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- 1. Buy newly mined silver at a daily price giving time to deliver to United States Assay Office
- 2. Possible conference: United States, Mexico, and Canada; task of sounding out Canada left to Mexico
- 3. Mexico's monetary reserve: United States buying dependent on encouraging use of silver peso in Mexico
- 4. Dollar exchange

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- 1. Graves memorandum attached (page 319)
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- a) Six meetings with FDR, Ickes, and Hopkins: Ickes never speaking and Hopkins talking of employing people on relief rolls
- b) Ickes and Hopkins were supposed to present projects and HMJr say whether they could be financed
- c) Projects so fantastic, Peoples asked to analyze them
 - 1. Ickes' housing projects in Atlanta and Boston, 28% direct labor
 - 2. Hopkins' vary from 30% to 40% direct labor
 - 3. None up to qualifications of real low-cost housing
 - 4. Only project developed was Transcontinental Highway
- d) FDR's position reviewed and analyzed
- e) HMJr again wants facts faced squarely; deficit for fiscal year will be \$3 billion (D. W. Bell); HMJr thinks of caring for unemployment by increasing it to \$4 billion and then tapering off deficit each fiscal year
- f) HMJr wants to pick one person to run complete work program and then work out program; FDR wants program first

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HMJr tells Peoples he plans to suggest to FDR that engineering staff of Procurement and Bell's field organization check up on a few projects in all of 48 states to see if payrolls are padded; Hopkins' representative to be taken along; to be done in name of Director of Budget 12/15/35.....	55
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Dictated December 13th

Had lunch with the President yesterday. He told me that Chester Davis and Oscar Johnston were both thinking of resigning in order to go back into business. He asked me if I thought he could afford to let them go. I told him he certainly ought to try to keep Chester Davis; that I was in touch with him recently on cotton. He said, "that is fine. You know Bernard Baruch was here last night and said that if you can keep the commodity prices up until after Election it will do more to elect Roosevelt than anything else".

FDR then asked me from now on to work very closely with Chester Davis and to watch the commodity prices for FDR the way I used to. He certainly seems to have lots of confidence in me and I took it as a distinct complement.

I told him in regard to Oscar Johnston that Henry Wallace had told me, in strict confidence, that Johnston's government cotton accounts were in terrible shape; that while Henry Wallace did not think there was anything crooked still if they had a Congressional investigation some of Oscar Johnston's operations would be difficult to explain. This was all news to the President.

I then told him that Judge Hoyt had been in to see me and that he expected to resign and the President seemed to know this. I told him it was just as well to let him go while he was in a good humor and he agreed. I said that I hoped that either FACA would be taken out of the Treasury or that we would be given complete control of it and make a bureau out of it. The President said he did not want to see FACA made into a bureau in the Treasury. He wanted to know whether I had any suggestions as a successor to Hoyt and I said I had none but to please not make Willingham his successor. He agreed he would not.

We then got on the NRA. I told him that Buchanan was ready to blow the roof off and unless something was done he was going to be attacked from the Hill. He told me that Cliff Woodrum had called him up and complained about the salary increases in NRA. I got him all prepared so that when Bell and Martin, the Acting Director of NRA, came in the President agreed to sign the letter laying off 1167 employees the first of January rather than January 15th, as suggested by Martin. He agreed to a publicity story for Monday.

The President thought the suggestion of transferring all of NRA to the Department of Commerce on January 1st was good and expressed keen interest in continuing the consumers work of NRA and liked the suggestion of transferring that to Labor. He said he would discuss this part of the program with Roper, Perkins

and Berry. I told him he ought to do it next week and get it out of the way before Congress met. I am going to follow it up on Monday.

I suggested that I bring Coolidge to the meeting on Monday afternoon when we will discuss relief expenditures and told him how Coolidge was feeling these days. He did not want to see Coolidge but agreed to see Bell and myself at 9:15 Monday morning in order to have a dress rehearsal on the relief expenditures in advance of the meeting Monday afternoon.

Mr. J. ... will be ... Mr. ...
... to continue the negotiations ...
... Mr. ...
... of the investigation, ...
... in Washington ...
... in the ...
... relations with the Treasury. ...
... by the Treasury Department ...

Today the District Supreme Court ...
... Chief of the ...
... and ...
... was also ...
... of the year ...

Mr. J. ... wrote Mr. ...
... to the attention of the ...
... 1920 ...
... of ...
... expressed ...

December 13, 1935

On November 27, 1934, HM, Jr. announced to the newspaper men that he had received information from Thomas L. McCarter, President of the New Jersey Public Service Corporation and also of the Edison Electric Institute, that a proposal had been made to him in connection with a pending \$150,000 tax item to the effect that a tax consultant, because of influence within the Internal Revenue Department, could "fix" it if Mr. McCarter would promise 20% of the amount saved.

HM, Jr. said he had asked Mr. McCarter's cooperation and urged him to continue his negotiations and an immediate investigation would be started. Mr. McCarter willingly did this. As a result of the investigation, two Internal Revenue men at headquarters here in Washington were dismissed and two agents in New York faced dismissal. The tax consultants were barred from further relations with the Treasury. Criminal proceedings were begun by the Treasury Department against the employees involved.

Today the District Supreme Court convicted John W. Hardgrove, Assistant Chief of the Conference Section, Internal Revenue Unit, and Henning R. Nelson, an auditor. Frank P. McElhill, the tax consultant was also convicted. The three men face maximum sentences of two years each and fines of \$10,000.

HM, Jr. today wrote Mr. McCarter commending him for his attitude in having brought this matter to the attention of the Government. Copy is attached. (See Exhibit I.) Under date of December 16, Mr. McCarter replied to the Secretary, expressing his appreciation of the Secretary's letter. (See Exhibit II.)

Exhibit No. I⁴

C
O
P
Y

December 13, 1935

Mr. Thomas N. McCarter,
Rumson, New Jersey.

Dear Mr. McCarter:

I wish to express, personally as well as officially, my sincere appreciation of the service you have rendered to the Government and the people of the United States in furnishing the information which has brought about the conviction of two employees of the Bureau of Internal Revenue of the Treasury Department and a tax consultant on charges of conspiracy to defraud the Government.

An unscrupulous man might have taken advantage of an opportunity to defraud the Treasury; an upright man might simply have refused to have anything to do with the proposal. Only a man with a high sense of public duty would have taken prompt steps, as you did, to expose the fraud without regard to the cost and inconvenience to himself that might ensue.

While it is disheartening to learn of dishonesty in the Government service, it is highly encouraging to be able to obtain the kind of cooperation that you have given voluntarily in exposing it. You have set an example for which you deserve great praise and a feeling of satisfaction in a public duty well performed.

Yours very truly,

(Sgd) H. Morgenthau, Jr.

Secretary of the Treasury

HEG:rah

Exhibit no. 511.

C
O
P
Y

RUMSONHILL
RUMSON, NEW JERSEY

December 16, 1935

My dear Mr. Secretary:

I acknowledge, with thanks and appreciation, the receipt of your letter, commending my action in bringing to the attention of the Government, the attempt to interest me in an improper negotiation affecting my income taxes for the year 1932. What I did, I thought it was clearly my duty to do, and I am glad if I have been of assistance in putting a stop to a conspiracy that might have had very serious results for the Government.

Very truly yours,

(Signed) Thomas N. McCarter

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

December 13, 1935.
Friday

6

Chester
Davis: Gee, it's fine today, isn't it?

H.M.Jr.: Yes - I suppose on a market like this you sell a little, don't you?

D.: - We won't let go until it gets eleven seventy-five on the new.

H.M.Jr.: Eleven seventy-five on the new?

D.: Yes

H.M.Jr.: How much you got - how much have you got left of that old stuff that I sold you, anyway?

D.: -Six hundred thousand bales of spot.

H.M.Jr.: Six hundred thousand bales of spot?

D.: Now, you see we took against the sales -

H.M.Jr.: Yes

D.: - approximately sixteen hundred thousand bales of futures.

H.M.Jr.: How much?

D.: About a million six - I could give you those exact figures with a little checking up.

H.M.Jr.: Would you mind sending them over - mark them 'Confidential'?

D.: Yes, I'll send them over and mark them 'Confidential'. Now, here's what we've been doing, you see, while the producers are selling off their this year's crop -

H.M.Jr.: Yes

D.: And there are ten cent loan arrangements -

H.M.Jr.; Yes

D.: That is in the differential payment. We haven't been selling any more spots out of the pool.

H.M.Jr.: Oh -

D.: We're going to resume it - now this is very confidential - but of course after it's moved out of the

D.: hands of producers then we want to start resuming selling spot.

