers. If it is necessary for purposes of direction or supervision of a project to employ non-certified workers, payments to such persons should be charged to administrative expenses. Such charges must be kept at a minimum as I do not intend to increase the amounts allocated for administrative expenses.

After September 15, 1936, I desire to have requests for approval of projects contain information as to the percentage of the Federal funds to be allocated to each project that will be used to pay certified workers. I realize that restricting expenditure of Federal funds to payments to workers, except in drought stricken areas, may result in the elimination of many highly useful or desirable projects. This will be necessary, however, to make the appropriation for work relief last during the current fiscal year.

In addition to the foregoing funds which I have allocated to your Administration, I am prepared to approve, upon your recommendation, additional allocations to Federal agencies to

- Page 2 -

carry on projects where certified workers are available. Existing allocations are sufficient to carry on almost all projects of such agencies to October 1, 1936. In order that such agencies may have ample time to make their plans for carrying on their work after that date, or completing their projects within existing allocations if they are not to receive additional funds, I wish you would let me have your recommendations, not later than September 1, 1936, with reference to each project now being operated by such Federal agencies.

Sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

The Honorable,

The Administrator,

Works Progress Administration

THE WHITE HOUSE

Washington

AUG 12 1936

My dear Mr. Secretary:

By virtue of the authority vested in me under the Emergency Relief Appropriation Act of 1936, approved June 22, 1936, it is requested that the following funds be transferred from the appropriation made in said Act to the Works Progress Administration for the purpose indicated below:

AMOUNT: \$150,000,000

PURPOSE: For the prosecution of non-Federal public projects, within the same state, territory or possession as set forth in the attached list of states, approved by me prior to June 22, 1936 under the provisions of the Emergency Relief Appropriation Act of 1935; provided that the aggregate amount expended upon any one project shall not exceed the amount indicated therefor in the schedules of projects in which such project appeared. The expenditures under this allocation shall be subject to the employment provisions of the Emergency Relief Appropriation Act of 1936.

Sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

The Honorable,

The Secretary of the Treasury.

WORKS PROGRESS ADMINISTRATION

175

Allocations for the prosecution of non-Federal public projects, approved prior to June 22, 1936, under the Emergency Relief Appropriation Act of 1935, in the following states:

Alabama	61,700,000
Arizona	300,000
Arkansas	1,300,000
California	9,000,000
Colorado	2,013,600
Connecticut	1,710,400
Delaware	147,400
District of Columbia	433,000
Florida	1,180,600
Georgia	1,819,800
Idaho	360,400
Illinois	10,836,000
Indiana	4,124,400
Iowa	1,557,600
Kansas	1,813,800
Kentucky	1,899,000
Louisiana	2,310,600
Maine	510,600
Maryland	1,027,800
Massachusetts	6,900,000
Michigan	5,118,000
Minnesota	3,764,400
Mississippi	1,002,400
Missouri	3,916,800
Montana	305,000
Nebraska	1,090,000
Nevada	148,200
New Hampshire	420,000
New Jersey	5,692,200
New Mexico	391,400
New York City	16,614,000
New York, Up-State	7,410,400
North Carolina	1,352,400
North Dakota	630,000
Ohio	11,065,200
Oklahoma	2,583,600
Oregon	1,196,800
Pennsylvania	16,010,600
Rhode Island	828,600
South Carolina	1,110,600
South Dakota	612,000
Tennessee	1,440,600
Texas	3,721,200
Utah	770,200
Vermont	217,800
Virginia	1,342,000
Washington	2,304,000
West Virginia	2,000,000
Wisconsin	1,417,400
Wyoming	500,000
Total	\$ 130,000,000

August 12, 1936

Bell came in to see HM, Jr. and told him that Aubrey Williams had said that he had seen the President last night and that the President had agreed to approve an additional \$250,000,000 for WPA. This is \$250,000,000 in addition to the \$100,000,000 which was approved last week at the Hyde Park conference.

HM, Jr. instructed Bell (who was on his way to the White House) to tell the President that he, HM, Jr., does not think Mr. Williams ought to have a penny more than an additional \$100,000,000 at this time.

Bell had with him a letter he had prepared for the President's signature. This letter would authorize the transfer of an additional \$250,000,000 to WPA. According to Bell, the reason WPA is asking for \$250,000,000 more is that they claim they need sufficient working capital and Bell argued that inasmuch as the President would give it to them eventually they might as well have a total of \$350,000,000 at this time. The Secretary disagreed with Mr. Bell and told him definitely that he was in favor of limiting this second allocation to \$100,000,000 making a total of \$200,000,000 to date.

Reporting back from the White House, Bell told the Secretary that the President had cut the proposed \$250,000,000 to \$150,000,000 and made the correction in the letter before he signed it. Photostat copy of the authorization as signed by the President is attached.

Amberg -

I have given (at Hydro Park)
100,000,000. for advance
obligation for Oct. Nov. Dec.

1st Totals for these 3 mos.
should not exceed 410 M.

Therefore as you want want
to obligate 100% why isn't
a total advance of 250
million enough?

FWR.

1,425,000,000.

200,000,000.

1,225,000,000

360,000,000

420,000,000

~~450~~, 000, 000

370.

1,600,000,000.

~~#~~ 375,000,000.

THE WHITE HOUSE
WASHINGTON

179

AUG 12 1936

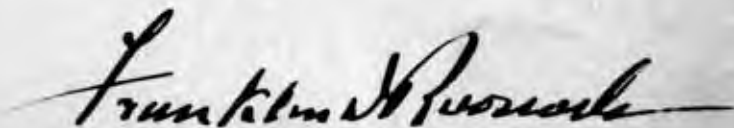
My dear Mr. Secretary:

By virtue of the authority vested in me under the Emergency Relief Appropriation Act of 1936, approved June 22, 1936, it is requested that the following funds be transferred from the appropriation made in said Act to the Works Progress Administration for the purpose indicated below:

AMOUNT: ¹⁵⁰ ~~200~~,000,000

PURPOSE: For the prosecution of non-Federal public projects, within the same state, territory or possession as set forth in the attached list of states, approved by me prior to June 22, 1936 under the provisions of the Emergency Relief Appropriation Act of 1935; provided that the aggregate amount expended upon any one project shall not exceed the amount indicated therefor in the schedules of projects in which such project appeared. The expenditures under this allocation shall be subject to the employment provisions of the Emergency Relief Appropriation Act of 1936. ✓

Sincerely yours,



The Honorable,

The Secretary of the Treasury.

5132

Ref Ldg. Tr. Act. W.D. # A-143 - 8/16

WORKS PROGRESS ADMINISTRATION

180

Allocations for the prosecution of non-Federal public projects, approved prior to June 22, 1936, under the Emergency Relief Appropriation Act of 1935, in the following states:

Alabama	\$1,729,200
Arizona	592,200
Arkansas	1,300,200
California	9,289,200
Colorado	2,013,600
Connecticut	1,710,600
Delaware	167,400
District of Columbia	433,200
Florida	1,188,600
Georgia	1,819,800
Idaho	560,400
Illinois	10,836,000
Indiana	4,124,400
Iowa	1,557,600
Kansas	1,843,800
Kentucky	1,899,000
Louisiana	2,310,600
Maine	510,600
Maryland	1,027,800
Massachusetts	6,900,000
Michigan	5,148,000
Minnesota	3,764,400
Mississippi	1,082,400
Missouri	3,916,800
Montana	585,000
Nebraska	1,050,000
Nevada	148,200
New Hampshire	420,000
New Jersey	5,692,200
New Mexico	593,400
New York City	16,614,000
New York; Up-State	7,649,400
North Carolina	1,352,400
North Dakota	630,000
Ohio	11,065,200
Oklahoma	2,583,600
Oregon	1,156,800
Pennsylvania	16,068,600
Rhode Island	852,600
South Carolina	1,110,600
South Dakota	642,000
Tennessee	1,668,600
Texas	3,721,200
Utah	739,200
Vermont	247,800
Virginia	1,362,000
Washington	2,326,800
West Virginia	2,280,800
Wisconsin	3,477,600
Wyoming	256,200

Total

\$ 150,000,000

5132 2

THE WHITE HOUSE
WASHINGTON

181

AUG 4 1936

My dear Mr. Secretary:

By virtue of the authority vested in me under the Emergency Relief Appropriation Act of 1936, approved June 22, 1936, it is requested that the following funds be transferred from the appropriation made in said Act to the Works Progress Administration for the purpose indicated below:

AMOUNT: \$100,000,000

PURPOSE: For the prosecution of non-Federal public projects, within the same state, territory or possession as set forth in the attached list of states, approved by me prior to June 22, 1936 under the provisions of the Emergency Relief Appropriation Act of 1935; provided that the aggregate amount expended upon any one project shall not exceed the amount indicated therefor in the schedules of projects in which such project appeared. The expenditures under this allocation shall be subject to the employment provisions of the Emergency Relief Appropriation Act of 1936.

Sincerely yours,



The Honorable,

The Secretary of the Treasury.

5140

Chief Ledger Tr. App. A. # A-134 - 8/11/36

Regraded Unclassified

WORKS PROGRESS ADMINISTRATION

Allocations for the prosecution of non-Federal public projects, approved prior to June 22, 1936, under the Emergency Relief Appropriation Act of 1935, in the following states: 182

Alabama	\$ 277,196
Arizona	114,225
Arkansas	338,450
California	3,526,446
Colorado	539,025
Connecticut	462,075
Delaware	35,000
District of Columbia	45,383,108
Florida	488,300
Georgia	468,528
Idaho	26,660
Illinois	4,905,250
Indiana	1,172,758
Iowa	289,875
Kansas	1,038,422
Kentucky	501,588
Louisiana	511,213
Maine	94,075
Maryland	401,250
Massachusetts	1,550,575
Michigan	1,122,050
Minnesota	973,545
Missouri	973,300
Montana	138,000
Nebraska	226,425
New Hampshire	94,975
New Jersey	1,848,050
New Mexico	87,425
New York City	14,391,700
New York State	2,226,475
North Carolina	347,400
North Dakota	301,020
Oklahoma	693,230
Oregon	178,225
Pennsylvania	9,524,684
Rhode Island	95,575
South Dakota	254,788
Tennessee	554,725
Texas	1,098,000
Utah	131,475
Vermont	29,025
Virginia	207,300
Washington	557,725
West Virginia	694,200
Wisconsin	1,116,575
Wyoming	10,100

Total

\$ 100,000,000

5140 2

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 12, 1956

TO Secretary Morgenthau
FROM Herman Oliphant

One of the ongoing studies in the legal department has been directed to a part of the problem of making the tax laws and their administration less annoying, less burdensome, and more practical so far as the business community is concerned. This part of that problem is the role which legal doctrines and procedures play in the present unsatisfactory situation. This study is being made in collaboration with McReynolds, who is working on the other and more general part of the problem—namely, dilatory administrative technics employed to audit, assess, and determine tax liabilities.

Dr. Yntema has finished his summary work on this problem which culminated in a monograph surveying the whole picture of our administration of tax laws and serving as background for another monograph dealing with the legal aspects of the problem. You may or may not be interested in seeing either or both of these studies, but I think you will be interested in the following quotation which he uses and which is taken from an article in the Harvard Law Review written by Mr. Maguire and Mr. Zimet:

"While some of the adjudications listed above are open to attack on particular grounds, the broad principles they suggest are alarming in only one major respect. That is the frequent manifestation of official irresponsibility. These cases, and many others elsewhere cited, illustrate fumbling, dilatory, unstable functioning by the Bureau. We could add a

mass of evidence on this point from unpublished experiences of respectable tax practioners, if only these gentlemen did not hesitate to play Mark Antony over their clients' wounds. Rightly or wrongly, they express fear that official reprisals might follow publicity. It is no part of our intention to cast reflections upon present Treasury ideals or practices; we only say that there is a long bad history to be recovered from, and that such recoveries are rarely instantaneous. We do think a tax administration leaves much to be desired when it cannot on genuinely doubtful specific questions swiftly and cheaply give taxpayers replies which will be administratively definitive. And, ignoring all off-the-record stories, we do seem to be dealing with a Bureau unable effectively to commit itself even when an inquirer makes a special trip to Washington and consults high officialdom. The courts decline to assist with estoppels against the government. This is perhaps regrettable. But at best the fitful estoppel would be an inadequate solution. Section 506, wisely administered, may help substantially. It can scarcely be expanded, however, to cover the serious problem of changed decision respecting a particular tax for a particular year. Closing agreements are ponderous things, and only retrospective besides."

