DIARY

Book 16

January 16 - January 31, 1936

- A -

- B -

- C -

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- M -

January 28, 1936.

No records recorded on machine from Thursday, January 16, 1936 to Saturday, January 25, 1936, inclusive -

On Monday, January 27, 1936 the foot pedal in Mr. Morgenthau's office was found to be disconnected - we do not know how long this was disconnected.

MAS

January 16, 1936

Mr. Lochhead reported three lots of silver on the way, totaling about 1,300,000 ounces. Mr. Morgenthau's recommendation was that we drop the price in New York from one to two cents a day so that there will not be a five-cent spread between the New York and London price. With a five-cent spread prevailing, people can buy silver in London at 45 cents, bring it over here and then sell it to us at 50 cents. Now that we are convinced that this is actually being done, HM,Jr. wants to drop the price every day so as to bring the London and New York price together, for a while.

HM,Jr. said that he had showed to the President the chart showing that notwithstanding the drop in the price of silver, the commodity indexes continued to go up.

January 16, 1936

HM,Jr. appointed George Haas to represent the Treasury on the committee that is being formed in regard to the Federal Government reimbursing localities for taxes.

January 18, 1936

Mr. Victor Ridder, head of WPA in New York City, called me today and said that ex-Chancellor Breuning of Germany was arriving next week and wanted to be protected and taken off the boat. I got in touch with Mr. Dunn of the State Department and he said he would assume full responsibility for Mr. Breuning and I so advised Mr. Ridder.

I gave instructions that the Collector of Customs was to cooperate with the representative of the State Department and take Mr. Breuning off the boat.

January 14, 19[illegible]

NEW YORK TIMES.

MEMBER BANK RESERVES

A Discussion of Increasing Them So as to Prevent Inflation is Offered By a Former Under Secretary of the Treasury.

January 20, 1936

Customs today gave us the following message from Customs Agent Williams at San Antonio, Texas:

> "Wire Bureau Decree approved by Treasury Department and is on President's desk for signature today."

This refers to the Mexican Government's decree on liquor smuggling which was discussed with the Mexican Secretary of the Treasury when he called on Mr. Morgenthau for the silver conferences.

January 20, 1936

Mr. Morgenthau appeared today at the meeting of the Supervisory Field Officials of the Bureau of Internal Revenue and read a prepared address. Following his formal address, HM,Jr. spoke extemporaneously and informally for a few minutes.

He told those present that he had a sympathetic appreciation of the many ways in which employees of the Bureau of Internal Revenue are exposted to graft possibilities. In view of the fact that during the two years he has been Secretary of the Treasury no more than two or three instances of Treasury employees yielding to these temptations have occurred, the Secretary said he thought he and the Commissioner as well as the Collectors and other employees could be proud of the record.

The Secretary referred to the fact that two years ago at a similar meeting he had frankly stated that new appointments in the service would go to Roosevelt Democrats (at this point there was spirited applause) and to his further statement, two years ago, that once in the service it made no difference what a man's politics might be. He continued by saying that he believed he and the Commissioner had lived up to that promise and that efficient employees were recognized and advanced irrespective of their politics and that inefficient employees were demoted and discharged, likewise irrespective of their politics.

Following the Secretary's address he and the officials of the Bureau sat in a body of the auditorium while a picture of the entire conference was taken.

6A

Address of Secretary Morgenthau to the Collectors and Field Supervisory Officials of the Bureau of Internal Revenue, Monday, January 20, 1936.

I am happy to be able to greet all of you here in Washington again and to discuss with you the common problems of our work. I hope that this series of meetings will be profitable to all of us and will result in some real gains in efficiency in the Internal Revenue Service.

I know how heavy the task is that all of you have to face in the present situation; how much work each of you have on your desks, and I realize fully that it has not been easy for you to leave your districts at this time. Yet, the program with which we are confronted is so important that Commissioner Helvering and I have felt fully justified in asking you to come to Washington at this time. We felt that this meeting was really necessary and that it would result in gains that would more than compensate for your absence from your posts. Let us seek to make these meetings just as profitable as they can be made so that all of us will go back to our normal tasks with a far better idea of just what we plan to do and how we plan to do it.

This is the second time since I have been Secretary of the Treasury that all the Field Supervisory Officials of the Internal Revenue Service have been brought together here at the capital. You will all recall that at our meeting in January 1934 I emphasized to you the importance of increased efforts in the assessment and collection of back taxes. Each of you knows of the results in your own district and you have been kept informed by the Bureau as to what other districts have been doing. The results of that meeting and that program have been highly gratifying to Mr. Helvering and to me and you have my most sincere thanks for the fine cooperation you gave us in working out that program.

6c

We now have another program before us and I believe it to be one of equal importance. The Commissioner has told you that I am greatly interested in speeding up the movement and examination of income tax returns. It is my understanding that during the past the average examination of income tax returns has been fifteen months after filing. That is, examinations of returns filed March 15th were commenced approximately on December 31st of the same year and continued to December 31st of the following year, or one year and nine months after filing.

I believe taxpayers are entitled to have earlier notice that their returns are being questioned and there is a possibility of additional tax liability. Further collection of deficiencies may be jeopardized by delaying determination of deficiencies for so long a period after the income to be taxed has been received. It has been the

6 D

experience of the Bureau that in many cases where the determination of deficiency taxes is too long delayed the taxpayer's assets have been dissipated before the assessment is made and efforts to collect can be started.

I should like to shorten the period of examinations and determination of deficiencies. By beginning examination of returns three and one-half months after filing, or on July 1st, the average examination can be reduced from fifteen months to nine months. To do this it will be necessary for the Collectors' forces to accelerate the movement of returns from the time they are received until they have been listed for assessment and forwarded to Washington. This should be done so that many more of the larger taxable returns will reach Washington during the month of April. It will be necessary for the Income Tax Unit in Washington to speed up its work so a very substantial number of returns to be examined will reach the

6 E

Revenut Agents' offices by June 15th. Likewise it will be necessary for the Revenue Agents' forces to accelerate their work so as to be ready to begin the examination of returns by July 1st, or three and one-half months after filing and to complete the examinations by July 1st of the following year.

If we are to get best results with this program it will not be possible to assign revenue agents to assist taxpayers in the preparation of returns during the current filing period. It will be possible, however, to assign to this duty relief project employees who have been engaged on income tax examinations. Unnecessary effort must be eliminated. I have in mind that in the classification of returns for field examination the utmost care must be exercised so as to avoid unnecessary examinations which do not result in change of tax liability. It is

6 F

also my desire that examinations be conducted expeditiously and with the least possible annoyance and inconvenience to the taxpayer consistent with a thorough examination when that is considered advisable.

In approaching our objective of advancing the examination of returns by six months to July 1st and completing such examinations within twelve months, I ask the earnest cooperation of the Collectors' forces and the Revenue Agents' employees. I know that it is a difficult task but I have confidence in your ability to accomplish it.

It is realized that no easy task has been asked of you. I know that the Collectors' forces have a program this year which is heavier than any of previous years. You have the duplicate returns this year for the first time and there is much work to be performed in their handling. You have many other duties.

6 G

Having all of this in mind, I am convinced from your performances in the past that no Revenue Agents' Division, that no Collection District and that no Bureau Division or Section will fail in its contribution to the task at hand.

I have only discussed generally the objetive we have in mind. There are many details to be considered. The different branches of the field service will have group meetings while here to work out the details.

There are, of course, many other problems to be discussed. This is so definitely a business meeting, with all that that implies, that I am speaking to you only very briefly and am not allowing myself the time to express my great gratification at the zeal and intelligence which all of you have devoted to your work since I have been Secretary of the Treasury. I do, however, wish to thank you especially for the fine work that so many of you have done in advancing a project outside the regular line of your duties, in furthering the Treasury's campaign to promote the sale of United States Savings Bonds. I feel that those efforts have been well spent. I think they have helped us all to realize our common problems and they have done a great deal to acquaint citizens all over the country with the responsibility and the problems of a democratic government. We are all gratified at the results that have been achieved.

In closing let me express the hope that you will find your meetings here interesting and that you will gain new support and new confidence from your contacts with your colleagues in the service and that there will be genuine and lasting benefits to the public service and to each of us individually. Again permit me to express my appreciation of your fine cooperation in the past and my earnest hope and confidence that you will not fail in the new and difficult program that we are presenting to you.

--oOo--

Want to meet all new men appointed during 1935

6

TREASURY DEPARTMENT

Washington

FOR RELEASE, UPON DELIVERY
About 3:00 p.m., January 20, 1936.

Press Service
No. 6 - 73

Address of Secretary Morgenthau to the Collectors and Field Supervisory Officials of the Bureau of Internal Revenue, Monday, January 20, 1936.

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January 20, 1936

Dr. Najera, Mexican Ambassador to the United States, called at 11 A. M. today. He stated that this call was made at the request of Mr. Suarez, who wished him to explain to the Secretary the results in Mexico of the lower price for silver. Mr. Suarez was afraid that with the recent drop in silver prices the mining industry in Mexico would be severely affected and it would not be worth while to work some of the mines. Mr. Suarez suggested that the United States Treasury give consideration to the idea of paying a higher price for newly mined Mexican silver than what we were paying in the open market in order to protect the Mexican mining industry. He called attention to the fact that American capital had a big interest in the Mexican silver mines. Mr. Morgenthau stated that he was doing everything possible at present for Mexico but could not see his way clear to pay a fixed price or bonus for Mexican silver. He drew attention to the fact that the price we are paying to Mexico has been anywhere from 3 to 5¢ above the price prevailing in London, and the Treasury might well be subject to criticism for even going this far. He told the Ambassador that the United States Treasury had kept the price in New York for a period of over three weeks at 50¢ an ounce, but owing to the dumping of silver by the British in the London market, we have been unable to maintain this price, as several banks and firms have been buying silver in London at the lower price and then shipping it over here in an endeavor to dump on the United States Treasury at the higher price prevailing here. The Secretary said he hoped that today's price of 45¢ might hold, but he could not tell in view of the fact that large stocks might be offered in London out of the amount accumulated there by the Hong Kong Government. Reference was made to cables recently received from Bombay and Hong Kong, in which it was shown that India had been a buyer of silver and had reduced its ready stocks from 30 to 10 million ounces, but that Hong Kong was shipping over 15 million ounces of silver to India. The Secretary pointed out that it was pretty difficult to try to maintain the market for silver when such dumping was taking place, but assured the Ambassador that he was always ready to listen to any suggestions. The Ambassacor stated that Mr. Suarez was preparing a memorandum setting forth the unfavorable effects of lower silver prices on the whole Mexican economic structure and that he would probably submit this for the Secretary's attention in a few days. The Secretary indicated his willingness to examine any statement of this nature which the Ambassador wished to submit, and at the same time reminded the Ambassador that he had not heard anything definite regarding the alcohol situation which Mr. Suarez had promised to attend to. Dr. Najera stated he was sure this was being taken care of but that he would mention it in his telephone conversation with Mr. Suarez.

January 20, 1936

At the very brief group meeting this morning, Miss Roche reported to the Secretary that the Surgeon General had told her on Saturday that he was hoping he might be relieved by the first of February. HM,Jr. said he wanted to speak to the President again about it, but that he could not rush him.

Mr. Oliphant reported that the bill of receivership against the Associated Gas and Electric Company will be filed soon. It was sent to the Attorney General a week ago today and the Treasury was informed on Saturday that it will be filed soon.

HM,Jr. told the group that the silver thing is very interesting. Despatches show that Hong Kong is sending 15,000,000 ounces to Bombay and Bombay supplies are down to 10,000,000 ounces. He said they seemed determined to get rid of silver out of Hong Kong.

January 20, 1936

HM,Jr. asked Mr. Coolidge, Mr. Oliphant, George Haas, Upham Mr. Gaston and Mr. Bell to meet with him in his office. He wanted suggestions on new taxes. Mr. Oliphant presented a memorandum (copy attached) listing five new taxes to replace the processing taxes and to take care of the bonus bill if enacted into law. He explained that these taxes would be based on income and inheritance.

Mr. Bell inquired the purpose of these new taxes and HM,Jr. explained it was on the theory that the bonus bill would be passed. He said it was his thought that we might get out a nine-year serial bond which would mature each year and that we would have the revenue from the new taxes to retire such a bond which would be floated to pay the bonus. Bell said that in his opinion the only justification for new taxes in connection with the bonus is to pay cash since the people have already been levied against to the extent of $160,000,000 for the bonus which, if allowed to accumulate, would retire the bonus in 1945.

Mr. Coolidge explained that we have never shown the certificates as a liability on our books. What we have is a liability to pay $3,700,000,000 in 1945. The additional cost to the Treasury of paying it today is the interest that we need to pay over the next nine years. If we say that interest is 2½%, which is the prevailing interest rate on Government obligations, that interest would cost $900,000,000, or $100,000,000 a year. That is the additional cost to the Treasury.

HM,Jr. inquired of Mr. Coolidge if he thought new taxes should be levied to meet this additional cost, taking for granted, of course, that the bonus passes, and Mr. Coolidge said, "I do think you ought to have additional taxes." He also explained that passing the bonus is equivalent to about a $1,000,000,000 deficit this coming year. Haas explained, "In other words, you give the soldiers $1,000,000,000 by paying it now instead of in 1945."

Mr. Morgenthau told the group his best judgment was to issue a nine-year serial bond, coming due each year. It will mean an item in the budget each year to keep before the people the fact that we are still paying on the bonus and when the veterans come back, as they probably will in about two years' time, and demand a pension, we can say"we have seven more years to go to pay off this; surely you are not going to talk pensions when we have all this to pay out." Coolidge and Bell both said they thought Mr. Morgenthau had a good idea. Upham, Gaston,Haas and Oliphant all agreed that this would be the best way to handle the financing.

A LIST OF NEW TAXES TO REPLACE THE PROCESSING TAXES AND AMORTIZE THE BONUS WITHIN NINE YEARS.

	Estimated Yield on 1936 Level
(1) Impose a flat 10% income tax on all unearned income of taxpayers having incomes in excess of $10,000..	$300,000,000
(2) Personal exemption and credit for dependents not to apply to surtaxes..	108,000,000
(3) Reduce the $40,000 estate tax exemption until it disappears on estates of $80,000 or more....................	62,000,000
(4) Treat inheritance as ordinary income with the tax credit on the first $40,000..................................	350,000,000
(5) Apply the normal income tax of 4% to all the income from dividends..	90,000,000
Total..............................	$910,000,000

Note: To prevent this last tax from discouraging the distribution of dividends, a tax of from 5 to 25% should be imposed on that part of each corporation's income (less taxes paid) which is not distributed as dividends, taking a three to five year average of such part, so as to take care of the problem of reserves and regular dividends.

January 20, 1936

The Chinese Ambassador had asked for an appointment with the Secretary today, but cancelled it. In his stead he sent his First Secretary to deliver the following message from Soong and word from the Ambassador that he was expecting another cable from China and would ask for an appointment with the Secretary in a day or two.

> "International relations and economic situation becoming very grave after long consideration feel unable to leave China this juncture. Please convey the President and Secretary of Treasury my warm thanks and great personal disappointment at being unable to come.
>
> Dr. Kung considering sending some substitute."

Soong
13

INTERNATIONAL RELATIONS AND ECONOMIC SITUATION BECOMING VERY GRAVE AFTER LONG CONSIDERATION FEEL UNABLE TO LEAVE CHINA THIS JUNCTURE. PLEASE CONVEY THE PRESIDENT AND SECRETARY OF TREASURY MY WARM THANKS AND GREAT PERSONAL DISAPPOINTMENT AT BEING UNABLE TO COME.

DR KUNG CONSIDERING SENDING SOME SUBSTITUTE.

Jan. 19,1936

January 20, 1936

The charge d'affaires of the Canadian Legation, Mr. Wrong, came to see me Saturday afternoon with Herbert Feis and wanted to know what there was to this Mexican situation that Canada, Mexico and the United States get together on silver. I told him it was something that the President wanted, but the practical part of it was that we were paying Canada a premium on her silver of a number of cents per ounce over what she could get for it in London; that the flow in and out of silver last year from Canada was considerable; that as our most friendly neighbor I did not want to move without giving them plenty of notice, but I did want them to feel conscious of the fact that we were giving them a bonus for their silver over and above the world market and in return for that all I asked was that they work with us on silver.

Mr. Wrong said he was afraid, on account of the statement made by Senator Thomas that the result of our conference with Mexico was to try to "lick the British", that their position was a very difficult one. I said I had no such thought in mind and could not help what Senator Thomas said. He realized that. I told him all I was interested in was to get Canada, which is the third biggest producer of silver in the world, to work with us and exchange information. He said he would go to Canada today (Monday) and would return in a couple of days with an answer.

January 21, 1936

Mr. Coolidge and Sloan brought in a schedule of magazine advertising for United States Savings Bonds for the calendar year 1936. HM,Jr. told Mr. Coolidge they could spend not more than $500,000 for that period for promotion of sales on "Baby Bonds." This amount is to cover all expenses of advertising in general but does not include expense of printing and engraving the bonds.

O.K. [handwritten initials]

UNITED STATES SAVINGS BONDS

SCHEDULE OF MAGAZINE ADVERTISING

- - -

February - May, 1936, Inclusive.

Space has been reserved for one page, one color, advertisements in the following magazines:

FEBRUARY

MAGAZINE	DATE OF ISSUE	COST
Barron's Weekly	Week of February 7th	$ 196.00
Commerical & Financial Chronicle	Week of February 8th	200.00
Financial World	Week of February 12th	450.00
Magazine of Wall Street	Week of February 22nd	600.00
United States Investor	Week of February 29th	150.00
		$ 1,596.00

MARCH

American Banker	Issue of March 4th	$ 140.00
Forbes Magazine	Issue of March 16th	750.00
Bond Buyer	Issue of March 27th	158.00
Saturday Evening Post	Week of March 7th	8,000.00
Collier's	Week of March 14th	6,000.00
Literary Digest	Week of March 21st	1,800.00
Time	Week of March 28th	1,750.00
		$18,598.00

APRIL

Saturday Evening Post	Week of April 7th	$ 8,000.00
Collier's	Week of April 14th	6,000.00
Literary Digest	Week of April 21st	1,800.00
Time	Week of April 28th	2,175.00
		$17,975.00

MAY

Saturday Evening Post	Week of May 7th	$ 8,000.00
Collier's	Week of May 14th	6,000.00
Literary Digest	Week of May 21st	1,800.00
Time	Week of May 28th	2,175.00
		$17,975.00

GRAND TOTAL............$56,144.00

REPORT OF SALES BY MONTHS

MONTH	TOTAL
March, 1935	$32,639,948.97
April, 1935	24,576,826.52
May, 1935	19,823,836.54
June, 1935	15,664,792.39
July, 1935	21,648,185.43
August, 1935	13,123,146.99
September, 1935	9,231,534.51
October, 1935	17,328,812.22
November, 1935	19,802,205.52
December, 1935	20,630,070.72
January 1 - 18 inclusive, 1936	30,478,392.02

January 21, 1936

The Secretary met with the following today, to discuss necessary legislation pertinent to the Treasury which should be acted on at this session of Congress:

Mr. Coolidge
Mr. Oliphant
Mr. Upham
Mr. Gaston
Mr. McReynolds
Mr. Bell
Mr. Haas
Mr. Hester

Approval was given to the suggestions incorporated in the attached memorandum with the exception of the bill imposing tonnage taxes on domestic shipping -- vessels, yachts, and pleasure boats. It was decided that this bill could be disregarded.

In regard to the Omnibus Liquor Bill amending administrative provisions of liquor laws, HM,Jr. called Charlie West and reminded him that Miss Roche's appointment as Acting Administrator of Federal Alcohol Control is only good for 30 days; that if we knew whether FAC was going to be in the Treasury or out of the Treasury we would be able to make up our minds just what kind of Administrator the President wants. He told Charlie West that he had facetiously said to the President that he could select someone immediately to head up FAC if that organization was going to be in the Treasury, but that he was sure the President was more familiar with "Republican prohibitionists" than he was!

HM,Jr. also said it was necessary to find out what Doughton's position was and that he thought Charlie West ought to contact Doughton for the White House and that the Treasury should not contact Doughton; that it would be much easier to add about ten lines to the Omnibus Liquor Bill than to let Miss Roche's 30-day appointment expire and then have to introduce a special bill. Mr. Hester reported that the Omnibus Liquor Bill passed the House and was reported out by the Ways and Means Committee just before the closing of the last session of Congress. West said that he would contact Doughton today.

In connection with No. 3 of the attached memorandum, with respect to the Confidential Reorganization Bill, HM,Jr.

stated that the President thought it a grand idea and Mr. Oliphant also approved. Mr. Morgenthau said he had told the President that he had no candidate to head up the combination in the event the bill passed, but that the only person who could do the job was Harold Graves and that Harold had told HM,Jr. (and HM,Jr. had in turn told the President) that he, Graves, did not think he ought to head it up inasmuch as he had planned the reorganization and arranged the details. The President was most pleased with Graves' attitude. The President suggested Commissioner Mulrooney for this job, but nothing definite has been done.

On No. 4, the Miscellaneous Tax Bill, it was decided that this is purely administrative. It does not mean any new revenue. At four o'clock today legislation for this bill will be further considered.

HM,Jr. told Mr. Hester to check with Ballinger on No. 12, which is the bill amending administrative provisions of the customs laws.

The President is very anxious to hurry up No. 13, Mr. Morgenthau said. This is the bill providing for striking of commemorative medals in lieu of coins.

It was decided that Bell would take care of two bills not listed (mentioned in last paragraph of the attached memorandum) (1) Bill repealing the appropriation of an amount equal to 30% of the customs receipts for certain uses of the Secretary of Agriculture and (2) Bill extending the control of the Bureau of the Budget over funds of emergency agencies, obtained otherwise than by appropriation, for the reason that they have become, by inclusion in the Budget Message, administration measures.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

FROM Herman Oliphant

What are your wishes on the following? Out of approximately 40 bills which have been initiated, or are now in the process of being initiated, by the Treasury Department, I have selected four bills the enactment of which is considered necessary, and 16 bills the enactment of which I consider very desirable and believe could be accomplished without delaying the adjournment of Congress. They are:

CONSIDERED NECESSARY

O.K. 1. Bill to enforce the 21st Amendment.

OK. 2. Omnibus Liquor Bill amending administrative provisions of liquor laws.

O.K. 3. Confidential reorganization bill.

O.K. 4. Miscellaneous Tax Bill, amending administrative provisions of the tax laws, apart from those relating to the liquor laws. Among such provisions are those giving us more adequate remedies in dealing with cases like the Associated Gas and Electric Company case and a provision repealing the statute which permits an executor to elect to value, for estate tax purposes, an estate as of one year after the decedent's death rather than as of the date of death.

VERY DESIRABLE AND WILL NOT DELAY ADJOURNMENT OF CONGRESS

✓ 1. Bill requiring postal employees to return Veterans' benefit checks when addressee is deceased, etc., to prevent unauthorized cashing.

NO. 2. Bill imposing tonnage taxes on domestic shipping - vessels, yachts, and pleasure boats.

✓ 3. Bill authorizing the return to the Philippines and Puerto Rico, respectively, of funds deposited with the Treasurer, but not used, for the payment of their respective public-debt obligations.

✓ 4. Bill to make uniform and to extend laws regulating the conduct of persons now or formerly employees of the Government in connection with claims in which the United States is interested.

5. Bill providing preference for governmental claims for taxes and duties in railroad reorganizations in bankruptcy.

6. Bill giving preference as to hearing and trial to proceedings involving fraud upon the revenues of the United States.

7. Bill providing for the seizure and forfeiture of vessels, vehicles, and aircraft used in violation of certain laws.

8. Bill providing for the admissibility of foreign documentary evidence in criminal cases.

9. Bill to authorize the acquisition of land in the District of Columbia for additional sites for public buildings.

10. Bill amending the Harrison Narcotic Act to strengthen registration requirements and to comply with treaty obligations.

11. Bill increasing maximum punishment for second and subsequent offenders against the narcotic laws.

12. Bill amending administrative provisions of the customs laws.

13. Bill providing for striking of commemorative medals in lieu of coins.

14. Bill granting Coast Guard officers specific authority to enforce all laws of the United States.

15. Bill punishing the transportation in interstate or foreign commerce of animals which have been unlawfully administered narcotic drugs.

There are not listed above (1) Bill repealing the appropriation of an amount equal to 30% of the customs receipts for certain uses of the Secretary of Agriculture and (2) Bill extending the control of the Bureau of the Budget over funds of emergency agencies, obtained otherwise than by appropriation, for the reason that they have become, by inclusion in the Budget Message, administration measures.

January 21, 1936.

The Board of Trustees of the Postal Savings System met in the office of the Postmaster General at 3:30 P.M. Those present included:

Postmaster General Farley, Chairman of the Board,
Henry Morgenthau, Jr. Secretary of the Treasury,
Homer Cummings, Attorney General,
T. Jefferson Coolidge, Under Secretary of the Treasury, and
Officials of the Postal Savings System.