H.M. Jr.: Yes

D.: But we have been doing this - you know we haven't made any announcement about it -

H.M. Jr.: No

D.: And we haven't told anybody about it - that as the market has justified during the last two months -

H.M. Jr.: Yes

D.: - we are going to have them sold - been selling gradually out of our futures without replacing them.

H.M. Jr.: Well, Henry told me you were doing that.

D.: Yes, we wanted to ease them up but we discontinued that on the market price.

H.M. Jr.: Oh -

D.: - the other day and we haven't been selling any.

H.M. Jr.: Yes

D.: we'll come to the - we do have a line of January - so we've got time on that and -

H.M. Jr.: Well, what did - I'd love to have just a picture - what you've got in the way of cotton and so forth -

D.: What you want to know is - the - ?

H.M. Jr.: The situation.

D.: The exact situation of our - on the futures market?

H.M. Jr.: And what you've been doing the last month or two.

D.: Spot - and what we've been doing?

H.M. Jr.: The last month or two.

D.: Yes. - My men are both out -

H.M. Jr.: Well, there's no hurry. If I have it Monday -

D.: All right, I'll get right at it.

H.M.Jr.: And just make a note when you send those things over so mark them in the corner, - 'For Mrs. Klotz'.

D.: I'll do that.

H.M.Jr.: Then - then they come right to her office, it's next to mine. And otherwise they go all over the Treasury.

D.: I don't want this - now this is extremely confidential information.

H.M.Jr.: Now, look -

D.: Yes

H.M.Jr.: It's in my office and the only person I'll discuss it with except Wallace and you is the President.

D.: Well, that's fine. I want you to have it then.

H.M.Jr.: See?

D.: Yes

H.M.Jr.: And - this - I mean, when I say that -

D.: I know it, I -

H.M.Jr.: Yes, but outside of you and Henry and the President I won't discuss it with anybody.

D.: And I'll get the informa -

H.M.Jr.: But I - I just - I'm watching this whole thing and - well, there are times when we might be able to help you too.

D.: Well, that's what was going through my mind -

H.M.Jr.: They -

D.: I'm very anxious to have you in possession of all these facts -

H.M.Jr.: See?

D.: - because I'm advocating what I think is the only

D.: sensible course with respect to this loan cotton and the pool cotton.

H.M.Jr.: And that is to sell it when you can?

D.: Yes, sir, and begin liquidation -

H.M.Jr.: Well, I'm with you.

D.: We've got a chance to get rid of a million bales, I think, this year of that loan cotton -

H.M.Jr.: Wonderful -

D.: - in addition to liquidating our pool. Now, I think we've got that opportunity.

H.M.Jr.: Well, you know, we had that chance, when I was in Farm Credit, through March, April and May of thirty-three.

D.: Yes

H.M.Jr.: And I just sold my head off.

D.: Yes

H.M.Jr.: And we cleaned house.

D.: Yes, that's what we've got to do.

H.M.Jr.: And now, if - if you're going to have a good market, I think - take advantage of it.

D.: Well that's what I think.

H.M.Jr.: And I went all through that - we sold and liquidated all the groceries that we inherited from the Farm Board in that three months.

D.: Yes

H.M.Jr.: And what we didn't sell to the public we sold you.

D.: What I want to do is to have your help and we need to talk to the President -

H.M.Jr.: Fine

D.: - because the cotton Senators, you know, they're - they're just going to be down here just raising hell.

H.M.Jr.: Well, I'd like to work with you and if - if I - if

you give me the facts and I don't understand, then
let's you and I sit down and you explain it to me.

Fine

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

D.: All right.

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

December 14, 1935

PERSONAL AND CONFIDENTIAL

MEMORANDUM FOR HON. HENRY A MORGENTHAU
Secretary of the Treasury

Dear Secretary Morgenthau:

In accordance with our telephone conversation yesterday, I am forwarding for your personal and confidential information a statement regarding the cotton holdings of the Agricultural Adjustment Administration and the Commodity Credit Corporation.

The Cotton Pool of the Agricultural Adjustment Administration holds 627,920 five hundred pound bales of actual cotton, valued on today's market at 12.01 cents. There has been sold during the past thirty days 83 bales of spot cotton, the sales being made at an average price of 11.94 cents.

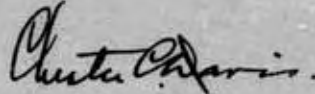
The Cotton Pool of the Agricultural Adjustment Administration also holds 900,100 bales of futures contracts distributed in various trading months in the New York and New Orleans cotton exchanges. On November 11, 1935, the Pool held futures contracts for 980,800 bales. Since that time there has been sold, and not replaced, 80,700 bales of January contracts at an average price of 11.7973 cents. The cost of the contracts now held by the Pool, reduced to a basis of December New York contracts, is 11.16 cents. December contracts closed yesterday at 11.60 cents, indicating a gain in present holdings of 44 points. This does not mean that the entire Pool transactions in futures will show gains, as there have been losses in previous transactions and expenses incurred in the payment of brokerage fees.

In addition, the Commodity Credit Corporation has outstanding loans at the present time as follows:

1933 - 10 Cent Loan			
Held by Commodity Credit Corporation -	6,571 bales	\$	320,844.82
1934-35 - 12 Cent Loan			
Held by Commodity Credit Corporation	4,038,440 bales	\$	246,389,003.72
Held by banks which have contracts of purchase with Commodity Credit Corporation -	370,770 bales	\$	22,684,706.61

1935-36 Loan		
Held by Commodity Credit Corporation -	3,029 bales	157,345.31
Held by banks which have contracts of purchase with Commodity Credit Corporation -	43,365 bales	2,224,563.45
Total -	4,462,175 bales	\$271,776,463.91

Sincerely yours,



Chester C. Davis,
Administrator.

Scrugham on Silver

WCNS103

REP. JAMES G. SCRUGHAM TODAY ADVOCATED TEMPORARY CESSATION OF AMERICAN SILVER BUYING ABROAD "TO BREAK UP THE BRITISH PLOT AGAINST OUR SILVER PROGRAM."

12/13--R4P

WCNS104

ADD SCRUGHAM SILVER

THE RECENT BREAK IN THE SILVER PRICE IS DUE TO EFFORTS OF POWERFUL BRITISH FINANCIAL INTERESTS TO EMBARRASS AND WRECK IF POSSIBLE THE AMERICAN PROGRAM OF INCREASING THE USE AND PRICE OF SILVER, SCRUGHAM SAID.

HE SAID HE HAD BECOME CONVINCED ON THIS AFTER INVESTIGATION IN "SEVERAL WELL INFORMED QUARTERS."

"SECRETARY OF TREASURY MORGENTHAU HAS ANSWERED THIS BRITISH MANEUVER VERY WELL BY PLACING HIS ORDERS IN OTHER SILVER MARKETS," SCRUGHAM WENT ON. "APPARENTLY THAT MEANS IN SOME OF THE IMPORTANT ORIGINAL SILVER PRODUCING NATIONS, WHERE THE METAL CAN BE PROCURED AND THE BRITISH SPECULATORS CIRCUMVENTED.

"HOWEVER, IF THE PURCHASES UNDER THE SILVER ACT OF 1934 WERE CONFINED TO THE U.S. FOR THE PRESENT IT WOULD BE THE SUREST WAY OF DEFEATING THESE MANIPULATORS."

12/13--R405P

9 37 AM

DEC 13 1935

LONDON

DEC 13 1935

LONDON SILVER MARKET

LONDON - BULLION BROKERS HERE DEPLORE THE SUGGESTION MADE BY SOME LONDON NEWSPAPERS THAT THEY RESENT U S SECY OF TREASURY MORGENTHAU-S STATEMENT THAT IN THE FUTURE HE WILL BUY IN OTHER MARKETS BE&IDES LONDON - THEY FEEL THAT THEY HAVE HAD A VERY GOOD RUN OF BUSINESS DURING THE PAST 18 MONTHS AND ARE QUITE WILLING THAT OTHER MARKETS SHOULD HAVE THEIR TURN-

THEY ALSO FEEL THAT THE LONDON MARKET THO ITS LONG EXPERIENCE CAN WELL HOLD ITS OWN WITH OTHER CENTERS -

THERE IS A DISTINCTLY BETTER TONE THIS MORNING TO THE MARKET AFTER SECY MORGENTHAU-S STATEMENT WHICH HAVE ASSURANCE THAT THE FOREIGN SILVER BUYING POLICY HAD NOT BEEN ABANDONED