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TREASURY DEPARTMENT

165

INTER OFFICE COMMUNICATION

DATE August 12, 1936

TO Secretary Morgenthau
FROM Herman Oliphant

Johnson was informed at 6 o'clock last night that the German Embassy had just received cabled instructions from Berlin to give specific assurances to our Government that all the German aids for exports to the United States had been discontinued on August 3. The Embassy was instructed to give the assurances as nearly as possible in the terms previously used with respect to cameras, etc., which were as follows:

"For any transactions concluded after July 25, 1936, which cover the indirect or direct exportation of the following goods to the United States, viz.: Photographic apparatus, calf and goat leather, and surgical instruments, the German Government will neither authorize the use of the scrip and bond procedure nor permit the payment of a public or private premium or subsidy, nor the employment of other German means of payment than reichmarks freely convertible into foreign currencies or free reichmarks usable within the country."



Wednesday
August 12, 1936
9:21 a. m.

HMjr: Mr. Morgenthau talking --

Draper: Yes, good morning, Mr. Secretary

HMjr: Mr. Draper, I was talking to Herbert Gaston this morning --

D: Yes

HMjr: And he was telling me about this tax article that you fellows are going to run -- about the Tax Bill?

D: Tax article?

HMjr: Some article that --

D: Oh, you mean the - no, nothing I know about the Tax Bill. We were running a release on the creditor debtor position of the United States -

HMjr: No, we've had that over here, you sent that over.

D: Yes

HMjr: And Doctor Viner was talking to one of your men yesterday -

D: Yes - I don't know of any tax article, - Mr. Secretary.

HMjr: Well, there evidently is one in the making.

D: Yes

HMjr: And --

D: That ought to be under the supervision of the Treasury Department.

HMjr: That's what I thought.

D: Oh, absolutely, there isn't any question in the world about that. Well now, I'll get after that right away. I haven't heard -- Just one second, Mr. Secretary. (Spoken to some one in his office: Has anybody sent up anything to me on the Tax Bill yet?) No, I don't know a thing about it, Mr. Secretary -

HMjr: Well -

-2-

D: But I'll get after it right away.

HMjr: I understand there is some article on the Tax Bill, reviewing it, which is coming out in some Commerce publication.

D: Yes, well, you'll hear from me just as soon as I can get the information. I'll see that it's submitted to you

HMjr: I think it has, but I just raised the advisability of an article at this time on account of certain things that the President has in mind on taxes.

D: Well, I think it would be a great mistake. -

HMjr: Yes

D: And I'll tell you quite frankly and I'll see if we can't kill it.

HMjr: Thank you.

D: Not at all.

HMjr: Thank you.

D: Goodbye to you.

HMjr: Goodbye.

Wednesday
August 12, 1936
12:30 p. m.

HMjr: Yes, Mr. Draper

D: Yes, I just wanted to say that we caught that article and killed it.

HMjr: Oh, that's fine.

D: So it won't come out at all.

HMjr: That's what I call cooperation.

D: All right (laughs) fine

HMjr: Thank you

D: Not at all

HMjr: Goodbye.

CNS101

White House Conf.

SENATOR PAT HARRISON LEFT A HOT MISSISSIPPI PRIMARY FIGHT TO COME
TO WASHINGTON TODAY AT THE CALL OF PRESIDENT ROOSEVELT.

HARRISON SAID THE WHITE HOUSE HAD SUMMONED HIM FOR AN IMPORTANT
CONFERENCE AT 8:45 A.M. TOMORROW. HE WILL RETURN TO MISSISSIPPI
IMMEDIATELY AFTER THE WHITE HOUSE DISCUSSION.

8/12--R2405P

CNS102

ADD HARRISON

CHAIRMAN DOUGHTON OF THE HOUSE WAYS AND MEANS COMMITTEE WILL
ALSO PARTICIPATE IN THE WHITE HOUSE CONFERENCE.

8/12--R413P.

FLASH

No New Taxes!

ADMINISTRATION ANNOUNCES NO NEW TAXES WILL BE ASKED NEXT
SESSION.

8/13-R930A

KWCNS28

ADMINISTRATION TAX EXPERTS DECIDED AT A CONFERENCE WITH PRESI-
DENT ROOSEVELT THIS MORNING THAT NO NEW TAXES WILL BE NECESSARY NEXT
SESSION BECAUSE OF INCREASING REVENUES.

8/13--R932A

WCNS29

ADD TAX CONFERENCE

THE GESTURE TO ANSWER BUSINESS CRITICISM OF AN UNBALANCED BUDGET CAME AFTER A MEETING ATTENDED BY CHAIRMAN PAT HARRISON OF THE SENATE FINANCE COMMITTEE, SECRETARY MORGENTHAU AND CHAIRMAN ROBERT L. DOUGHTON OF THE HOUSE WAYS AND MEANS COMMITTEE.

"WE HAVE FOUND BUSINESS CONDITIONS IMPROVING SO MUCH AND REVENUE RECEIPTS COMING IN SO FAST," SAID HARRISON, "THAT WE CAN REACH THE POINT OF A BALANCE BUDGET SOONER THAN EXPECTED."

A LETTER TO THE PRESIDENT FROM SECRETARY MORGENTHAU WAS MADE PUBLIC AT THE SAME TIME WHICH SAID THE TREASURY HAD CONCLUDED THAT NO NEW TAXES OR INCREASES IN PRESENT TAX RATES ARE NECESSARY.

IT WAS AGREED THAT TAX CHANGES AT THE NEXT SESSION WILL BE LIMITED TO THE PURPOSE, ACCORDING TO MORGENTHAU'S LETTER "OF REMOVING ANY INEQUITIES" IN PRESENT TAX LAWS AND MODIFYING OR ENDING TAXES THAT "CREATE UNFAIRNESS TO CONSUMERS OR TO TRADE OR HAVE OTHER DISADVANTAGES WHICH OUTWEIGH THE REVENUE YIELD."

8/13--R934A

WCNS30

ADD TAX CONFERENCE

"WITH CONTINUED RECOVERY," MORGENTHAU'S LETTER SAID, "WE ARE STEADILY APPROACHING A REVENUE YIELD WHICH WILL BE ENTIRELY ADEQUATE TO COVER THE EXPENDITURES OF GOVERNMENT AND TO REDUCE THE PUBLIC DEBT."

HOWEVER, NONE OF THE THREE TAX EXPERTS WOULD PREDICT WHEN A BALANCED BUDGET WOULD BE REACHED.

8/13--R936A

WCNS31

ADD TAX CONFERENCE

HARRISON ANNOUNCED HE WILL IMMEDIATELY CALL CONGRESSIONAL TAX EXPERTS INTO SESSION TO WORK WITH TREASURY EXPERTS TO CARRY OUT THE SUGGESTIONS OF MORGENTHAU.

"ANY CHANGE, OF COURSE, WOULD PROBABLY BE TOWARD REDUCING SOME TAXES," HE SAID, "CITING ESPECIALLY TAXES WHERE ADMINISTRATIVE COST VIRTUALLY WIPES OUT REVENUE."

MORGENTHAU SAID THAT TAXES OF THIS KIND WERE PARTICULARLY IN THE "NUISANCE" TAX CATEGORY.

MORGENTHAU WOULD NOT DISCUSS WHICH SPECIFIC TAXES HE HAD IN MIND.

THE CABINET MEMBER AND THE CONGRESSIONAL LEADERS MET WITH THE PRESS AFTER A HALF HOUR CONFERENCE WITH THE PRESIDENT ALTHOUGH IT WAS INDICATED THAT THE DECISION HAD REALLY BEEN REACHED BEFORE HARRISON AND BOUGHTON WERE CALLED TO WASHINGTON SUDDENLY YESTERDAY.

HARRISON SAID THAT THERE WAS NO DISCUSSION OF TARIFF CHANGES DUE TO THE DROUGHT SITUATION.

THE WHITE HOUSE CONFERENCE BROKE UP THREE-QUARTERS OF AN HOUR BEFORE THE PRESIDENT WAS TO LEAVE ON A TOUR OF PENNSYLVANIA AND NEW YORK FLOOD AREAS.

8/13--R942A

WCNS32

ADD TAX CONFERENCE

HARRISON AND DOUGHTON SAID THAT WHILE THE STUDY OF THE TAX STRUCTURE WOULD BE INAUGURATED BY MEMBERS OF THE CONGRESSIONAL JOINT COMMITTEE ON INTERNAL REVENUE LEGISLATION THAT IT WAS LIKELY OPEN HEARINGS BY THE SENATE FINANCE AND HOUSE WAYS AND MEANS COMMITTEES WOULD BE HELD LATER IN THE FALL.

MORGENTHAU DECLINED TO GIVE ANY ESTIMATES AS TO THE INCREASING YIELD IN NEW TAXES AND CAUTIONLY AVOIDED COMMITTING HIMSELF ON WHAT CHANGES SHOULD BE MADE.

"AS YOU KNOW," HE SAID, "THE TREASURY NEVER MAKES ANY DIRECT RECOMMENDATIONS ON TAX CHANGES."

8/13--R947A

Add Taxes

WCNS34

ADD TAX CONFERENCE

THE THREE CONFEREES MET NEWSMEN IN THE OFFICE OF SECRETARY STEPHEN EARLY.

DOUGHTON LET HARRISON DO MOST OF THE TALKING BUT LATER REMARKED THAT "THE MARKED INCREASE IN BUSINESS OVER THE COUNTRY HAS TWO EFFECTS:

- "1. TO INCREASE TAX REVENUE IN THE TREASURY.
- "2. AND TO REDUCE THE RELIEF BURDEN.
- "IT TENDS TO BRING THE TREASURY ON A BALANCE."

DOUGHTON SAID THAT THE STUDY OF TAX LAWS WOULD UNDOUBTEDLY INCLUDE THE INVOLVED CORPORATE TAX BILL PASSED AT THE LAST SESSION OF CONGRESS "ALONG WITH ALL OTHER LAWS."

8/13--R953A

WCNS35

THE TEXT OF SECRETARY MORGENTHAU'S LETTER TO PRESIDENT ROOSEVELT

"DEAR MR. PRESIDENT:

"AT YOUR REQUEST THE TREASURY DEPARTMENT SINCE THE ADJOURNMENT OF CONGRESS HAS BEEN GIVING CAREFUL ATTENTION TO THE ADEQUACY OF THE TAX STRUCTURE TO MEET THE REVENUE NEEDS OF THE GOVERNMENT AND GENERALLY TO THE DESIRABILITY OF ADDITIONAL TAX LEGISLATION.

"WE HAVE REACHED THE CONCLUSION THAT NO NEW TAXES AND NO INCREASES IN PRESENT TAX RATES ARE NECESSARY. DUE TO CONTINUED IMPROVEMENT IN BUSINESS CONDITIONS THE YIELD OF EXISTING TAXES IS STEADILY INCREASING TOTAL REVENUES FROM SOURCES OTHER THAN THE OUTLAWED PROCESSING TAXES IN THE FISCAL YEAR 1936 WERE SUBSTANTIALLY HIGHER THAN OUR OWN ESTIMATES OF LAST JANUARY.