The matters before the Board for consideration were, (1) the rate of interest required from banks in which Postal Savings Funds are deposited, and (2) the rate of interest paid by the fund to the Postal Savings depositors. It was explained that the Postal Savings Act of 1910 requires that banks in which Postal Savings Funds are kept pay a minimum of 2-1/4% interest and that the rate paid depositors be 2%. Because of the desire that the Postal Savings System be self-sustaining, the rate charged banks in which funds are deposited has been 2-1/2%.

The Banking Act of 1935 prescribes that the Federal Reserve Board might fix maximum rates of interest payable for savings deposits by member banks of the System but that members in any particular state could not be permitted to pay a higher rate than fixed by the State Banking Department for State banks.

In New York and New Jersey the rate paid depositors is 2% and in Mississippi it is 2% for the first $5000 and thereafter a sliding rate to 1-1/2%.

The question which arises is: Can the Postal Savings System require national banks to pay more than 2% on postal savings funds deposited with them and can they leave funds on deposit with the banks which pay no more than 2%.

It was the recommendation of the representatives of the Postal Savings System that the present interest rate structure in the System be maintained.

The immediate problem then is with respect to the money in banks in those three States. Can Postal Savings deposits be accepted in those three States?

Mr. Coolidge expressed the opinion that it was a matter of small consequence whether we get 2-1/2% from the banks -- that Postal Savings funds are pretty largely in Governments anyway, very little being left in the banks.

It was pointed out that some of the small banks want Postal Savings funds.

Mr. Coolidge thought it was not quite right for the Government to pay depositors in the Postal Savings System more than it permits banks to pay for savings deposits.

Both Mr. Farley and Mr. Morgenthau agreed that the depositors who have left their money in the Postal Savings System during the last few years at 2% should be given some consideration.

It was suggested that the rate now paid is below the "Baby Bond" rate and below the rate for other long-term Treasury securities.

The suggestion that new deposits receive a lower rate than old deposits was rejected as administratively unworkable.

Mr. Morgenthau suggested that the situation be permitted to run along as it is for another 30 days and see if anything happened and if necessary a hurry-up meeting could be called in the meantime.

This was agreed to.

It was agreed that it would be desirable to avoid asking Congress for legislation at this session.

Mr. Coolidge suggested that until some State goes to 1-1/2% there will be no difficulty.

It was agreed that money on deposit in New York, New Jersey and Mississippi should be withdrawn at once and that an effort should be made to get 2-1/2% from the depositary banks, but that they should all be treated alike.

Mr. Morgenthau thanked the Postmaster General and his aides for their help in making the Baby Bond program a success.

Postal Savings System

Item	June 30, 1933	June 30, 1934	June 30, 1935
ount on deposit to credit of depositors	$1,187,186,208.	$1,197,920,188.	$1,204,862,940.
umber of depositors	2,342,133	2,562,082	2,598,391
ash on hand (including Reserve Fund)	92,446,053.31	68,969,440.74	64,844,905.07
n deposit withbanks	977,214,074.44	695,281,038.03	384,856,574.78
nvested In U.S. securities	131,054,752.55	453,340,315.08	777,007,225.29

ncome from securities -			
Interest	2,778,467.04	7,340,396.08	18,149,356.19
Profit on sales	....	632,797.42	2,550,111.60
ncome from bank deposits	20,759,210.29	21,829,303.11	12,994,199.62
iscelleneous income	70.17	2,392.60	1,175.10
Total Income	23,537,747.50	29,804,889.21	33,694,842.51

xpenses:			
Charges against Earnings	16,978,994.35	21,702,264.56	21,865,887.24
Extra expense	4,440,629.19	4,116,790.17	4,494,511.80
	21,419,623.54	25,819,054.73	26,360,399.04
Income minus expense	2,118,123.96	3,985,834.48	7,334,443.47

Postal Savings System

Item	Dec. 31, 1933	Dec. 31, 1934	Dec. 31, 1935 (Estimated)
mount on deposit to credit of depositors	$1,208,884,255.	$1,207,428,162.	$1,201,000,000.
umber of depositors	2,493,204	2,602,710	2,600,000
ash on hand (including Reserve Fund)	117,923,578.52	96,645,838.98	109,000,000.
n deposit with banks	914,492,413.04	540,050,086.77	264,000,000.
nvested in U. S. securities	200,465,130.05	596,882,805.78	852,765,000.
ncome from securities -			
Interest	4,430,451.51	12,775,905.18	21,642,000.
Profit on sales	......	2,631,978.53	650,000.
In me from bank deposits	22,907,734.17	17,420,537.64	8,840,000.
iscellaneous Income	2,326.26	1,201.21	115.
Total Income	27,340,511.94	32,829,622.56	31,132,115.
xpenses:			
Charges against Earnings	20,153,288.21	21,765,499.36	23,300,000.
Extra Expense	4,278,709.68	4,305,650.99	4,500,000.
Total Expense	24,431,997.89	26,071,150.35	27,800,000.
ncome Minus Expense	2,908,514.05	6,758,472.21	3,332,115.

DEPARTMENT OF STATE

THE SECRETARY

The Secretary of State transmits herewith for the personal and confidential information of the Secretary of the Treasury a copy of a memorandum of conversation with the British Ambassador on January 22, 1936.

January 22, 1936.

MEMORANDUM OF CONVERSATION BETWEEN SECRETARY HULL AND THE BRITISH AMBASSADOR, SIR RONALD LINDSAY.

Trade Agreements Program.

The British Ambassador called upon my invitation. After some preliminaries leading up to the matter, I proceeded briefly to rehearse the fundamentals of our international trade agreements program, which the Ambassador well understood, and to emphasize the extreme importance and urgency of world economic rehabilitation. I stated more than once the necessity for such rehabilitation both from the standpoint of world peace and of prosperity, in both of which Great Britain and this country were tremendously interested, and concluded very earnestly with the statement that if the present movement to restore international trade should not be carried forward because of Great Britain and other important countries not being disposed to share in it, I was not prepared to say what might happen to the world after this movement should break down through lack of support from important commercial nations, especially those

greatly

greatly interested in international trade, as was Great Britain.

The Ambassador seemed entirely in accord with these statements and objectives.

I proceeded then to add that I knew the Ambassador would not think I had in mind any seriously controversial purpose in what I was about to say, but that I felt constrained, in the same cooperative spirit that I hoped might be even further developed economically between our two countries, to bring to his attention and that of his Government certain methods and practices in trade on the part of his Government which I felt were seriously handicapping the prosecution of our international trade recovery program. I continued by saying that this Government, in carrying forward its program, had been governed entirely by the long view in contrast with narrow, shortsighted, trade objectives; that this, of course, had been expensive to this Government, but that we had felt and still did feel that the broad program for full, permanent and sound international economic recovery was the only program that could either consistently or safely be considered, especially by important commercial nations like Great Britain and the United States; that, as an illustration,

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when this Government entered into its trade agreement with Brazil it had it in its power to take over a large and unequal share of exchange and let the nationals of this country apply it on their indebtedness existing in Brazil, but instead this Government had steadfastly clung to its policy of equality and proceeded to share its much less but equal portion, while the British correspondingly benefited from this American sacrifice; that we had foregone sales of vast quantities of cotton to Germany rather than adopt a narrow, temporary, shortsighted trade practice.

I then stated that in most cases the clearing arrangement had an inevitable tendency to drive trade straight into the bilateral channel alone; and that this course if adhered to by Great Britain and numerous other countries would not only cripple but gradually break down the entire program of the favored-nation policy for the restoration of bilateral, triangular and multilateral trade on a full and stable basis. I said I had recently observed in our efforts to induce Spain to liberalize her economic mind and attitude, where we were striving to enter into a very limited trade arrangement under which we would be called upon

to

to buy more in dollars and cents than we would sell to Spain, that the result would be that the increased exchange Spain would realize would go to Great Britain under her clearing arrangements and at the loss of the United States; that a number of similar clearing arrangements on the part of the British Government were understood to have like obstructive and handicapping effects upon the efforts of this Government to carry forward its broad program with the favored-nation policy underlying it. I stated that of course the British Government had a perfect right to take these shortsighted steps, as we considered them wherever practiced and by whom, and that I must not be understood as criticizing now or hereafter, but that I deeply felt that being more interested in the recovery of wholesome international trade than any other nation, Great Britain might probably decide to gradually desist from clearing arrangements such as I had referred to and collaborate correspondingly more with this Government and others in carrying forward the broader economic policy which our trade agreements program embodied. I set out the names of the Argentine, Germany, Italy and two or three other countries, including the Scandinavian countries, where the British by

unusual

unusual and objectionable methods were forcing the bilateral trade practice at the expense of healthy triangular and multilateral trade.

The Ambassador replied that he was under the impression that the effect of the British Government's action in the instances mentioned, not to include others, was more or less natural, due to the unfavorable balance of trade on the part of the British Government. I, with some deference, pointed out how, according to my understanding of the facts, the whole tendency in a majority of most of these clearing house cases was to drive straight towards bilateral trading and correspondingly to restrict and obstruct the sum total of world trade.

I said further that of course the British Government could go along with the expectation of a more or less favorable development in their domestic economy, sitting behind tariff walls and Empire preference; that the building construction boom and artificial, but in my opinion temporary, advantages would make this possible for another year or two; that the British Government had been thus pursuing a rather isolated economic policy with no manifestation of interest, as stated, in the program of this Government for international finance

and

and trade recovery; that while thus pursuing this course of aloofness, the British Government suddenly had their attention attracted to an astonishing development in world affairs in that they saw a million heavily armed men on the march from Italy to Ethiopia. I stated the result was that at once the British Government had felt obliged to order its Navy to assemble posthaste, from every part of the earth, on the Mediterranean; that today the British Government had felt obliged to prepare a huge budgetary increase of 1-1/2 to 2 billions of dollars for heavily increased armaments; that both his Government and mine would have to agree that if Italy had had even near her pre-panic quantity of exports there was a real possibility that her armies would not be on the march today; that, of course, the British Government could continue to proceed leisurely with respect to cooperating in the restoration of world trade, including exchange stabilization, waiting for every possible development desired before proceeding with the fundamentals of economic rehabilitation; but that there was a real probability that the German military forces would be on the march before this leisurely

policy

policy of restoring trade and employment had been taken sufficiently in hand and dealt with; and that the experience with Italy should be a warning to all of our governments alike. I emphasized the view that when people are unemployed, and with their families in more or less economic distress, they fall a ready prey to agitators, revolutionaries and dictators, who in turn are liable to throw them into war; that the most incomprehensible circumstance in the whole modern world is the ability of dictators, overnight almost, to stand 35 million Italians and 65 million Germans on their heads and so dominate their mental processes that they arise the next morning and insist on being sent to the first-line trenches without delay; that when people are employed and they and their families are reasonably comfortable and hence contented, they have no disposition to follow agitators and to enthrone dictators.

I then added that the world today was producing and consuming substantially less than it did six or eight, or possibly ten, years ago; that after every country had developed its domestic economy as fully as practicable in the light of the disposition of the various peoples, there would remain ample occasion and room for 20 billions

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of mutually profitable international trade and immense investments - immense investments that a hard-headed business man would consider sound; that restoration of such trade would mean the reemployment of the chief portion of unemployed and more or less distressed wage earners in such countries as Germany, Italy, Great Britain and the United States; that this action would probably mark the difference between war and peace in Europe in the not distant future; that in any event this course of trade restoration and of reemployment of 12 to 14 millions of unemployed persons offered the only possible alternative to the old order supplemented by extremely dangerous possibilities of war already in existence.

I then suggested that, unless the Ambassador had a contrary view, I had in mind to prepare a memorandum containing the true facts as to these clearing arrangements and get it before the British Foreign Office; that I was wondering whether to clarify the matter most effectively I should, while giving the British Ambassador here a copy, send the memorandum to Mr. Atherton at London who would converse in person with Mr. Runciman

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in the office of the Board of Trade. The Ambassador promptly expressed the view that it would be more satisfactory to have a full conversation back and forth between Mr. Runciman and Mr. Atherton. The Ambassador seemed entirely sympathetic all the way through the conversation with the exception of the one statement above set out.

C.H.

S CH:HR

January 22d

Gaston came in this morning and said that Bill Myers had told him that in discussing the position of a farmer on the Federal Reserve Board Eccles intimated that the President and I thought it necessary that Bill Myers should not go on. I called up Bill Myers and told him that that was the first I had heard of it and that Eccles drew liberally on his imagination. Myers asked me whether I thought he should consider it and I told him no.

January 22, 1936

On January 15, Senator Murphy accompanied by Mr. O'Neil of the Farm Bureau Federation, Daniel L. O'Connor of Farmers Union, and Mr. Hall, also of the Farm Bureau, called on Mr. Graves to discuss the Treasury's position with reference to the use of molasses alcohol in blended whiskey. Mr. Graves reported the group left entirely satisfied with the Treasury's position.

Saturday, January 18, Secretary Wallace called HM,Jr. and told him O'Neil was sitting in his office and was complaining about the Treasury's position. HM,Jr. was very much surprised.

Yesterday Senator Murphy called the Secretary and was very nice over the telephone. He said, "Strictly between us, Mr. Secretary, I sat next to O'Neil at the meeting and you have every right to be of the opinion that O'Neil was satisfied." He also said, "I don't blame Graves for thinking that I was satisfied, although I did say that I wanted to look up the statute, but I wasn't really emphatic about it." He said, "As far as I am concerned, forget about it."

A copy of the Treasury's letter to Senator Murphy, of February 15, outlining the position the Treasury must take, is attached.

(COPY)

January 15, 1936.

Hon. Louis Murphy,
United States Senate,
Washington, D. C.

My dear Senator:

In accordance with your request, I am furnishing you with the facts regarding the position taken by this Department with reference to the use of molasses alcohol in blended whiskey.

Section 605 of the Revenue Act of 1918 provides as follows:

> All distilled spirits or wines taxable under this section shall be subject to uniform regulations concerning the use thereof in the manufacture, blending, compounding, mixing, marking, branding, and sale of whiskey and rectified spirits, and no discrimination whatsoever shall be made by reason of a difference in the character of the material from which same may have been produced.

I have been advised by the General Counsel of the Treasury Department that the provision quoted precludes the approval of regulations issued by the Federal Alcohol Administration calculated to prohibit the use of molasses alcohol in blended whiskey.

As you were informed, the total use of grains in the production of distilled spirits in the United States amounts to approximately 35,000,000 bushels annually. The regulations referred to would have only a negligible effect upon grain consumption. The estimate of the Bureau of Internal Revenue is that the total of neutral spirits used in the blending of whiskey is approximately 3,600,000 proof gallons annually. Assuming that the whole of this quantity should be produced from grain, this would represent approximately 720,000 bushels of grain a year. You of course know that the law requires that in any case the kind of neutral spirits used must be plainly stated on all labels. Under these conditions, it is the Department's opinion that should molasses alcohol be permitted in blended whiskey, most blenders would continue to use grain spirits as a matter of preference by reason of the generally recognized consumer resistance to blends produced from cane products; and the Department believes that the loss to grain producers would certainly not in any event exceed one quarter of the present annual consumption of 720,000 bushels, or 180,000 bushels.

You understand, of course, that the decision in this matter has been reached solely on account of the legal difficulty which has been referred to above. The regulations will not be effective until March 1, and it is believed that this will afford ample time for action by Congress to reserve this small additional market for the grain producer, should such action be considered advisable.

Sincerely,

(Signed) T.J. COOLIDGE
Acting Secretary.

HEG/mff

Office of the Attorney General
Washington, D.C.

January 22, 1936.

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

In re: United States v. Associated Gas and Electric Co., et al.

My dear Mr. Secretary:

I have received your letter dated January 10, 1936, requesting the institution of a suit to foreclose the lien of the United States for income and excess profits taxes, together with penalties and interest, in the total sum of $50,982,103.71 owing by Associated Gas and Electric Company for the years 1927 to 1933, inclusive. Suit will be filed as soon as the necessary preliminary details can be worked out and the necessary pleadings drafted.

The procedure suggested in your letter seems to be appropriate. When the necessary pleadings have been prepared, you will be advised as to the approximate date when the bill of complaint will be filed in order that notices of lien may be placed of record in advance of institution of the suit.

From time to time I will advise you as to progress of the litigation.

Very truly yours,

Homer Cummings

Attorney General.

January 22, 1936

Ambassador Sze came in to see the Secretary today and said, "Kung asked me to express his deep appreciation for your invitation, but the present political situation makes it impossible for him to go, but they are anxious to have some conversations with you and he thought if he sent somebody here, the quickest it would be would be five weeks. He is anxious to have some understanding with you on the currency question and asks whether it would be agreeable to you to conduct negotiations by cable. He wants to cooperate with you. He is afraid the people will import silver into China."

HM,Jr., at this point, inquired, "Why is he afraid of this?" The Ambassador made no direct answer, but obviously was somewhat confused.

Mr. Morgenthau then said to the Ambassador, "It is almost impossible to conduct a thing like this by cable. It takes one week to get an answer and I cannot tell him what the price of silver is going to be tomorrow. I want to be helpful, but I cannot be helpful if I do not understand what the problem of the Chinese Government is. As far as the United States Government is concerned, none of us understands what your objective is. When silver was going up, you worried. Now that is is going down, you are worried. Whatever we do seems to be harmful to China.

"I do not understand," he continued, "why you do not want to have silver go into China. Do you want to see more silver smuggled out." The Ambassador made no answer.

HM,Jr. went on to say to the Ambassador, "Here is the thing. If you do not mind my being frank -- you always come to me with the idea of getting information out of me. I know the people in China have made millions. If I could tell you what the price of silver was going to be tomorrow, I would not do it because I would be handing over money to the people in China who are speculating. Whenever you come to me, you always want information and want to know what I am going to do on the price of silver. What's the use? We do not get anywhere.

"I have gone through this deal of buying 50,000,000 ounces of silver and I repeat that I want to be helpful, but I cannot be helpful if I do not know what your program is."

Ambassador Sze said,"Personally, I have not bought any silver." Mr. Morgenthau replied, "I know you have not. You know what I am saying is true, but you cannot admit it. You know it is true. The servants of your officials are doing the speculating for them.

"China is on the crossroads of her present history," continued the Secretary. Kung asks me what I want. I do not want anything, but I want to see China succeed. We are not asking for anything." When the Ambassador asked Mr. Morgenthau, "What do you suggest?", Mr. Morgenthau replied, "I am not going to make any more suggestions. I will tell you this: that the help of the United States Government at this time is a great deal more important than this constant pressure which you are being subjected to from all sides. Leith-Ross has done nothing and the Japanese are not going to help you.

"Don't send home the information about what I said in regard to the speculators. If they are so busy at home, then as far as I am concerned that ends it. You can send word back to Kung that if he wants to conduct negotiations by cable, O.K., but I do not think that we will get anywhere, but he must say just what he wants.

Mr. Sze said, "He wants to see silver steady, not to go up or down."

HM,Jr. told the Ambassador, "Just as soon as somebody comes here from the Chinese Government to tell me what their monetary policy is, I will know what they want. It is wasting my time and my energy the way things are going and please remember that I want to be helpful." The Secretary ended the meeting by saying, "If we could decide on some common objective we would have a real basis for cooperation and could then get some place."

74TH CONGRESS 2d Session | HOUSE OF REPRESENTATIVES | DOCUMENT No. 398

VETO MESSAGE ON H. R. 9870 AN ACT TO PROVIDE FOR THE IMMEDIATE PAYMENT OF WORLD WAR ADJUSTED-SERVICE CERTIFICATES

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

WITHOUT HIS APPROVAL, BILL H. R. 9870, ENTITLED "AN ACT TO PROVIDE FOR THE IMMEDIATE PAYMENT OF WORLD WAR ADJUSTED-SERVICE CERTIFICATES, FOR THE CANCELATION OF UNPAID INTEREST ACCRUED ON LOANS SECURED BY SUCH CERTIFICATES, AND FOR OTHER PURPOSES"

JANUARY 24, 1936.—Ordered to be printed

To the House of Representatives:

I return herewith, without my approval, bill H. R. 9870, entitled "An act to provide for the immediate payment of World War adjusted-service certificates, for the cancelation of unpaid interest accrued on loans secured by such certificates, and for other purposes."

On May 22, 1935 in disapproving a bill to pay the bonus in full immediately instead of in 1945, I gave in person to a joint session of the Congress complete and explicit reasons for my action.

The bill I now return differs from last year's bill in only two important respects: First, it eliminates the issuance of unsecured paper currency to make the payments required and substitutes interest-bearing bonds, which, however, may be converted into cash for face value at any time; second, it adds $263,000,000 to the total payments by forgiving interest after October 1, 1931, on amounts borrowed.

In all other respects, the circumstances, arguments, and facts remain essentially the same as those fully covered and explained by me only 8 months ago.

I respectfully refer the Members of the Senate and of the House of Representatives to every word of what I said then.

My convictions are as impelling today as they were then. Therefore I cannot change them.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, *January 24, 1936.*

H. R. 9870

SEVENTY-FOURTH CONGRESS OF THE UNITED STATES OF AMERICA; AT THE SECOND SESSION, BEGUN AND HELD AT THE CITY OF WASHINGTON ON FRIDAY, THE THIRD DAY OF JANUARY, ONE THOUSAND NINE HUNDRED AND THIRTY-SIX.

AN ACT To provide for the immediate payment of World War adjusted service certificates, for the cancelation of unpaid interest accrued on loans secured by such certificates, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding the provisions of the World War Adjusted Compensation Act, as amended (U. S. C., 1934 edition, title 38, ch. 11), the adjusted-service certificates issued under the authority of such Act are hereby declared to be immediately payable. Payments on account of such certificates shall be made in the manner hereinafter provided upon application therefor to the Administrator of Veterans' Affairs, under such rules and regulations as he may prescribe, and upon surrender of the certificates and all rights thereunder (with or without the consent of the beneficiaries thereof). The payment in each case shall be in an amount equal to the face value of the certificate, except that if, at the time of application for payment under this Act, the principal and unpaid interest accrued prior to October 1, 1931, with respect to any loan upon any such certificate has not been paid in full by the veteran (whether or not the loan has matured), then the Administrator shall (1) pay or discharge such unpaid principal and interest as is necessary to make the certificate available for payment under this Act, (2) deduct such unpaid principal and so much of such unpaid interest as accrued prior to October 1, 1931, from the amount of the face value of the certificate, and (3) certify to the Secretary of the Treasury as payable an amount equal to the difference between the face value of the certificate and the amount so deducted.

SEC. 2. In the case of each loan heretofore made pursuant to law by the Administrator of Veterans' Affairs and/or by any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia, upon the security of an adjusted-service certificate, any interest unpaid accrued subsequent to September 30, 1931, that has been or, in consequence of existing law, would be charged against the face value of such certificate shall be canceled insofar as the veteran is concerned, notwithstanding any provision of law to the contrary. Any interest on any such loan payable to any such bank or trust company shall be paid by the Administrator of Veterans' Affairs.

In the case of any such loan which is unpaid and held by a bank or trust company at the time of filing an application under this Act, the bank or trust company holding the note and certificate shall, upon notice from the Administrator of Veterans' Affairs, present them to the Administrator for payment to the bank or trust company in full satisfaction of its claim for the amount of unpaid principal and unpaid interest, except that if the bank or trust company, after such notice, fails to present the certificate and note to the Administrator within fifteen days after the mailing of the notice, such interest shall be paid only up to the fifteenth day after the mailing of such notice.

SEC. 3. (a) An application under this Act for payment of a certificate may be made and filed at any time before the maturity of the certificate (1) personally by the veteran, or (2) in case physical or mental incapacity prevents the making or filing of a personal application, then by such representative of the veteran and in such manner as may be by regulations prescribed. An application made by a person other than a representative authorized by such regulations shall be held void.

(b) If the veteran dies after the application is made and before it is filed it may be filed by any person. If the veteran dies after the application is made it shall be valid if the Administrator of Veterans' Affairs finds that it bears the bona-fide signature of the applicant, discloses an intention to claim the benefits of this Act, and is filed before payment is made to the beneficiary. If the death occurs after the application is filed but before the receipt of the payment under this Act, or if the application is filed after the death occurs but before mailing of the check in payment to the beneficiary under section 501 of the World War Adjusted Compensation Act, as amended, payment under this Act shall be made to the estate of the veteran irrespective of any beneficiary designation. If the veteran dies without making a valid application under this Act no payment under this Act shall be made. If the veteran dies on or after the passage of this Act without having filed an application under section 1, in making any settlement

there shall be deducted on account of any loan made on an adjusted-service certificate only interest accruing prior to October 1, 1931.

(c) Where the records of the Veterans' Administration show that an application, disclosing an intention to claim the benefits of this Act, has been filed and the application cannot be found, such application shall be presumed, in the absence of affirmative evidence to the contrary, to have been valid when originally filed.

(d) If at the time this Act takes effect a veteran entitled to receive an adjusted-service certificate has not made application therefor he shall be entitled, upon application made under section 302 of the World War Adjusted Compensation Act, as amended, to receive, at his option, under such rules and regulations as the Administrator may prescribe, either the certificate under section 501 of such Act, as amended, or payment under this Act.