- THERE IS STILL A CONSIDERABLE VOLUME OF CASH SELLING ORDERS TO EXECUTE AND THE PRICE

MAY AGAIN BE LOWER - HOWEVER LIMITS HAVE BEEN PLACED IN MANY CASES - IT IS LIKELY THAT NO FORWARD QUOTATION WILL BE MADE TODAY OR FOR SOME DAYS UNTIL THE MARKET SETTLES DOWN-

THERE ARE NO ACTUAL OR POTENTIAL DIFFICULTIES IN LONDON AS BULLION BROKERS TAKE THEIR ORDERS FROM BANKS WHO WILL HAVE TO FACE ANY DIFFICULTIES ARISING WITH THEIR CLIENTS BUT THESE ARE LIKELY TO OFFER NO REAL EMBARRASSING SMELTERS WHO HAVE LONG STANDING CONTRACTS TO EXECUTE-

WITH REGARD TO THE LARGER ASPECTS OF THE AMERICAN POLICY IT IS PRESUMED HERE THAT SECY MORGENTHAU IS MANOEUVERING TO TAKE OVER LARGE BLOCKS OF CHINESE SILVER AT LOWER PRICES OR ELSE TO FORCE CHINA BACK TO A SILVER STANDARD IN THIS RESPECT THERE IS SOME RESENTMENT "THE GREAT BRITAIN SHOULD BE BLAMED FOR THE AWKWARD REACTIONS OF CHINA -- CHINA TO AMERICAN SENATORS FANTASTIC SILVER POLICY-

11.08 WASHN- PRESIDENT ROOSEVELT DECLINED TO *President*
COMMENT TODAY ON THE SILVER DEVELOPMENTS OF THE
WEEK REFERRING ALL QUESTIONS ON THE SUBJECT TO
THE TREASURY DEPT- *Pres. on Silver*

DEC 13 1935
DEC 13 1935

17.58

SILVER

NY - BASED ON EXPERIENCE OF THE LAST FEW DAYS
IT IS ASSUMED LOCALLY THAT THE TREASURY WILL
BUY LOCAL SILVER TODAY FOR DELIVERY WITHIN ONE
DAY AT A PRICE OF 61 LENTS PER OUNCE-

LONDON SILVER MARKET

DEC 13 1935

1.14

LONDON - EIGHTEEN PERCENT OF THE CASH
SILVER OFFERINGS ON THE MARKET HERE WERE AGAIN
DISPOSED OF TODAY

11:00

PRESIDENT HAS NO COMMENT TO MAKE ON SILVER
SITUATION - PRESIDENT SAYS EXCESS RESERVE
SITUATION TOO TECHNICAL TO ANSWER - ON NRA
LEGISLATION PRESIDENT IS WAITING REPORTS FROM
VARIOUS AGENCIES - ON NEUTRALITY LEGISLATION
PRESIDENT SAYS SOMETHING HAS TO BE DONE BY FEB 1
APPOINTMENT OF RESERVE BOARD MEMBERS TO BE SENT
TO CONGRESS BY MIDDLE OF JAN - BUSINESS MEN HAVE
MADE NO SUGGESTIONS FOR TAKING MEN OFF RELIEF
PRESIDENT SAYS -

WALL STREET JOURNAL

12-13

Chinese Smuggling Actuated Change In Silver Policy

Huge Gain in Japanese Exports
For This Account — Mor-
genthau Still Buying

But Not So Much in London

BY BERNARD KILGORE

Staff Correspondent of THE WALL STREET JOURNAL

WASHINGTON—The Treasury's decision this week to buy its silver "in many different places," instead of largely in the London market, was actuated, among other things, by the desire of the Administration to check the flow of Chinese silver smuggled into Japan and sold to the United States through British channels.

This was indicated yesterday when Secretary Morgenthau, after stating that he was still-carrying out the Silver Purchase Act, referred newspaper men to Department of Commerce figures on world silver movements.

Perhaps the most important fact disclosed by those figures was that Japan, producing only a nominal amount of silver, has recently become a large scale exporter of the metal.

Japanese Exports Jump

Japanese exports of silver in September, for example, were worth nearly 21,000,000 yen, compared with 1,350,000 yen in September, 1934. During the first nine months of this year, Japan exported silver worth 144,158,000 yen, as against only 7,294,000 yen in the corresponding 1934 period.

According to later reports from other sources, "Japanese" silver—which really means Chinese silver—has continued to arrive in England in comparatively large quantities and furnishes part of the supply that the American Treasury

Please turn to page 10, column 2

Silver Policy Clarified

(Continued from First Page)

has been called upon to absorb in the London market.

Secretary Morgenthau declined to explain further as to what he meant when he said that he was still buying silver but "in many different places" except to add that this represented a change in policy.

Every Day This Week

"I bought silver Monday," he said. "I bought silver Tuesday. I bought silver Wednesday. I bought silver every day this week."

The Secretary opened his press conference with a formal statement in which he said that he was continuing to carry out the mandate of Congress. Then he quoted one section of the Silver Act with special emphasis on the part which directs the head of the Treasury to acquire silver "upon such terms and conditions as he may deem reasonable and most advantageous to the public interest."

This phrase, taken together with the indicated alteration in the buying program, seemed a plain hint that Mr. Morgenthau had decided that concentration of purchases in London did not afford either "reasonable" terms and conditions, or were not "in the public interest."

Against Repealing Tax

The Secretary declined to comment when asked whether negotiations were under way for the purchase of silver direct from China. Nor did he indicate whether he thought the New York market would play a definitely larger role in the silver buying program hereafter. He did, however, say that his position against repeal of the 50% tax on speculative silver profits was unchanged.

This tax has proved a definite handicap to domestic silver traders and has undoubtedly played a part in keeping the market concentrated in London. But it would, of course, tend to reduce the influence of speculators on the price of silver were New York to become an important center for Treasury operations in the white metal.

Secretary Morgenthau said that he had nothing to hide from Congress on the silver program and that, except for day-to-day operations, all the basic facts were available. He instructed his staff to prepare a summary of silver acquisitions since the present program began and this was made public later in the day.

\$1,774,000 Ounces Acquired

It showed that total silver received by the Treasury under the newly-mined silver purchase plan between January 1, 1934, and December 1935, amounted to 56,943,000 ounces. Silver purchases under the Silver Purchase Act of July 19, 1934, amounted to 391,800,000 ounces for the time the Act went into effect until December 6, 1935. Silver transferred to the Treasury under the President's nationalization order of August 9, 1934, totaled 112,051,000 ounces.

The sum of these three totals was shown to be 761,774,000 ounces, which is the net result of the whole buying campaign to date.

While it is impossible to ascertain, on basis of these figures and other government data, the exact quantity of silver now in United States or its exact monetary value on basis of \$1.29 an ounce, it can be estimated that present Treasury reserves, bullion stocks of silver in circulation run close to two billion dollars if the entire supply were valued at the \$1.29 per ounce rate.

\$3,500,000,000 Present Ratio

With present gold stocks of roughly 10 billion dollars, the current silver supply would have to be brought up to \$3,500,000,000 to meet the requirements laid down by the silver law. This ratio could be attained, in theory at least, either a 40% devaluation of the present standard silver dollar or the additional purchase of about one billion ounces of silver without a devaluation.

While silver revaluation has received a great deal of attention in speculative circles, there are no indications at present that it is under serious consideration in Washington. For one thing, it would present serious mechanical difficulties, to say nothing of its ultimate effect on current bank reserves, which are already too big.

From all indications, the Treasury is prepared to go ahead with its buying campaign but with more attention being paid to the matter of where the silver is actually coming from and who is profiting by its movement in this country.

The Treasury's statistics showed that the month of November, 1935, saw the heaviest silver acquisitions of any month during the whole program. Nearly 5,000,000 ounces of newly mined silver were then acquired and purchases of other silver amounted to 104,000 ounces. The next largest month on record was August, 1934, but this included heavy transfers to the Treasury of nationalized domestic silver.

December 13, 1935

At the 9:30 group meeting this morning, Mr. Morgenthau discussed the letter of December 6 which he had received from Senator Bulkley. He definitely decided that he was going to accept the Senator's recommendations that without further insistence upon a general regulation, Moore will divest himself of all profits by returning them to the Company, and the Company will accept them only with the condition that they be turned over to public charity as fast as received. Attached is a copy of Senator Bulkley's letter. (See Exhibit I)

After the decision was reached, Mr. Morgenthau telephoned to Senator Bulkley and attached is a transcript of their conversation. (See Exhibit II)

Discussion was also given to the case of Miss Rosenblum who had applied for a position as Internal Revenue agent but had been discriminated against because she was a woman. Investigation disclosed that it is not the policy of the Internal Revenue Bureau to appoint women as agents. Mr. Morgenthau definitely told McReynolds that he saw no reason why a woman should not be employed in that capacity and said he positively wanted to go on record to this effect. He asked Mr. McReynolds to prepare a letter for his signature to Commissioner Helvering expressing his disapproval of the present policy not to appoint women as Internal Revenue agents and his desire that such policy be changed.