"IN ADDITION, THE TAX STRUCTURE WAS STRENGTHENED BY THE REVENUE ACT OF 1936, WHICH CONSTITUTES A MAJOR IMPROVEMENT IN OUR TAX SYSTEM. WITH CONTINUED RECOVERY, WE ARE STEADILY APPROACHING A REVENUE YIELD WHICH WILL BE ENTIRELY ADEQUATE TO COVER THE EXPENDITURES OF GOVERNMENT, AND TO REDUCE THE PUBLIC DEBT.

"ANY CHANGES IN THE TAX STRUCTURE SHOULD, THEREFORE, NOT BE IN THE DIRECTION OF INCREASED TAXES. BUT THIS VERY SITUATION MAKES IT POSSIBLE AND TIMELY FOR US NOW TO CONSIDER REVISION OF THE TAX LAWS WITH THE PURPOSE OF REMOVING ANY INEQUITIES OR UNNECESSARY ADMINISTRATIVE DIFFICULTIES THAT MAY BE INHERENT IN THE LAW AND ABATING OR MODIFYING TAXES THAT CREATE UNFAIRNESS TO CONSUMERS OR TO TRADE OR HAVE OTHER DISADVANTAGES WHICH OUTWEIGH THE REVENUE YIELD.

"I SUGGEST THE DESIRABILITY OF YOUR ASKING SENATOR HARRISON AND REPRESENTATIVE DOUGHTON OF THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION TO DISCUSS WITH YOU THE ADVISABILITY OF UNDERTAKING SOON A THOROUGH EXAMINATION OF THE TAX LAWS, WITH THE OBJECT OF MAKING IMPROVEMENTS OF THE CHARACTER I HAVE OUTLINED.

"IT GOES WITHOUT SAYING THAT WE SHALL BE VERY GLAD TO PUT THE STAFF OF THE TREASURY DEPARTMENT AT THE COMPLETE DISPOSAL OF THE COMMITTEE."

8/13--R959A

WCNS56

Taxes

SECRETARY MORGENTHAU SAID TODAY HE EXPECTED THE JOINT CONGRESSIONAL TAX COMMITTEE TO HAVE ITS REPORT READY WHEN CONGRESS CONVENES IN JANUARY.

"A LOT OF TAX EXPERTS ON THE HILL THAT ARE HIRED ON A YEARLY BASIS AND THEY MIGHT AS WELL WORK 12 MONTHS AS THREE," MORGENTHAU SAID. "THE SAME GOES FOR THE TREASURY RESEARCH STAFF, WHICH WILL CO-OPERATE WITH THEM."

MORGENTHAU SAID THAT IT WAS HIS POLICY NOT TO RECOMMEND TAX LEGISLATION TO CONGRESS AND THAT ANY RECOMMENDATIONS WOULD HAVE TO COME FROM THE JOINT TAX COMMITTEE.

MORGENTHAU REFUSED TO SPECIFY WHICH MISCELLANEOUS TAXES HE BELIEVED SHOULD BE REPEALED BUT SAID "WE MIGHT AS WELL ADMIT THAT THERE IS A LOT OF BOOTLEGGING IN THEM AND IT IS DIFFICULT TO COLLECT THEM."

HE SAID HE DID NOT CLASSIFY LIQUOR TAXES IN THAT CATEGORY SINCE THEY ARE PROVIDING ABOUT \$500,000,000 A YEAR THROUGH THE DRIVE AGAINST BOOTLEGGING.

"I WANT THE JOINT COMMITTEE TO PICK THE TAXES TO BE ELIMINATED OR REVISED," MORGENTHAU SAID. "THE LAW SAYS WE MUST COLLECT THEM BUT IT COSTS US ALMOST AS MUCH TO COLLECT SOME OF THEM AS WE GET IN REVENUE."

HE REFUSED TO COMMENT ON THE POSSIBILITY THAT LIQUOR TAXES MIGHT BE CUT.

HE SAID THAT HE FELT HIS LETTER TO THE PRESIDENT WAS "FULLY JUSTIFIED" ON THE BASIS OF MONTHLY ESTIMATES OF THE NATION'S FISCAL CONDITION.

HE SAID RECEIPTS FOR THE FIRST
0 DAYS OF THE FISCAL YEAR WERE
RUNNING ABOUT 339,000,000 AHEAD OF THE SAME PERIOD LAST YEAR AND THAT
THE EFFECTS OF THE 1936 REVENUE ACT WOULD NOT SHOW UNTIL AFTER
JANUARY 1, WHEN AN INCREASE IS EXPECTED.

"OUR ESTIMATES OF RECEIPTS HAVE ALWAYS BEEN LOW," MORGENTHAU SAID.

HE SAID THAT HUNDREDS OF WHITE COLLAR WPA WORKERS ACTING AS DEPUTY
TAX COLLECTORS HAD BEEN DOING A "PROFITABLE" JOB IN AIDING THE TREASURY
IN CHECKING "BOOTLEGGING" AND EVASIONS IN THE VARIOUS MISCELLANEOUS
TAXES.

MORGENTHAU SAID THERE WAS A TOTAL OF ABOUT 200 MISCELLANEOUS
TAXES, SOME PROFITABLE TO THE GOVERNMENT, AND OTHERS NOT.

8/13--R1125A

DOW JONES - August 13, 1936.

195

ROOSEVELT CONFERS WITH HARRISON AND DOUGHTON

WASHN-U P- CHAIRMAN PAT HARRISON OF THE
SENATE FINANCE COMMITTEE AND CHAIRMAN ROBERT
L DOUGHTON OF THE HOUSE WAYS AND MEANS COMMITTEE
MET WITH PRESIDENT ROOSEVELT IN AN EARLY
MORNING CONFERENCE TODAY- NONE OF THE
PRINCIPALS WOULD REVEAL THE PURPOSE OF THE
MEETING

9.20

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ADD CONGRESSIONAL COMMITTEE 10.20

WASHN- FOLLOWING IS THE TEXT OF SECRETARY
MORGENTHAU-S LETTER TO PRESIDENT ROOSEVELT-

-DEAR MR PRESIDENT-

AUG 13 1936

-AT YOUR REQUEST THE TREASURY DEPARTMENT
SINCE THE ADJOURNMENT OF CONGRESS HAS BEEN
GIVING CAREFUL ATTENTION TO THE ADEQUACY OF THE
TAX STRUCTURE TO MEET THE REVENUE NEEDS OF THE
GOVERNMENT AND GENERALLY TO THE DESIRABILITY
OF ADDITIONAL TAX LEGISLATION

-WE HAVE REACHED THE CONCLUSION THAT NO NEW
TAXES AND NO INCREASES IN PRESENT TAX RATES ARE
NECESSARY- DUE TO CONTINUED IMPROVEMENT IN BUS-
INESS CONDITIONS THE YIELD OF EXISTING TAXES IS
STEADILY INCREASING- TOTAL REVENUES FROM SOURCES
OTHER THAN THE OUTLAWED PROCESSING TAXES IN THE
FISCAL YEAR 1936 WERE SUBSTANTIALLY HIGHER THAN
OUR ESTIMATES OF LAST JANUARY

-IN ADDITION THE TAX STRUCTURE WAS STRENGTH
-ENED BY THE REVENUE ACT OF 1936 WHICH CONSTITU
-TES A MAJOR IMPROVEMENT IN OUR TAX SYSTEM- WITH
CONTINUED RECOVERY WE ARE STEADILY APPROACHING
A REVENUE YIELD WHICH WILL BE ENTIRELY ADEQUATE

TO COVER THE EXPENDITURES OF GOVERNMENT AND TO
REDUCE THE PUBLIC DEBT

-ANY CHANGES IN THE TAX STRUCTURE SHOULD
THEREFORE NOT BE IN THE DIRECTION OF INCREASED
TAXES- BUT THIS VERY SITUATION MAKES IT POSSIBLE
AND TIMELY FOR US NOW TO CONSIDER REVISION OF
THE TAX LAWS WITH THE PURPOSE OF REMOVING ANY
INEQUITIES OR UNNECESSARY ADMINISTRATIVE DIFFI-
CULTIES THAT MAY BE INHERENT IN THE LAW AND ABAT-
-ING OR MODIFYING TAXES THAT CREATE UNFAIRNESS
TO CONSUMERS, OR TO TRADE OR HAVE OTHER DISADVAN-
TAGES WHICH OUTWEIGHT THE REVENUE YIELD

-I SUGGEST THE DESIRABILITY OF YOUR ASKING
SENATOR HARRISON AND REPRESENTATIVE DOUGHTON OF
THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION
TO DISCUSS WITH YOU AND THE ADVISABILITY OF UND-
ERTAKING SOON A THOROUGH EXAMINATION OF THE TAX
LAWS WITH THE OBJECT OF MAKING IMPROVEMENTS OF
THE CHARACTER I HAVE OUTLINED

ADD CONGRESSIONAL COMMITTEE

-IT GOES WITHOUT SAYING THAT WE SHALL
BE VERY GLAD TO PUT THE STAFF OF THE TREASURY
DEPARTMENT AT THE COMPLETE DISPOSAL OF
THE COMMITTEE-

PRESIDENT ROOSEVELT LEFT THE CAPITAL ABOARD
A SPECIAL TRAIN AT 10 04 AM EST FOR HIS
TRIP THROUGH THE EASTERN FLOOD REGIONS

--0--

WCNS14

White House Conf.

CHAIRMAN PAT HARRISON OF THE SENATE FINANCE COMMITTEE AND CHAIRMAN
ROBERT L. DOUGHTON OF THE HOUSE WAYS AND MEANS COMMITTEE MET WITH PRESI-
DENT ROOSEVELT IN AN IMPORTANT EARLY-MORNING CONFERENCE. NONE OF THE
PRINCIPALS WOULD REVEAL THE PURPOSE OF THE MEETING.

8/13--R905A

WCNS28

CHARLOTTE.--THE SOUTHERN HOSIERY MANUFACTURERS' ASSOCIATION, CLAIMING TO REPRESENT 265 MILLS, TODAY MAILED A PETITION TO ALL CONGRESS MEN AND SENATORS, URGING REPEAL OF THE NEW CORPORATE SURPLUS TAX EARLY IN THE NEXT SESSION OF CONGRESS.

THE PETITION ASSERTED THE NEW TAX IS BASED UPON AN "UN SOUND" THEORY, AND WILL RESULT IN INCREASED UNEMPLOYMENT AND CURTAILMENT OF BUSINESS ACTIVITY.

8/14--R1026A

WCNS8

INFORMED SOURCES INTERPRET THE ADMINISTRATION'S THREE-FOLD TAX ANNOUNCEMENT AS ANOTHER "BREATHING SPELL" GESTURE TO PLACATE BUSINESS OPPOSITION AND CHECKMATE REPUBLICAN CRITICISM.

THE ANNOUNCEMENT THAT NO NEW TAXES WOULD BE ASKED AT THE NEXT SESSION OF CONGRESS; THAT SOME LEVIES MAY BE REDUCED OR ELIMINATED AND THAT THE GOVERNMENT IS MOVING TOWARD A BALANCED BUDGET IS REGARDED AS POLITICALLY SIGNIFICANT.

OBSERVERS REGARD IT AS AN ANSWER TO ORGANIZED BUSINESS' COMPLAINT OF INCREASED TAX BURDENS AND TO REPUBLICAN EFFORTS TO INJECT THE TAX ISSUE INTO THE NATIONAL POLITICAL CAMPAIGN.

THE DECISION TO START A COMPREHENSIVE STUDY OF THE TAX STRUCTURE OBSERVERS BELIEVE, PRESAGES A HEATED PARTISAN FIGHT EXTENDING THROUGH THE NATIONAL CAMPAIGN AND INTO THE NEXT SESSION OF CONGRESS. BUSINESS WILL BE GIVEN AN OPPORTUNITY TO BE HEARD AT OPEN HEARINGS BY CONGRESSIONAL COMMITTEES.