SEC. 4. The amount certified pursuant to section 1 of this Act shall be paid to the veteran or his estate on or after June 15, 1936, by the Secretary of the Treasury by the issuance of bonds of the United States, registered in the name of the veteran only, in denominations of $50 having a total face value up to the highest multiple of $50 in the amount certified as due the veteran, and the difference between the amount certified as due the veteran and the face amount of the bonds so issued shall be paid to the veteran or his estate by the Secretary of the Treasury out of the fund created by section 505 of the World War Adjusted Compensation Act, as amended. The bonds shall be dated June 15, 1936, and shall mature on June 15, 1945, but shall be redeemable at the option of the veteran or his estate at any time, at such places, including post offices as the Secretary of the Treasury may designate. Such bonds shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended, and shall not be transferable, assignable, subject to attachment, levy, or seizure under any legal or equitable process and shall be payable only to the veteran or, in case of death or incompetence of the veteran, to the representative of his estate. Interest on each bond issued hereunder shall accrue at the rate of 3 per centum per annum from June 15, 1936, to date of maturity or payment of the principal of the bond, whichever is earlier, and will be paid with such principal: *Provided, however*, That no interest will be paid on any bond redeemed prior to June 15, 1937. The provisions of this section shall be carried out subject to regulations of the Secretary of the Treasury to be issued from time to time to effectuate the purposes of this Act.

SEC. 5. The Secretary of the Treasury is authorized and directed to redeem from the United States Government life insurance fund all adjusted-service certificates held by that fund on account of loans made thereon, and to pay to the United States Government life insurance fund the amount of the outstanding liens against such certificates, including all interest due or accrued, together with such amounts as may be due under subdivision (m) of section 502 of the World War Adjusted Compensation Act, as amended. The Secretary of the Treasury is authorized and directed to make such payment by issuing, to the United States Government life insurance fund, bonds of the United States which shall bear interest at the rate of 4½ per centum per annum. No such bonds shall mature or be callable until the expiration of a period of at least ten years from date of issue, except that any such bond shall be redeemed by the Secretary of the Treasury and the principal and accrued interest thereon paid to the United States Government life insurance fund at any time upon certification by the Administrator of Veterans' Affairs that the amount represented by such bond is required to meet current liabilities. Bonds issued for the purposes of this section shall be issued under the Second Liberty Bond Act, as amended, subject to the provisions of this section.

SEC. 6. The adjusted-service certificate fund is hereby made available for payments authorized by this Act.

SEC. 7. Notwithstanding the provisions of Public Law Numbered 262, Seventy-fourth Congress, approved August 12, 1935, no deductions on account of any indebtedness of the veteran to the United States, except on account of any lien against the adjusted-service certificate authorized by law, shall be made from the adjusted-service credit or from any amounts due under the World War Adjusted Compensation Act, as amended, or this Act.

SEC. 8. There is hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

SEC. 9. If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 10. Whoever knowingly makes any false or fraudulent statement of a material fact in any application, certificate, or document made under the provisions of this Act, shall, upon conviction thereof, be fined not more than $1,000, or imprisoned not more than five years, or both.

SEC. 11. This Act may be cited as the Adjusted Compensation Payment Act, 1936.

JOSEPH W. BYRNS,
Speaker of the House of Representatives.
JNO. N. GARNER,
Vice President of the United States and President of the Senate.

I certify that this act originated in the House of Representatives.

SOUTH TRIMBLE, *Clerk.*

January 24, 1936

Secretary Morgenthau personally telephoned to Knoke today and gave him orders to sell Sterling against approximately $1,330,000 worth of gold held in London and also to sell Sterling for delivery in about 30 days up to the equivalent of $5,000,000. The gold in London was sold and the Sterling proceeds disposed of to a total of $1,330,000. In addition, a total of $4,400,000 in Sterling was sold for forward delivery at the average price of 4.9990.

January 25, 1936

Instructions were given to sell the equivalent of $5,000,000 Sterling for forward delivery at 5.00 or better. Of this order $1,075,000 was executed at an average of 5.0040.

January 27, 1936

Instructions were given to sell Sterling for approximately 30 days delivery at 5.00 or better, and to sell whatever Sterling was necessary to hold the market around these levels. A total of about $9,000,000 in Sterling was sold at an average rate of 5.0025.

Meeting held at Secretary Morgenthau's home
on Saturday afternoon, January 25th.
Following dictated by Mr. Archie Lochhead

Present: Secretary Morgenthau
Mr. Hume Wrong, Counselor of Legation
Mr. Clark, Economic Advisor to the Canadian government
Mr. George C. Haas
Mr. Archie Lochhead

Mr. Morgenthau told Mr. Wrong and Mr. Clark that he had asked them to meet with him to discuss the sale of Canadian silver which at present was mainly sold to the United States and stated that in view of Canada's production of newly mined silver they should be very much interested in anything pertaining to the maintenance of the silver market. Figures for the past few years showed that whereas at one time Canada sold a considerable part of its production to China and some to the United Kingdom in the past year practically all Canadian exports of silver had gone to the United States and in fact the exports of silver to the United States exceeded Canada's net production.

Mr. Morgenthau explained briefly the necessary arrangement arrived at by the Unites States Treasury and the Mexican government to cover purchase of newly mined Mexican silver as Mr. Wrong and Mr. Clark both stated that they were not familiar with the details of this transaction.

The Secretary asked Mr. Wrong and Mr. Clark to consider whether or not it might be wise for the Canadian government to take the necessary steps to prevent silver being shipped to Canada for ultimate sale to the United States Treasury. It was pointed out that the United States market has usually been at a premium over other silver markets, this premium at some times reaching 5 or 6¢ per ounce and that the United States had given Canadian silver the benefit of this premium. The Canadian silver mining industry had also benefitted from the United States silver purchasing program in that they were obtaining a much higher rate for the silver produced than would otherwise have been the case.

The Secretary pointed out that there was a large floating supply of silver some of which was being held in the London market and some had been shipped to Bombay and it was quite probable that some silver of this nature might be shipped to Canada in an effort to take advantage of the United States price and it would be best to consider this possibility in advance of any actual occurrences.

It was pointed out that the newly mined Canadian silver bars could be marked in the same method as the Mexican bars and, if the Canadian government wished, the United States Treasury would probably make arrangements to buy Canadian newly mined silver, say, at the rate of 1 million 200 thousand ounces a month which would take care of Canada's estimated production of 16 million ounces,less than 1 million 600 thousand ounces which Canada had agreed to withhold from the market in accordance with the terms of the London Silver Agreement.

Mr. Morgenthau explained that we were not trying to sell the Canadians anything or ask for any favors but simply to point out that both Canada and the United States were mutually interested in silver and, under the terms of the London Silver Agreement, had agreed to further the use of silver. The Secretary said he would be interested to know what progress Canada had made in this direction and Mr. Clark informed him that Canada had minted a Canadian silver dollar last year as a silver jubilee coin and, much to their surprise, have found a heavy demand for these coins with over $500,000 worth being disposed of. He added that they were going to issue more silver dollars this year and hoped that they would continue to find a ready reception for them.

He (Clark) further stated that the new Central Bank of Canada, when it was organized last year, had been given the responsibility of buying silver under the London Silver Agreement and taken over the stocks previously bought by Canada under this agreement. As the Central Bank of Canada had made these purchases at the high levels for silver, prevailing earlier in the year, they were forced to show a considerable loss amounting to close to $400,000 on its holdings which must be valued on their balance sheet at the current market price.

Mr. Clark explained that the Central Bank of Canada does not obtain any seigniorage from silver coins minted in Canada and that the Canadian government still had a stock of silver on hand which he estimated would meet their coinage requirements for several years.

Mr. Wrong and Mr. Clark both thanked the Secretary for the opportunity of discussing this subject and Mr. Clark stated that, upon his return to Canada, he would make a careful study of the situation and would take any steps necessary to meet our wishes in respect to either newly mined Canadian silver or silver imported into Canada. He was not sure what steps they would have to take in order to control the movement of silver in Canada and wished a little time to consider it but promised to cooperate fully.

January 25, 1936.

Mr. Roy M. North, Deputy Third Assistant Postmaster General who telephoned to the Secretary, was referred to me.

Mr. North reminded me that they have asked for the return of some $15 million Postal Savings deposits in New York banks and some $33 million in New Jersey Banks. $10 million of the deposits in the New York banks are collateraled by Governments and $25 million of the deposits in the New Jersey banks are so collateraled.

If no respite or extension is given to the banks in these two states by their State Banking Boards, there is some possibility that these Governments will be thrown on the market.

Mr. North wanted us to know that the Postal Savings System will be glad to have some of the $25 million of their other funds, which are available for investment, used to mop up these securities if the New York and New Jersey banks do dump them on the market.

On Monday, January 27th, I passed this information along to Randolph Burgess of the New York Federal Reserve Bank who said that he and Mr. Coolidge had discussed the situation prior to the Under Secretary's departure for South Carolina.

C.B. Uphem.

January 28, 1936

At 9:20, Coolidge, Viner, Lochhead, Haas and Oliphant came in. The Secretary told the group that the President was absolutely opposed to raising money to pay the AAA out of income taxes. What he wants is that the program for agricultural benefits should be exactly the same amount as it was in the 1937 budget. That amount is $450,000,000. The President's thought was that the processing tax should be $350,000,000 and $50,000,000 we should raise by taxing every article that sells for over $100.00 with the possible exception of automobiles, and that the other $50,000,000 was for something HM,Jr. could not quite remember. He also told the group that he had said to the President that he did not like this idea at all.

HM,Jr. then told the group that he had walked down with Wallace and told him what the President's wishes were and arranged for another meeting with Wallace at 11 o'clock tomorrow.

The Secretary told the group that we ought to work on two programs (1) incorporating the President's wishes of $350,000,000 out of processing taxes and $50,000,000 by a tax on articles selling for over $100.00, and (2) the way he would like it. He said he had definitely told the President and Secretary Wallace that if we cannot raise this money out of income tax, we have to raise it out of processing taxes.

HM,Jr. then gave the group the gist of his conversation with the President this morning. He told them that he felt if this could be brought about, "I feel that this is the time to permit the Central Banks of the world to buy and sell gold here. It looks as though it would make the exchanges flow more easily if the 52 Central Banks could operate here.

Coolidge thought it would give England a chance to peg her exchange and bring it down to $4.00 if she wanted to by buying dollars until Sterling went down to where she wanted it to go. He also said that that would be easier to stop by reversing our stand.

The Secretary said that of course he would not make this move until France straightens herself out again; that if France was going to get off gold he would rather see her do it now than six months from now.

Viner said that if we are on a de facto gold standard, the selling of gold to all the foreign Central Banks would be, in effect, placing us on an actual gold standard. He would like to see this accomplished if it meant a general stabilization of all currencies, but we must realize, he thought, that if the Treasury agreed to sell gold to all the Central Banks and leave England free, it would provide her with a lever to manage her currency against the other gold currencies just at a time when it is possible that she will lose France, through whom she is at present operating. Before agreeing to sell gold to the foreign Central Banks, he thought we should have an understanding with them as to just what they were going to do with this gold; in other words, it should be used to stabilize currencies within definite levels and he also thought we should have England come to us for gold, at which time we could ask her just what her intentions were in the use of this gold and if she intended to use it to maintain the dollar-pound ($-£) relationship within certain limits. He said he thought we should ask this question very diplomatically, instead of just demanding that they do certain things, as by handling the questions carefully we could probably accomplish a great deal more. HM,Jr. agreed with Viner's way of thinking and so did Oliphant.

January 27, 1936

Thursday, January 23, I called up the President to tell him about all the rumors in Wall Street. He would not let me talk, but started in to tease me and I seldom have heard him so hilarious and in such a grand humor. I got the feeling that he was almost intoxicated with good spirits.

Among the other things, he teased me about the bonus and asked when he was going to see me and did I have my figures ready. I said I had some, so he said, "Will you and General Hines come over to see me at ten minutes to five?" I said, "The front door or the back door?" and he said, "Back door." He saw us about five o'clock and started in by saying that he had asked Steve Early for two memoranda, one vetoing the bill and one approving it. He showed us a very short, concise statement from Steve Early which vetoed the bill. He asked me what I had and I showed him the statement that Walter Lippman had given me with a quotation of George Washington. (It is attached hereto.)

General Hines had two statements which he gave the President. (Copies are attached hereto.) Hines went into his usual lengthy talk, telling the President that he thought there was a good chance for the Senate again sustaining his veto. The President pooh-poohed the idea. The President very, very carefully read the two memoranda furnished him by Hines and asked him a number of questions.

I then said to General Hines, "Would you mind leaving me alone with the President and wait for me outside?" He got up and left. My idea was to try and find out what the President had in mind and then began to work on him. After Hines left, the President did not say a word, but took a pencil and paper and began to write. After he had written a little while, I said to him, "What is it, approval or veto?" and he smiled and said, "You know perfectly well what it is. You never had any doubts what I would do," and I said, "Yes, I did, but I had been afraid to let myself think about it." That was his way of letting me know that he was writing out a veto message. I sat there for about half an hour, holding my breath, for fear that someone would interrupt him and stop him, but they didn't. At 5:30 he was through and then he read his message to me. I only made one or two minor suggestions. He then said, "What would you think of my writing this out in longhand and sending it up tomorrow?" I said, "The sooner, the better because for the last two days we had a real inflationary market and I do not want to let the matter get too far out of hand." He said, "All right. I will send it up tomorrow." I then congratulated him on his great courage and told him how thoroughly pleased I was with the action that has been taken.

Of course, he never had any doubts where I stood in the matter and from the way he acted that evening I imagine that he must have made up his mind fairly easily.

The next morning, when I called on him at 9 o'clock, I had very little to talk to him about because I had made the appointment with the thought that I would talk to him about his bonus message. He had at his bedside a longhand message and he said, "Nobody has seen it except Missy and I showed it to her just before she went to bed." He subsequently told me that he did not tell McIntyre or Early about his message until 11:30 o'clock that morning.

I had the greatest difficulty, after I got back to the office, not to show by my expression how happy I was. As a matter of fact, I kept it so secret that when Gaston came in to tell me at 12:15 that the newspapers knew that the message was on its way I remembered that I had forgotten to ask Lochhead to stand by. Lochhead was out to the dentist and I went and sat at his desk and took over his job for an hour. I got a great kick out of doing it.

Five seconds after the announcement came over the ticker, I gave orders to sell $1,000,000 worth of gold in London, and a few minutes later I gave an order to buy $1,000,000 worth of 2-7/8s. My purpose was to help the market make the correct interpretation as to the results of the President's veto. Unfortunately, two factors were working against me: (1) that the House immediately overrode the President's veto and (2) that the Constantine Maguire memorandum on silver and gold was being circularized all through New York and people believed we were going to do something startling in a monetary way over the week-end.

The President said at lunch today that he had just seen Harry Hopkins who had asked him if it was allright for him to take his wife to Florida for two weeks and when would the President send his message to Congress on unemployment. The President said that he told Harry it was all right flor him to go away as he would send the message up between March 1st and the 15th and then leave on March 15th for two weeks, or else he would send it up between April 1st and 15th. He asked me if I thought that was all right and I said I did.

He then asked me if I could not find out the source of income of Proscauer as Proscauer was one of the main people who helped Al Smith write his speech. He said, If we could show that Proscauer got $200,000 or $300,000 retainer from the Public Utilities that it was that kind of influence that was advising Smith. I tried to argue him out of it and finally got him to agree that the way to do it was to let Congress make an investigation.

He gets these crazy ideas every once in a while and the way I usually keep him from carrying them out is to just let them slide and do nothing.

Another idea he had was that he wanted to give it out that General Motors was selling dollars short and buying Sterling. I told him that we got this information on a confidential basis and if we gave it out, the banks would not give us any moreinformation.

Another thing he wanted to know was who was the man in Illinois who was reported having an income of over $1,000,000. I told him I did not know, but would try to find out.

I constantly stall with him on this sort of thing as his use of this kind of information, either openly or surreptitiously, is just the kind of thing that makes people call him "tricky."

I talked to the President about the tax program for AAA and he completely disagrees with me. He says that we cannot get through a bill increasing the income tax. His thoughts are the following: (1) that the agricultural program should be the exact amount that it would have been if AAA had been constitutional and (2) that we should raise $350,000,000 through a processing tax so that we can show the processors that we are taxing them $100,000,000 less and we should raise $50,000,000 by having a tax on every article, with the possible exception of automobiles, that sells for over $100.

I told him I did not like his idea at all. He had some other method of raising another $50,000,000. The interesting point of this discussion is that he would not listen to me when I talked to him about increasing income taxes. I told him about our meeting this morning and that we were going to have another one on Wednesday. He said, Hurry it up as much as possible.

Last week I suggested to him that he have Pat Harrison and Doughton down and talk over the proposed tax bill, but we agreed not to do that until we agreed among ourselves what the program should be. There is no use talking to Harrison and Doughton until we agree among ourselves.

I am going to have my hands full with this tax program before it is enacted into law. The President wants to rush me on it because he says we have to pay the farmers for their last year's contracts $296,000,000 and we have to get the farm program through because the farmers in the South will soon be planting cotton. As I got his idea, we should let the farm bill go through, but when the appropriation bill is passed that we should get through a tax bill at the same time. This last step is not quite clear in my mind, but what is clear is that he is going to let them vote a new farm bill and the appropriation for $296,000,000 for last year's program before he takes up a new tax bill.

If to please the people we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise a standard to which the wise and honest can repair. The event is in the hands of God.

Washington

Said at first of Conv.
reported by Gouverneur Morris

January 22, 1936.

CONFIDENTIAL MEMORANDUM FOR THE PRESIDENT

The Bill (H. R. 9870) which passed the Senate on January 20, 1936, by a vote of 74 to 16, authorizing payment of the Adjusted Service Certificates in brief provides:

1. That the World War Adjusted Service Certificates, the majority of which under existing law are not due until January 1, 1945, or thereafter, be made immediately payable in the amount of the face value of the Certificates less any loans made against them and at present outstanding. No charge is to be made against the Certificates for any interest accruing after September 30, 1931, on such loans made to veterans.

2. A means is provided whereby the Administrator of Veterans' Affairs may discharge liens against Certificates held by banks and trust companies and so make the Adjusted Service Certificates held as collateral available to the Government in making settlement under the provisions of the Bill.

3. That settlement will be made by the issuance of non-negotiable bonds in denominations of $50.00. Any odd amount in excess of the number of $50.00 bonds required to pay the balance due is to be made in cash. The bonds are to be dated June 15, 1936, and mature June 15, 1945.

4. The bonds are redeemable at the option of the veteran at any time after issue at such places, including post offices, as the Secretary of the Treasury may designate. The bonds are non-transferable, non-assignable, not subject to attachment, levy or seizure under any legal or equitable process and shall be payable only to the veteran to whom issued. Interest at the rate of 3 per cent per annum from June 15, 1936 to June 15, 1945, is provided and will accrue unless the veteran should choose to redeem them at an earlier date, in which event interest will be payable to the date of redemption, with the exception that no interest will be paid on any bonds redeemed prior to the expiration of one year from date of issuance.

5. Provision is made for the payment of $507,000,000 due the United States Government Life Insurance Fund by means of exchanging the Certificates now held in that Fund and upon which loans have been made to veterans for bonds such bonds to bear interest at 4½ per cent per annum.

6. The Bill authorizes, but does not make, an appropriation for the purpose of carrying out the provisions thereof.

7. It is estimated that as of June 15, 1936, the maturity value of outstanding Certificates will be $3,456,000,000. The interest which is to be forgiven from October 1, 1931 to June 15, 1936, amounts to $263,000,000. This gives a total requirement of $3,719,000,000 from which may be deducted the value of the Adjusted Service Certificate Fund of $1,482,000,000 (as of June 15, 1936), leaving an additional amount required of $2,237,000,000.

8. With this latter amount in mind ($2,237,000,000), the amount of $50.00 bonds to be issued to veterans will be $1,836,213,950. The cash requirements $87,786,050. There would also be issued to the United States Government Life Insurance Fund 4½ per cent bonds to the value of $507,000,000, and the amount of cash payable to banks holding Certificates at this time is estimated at $60,000,000. To summarize, the immediate cash requirements would be $147,786,050; the bond requirements $2,343,213,950; or a total to be distributed in bonds or cash amounting to $2,491,000,000. In other words, the source of funds to meet the total obligation of $3,719,000,000 would be derived, first, from the Adjusted Service Certificate Fund, having an estimated value as of June 15, 1936, of $1,482,000,000, including bonds convertible into cash now in the Adjusted Service Certificate Fund of $254,000,000, and an additional appropriation of $2,237,000,000.

FRANK T. HINES,
Administrator.

retain the maximum amount of the bonds issued to them and to only cash them in case of real necessity. How effective this request will be remains to be seen. I feel confident, however, that it will be their sincere desire to have the veterans retain as many of their bonds as possible.

These inequalities are apparent:

(a) Veterans who have not borrowed are at a disadvantage in having no interest forgiven.

(b) Veterans who have borrowed and paid interest do not share equally with those who have the interest forgiven.

(c) The dependents of veterans who have received settlement on Certificates which have matured have had the interest deducted from the balance due on Certificates.

While I can see no administrative difficulties in putting the Bill into effect, the magnitude of the undertaking and the cost thereof should not be overlooked. As near as can be estimated it will require between 2,500 and 3,000 additional personnel, in the field and in Washington, to carry out the provisions of the Bill. Assuming that the Treasury will be ready for the distribution of bonds by June 15, 1936, or soon thereafter, the work can be completed not earlier than September 1, 1936. It is estimated that the administrative cost of the Bill will be $5,000,000 for the work performed by the Veterans Administration and $2,500,000 for Treasury Department work.

FRANK T. HINES,
Administrator.

January 27, 1936

At the meeting held in the Secretary's office today to discuss proposed legislation for the agricultural program and ways and means to provide funds to pay benefits to farmers, the following were present:

Secretary Morgenthau
Stanley Reed
Mr. Hiss, of Justice
Mr. Feller, of Justice
Mr. Savoy, of Agriculture
Dr. Ezekiel, of Agriculture
Mr. Upham, of Treasury
Mr. Perkins, of Agriculture
Dr. Viner, consultant of the Treasury
Dr. Haas, of Treasury
Mr. Turney, of Treasury
Mr. Oliphant, of Treasury
Mr. Gaston, of Treasury

Secretary Wallace joined the group about a half-hour after the meeting convened.

Mr. Morgenthau said, "As I understand it, Secretary Wallace feels that there are some things about the bill as drafted to raise the taxes to make the agricultural program effective that he does not like, so I think the easiest way is to start on the attack side," and Stanley Reed replied, "That's fine." HM,Jr. continued, "So whoever does not like it, let them go ahead and state their objections."

Dr. Ezekiel was the first spokesman. He said, "There are three alternative proposals under discussion and the question is as to the economic policies that will determine which proposal will be the Administration measure. At the request of Justice, we held a meeting Saturday. Secretary Wallace and Mr. Davis were present and Mr. White, to try to settle some of the questions of economic policy that should underlie whatever measure was to be the Administration measure.

"That meeting," he said, "reached four rather positive conclusions on the points raised by Justice. Its four conclusions were, first, that it is imperative that an effort be made to recoup the amounts which have been refunded to to processors in order to maintain justice between processors and consumers. The most important effort is to get them back. Second, that in connection with it, it is important to equalize the situation between those who paid and those who did not, so that those who have played ball with the Administration are not penalized as a result of having paid. In equalizing the situation, the best way to do so is to impose taxes on those who got their funds back, rather than make refunds to those who did not." When Mr. Oliphant inquired the difference between the first and the second, Dr. Ezekiel explained that the second is really an extension of the first.

"The third is as to the question of imposition of taxes between January 6 and the date the new bill is passed. "Everyone at our end," he said, "is very positive that it would be exceedingly unwise to attempt to impose taxes now covering that interim period. As a matter of fact, the processors have not, since January 6, been passing on the tax. They have reduced prices or reduced margins to quite the full amount of the tax and in some cases more. A delay of a month or two to attempt to recoup refunds creates a wholly impossible situation. Mr. Perkins has just come back from the south, where he has been talking with a good many processors. He finds that very, very true.

"Those are the three main points. There are some minor questions as to the rates of tax, but that's a different question as to what type of bill to use."

Mr. Hiss of the Department of Justice said the first two points, which are very similar, can be covered under either type of bill. The draft which Agriculture has been favoring so far goes a little further in getting back some $30,000,000 taxes which have been due prior to injunction suits and which, therefore, would not be caught by a bill saying merely that there shall be a tax on processing ocurring from July 1, 1935.

Mr. Morgenthau suggested to the group that they take a little broader picture from the Treasury viewpoint before the discussion gets too far down into too fine legal points. "What I am saying," he told the group, "is absolutely confidential because I don't think we want such discussion outside. The way we look at it, there are three legs to this stool, (1) we recognize the fact that there is a moral obligation to refund

$296,000,000 to people who have concluded contracts last year. We might as well recognize also that we are going to have the bonus and the Treasury's estimates are that we have $160,000,000 in this 1937 budget and the amount we will need in excess of that is $90,000,000. There you have $386,000,000. I don't think we can say that there is any question but what the President expects to raise the taxes in 1937 to pay for these increased expenditures. He said so in his budget message. So the unknown factor is the amount Agriculture needs for benefit payments this coming season. The other two are pretty well fixed.