Mr. Morgenthau asked Chip Robert to look into the selection of a site on the West Point reservation to be used as a suitable place for the storage of silver. HM, Jr. is very much interested in this particular location and wants Mr. Robert to carefully investigate the possibilities of building a storage place for silver on this site.

Exhibit I.
22

COPY

UNITED STATES SENATE
COMMITTEE ON BANKING AND CURRENCY

Cleveland,
December 6, 1935

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

Dear Mr. Secretary:-

I have today had a long talk with Collector Moore. I must repeat that I am particularly sorry that you could not see your way to conclude the matter on the basis of Moore's last letter as I think you could, with propriety and dignity, entirely overlook the question of whether the phrasing of his letter implied any question of forcing action upon you, because the action suggested was nothing but embodying in a general regulation your own pronounced and justifiable views, and I am sure that you intend to promulgate such a clarifying regulation in any event.

Your latest letter, which insists upon postponing the question of a general order and making it entirely independent of the case in hand, unfortunately reopens the question of the profits of the transaction being turned into the Treasury. Though I would not care to stress the question of where the profits should be turned in, I am sure that both Moore and his legal adviser are sincere in the view that they tenaciously hold that to turn the profits into the Treasury in the absence of a general regulation is not compatible with Moore's insistence on his innocence, and that it somehow implies a confession of guilt.

However, after some difficulty I have secured the consent of all concerned to the following set-up: Without further insistence upon a general regulation, Moore will divest himself of all profits by returning them to the Company, and the Company will accept them only with the condition that they be turned over to public charity as fast as received.

In view of the fact that I still think it is unfair and oppressive to demand an accounting of profits realized before any official objection was made to the relationship in question, and in view of the further fact that no good reason has as yet been advanced why you could not have covered the situation by a general regulation, which I

-2-

honestly think you ought to have made promptly last August, it is apparent that I have continued to try to help you in sustaining your view point as to matters that do not commend themselves to my own view of the fitness of things. I, therefore, feel well justified in asking you to yield enough of your position to approve the principle of the final adjustment on the terms above outlined. I am so tired of the whole matter that I do not want to be forced to argue the necessity for the slight variance between the terms of your request and the above settlement, which will close the whole matter.

While I regret that you felt it necessary to write your last letter at all, I am glad to note that the tone of it was courteous and considerate, and I can assure you that if you will give me your approval of the settlement herein suggested the letters from Moore and the Company, which would be necessary to consummate it, will be worded in a friendly and respectful manner.

Your telephone call this morning smoothed out the feeling of anger which I had yesterday, but in all frankness the severe pressure for action before opportunity to think the matter over did make it more difficult for me to maintain that you are pursuing the problem wholly without reference to any personal feeling.

Sincerely yours,

(Signed) ROBERT J. BULKLEY

December 13, 1935.
Friday

Senator
Bulkley: Good morning

H.M.Jr.: How are you?

B.: Fine

H.M.Jr.: Senator, I'd have answered your letter before, but I was ill for a couple of days.

B.: Oh, I'm sorry to hear that. Are you all right?

H.M.Jr.: I'm all right now.

B.: Good!

H.M.Jr.: And I'm delighted to go along with you on your -

B.: Oh, gee, that's fine! - I'm glad it's all set.

H.M.Jr.: Me too, and now, will Moore write me a letter?

B.: Yes, I'll - I'll get together with him and then we'll try to make it a very nice one that you'll be glad to get.

H.M.Jr.: Pardon me?

B.: I say, we'll try to make it a very nice letter that you'll be glad to get.

H.M.Jr.: Good, and then - (Laughter) all right, that'll be an idea. And after that - after I've got the letter then I'll talk to you about the publicity.

B.: -Yes, that's right - there'll be no publicity until after we talk.

H.M.Jr.: That's right.

B.: Fine

H.M.Jr.: And I haven't written him and -

B.: But I don't - But I think that the next move is for him to write you.

H.M.Jr.: I think so.

B.: That's right.

H.M.Jr.: Fine, I - and I appreciate the help that you have given me in this -

B.: Well, I - I am but some time I'll have a chance to visit with you and tell what a damned nuisance it has been.

H.M.Jr.: O. K.

B.: All right

H.M.Jr.: Me too

B.: Goodbye

H.M.Jr.: All right

December 6, 1935.
Friday

H.M. Jr.: Hello

Senator Bulkley: Yes, hello, Mr. Secretary.

H.M. Jr.: This is Morgenthau.

B.: Yes, why in the devil do you get in such a rush before I have time to talk to you a minute?

H.M. Jr.: Well, - before - I just want to tell you, - gosh, you certainly knocked me below this morning. I never felt the way I have after getting your telegram. I - I was - I sent him the letter Tuesday by registered mail -

B.: Yes

H.M. Jr.: And I simply called him up and gave him -

B.: Well, he has been sick. He's been spending a couple of days in bed and I've been out of town and I just haven't had a chance to even speak to him about it -

H.M. Jr.: Well -

B.: I'm sorry about it and

H.M. Jr.: Well, of course I didn't -

B.:

H.M. Jr.: I had no way of knowing -

B.: He told me that he had it and he was a little disturbed about the letter and I told him, 'Well now, you think it over, that letter is all right'.

H.M. Jr.: Yes

B.: And the agreement was that I was to talk to him about it as soon as I could. As a matter of fact I am seeing him this morning.

H.M. Jr.: Yes. Well -

B.: I - I just got upset by your putting that pressure on because I thought you were going to rely on me to

-2-

B.: try to work it out, it only makes it harder to do.

H.M.Jr.: Well, I didn't - I just felt that the man by Monday ought to let me know one way or the other what he was going to do.

B.: Well, I think that very likely may be worked out. I haven't seen him yet at all since he got the letter.

H.M.Jr.: Yes

B.: And I have been trying to, but I had to be in Columbus -

H.M.Jr.: But - but you realize that - you most likely sent that telegram when you were mad.

B.: Yes, I was mad - sure

H.M.Jr.: And you know that -

B.: I - I confess that.

H.M.Jr.: - that the idea that you suggest there, that I don't operate like that, -

B.: All right - let's try to work it out.

H.M.Jr.: O. K.

B.: All right.

H.M.Jr.: Now, look, will you do this for me? - and it'll save me - I've got to go away Monday and Tuesday.

B.: Yes

H.M.Jr.: So I won't be back here until Wednesday.

B.: Yes

H.M.Jr.: So if he is coming down, tell him not to come until Wednesday.

B.: O. K.

H.M.Jr.: But I hope he won't come.

B.: Well, I - I'm sure going to try to work it out.

H.M.Jr.: O. K.

B.:

H.M. Jr.: All right

B.: All right, thank you.

December 3, 1935.
Tuesday.

H.M. Jr.: Senator, I don't know whether you saw Mr. Moore's letter to me before he sent it -

Senator Bulkley: Yes, I did.

H.M. Jr.: Well, it - frankly, it wasn't what I expected, and - I'd like to read to you the draft of an answer that I have written to him, see?

B.: I appreciate that.

H.M. Jr.: And get you -

B.: I thought - I thought he answered it just about in line with what you were going to do.

H.M. Jr.: No - this point that he wants us to - he's telling me to get out regulations, you see? - He -

B.: Well, he said that he had complied but didn't think that he ought to be singled out, see?

H.M. Jr.: Well, of course -

B.: - Because of the general regulations.

H.M. Jr.: He isn't singled out, but I can't move on the other people until I take up the Presidential Appointment first, and every - Well, let me read you the letter -

B.: All right

H.M. Jr.: See? It's very short.

B.: O. K.

H.M. Jr.: I acknowledge receipt of his letter, then I say, 'I believe that you are by this time sufficiently aware of my views in the matters of this kind to realize that it is entirely impossible there should be any singling out of your case for unusual and harsh action. You may be quite sure that in all cases which come to my attention in which a similar situation is presented I shall make the same ruling that I have in your case, unless in the special circumstance of a particular case more drastic action is called for. As I have stated before it is not necessary to insist that you have violated a letter

- 2 -

of any regulation in order to support my decision in this matter. The question as to the desirability of issuing a general order more specifically to cover this subject will be considered in due course on its merits and apart from your case.

'Please let me know at your earliest convenience that you are prepared to comply with the request in my letter of November 20th, 1935.