8/14--R855A

DON JONES - August 14, 1936.

200

AUG 14 1936

Dow Jones Morning Gossip

THE ^{Stock} MARKET APPEARED LITTLE IMPRESSED

YESTERDAY BY REPORTS FROM THE WHITE HOUSE THAT
TAXES MIGHT BE SHADED AND THAT A BALANCED
BUDGET -SOONER THAN EXPECTED- WAS NOW FORESEEN

CONGRESSIONAL COMMITTEE TO STUDY
~~REVISION OF TAXES~~ ~~AUG 13 1936~~

WASHN - A MEETING OF THE JOINT COMMITTEE
 ON INTERNAL REVENUE TAXATION WILL BE HELD
 IN THE NEAR FUTURE TO STUDY REVISION OF TAX
 LAWS WITH A POSSIBLE DOWNWARD SCALING IT WAS
 ANNOUNCED THIS MORNING AT THE WHITE HOUSE

SENATOR PAT HARRISON REPV DOUGHTON
 AND SECY MORGENTHAU HELD AN EARLY CONFERENCE
 WITH PRESIDENT ROOSEVELT AND ANNOUNCED THAT
 TREASURY STUDIES SHOWED BUDGET WOULD BE
 BALANCED EARLIER THAN THEY HAD EXPECTED

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AD CONGRESSIONAL COMMITTEE

WASHN - THEY MADE PUBLIC A LETTER FROM
 SECY MORGENTHAU TO PRESIDENT ROOSEVELT WHICH
 SAID IN PART -WE HAVE REACHED THE CONCLUSION
 THAT NO NEW TAXES AND NO INCREASES IN
 PRESENT TAX RATES ARE NECESSARY - DUE TO
 CONTINUED IMPROVEMENT IN BUSINESS CONDITIONS
 THE YIELD OF EXISTING TAXES IS STEADILY
 INCREASING - TOTAL REVENUES FROM SOURCES OTHER
 THAN THE OUTLAWED PROCESSING TAXES IN THE
 FISCAL YEAR 1936 WERE SUBSTANTIALLY
 HIGHER THAN OUR ESTIMATES OF LAST JANUARY

IN ADDITION THE TAX STRUCTURE WAS STRENGTH-
 ENED BY THE REVENUE ACT OF 1936 WHICH CONSTITU-
 TES A MAJOR IMPROVEMENT IN OUR TAX SYSTEM

-WITH CONTINUED RECOVERY WE ARE STEADILY
 APPROACHING A REVENUE YIELD WHICH WILL BE
 ENTIRELY ADEQUATE TO COVER THE EXPENDITURES
 OF GOVERNMENT AND TO REDUCE THE PUBLIC DEBT
 -ANY CHANGES IN THE TAX STRUCTURE SHOULD

THEREFORE NOT BE IN THE DIRECTION OF INCREASED TAXES - BUT THIS VERY SITUATION MAKES IT POSSIBLE AND TIMELY FOR US NOW TO CONSIDER REVISION OF THE TAX LAWS WITH THE PURPOSE OF REMOVING ANY INEQUITIES OR UNNECESSARY ADMINISTRATIVE DIFFICULTIES THAT MAY BE INHERENT IN THE LAW AND ABATING OR MODIFYING TAXES THAT CREATE UNFAIRNESS TO CONSUMERS OR TO TRADE OR HAVE OTHER DISADVANTAGES WHICH OUTWEIGH THEIR REVENUE YIELDS-

IT WAS ANNOUNCED THAT EXPERTS FROM THE TREASURY DEPT WOULD GATHER INFORMATION ON THE PRESENT TAX STRUCTURE AND WOULD PRESENT IT TO THE JOINT COMMITTEE PROBABLY BY SEPT 1

FOLLOWING THE CONFERENCE THIS MORNING PRESIDENT ROOSEVELT LEFT ON HIS TOUR TO STUDY FLOOD CONTROL MEASURES IN PENNSYLVANIA AND NEW YORK

-0-

AUG 13 1936

ADD CONGRESSIONAL COMMITTEE

WASHN- SECY MORGENTHAU SAID THAT THE REVENUE ACT OF 1936 WILL BE STUDIED BY A JOINT GROUP COMPOSED OF THE JOINT CONGRESSIONAL COMMITTEE ON INTERNAL REVENUE AND EXPERTS FROM THE TREASURY-S RESEARCH DIVISION

THE SECRETARY SAID HOWEVER THAT THERE HAD BEEN NOTHING SUBMITTED TO HIM BY THE INTERNAL REVENUE BUREAU TO DATE TO INDICATE WHERE THE NEW LAW MIGHT BE FOUND FAULTY AND THAT ANY REVISION OF THAT LAW RESTS ON THE CONCLUSIONS OF THE CONTEMPLATED STUDIES ORDERED BY PRESIDENT ROOSEVELT

ADD CONGRESSIONAL COMMITTEE
WASHN- SECY MORGENTHAU DENIED THAT THE
STATEMENT ISSUED BY PRESIDENT ROOSEVELT IN-
CLUDING HIS LETTER ON POSSIBILITIES OF A
FUTURE BALANCED BUDGET WAS PROMPTED IN ANY WAY
BY THE RECENT CONCLUSIONS OF THE COMMERCE DEPT
THAT EXCESS OF EXPENDITURES OVER RECEIPTS BY
THE GOVERNMENT WAS A BARRIER TO BUSINESS
RECOVERY BECAUSE OF THE UNCERTAINTY OF
POSSIBLE FUTURE TAXATION

AUG 13 1936

THE SECY INSISTED THAT HE WOULD REST ON
THE CONTENTS OF THE LETTER OF PRESIDENT
ROOSEVELT AND WOULD GIVE NO INDICATION OF
PARTICULAR SUBJECTS OF REVENUE LAWS TO BE DIS-
CUSSED BY THE JOINT GROUP- HE DID SAY HOWEVER
THAT THE LIQUOR TAX LAWS WERE GOING WELL AND
THAT BOOTLEGGING WAS AT A MINIMUM AND -I THINK
THAT IS SATISFACTORY-

THE SECRETARY SAID HIS LETTER TO THE
PRESIDENT WAS BASED UPON CONFIDENTIAL ESTIMATES
SUBMITTED TO HIM BY HIS EXPERTS AND THAT THE
BASIS FOR THE LETTER WILL BE REFLECTED MORE IN
THE MIDYEAR BUDGETARY SUMMATION OF LATEST
ESTIMATES ON REVENUES AND EXPENDITURES THAN CAN
BE FOUND IN DAILY TREASURY STATEMENTS OR OTHER
PUBLIC INFORMATION

PROTESTS ON THE 1936 REVENUE LAW WHICH //
MIGHT HAVE REACHED THE BUREAU OF INTERNAL
REVENUE WERE APPARENTLY NOT SERIOUS ENOUGH TO
BE CALLED TO THE SECRETARY-S ATTENTION MR
MORGENTHAU SAID

INCLUDED IN THE GENERAL PICTURE WHICH
PROMPTED THE WRITING OF THE LETTER TO PRESIDENT
ROOSEVELT WAS THE FACT THAT PRINCIPAL LENDING
AGENCIES OF THE GOVERNMENT WERE RECEIVING REPAY-
MENTS ON LOANS OUTSTANDING IN GREATER PROPORTION
THAN NEW LOANS WERE BEING DISBURSED- -SUCH REPAY-
MENTS ARE PART OF THE GENERAL PICTURE- SECY
MORGENTHAU SAID

THE SECRETARY ANTICIPATES THAT THE
STUDIES AND SURVEYS TO BE UNDERTAKEN WILL
PRODUCE FACTS TO BE PRESENTED TO CONGRESS IN
JANUARY FOR ITS DETERMINATION ON WHETHER
REVISION OF THE TAX LAWS SHALL BE MADE- -I HAVE
HAD A POLICY GOOD ORD BAD OF MAKING NO TAX
RECOMMENDATIONS TO CONGRESS- SECY MORGENTHAU
SAID IN REPLY TO QUESTIONS ON SPECIFIC TAX
ITEMS- AS TO THE 1936 LAW HE SAID IT DEPENDS
ON WHAT THE STUDIES DEVELOP

AS TO MISCELLANEOUS TAXES THE SECY DECLARED
THAT THERE WERE A NUMBER OF THESE SO-CALLED TAX
-ES WHICH COST ALMOST AS MUCH TO GET AS THE
REVENUE THEY PRODUCE- WHILE NUISANCE TAXES WILL
BE VERY CLOSELY STUDIED THERE IS NO
SPECIFIC TAX THAT HE COULD MENTION AT THIS
TIME WHICH MIGHT BE EITHER ELIMINATED OR REVISED
- HE SAID HE HAD VERY DEFINITE TAXES IN MIND AND
THAT THERE IS A LOT OF BOOTLEGGING IN CONNECTION
WITH MISCELLANEOUS TAXES WHICH MIGHT JUST AS
WELL BE RECOGNIZED

Add Taxes

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ADD CONGRESSIONAL COMMITTEE

WASHN- REPV DOUGHTON DEM NORTH CAROLINA
CHAIRMAN OF THE HOUSE WAYS & MEANS COMMITTEE
SAID THAT HE DOES NOT EXPECT ANY NEW OR INCREAS-
ED TAXES AT THE NEXT SESSION OF CONGRESS
AND HELD OUT THE POSSIBILITY THAT SOME OF THE
SO-CALLED NUISANCE TAXES MIGHT BE REMOVED

MR DOUGHTON-S STATEMENT FOLLOWED A WHITE
HOUSE CONFERENCE WITH PRESIDENT ROOSEVELT
THE CONFERENCE WAS ALSO ATTENDED BY SENATOR
PAT HARRISON CHAIRMAN OF SENATE FINANCE
COMMITTEE WHICH HANDLED TAX LEGISLATION IN THE
UPPER CHAMBER

AUG 13 1936

MR DOUGHTON SAID THAT HE DOES NOT EXPECT
TO CALL THE WAYS & MEANS COMMITTEE INTO
SESSION THIS FALL TO CONSIDER REVISION OF THE
TAX LAWS- HOWEVER HE SAID THAT HE AND
SENATOR HARRISON PROBABLY WILL MEET WITH THE
JOINT CONGRESSIONAL COMMITTEE ON INTERNAL REV-
ENUE

TAXATION ABOUT SEPT 1ST AND MAKE PLANS FOR TAX
REVISION RECOMMENDATIONS TO BE SUBMITTED WHEN
CONGRESS CONVENES

-I DON-T EXPECT ANY NEW TAXES OR INCREASED
TAXES- MR DOUGHTON DECLARED- -THERE MAY BE
SOME REDUCTIONS MADE IN PRESENT TAXES AND SOME
OF THE NUISANCE TAXES MAY BE REMOVED-

MR DOUGHTON SAID THAT TREASURY RECORDS SHOW THAT TAX RECEIPTS ARE INCREASING WHILE FEDERAL EXPENDITURES ARE DECREASING

-WE ARE ABOUT IN SIGHT OF A BALANCED BUDGET-
MR DOUGHTON DECLARED

ASKED IF THE WHITE HOUSE CONFERENCE TODAY HAD ANY POLITICAL SIGNIFICANCE MR DOUGHTON SAID

-NOT A BIT IN THE WORLD- THE PUBLIC IS LABORING UNDER A MISAPPREHENSION CONCERNING ADDITIONAL TAXES- -MR DOUGHTON SAID THAT HE WAS STILL OPPOSED TO PROCESSING TAXES AS A MEANS OF MAKING UP THE DIFFERENCE BETWEEN THE ESTIMATED RETURNS OF THE UNDISTRIBUTED CORPORATE PROFITS TAX PASSED BY THE LAST SESSION OF CONGRESS AND THE REVENUE RAISING RECOMMENDATIONS MADE BY PRESIDENT ROOSEVELT

-0-

August 13, 1936

Corrington Gill came in and gave Mr. Morgenthau a memorandum (attached hereto) on the method to be followed in investigating the actual need of the unemployed who are now engaged in work on the Works Progress projects. Gill said he believed that following this plan of purging the WPA lists, it would be found that 15% are ineligible.