"If some of your fellows will sit down with pencil and paper and see the great, great difficulty, as it is, to raise $100,000,000 in taxes, you will get some idea of the problems that we have to work with when you are talking about trying to raise $800,000,000 taxes in one year and in that comes the whole question of recovery, the question of consumer taxes against tax on income, private and corporate, and the whole question of the tax structure, which -- so Senator Bankhead tells me -- is my problem. But it isn't only my problem; it's the problem of everybody. It goes to the whole root of recovery. I would like to impress on the people in Agriculture the fact that every $50,000,000 you add to what we have to raise in taxes makes our problem that much more difficult and the President's problem of getting it through Congress.

"We are not at all sold here. We worked on the bill from a technical standpoint of the whole retroactive tax business, but Mr. Oliphant will tell you -- we had a meeting previous to this -- we are not at all sold on the idea that we should have processing taxes at all. We greatly question that we should have that form of consumer tax at all to raise the revenue, whatever Agriculture needs, and I want to tell you that. As a matter of fact, in the Treasury today we feel that if we were asked the question point-blank, we would say we are not in favor of processing taxes.

"If the figure of $386,000,000 is right, then we have a question mark. The point I am going to make with Mr. Wallace and the President is you people say $450,000,000. We want to examine that very, very closely so if we could show the President how difficult it is to raise $150,000,000 when he is faced with the possibility of raising $850,000,000. Certainly in all the talks I have had with him he has given every intention of going through with a tax bill. I realize perfectly how you people in Agriculture feel. But on the other hand we feel this morning that we want to discuss this thing. We want you to take the ideas of the three departments affected -- Justice, Agriculture and ourselves. The other thing is from the President's standpoint.

"The only chance of getting revenue is to have one revenue bill. Figure it out! He needs so much money to pay for these three items and I just want to read to you -- I don't know how many of you are familiar with what he did say, but it is so positive that it does not leave anything to the imagination. I want to take a minute so that you may all be entirely familiar with it. In his budget summation he 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.' From his present budget message for 1937, I quote 'If the Congress enacts legislation at the coming session which will impose additional charges upon the Treasury for which provision is not already made in this Budget, I strongly urge that additional taxes be provided to cover such charges. It is important as we emerge from the depression that no new activities be added to the Government unless provision is made for additional revenue to meet their cost.'

"In his budget summation he covers the question of processing taxes and in his message he covers the question of legislation for which no revenue has been provided, so he certainly has laid the foundation. And, as I say, our view is we want to have a free discussion. The way we feel today, we would like to see one revenue bill at one time, including everything that is passed which is necessary. We think, from the President's standpoint, it will be easier to handle one revenue bill than three and we also are not at all sold on the idea of processing tax and, the third thing, we want to impress on Agriculture that if I were over there I would be doing just what you are doing and say 'This is what we like.' But the amount of cloth available may not be quite as much as you think it is and you may have to cut your suit to fit the cloth, if the President is determined to go through with his tax bill. Your program is not set. $450,000,000 may be what the planners honestly think they need, but when it comes to the fellows who have to put tax on income, it may not be just that."

Mr. Ezekiel stated that "As a matter of record, when this subject was first discussed, confidentially and informally in

December, we raised the question with your representatives as to whether, in thinking over the contingency if the suit went against us, we should look to new measures of revenue and we got the impression that the only thing to do was to continue those sources of revenue in some way with processing taxes." Mr. Morgenthau replied that that was perfectly true, but within the last few days we have shifted our opinion. He asked Mr. Oliphant if he wanted to talk for himself, and Oliphant said, "Within the last two or three weeks, I was asked if it was possible to draft a bill reimposing processing taxes and making them retroactive and we have been working on that. The other conferences you referred to, those were conferences which were held to study what we would do in connection with the expected Supreme Court decision . The decision the Supreme Court rendered was not the decision we were looking for." Stanley Reed facetiously said, "Don't look so accusingly at me."

Ezekiel explained, "A second point as between retroactive collection of taxes for last year and new taxes for this year involve different economic consideration. As far as the retroactive feature is concerned, any economist will say that to permit those taxes to stay in the hands of processors is absolutely unjustifiable. They have been paid by farmers and consumers. Mr. Morgenthau was of the opinion that was ethics, rather than economics and Dr. Ezekiel answered, "Also economics. They don't belong to the processors. The processors collected them from consumers only because they were operating under cover of the law, turning them over to the Federal Government, but the amount of taxes collected that year are larger in amount than the total gross operating revenue of those companies for a year. You multiply the profit three times if you turn it back to them. They were exacted from the consumers and from the farmers and if you let them go back to them without any attempt at recapture, it will create a legal situation from which no one will profit but the processors. They are promising bonuses to their employees and refunds to their people they sold to; for example, the packers are on record as having told the farmers that every bit of processing tax the farmers paid. They are also on record as having told consumers that the consumers paid. They will face attacks on both sides to recover their share of the loot. It will make one of the messiest scandals this country has ever been faced with.

Mr. Oliphant said, "I think in terms of what you said, Mr. Secretary, that that is a separate problem that we will have to deal with later on. I think they are two separate problems. How are we going to settle the matter of preventing refunds of tax already paid in? And if it is decided to put the burden of this thing on the general tax structure, then it seems to me we have the separate problem of whether or not there are appropriations whereby there might be an augmented tax to reach these refunds of some $200,000,000.

Mr. Ezekiel: "I understood this was a question of a retroactive act of some form against which will be allowed a retroactive processing tax or its equivalent --

Mr. Oliphant replied that the retroactive act is one of a number of possible devices for ironing out the inequality of which you speak.

At this point, Secretary Wallace joined the meeting and HM,Jr. repeated to him the Treasury's standpoint inasmuch as the President has said that any new legislation which will be passed by this Congress should be accompanied by the means to provide the revenue. In connection with refunds of processing taxes by the processors, he said he realized it would be terrible to let them keep the money which they have . Secretary Wallace wanted to know, "Can you also get it from the laws who got it on a contingent fee basis? If you are raising $500,000,000 how are you going to raise it? Are you going to tax it on agricultural products? You will have the floor stock problem."

HM,Jr. replied, "From our standpoint it's somewhere between $800,000,000 and $900,000,000 additional taxes that we are faced with." Wallace wanted to know "If you make it on the income tax route, you get back $180,000,000? That's what you are proposing?" And when HM,Jr. said no, Wallace said, "I thought you suggested that instead of getting $180,000,000 by retroactive taxing you could get it by a special provision in the income tax law." Mr. Morgenthau replied, "We have not come to that yet. But from the Treasury standpoint, every $50,000,000 new revenue makes the problem that much more difficult. I take the liberty of questioning, once you look at how difficult it is for us to raise the money, whether there isn't a possibility of cutting down on the benefits for this coming year. I am doing it purely as a fiscal officer and not from the standpoint of a man looking at it from an agricultural viewpoint."

Ezekiel said, "There is one other problem of putting it all in one measure and that is that any effort to recoup refunds or effort to make processing taxes retroactive, prompt action is exceedingly essential. If the policy is to go along the lines of recouping refunds, the sooner notice is given of that the sooner the appropriation will be in the process."

"We are looking at it in Justice," said Stanley Reed, "more from the standpoint of looking at the bills and working with the bills as they are proposed and different drafts of them, to see if we could sustain whatever economic or political conclusions you reach, either by income tax or by retroactive processing, to collect from the processors the money. It seems to us to be extremely difficult, because various processors have made contracts with the millers, who have made contracts with their wholesalers and they in turn made contracts with those who purchased from them, so that these taxes are going to be redistributed back to people other than the processors in many instances, though a large part will stay in the processors' hands. One great difficulty we find in the income tax idea, if that should go up like we did for silver profits, is whether or not those processing taxes that were not paid in, and if they should not have to pay them in, is there any question of income tax? We doubt very much if that could be held to be income to those processors inasmuch as they have not earned any on the capital or operations they have had. It's a failure to have to pay money that they had expected to pay. We have also wondered just how far we have to go on the new benefits. How accurately can Agriculture determine what they are going to need? That seems an impossible problem to ask Agriculture, because they don't know the type of bill they will get or what they can do under that bill, and I have seen in the papers the last week that Congress seems uncertain what they are going to do." Wallace said the situation is much more harmonious on the Hill than the newspapers indicate.

Mr. Reed wanted to know whether it is to be limited to commodities in the old bill and Wallace said it would be the soil conservation approach. In that event Reed thought there probably would be an extension of the commodities that desire benefits. Wallace said it involves about $500,000,000. Mr. Reed said, "We have approached it primarily, I believe, from the standpoint of the absolute necessity of being sure that whatever taxes were levied would be collected because there is the retroactive feature -- how it is taken. So far as we can decide, it is surrounded by doubt. There is disagreement in our department of those who are the best informed, as to whether it can effectively be done. Mr. Wallace said, "You have to make the effort." But Mr. Reed wanted to know from whom we would recover it. The Processor won't have it, he said. Mr. Wallace replied to this by saying, "I don't know what legislation will be passed to strengthen your hand. It seems to me you should have legislation to straighten out that mess and it ought to be turned out at the earliest possible moment," and Mr. Reed told him we all of us agree on that policy.

Dr. Viner inquired of Mr. Wallace, "Isn't it recovered by distribution? You are satisfied, reasonably, if they distribute it?" Wallace replied, "From an economic standpoint you can say, Yes; that will promote recovery. You can't recover it justly, then you can distribute it justly. The consumers paid it. You are not going to get it in the hands of the consumers. The bakers will sue the millers, but they are not any more entitled to it than the millers.

HM,Jr. asked, "Could this thing be approached in this way, Stanley? Say to the Treasury, here on one hand you have to raise so many hundred of millions of dollars over and above the budget. That's one problem. You need so much additional revenue. The other problem -- this question of attempting to get back the money that was refunded to the people who are entitled to it -- could that be treated as a separate problem outside of the revenue bill? Could the two things be treated as two separate problems?

Mr. Reed replied, "They could be, but I don't think you are going to be able to keep them separately because if you once make up your mind that you are going to try to get back from the processors unjust money that they have, that will increase the amount of money you get from the taxpayers."

Mr. Morgenthau then said, "Let's say for the moment -- I don't know how Mr. Wallace feels, but say he thinks it would be better not to try to raise the money through a consumer's tax. If he agrees with that, if that is fundamentally correct, then why apply a tax which we all agree is wrong just in order to have that method of getting back the money from the fellows who received the refund? If that premise is wrong, then tie the two things up, but if we should agree we don't want to raise revenue through a tax on the processors, but do want to raise it through income tax, can't we find some other method of getting the money back from the fellows who got the refunds?"

Mr. Reed said, "We could attempt to apply either a retroactive processing tax on them or a special income tax on them."

Mr. Wallace wanted to know, "Can you under the income tax law take from them all the money they got by this method?" Mr. Reed said he could not answer that. Wallace added, "All they got over and above what they paid the lawyer, about 33-1/3 to 50%?"

Ezekiel explained that the fact is that the consumer tax over the past year has already been charged to the consumers and "what you are trying to do now is not to levy a tax on consumers retroactively, but to prevent somebody from taking something they have already taken from the consumers."

Mr. Oliphant asked, "But isn't the whole thing clarified by answering whether or not you will re-enact the processing tax? If you decide not to do that, then you have an entirely different picture." Dr. Ezekiel said, "In any event, don't you think that with $800,000,000 to be gotten, that that future tax should be free from any doubt whatsoever and just not be tied up with any attempt to get $300,000,000?" Mr. Oliphant replied that he thought that is a minor consideration, going into the questions of ways and means and it not a question of our objectives this morning; that is, from the Treasury standpoint.

Mr. Perkins stated he had one point he would like to make. "I wonder if we ought not to take a little broader view of this thing as regards processing taxes and the refunds. In the minds of the processors," he said, "they are much more concerned about what is going to happen to the $1,000,000,000 that has been paid to the Government and against which they might have to stand suit than they are on that part of the money which was impounded and which they are getting back. Here is the thing that has them genuinely concerned. In many cases, cotton and flour mills, where the tax has been levied against them the whole life of the program, they paid in six times as much as they have impounded. Their customers are beginning to notify them this was an illegal tax and we are going to sue you. They are very genuinely concerned about what is going to happen in these suits between business men. In other words, here is a flour mill got back $50,000,000 impounded taxes and has paid in $250,000 which have been passed on to bakers. They are panicky that the bakers will sue them and get judgment for the

$250,000 and break them. I don't think you can think of the processing tax wholly in the sense of refund, but take into consideration those that have been paid in and passed on." Dr. Ezekiel said, "Your action on this is going to determine that," and Mr. Perkins said,"It does not seem so to me, because if no action is taken to bar suits on back collections, we are getting into the major question of law suits between business men." Mr. Morgenthau said, "But the future method of raising taxes would not settle that problem." And Oliphant agreed, saying "If you decide from now forward that the farm program is not going to be paid out of processing, but out of general taxes, that's different." Wallace said, "If you are going to reenact the processing tax, that tends to link up the whole approach to the one problem."

Mr. Ezekiel said, "Regardless of what you do for future taxes, if you enact a retroactive processing tax that seizes any refunds in effect but gives no net return to the processors, regardless of how they got them, there will be nothing for them to sue for. If they have to pay processing tax directly or indirectly, there is nothing for them to argue over."

"If it is possible -- the mess we are in now -- I would like," said Mr. Morgenthau, "to put that in one table and the question of how the Treasury is going to raise new revenue, I would like that on another side." Mr. Reed said that was possible, "except the amount of money which the Treasury has to raise is going to depend on the amount of expenditures and the amount of receipts that comes from other sources." Mr. Morgenthau agreed with this. "I wouldn't count on anything out of this $200,000,000," he said. "If we get it, swell! But I wouldn't count on it and I would like to go out and get the difference we need to take care of these three pieces of legislation. Isn't it a great deal easier to draft legislation where there is a straight revenue bill -- say,income tax --where there is no question of its legality?" Mr. Reed said that would be very happy for them.

Mr. Morgenthau said, "This other thing which you mention and towards which I am very sympathetic, is very difficult to handle." Reed said that undoubtedly there is no legal question about future processing taxes." Mr. Filler, from Justice, said "From our standpoint, any type of tax which is not a processing tax would be very happy. If you have a future processing tax and any type of retroactive processing tax, you immediately tie it up and endanger your whole program."

Ezekiel inquired, if, in spite of the desirability of having these taken out of income tax, "wouldn't the amount levied make it a complete political impossibility to get legislation at this time?" HM,Jr. replied, "I am saying this in the room and I don't want anybody to misunderstand me. If I were over in Mr. Wallace's shop I would undoubtedly be doing the same thing. I don't think any of these programs are ever planned with the question in mind, Can we raise the revenue? You just want to do these things and the question of whether we can raise the revenue is something else. Sixty percent of the taxes today are consumer taxes and this whole recovery program is consumer recovery."

Mr. Wallace said that from the farmers' point of view,"the farmers have felt steadily that they did not want any hand-out or gift from the Government. They just wanted to get their fair share of income. They did not want to burden the consumer. It was not an unfair consumer tax on that account. The consumers never did pay as high a percentage for food as they did in the war. Hog prices undoubtedly will be lower. Wheat prices will probably be lower. Corn prices will be lower and cotton prices will be lower. The consumer will not unfairly be hit during the coming year and so taking anything out of the consumer is bad, even though the farmer is getting nothing. But I don't have my own mind made up, except if you shift over to the income tax basis you will stop the farm program in the very near future because the boys have too much pressure on the Hill. I mean the farmer would be kicked out in a very short time because those boys in the final analysis have more pressure than the consumer."

Mr. Morgenthau said, "At least we are clearing in our own mind what the problem is. From the standpoint of drafting legislation which will stand up, there is no question in your mind which is the easier to draft?" Mr. Reed replied, "Absolutely not. Income taxes are much simpler." Mr. Morgenthau wanted to know, "If you raise this revenue for what agriculture needs, is there a way of handling this question of the processor who unfairly has gotten part of this $250,000,000? Is there some way of handling that?" Mr. Oliphant said he did not feel hopeless about it, but he did not want to handle it. Wallace said, "That's an exceedingly important thing -- that angle. We just can't let those boys get away with it."

Dr. Viner inquired what chance there was of the processors getting back all the money they have actually paid in and Mr. Reed said it takes legislation for them to get any money, regardless of constitutionality, under Section 21-D. "I don't want to minimize it," he said, "but the ideas of the agricultural delegations are pretty fixed that they are not going to hand back that billion."

Mr. Perkins asked the following questions: "If the processor could not get any money back from the Government and one of his customers sued him, what in your opinion would be his legal status?" Mr. Reed said as far as he knew, there has been no passing on of the tax. Mr. Perkins continued, "A good many processors billed the tax separately and under those conditions, suppose one of his customers sued him and it is an unconstitutional tax. Would he have pretty good chance of winning the suit? He was really a collection agency for the Government." Mr. Oliphant replied that he did not think it is perfectly clear. Perkins explained, "I had in mind legislation. Assume that we did levy a retroactive excise tax in the same amount as the processing tax, and would get back money from the processors, if in that legislation were incorporated some section barring suits on those past taxes -- Mr. Filler told him, "You can't bar suits between private individuals."

Dr. Haas asked Mr. Wallace the following question, "Mr. Wallace, if you raise new taxes for your new bill which are more or less earmarked as a tax to finance the agricultural program, isn't the constitutionality of the new act weakened?" Mr. Wallace replied, "I think it would be a little. I would guess it would be in stronger position on an income tax basis."

HM,Jr. inquired of Mr. Reed, "Would this be possible, Stanley? This is in preparation for another meeting. To see whether it would be feasible to separate the two problems and whether it isn't possible -- and if it is possible, what kind of legislation we will need if we separate the question of retroactive taxes in one thing and new revenue in another?" Reed replied that he did not think they have to be considered together if you eliminate the question of what you recover from what you have to obtain. HM,Jr. said that if that was possible, "We could meet again Wednesday morning if that would give them time to study it," and Reed said that would be ample time.

Secretary Wallace inquired the amount raised by income tax. When told it is over a billion dollars for the two taxes, both corporation and personal, he said that would mean an increase of 37% and wanted to know, "Politically, would you get off anybetter by increasing the income tax 40% or by re-enacting processing taxes." To that Mr. Morgenthau replied that he was not sure that we can get processing taxes. Mr. Reed offered the suggestion of a third possibility -- having broader processing taxes and Wallace mentioned a manufacturers' sales tax. Dr. Viner said, "That would be a strange tax for this Administration, on an economic theory." When Wallace said, "I would not term it merely on economic theory, Viner replied, "I say it has been very bad and inconsistent with the policies of this Administration. It has been one of its great blunders and has been a check on recovery, and whether on economic theory or political or any other grounds, I can think of, it is a mistake. Mellon or Hoover would not do that."

Secretary Wallace said, "Politically, I don't think you can put through a 40% income tax and politically I think you can do the other. I think you are in stronger position in reenacting processing tax, although I will grant that if you could get a 40% income tax through I would prefer it. If you could get it through and keep getting it through for the necessary period of years, I would prefer it. But you won't get it through."

Viner reminded Secretary Wallace that "The processing tax, you see, is not the only question. There are others -- the bonus. The program is more than one of providing agricultural benefits."

Mr. Oliphant wanted to know what had happened to prices since the court decision and Wallace told him, "Not much on bread or pork. The price the baker charges the retailer has gone down very materially. Prices have gone down the equivalent of nearly $1.00 a 100 lbs. on hogs and price to the farmer has gone up." Viner remarked that bread had gone down a penny to the housekeeper in Chicago.

The meeting adjourned after agreeing to meet again in Secretary Morgenthau's office on Wednesday at eleven o'clock.

January 27, 1936

Col. McIntyre suggested that HM,Jr. call Senator Fletcher today in regard to the Philippine gold situation. HM,Jr. did so and told the Senator that he would be delighted to see him and Mr. Adams at any time that would be most convenient to the Senator. It was decided that they would meet at 10:30 Wednesday morning.

HM,Jr. also told Senator Fletcher that he and the Secretary of War did not take the same viewpoint on this matter and, therefore, he believed it would be best to talk the matter over before presenting it to the President.

January 27, 1936

Several weeks ago the Secretary raised the question that the silver seigniorage is available and that there might possibly be raids on it by Congress for the purpose of paying the bonus, etc.

At that time, Haas prepared the attached memorandum outlining the fact that Congress will sooner or later provide for the expenditure of the $2,500,000,000 of gold and silver profits; that the early utilization of the greater part of these funds for investment in Treasury obligations, thereby reducing the outstanding Government debt, would forestall the temptation to various groups to propose the diversion of these funds for ordinary expenditures.

The Secretary discussed this memorandum with Viner, Haas and Oliphant today and the Secretary said that he was pretty sure that the President intends to have a tax bill and in that event it would not be necessary to do anything with the silver and gold profits in the Stabilization fund at this time. He also said that when gold moves out, he feels that that is the time to make the move in the Stabilization fund.

HM,Jr. also told the group that he called up Wallace the other day and threw a scare into him on inflation, because there were all the earmarks of a "runaway" market. "I did scare him," he said. Wallace's decision was, he said, that we would have to pay the fellows last year's benefits. This morning, he said, he has changed again, but thinks we ought to get the tax bill through simultaneously. Wallace said, "If you pay all this stuff and don't get a tax bill, you will have inflation." "I said to Wallace," the Secretary told the group, "let's say the tax bill will pass today. Is it not better for the President to have one tax bill and get that behind him?"

Mr. Morgenthau felt that we ought to have one tax bill, but Viner felt that he would like to see a separate tax bill for the bonus. Viner also said that the processing tax was very, very bad for recovery. HM,Jr. said that from a political, legislative, economic standpoint, one tax bill is what the President should have. If the bonus is labeled, he felt the reaction on the Hill would be to use the profits in the Stabilization Fund for it.

January 9, 1936

Secretary Morgenthau

Mr. Haas

Subject: Recommendations for Monetary Action

I. Introduction

Several important considerations combine to suggest that the present or near future affords an excellent opportunity, without changes in law, to consolidate the Administration's monetary program in several respects. Among such considerations are the following:

(1) It would be highly desirable to make an early and legitimate use of the realized and unrealized seigniorage on silver, and to make fuller use of the gold profit allocated to the Stabilization Fund; and, in this connection, to establish this Fund on a firmer and possibly permanent foundation. On the one hand, the existence of more than $2.5 billions of spendable funds offers a constant temptation for their ill-considered use. On the other hand, these funds will sometime be spent; and the present stage of recovery is a far safer time to spend them than a later stage.

(2) It is highly desirable to employ all available resources for the reduction of the public debt. The possibility of an early prepayment of the soldiers' bonus adds greatly to the desirability of such debt reduction. It is important, however, to avoid increasing the volume of excess reserves in the process.

II. Recommendations

A. Proposal:

The following operations would (1) reduce the public debt by approximately $2 billions; (2) greatly increase the effective powers of the Stabilization Fund; (3) utilize our realized and unrealized seigniorage on silver and make a fuller use of the gold profit, thereby forestalling diversion of these funds for ordinary expenditures; and (4) accomplish these results without adding to the existing volume of excess member bank reserves.

1. The purchase by the Stabilization Fund of $1,500 millions of Treasury notes and bills, the Fund retaining approximately $500 millions of gold.

2. The use by the Treasury of the approximately $540 millions of realized and unrealized silver seigniorage for the retirement of Treasury notes and bills.

3. The increase in legal reserve requirements of member banks by the Board of Governors of the Federal Reserve System, by regular monthly gradations, by an aggregate of 80 percent of the existing requirements, thereby increasing the total legal reserve requirements by $2 billions — the amount of new reserves that would be created by the foregoing operations.

This will involve no diminution in the existing volume of excess reserves, because the proposed increase in reserve requirements would only absorb the new funds that would be created by the use of the gold and silver profit.

B. Discussion:

1. It is clear that Congress will sooner or later provide for the expenditure of the $2.5 billions of gold and silver profits. The early utilization of the greater part of these funds for investment in Treasury obligations, thereby reducing the outstanding Government debt, would forestall the temptation to various groups to propose the diversion of these funds for ordinary expenditures. Moreover, the early use of these funds in the manner here suggested would involve no inflationary effects and would provide means of strengthening the banking system; whereas a use of these funds after credit expansion has gotten well under way — when a great demand for their use can be expected — would be capable of very pronounced inflationary consequences.

2. The purchase of $1,500 millions of Treasury bills and notes by the Stabilization Fund may be made directly from the Treasury, thereby reducing the need for new public financing, or from the market, or from both.

The acquisition of these securities by the Fund would greatly increase its effective powers. The British Equalization Fund was established with assets consisting exclusively of British Treasury bills and, because of this fact, it has been able to operate more flexibly than the American Stabilization Fund. When the British Treasury wants to prevent bank reserves from increasing as a result of erratic gold imports, the Equalization Fund sells some of its holdings of Treasury bills, thereby absorbing from the market either the gold imports themselves or an equivalent amount of bank reserves. When the British Treasury desires to prevent bank reserves from being reduced as the result of erratic gold exports, the Equalization Fund buys Treasury bills in the market, thereby providing additional bank reserves to take the place of those lost by the erratic gold exports. Our own Stabilization Fund, because its assets have consisted almost exclusively of gold, has hitherto been unable to prevent erratic gold imports from swelling our bank reserves. It could obtain this power by acquiring a substantial portfolio of Treasury obligations in place of gold.