Yours very truly, "

B: Well (Laughter) I haven't any specific benefit from it. I - I just don't - don't - I didn't suppose that other would embarrass you at all -

H.M.Jr: Yes.

B: Except it does make a general argument.

H.M.Jr: Well, it does embarrass me. You see, he's - he isn't in a position - I mean - to tell me that, you see? Now, - just - you see it would be very easy for me - the easy way for me to be would be to fire these other fellows and then sit back and wait for the Presidential Appointment - so forth and so on. Because these other fellows are Civil Service. But I want to take care of the Civil Service - I mean the Presidential Appointment first and then do the others immediately following, you see? In other words, I'm making it as difficult as possible for myself, but I think it's only fair.

B: Well -

H.M.Jr: If you have no objection to that letter I'll read it to you again if you'd like me to?

B: Well, now, let me be quite frank about it.

H.M.Jr: Please.

B: I - I regret that you feel that there's any necessity to do that -

H.M.Jr: Yes.

B: I - don't feel that there's anything in the letter that I'm prepared to argue against very much, but I'm just darn sorry you have to do it that way.

H.M. Jr.: Well, I'm - I'm sorry that he brought up this question of these rules and regulations, you see? I'm sorry he raised that, - as a condition.

B.: Well - it is such an awful small matter - why don't you let it go?

H.M. Jr.: No, I couldn't do that. The Department's too big.

B.: I don't know - I get so damned sick of the whole thing (Laughter)

H.M. Jr.: Pardon me -

B.: I get so damned sick of the whole thing -

H.M. Jr.: Me too

B.: It looks to me as if -

H.M. Jr.: I know, we've both got a lot of things to do, but - but we've got a big Department and - while I don't stand on dignity the Department has a certain dignity and the fellow is making a condition to us - he won't do something unless he makes me get out a regulation. Well, I can't let the Department be put in that position.

B.: Well, I - I - in a way that's true. I didn't think it was worded - in a way that would be offensive.

H.M. Jr.: Now, if you'd rather send - have me send the letter back to Moore and let him withdraw that condition, then I don't have to write him this letter.

B.: I couldn't answer that without talking to him, but - I - I doubt whether it would be desirable to do that. I think - if you'd

H.M. Jr.: Well -

B.: Just decide it would be just as well if you want to do anything at all to write the letter that you have in mind.

H.M. Jr.: All right, well then - let -

B.: if you'd get very much

H.M. Jr.: Well, we've gone over it and over it. The people that say it - it's a question - you notice I make this dignity in the Department, not Henry Morgenthau, Junior. I could - I don't have

-4-

to have dignity, I mean. But it's a Department and we've all been over it -

B.: Yes, I think you're quite right in maintaining the dignity of the Department -

H.M.Jr.: Yes

B.: But I - I don't think that there's anything to do but

H.M.Jr.: No, but he - as I say, he's making a condition, you see -

B.: Well, I - I see what you mean, that it can be interpreted into a condition

H.M.Jr.: Oh, it will be.

B.: because it is a condition, but at the same time I'd rather he'd word it in a very respectful and decent way.

H.M.Jr.: Well, it's perfectly respectful but he just simply says he isn't going to do something unless I do something else.

B.: Well, he implies that he wasn't going to do something

H.M.Jr.: Well -

B.: What he said was that he'd gladly do it in such and such a way.

H.M.Jr.: But if you don't have any objections - I mean - I'd like to send this letter.

B.: Well (Laughter) let me put it to you that I just object on the ground that you can no question about it at all -

H.M.Jr.: Yes

B.: I don't - I don't think there's any particular exception to what you're saying.

H.M.Jr.: Yes - and, but will you help me clean the thing up?

B.: I want to help get this thing cleaned up

H.M.Jr.: Yes

B.: any way it can be.

-5-

H.M. Jr.: Fine

B.: I certainly will do what I can.

H.M. Jr.: Fine

B.: And I wish to the devil you didn't have to do -

H.M. Jr.: Well, I don't either, but - and I wish he hadn't written it that way.

B.: Well - Goshi! I thought we had it pretty well fixed.

H.M. Jr.: No, no

B.: Well, I don't know. I'll do what I can

H.M. Jr.: Let's get - I take it from what you say that he had intended paying me the money back.

B.: - Yes, he said - but of course he hasn't got it available right off -

H.M. Jr.: No, but he'll give me a note or something.

B.: So, he has the obligation to do it.

H.M. Jr.: Well, let's -

B.: And maybe he intended to waive all quibble about which is right and what's his

H.M. Jr.: Yes, Well, I'll send this -

B.: I thought it was a darned good way to do.

H.M. Jr.: Well - well, I think if - if I'd had a chance to talk to you and point this out before, you, as a man of affairs, would have seen the point that I am making.

B.: Well, of course, frankly, he and his lawyer got together and made that up. I didn't have anything to do with that.

H.M. Jr.: No, but I mean, it's just the way -

B.: I did read it over, before it was mailed and I thought it was pretty good.

H.M. Jr.: Yes. Well, just the way I'm showing you - but you as a man of affairs, you can see that, I mean, the Treasury

-6-

Department - it's an important Department and the fellow is layi ng down a condition. He can't do it.

B.: Well -

H.M.Jr.: Well now, you help me ge't this cleaned up, will you please?

B.: Of course I want to get it cleaned up and of course I'll do what I can.

H.M.Jr.: Fine - all right. Thank you.

B.: All right.

H.M.Jr.: Thank you.

November 29, 1935.

Hon. Carl E. Moore,
Collector of Internal Revenue,
Cleveland, Ohio.

Dear Sir:

I have your letter of November 25th in reply to mine of November 20th, 1935.

I believe that you are by this time sufficiently aware of my views in matters of this kind to realize that it is entirely impossible that there should be any singling out of your case for "unusual and harsh action." You may be quite sure that, in all cases which come to my attention in which a similar situation is presented, I shall make the same ruling that I have in your case, unless in the special circumstances of the particular case more drastic action is called for.

As I have stated before, it is not necessary to insist that you have violated the letter of any regulation in order to support my decision in this matter. The question as to the desirability of issuing a general order more specifically to cover this subject will be considered in due course on its merits and apart from your case.

Please let me know at your earliest convenience that you are prepared to comply with the request in my letter of November 20th, 1935.

Very truly yours,

(Signed) H. Morgenthau, Jr.

CVO:gmc

Secretary

COLLECTOR INTERNAL REVENUE
CLEVELAND

November 25, 1935

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

Dear Sir:

Thank you for your letter of November 20th in which you state that my connection with a liquor sales agency in Ohio is not a violation of any statute law or contrary to the letter of any regulation of the Department; that the interests of the United States have not been damaged by the transaction in question and that I have acted in good faith in the matter believing my connection to be ethical.

I appreciate your point of view that a connection of this kind is not desirable for Treasury officials or employees. However, you may recall that any connection I had was severed the first of this year prior to receipt of any instructions from your office. My only connection since that time has been that my wife has eighteen shares of stock upon which she has received dividends.

The remaining matter is your request that I "make restitution of all proceeds of this transaction by arranging to turn them into the Treasury". I am sure that it is your intention to be fair and just and that you do not wish to single me out for unusual and harsh action, in which case any ruling should be made uniform.

I will, therefore, cheerfully comply with your request upon the taking effect of a Treasury Department regulation requiring all Treasury officials and employees, together with members of their families, to take similar action, even though such regulation should be retroactive to the extent of requiring that payments previously received should be paid into the United States Treasury.

With such a regulation the right of the Treasury to claim or to accept such payments would be established, which right in all sincerity does not seem to me to exist under the present state of facts.

Very truly yours,



C. E. MOORE

CEM/W

November 20, 1935.

Hon. Carl E. Moore,
Collector of Internal Revenue,
Cleveland, Ohio.

Dear Sir:

Owing to my absence on a trip abroad and the pressure of other duties, I have been unable until this time to give further attention to your connection with a liquor sales agency in Ohio.

It has not been charged that your connection violated any statute law and it is not necessary to insist that you have violated the letter of any regulations, because in my view the admitted facts of the case disclose a connection which seems to me undesirable and unethical.

It does not appear that the interests of the United States have been damaged by the transactions in question, yet it seems to me intolerable that officers of this Department should have any interest of any kind in the liquor business and I am insisting in all cases that there shall be no such relationships.

That you believed your actions to be ethical and proper does not make them so, but it does mitigate the gravity of the offense. I am sure you will agree that neither you nor any member of any of your family should profit from this source. I am, therefore, calling upon you to make restitution of all proceeds of this transaction by arranging to turn them into the Treasury.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary

McR:gee

Envelope marked
"Personal & Confidential"

Dear Sir:

I have your letter of November 25 in reply to mine of November 20, 1935.