According to the plan submitted, WPA has selected Chicago, Cleveland and Baltimore as typical cities and the investigatory work will be commenced in these cities. They also selected Georgia, Colorado and Wyoming as the States in which the work will be initiated. Upon Mr. Morgenthau's recommendation, San Francisco will be added to the list of cities, and Rhode Island or Connecticut will be substituted for Wyoming.

Before he left, Corrington Gill said that he personally is in favor of this investigation and thinks it would be a very worthwhile thing to do.

WORKS PROGRESS ADMINISTRATION

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WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HARRY L. HOPKINS
ADMINISTRATOR

August 12, 1936

MEMORANDUM

TO: Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury

FROM: Corrington Gill,
Assistant Administrator

There are three major groups of unemployed who are in actual need at the present time:

- (1) Most of those now working on the Works Program (WPA, CCC, PWA, and other Federal Department projects).
- (2) All persons currently eligible for certification by local relief agencies. An exact count of persons now certified to be in actual need is being made as of August 12, 1936. The data will be available August 22, 1936. This is the group from whom the greatest pressure emanates for WPA jobs.
- (3) Persons in actual need who will not apply to a local relief agency. This group is practically disregarded in the Works Program. Some pressure is exerted for jobs by this group.

These three groups do not include those persons who will be in actual need because of seasonal unemployment during fall and winter months.

During the past several months, WPA has been able to reduce its rolls by more than 700,000 persons. This has been possible without serious repercussions because need is less acute in the summer than during the winter. The bases of these terminations have been:

- (1) Full time employment
 - (a) Employment in private industry;
 - (b) Employment by public agencies.

August 12, 1936

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- (2) Other income in family which aggregates more than the security wage.
- (3) Eligibility for Social Security benefits (aged, blind, mothers with dependent children - in certain states).
- (4) Inefficiency.

When the Works Program was initiated, Harry L. Hopkins said publicly that persons from the relief rolls would be given at least 90% of the jobs, and that having been given the jobs they would not be reinvestigated periodically, as they were when they were receiving relief. It should be pointed out that these investigations are most onerous to the family investigated, regardless of the findings of the investigator.

It can generally be said that the need of most persons on the Works Program has not been investigated thoroughly for approximately twelve months. However, 95% of all WPA workers came from the relief rolls when they were hired and were in actual need at that time.

With only approximately 500 social workers on WPA administrative staffs (an average of one social worker for each 5000 project employees), we have had to depend upon local relief agencies to do the actual work. These local agencies are well motivated, inasmuch as for every WPA worker they find ineligible a replacement within the quota can be made from among those certified as eligible from the local relief rolls. These relief agencies are understaffed, however, and have the primary responsibility of investigating relief applicants, which has made their work for WPA secondary.

It should also be pointed out that 30,000 trained investigators on State relief administration payrolls twelve months ago are no longer available as a unit for this work, inasmuch as very few states have kept their relief administration personnel intact. Consequently, an immediate (within thirty days) investigation of all persons who work on the program would be practically impossible. Certain localities and states where trained personnel can be found to do the necessary investigatory work can be used as samples.

The following cities are suggested as fairly typical:

Chicago	(69,000 workers on WPA)	or,
Cleveland	(36,000 workers on WPA)	or,
Baltimore	(10,000 workers on WPA).	

San Francisco

August 12, 1936

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The following states are suggested:

Georgia (36,000 workers on WPA).
R. I. or Conn
Colorado (28,000 workers on WPA) or,
~~Wyoming~~ (5,000 workers on WPA) or,
South Dakota (22,000 workers on WPA).

Instructions and schedules should be made out and issued from Washington to the field workers. The schedules would include an outline of the information to be secured from the visit to the home of the worker, the minimum of collateral visits, and the amount of verification required. A definition of eligibility for relief would be included in the instructions (Proposed definition: The average family shall be eligible for assignment to WPA if there is no regular income equal to, or more than, the security wage in the locality. Exceptions to this rule may be made for very large or very small families. These exceptions shall be decided on the basis of a budget providing for a reasonable subsistence standard of living.)

In rural areas, where case workers know the persons involved, the cost would be far less than in urban centers where such knowledge is not possible. The cost of an urban study is indicated by estimates furnished by the State Relief Administration of Georgia.

Georgia Plan: To investigate 21,000 urban cases, which would include the 5 largest cities and semi-urban areas.....\$48,000 for 7,000 working days. Qualified workers are available, if a month could be used in making the study.

It would require about ten days to prepare for these studies and approximately thirty days additional to actually make the study in the field.



TREASURY DEPARTMENT

WASHINGTON

August 13, 1936.

MEMORANDUM OF CONFERENCE IN THE SECRETARY'S OFFICE,WEDNESDAY EVENING, AUGUST 12, AT 8:15.

Present: The Secretary
Mr. Norman Thompson
Mr. Graves
Mr. Dow
Mr. Gorman

Mr. Gorman reported to the Secretary that he had been advised that Marie Wendt, narcotics smuggler, who had escaped from Customs custody in Los Angeles on August 7, had been apprehended by Customs officers in New York to-day (August 12) as she was about to sail on the SS. DEUTSCHLAND. Mr. Morgenthau indicated his belief that some disciplinary action should be taken in the case of the employee or employees found to be responsible for Miss Wendt's escape.

Mr. Gorman advised the Secretary that virtually all the "deadwood" in the Customs Agency Service had been found concentrated in the Boston and New York districts, although he mentioned a few scattered cases of inefficient agents in other parts of the country.

A letter addressed to the Commissioner of Customs, for signature by the Secretary, transferring the border patrol from the supervision of collectors of customs to the supervision of the Deputy Commissioner of Customs in Charge of the Customs Agency Service was laid before the Secretary. The Secretary inquired of Mr. Dow what, if any, criticism or objections might be made to the proposed order. Mr. Dow advised that certain collectors of customs might be expected to object, solely by reason of the curtailment of their authority. After some discussion of the proposed unified plan of operating the border patrol, and a statement by Messrs. Dow and Gorman of the advantages of the proposed plan, the Secretary signed the order. He inquired who would be selected to have charge of the patrol, and was advised that Mr. E. J. Shambart, of the Legal Division of the Bureau of Customs, had been tentatively selected. Mr. Morgenthau said that at some convenient time he would like to see Mr. Shambart.

The Secretary inquired of Mr. Dow what action had been taken with respect to Mr. Ballinger's recommendations resulting from his survey of certain Customs branches at New York. Mr. Dow said that all Mr. Ballinger's recommendations had been placed in effect except those

which would involve increased expenditures or which would require legislation. There was some discussion of the advisability of abolishing such offices as surveyors, appraisers, and comptrollers of customs as unnecessary. The Secretary agreed that this question should have attention next year, along with a proposal to abolish a certain number of interior ports.

The Secretary advised that he was considering a plan of placing all Customs personnel in Europe under the supervision of a single officer, probably Mr. Waite, and asked the comment of Messrs. Dow and Gorman on this proposal. Mr. Dow and Mr. Gorman stated that the only objection which they could perceive was that such a plan would be offensive to the agents who now operate independently but who under the proposed plan would be made subordinate to Mr. Waite. Other than this, they said that they could see no objection, beyond the possibility that there would be some needless delay in routing all reports and correspondence through the supervisory officer. Mr. Morgenthau stated that in his opinion such a routing was not essential to the plan which he had in mind, to which Messrs. Dow and Gorman agreed. Mr. Morgenthau stated further that his plan contemplated the assignment of the narcotics officers, who now function independently of Customs, in Europe to Customs supervision. Messrs. Dow and Gorman agreed that the Secretary's plan should be adopted, but it was determined to have a subsequent consideration of the plan following the submission of a memorandum by Mrs. Klotz, who had received some information on this subject while recently abroad.

Mr. Morgenthau asked whether the position of Treasury Attache at London was still vacant. Mr. Dow replied that the appointment of one Howard to this vacancy had been recommended by the Commissioner of Customs and concurred in by Assistant Secretary Gibbons. Mr. Morgenthau said that the recommendation had not come to him, and asked Mr. Thompson to locate the papers and present them to him in due course.

Mr. Dow and Mr. Gorman brought to the Secretary's attention the fact that under instructions from the State Department Customs officers were prohibited from making any investigations in relation to narcotics smuggling in Japan. The Secretary said that this came as a surprise to him, and that he desired to discuss the subject with the President with a view to changing this arrangement so that Customs officers would have the same latitude with respect to narcotics investigations in Japan that they have in China. He asked Mr. Dow and Mr. Gorman for a memorandum on this subject, to be delivered to him not later than two o'clock, August 13.

The Secretary referred to the system of radio communications being developed by the Coast Guard, and stated that he had in mind a plan of operating a well-equipped radio system which would, among other things, make possible immediate communication at all times between Treasury headquarters offices and automobiles being used by Treasury enforcement agencies. He suggested that some convenient district, such as New England, should be selected for experimental work along this line: this to include the establishment of necessary broadcasting stations and the equipment of all Treasury

cars with receiving apparatus, with a view to having all such cars kept in constant touch with headquarters. He asked that this matter be taken up with Lieutenant Tollaksen, with a view to perfecting the necessary arrangements as soon as practicable. 212

At this point the Secretary excused Mr. Dow and Mr. Gorman. He then gave consideration to a list of promotions recommended by the Chief of the Secret Service Division. He asked that the list be amended by showing, with respect to each person recommended for promotion, the total length of his service and the length of his service since his last promotion. Mr. Graves suggested that in the interest of maintaining uniformity of treatment of all services engaged in enforcement, lists should be supplied the Secretary by all such services, containing this data with reference to each enforcement officer. The Secretary asked that such lists be prepared as early as practicable.

HAROLD N. GRAVES.

Thursday
August 13, 1936
11:43 a. m.

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HMjr: Hello, Rex, Henry talking - Dan Bell just brought me in a letter addressed to you which I am going to sign if it's acceptable, and I think it will be. - That all the land which you are purchasing which is not already in the hands of the Comptroller General -- that we - just short-circuit him.

R. G. Tugwell: Yes

HMjr: See?

T: That's right. It's for post-audit instead of pre-audit.

HMjr: Right

T: We've had a lot of trouble getting these titles through here.

HMjr: Yes - now, will that help a lot?

T: Oh, you bet.

HMjr: Well, then - then I'll sign it.

T: It'll cut out a long procedure that delays us for months sometimes.

HMjr: Fine - I just wanted to make sure that it's acceptable.

T: We - we will, however, continue to pre-audit everything where there is any - well, one percent question of the title, see?

HMjr: Yes

T: All right, thanks very much, Henry.

HMjr: Not at all.

Honorable R. G. Tagwell,
Administrator, Resettlement Administration,
Washington, D. C.

Dear Mr. Tagwell:

Receipt is acknowledged of your letter of August 11, 1936, concerning the decision of the Resettlement Administration to purchase land which it is acquiring upon post-audit of its accounts, rather than upon direct settlement, and requesting the cooperation of the Treasury in establishing the necessary procedure.

It is noted that under the proposed procedure, the opinion of the Attorney General that a good title to the land will be acquired from the vendor will in each instance be submitted to the Treasury with the voucher, and that an attorney of the Department of Justice will be intrusted with the delivery of the check and in every case represent the United States at the time of closing the purchase.

It is also noted that under the proposed procedure for the purchase of land on a post-audit basis, the Resettlement Administration will acquire land in instances in which it is clear that no legal question exists as to the use of funds for such purpose and that cases which present questions which have not yet been ruled upon by the Comptroller General will continue to be submitted to the General Accounting Office for pre-audit and direct settlement in accordance with the present procedure.