It is to be emphasized that the Stabilization Fund would sacrifice no resources in this exchange. The gold that it disposed of for the purchase of Government securities would still be here. The Fund could always regain such part of this gold as it desired by the resale of part of its portfolio to the market. The Treasury bills and notes issued to or purchased by the Stabilization Fund could be indefinitely renewed as they matured, thereby giving the Fund a continuing power to raise cash resources by the sale of these obligations in the market. This power could be used, if needed, to combat inflationary tendencies; for the sale of these obligations and the transfer of the proceeds to the Treasury vaults or the Treasury balance at the Federal Reserve banks would absorb a like amount of bank reserves, thereby tending to restrict credit expansion. Such open market operations by the Stabilization Fund would be in addition to those that might be employed by the Federal Reserve System.

The present size of the American Stabilization Fund is probably greater than is necessary; but if the larger part of its assets were converted into Government obligations, the maintenance of its present size, which is valuable psychologically, would entail no loss to the Treasury, whereas the maintenance of such a fund in gold does involve an interest cost to the Treasury. Furthermore, with the suggested change in the composition of its assets, the Fund might usefully and economically be retained as a more or less permanent part of our monetary machinery.

3. Under the Banking Act of 1935, the Board of Governors of the Federal Reserve System is empowered to raise the existing reserve requirements of member banks by a maximum of 100 percent; and considerable demand has already arisen in certain quarters for the use of this power for the purpose of eliminating excess reserves. It is here proposed that the required reserves be raised by 80 percent over a period of time in order to absorb, not the existing excess reserves, but the additional reserves that would be created by the use of the silver seigniorage and a portion of the gold profit for the purchase of Government obligations.

The increase in required reserves might well take place by a number of regular monthly gradations — say an increase of 5 to 10 percent a month —, which would give member banks from 8 to 16 months, during which time they were coming into possession of new reserves, to meet the additional requirements.

If reserve requirements were raised in connection with the foregoing recommendations, further increases in required reserves would be possible only up to an additional 20 percent of the present rates. Hence, it might be argued that the effect of these proposals would be to reduce the extent to which the Reserve Board could absorb _existing_ excess reserves.

To this contention there are two answers: In the first place, the Stabilization Fund will have acquired $1,500 millions of Governments which could be sold to the market in an emergency to absorb a like volume of excess reserves. Further, the most likely field for credit inflation lies in the stock market; and in this field the Board now possesses full legal power to sterilize all direct effect of excess reserves. This it can do merely by raising margin requirements on security loans, whether by banks or brokers, to 100 percent, thereby compelling all security speculation and investment to be on a cash basis.

In the second place, the Reserve Board would be placed in a strong position to request from the next Congress an increase in its power to raise reserve requirements. Conservative bankers, who have already voiced a desire for action to absorb the existing volume of excess reserves, could scarcely oppose a further grant of the power to raise reserve requirements; for the situation respecting excess reserves would be substantially the same as it was when the Banking Act of 1935 was enacted.

From the long-term standpoint of monetary and banking stability, few, if any, alterations in our banking arrangements can exert a more favorable effect than the establishment of very substantial reserve requirements. When member banks on the average are permitted to multiply the volume of credit and the volume of effective currency on the basis on only 10 percent reserves, the resulting degree of expansion and contraction in credit tends greatly to exaggerate ordinary business fluctuations. Increases in reserve requirements, by restricting the extent to which credit can be pyramided, would tend to moderate fluctuations in credit expansion and contraction. Under ordinary circumstances, however, an increase in legal reserve requirements is extremely difficult to establish, because liquidation by banks would be necessary to provide them with the funds needed to meet the new reserve requirements. Today, as a result mainly of our gold revaluation and silver policy, we possess a rare and striking opportunity, not likely to recur for many years, to establish our bank reserve requirements on a new high and safe plane without creating the necessity for onerous liquidation by banks. In essence, we can dedicate the gold and silver profits resulting from the Administration's monetary policies to the establishment of a safer and more stable banking system, while yet employing all of these profits for reducing the public debt. All the funds needed to meet the increased reserve requirements would be provided by the Federal Government merely through the use of its gold and silver profits for the purchase of Government obligations.

LHS:etm

January 27, 1936.

Notes for the Secretary's Files

January 3, 1936.

2:30 Mr. McIntyre called me saying that the President had asked G. Hall Roosevelt to discuss with me a certain proposal.

3:00 Mr. G. Hall Roosevelt had a half-hour talk with me, stating that the President wanted me to examine and express an opinion on the one-page memorandum (photostatic copy hereto attached).

Memorandum unsigned dated December 11, 1935.
On the back appears "Oliphant, Herman - Mac from West," seemingly in the President's own handwriting.

3:35 Called Mr. McIntyre reporting that I had seen Mr. G. Hall Roosevelt.

January 6, 1936.

Dictated a letter to G. Hall Roosevelt setting forth certain questions which would have to be answered before the proposal could be understood and intended to disclose the immature character of the proposal.

January 8, 1936.

Letter sent to Secretary with this longhand note: "The Secretary. Do you approve? HO."

January 14, 1936.

Letter to G. Hall Roosevelt returned by the Secretary with the following pencil notation:
"I have no objection to yoursending this letter. If Hall comes back, please speak to me. HM Jr."
Letter was marked "confidential" and sent to Mr. Roosevelt at Detroit.

January 20, 1936.

Mr. S. B. Gibbons gave me another confidential memorandum, copy of which is also hereto attached.

January 25, 1936.

Sent to Mr. Haas memorandum giving brief history of this proposal. Requested his opinion on the memorandum submitted by Roosevelt and Gibbons. Copy attached.

Herman Oliphant.

January 23, 1936.

To: Mr. Haas

Mr. Oliphant

I attach a memorandum which the President asked G. Hall Roosevelt to discuss with me, a copy of my further inquiry concerning it, and finally a memorandum which Steve Gibbons gave to me. Back of all this is Professor Maguire of Harvard. I wish you would read this material and tell me whether or not Maguire really has any ideas. I confess I am completely in the dark. I have had no answer to my letter.

(Signed) Herman Oliphant

I think this is the Constantine re quire memo

20 January Confidential

"from B.B." (Kirrons)

MEMORANDUM

The following principles should govern the settlement of the currency problem.

1. A free market for gold and silver should be definitively established, a market in which gold and silver might be purchased, sold or retained in private ownership, free of all punitive or special excise taxation, or the like.

2. The dollar should be proclaimed to represent either 13.714 grains of pure gold or 200 grains of pure silver, if the reduction from the silver content of the dollar (371.25 grains) is fixed at, let us say, 46 percent. The rate of reduction is a matter for the President to determine; 46 percent and 200 grains are used here only as a matter of convenience. The devaluation of the silver dollar by 46 percent would mean that, if the Treasury has in all 1300 million ounces, it has no less than 624 billion grains (there being 480 grains in each ounce) of silver, and if 200 grains are represented by each silver certificate or contained in each silver dollar (as reminted), then the Treasury would have 3,120,000,000 silver dollars (or certificates), and should have a book profit of over one and two thirds billions. The adoption of some such ratio of silver to gold as this would make possible the almost immediate cessation of further silver purchases abroad, since the 3 to 1 ratio aimed at in the Silver Purchase Act would then be complied with. But Congressional repeal of the foreign purchase provisions in that Act should be sought at once, after the issue of the Executive Order putting these changes into effect.

3. By implication, the provision that the dollar shall represent 200 grains of silver implies that the ounce of pure silver is worth $2.40. That is too high a price to pay to the domestic producer of silver. If he is paid one dollar for each ounce, and the rest retained as a special charge to defray the cost of maintaining inspectors at the mines to check production figures, as well as other costs of like character, he does very well. That has the practical effect of establishing a gold-silver ratio of one to thirty five if the producer or vendor of gold receives $35.00 for each ounce, and the domestic producer of silver $1.00 for each ounce. The 35 to 1 ratio would govern such silver and gold as the Treasury might buy, while, for all statutory purposes, and for computations of profit and the like, the ratio of silver to gold represented by the dollar would be 14.6 to 1.

4. The Government should announce that, pending the end of the emergency period, there will be no resumption of the convertibility of the currency into gold or silver; and that it will be proposed at some later time that Congress amend the existing statutes so as to reserve at all times the right of the Treasury to redeem its currency into gold or silver at its own election, and not at the choice of the holder thereof.

5. Finally, it should be made clear that in no circumstances hereafter will the Administration propose to alter the currency structure otherwise than as indicated in the foregoing paragraphs.

\- - -

I believe that this program would meet with general approval. The criticism of the silver dollar devaluation would be tempered by the reflection that thereby a correspondingly lighter debt burden would rest upon taxpayers. The business world would particularly welcome the certainty that would thereafter attach to all long term contracts. The Government would no longer have to be the prime mover of the business world, and long term contracts would again be initiated and carried out without Government intervention, purchase or guarantee.

As to the foreign silver market, it would slowly but surely recover, and the world prices in London and Asia would tend to draw near the American net price of one dollar for each ounce of newly mined domestic silver. I say tend advisedly, and wish to emphasize the word. I mean that an upward tendency in the world silver market would occur, so that before several years had passed, foreign silver would be materially above its price in the Autumn of 1935. It is the medium of exchange as well as capital of a third of the earth's population. Once the active purchasing by our government ceases, the consolidation of the price will slowly be effected, and thereafter other governments will act to lift the price, in their effort to secure silver for coinage or reserve purposes.

I feel confident that the general price level would slowly rise in the United States, under the impact of the free market for both metals. The price of gold would doubtless rise. As it rose, it would reflect in the dollar sterling ratio, and I think that the pound would rise to $5.25 or $5.50, in spite of anything which the Equalization Fund of London might be put to do. But the demand and supply equations would be left to regulate the markets for exchange thereafter, and trade between the two countries would control the situation in the long run.

A free gold and silver market would relieve the Government of any further embarrassment as to the exchange control. When banks or individuals needed to send gold abroad to settle balances, they could buy it at the market. The Treasury's gold or silver would not be for sale, except when it might be desired to check too rapid a rise in the price of either metal. Since no convertibility is contemplated in the foreseeable future, the Treasury's resources would remain unimpaired and the security of the expanding currency reasonably assured.

Copy

The Secretary

Do you approve.

HO

"I have no objection to your sending this letter. If Hall R. comes back please speak to me.

HM Jr."

COPY

81

CONFIDENTIAL

January 14, 1936

My dear Mr. Roosevelt:

I read a number of times the memorandum which you said the President asked me to study. Before making the comments and suggestions which I said I would give you, I want to be sure that I understand exactly what this proposal is.

At the risk of an excess of caution, let me enumerate the points which, to me, at least, are not wholly clear:

1. Is full freedom (a) to import and (b) to export (c) silver and (d) gold contemplated?

2. Is it contemplated that gold coin shall circulate?

3. Are gold certificates to circulate?

4. Is the parity statute to be retained or repealed?

5. Is the price of gold to be held at $35 an ounce by Government purchases and sales?

6. If not, at what price is the United States (a) to sell and (b) to buy gold to and from foreign central banks when the domestic market price of gold is (c) above $35 and (d) below $35?

7. The first sentence of paragraph 2 is not clear.

   a. The monetary (legal) values of gold and silver are now fixed by law at $35 and $1.29, respectively (though the law so fixing them can be changed by executive act).

   b. What do "in virtual fashion" and "as a formal step" each mean, and does either, or both, mean something different from "monetary value," used later in this paragraph?

8. Since the melting point of the present silver dollar is $1.29, and of the subsidiary coins is $1.38, why would a

monetary value of $1.00 (assuming that is what is suggested) require recoinage of either?

9. What are the objectives of this plan?

   a. To permit hoarding as insurance against depreciation of paper money?

   b. Further to inflate prices by permitting gold to rise above $35 per ounce?

   c. To have a variable and managed yardstick of value, i.e., managed currency, and, if so, what is that yardstick to be; who is to vary it; upon what occasion is it to be varied; and by what methods is it to be altered?

   d. Something else?

While this may seem a rather formidable list of questions, I am unable fully to resolve them from repeated readings of this memorandum, and I should not know how to comment on the proposal without having the fuller statement of it indicated by these questions.

Very truly yours,

(signed) Herman Oliphant

Honorable G. Hall Roosevelt,

The White House.

HO/bc 1/7/36

11 December, 1935.

MEMORANDUM OF RECOMMENDATIONS AS TO MONETARY POLICY.

1. The amendment of the Gold Reserve Act of 1934, soon after the opening of Congress, so as to permit the purchase, retention and sale of gold by citizens of the United States, is recommended. A free gold and free silver market would relieve the Federal Treasury of the responsibility for sustaining the price structure. Those who might choose to trade in gold and silver, and acquire them for permanent or temporary retention, might do so. The Treasury would be under no pressure to sell or to buy any of its 280 million ounces of gold, or its 1300 million ounces of silver. If the Treasury felt, however, that the price of gold were rising too rapidly, the sale of an appropriate quantity of gold could effectively restrain the rise; while the Mint price, - $35.00 at present,- would serve as the cushion to prevent any decline in the price of gold below the level desired. Freedom to deal in these two metals, once unequivocally guaranteed to American citizens, would probably result in making the United States the <u>central market of the world for both metals</u>.

2. The foregoing recommendation requires, as a corollary, the determination of the ratio of silver to gold, at least in virtual fashion, if not as a formal step. If a price of one dollar for each ounce of domestically mined silver were fixed by the President, the ratio of silver to gold, for purposes of the Mint, would be 35 to 1. The Treasury would, in point of fact, convert its fiduciary currency into either metal only at its election, if it chose to convert. We should have a managed currency with a reserve of both metals far in excess of the margins of safety. Such silver dollars, half dollars and quarters as are in circulation would have to be reminted, in the course of a reasonably brief time,- so as to reduce the quantity of silver they contain; at least this would be true of the silver dollars. The proclamation by the President of the silver-gold ratio might be followed by ratifying legislation, in which could be embodied the legalization of free silver and free gold markets. The increment of value in the silver derived from the fixing of the monetary value of the silver stock, could either be added to the increment of value derived from the revaluation of gold on January 31, 1934, or covered into the General Fund of the Treasury, or even earmarked for special uses.

It is sincerely believed that the policy embodied in these two recommendations would be held to be sound and constructive,- calming the restlessness of the business world, which would be able to understand just what the currency system of the country was destined to be,- namely, a managed currency with ample reserves and free markets for the precious metals. The agricultural and industrial population would also find the consequences acceptable.

Action ought not to be too long deferred, since the transitional period would need to have a certain margin of time.

January 28, 1936

HM,Jr. called the President at 9 o'clock this morning. He told the President that the foreign exchange situation is coming to a crisis, independent of ourselves; that the French Treasury had an overdraft with the Bank of France and that they had great difficulty meeting it; that they are over in London now trying to arrange a loan. " I am afraid," he said, "that they are going to go off gold. England has been a heavy buyer of gold in France and has kept her exchange stable that way. When we try to buy Sterling, it is very difficult."

Belgium, he told the President, has not made up her mind as to whether she is on or off gold. "The Bank of Sweden," he said, sent us word that if they could buy gold they would like to have a dollar deposit here in America, provided we would earmark gold against it, so that she will be protected against devaluation. They want to operate directly with us instead of in London."

He also said to the President, "We have a plan which we have been working on for the last six months. Right now, we only buy and sell gold with France, Holland and Switzerland." The President inquired, "Would this not mean a free gold market?" and Mr. Morgenthau replied, "In a sense it would, but only in Governments." He told the President he was not quite ready to report, but he will have something within the next day or two and would then like to come in to talk to him about it. He said, "I think it would be interpreted as a conservative move and would be a move towards world stabilization and the world markets would operate through us instead of through London."

He asked the President whether he would prefer the face of Jackson or Jefferson on the soldiers' bonus bond and the President asked, "Why a face?" Mr. Morgenthau explained that it is most difficult to counterfeit a face and the President suggested the head of Jackson.

January 28, 1936

At 12:30, HM,Jr. called the President and told him that he was calling because he thought he would be interested in knowing that the financial nervousness seems to be over. He said, "It has been a very difficult job to bring this about. The bond market is strong; Sterling is below $5.00 ($4.99½); the franc is down to 6.66-3/8, and the 2-7/8 bonds are up 5/32." He also said, "It was really a very serious situation and if our Government bonds had gone down a point or two it would have been a very difficult job to bring them back."

He also told the President, "We expect that within the next three or four days the French situation may 'crack' and we will sit tight for the next couple of days."

January 29, 1936

With the addition of Mr. Wideman from Justice and Chester Davis from Agriculture, the same group which met on Monday again conferred with the Secretary today on proposed legislation for the agricultural program and proposals to finance it.

Secretary Wallace began the discussion by saying, "As I understand it, Mr. Secretary, we are working within these boundaries with regard to this matter of the tax to finance the agricultural program; first, that the amount to be raised shall not be more than that provided in the 1937 budget." Mr. Morgenthau told him the amount was to be exactly the same. Wallace said that amount is $498,000,000. "Next," Mr. Wallace said, "we are working on three different plans; one, to see how much of a processing tax you need on agricultural products if all of it were to come from excise tax on agricultural products; second, on a program which would involve, say, $398,000,000 from processing tax and $100,000,000 from income tax; next, $398,000,000 from excise tax on agricultural products and $100,000,000 from tax on various other commodities -- a manufacturers' sales tax of some sort; and, fourth, we might also consider how much of a tax it would take if we had a sales tax on all manufacturing commodities, or, we will say, manufactured commodities. That last one was not brought up. We did not consider it in our previous conversation. Congress brought up that particular proposal." He explained, "Manufacturing plants in the United States handle $41,000,000,000 in sales -- $41,000,000,000 of stuff -- they pay out in wages and labor, $20,000,000,000. The amount of manufacturing, above what has been paid out in materials, labor, etc., you might levy a tax on that amount, to get the $100,000,000, or perhaps to get even the whole thing."

Mr. Morgenthau told the group that it was not clear in his own mind and he wanted to know if it was clear to the attorneys that it was perfectly legal and constitutional, etc., to put on a retroactive tax on processors. "Are you people all satisfied that that will stand up?" Reed replied, "No." Mr. Morgenthau said, "I take it our people are," and Oliphant replied, "Yes; we think so." Mr. Reed said, "I don't know whether they think so or feel sure. Do you go so far," he asked Mr. Oliphant, "as to say that you feel reasonably certain of that or is it something that we will have to risk for final determination?" Mr. Oliphant's reply was as follows: "I am reasonably certain of it. That is said against this background, that if we take the position that the Supreme Court says a particular thing is unconstitutional, then we are never to go within 100 miles of doing it, and you have a perfectly impossible situation. If they say you can't do this, then back up reasonably and say, 'This looks about where the line is'."

Mr. Reed told Mr. Oliphant that he agreed with that perfectly -- "that we will have to take risks willingly though when we take them we have to realize that we are taking a risk. I don't know," he said, "that there is any difference between Mr. Oliphant and myself. I don't quite believe in not trying because we think it may be held unconstitutional."

Mr. Oliphant continued, "It is the sort of risk we did take and had to take in the gold cases. We just can't operate on any other basis."

Mr. Wideman of the Department of Justice said, "I want to say that the Tax Division of Justice is charged with the responsibility of vindicating laws in the courts and it is of the opinion that there is not an even chance of sustaining the constitutionality of retroactive taxes and that is our considered opinion.

Mr. Morgenthau said, "That can't be lightly brushed aside! As 48 hours have passed, has anybody discovered the best way to take care of the refund of the $200,000,000? What is the best method of taking care of that, separately or in a tax law? What is the recommendation as to the best method of taking care of that?"

Mr. Oliphant said, "I hope to get over to the Solicitor General today the solution of that problem that we worked out. Our thought is that it should be taken care of separately in the form of a special tax." Mr. Reed wanted to know if he meant no retroactive tax. Mr. Oliphant replied, "Assuming no retroactive tax. Of course, if there is a retroactive tax, then the problem is academic. Assuming no processing tax, then separate provision to take care of it."

Mr. Reed told the group, "I think there are two problems; first, legality of the processing tax; second, what other method we could use, and, third, practical difficulties in taking from the processors a tax when they have not all the funds that they received. Some of them have paid to their lawyers, some to their purchasers, and some they have not earned from the period of January 6 down to now because it has not been put on.

Mr. Morgenthau wanted to ask another question. He said, "We were talking about retroactive tax going back to July, 1935 and as I remember, Secretary Wallace was quite firmly of the opinion that we should not go back of the period of the Supreme Court decision. Secretary Wallace explained, "No. The fear we had was that a great many processors during the period from January 6 up to the present time would have reduced their margins sufficiently so that if a retroactive tax was imposed a large number of processors would be thrown into bankruptcy; that some method should be used which would mean that the tax would not be applied from January 6 until the time the bill was signed. Mr. Savoy has been working on it. He has grave question whether it would be sustained by the Court." Mr. Savoy said he agreed with the Tax Division of the Justice Department; "that we probably have not a 50/50 break." Mr. Wallace continued, Mr. Savoy thinks Justice has just as good a chance legally as the approach of Mr. Oliphant. My own feeling is, if it is true, we should take Mr. Savoy's approach because he does not want to throw a large number of processors into bankruptcy and I would say, in my mind, I would very much like to see that approach taken because I think we must make an effort to get this, no matter what our chances are."

"I certainly think there is to be a lot more work done on retroactive processing tax to get the agencies together before we could say to the President, 'We can't recommendthis'. I certainly don't want to tell the President, " Mr. Morgenthau told the group, "and we can't say to him, that the departments recommend that this is all right, especially when the Justice Department's tax division, which has to try the case, is so firmly of the opinion that it is unconstitutional."

Mr. Wideman said, "There is not as good as a 50/50 chance. That's purely from the legal standpoint and has nothing to do with policy. If it is the only thing that can be done, that's all there is to it." Wallace said, "You have taken chances like that before." But Mr. Wideman replied, "No, sir; not in recommending legislation. We have been through so much of this in the last six or eight months that we are bound to have some definite view on it."

Secretary Wallace said, "Why don't you simply say that Justice can't concur in this, because Justice does not think they have a 50/50 chance. Justice is out as far as New Deal legislation is concerned." Mr. Wideman explained to Secretary Wallace, as follows: "That's purely the legal end of the thing. The difficulties may surpass consideration alone of the legal end of it. We realize that."

Ezekiel wanted to know if that opinion was based on how the present constituted Court thinks "or would a different Court have a different reaction?" Mr. Wideman told him it was based largely on previous decisions. Ezekiel also asked him if that was the retroactive feature, and Wideman said yes.

Mr. Reed said he thought there was one factor that could be laid aside and that was the ability of the purchasers of processors to recover from the processor any portion of the tax. "They won't be able to do that. There is no opportunity for a person who purchased from a processor without contract to recover the tax. That was discussed the other day." When Ezekiel asked if that would be true in a Court of Equity, Mr. Reed answered, "I think so. No possibility of that recovery." In that connection, Mr. Oliphant asked, "You think there is no 50/50 chance involved in that?" and Mr. Reed replied, "Not a 5% chance; no chance."

Mr. Morgenthau then told the group, "Just the fact that we have been thinking that this is the thing to do, to have this retroactive tax -- and don't say it's the Treasury viewpoint -- but from a legal standpoint the Treasury thinks it is all right; Mr. Wallace says that for a policy matter he does not want them to go beyond January 6, and the Attorney General's office says he has not an even chance of winning if the case comes up -- looking at it from a fiscal standpoint, the thing that hurts us most is to lose cases which involve our revenue. That's what shakes people's confidence."

Continuing, he said, "We are talking about $500,000,000. That's one item. Isn't this a fair statement that I think all the legal brains of the three Departments have got to concentrate on this thing and see if they can't get together and try to find some other method of raising revenue."

Mr. Wallace explained that what we are talking about is recapturing the $180,000,000 from being permanently recovered by the processors. Mr. Morgenthau said he thought we were talking about raising the $500,000,000 and Wallace said "That's what I started about." Mr. Oliphant said the 50/50 chance we were talking about was a retroactive tax up to January 5 and we both agreed that there is a better chance from the date of the passage of the Act.

Mr. Morgenthau said, "Let me go back to what we started talking about. Does everybody say it is legal to go back to July 1 and levy taxes to raise $500,000,000 for the agricultural program?" Mr. Reed replied, "We say 50/50; that we probably could not sustain it from January 5 to date of the passage of the Act." Mr. Wallace explained that the $500,000,000 has to do with money to be raised from January 6 to July 1, 1937. "That has nothing to do with raising money for the fiscal year 1937." Secretary Morgenthau replied, "I am talking about $500,000,000 to finance you, beginning with July 1, 1936 and the suggestion was made by the President and studied by the Treasury that we raise it by a retroactive tax going back to July 1, 1935. And in that, the President uses the example that when he was Governor of the State of New York he levied a 1% income tax on the previous year's income to be paid in a subsequent year. Let's concentrate on that. Whether he raised $500,000,000 or $400,000,000, it's the period I want to get clear. Whether he raises $400,000,000 through retroactive tax or $500,000,000 -- just for the sake of argument, let's talk about $500,000,000 that Agriculture needs for its program beginning July 1, 1936 and the President's suggestion, which he has very much in mind, that we go back and raise it in the fiscal year from July 1, 1935 to June 30, 1936."