I believe that you are by this time sufficiently aware of my views in matters of this kind to realize that it is entirely impossible that there should be any singling out of your case for "unusual and harsh action". You may be quite sure that, in all cases which come to my attention in which a similar situation is presented, I shall make the same ruling that I have in your case, unless in the special circumstances of the particular case more drastic action is called for .

The question as to the desirability of issuing more specifically
 → Your suggestion that a general order ~~to issue~~ to cover this subject will be considered in due course on its merits and apart from your case. As I have stated before, it is not necessary to insist that you have violated the letter of any regulation in order to support my decision in this matter.

Please let me know at your earliest convenience that you are prepared to comply with the request in my letter of November 20, 1935.

Very truly yours,

Hon. Carl F. Moore,
 Collector of Internal Revenue,
 Cleveland, Ohio.

*This draft is the joint judgment
 to Maliphante staff & myself -
 MFM*

December 13, 1955

HM, Jr., met with Mr. Oliphant and Mr. Helvering today to discuss the placing of jeopardy assessments against the 387,000 stockholders of Associated Gas and Electric Company.

Helvering said it was necessary to place the jeopardy assessments on approximately \$71,000,000, representing the amount which Associated Gas and Electric received from sale of securities, because Internal Revenue does not know the cost of the securities and the firm will not supply the information. As a result, it is not possible to compute the tax due. He said Russell's best judgment was that the amount of tax due the Government is \$14,000,000.

Oliphant said that Jackson had raised the objection that if we placed the jeopardy assessment against the company they would be able to say to their more than 300,000 stockholders that while their stock was not worth anything now, it would have come back if the Government had not placed this assessment, the effect of which was irrevocable bankruptcy.

Helvering suggested that HM, Jr. get the President's approval in advance, but HM, Jr. said he never had asked the President if it were wise to put a jeopardy assessment on anything and he thought the thing to do was to decide whether we think these people owe the money to the Government and whether the Government's tax is in danger. Oliphant seemed to think there was danger of the loss of the Government's lien if the concern should go into court and plead bankruptcy.

HM, Jr. said his decision was to go ahead and place the jeopardy assessment and let the 90-day letters follow. He also told Helvering to have Russell get in touch with Gaston and work out with him a press release explaining the whole business.

Helvering and Oliphant also discussed with the Secretary the desirability of a conference with the Attorney General on the subject of settling suits for refund pending in the Court of Claims and various district courts. For many years the power to adjudicate administratively claims for refund was exclusively in the Internal Revenue Bureau. They have the necessary highly-trained and qualified personnel to assist the Commissioner in the determination of the merits of refund claims.

-2-

The procedure was changed about a year ago and an Executive Order was issued transferring to the Attorney General the function of settling cases. Oliphant told the Secretary that according to the Attorney General's interpretation of the Executive Order, the Department of Justice has just made a formality out of the Commissioner's work.

HM, Jr., called the Attorney General on the phone and told him that Helvering feels that Internal Revenue lawyers are playing Justice against the Treasury and vice versa in the settlement of some of these income tax cases and that the two Departments should get together and try to stop it. Mr. Cummings said he would send Wideman over to confer with the Secretary and others and an appointment was made for Tuesday at eleven o'clock.

December 13, 1935

Coolidge and Lochhead met with the Secretary. At 11:30 HM, Jr., called the President and told him that London had offered us 10,000,000 ounces at 58.65, which is about one cent lower than yesterday's price. Bombay's lowest offer is 58.88, so that London is low for today. He told the President that he would like to place an order in London for 2,000,000 ounces and the President agreed.

Of the silver offered by London, $4\frac{1}{2}$ million ounces was from Persia. Mr. Morgenthau said he would like to tell the Persians that if they wanted to do business with us they should do it directly and not through London. The President suggested that we get the State Department to ask for a report from the Persian Legation as to what they were doing on silver. HM, Jr., called Mr. Hull and, he not being in, talked to Mr. Gray and asked if he would be kind enough to carry out the President's suggestion.

December 13, 1935

The early morning estimates by London brokers of spot silver for sale in the London market was 3,000,000 ounces. The market seemed quieter in London and brokers were reported to have reassured their clients somewhat as to the outlook for silver. It was reported that the brokers had also induced some of their clients to withhold some orders for the sale of spot silver. About 9:30 A. M. one of the New York banks was advised that the amount of silver offered had increased to 6,000,000 ounces and the London brokers wanted to have us indicate whether or not we desired them to make an offer, to which we replied that anyone was at liberty of making an offer through regular channels if they so desired. At about 10 A. M. our time the Chase Bank received advice from their London office that there was a total of about 10,000,000 ounces now offered for spot delivery. Included in the total was a special order received by Samuel Montagu & Co. for the sale of 4,600,000 ounces from a foreign central institution, not Chinese nor Indian. They further added that if we specifically requested they would divulge the name of the special seller to us. After consulting with Mr. Morgenthau we advised Chase that we would be interested in knowing the name of this special seller.

At 11:30 AM we were advised that the special seller referred to was the National Bank of Persia. We were also advised that the London brokers were making a firm offer of 10 million ounces of silver at 26 $\frac{7}{16}$, equivalent to 58.65¢, about 1¢ lower than the price yesterday. Several offers totaling about 2 million ounces have been received by Cable from Bombay, the lowest of which worked out to the equivalent of about 59¢.

December 13, 1935

At 11:45 AM, in the absence of any further offers from Bombay which were expected by telephone, we notified the London brokers that we would accept 2 million ounces of their offer. It was also decided to fix the New York price of silver at 61¢ against yesterday's price of 62¢.

The State Department was requested to secure information as to the source of the silver Persia was offering for sale and also the reason for the sale. London fixed their price at 26 $\frac{7}{16}$ pence, equivalent to 58.65¢ upon receipt of our advice that we would accept 2 million ounces of their offer.

At 1 PM we received a Cable offer from Samuel Montagu & Co. of London, offering us 3,800,000 ounces of silver at 26 $\frac{3}{8}$ pence, equivalent to 58.50¢ on behalf of their special client (National Bank of Persia). This offer was declined.

DEC 14 1935

110

SILVER

NY - THERE IS NO OFFICIAL N Y QUOTATION
ON FOREIGN SILVER FOR TODAY STATE HANDY & HARMAN
BECAUSE OF THE FACT THAT THE LONDON QUOTATION
OF 26 7-16D WAS NOMINAL ONLY AND THAT THERE WAS
NO BUSINESS IN N Y

9 03 AM-

DEC 14 1935

LONDON - BAR SILVER 26 7-16 D NOMINAL UNCH -
FORWARD NOT QUOTED -

SILVER

DEC 14 1935

LONDON - LONDON BULLION BROKERS MADE THE FOLLOWING STATEMENT ON SILVER FIXING TODAY- WE UNDERSTAND THAT AMN TREASURY A WAS NOT INTERESTED IN OFFERINGS TODAY OWING TO SHORT SESSIONS TODAY BEING A HALF DAY AND DISPARITY IN TIME- -BULLION BROKERS SAY THAT NO BUSINESS OF ANY KIND WAS TRANSACTED BUT THIS DOES NOT MEAN ANY BREAK - DOWN IN THE MARKET BUT MERELY POSTPONEMENT OF BUSINESS UNTIL NEXT MONDAY-

9 25 AM

MEXICO CITY - COMPLETE SECRECY HAS BEEN ORDERED HERE OVER AMERICAN BUYING IF ANY OF MEXICAN SILVER BOTH BY THE MEXICAN GOVT AND ON INSTRUCTIONS TO THE AMERICAN COMMERCIAL ATTACHE FROM WASHINGTON

INQUIRY MADE ABOUT REPORT OF -POSSIBLE UNUSUAL PURCHASES- BROUGHT FORTH INFORMATION THAT ANY FACTS WHICH WOULD EITHER CONFIRM OR DENY THIS REPORT WERE IN THE POSSESSION OF THE AMERICAN COMMERCIAL ATTACHE THE FINANCE MINISTER AND THE DIRECTOR OF THE BANCO DE MEXICO-

THE COMMERCIAL ATTACHE EXPLAINED YESTERDAY AT LENGTH THAT UNDER ORDERS FROM WASHINGTON HE WAS UNABLE TO MAKE ANY STATEMENT- EDUARDO SUAREZ FINANCE MINISTER LIKewise DECLINED TO ISSUE FIGURES OR MAKE A STATEMENT SAYING SUCH INFORMATION SHOULD COME FROM THE BANCO DE MEXICO OR AMN FEDL RESV SYSTEM

AN ATTEMPTED INTERVIEW WITH GONZALO ROBIES MANAGING DIRECTOR OF THE BANCO DE MEXICO ELECTED THE STATEMENT THAT -BANCO DE MEXICO CANNOT GIVE OUT THIS INFORMATION-

ACCORDING TO MINING MEN THE OPERATING COS HAVE AGREEMENT WITH BANCO DE MEXICO UNER WHICH LATTER PURCHASES A MONTHLY AVERAGE OF 5 000 000 OUNCES OF SILVER WHICH IT DISPOSES- AS IT SEES FIT-

Saturday, December 14, 1935.