The various agencies of the Treasury have been instructed to cooperate with your Administration in connection with the establishment of your new purchase procedure, and vouchers submitted to this Department for payment, if otherwise in proper form, will be paid promptly.

Very truly yours,

Secretary of the Treasury

WHELE
August 11, 1936

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 13, 1936

TO Secretary Morgenthau
FROM Herman Oliphant

Attached is a copy of the German note with the State Department's translation. Johnson has discussed with Mr. Livesey the type of acknowledgment which the State Department thinks would be desirable and the acknowledgment is being prepared as well as the Treasury decision which the receipt of this note makes it desirable to issue.

There is attached also copy of an aide-memoire which Johnson obtained on a confidential basis from Baer. Baer's oral interpretation of this latter document to Johnson was in substance, "Does this mean a trade war on Germany? If so, bring on your war."

Reverting to the note, it is my judgment that there is nothing in it, not excepting from this statement the sentence marked on page 2, that needs to disturb the Treasury. The third paragraph of the note merely draws the same inference from the facts which the State Department drew and repeatedly presented to the Treasury when the issuance of the Order of June 3 was under consideration.

Herman Oliphant

Enc. 2

(Translation)

German Embassy

Washington, D. C.,

August 12, 1936.

Mr. Under Secretary of State:

By order of my Government, I have the honor to inform Your Excellency of the following, with reference to my note of July 25, 1936:

The German Government has taken measures to the effect that neither the use of the scrip and bond procedure will be permitted nor will the payment of a public or private premium or subsidy or the use of other German currency than Reichsmarks freely convertible into foreign currency or Reichsmarks freely utilizable in Germany be allowed in connection with the direct or indirect exportation of dutiable goods from Germany to the United States of America, in so far as such exportation takes place or may take place on the basis of treaties which were concluded on or after August 3, 1936.

After the explanations of Mr. Brinkmann, Director of the Reich Bank, it appeared advisable to the German Government to eliminate the uncertainty created by the decision.

His Excellency

Mr. William Phillips,

Under Secretary of State,

Acting Secretary of State of the
United States,
Washington, D. C.

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Division of the Treasury Department of the United States of America of June 4 (T.D. 42300) by a comprehensive measure for the whole field of German exportation to the United States of America. However, this will result in another sharp decline in German exports to the United States of America. This decline will not be without an automatic reaction on imports from the United States of America into Germany. The German Government deplors this additional unfavorable development of the trade between the two countries. It has not desired this development, as is evidenced by the trade statistics for the last three or four years. If a further decline in the trade between the two countries has, as it appears, become unavoidable, this is to be attributed only to the latest decisions of the Government of the United States of America.] //

The German Government herewith repeats its protest against the ruling mentioned, made by the note of June 15, 1936.

Accept, Mr. Under Secretary of State, the renewed assurance of my distinguished consideration.

Signed: Luther.

he Botschaft

Washington, D.C., den 12. August 1936.



AUG 13 1936 AM

Herr Unterstaatssekretär!

Im Auftrage meiner Regierung beehre ich mich, Euer Hochwohlgeboren mit Beziehung auf meine Note vom 25. Juli 1936 folgendes mitzuteilen:

Die Deutsche Regierung hat Vorsorge getroffen, daß für die unmittelbare oder mittelbare Ausfuhr zollpflichtiger Waren von Deutschland nach den Vereinigten Staaten von Amerika, soweit diese Ausfuhr auf Grund von Verträgen erfolgt ist oder erfolgen wird, die am oder nach dem 3. August 1936 abgeschlossen wurden, weder die Anwendung des Skripts- und Bondverfahrens genehmigt, noch die Zahlung einer öffentlichen oder privaten Prämie oder Subsidie, noch die Verwendung anderer deutscher Zahlungsmittel als

er Hochwohlgeboren

Stellvertretenden Staatssekretär der Vereinigten Staaten,

Herrn Unterstaatssekretär William Phillips,

Washington, D.C.

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freier in Devisen umtauschbarer Reichsmark oder freier im Inland verwertbarer Reichsmark zugelassen wird.

Nach den Darlegungen des Reichsbankdirektors Brinkmann ist es der Deutschen Regierung zweckmässig erschienen, die durch die Entscheidung des Schatzamts der Vereinigten Staaten von Amerika vom 4. Juni 1936 (T.D. 48360) geschaffene Unsicherheit durch eine umfassende Maßnahme für den Gesamtbereich der deutschen Ausfuhr nach den Vereinigten Staaten von Amerika zu beseitigen. Daraus wird sich jedoch ein neuer starker Rückgang der deutschen Ausfuhr nach den Vereinigten Staaten von Amerika ergeben. Dieser Rückgang wird nicht ohne automatische Rückwirkung auf die Einfuhr aus den Vereinigten Staaten von Amerika nach Deutschland bleiben. Die Deutsche Regierung bedauert diese weitere ungünstige Entwicklung des Warenverkehrs zwischen den beiden Staaten. Sie hat diese Entwicklung

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Entwicklung nicht gewünscht, wie aus der Handelsstatistik der letzten 3/4 Jahre hervorgeht. Wenn ein weiterer Rückgang des Warenaustausches zwischen den beiden Staaten, wie es scheint, unvermeidlich geworden ist, so ist er nur auf die letzten Entscheidungen der Regierung der Vereinigten Staaten von Amerika zurückzuführen.

Die Deutsche Regierung wiederholt hiermit ihren durch die Note vom 15. Juni 1936 erhobenen Einspruch gegen die genannte Verordnung.

Genehmigen Sie, Herr Unterstaatssekretär, die erneute Versicherung meiner ausgezeichneten Hochachtung.

gez. LUTHER

tsche Botschaft

Aide Ministre.

With respect to the situation created by Treasury Decision No. 48360 of June 4, 1936 (in re: assessment of countervailing duties on merchandise from Germany), and by instructions issued to American Consular Officers in Germany, providing that after August 1, 1936, the certification of consular invoices, covering shipments of merchandise from Germany to the United States, would depend upon the answering of a special questionnaire, requiring certain information regarding the payment for payment for merchandise which German exporters are strictly forbidden to furnish under existing German law, and which in many instances German exporters would even be unable to give, the following should be stated:

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The requirement of answering special questions in connection with consular invoices covering shipments from Germany to the United States, represents within a short period of time a second measure by the U.S. Government, besides the publication of T.D. No. 48360 (in re: assessment of countervailing duties on merchandise from Germany), affecting materially imports from Germany, and which the German Government has only learned of through the press or through private interested parties. In view of the practice among nations enjoying commercial treaty relations, such as Germany and the United States, the German Government feels that it was entitled to expect to be officially informed either through the medium of the German Embassy in Washington, D.C., or the American Embassy in Berlin, at the time when these measures were decided upon or at latest at the

time

-3-

time when they became effective. For the German Government holds the opinion that the principles of the German-American Treaty of Friendship, Commerce and Consular Rights of 1925 should have applied, irrespective of a conflict of opinion having unfortunately arisen between the two Governments regarding the question of the assessment of countervailing duties on merchandise from Germany. The procedure actually followed by the Government of the United States can, however, hardly be considered as conforming with the spirit of the Preamble to the above-mentioned Treaty. The German Government would deeply regret it if the procedure followed twice by the American Government would have to be understood as indicating willingness on the part of the United States to extend the scope of a difference of opinion in an important but nevertheless limited and

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and specific field, and to draw therefrom conclusions that would involve German-American economic relations in their entirety, because this could but result in those possibilities for the exchange of goods between Germany and the United States also disappearing that may remain in spite of the countervailing duty measure against merchandise from Germany.

Washington, D.C., August 12, 1936.

August 13, 1936

HM, Jr. called Bell and Gaston into his office today and told them that he had suggested to the President that he see the three of them at Hyde Park.

The Secretary told them that there were three things he wanted to bring to the President's attention and he directed Gaston to work with Bell in getting material together on the following:

1. Get out the Budget summation.
2. That the Budget ought to have for him what they did in going after the independent agencies and going after their overhead.
3. A statement which will tell the story on the economy program. This should include:
 - (a) The 1936 money impounded.
 - (b) Impounding of 1% or more of the 1937 money.
 - (c) No increased expenses in 1938.

Original and 2 carbons sent
to Mr. Irey by special messenger
8/13/36 - 12:50 p. m.

SI-KLI-DW

August 13, 1936.

My dear Mr. Postmaster General:

A number of officers of this Department representing the various investigating organizations engaged in enforcement work recently made a trip through the Western part of the country, holding conferences with the field officers.

The purpose of the conferences was to bring about a closer relationship and coordination between these Treasury agencies, and during the conferences the matter of cooperation among the Treasury agencies was discussed. These officers report to me that in these discussions there was expressed a general feeling of satisfaction and appreciation of the cooperation and assistance extended to officers of the Treasury Department by Post Office Inspectors. Their cooperation is most whole-hearted, and I want to express to you my own personal appreciation of this attitude and to assure you that it will be the pleasure of this Department at all times to cooperate with the Post Office Inspectors at any opportunity.

With regards and best wishes, I am,

Very truly yours,

Secretary.

Honorable James A. Farley,
Postmaster General,
Washington, D. C.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON August 14, 1936

Hon. Henry Morgenthau, Jr.
Beacon, N. Y.

Dear Mr. Secretary:

The following telegram was sent to Senator Carter Glass this morning:

"I AM PLEASED TO ADVISE YOU THAT THE FOLLOWING WIRE IS TODAY BEING SENT TO WATT WILTSHIRE: Quote Please advise by return wire if you are interested in position of Assistant State Procurement Officer stop It is understood that your present salary is \$3600 per annum so appointment would have to be made at that figure with the understanding that if you make good promotion to \$4000 per annum would be made at the end of a six month period, which is in accordance with the terms of the Executive Order stop Home Owners' Loan Corporation has been contacted in Washington and are advising you today that recent information supplied you was in error unquote THIS IS THE BEST THAT CAN EQUITABLY BE DONE."

Kindest regards,

Henry Morgenthau, Jr.
Secretary of the Treasury

and I have just received telephone message from your office that a telegram from Senator Glass addressed to you was received as follows:

"Wiltshire is refusing position offered upon my advice. Regret you cannot accommodate the two Virginia Senators. This is the first request I have made upon the Treasury Department. You may be sure I will never ask another"

As the Senator seems to be so incensed over the matter I am perfectly willing to "about face" and make Wiltshire the State Procurement Officer, but the only way to give him a salary higher than \$3600, which he insists upon, is by a special Executive Order from the President, because transfers may not be effected at an increase in salary and the Comptroller General has ruled that a resignation, and subsequent reappointment at higher salary is an evasion of the Executive Order.

We could put him in as number one man at \$3600 and at the end of six months promote him to \$4500.

I hesitate to bother you about the matter, and would not do so were it not that Senator Glass has taken such a decided stand.

I am only too glad and willing to do anything to try to straighten the matter out, but it would seem that the Senator is very much disappointed, and Wiltshire is very contrary in his attitude.

Kindest respects, believe me to be

Very sincerely yours,

Saturday pm.
Memo. for

The Secretary

Here are two
alternate ways of
handling the Am.
Gen's matter. If
the President
letter goes, the
other will be
destroyed -

Over word.

attached also are
the personal records
of the present mem-
ber and Gen's protégé.

Respectfully

A. Taylor

Chas. W. Bitting,
Asst. State Procurement Officer
3426 W. Grace St.,
Richmond, Virginia

Keep

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Date of birth - November 30, 1895

Place of birth - Philadelphia, Pennsylvania

Education:

Mr. Bitting attended grammar school in Philadelphia for eight years and high school in that city for four years and graduated in 1915.

He then spent six months on a special course at Temple University in Philadelphia on business and salesmanship.

Experience:

1915-1916 - Employed as clerk for the Atlantic Refining Company, Philadelphia, leaving this position in 1916 to accept a position as salesman and to receive special sales training with the John E. Lucas & Company of Philadelphia.