Mr. Ezekiel said, "If the Act had been upheld, the taxes that were being collected from July 1, 1935 to July 1, 1936 would have been used to pay the benefit payments that were made the last six months and $290,000,000 that are due for this six months; retroactive taxes would offset refunds and also offset an additional appropriation to pay contracts now outstanding. The 1937 will be raised from taxes after the passage of the Act."

Mr. Reed said that the plan you are talking about from July 1 and an annual occupational tax is the plan we have been referring to as the Treasury plan. "We did not discuss that as a plan yesterday. We had several objections to it, one from a legal viewpoint, that there might be difficulty in making it separably; that we might jeopardize our future taxes and that is why we had recommended a future tax entirely separate from the retroactive. We thought the reason why any retroactive tax would be bad could be applied to the retroactive feature of that statute as well as to any other statute and we thought, in addition, there would be no argument which would stop the imposition of the tax during the period January 6 and the passage of the Act."

Mr. Morgenthau said that the $500,000,000 that we are talking about is the $500,000,000 which Agriculture will need in the year we are working in now; this fiscal year, but Mr. Wallace said, "No; future." Mr. Morgenthau asked the question, "The program in the fiscal year are are now on was to have cost how much money?" Mr. Davis said around $600,000,000. "The total obligations," he said, "would run in the neighborhood of $578,000,000." Mr. Morgenthau then said, "Now, with the $578,000,000 you obligated for the year we are working in now and we collected taxes on it up to the time of the Supreme Court decisions, less the amount that was impounded or postponed as to payment, does anybody know how much we collected up to January 6." Mr. Gaston replied, "About 68 or 69 millions in actual collections." Wallace told the Secretary, "You are in the hole $500,000,000."

Mr. Morgenthau asked the group,"How is the Treasury going to raise for the Department of Agriculture the difference between this fiscal year, of roughly $500,000,000. Let's just talk about that." Mr. Ezekiel replied by saying, "Mr. Savoy suggested raising by one tax, which would be a retroactive tax up to the first of this year, which would recoup about $300,000,000 that otherwise has been returned or may be returned, then a new tax, effective March 1 or whenever you get the bill passed, which would reimpose taxes, leaving a gap we can't cover because of delay in the passage of legislation."

Turning to Mr. Reed, Secretary Morgenthau asked, "Do you feel that this is a program which you can recommend as legal?" Mr. Reed replied, "I can't answer yes or no; in so far as taxes are levied by new legislation to go on to June 30 of this year, it is clear that we can levy an excise tax for that period. Just as much as you connect that tax with the operations under the AAA, which was held invalid, the closer it is attached the more danger the future tax would be eliminated. But I think that danger can be minimized, as the Treasury draft shows, by the way they have phrased the tax so that the chances in percentages are 80 to 85% you would collect the tax from the passage of the Act through June 30. Prior to that, that's where the danger comes because that is a retroactive tax. According to the tax statutes there is great danger that that would be held invalid, owing to the mechanical difficulties of collecting from processors on money which they may or may not have."

Mr. Morgenthau said, "The first thing is the current fiscal year and the lawyers are not together on that as to a method, in so far as the retroactive feature is concerned. That is yet to be settled. Then there is still within this fiscal year the other question of a method of recouping the refunded money."

Mr. Reed said, "I would phrase it slightly different. If you have a retroactive tax which is upheld from July 1 to January 6, then you don't need to recoup because you will be all right. If that should be given up and we should go to some other way of raising the tax which would have been gotten by that retroactive tax, then you need a new way to do it other than a retroactive processing tax." When HM,Jr. said there was still a lot of work to be done and everybody must get together, Wallace said, "I don't think you can get everybody together." Mr. Morgenthau then said, "Unless the Attorney General and my General Counsel tell me that there is an 85% chance --. Wallace interrupted him to say, "I question whether Agriculture would say there is an 85% chance, but Agriculture would say 'We have to do it.' I think this Government would be morally culpable --. And then Mr. Morgenthau interrupted Mr. Wallace to say, "Would you think Government was morally culpable if they do it? How much longer are we going to continue to do things that are held illegal?" And Wallace's reply was, "Better find out whether this country stands for justice or legality." Mr. Morgenthau's answer to that was, "Well, you can have an agricultural program and be constitutional."

Mr. Wallace said, "We are talking about the retroactive feature." Mr. Morgenthau said, "I still say that as far as I am concerned, talking about this fiscal year, I don't care how many parts you divide it up in, I certainly am going to depend on my General Counsel and the Attorney General to advise me before I go to the President on this fiscal year and I should think he would want it also. Let's put that aside for the moment." Mr. Wallace then said, "No use dragging it out. I think we should come to a decision on the retroactive feature. Oliphant is sure." Oliphant replied, "I am reasonably certain under the system we must operate on." Mr. Wallace wanted to know if he could take out the period from January 6 and Oliphant's answer was, "We have modified it by a clause providing that if this is held unconstitutional as to any year or any part of any year, then it shall not be affected as to any other periods of time." Mr. Ezekiel inquired, "That means if you lose the $200,000,000 retroactive, you also lose the $500,000,000 prospective for all time?" Mr. Oliphant explained that that depends upon the period.

Mr. Savoy asked Mr. Oliphant if he intended to cover the tax from January 6 by this plan and Oliphant said, "What I should do would be to impose taxes. We are going to take a tax that the Court decided was unconstitutional. We got regulation of Interstate Commerce by gradually approaching the line that the Court permitted. I would take it from the date of the decision to the date of the new enactment to the end of this fiscal year, then I would insert all three and, necessarily, separable clauses and if held inoperative it should not be held effective against the other parts."

Mr. Wallace inquired if there was any chance for Treasury and Agriculture to come to agreement even if Justice does not come to agreement. He said, "But Agriculture could not stand, in fairness, for anything which would provide for the imposition of a tax from January 6 to date the bill was passed." Mr. Wideman's reply to this was, "Don't you think a great many have not reduced the price of goods and are passing the tax on just the same?" Mr. Wallace's answer was, "I think a number and it will be March 1 before the bill is passed and theywill have reduced it to extent, reducing for all these industries 85%."

Mr. Wideman asked this question of Mr. Wallace, "This $500,000,000 that you speak of for the present period we are operating in, that's a moral obligation, isn't it? You are not figuring on paying for contracts that were entered into after January 6? Isn't that all we owe now a moral obligation that has been incurred up to January 6?" Secretary Wallace told him, "That's $296,000,000 that's coming through now. That's another matter. That's an obligations to farmers about which Congress is fully convinced." HM,Jr. said, "That's part of the $500,000,000" and Wallace said yes. Mr. Wideman asked, "The balance of the $500,000,000 is what it will take to operate under the new law for the balance of this fiscal year? After January 6 there is nothing being paid? In other words, the program is not being carried on that was declared unconstitutional?" AnD Wallace said, "That's absolutely stopped. For farmers who carried out their contracts prior to January 6 and have not gotten their money, we are getting $296,000,000 to pay them." And Chester Davis added, "of which $60,000,000 is for contracts which are not actually signed but are in the process of being signed." When asked what is the difference between the $296,000,000 and the $500,000,000 Secretary Wallace said, "That's what we have already paid the farmers." And Mr. Gaston's remark was, "That is the deficit in our revenues reflected in this program."

Mr. Morgenthau then addressed himself to Secretary Wallace and said, "Well, Henry Wallace, to answer your question: Just the minute Mr. Oliphant tells me he's ready, I am ready. I want him to continue to work with Justice and your people."

Mr. Wallace then expressed himself as follows: "It seems to me that the situation in which you are going to find yourself, if I sense the meeting correctly, you will probably find yourself in this situation; that Agriculture will stand very firmly for being sure that the processors do not have to pay a tax from January 6 to the passage of the bill." Mr. Oliphant wanted to know "Including people who have passed it on? Is this a matter of justice that you are talking about?" Mr. Wallace's reply was, "I don't see how you can get at that." Mr. Oliphant inquired, "Suppose you reimpose and let them recoup in other parts of the period." Mr. Ezekiel said, "It would be quite impractical to do it." Mr. Oliphant's answer was, "That goes to the question of reimposing processing tax." Ezekiel said, "When you get in that field, you will have to link the two up," and Oliphant answered, "I am prepared to do it."

Mr. Morgenthau said he wanted to talk about the year beginning July 1, 1936. "How do you propose to raise that revenue?" Stanley Reed said, "By a processing tax imposed on March 1 which runs from 1936 to 1937. No one has any doubts about the validity of such a tax." Wallace's remark was, "We get in an economic rather than a fiscal field on that." Mr. Morgenthau explained to the group, "I take the liberty of differing with the President on that. If that's all right, I would much rather raise it with one tax than raise it partly by processing tax and partly by income tax. I don't know whether my people are with me on that."

Mr. Oliphant's reply to the Secretary was, "Yes. From the Treasury standpoint, it seems desirable, talking about the whole structure, to go through and make changes, some of which are perfecting measures which would produce the necessary amount of money. When Mr. Morgenthau asked, "Are we together on this, of either we would like to have all processing or some other, but not mix them?", Mr. Oliphant replied, "That's right; it is an administrative problem we face." Mr. Morgenthau then said, "We will have our motor boats, but if we have need for $300,000,000 out of processing, $50,000,000 for relief and $50,000,000 out of income tax, I want to do it all processing or something else. I don't want to get the thing mixed up." Wallace was of the opinion that "This is just raising for the general Treasury, not for the agricultural program," and HM,Jr. replied, "That's all right; but if we go back to the other idea that when we get to the revenue bill it is going to be one revenue bill which will raise enough for you to July 1 and whatever revenue we need, and it may be in three or four sections, but it will be one revenue bill." Reed spoke for the group when he said, "I think we all think that."

In this connection, Secretary Wallace said, "You may find, however, that if the processing taxes are only a certain rate, it may be necessary for you to raise other taxes on commodities or raise the income tax. Therefore, our statement as to needs for agriculture under this new legislation does have a bearing.As to just how you will raise it, I would put a processing tax on agricultural commodities. Where you would find yourself with respect to income tax and tax on non-agricultural commodities --."

Mr. Morgenthau told the group that the difficult thing is handling the thing for this fiscal year and not so much after July 1. And Wallace said that's where the legal thing comes in. "When you make the decision on recouping the loot, you really have to know how heavily you are going to go on excise taxes on commodities in the 1937 fiscal year." Ezekiel again reminded the group that "every day that is delayed in passing that legislation means a loss of $1,500,000 in tax collections of which there is no question as to the legality." Secretary Morgenthau inquired of Mr. Ezekiel, "What's the purpose of this remark? Have you men work 48 hours instead of 24? We are certainly not holding the thing back. I don't see how we can move any faster."

Wallace said, "I think we can expedite things if you and I and Stanley Reed get together once in a while so that there is some indication of the direction in which we are going."

Mr. Oliphant expressed his opinion as follows, "I think it is an underlying question of policy and such basic questions as to whether you are going to impose processing taxes at all. We will have to realize that you will get as much heat from them, if you raise them for $500,000,000. The same is true as a change in inheritance tax. The same is true as to income tax. It will cause as much grief if you ask for $200,000,000 instead of $500,000,000. Thefurther thing is, when the processing tax is hitched up, as it was before, with the agricultural program, you have one attitude in the public mind. The Treasury will have to take the gaff on which are good taxes, not justified by the fact that they are linked up with the agricultural program."

"As the President said," Mr. Morgenthau told the group, "the slogan for this year is 'Let Henry do it. Put it up to Henry.' I don't see how we can get any further today until the three legal groups get together." And Reed agreed that they have gone as far as they can. Mr. Oliphant said he thought it appropriate, if the Solicitor General thought well of it, to get together with him and hear what the remaining differences are.

Mr. Morgenthau closed the meeting with the following statement, "I am going out of town tomorrow. One of the things pending is Jesse Jones' cotton matter. We will have to see him tomorrow. It's a question of what he is going to do on his cotton loan of 400,000,000 bales. We will have to have a meeting on that tomorrow. If you want me on that tomorrow morning, I will be available, and then tomorrow afternoon we will continue this meeting. This matter of today's conference has the right of way."

The next meeting was set for tomorrow afternoon at 3 o'clock.

THE SECRETARY OF THE TREASURY
WASHINGTON

January 29, 1936.

From: Secretary Morgenthau
To: Mr. Grimm

I have before me your memoranda of January 25th and 28th.

In the second paragraph of your memo of January 25th you say: "After careful study I turned it down too."

Your lengthy memorandum of January 28th again refers to Judge Manton's Astoria Housing Project. From this memorandum I gather that you now are favoring this loan.

I am writing you this memorandum because you have seen fit to report to me in writing and, as you say, you wish to make a written record for the Treasury Department. For the Treasury record I wish to inform you that nobody connected with the Treasury should approve or disapprove any loans made by the Federal Housing Administration. That is not the Treasury's work or responsibility.

TREASURY DEPARTMENT

WASHINGTON

January 28, 1936

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

We are coming to a decision soon on the Astoria Development with which Judge Manton's name is connected as sponsor. I thought it well for the Treasury record to contain a statement outlining the consideration given to the applications. Attached herewith.

Spent just about two hours with Jesse Jones Saturday afternoon. He expressed the same point of view you did, namely, things are coming along reasonably well and that there is no need to set up additional Federal bureaus with great investment of Federal funds. He is opposed to Allie Freed's proposal of construction companies financed with Federal funds. Said he would much rather do the building himself and indeed thinking of doing work in that field if private industry didn't get going.

Had interesting time Saturday at lunch with the left wing of the Housing group. All the well-known housers there. Discussed with them the changes in Housing ideas and counselled that further Federal activity might rest until lessons were learned from the work already done and being done by the Government.

Senator Wagner telephoned this afternoon to ask my help on an important speech he is to make this Thursday. Is sending outline of the speech to me in the morning.

Peter Grimm

C O P Y

January 28, 1936.

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TREASURY DEPARTMENT

WASHINGTON

January 25, 1936

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY.

Maurice Deutsch in again. Canvassed his idea of how to get construction in large cities done to rent at $3.00 to $8.50 per room.

Considerable pressure being put on McDonald to insure a $10,000,000 housing project in Astoria. This had been turned down by FHA in September. On pressure being then exerted I was brought into the matter in October. After careful study I turned it down too. Now it is revived with some of the objections removed. Steve Gibbons yesterday said he had been approached to get me to remove my objections. Stewart Hirschman and Judge Manton, of the Federal New York Bench, are among owners of the land. Steve said Judge Manton was coming in to see me.

Went over the whole deal with Colean, chief engineer of FHA, this morning. Am taking the figures with me to New York and on Monday will see two individuals to check figures.

Conference with McDonald and Slacks of RFC to agree on a statement of policy with respect to public housing to go in the Central Housing Committee's report to the President. RFC, FHA and Treasury, at least, will be at one on an expression of policy on this important matter.

This for the record. Maurice Deutsch, who is a friend of Allie Freed, though not altogether opposed to what Freed is attempting, made the statement to me that Freed was the owner of large tracts of land in Westchester, Long Island and New Jersey, and that it was no secret that he sought improvement of these properties on large scale with Federal funds. I had previously known that Freed had a large tract in Flushing, but evidently he has increased his holdings.

PG:hh

Peter Grimm

TREASURY DEPARTMENT

WASHINGTON

January 28, 1936

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Peter Grimm

The Astoria Housing project of which Judge Manton is the sponsor will be mortgaged for about $10,000,000. I thought you would like to know how carefully this kind of a job is handled by all concerned. Then too, this will serve for the Treasury Department record.

The application was first filed on July 16, 1935. I first heard of it in September, when Miles Colean, Chief of the Low-Cost Housing Division said he would like me to review the application. He had come to certain determination concerning it, but what that was he did not then tell me. For more than one reason, I decided after examination of the application and material that had been gathered together by FHA concerning it, not to recommend approval. In the succeeding months the sponsors were in negotiation with FHA and many changes to strengthen the application suggested by the Government were made. Two or three times in the course of that period individuals acting in the interest of the application sought to see me concerning it, but I declined to meet them. Once, probably twice, individuals representing the technical part of the enterprise saw and conferred with my counsel Harold Riegelmann. Early in January, Mr. Colean reported to me that the proposition was in much better shape and was ready to be resubmitted to me. On receiving it Saturday, January 25th, I reviewed the proposition and found it indeed to be in much better form. For example, a better builder had been secured, more money put in, the improvement moved to a better part of the site, etc.

On Monday, January 27th, in New York, I consulted with Mr. Charles G. Meyer, an outstanding citizen of Queens where this improvement is to be located. Aside from being devoted to the best interests of his borough, Mr. Meyer is the builder of Boulevard Gardens, a large housing development assisted with PWA funds. From that point of view he might be unfavorable to an improvement in the vicinity which might sooner or later compete. However, Mr. Meyer gave it as his judgment that the proposition was a sound one,would readily rent, and would not compete with his development.

I submitted the record to Harold Riegelmann, former Special Assistant Counsel of the Treasury Department and one who is qualified in matters of this kind. He gave it as his opinion in writing that the proposal was sound.

I submitted the figures as to operation, management costs and store rentals to the Management Division of my firm, Wm. A. White & Sons, which has had direct experience with the management of this type of property at Hillside, the Bronx, New York City, a development financed with assistance of PWA funds.

It is my judgment that the utmost care has been used in the study of this proposal and all the work done very thoroughly.

THE SECRETARY OF THE TREASURY
WASHINGTON

January 29, 1936.

From: Secretary Morgenthau
To: Mr. Gibbons

I am enclosing herewith copy of two memoranda which I have received from Peter Grimm. I note in these memoranda that you have interested yourself in a $10,000,000 loan of FHA to an Astoria Housing Project of which Judge Manton is sponsor. I am also enclosing a copy of my memorandum to Peter Grimm in regard to this matter.

For your information please, in the future, inform anybody who tries to interest you directly or indirectly in bringing influence to bear upon any governmental agency that has federal money to loan, that you or anyone else connected with the Treasury will not and cannot use his position for this purpose.

January 25, 1936.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY.

Maurice Deutsch in again. Canvassed his idea of how to get construction in large cities done to rent at $3.00 to $8.50 per room.

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Peter Grimm

PG:hh

January 28, 1936

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY (Signed) Peter Grimm

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It is my judgment that the utmost care has been used in the study of this proposal and all the work done very thoroughly.

January 29, 1936

A meeting was held in the Secretary's office today at which were present the following: Secretary Dern, General Cox, Mr. Oliphant and Mr. Opper. Senator Fletcher came in shortly after the first named gentlemen appeared and he was followed shortly by Senator Adams. The conference was called to discuss the pending claim of the Philippine Government for reimbursement of losses sustained in connection with their gold deposits in banks of the United States at the time of devaluation.

Mr. Morgenthau invited the War Department to state its position and General Cox responded. He said, "There is nothing new in the equity of the claim. The actual situation of the Philippine Government is that they have the same volume of currency in circulation now that they had at the time the bill passed and so the immediate necessities of the appropriation in order to broaden their base, in case they should decide to expand in any way to meet business requirements, is not immediate because they have not expanded and have not taken up the question of trying to establish an independent currency which, I believe, we ought to try to prevent if it should come up, in which case they would be interested in getting their reserves out there."

"I have to do my studying right now," Mr. Morgenthau said. He read aloud Mr. Oliphant's memorandum of January 29, copy of which is attached. He said as he understood it, two years ago a bill was passed authorizing payment of about $23,000,000 to the Philippines and the question now is repeal of that bill. He inquired if there is any difference between the War Department and the Treasury as to the fact that the Philippine Government is entitled to their share of the devaluation and Mr. Oliphant said no; that we had approved that legislation two years ago. Secretary Dern said, "Yes; we had a conference. I contended at that time for more than we got, but agreed to split the difference." Mr. Oliphant explained that we gave the Philippines credit for the profit and then deducted the interest they had received on deposits on the theory that if they had kept their deposits here in gold they would not get any gold; therefore they would be completely compensated.

Mr. Morgenthau explained that McIntyre had called him up quite excited . He said, "I gathered we should have this meeting and sort of take the heat off the President. That's why I asked you gentlemen to come in first, so we could talk. I frankly don't know what Senator Fletcher and Senator Adams want. Do you know?" he asked Secretary Dern who replied "No." Mr. Opper said he thought he could clear up some part of that. He said, "Senator Adams feels that the original bill was recommended by the Committee and then passed by Congress on a misconception of the underlying facts. Now, a reading of the record does not indicate that that is true, but that's Senator Adams' position and that's the basis on which he introduced this legislation to kill the original bill and he has, up to now, insisted on a chance to prove that misconception by having hearings and bringing the whole thing out into the open." Mr. Morgenthau wanted to know why Adams is interested and Opper said he really did not know. Secretary Dern said he also wondered about the reason for Adams' interest. Mr. Oliphant turned to Opper and said, "Didn't Hester have any light on that?" and Opper's reply was, "No; except he felt that Adams was not entirely sympathetic with the Administration's gold policy and there is a possibility that he might be using this to bring out that position." Secretary Morgenthau was curious to know if Colorado beet sugar and Philippine sugar entered into the question and Secretary Dern he did not see how it could.

Opper expressed his opinion as follows: "There is only this possibility on that -- that any change in the relative value of the peso and the dollar, of course, would have given the Colorado beet sugar people an advantage over the Philippine importer. In other words, the peso is still tied to the dollar as much as it was before and my thought was either that Adams was simply stating his real position, viz: that this was $23,000,000 of the taxpayers' money that should not be paid out, or that he had some other motive in the way of questioning the entire gold policy. Now, in any event, it makes it possible for this hearing to develop in such a way that he can, in the tie-up between this Philippine legislation and the Government's fundamental position on gold clause causes which can, under unsympathetic questioning, become a very difficult situation, and, as I say, that is particular so in light of the original War Department memorandum."

Secretary Morgenthau inquired if the Treasury saw the War Department's memorandum before it went to the Committee and Mr. Oliphant stated, "As it developed, we did not. It went to the Budget and was sent back to the War Department with approval at the same time the Budget sent us a copy. The War Department assumed the budget cleared it here." Mr. Opper added, "And I may say that Col. Stockton was entirely cooperative. We think what happened after that, Senator Fletcher felt that since this measure was originally recommended by the President, but that happened two years ago, he wanted to find out what the President's position was at the present moment and that is the reason he got in touch with the White House and the reason, in turn, why the matter was referred to the Treasury for decision by the Secretary."

Secretary Dern said, "I suppose, in a broad way, we not only had our currency reserves but we were custodian of the Philippine reserves and there is a profit on the combined sums and they are entitled to their share." Secretary Morgenthau replied, "And we concurred with the War Department. Is there any reason why we should change our position?" Mr. Opper explained as follows: "There are only two things that have happened in the meantime. My personal feeling is they don't either affect the situation. (1) The Philippine Independence Act has passed which, to some extent, changes the relationship between the Philippines and the Federal Government and (2) that Congress, last year, adversely acted on the request for an appropriation. That is, up to that time we had the picture of Congress having authorized an appropriation and then nothing else being done. Last year, there was a specific adverse report on the appropriation, which might indicate a change of heart on the part of Congress. The Committee Report now bases it on the report that:

> "No evidence has been adduced or presented to the committee to show that the Philippines have in any way been injured or suffered any loss by reason of the action of the United States in changing the gold content of the United States dollar."

Mr. Dern then stated, "We want to avoid that. We want to say they made a profit and we are taking it away." According to Mr. Opper, "If Congress says, in effect, we only give the money to the Philippines unless it shows that they suffered a loss, I take it we don't want to show they suffered a loss." Mr. Oliphant was of the opinion that passage of the Philippine Independence Act "has really affected the merits. As Secretary Dern expressed it, we were custodian and the time to judge was at the time the profit accrued." General Cox pointed out that "Within the Independence Act itself, it is provided they cannot pass any legislation affecting their currency or coinage without approval of the President of the United States and, furthermore, that the President of the United States shall have power to prevent the taking effect of any law or contract of the Philippine Government which might impair currency reserves." Secretary Morgenthau stated as follows: "I would say that the fact that they are independent today makes no difference. After all, we were custodian of the gold. It it was right before Independence, it is even more so now." Secretary Dern agreed. Continuing, Secretary Morgenthau said, "Then I would say the Treasury and War are together. We think the thing should be paid and, rather than the bill be killed ..." Secretary Dern interrupted to say, "The bill to be killed would be Senator Adams' repeal bill, but the best way to kill it, from the standpoint of everybody concerned, would be by having him withdraw it rather than by having hearings and brought to the point where an examination of the War Department representative; for instance, the hearing could bring out this earlier report and the fact that at that time they took the position there was a loss."

Mr. Morgenthau inquired if the appropriation would be included in a Deficiency Bill and Opper replied, "As I understand it, we will not press it this year, unless the Philippine Government puts in a specific request; in other words, leave everything in status quo."