The London market was informed that owing to the difference in time between New York and London and the difficulty of adjusting prices in the limits of a Saturday half day that we would not be interested in offers from the London market today. The London brokers thereupon fixed a nominal price of 26 $\frac{7}{16}$, equivalent to 58.65¢, which was the same as Friday, but no business was done.

As no transactions took place in the New York market, Handy & Harman did not fix a price for New York silver today.

For Review

December 14, 1935.

Mr. Bell

Mr. Bartelt

Delay in Salary Payments at Reedsville (W. Va.) Project.

The following is a report covering my investigation of the delay in making salary payments to employees on the Reedsville home-stand project:

Employees at the Reedsville project are paid twice a month. The records of this Department show that the pay roll for the two weeks ended October 15th was paid on October 28th, or 13 days after the close of the pay period. The pay roll for October 31st was paid on November 22d, or 22 days after the close of the pay period. The pay roll for the period ended November 15th was paid on November 30th, or 15 days after the end of the pay period; and the pay roll for November 30th was paid on December 10, or 10 days after the close of the pay period. Eliminating Sundays and holidays, the average time elapsing between the end of the payperiod and the date on which the payments were made was 12½ days, distributed as follows:

Number of days from end of pay period to receipt of pay rolls in Resettlement Administration in Washington	6½ days
Number of days in Resettlement Administration. . .	3½ days
Sub-total	2½ days
Number of days in Treasury Accounts office for pre-audit and posting to allotment accounts under Executive Order 7034, of May 6, 1935 . . .	1½ days
Number of days in Disbursing Office.	1½ days
Total	12½ days

Immediately after my talk with you on Thursday morning, I called Mr. Flynn, Manager of the Reedsville Project, on long distance telephone, and after explaining to him that our attention had been called to delays in making salary payments, I asked Mr. Flynn to give me a full report of the situation and send it to me by air mail and

- 2 -

(Mr. Bell)

special delivery. I also telephoned Mr. King, the Treasury State Accountant-in-Charge at Charleston, West Virginia, and after explaining the situation to him, directed that he proceed to Reedsville immediately by automobile and confer with Mr. Flynn concerning the matter, and that he send me a full report by air mail and special delivery. I asked Mr. King specifically to look into the question as to whether some time could be saved by paying the Reedsville employees through the Treasury offices at Charleston. I have also taken up informally with the Resettlement Administration in Washington the question of having the Reedsville pay rolls paid through the Treasury's Disbursing Office at Charleston.

As you know, this office has encouraged all departments and establishments of the Government to make provision for sending pay rolls to the Treasury state offices for payment locally, instead of through the Washington office, in order to reduce the time for making payments to employees. In the case of the Reedsville project, however, it appears that the mail service between Reedsville and Washington is about a half-day shorter than between Reedsville and the Treasury Disbursing Office at Charleston, West Virginia. The solution to the problem, therefore, would be to have the Reedsville pay roll submitted directly to the Treasury office either at Charleston or Washington, and that the administrative examination by the Resettlement Administration in Washington be eliminated. Incidentally, there appears to be a discrepancy in information furnished by the Manager of the Reedsville project with respect to the mailing dates and the information furnished by the Resettlement Administration with respect to the receiving date in Washington. For instance, the information furnished by the Reedsville Manager indicates that the labor pay roll for October 31 was mailed on November 2, but information received from the Resettlement Administration indicates that the pay roll was not received until November 14. Be that as it may, if the Resettlement Administration will agree to eliminate the administrative examination in Washington, the Treasury Department is prepared to make payment of the Reedsville pay roll within 48 hours from its receipt (allowing 1 day for the Treasury Accounts Office and 1 day for the Treasury Disbursing Office), whether payment is made from Washington or Charleston. It is believed that in most cases the checks can be placed in the mails within 24 hours after the receipt of the pay rolls at the Treasury office and instructions will be issued to have that done whenever possible. This office has already taken the matter up with the Resettlement Administration to have the rolls certified directly to our Charleston office.

An important duty incident to the responsibility imposed upon the Treasury Department by the President under the Executive Order of May 6, 1936, is to make a pre-audit of all pay rolls before they are sent to the Treasury Disbursing Clerk. This audit must be made in each

- 3 -

(Mr. Bell)

a manner as to insure allowance of the payments by the General Accounting Office in the audit. Delays in the Treasury offices are sometimes unavoidable, especially in cases where pay rolls must be held up for corrections or for explanation in order to meet the rigid requirements of Federal accounting and auditing. All offices of the Treasury have been instructed to see that pay rolls are processed through the office within 24 hours from the time they are received. The practice in the case of the pay rolls of the Resettlement Administration has been to telephone to the administrative office in Washington, which office sends its authorized representative to the Treasury Department for the purpose of making such corrections or attaching such explanations to the pay roll as may be necessary to enable the Government accounting officers to pass the pay roll as an acceptable document to support the disbursement.

Mr. Schoen, the Treasury Accountant-in-Charge for the District of Columbia, states that in connection with these pay rolls it had been necessary for his voucher examiners to contact the Resettlement Administration for more detailed information on Form A-4 relative to the distribution between relief and non-relief employees. Mr. Schoen stated that he could not determine at this time the promptness with which such information was given to his office, but he does know that on many occasions there has been a delay of from one-half to one full day in this respect.

Copies of the reports of Mr. Flynn and Mr. King are attached hereto. It is believed that this office can work this matter out with the Resettlement Administration in order that there will not be any further delays in handling the Readsville pay rolls.



JB-mm

Arthurdale, W. Va.

December 12, 1935

MEMORANDUM

TO: G. M. Flynn
 FROM: Frank Burke
 SUBJECT: Pay Rolls

Referring to our conversation of the above date, please find herewith payrolls as forwarded to Washington on dates as listed below. Also the dates when the checks were received.

<u>Period</u> 1935	<u>Amt. of Payroll</u>	<u>Date Payroll</u> <u>was Mailed</u> 1935	<u>Date checks</u> <u>were received</u> 1935
June 16 to 30	\$ 15,552.30	July 2	July 25
July 1 to 15	18,731.15	July 17	July 29
July 16 to 31	13,318.02	August 5	August 29
August 1 to 15	19,869.10	August 17	August 29
August 16 to 31	24,511.71	September 2	September 21
Sept. 1 to 15	23,993.75	September 17	October 5
Sept. 16 to 30	20,477.01 (Labor) 2,083.73 (Adm.)	October 3 September 30	October 30 October 30
October 1 to 15	17,773.63 (Labor) 2,117.48 (Adm.)	October 17 October 15	October 30 October 30
October 16 to 31	15,713.00 (Labor) 2,117.48 (Adm.)	November 2 October 31	November 22 November 25
November 1 to 15	11,917.35 (Labor) 2,242.48 (Adm.)	November 13 November 15	December 4 December 6
November 16 to 30	11,908.62 (Labor) 2,302.23 (Adm.)	December 3 November 30	December 12 Not received

 Timekeeper

RESETTLEMENT ADMINISTRATION

Arthurdale, W. Va.

December 12, 1935

Mr. E. F. Bartelt,
Commissioner of Accounts and Deposits,
Treasury Department,
Washington, D. C.

Dear Mr. Bartelt:

There is enclosed herewith a memorandum covering the payroll information that you requested from me today by telephone.

Very truly yours,

GMF/mr
Encs.

(Signed) G. M. Flynn
G. M. Flynn,
Project Manager

December 14, 1935

MEMORANDUM OF Telephone Conversation with Mr.
King, Treasury Accountant-in-Charge for West Virginia

Mr. King stated he went to Reedsville in accordance with Mr. Bartelt's instruction and arrived there December 13.

Relative to the pay roll situation, he stated that so far as he could ascertain the payrolls had been transmitted very promptly, and that they have never been returned for correction of errors.

It appeared to him that the delay has been in the Washington Office, and that this delay has been, up to the last two pay rolls, averaging about 18 days, although the time of transmission to Washington is almost negligible.

He stated that it would take about half a day longer each way to transmit the pay rolls and checks if they were handled in Charleston. However, he believed that the Charleston Office could complete their checking and have the checks in the mail in three days, allowing one day in the Accounts Office, one day in the Disbursing Office, and a possible day's delay.