Mr. Bitting resigned this position in 1917 to enlist in the U. S. Navy. 1917-1919, U. S. Navy

1919-1924 - Employed as traveling salesman for the Pastorfield Company, Inc., of Richmond, Virginia.

1924 - May, 1926 - in business for self selling paints.

May, 1926 - December, 1926 - Employed by the Butler-Flynn Company, Washington, D. C. as Manager of retail paint store.

1926-1928 - Employed as traveling salesman for the Portland Cement Company.

1929 - Assisted in the organization of the Gibson Specialty Company, Richmond, Virginia and became Secretary of that Company, which concern went out of business in June 1929.

Mr. Bitting was then temporarily employed by the Wise Granite & Construction Company as an Inspector.

February, 1930-December, 1931 - Employed as paint salesman for the Berry Brothers, Detroit, Michigan.

Resigned to accept a position as salesman with the Pittsburgh Plate Glass Company, Baltimore, Maryland.

January, 1933-November 1933 - Employed with Lee Paschall Company, Richmond, Virginia, as insurance salesman.

November, 1933-May, 1934 - Employed by Civil Works Administration as district purchasing supervisor.

May, 1934-July, 1935 - Employed as Assistant Director of Procurement with the Federal Emergency Relief Administration of Virginia

July 16, 1935 - to date - Employed as Assistant State Procurement Officer, Procurement Division.

Mr. Bitting has performed his duties in a very satisfactory manner, assuming entire charge of the State office in the absence of the State Procurement Officer and receiving efficiency ratings under date of March, 1936 and June, 1936 of "excellent".

Mr. Bitting was investigated by the Special Intelligence Unit, who made a complete investigation into his previous employment, character and reputation and recommended that favorable consideration be given to Mr. Bitting's appointment.

Mr. G. Matt Wilshire
3426 Hanover Avenue
Richmond, Virginia

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Date of Birth - Born in Richmond, Virginia, September 27, 1896

Legal Residence - Virginia

Education:

Grammar and High School - Lynchburg and Richmond, Virginia.
Attended Washington and Lee University from 1919 to 1923.
Studied electricity, mathematics, and physics. Did not receive a degree.

Previous employers:

1915 - 18	Dupont Powder Company Foreman of the Tub House \$300.00 per month
1918 - 23	U. S. Army Air Service Electricity and engineering
1923 - 24	Sheridan Engineering Company Experience in engineering road work building Unemployed for four months during which time he did research work
1924 - 25	With the Richmond NewsLeader, Richmond, Virginia for 14 months. Employed in various departments on specialized advertising.
1925 - 26	Special advertising promotion work.
1926 - 28	Richmond NewsLeader Company Solicitor in advertising department
1928 - 29	Employed for seven months with the Central Storage Company, Incorporated, Washington, D. C. Was Vice-President of this concern.
1929 - 31	Richmond Times Dispatch, Richmond, Virginia Advertising Solicitor and Display Advertising Manager
1931 - 32	Fruit Solid Easton, Incorporated. 6 months. President of this concern.
1932 - 33	Richmond News Leader. Employed in the Advertising Department.

July 28, 1933

Home Owners' Loan Corporation
District Manager in Richmond,
Virginia

Efficiency Rating	Good
Physical Defects	None
Marital Status	Married - three children
Height	5' 8"
Weight	200#
Army Record	Honorable Discharge

The following quotations are taken from report of Special Agents
Kenneth Morton and Everett M. Hawley, Jr., Special Intelligence Unit:

"A personal interview regarding Mr. Wiltshire was had on August 6 with John J. Wicker, Jr., State Service Supervisor of the Home Owners' Loan Corporation at Richmond. Mr. Wicker stated that he has known Mr. Wiltshire for about ten years and that the applicant assumed duty with the Home Owners' Loan Corporation in July, 1933, a few days after the opening of its Richmond office; that Mr. Wiltshire's record with the organization was one of constant promotion; that he has demonstrated excellent ability along organization lines; has been ultra-satisfactory as an executive; and that his services have been characterized by efficiency and economy of cost in accomplishment of results. Mr. Wicker said that Mr. Wiltshire had started as the manager of one of eight offices, was made a member of the Review Board, then was made manager of half of the State of Virginia, finally being promoted to the position he now holds.

"Special Agent Everett M. Hawley, Jr., made a personal inquiry concerning Mr. Wiltshire at the Richmond News Leader offices, where he interviewed D. D. Wells, who is in charge of personnel, and was informed by Mr. Wells that he had known the applicant for about six years, about three of which was while Mr. Wiltshire was employed by the company named, and that Mr. Wiltshire had never had any trouble there, and had received a salary of about \$50 per week.

"It is noted that Mr. Wiltshire overstated his rate of compensation when referring to his employment with the Richmond News Leaders, his claim to receiving up to \$4,000 per annum not being borne out by the records of that newspaper.

"Mr. Wells told Special Agent Hawley that he considers Mr. Wiltshire thoroughly honest and very alert. He commented however, to the effect that the applicant did not seem to work in one place long enough to make it possible to determine his true ability. Mr. Wells said that he knew Mr. Wiltshire to have a good personality, making friends very readily. He gave it as his opinion that a position of the responsibility as sought by Mr. Wiltshire would be "over his head", and that he, Mr. Wells, knew many men whom he considered better equipped for the place. Mr. Wells conceded that Mr. Wiltshire is a capable man, but said that he felt that the applicant did not have the capacity necessary for the position he seeks, also mentioning that Mr. Wiltshire had never followed any other career except advertising."

No definite recommendation was made by the Special Intelligence Unit.

Friday
August 14, 1936
9:26 a. m.

HMjr: Hello

Operator: Hello

HMjr: Yes

Operator: Admiral Peoples? -

HMjr: Yes

H. S.
Klotz: Hello

HMjr: Yes

K: I'm on the line.

HMjr: I know, I asked her to --

K: Yes

HMjr:

K: Yes

Admiral
Peoples: Hello

HMjr: Hello, Admiral

P: Hello

HMjr: Admiral -

P: Good morning, Mr. Secretary, good morning, sir

HMjr: - you said you wanted to talk to me.

P: Hello?

HMjr: Hello, Admiral -

P: Yes, Mr. Secretary

HMjr: The operator said you wanted to talk to me.

P: Yes, sir - you wished a report on the - in the
case of that man, Paul D. Taylor -

HMjr: Yes

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P: The facts are these, sir. He was a traffic man at Des Moines, Iowa. They have a good deal of difficulty --

HMjr: Admiral, would you mind putting it in a little confidential note and sending it over to Mrs. Klotz and she'll forward it to me?

P: I will, sir.

HMjr: Will you do that?

P: Yes, sir - Now, in other words we have taken care of it, he's all right.

HMjr: Well I had a complaint against him.

P: Well, I have -- we had a complaint too.

HMjr: Yes

P: He was transferred from Des Moines, Iowa to Bismarck, North Dakota.

HMjr: I see.

P: Yes

HMjr: You had the complaint too?

P: Exactly so.

HMjr: Well, send the stuff to me via Mrs. Klotz.

P: So the thing is settled now. Now, Mr. Secretary -

HMjr: Yes

P: About the Wiltshire case -

HMjr: Oh yes

P: -for Carter Glass?

HMjr: Yes

P: We are about ready to offer him the appointment as the State Procurement Officer at thirty-six hundred dollars, that's the present rate of pay for that position.

HMjr: Well now, is Wiltshire the new man or the one who was the assistant?

P: No, Wiltshire is the new man.

HMjr: Yes

P: He's Carter Glass' man.

HMjr: Well, is he fit for the job?

P: He's a pretty good man, pretty fair.

HMjr: Well, I mean, is he as good as the man who was the assistant?

P: The only - no, not quite as good.

HMjr: Well, why not promote the assistant and make Wiltshire assistant?

P: Well, this fellow Wiltshire - he wants, - he wants more than thirty-six hundred.

HMjr: I know, but the man who was assistant Purchasing Agent, did he do his job well?

P: Fine

HMjr: Well then, I think he should be promoted.

P: He's a better man.

HMjr: Well then you promote him.

P: And offer Wiltshire the second appointment then?

HMjr: Right

P: We will do so.

HMjr: I want to - I'm not going to break down the morale.

P: Then, should we send a telegram in your name to Senator Glass advising him of the appointment offered to Wiltshire?

HMjr: Yes

P: Fine, we'll do so.

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HMjr: What is the man's - the former - the fellow who was the assistant?

P: Bitting

HMjr: What?

P: A man named Bitting -

HMjr: All right.

P: That'll be a very happy solution of it, sir.

HMjr: All right, well that's what I told McReynolds I wanted originally.

P: I see.

HMjr: Yes

P: I see. The point is this, Mr. Secretary -

HMjr: Yes

P: This man Wiltshire -

HMjr: Yes

P: He wants - he thinks through his influence through Carter Glass he can get more than thirty-six hundred dollars. Well, he can't do it!

HMjr: Yes, but that doesn't interest me as much as the fact that here was an Assistant Purchasing Agent who made good --

P: Exactly so

HMjr: And that fellow is entitled to a promotion.

P:5 He should be.

HMjr: And if a man comes in from the outside he should take second place.

P: He should be.

HMjr: All right.

P: That's sound, sir.

HMjr: All right

P: Thank you -

HMjr: Now one other thing -

P: Yes, sir

HMjr: If they've got a new design on that Poughkeepsie Post Office I wish you'd get it up to me.

P: It's not quite finished yet, sir.

HMjr: Well, Mrs. Klotz is coming up Monday noon. If it's ready you could give it to her.

P: Monday noon?

HMjr: Yes

P: We'll try - I think we can have something ready by that time.

HMjr: Well, if not, get it up here as soon as you can.

P: Sure to be.

HMjr: Thank you.

P: Thank you, Mr. Secretary, thank you, sir.

HMjr: Goodbye.

P: Good morning

Saturday
August 15, 1936
9:55 a. m.

HMjr: Hello

Admiral
Peoples: Hello

HMjr: Hello

P: Hello

HMjr: Admiral Peoples -

P: Good morning, Mr. Secretary

HMjr: Can you hear me?

P: Yes, sir

HMjr: Now I got your letter, Admiral -

P: Yes, sir

HMjr: And I wish you would send me today the personnel
record of Matt Wiltshire, see?

P: Yes

HMjr: And the whole story about him.

P: Yes, sir

HMjr: And also - the man whom you are promoting, see?

P: Yes, sir

HMjr: Will you do that?

P: Yes, sir

HMjr: I mean, I want the complete background on both men.

P: On both men?

HMjr: See?

P: Mr. Secretary -

HMjr: Yes

P: Regardless of that - I had in mind also - I don't
think Senator Glass quite understands the terms of the
Executive Order under which we are working.