Secretary Dern and Secretary Morgenthau stated they both knew Senator Adams to the extent of having a speaking acquaintance with him. "Certainly," said Mr. Morgenthau, "on all this gold he is against the Administration. When I go up to testify on gold or monetary problems, he's always one of the persons who ask me embarrassing questions. Glass is not "1-2-3" with Adams when you get on this monetary stuff. I don't think he is particularly trained along these lines, but somebody always primes him."

At this point Senator Fletcher came in.

Secretary Morgenthau asked the Senator if he knew why Senator Adams is so interested in this bill. Senator Fletcher replied, "I don't know. He is a member of the Appropriations Committee and the bill carried $23,000,000 for this and he was a member of the sub-Committee to look after it and he inquired about it and his investigation resulted in his feeling that the appropriation ought not to be made. Then, if the appropriation should not be made, the law ought to be repealed. No need of having a statute authorizing an appropriation if you are not going to carry it out. So he introduced the bill authorizing repeal of the legislation and as he looked into it, the more evidence he saw that the appropriation should not be made and the bill should be repealed. That's the bill now up. The other is another Act authorizing the appropriation. They had Insular Affairs, War Department, and I remember the Treasury and the President all concurred in it, so we did not bother to have any hearing on the subject other than make inquiry. That's my recollection. There was quite a unanimity of approval all along the line, from the President on down, but they did have some hearings in the House on it. My clerk, Sparkman, said he was sending those hearings down, and they ought to have done that yesterday."

Continuing, Senator Fletcher said, "Adams' contention is that the Philippines are on a different footing from those people who held gold clause bonds; that there was no gold involved there, and I think the Government has some 50 suits now on the gold clause suits. The Philippines have not lost any money and, if they have not, they ought not to recover. The question is, Are you not getting into an inconsistent position when you say they are not entitled to recover and yet you recognize the claim of the Philippines? So that's the situation where I thought we ought to get matters straightened out. Adams feels that the President did not understand and perhaps the Departments did not understand what the facts were regarding this. He will go into that when he comes, but that's his claim -- that there is no basis for the allowance of this claim of $23,000,000. The Philippine Government management over there had to have silver, as I understand it, as their reserves. They were not required to have gold and did not have gold, and they deposited their funds over here in the banks of the United States, but they were not payable in gold and his claim is that they have not suffered any damage by devaluation of gold and there is no justification for this appropriation."

Secretary Dern inquired, "Were not all deposits in banks technically payable in gold?" Mr. Opper answered, "That was theoretically true of any depositor in any bank. Of course, the War Department takes the position that the Philippines had that theoretical right also, but when they asked permission to exercise it, the authorities here in the United States persuaded them not to do it. Whether it was something stronger than persuasion, it isn't necessary to determine, but I think that the War Department position." Secretary Morgenthau asked General Cox what Colonel Stockton's position was on this and General Cox replied, "He's with me; we are together on this." HM, Jr. wanted to know what Stockton's duties consisted of and General Cox explained that he is the officer in the office who deals essentially with financial matters of the Philippine Government. HM,Jr. told General Cox that the people around here are impressed with the ability of Colonel Stockton.

Senator Adams came in.

Senator Fletcher addressed himself to Senator Adams and said, "Now, if you will tell these gentlemen what your proposition is. I told them about your taking the matter up as a member of the Committee and your conclusion that the appropriation should not be made."

Senator Adams: "Now, the situation is this, gentlemen. Of course, I assume as our premises that we were interested in our own country primarily and we want to be just to the Philippines.

"Now, the Philippine Islands had on deposit in American banks $56,000,000 on January 31, 1934, at the time of the devaluation of the gold dollar. Now, the premise upon which the bill was passed -- and that was on the statements that were made -- that this fund in substance constituted a gold reserve; that it was there for gold reserve purposes, and the argument of the Philippine people was that the Federal Government had made $2,000,000,000 by devaluing the gold -- therefore, they were entitled to an equal profit on their deposits. Now, here's the argument back of that.

"The Philippine currency is a silver currency. The statement was made in the reports that underlay the original bill that the United States currency was interlocked with the Philippine currency. I don't think that was a correct statement. In the original statutes the only reference was this: that the gold dollar -- the American gold dollar -- should be legal tender in the Philippines as the equivalent of two pesos. If that interlocked our currency, you go back in our history and in the early days this country made the Spanish mill legal tender. We have had acts running over a period of 50 years making various foreign coins legal tender. There were a lot of intermediate steps, evidently for the convenience of the merchants and the business men, that they could take these silver pesos to the Philippine Treasury and have issued to them Treasury certificates -- that is, 100 pesos in silver and issue 100 peso silver certificate. Then the Act provided that the pesos put in the Treasury should be kept there for the purpose of redeeming certificates on demand. In other words, they established a paper currency based upon the actual deposit of silver coins. The certificates were redeemable in solver. They were essentially silver certificates. The Philippines did not have a gold currency.

"Subsequently, when the price of silver went up, the Philippine Government was embarrassed by the fact that the bullion value rose above the coin value and pesos began to go out of the Philippine Islands and were melted up. At one time they could not resist the temptation of selling some. They even sold some $15,000,000 in pesos to make a profit. Then they provided that they might -- that is, there was an Act of Congress -- that where there was a shortage of silver that, for temporary purposes, gold might be substituted for the silver coin evidencing these Treasury certificates, but always for the purpose of redemption of outstanding silver certificates. So there was always a coin base behind these certificates.

"Now, they had two funds. One was a specific redemption fund of peso for peso. Then they created what was called the "gold standard fund". I think that has been the cause of some misleading. Because of the term "gold standard" it was treated as a gold reserve or gold deposit. The statutory purpose of this fund was to maintain a parity between the theoretical gold peso and the silver peso. Certain money was deposited, provided by the sale of Philippine bonds, and this fund was created to maintain parity. There was very little occasion to use it, but the funds involved are these two funds, one for redemption of certificates, and the gold standard fund to maintain the parity between the silver peso and the gold peso.

"Now, the Philippines, back in 1906 or 1907, at a time when silver was going up at that time and the silver was going out of the country -- Congress authorized the Philippine Government to devalue the silver peso if they saw fit. The original silver peso contained 416 grains of metal as against our 412; in other words, the silver peso, which was practically a 50-cent piece, had more silver in it than our dollar had, both 9/10ths fine. Following this authorization, they devalued their silver peso 34%. They cut it down; roughly, it was 122 grains of silver they took out of it. So they were the first devaluers of coin.

"In the Statutes of Congress there is no authorization to deposit the treasury certificate fund in banks. My understanding is, of course, that the Acts of Congress are paramount; that authority of the Philippine legislature is subordinate to an Act of Congress. In other words, if an Act of Congress declares that a certain thing must be done, the Philippine Government may not vary from that. The Act of Congress said these deposits of coin should be used for redemption and for no other purpose and should be retained in coin. For one reason or another, I think this is the fair inference, along in 1919 or 1920 or 1921, it does not amount to much, there was some manipulation -- I gathered, some speculation -- perhaps things that would be justified by a harsher name -- and the Philippine banks lost a good deal of Philippine money and I think somebody suggested that maybe the American banks might be a safer place than the Philippines for a fund. In any event, in strict violation of the Acts of Congress anyhow, they opened in this country deposits. They took a substantial part of this treasury certificate fund and put it in American banks. They took a part of this gold standard fund and put it in American banks. They drew interest on that, which I think is the other explanation of it. Here they had idle accumulation of silver currency, earning nothing, and it was the day when banks were paying for deposits. They got as high as 3½% interest on this deposit of the Philippine funds. It ran from 2 to 3½%.

"Practically all of this money, with the exception of that in the Chase National Bank, was not subject to immediate withdrawal, but were time deposits. That ran on for 10 years and the Philippine Government collected $15,000,000 in interest on this fund. I think Mr. Oliphant can verify this: that deposits in banks establish a contract relation between debtor and creditor; in other words, the Philippine Government substantially loaned to the banks in this country and got interest on it, payable in legal currency of the United States, where the deposits were made. I don't think there is any escape from that.

"On the 15th of January, 1933, the President, by authority of Congress, impounded the gold in this country; required everyone, as of the first of May, to turn in his gold. In other words, you and I and no other citizen here or in the Philippines could obtain gold from the banks or any private business or corporation. Gold ceased to circulate."

Secretary Morgenthau asked permission of Senator Adams to interrupt for a moment. The Secretary said, "I am not an attorney. As I understand the thing, this is very important and there is a lot of money involved. I did not know until a few minutes ago just what your interest was and we just got this message that we should confer.

"As I understand it, in connection with your bill repealing this Act, the War Department filed a memorandum. As I understand it, the War Department has asked permission to withdraw that memorandum. That request, I don't believe, has been granted."

Senator Fletcher replied, "They made a report and after the report came to our committee it was sent around to the members of the committee. We subsequently asked for a further report, and I believe the War Department subsequently asked to withdraw that report. You can't withdraw something that has been filed and distributed, but you can amend. So I suggested they can do to suit themselves." Secretary Morgenthau inquiredif that had been done and General Cox said, "Yes; that has been done."

Secretary Morgenthau explained as follows, "After all, I was not prepared for a formal hearing, which would take, I imagine, several sessions. For us to answer would take several days." Senator Adams replied, "May I say this. The theory is this: that if there was a report or recommendation from any member of the Cabinet which was made upon a misunderstanding, there is no one as eager to correct it as the one who made it." Secretary Dern remarked, "Especially if it might embarrass the Government."

Senator Adams continued, "We don't want to cost the Government $23,000,000 and we don't want to embarrass the action on these gold suits."

Addressing himself to Senator Adams, Secretary Morgenthau said, "Let me explain for your confidential information. The War Department rightfully sent their report to the Bureau of the Budget and the Budget said, All right. Through some slip, the Budget did not refer it to the Treasury, so we never had a chance to see it. Our interest in the memorandum is the suits which are pending and that's why we are disturbed about it. I don't know whether the thing, as Senator Fletcher says, can be amended, but to go into it and do it justice it can't be done in half an hour. I want to ask you gentlemen whether you feel we should have a regular formal hearing, because the War Department and ourselves, prior to your coming here, felt that the Philippines were entitled to this money as the bill was passed. I did not prepare myself or set the time that this thing is worthy of, but I wondered how you two gentlemen think it could be treated and not rush it."

Senator Fletcher said, "Senator Adams made his remarks about the bill and the committee felt that they needed more light on this subject. They were not ready to pass on it just as it was. I think it was Secretary McAdoo who suggested that we set aside a time and have you gentlemen down there to tell us about it and that's why we set yesterday for a hearing, but Mr. Morgenthau asked that it be postponed."

Senator Adams stated his opinion as follows: "I think there has been a misunderstanding of the underlying premises, both in fact and of law. I wanted to get the story to you for the purpose of your further study." Mr. Oliphant thought that was a very helpful suggestion.

Continuing, Senator Adams said, "I was urging this point: that there was a certain state of law and finance reached when the President took gold out of circulation and availability. This claim which the Philippine Islands make is based on that which happened on the 31st of December, 1934. They say, be cause on that date the United States Government devalued its gold dollar and made a profit on its gold; therefore, they are entitled to a corresponding profit as of that date. Now on that date and from that time back until the 5th of April, 1933, they could not have had gold. They could not get gold. They are asking for a profit on something they could not have gotten. In other words, had they gotten their gold prior to the 5th of April and tucked it away in China or some place, they could have talked to us, but they could not from the 5th of April, 1933 until the date of devaluation, have gotten gold because the bank could not have paid it to them. They are saying that on this date in 1934 the Government made a profit on its gold; therefore, the Philippines were entitled to make a profit on what they thought was their gold and they did not have any gold and could not get any gold. What they had was bank deposits. In the United States on that same date there was $50,000,000,000 bank deposits. My state, my county, my school district, all had money in the banks; money they were saving up to pay gold obligations. The Philippines have argued to you and to others that they had gold obligations but this money was not available for those purposes. This money was tied down by statute for redemption of silver certificates and maintenance of parity. It was not a gold reserve. It was not gold. The statute of the Philippine Island specifically said that while you, under an emergency, exchange part of your certificates for gold, you cannot exchange more than 60%. Yet we have given them on the basis of 100% gold. The Philippine statutes limited their reserves to a certain amount. Their reserves were greatly in excess of the lawful amount. We have given them a profit on reserves they were not entitled to."

Secretary Dern told Senator Adams the following: "I guess you know that in 1932 they were apprehensive and asked to have the money drawn out of the bank and sent over to them and the Secretary of War, or somebody, told them not to do that; that they were entitled to gold and our Government talked them out of that." Senator Adams replied, "But we have a new economic order. But the Secretary of War, with all recognition of his authority, cannot override the statutes of Congress and the Philippines had the right to withdraw their money." Secretary Dern then said, "I understood he told them it would drag down a lot of big banks in this country." To which Senator Adams replied, "The only time they made a documentary request was after the President had impounded gold and it was impossible to get gold."

Secretary Morgenthau then suggested, "To save time, could our General Counsel's office re-examine this thing and then if they want any additional information, come and see you, and we will work closely with the War Department?" Senator Adams replied, "I really would like to go over with Mr. Oliphant and argue it back and forth with them. It came to my attention in the Appropriations Committee. This bill was not discussed in the Senate. It came in as a report from Carl Hayden; just said it was a moral and legal obligation, but nobody raised any question about it. Then it came to the Appropriations Committee and I happened to be chairman of that sub-committee and I asked why, and we had the Philippines representative come in and he prepared a brief and I studied the brief and I concluded they were not entitled to the money. I felt I owed some obligation to my Government. That's why I took it up."

When Secretary Morgenthau asked Senator Adams if this was a matter of hours or days and Senator Adams replied "Oh! a day or so.", the Secretary said, "We are trying this week to work with Justice and Agriculture, who are coming in at 11 o'clock, on the AAA matter. We will do whatever you say." He asked Mr. Oliphant if he could start on it Monday and Oliphant said it would help to have the balance of this week for AAA. Mr. Morgenthau told Senator Adams that Oliphant would get in touch with the Senator and meet with him at the Senator's convenience. Senator Adams asked Mr. Oliphant "not to approach it on the theory that you are defending a position you originally took," and Mr. Oliphant said, "I just want to say that I have every disposition, Mr. Secretary, to reapproach this question, re-examine it entirely on the merits, and give no weight to the fact that we have hitherto expressed ourselves in the face of this light on the subject."

This ended the meeting.

January 29, 1936

Ambassador Sze came in. He said, "From a private source I learn that K. P. Chen will come here to represent Soong"

He also told the Secretary, "Yesterday I got a message that they were transferring 20,000,000 United States dollars to the Federal Reserve Bank. Kung says that he is keeping nothing secret from Buck and, so far as their program is concerned, it is the same as his decrees issued on November 3."

The Ambassador then read the following three cables received from Dr. Kung, the Minister of Finance. One is dated January 26 and two are dated January 28.

Telegram No. 1, dated Shanghai, January 28, 1936.

We are transferring to-day to the Federal Reserve Bank about twenty million dollars in the United States currency.

Telegram No. 2, dated Shanghai, January 28, 1936.

We will commence to issue coins in nickel in February, in five-cent, ten-cent, and twenty-cent denominations, and coins in copper in half-cent and one-cent denominations.

We are still considering in regard to the issuance of coins in silver. But, in view of the uncertainty of the price of silver, we are not in the position to decide now as to the weight and fineness of these coins. Coins should have sufficient silver in order to avoid counterfeiting, but the silver contents of such coins should not be great enough to run the risk of melting or export when the price of silver rises.

If the present New York and London exchange rate rises further, then there will be the danger of speculators here to sell the United States currency to us in accordance with our official rate and buy from us exchange on London. We intend to stabilize through buying and selling exchange, in order to maintain the level adopted.

Telegram No. 3, dated Nanking, January 26, 1936.

Our monetary program is as outlined in my telegram of November 1, 1935, to you, and my statement and the decree of

November 3rd. We are striving to maintain an exchange stability at the present level and to provide a sound uniform currency throughout the country through improving the banking and coinage systems.

Replying to the inquiry of the Secretary of the Treasury, I beg to state that our principal difficulties are as follows:

1. We adopted a program to balance the budget in 18 months in order to avoid inflation, but are meeting serious difficulties on account of falling revenues and the impossibility of limiting expenditures materially under existing conditions. The deficit of last six months is 146 million dollars. Please see my last annual report for comparison. (Append hereunder the budget figures for the last six years, 1929-34).

YEARS	PAYMENTS	REVENUE	DEFICIT	PERCENTAGE OF DEFICIT TO PAYMENTS
1929	$412,000,000	$332,000,000	$80,000,000	19.4
1930	539,000,000	438,000,000	101,000,000	18.7
1931	714,000,000	497,000,000	217,000,000	30.3
1932	683,000,000	553,000,000	130,000,000	19.0
1933	645,000,000	559,000,000	86,000,000	13.3
1934	769,000,000	622,000,000	147,000,000	19.2

Although internal revenue has maintained fairly well, customs receipts are seriously low because of the disturbed international situation discouraging import commitment; also wholesale smuggling by the Japanese in North China; likewise temporary lower exchange discouraging importation. During the last three months the customs receipts are short of meeting charges thereon. Direct taxation is impracticable for appreciable revenue, and little more obtainable from indirect taxation.

The highest expenditures are for military and debt purposes. The former cannot be readily cut both because the so-called communism remains a serious threat in several regions and because we must be prepared to defend at any moment our national independence. Granting that in some regions the armies are too large, it is impossible to curtail them without funds to reorganize the force and to reform provincial finances. We did so in Szechwan with good result, but it cost over one hundred million and we have not resource to do likewise in other regions generally.

The present period is difficult because loan andindemnity payments are heavy through 1940, much reduced thereafter, and very little after 1948. It is probably impracticable to convert the foregoing obligations, but we are planning to reorganize internal loans by spreading the principal over longer periods of time since nearly sixty percent of them mature within the next five years. Conversion might save a maximum of 100 million dollars. However, the idea of conversion is meeting some opposition in the market even though it would strengthen the Government's financial position. We hope for foreign credit in order to support currency reform and to assist tiding over the budget difficulty, but this credit is improbable. We intend as far as possible to borrow from the public instead of from the banks as this is less likely to involve inflation. We also hope to obtain funds from the sale of a portion of the Central Bank of China shares, if the market conditions warrant. However, the present market is unsatisfactory. We also hope that the revenue will shortly improve.

The foregoing situation indicates why we proposed to defer the payment of the principal of the Reconstruction Finance Corportion and the Farm Credit Administration loans.

2. Because of the deficit and the international situation, the currency is susceptible to attack even though its reform was introduced under conditions which were technically favorable because of the relatively low exchange level and because the market had overbought foreign exchange. Our exchange reserves are not sufficiently large to ensure stability in the event of a prolonged attack. Morever, the reserve is largely in silver, and, apart from the fact that silver in vault is not directly useful in maintaining exchange, public confidence is impaired when the value of this silver depreciated one-third within a few weeks. I am very anxious to cooperate with the American Government about silver.

In addition to the above difficulties, the banking system needs strengthening even though we think we can continue avoid a major banking collapse. We are planning to reorganize the Central Bank of China with sixty percent private capital, thus making it more independent of the Government and enhancing public confidence. We are also planning stricter regulation of the commercial banking and the creation of a mortgage bank and rural development credit institutions. Other difficulties arise from the Japanese insistence that silver must not be moved from North China and their opposition to the circulation of the Central Bank of China notes there, thus hindering the full propress of the national monetary reform."

HM,Jr. told the Ambassador, "This is the most complete report they have given me so far." The Ambassador then told

HM,Jr. the following: "I told Kung that you want somebody who knows finance and can answer all of your questions and that you do not want a diplomat."

The Secretary then told Mr. Sze the following: "I think that your people have been remarkably successful in running their stabilization fund. It is the monetary thing that I am interested in, because I still believe that the only way we can help you is to strengthen your currency."

Ambassador Sze remarked to the Secretary, "The Chinese people have so few places to invest, that they therefore speculate in land and exchange."

HM,Jr. suggested the following to the Ambassador: "I think you might send them a cable stating I think it would be helpful to them if they put all this money in the Federal Reserve that they got from us for the silver which they sold us. I could then begin to do a little talking to the press. If, after you put the money in the Federal Reserve, I can say that we bought 50 million ouncesof silver and that every dollar of the 32 or 33 million dollars that we paid China is in the Federal Reserve, I think that this will help you. I think the Chinese have done remarkably well in administering their funds. I can begin to make these statements which will help you; that is, if you people want me to give out any statement."

Continuing, HM, Jr. said, "Every week-end I have communicated to Professor Buck just which way we were working, so that he could immediately pass this on to Soong if Soong wanted to go in the same direction. We got a cable back that the information we sent was most helpful. If Kung sends somebody who knows finance, I think he ought to be prepared to stay here for about six months.

"The foundation for your success now is a stable currency in China. That is my belief as an outsider. Please cable them that this is the first comprehensive, complete picture that I have ever gotten out of China."

The Ambassador told the Secretary that the Chinese had two sets of dies made up but had not decided which one to use. This proved to HM,Jr. that the Chinese were so indifferent as to their plans that they really did not have a definite program.

C O N F I D E N T I A L

PARAPHASE OF THREE TELEGRAMS RECEIVED BY MR. SAO-KE ALFRED SZE FROM DR. H. H. KUNG, MINISTER OF FINANCE

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January 25, 1936

Memorandum for Mrs. Friedman:

Please transmit the following Cable to Professor Buck:

"For confidential information of Soong. In past two days Treasury has been purchasing forward deliveries of U. S. dollars against offsetting sales of sterling. Morgenthau."

A. Lochhead
Technical Assistant.

AL:ek

January 29, 1936

Memorandum for Mrs. Friedman:

Please transmit the following by Cable to Professor Buck, Shanghai, China:

"For confidential information Soong large automobile manufacturing concern which ordinarily maintains position about twenty-five million dollars in foreign exchange has during the past two or three days been selling dollars and buying sterling and yen. Their operations largely account for weakness in the dollar. Yesterday we continued to purchase forward deliveries against sterling but with improvement in the dollar today no transactions were necessary. Morgenthau"

Archie Lochhead,
Technical Assistant.

AL:ek

January 29, 1936

Memorandum for Mrs. Friedman:

From: Archie Lochhead, Technical Assistant.

Please send the following message to Professor Buck, Shanghai, China:

"Your Cable January 29. Federal Reserve Bank New York required by by-laws to obtain consent their Board of Governors and Board of Governors of Federal Reserve Board before accepting any account, also certain routine regulations to be fulfilled. Understand these formalities now being carried out and everything should be in order within few days. For confidential information Soong dollars stronger against sterling this morning, later strength in sterling accounted for by special purchase of 1,300,000 pounds necessary by special agency Philippine Government to fulfill contract for redemption bonds entered into sometime ago. Have not found it necessary to intervene in market today. Morgenthau."

Memorandum Covering Purchases of About 1,350,000 pounds by Philippine Govt.

On January 28, Colonel Stockton of the Bureau of Insular Affairs, War Department, called to explain the transaction in exchange which it was necessary for his Department to handle for the Philippine Government. Their Department had received instructions from the Philippines to pay the Chase National Bank approximately $6,600,000 representing the contract price of certain Manilla Railway Company Bonds which the Philippine Government had agreed to purchase from a British syndicate at 80% par value. According to the contract, these funds were to be remitted by cable transfer to London, but if the exchange rate between the dollar and the pound sterling was higher than 4.94, the Philippine Government would have to pay an additional amount equal to the difference between the rate of 4.94 and the rate current at the time the transfer was made. Colonel Stockton appeared to feel that the Philippine Government had entered into a contract which gave all the advantages to the British interests and intimated that if the negotiation for the purchase of these bonds had been left with his Department that he could have secured the Bonds at about 70% of the par value in dollar terms and without any obligation to make good any loss in foreign exchange. However, he was only acting as an agent of the Philippine Government in carrying out their instructions and could only handle the transaction as best he could under the terms of the contract over which he had no control. He was disturbed over the possible cost to the Philippine Government of the additional rate to be paid for this large amount of exchange, especially as the British Syndicate, who was to receive the sterling, did not have to worry about price paid as this would be at the expense of the Philippine Government.

Under the circumstances he approached the Treasury Department to ascertain whether we had any sterling which we could offer to fill this order, or if there was any other way in which we could assist him in protecting the interests of his principals. It was suggested that as time was limited, it might be better for him to go to New York and discuss a possible plan with the Chase National Bank, which bank is the depository for this particular fund, as well as the agent of the British Syndicate, and would therefore be interested in both sides. Also suggested that he call on the Federal Reserve Bank of New York before taking any definite action and we would keep in contact with him through our direct wire to the Federal Reserve Bank.

The main difficulty in taking care of this order was the fact that the demand was for spot sterling, and the Treasury Department neither had balances in sterling nor gold abroad which could be sold to provide the necessary sterling.

After the Secretary discussed the question with Mr. Coolidge, Mr. Oliphant, and Mr. Lochhead, and in view of the fact that the Bank of England had intimated in a telephone conversation with the Federal Reserve Bank of New York that they would be willing to furnish spot sterling against gold upon our request, he decided that if the purchase of this amount of sterling exchange should cause an undue appreciation of sterling against the U. S. Dollar he would authorize the Federal Reserve Bank of New York to offer to furnish the Bank of England with an amount of gold against the sterling required.

In discussing this question with the Federal Reserve Bank, the question of the price at which we would offer this gold to the Bank of England was brought up. The Federal Reserve Bank felt that the gold should be offered to the Bank of England on approximately the same terms as prevailed in the London gold market. After allowing for the cost of transporting such gold from New York to London, this would mean, with the sterling level of about \$5.00, that the United States would receive less than \$35 an ounce plus 1/4 of 1%, which is the price at present set for sale of gold by the U. S. Treasury.

Another possible basis would be to offer the Bank of England gold at our regular price of \$35 per ounce plus 1/4 of 1% and ask them to name a price at which they would sell the equivalent sterling and if the offered price for sterling was agreeable to Colonel Stockton we would purchase sterling from the Bank of England and use it to fill his order.

The Secretary felt that we should not offer gold at less than our regular selling price, and as the exchange market on February 28 was practically a nominal one due to the holiday in England, it was decided to wait until the following morning, January 28, and see how the market opened before communicating with the Bank of England.

On January 29 the sterling market opened easier at 4.98 1/2 compared to the price of slightly over \$5.00 prevailing the day before, and as, at this price, no intervention by us would be necessary, it was decided that the Chase Bank, as agents for the Philippine Government and the British Syndicate, should endeavor to cover the sterling in the open market. During the course of the day they managed to cover a total of 650,000 pounds, although in doing so the price of sterling was forced up to \$5.00 per pound. Colonel Stockton decided to place a limit of \$5.00 per pound on this order and authorized the Chase Bank to hold over the completion of the contract to the following day if necessary.

On January 30 the sterling market opened at 5.00 3/8, and Colonel Stockton authorized the Chase Bank to purchase further sterling at this level. Up to 3:00 o'clock in the afternoon the Chase Bank was able to purchase 530,000 pounds, leaving a balance of 125,000 pounds still necessary to complete their order. The market for sterling became quite firm during the afternoon owing to further inventory rumors caused by statements made by Patman and Thomas during the day. Towards the close of the market the Chase Bank was able to obtain a remaining 125,000 pounds at about 5.00 5/8, thus completing their order. Colonel Stockton telephoned on his return to Washington and stated that the average price of the sterling purchased was about 5.00 1/8, and expressed his appreciation of the cooperation of the Treasury Department in carrying out this transaction.

January 30, 1936.

MEMORANDUM

SUBJECT: Meeting in the office of the Secretary of Agriculture, Thursday, January 30, 1936, at 11:30 A.M.

At a meeting in Secretary Morgenthau's office on Wednesday the Secretary had stated that the President desired to have him discuss with Secretary Wallace and Jesse Jones the question of what to do about the Commodity Credit loans on cotton, which are to mature on February 1st. He asked that, if Secretary Wallace had no objection, Stanley Reed be requested to sit in for the Department of Justice and Myers and Wells for the Farm Credit Administration, since they had had a great deal of experience handling cotton loans.

Those present at the meeting in the office of the Secretary of Agriculture Thursday morning were: Secretaries Morgenthau and Wallace, Chairman Jones, Solicitor General Reed, Governor Myers, Mr. Wells, Mr. Oscar Johnston, Mr. Milo R. Perkins, Assistant to Secretary Wallace, Mr. Paul Porter, Mr. Haas and Mr. Gaston.

Secretary Wallace explained that decision must be made as to whether the loans on cotton by the Commodity Credit Corporation, covering some 4,400,000 bales, would be extended for six months or some other period, or whether the Government would take over the cotton. It was explained that the loans were made at the rate of 12¢ a pound, but that interest and other charges which had accumulated made the Government's investment now about 13½¢ a pound, while the current market for spot cotton is below 12¢. Wallace added that Jesse Jones thought that it would be "nice to have the Government take over the cotton." Secretary Wallace suggested that some way might be found to make available funds from the thirty millions of Customs receipts appropriated last year to the Department of Agriculture and to use this money, perhaps to the extent of six or seven million dollars, to reduce the charges standing against the loan cotton so that it could be released to the farmers for sale at the original loan amount of 12¢ a pound. Oscar Johnston expressed the idea that it would be better to release the cotton to the farmers for sale at 12¢ than to have the Commodity Credit Corporation take it over, since the Government would be put to the expense of classifying and cataloging all the cotton for type before sales could be made. There were probably in excess of 600 types of cotton and it would be a long and expensive job. Johnston thought it would be actually beneficial to the market to sell a million or more bales before the Sao Paulo crop comes on the market, about the middle of May.

Jesse Jones made the point that it would not be necessary to classify all the cotton before starting sales and he suggested that we might either grant an extention of about two months, or let the loans remain over due, which would give a chance for Congress to take some action on Senator Smith's bill or other legislation. It was brought out that the Comptroller General had held that it would require an amendment to last year's act to make any of the Customs receipts fund available for the purpose the Department of Agriculture had in mind.

Secretary Morgenthau expressed very firmly the opinion that the only businesslike thing to do was for the Commodity Credit Corporation to foreclose on the cotton and take it over, otherwise there would be endless delay and repeated demands. Governor Myers' opinion was asked and he agreed with Secretary Morgenthau. Secretary Wallace then said that it appeared that the Treasury Department was for foreclosing on the cotton and so was the Farm Credit Administration and Chairman Jones. He thought the President also favored that, but the Department of Agriculture was opposed to that course. He wondered what would happen to their pool cotton. If C.C.C. was going to become owner of the loan cotton, he thought they ought to have the pool cotton too.

The matter was left in this position and the meeting adjourned.

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
WASHINGTON, D. C.

Dean

January 29, 1936

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

I am enclosing copy of a memorandum which I have today sent the Secretary of Agriculture. I wish to make it clear that the recommendations contained herein do not necessarily represent his point of view in every respect, although he has stated to me that he favors a policy which will avoid concentrated ownership of the loan cotton in a Government agency.

Secretary Wallace has not had the opportunity to go over these recommendations but I am passing on to you a copy of my memorandum to him with his knowledge and consent. Of course, you will have the opportunity to discuss this matter with him personally and I am submitting these recommendations to you in the hope that they might provide the basis of a discussion on probable alternatives to the foreclosure of these loans.

Sincerely yours,

Chester C. Davis.

Chester C. Davis,
Administrator.

Enclosure

January 29, 1936

MEMORANDUM TO THE SECRETARY

Dear Mr. Secretary:

I desire to place before you the consensus of opinion of those in the Agricultural Adjustment Administration who have been considering the problem with respect to the Commodity Credit Corporation cotton loans. These are recommendations in which I concur and am passing them on to you for your consideration.

Before reaching a conclusion upon this question, consideration should be given to the basic cotton situation. A relatively strong demand for cotton both for export and for domestic use has been experienced during the first several months of the current cotton year. Encouraged by the 1935 ten cent loan and payment plan, exports of American cotton since August 1, 1935 to January 24, 1936 total 3,902,182 bales as compared with 2,775,421 bales in the corresponding period of the previous year. Domestic mill consumption of American cotton is running an aggregate of 243,339 bales so far this year (August 1, 1935-January 1, 1936) above domestic consumption for the corresponding period of the previous year.

It was our hope that world consumption of American cotton for the current cotton year would equal or exceed 12,000,000 bales. It is now evident, however, that stocks of American cotton in trade channels together with the current crop will not be sufficient to supply a demand for 12,000,000 bales of American cotton. Therefore, in urging that the Commodity Credit Corporation loans be extended for a period of six months I wish to make it plain that I am not recommending that this cotton be held off the market. The extension of the loans for a period of six months should unquestionably be coupled with a liquidation policy which would result in making available to foreign and domestic consumers so much of this cotton for which there is a genuine demand and can be sold at current market levels.

It is apparent, therefore, that what difference may exist between those who are urging an extension of these loans for six months and those who urge that the Commodity Credit Corporation foreclose, is largely a difference in method. But this is an important difference and it is my firm conviction that the interests of the cotton producers as well as the Government would be best served by the policy which I am recommending.

I am assuming that there is complete agreement upon the fundamental fact that as much of these loan stocks should be liquidated as is possible before the next cotton crop begins to move. The advantages of an extension of these loans for a period of six months together with the development of an orderly liquidation program at the appropriate time may be summarized as follows:

(1) The cotton would remain in the hands of more than 500,000 producers who have obtained these loans. They would be in a position to market a substantial portion of this cotton with less market disturbance than if a single Governmental agency attempted to make sales in a similar volume. It is my belief that the pressure upon the market from sales of a large number of individuals throughout the Cotton Belt would be somewhat less than if a single agency undertook to market a similar amount of cotton.

(2) Hundreds of small factors, warehousemen and cotton merchants have serviced these loans with the expectancy that they will have the opportunity to market this cotton when it is liquidated. Under a program permitting individual producers to liquidate their cotton, this group would be in a position to offer a merchandising service which would probably be more effective and certainly economically more desirable than if a Government agency assumed the task of liquidation. If the Government attempted to liquidate this cotton on any competitive basis, it is evident that three or four large firms, because of superior financial resources and greater facilities, would have a virtual monopoly on such business.

(3) A sales program which would permit producers to market this cotton would, at current market levels, involve concessions to these producers. There is a difference of 1.90 cents between the loan value plus carrying charges and the current market price, basis 7/8" middling. This assumes 13.50 cents as the loan value, including carrying charges and 11.60 cents which was the average of the ten spot markets January 28. If a plan were adopted which provided that those producers who liquidated their loans by July 31, 1936, would obtain full acquittance at the current base prices, and if 1,000,000 bales of cotton were marketed under such a program, the cost would not exceed $9,500,000. We are advised that the carrying charges of the Commodity Credit Corporation on the entire stock of cotton approximate $22,000,000 per year. It is therefore our belief that more cotton can be liquidated during the next five months under such a plan than if the Government forecloses these loans. Ultimately a portion of the cost of such an operation would be absorbed by reducing stocks to a greater extent, thus reducing the charges accruing from carrying this cotton.

(4) While it can not be assumed that failure to extend these loans would have drastic market reaction, it is probable that foreclosure by the Government would intensify current uncertainty. This uncertainty already is exerting an adverse influence on textile activity, perhaps retarding exports to some degree, and certainly intensifying hand-to-mouth buying by both foreign and domestic consumers because of their apprehension over the policy of the Government with respect to this cotton.

There are other advantages which might be enumerated. But these are the principal reasons for urging an extension of these loans for a period of six months and the adoption of a plan which would permit producers themselves to dispose of this cotton.

Some of the disadvantages of foreclosing these loans include:

(1) If the Government took title to these stocks of cotton, it probably would involve the creation of a sales agency of great magnitude. This would be undesirable from many points of view as it would certainly involve the Government in competition with private enterprise or, in any event, deny small factors and merchants a legitimate opportunity to merchandise this cotton.

(2) If producers are deprived of nominal ownership, the Government would face many difficulties in the adoption of any program of liquidation. Our experience with the Cotton Producers' Pool has amply demonstrated the great advantages of a large number of cotton farmers having an equity in cotton controlled by a Government agency. It is doubtful if the Cotton Pool could have liquidated the 1,000,000 bales of cotton they have sold during the last two years if the Government had owned this cotton outright. It is, therefore, reasonable to conclude that with complete ownership and control by the Government it would not be possible to liquidate as much of this cotton as if at least nominal ownership remained in the hands of more than 500,000 cotton farmers.

(3) It has been assumed by the majority of producers that a further extension of these loans would be granted. Preliminary estimates, subject to revision, indicate that of the total stocks of cotton, probably 3,000,000 bales command some premiums because of superior grade and staple. Should the Government now take title to this cotton, the majority of these producers might conclude that they did not receive adequate notice of foreclosure and would resent such action.

In conclusion, I wish to advise that on December 13, 1935, a submission was made to the Comptroller General requesting authority to use funds appropriated by Section 32 of Public No. 320, 74th Congress, for the purpose of indemnifying the Commodity Credit Corporation against losses incurred by the reason of the waiving of carrying charges against this cotton. At that time, we had hoped to develop a program of orderly liquidation of a portion of these loan stocks by producers and were willing to utilize these funds for indemnifying the Commodity Credit Corporation. The Comptroller General ruled that under the existing statute funds could not be used for this purpose. I am, however, willing to join in a recommendation that amendatory legislation be obtained which would permit the use of these funds for that purpose. I therefore recommend the following:

(1) That Commodity Credit Corporation immediately announce an extension of the twelve cent loan for a period of six months, but that the announcement be phrased in such a way as would not preclude the adoption of an orderly sales program by which the producers themselves would market this cotton.

(2) That appropriate amendments be drafted which will permit the Secretary of Agriculture to use so much as is necessary of the funds appropriated by Section 32 to indemnify the Commodity Credit Corporation against losses they would incur under such a sales program.

It should be noted that such an amendment would not be in conflict with the President's recommendation in the Budget message that this statute be repealed. The amendment would take the form of an authorization for the use of an existing appropriation for a specific purpose. There remains approximately $30,000,000 unallocated from this fund.

(3) That representatives of the Department of Agriculture and the Commodity Credit Corporation develop immediately details of a plan which would offer a small inducement to producers who would liquidate their cotton before July 31, 1936.

For the foregoing recommendations to be effective such a plan should be put into operation as early as possible and not later than March 15, 1936.

Respectfully submitted,

Administrator.

MEMORANDUM:

January 30, 1936

At a White House conference from 2 to 3:45 today, attended by the Secretary of the Treasury, the Attorney General, the Secretary of Agriculture, the Solicitor General, Mr. Prew Savoy, in the office of the Solicitor of Agriculture, and myself:

(1) The President outlined the injustice of allowing impounded funds to be retained, and the Attorney General said all three Departments agreed that we should have legislation reaching these funds.

(2) The discussion then passed to the relative merits of the annual occupational tax drafted by the Treasury and of a special income tax championed by Justice and favored by Agriculture, which, it was claimed, would reach not only the impounded funds but also fees in the hands of lawyers. This discussion closed with the President asking the Departments to get together on one or the other--he didn't care which. The Treasury stated that it had fully presented its point of view and deemed the matter the responsibility of the Department of Justice.

(3) The discussion then moved to the wisdom of reenacting the processing taxes at all, with Wallace favoring reenactment because the farmer would not want to be permanently in the position of receiving a dole from general taxation. Neither the Attorney General nor the Solicitor General expressed an opinion. When it was pointed out that reimposition would raise the price of bread, the President asked the Secretary of the Treasury what alternative he had in mind, at which point Mr. Morgenthau handed the President the attached document. The President read it aloud in full and there was a general expression of admiration.

(4) The President's final instructions were that Doughton and Harrison be talked to confidentially on the basis of:

(a) a special income tax to reach the impounded funds and lawyers fees;

(b) to provide for the new program and for the bonus by:
1. reenacting of processing taxes yielding $350,000,000;
2. selecting from the Treasury list one or more taxes yielding $300,000,000.

(5) Mr. Morgenthau mentioned Helvering's embarrassment with the tobacco, potato and cotton acts. The President said he would send down tomorrow a two-sentence message requesting their immediate repeal if the three Departments would draft it. It was drafted in the President's ante-room.

(6) In the President's ante-room, it was agreed that we should all meet on the general tax matter at the office of the Secretary of the Treasury, Monday at 11 o'clock.

HO

Possible Tax Measures to Contribute
toward AAA and Bonus Requirements

1. Broadly speaking, there are three types of taxes whereby Federal revenues may be significantly increased: (1) Consumption taxes, such as the liquor, tobacco, processing, sales and manufacturers' excise taxes; (2) individual income, gift, and death taxes; and (3) taxes on business profits. The Revenue Act of 1935 added to the taxes on business profits, through the increased rates applied to corporation incomes, excess profits, and capital stock; and it raised the rates applicable to very large incomes and estates.

2. In the light of the aggregate tax structure of the country, the imposition of additional consumption taxes by the Federal Government appears to be open to grave objection:

(a) The bulk of such taxes falls upon the lower income groups of our population. In the fiscal year 1935, 55 percent of the Federal tax revenues, exclusive of processing taxes, was derived from consumption taxes; and 61 percent, if processing taxes be included.

(b) State and local governments are increasingly turning to this type of tax. They face grave administrative, competitive and economic difficulties in attempts to apply income, death and profits taxes on a State or local basis. Twenty-five States are now collecting general sales taxes, from which their aggregate revenues are expected to reach $350 millions during the fiscal year 1936. In addition, various local governments, such as New York City, are imposing sales and excise taxes of varying scope.

(c) Further Federal excursions in this field will not only add directly to the tax burdens of the lower income group — burdens which are real, though indirect —, but they will further complicate the problems of overlapping and conflicting taxation.

(d) At first blush, it might seem that a Federal manufacturers' excise tax confined to articles selling for more than $100 might escape most of these criticisms by constituting a kind of luxury tax. But analysis shows that such a tax would fall mainly upon durable consumers goods and industrial machinery and business equipment. Among such articles would be farm implements, household furniture and equipment, including refrigerators, radios, pianos, some plumbing fixtures and heating plants; and a large range of industrial machinery and office appliances. Luxury goods, such as expensive clothing and furniture.

would be relatively unimportant. Severe administrative difficulties, moreover, are involved in any general manufacturers' excise tax based upon sales price. Divisible articles could be sold separately to avoid the tax. To take an extreme and unimportant example, a tailor-made suit, selling for $125, could be sold as a coat, a vest, and a pair of pants.

(e) Finally, the Social Security payroll and income taxes that go into effect during the current and succeeding fiscal years will be borne most largely by the lower income groups through higher prices and lower wages. Federal receipts from these and related taxes are estimated at $547 millions in the year beginning July 1, 1936.

For all these reasons, the wisdom of reenacting the processing taxes, or enacting other indirect or consumption taxes is extremely doubtful.

3. Contrasting very favorably with additional consumption taxes, are the following relatively simple adjustments in the existing general tax structure. None of the suggestions outlined below is a tax on business. None can be passed on in the form of higher prices to consumers or lower wages to workers. None reduces corporate profits. Each becomes effective only after substantial individual incomes are earned, or accumulated wealth has been received by bequest or gift. These suggestions also possess the fundamental merit of improving not only our income and estate taxes as such, but of improving both the Federal and the aggregate national tax structure as a whole.

I. Elimination of the present exemption of dividends from the normal Federal income tax. Estimated yield, fiscal year 1937: $87.6 millions.

Dividends received by individuals are now exempt from the 4 percent normal tax applicable to wages, salaries, interest and other parts of individual incomes. The original justification for this exemption was that stockholders pay the normal tax on dividends indirectly through the corporation income tax. In recent years, however, there has been a strong tendency to regard the corporation income tax as a tax for the license or privilege of doing business. In line with this view, there would seem to be little reason for exempting dividends from the normal tax applicable to other parts of an individual's income.

II. Restriction of deductions for personal exemption and credits for dependents to normal tax liability, disallowing these exemptions and credits as deductions from surtaxable net income. Estimated yield, fiscal year 1937: $93.7 millions.

This was the practice prior to the Revenue Act of 1934. When these exemptions and credits are allowed for the purpose of determining liability for surtaxes, their effect is to grant much greater relief to recipients of large incomes subject to the higher surtax rates than to those of small incomes. When the exemptions and credits are allowable only in connection with normal tax liability, their value is the same for all taxpayers.

III. Imposition of a special surtax of 10 percent on all unearned income received by individuals reporting net incomes of $10,000 or more; no additional tax to be imposed on the first $10,000 of income, however. Estimated yield, fiscal year 1937: $283.5 millions.

Under the present revenue act, "earned income" is defined as all compensation received in payment of personal services, up to a maximum of $14,000; except that no more than 20 percent of the profits of an individual's business enterprise or that derived from a partnership shall be accounted as earned; except, further, that the first $3,000 of all income is accounted as earned in any case. The present proposal would retain these definitions of earned income, except that, for purposes of this surtax, the first $10,000 of all income would be accounted "earned" in any case. The proposed special surtax would apply, therefore, only to the "unearned" portions, as thus defined, of an individual's income. The effect of this proposal would be to supplement the present relatively small difference in the rates applicable to unearned as against earned income.

IV. Alteration of present specific exemption of $40,000 allowed in computing estate taxes so as to retain this exemption in full for estates of $40,000 or less, to reduce it gradually for estates between $40,000 and $80,000, and so as to eliminate it completely for estates in excess of $80,000. Estimated increase in revenue, fiscal year 1937: $31 millions; thereafter, at present values, $53.1 millions.

The present specific exemption of $40,000 gives much greater relief to recipients of large estates which are subject to higher rates than to those of small estates. The effect of the proposed alteration would be to retain the exemption in full for small estates and to eliminate it for estates in excess of $80,000. Great Britain grants no specific exemption whatsoever to estates of more than $500; as compared with the elimination of the exemption at $80,000 in the present proposal.

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V. The imposition of tax rates identical with those of the individual income tax laws upon all inheritances and gifts received by any individual, except that the first $40,000 of each inheritance or gift would be exempted from tax by means of a tax credit against the tax equal to $6,720. Estimated yield, fiscal year 1937: $325 millions.

VI. Tax on the use of yachts and other vessels. Estimated yield, fiscal year 1937: $4.5 millions.

> It would appear to be equitable and advisable to impose a small tonnage tax of ten cents per gross ton on vessels engaged in domestic trade, to establish the principle that such vessels should contribute to the cost of improvements and maintenance of harbors and waterways. Yachts and other pleasure boats, including inboard and outboard motor boats, and such sailboats as are in excess of 16 feet in length, should likewise bear their share of the cost of river and harbor maintenance. The tax on these classes of boats may well be $2 per gross ton on yachts of 16 gross tons or more; and flat amounts ranging from $5 to $30, according to over-all length, on yachts under 16 gross tons.

All of the revenue estimates contained herein are based upon the estimated tax liability under each of the proposals for the calendar years 1935 and 1936; receipts during the fiscal year 1937 being determined by tax liability arising from the operations of these years. Hence, the estimated revenues will be received during the fiscal year 1937 only if these proposals were made applicable to the calendar year 1935 as well as the calendar year 1936.

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Thursday
January 30, 1936

HM,Jr: Hello

Stewart McDonald: Hello, Mr. Secretary

HM,Jr: Stewart McDonald?

McD: Yes

HM,Jr: Morgenthau -

McD: Yes, sir

HM,Jr: Now, look - just so that we keep our records straight between our shops, see? I've had a talk with Peter Grimm, see?

McD: Yes

HM,Jr: And from now on I don't want to share any responsibility with you as to whether these big projects should or should not go through. I have a particular one in mind - this one that Judge Manton's -

McD: Yes

HM,Jr: Now, we can't share that responsibility with you, see?

McD: Well, you don't want me to ask Peter about that?

HM,Jr: No, I just told him that.

McD: I see. Well, I was using him because we had a good deal of confidence in your judgment - you know -

HM,Jr: No, no, that's your responsibility and we can't share it with you. If you go wrong we'll jump on you with both feet.

McD: Yes (Laughter)

HM,Jr: But, but you have to take the initiative and responsibility.

McD: All right, Mr. Secretary, I'll do that.

HM,Jr: We can't, in the Treasury here, do that any more.

146 B

MCD: All right, I'll see that we don't bother you.

HM,Jr: And - oh, it isn't that, but I - I don't want to - I feel that our job is - get the money for you fellows, give you technical assistance if you want it, but when it comes to passing on individual loans - I don't think that's our function.

McD: All right, sir

HM,Jr: Thank you

McD: Thank you, very much.

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THE SECRETARY OF THE INTERIOR

WASHINGTON

January 31, 1936

My dear Mr. Grimm:

I understand that there is a new series of "Grimm's Fairy Tales" going the rounds in Washington, although not in written form. These stories are highly fanciful and I only wish that the imagination that gives birth to them were not so jaundiced.

I really feel flattered that I am able to supply you with an absorbing topic for your dinner conversations. I know how difficult it is at times to make oneself interesting on such occasions if one has to rely upon his own resources, but there is always the risk that the subject of your gossip may decide no longer to treat it as a joke. This, quite aside from the patent disloyalty to the Administration that is involved.

Very truly yours,

(signed) HAROLD L. ICKES

Mr. Peter Grimm,
Special Assistant to
the Secretary of the Treasury,
Washington, D. C.

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February 3, 1936

My dear Mr. Ickes:

I am much upset by your letter. I am shocked that you should have believed, and evidently completely believed, tales that were carried to you of statements accredited to me.

Let me first say on my honor that I have made no reference to you that I could not without embarrassment say directly to you. I would not presume to discuss you and your policies in any other way, for I respect too highly your great office and yourself for the selfless and altogether wholehearted way in which you have administered it.

My office here is an extremely difficult one and there must be some who wish to make it even more difficult. They are those who have evidently attributed statements to me which I affirm are false.

I have observed your work and read your public statements with deepest interest and if opportunity would but afford it, I could and would like to work with you toward the ends which you are serving.

Sincerely yours,

Honorable Harold L. Ickes,
Department of the Interior,
Washington, D. C.

PG:hh