APPROPRIATIONS

	For fiscal year 1936	For fiscal year 1937
Legislative establishment	\$ 24,291,972.21	\$ 23,423,808.00
Executive Office	437,232.00	515,138.00
State	16,300,162.60	18,543,550.00
Treasury:		
Regular	144,095,078.81	156,518,313.00
Old-age reserve account, Social Security Act	- - -	265,000,000.00
Public buildings	66,376,000.00	69,975,000.00
Federal land banks, subscriptions to paid-in surplus and reduction in interest rates	56,000,000.00	48,000,000.00
Refunds of receipts	51,804,700.00	24,503,100.00
Interest on the public debt	742,000,000.00	805,000,000.00
Debt retirements	542,085,000.00	580,125,000.00
Total Treasury	1,612,300,778.81	1,949,115,413.00
War:		
Regular	367,626,020.43	389,736,787.00
Rivers and harbors	50,135,926.00	176,178,008.00
Panama Canal	8,797,597.00	11,122,344.00
Total War	426,559,543.43	577,037,139.00
Justice	37,879,476.27	41,356,125.00
Post Office (including deficiency)	769,356,019.00	780,584,589.00
Navy	482,602,613.41	528,102,532.00
Interior	92,777,850.64	134,588,861.46
Agriculture:		
Regular	189,483,826.47	216,916,823.04
Highways	58,141,056.14	68,000,000.00
Agricultural Adjustment Administration	53,000,000.00	- - -
Agricultural contract adjustments	296,882,948.54	- - -
Soil Conservation and Domestic Allotment Act	- - -	440,000,000.00
Total Agriculture	577,508,631.15	724,916,823.04
Commerce	35,142,000.00	35,719,220.00
Labor	19,371,554.68	21,784,700.00
Independent offices and commissions:		
Civil Service Commission	43,179,603.00	48,879,000.00
Employees' Compensation Commission	4,719,000.00	5,218,250.00
Farm Credit Administration	4,000,000.00	4,069,280.00
Federal Power Commission	979,024.00	1,725,000.00
Federal Trade Commission	1,756,109.00	1,539,000.00
General Accounting Office	4,970,600.00	5,715,840.00
Interstate Commerce Commission	6,885,656.00	7,689,350.00
Railroad Retirement Board	600,000.00	47,645,000.00
Securities and Exchange Commission	1,000,000.00	30,800,000.00
Social Security Board:		
Administrative expenses	33,910,000.00	157,000,000.00
Grants to States	34,910,000.00	127,500,000.00
Total Social Security Board	36,000,000.00	39,000,000.00
Tennessee Valley Authority	632,170,000.00	593,727,000.00
Veterans' Administration:		
Regular	2,337,000,000.00	- - -
Adjusted Service Certificate Fund	2,969,170,000.00	593,727,000.00
Total Veterans' Administration	17,157,491.00	32,783,150.00
Other independent offices and commissions	5,707,500.00	3,000,000.00
District of Columbia	2	308,000,000.00
Emergency Conservation Work	2	1,000,000.00
Rural Electrification Administration	7,227,591,911.20	6,110,412,990.50

a Includes \$507,000,000 estimated amount required to reinstate Government Life Insurance Fund.
 b Funds for 1936 provided by allocations from recovery and relief appropriations.

TREASURY DEPARTMENT
 ACCOUNTS AND DISBURSEMENTS
 August 18, 1936.

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HMjr: Yes

P: And I had in mind preparing a letter to him --

HMjr: Yes

P: - giving him quotations from the Executive Order - also from the Comptroller General's decision.

HMjr: Yes

P: Now, in other words, this thing can be done with the approval of the President but we've got to go to the President to increase Wiltshire's salary if he is transferred.

HMjr: Well you mean, under the Order that he can't transfer for six months?

P: Exactly so.

HMjr: I wouldn't think of going to the President. What the hell has Senator Glass ever done for the President?

P: Well, that's what Glass wants.

HMjr: And when Senator Glass says he's never asked anything from the Treasury, that's a lie! He's asked me for a lot of things!

P: Yes

HMjr: He's asked me for some very difficult things. And all this bunk, I mean about not asking the Treasury - - is just plain bunk.

P: Yes

HMjr: And I believe in keeping up the morale of the Treasury and he ought to too as a former Secretary. But I'd be delighted to have the facts and fix them up in a letter and send them to him. But I'm not going - he can't bluff me. He bluffs everybody but he isn't going to bluff me.

P: Yes - I thought our telegram to him was very fair.

HMjr: Well, that's all right. And it doesn't bother me a bit.

P: Yes

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HMjr: Senator Glass -- he's bluffed everybody around Washington and he's not going to bluff me. And when it gets down to patronage it proves he isn't any different than -- the Senator from West Virginia.

P: Well, I was a little upset over the entire case.

HMjr: Well, I'm not upset. I mean he's not going to bluff me. I mean I'd be perfectly willing to tell the whole thing to papers if he does. But I would like to have the facts on both men's records and then also this business about the Comptroller and the President's Order. I wouldn't put it in the President's lap for a minute. I'll take it.

P: I see. We - well, we can't do any more -

HMjr: Yes

P: - than either one of two things under existing orders.

HMjr: Well, put it in writing for me, will you?

P: Yes, Mr. Secretary - I hate like - like the old Ned to bother you about it, sir.

HMjr: That's all right - I wanted to be bothered because he came to see me personally.

P: I see. - I had in mind of going down to Lynchburg to see the Senator.

HMjr: What?

P: I had in mind (laughs a little) of going down to Lynchburg to see the Senator and see if I could straighten him out.

HMjr: Well, that would be a nice thing to do.

P: I'll be very happy to do it, sir.

HMjr: Well, why don't you call him up and ask him?

P: Then I will do so.

HMjr: All right.

P: Then I will go down to Lynchburg to see him, to try and straighten the old man out. - Because I don't think he's straight yet.

HMjr: But still it seems to me that if a fellow gives us good service he ought to get promoted and somebody shouldn't be brought in and put over his head because a couple of Senators asked for it.

P: I see. Well then, Mr. Secretary, before I make that move --

HMjr: Yes

P: I will send you the personnel records of both of these men.

HMjr: Right

P: Sure to be

HMjr: All right

P: Thank you, Mr. Secretary

HMjr: Goodbye

P: Bye-bye, sir - Mr. Secretary -

HMjr: Yes

P: We will send up Monday afternoon by Mrs. Klotz some tentative sketches on Poughkeepsie.

HMjr: Fine

P: And also at the same time the - that inter- sketch for the International Peace Gardens out in North Dakota.

HMjr: All right.

P: That'll be going up Monday afternoon, sir.

HMjr: Thank you.

P: Thank you, Mr. Secretary.

HMjr: Goodbye.

P: Bye-bye, sir.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Friday, August 14, 1936.

Press Service
No. 8-14

The following Treasury Decision has been approved:

COUNTERVAILING DUTIES -- GERMAN PRODUCTS

Treasury Decision 48360, as amended by Treasury Decision 48444 and modified by Treasury Decision 48463, not applicable to certain importations of the several classes of commodities listed therein.

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

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

The Department is in receipt of official advice to the effect that, with respect to any dutiable merchandise which will be or has been exported directly or indirectly from Germany pursuant to agreements entered into after August 2, 1936, the German Government has taken measures to insure that no scrip or bond procedure was or will be allowed, no public or private bounty or subsidy was or will be paid, and that the use of no German currency other than free gold exchange marks or free inland marks was or will be permitted.

In view of the foregoing, the provisions of Treasury Decision 48360, as amended by Treasury Decision 48444 and modified by Treasury Decision 48463, shall not apply to direct or indirect imports from Germany of the commodities listed therein if the collector of customs concerned shall be satisfied by documentary evidence that the contract of purchase or other agreement pursuant to which they were exported from Germany was entered into after August 2, 1936, or, in the cases of cameras, calf and kid leather, and surgical instruments, after July 25, 1936.

/s/ FRANK DOW
Acting Commissioner of Customs.

APPROVED:

/s/ JOSEPHINE ROCHE
Acting Secretary of the Treasury.

August 14, 1936

Called Bell this morning (from the Farm) and told him that when Corrington Gill left yesterday I asked him, "Are you going to carry out the President's instructions to have a reclassification of the unemployed?" and he said, quite emphatically, "No; that is the job of the U. S. Employment Service." I, therefore, told Bell to get in touch with Persons, who is head of the Employment Service, show him Admiral Peoples' report and find out who is going to do this. I also told Bell to get Persons to give him his side of the story, that is, that of the U. S. Employment Service. Bell asked whether he should tell Aubrey Williams about it and I told him that he should, but he said he would first talk to Persons and then ask Aubrey Williams and Admiral Peoples to come in. Mr. Bell will call me after he has seen the above-mentioned people.

August 14, 1936

The Secretary telephoned me today and asked that I call a conference with Aubrey Williams, Works Progress Administration, and Mr. Frank Parsons, head of the U. S. Employment Service, for the purpose of ascertaining the relationship between the two organizations.

I telephoned Mr. Williams and asked him to tell me just what steps were being taken to carry out the President's wishes with respect to the classification of workers on WPA rolls, and also with respect to the re-checking of these rolls for the purpose of ascertaining whether or not there were persons enrolled who have sufficient income from other sources without the WPA employment. He advised me that both of these projects were under way under the supervision of Mr. Gill, and said they were contacting Mr. Parsons, who is cooperating. He said also that they had made a check of the States to find out which ones could help in this matter. He finds that twenty States have good machinery for re-checking the WPA rolls and said that he was going to use those States organizations in order to avoid additional expense to the Government. He said that there are 25 States, mostly the smaller ones, which had no machinery, because of which the WPA would have to set up new organizations. He said he thought the work would be well under way within two weeks and at that time they would be able to tell just about how long it would take to complete it.

I then called Mr. Parsons on the phone and found that he was out of town for a period of about 10 days. I then called Mr. Barr, who was

noting in his place, and asked him to explain to me the differences between the classification shown in his records and the classification as shown on the records of the WPA. He said that the classification of records of the U. S. Employment Service was based on a coding system which had been worked out after a great many contacts with outside organizations and actual experience of the Service. He said that the WPA classification was not nearly so broad in scope and was based upon the kind of workers they thought they would need in carrying on the work relief program. He said that the Employment Service records were being constantly reviewed; that the general rule was that a worker in order to keep registered must renew his registration every thirty days. There were some cases that would go as long as sixty days. He stated he did not believe that the classification and registration of workers in the WPA had been renewed at any time since the original classification. He was also under the impression that the WPA was not using the U. S. Employment Service records in reporting available workers in the various localities for project undertakings.

I gathered from this conversation that the relationship between the two organizations was not what was intended by the President. I asked Mr. Burr if he would come over during the day and give me a picture of the whole situation, and he said he would.

CONFERENCES WITH MR. BURR AND MR. STRAUSS OF THE U. S. EMPLOYMENT SERVICE.

Mr. Burr said that the United States Employment Service was established

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on July 1, 1933, right after the appropriation of \$3,300,000,000 was made under authority of the National Industrial Recovery Act. He said that this Service had had 100 per cent cooperation from the Public Works Administration, the Bureau of Public Roads, the War Department, and the other organizations receiving allotments for construction projects under the \$3,300,000,000 appropriation. He said that at the time the WPA was created there were approximately 3,000,000 unemployed on relief rolls, of which about 2,200,000 were performing some kind of relief work. The WPA advised the Employment Service that it would classify these 2,200,000 workers and would expect the Employment Service to classify the others. In making this classification the WPA drew up its own classification forms without consulting the Employment Service and for that reason there has always existed quite a difference in the two classifications. In their opinion, there are thousands of workers on WPA projects not registered with the Employment Service. I was advised that mainly for statistical reasons the paper work after the creation of the WPA increased 270 per cent in the offices of the Employment Service, due entirely to WPA requirements.

These gentlemen feel very strongly that there should be a reclassification and an historical record made of every person employed on WPA rolls. They feel that the U. S. Employment Service is gaining favor every day with industry and as evidence of this point to the fact that in December, 1933, they received 53,000 requests from industry, whereas in each of the months of May and June they received 200,000. They feel it is their duty to urge industry to use the Employment Service in hiring personnel and when a request is made

upon the Employment Service for personnel to perform certain tasks they could the best applicant they have who is qualified for that particular job without regard to whether the person is on the WPA rolls or not. They point out that if the people on WPA rolls are not registered with the U. S. Employment Service they certainly can't certify their names upon industrial requests.

I then asked them how long it would take the U. S. Employment Service to register and reclassify the WPA rolls. Mr. Stead said that the Employment Service had 700 district offices and approximately 1,000 branch offices, and it was his offhand opinion that it would require about 5,000 people and about 2 months actual time. It would possibly take about a month before they could start the work so that all in all it would probably be about three months before the work could be completed. He estimates it would cost about \$1,500,000.

dwB