He is preparing a report covering the situation this morning, and will send it Special Delivery so that it will be received Monday morning.

M.P.B.
12/14/35

Sunday, December 15, 1936

Told Peoples that I was going to suggest to the President that he use the Engineering staff of Procurement in connection with Bell's field organization to check up on Works Progress to see whether or not the payrolls are padded. Told Peoples that I thought we would find, conservatively, 25% more men working on each project than was necessary. He says he has 30 first-class structural engineers and that in 10 days he could check a few projects in all of the 48 States. In talking with him I decided that we ought to take along the State Representative of Hopkins so that there would be no charges and countercharges subsequently. Later in the day I got the idea that at the same time they could check on how promptly the men were being paid. Peoples said he would go to work on the idea at once so that incase the President approved, he would be ready.

My thought is that this sort of thing should be done so that the President really knows what is going on in the field as the only checking that is being done now is by Hopkins' own people. Also, this would give me ammunition when Hopkins asked for additional money. I am not going to press the President today to do this, but I think he would be foolish not to accept my offer.

Also told Peoples that we would do it in the name of the Director of the Budget and that his people would be loaned to the Budget Bureau. In this way it would appear to the public that the Bureau of the Budget was doing it and not the Treasury.

Bullitt called up and I asked him for lunch. I told him what I was doing in silver and that I had the hope that it would help China pull through financially. He said that anything that I could do to help General Chang Kai Shek was all to the good.

This is the way he sees the Far Eastern situation. He showed me a little map which shows that Vladivostok is today the center for the Japanese Empire when you include that part of China which is controlled by Japan. He said the Japanese worry greatly about Russia and that they want the Yellow River as their frontier as against Russia. He said the Yellow River is a tremendous, turbulent stream which overflows its banks for 25 miles on either side and makes a perfect barrier against any army; that the Japanese are

-2-

taking one strategic point after another to be ready for war against Russia. He does not think that they are looking for the moment towards the Philippines and that they are watching the European situation very closely; that their air corps is in bad shape and will not be ready to fight for two years; that Russia hopes that we will have war with Japan and in that way keep the Japanese from fighting them. Russia's fears are that Japan will attack her on one front and Germany and Poland on the other. He says that on January 1, Russia will only owe externally \$50,000,000; that she is producing about \$200,000,000 worth of gold a year and has just discovered some very, very rich gold fields opposite Alaska. He believes that Germany hopes to move southeast through Austria Hungary, Bulgaria, Roumania and possibly include Ukrania. He says that the latest that we can have war is by 1938.

He thinks we ought to keep out of all kinds of entanglements in Europe and that Europe will be wanting to borrow some money for armaments and, therefore, those countries, particularly France, will approach us soon to make a gesture of some kind of a payment on their war debt with the hope that they can borrow new money. He said, "Thank Heavens, we have the Johnson Act which keeps us from loaning to defaulter nations!" He also is of the opinion that with all the trouble going on in Europe we should develop our relationships with North and South America.

I called up Lochhead and told him to get off some cables to Buck and also to Hong Kong and Bombay, asking them to keep us informed daily until further notice as to what is happening.

Monday Lunch, December 16, 1935

The President told me that he dictated to Grace Tully, last night, 3,000 words on foreign affairs. He said, "Since I have been President I have said very little about foreign affairs. I am going to devote the major portion of my message to Congress to foreign affairs. Then I am going to say something about conditions in America and point out that the same kind of people exist in America who have gotten control in Italy and Germany and that it is that kind of people who are fighting the Roosevelt Administration in America." He said, "I expect to say something about Nazism." He said, "Then I will go on and review my inaugural address and take up one statement after another and show the accomplishment that I have made in America." He asked me what I thought and I said I thought it was swell.

He then told me that Speaker Byrns had told him that during the Wilson Administration when the Republicans were in control of the House, the Republican leader told him that they were going to slash Wilson's budget to the bone, knowing that the money would not last for the fiscal year, but doing it purely for campaign purposes. Byrns suggested that we do the same. The President said, frankly, we had a "crooked budget." That was the language he used. He said, "Think it over." He said Speaker Byrns said, "After all, we will all be back next January and we can vote the extra money then." I said to the President, "The only place you can do this and save any real amount of money would be in the item of relief," and he said, "That is right." I then went over with him his timetable and he agreed that on Saturday afternoon, December 28, he and Bell and I would put the budget into its final form; that he would be studying his budget message this week, but that everything would be left until I got back on Saturday, the 28th.

Silver
DEC 16 1935
D. J. Moroney
Summary

0.25

NY - LONDON BULLION BROKERS REPORT THAT THE
CASH POSITION OF SILVER IS PRACTICALLY UNCHANGED LONDON
AND THE AMOUNT OF SILVER AWAITING SALE IS ABOUT
THE SAME AS ON LAST FRIDAY - PRICE FIXING WILL
BE DELAYED UNTIL AMERICA DISCLOSES HOW FAR IT
IS INTERESTED - NO ATTEMPT WILL BE MADE TO DEAL
WITH THE FORWARD QUOTATIONS UNTIL THE CASH
POSITION IS CLEARED UP

12.00

LONDON SILVER MARKET

DEC 16 1935

LONDON - THE ALLOTMENT OF SILVER SALES IN THE
LONDON SILVER MARKET WAS 5 PC OF THE OFFERINGS

LONDON SILVER MARKET 1.08 DEC 16 1935
LONDON - LARGE EASTERN AND GENERAL SILVER SALES
AGAIN WERE ONLY PARTIALLY OFFSET BY SMALL
AMN PURCHASES AMOUNTING TO 5 PC OF TOTAL
OFFERINGS

Press Conference
Silver

WCNS129

SECRETARY MORGENTHAU SAID TODAY THAT THE TREASURY WAS STILL
BUYING SILVER IN VARIOUS MARKETS OF THE WORLD.

12/16--R445P

WCNS131

ADD SILVER

THE TREASURY SECRETARY REFUSED TO REVEAL THE PLACE OF THE TREASURY BUYING OTHER THAN TO SAY IT WAS "EVERYWHERE."

THERE WERE NO FURTHER REVELATIONS OF TREASURY SILVER OPERATIONS, NOR WAS THERE ANY EXPLANATION OF THE CONTINUED DECLINE IN THE PRICE OF THE METAL TODAY IN THE FACE OF CONTINUED AMERICAN BUYING.

MORGENTHAU SAID, HOWEVER, THAT THE TREASURY WAS NOT A BUYER OF SILVER IN THE LONDON MARKET LAST SATURDAY. HE INDICATED THAT THE DIFFERENCE IN TIME OF FIVE HOURS WAS A FACTOR MAKING PURCHASES IMPRACTICAL LAST SATURDAY.

HE REFUSED TO INDICATE WHETHER SATURDAY PURCHASES IN THE LONDON MARKET WOULD BE SUSPENDED IN THE FUTURE.

12/16--R453P

To the White House
Dec 16, 1933

EXECUTIVE ORDER

TERMINATING THE NATIONAL RECOVERY ADMINISTRATION AND
TRANSFERRING CERTAIN AGENCIES AND FUNCTIONS THEREOF
TO THE DEPARTMENTS OF COMMERCE AND LABOR

By virtue of and pursuant to the authority vested in me by Title I of the National Industrial Recovery Act (48 Stat. 195), as amended by Senate Joint Resolution 115, approved June 14, 1935, it is hereby ordered as follows:

1. The National Recovery Administration and the office of Administrator thereof are hereby terminated.
2. The Division of Review, the Division of Business Cooperation, and the Advisory Council, as constituted by Executive Order No. 7075 of June 15, 1935, together with all of their officers and employees, files, records, equipment, and property of every kind, are hereby transferred to the Department of Commerce. The Secretary of Commerce is authorized and directed, under the general direction of the President, to appoint, employ, discharge, and fix the compensation and define the duties and direct the conduct of all officers and employees engaged in the administration of the agencies transferred by this Order to the Department of Commerce, to exercise and perform in connection with the said agencies the functions and duties now exercised and performed, or authorized to be exercised and performed, by the National Recovery Administration, to report to the President on all matters relating thereto, and to terminate the functions and duties of the said agencies not later than April 1, 1936.
3. The Consumers' Division, established within the National Recovery Administration by Executive Order No. 7120 of July 30, 1935, together with all of its officers and

- 2 -

employees, files, records, equipment, and property of every kind, are hereby transferred to the Department of Labor. The Secretary of Labor is authorized and directed, under the general direction of the President, to appoint, employ, discharge, and fix the compensation and define the duties and direct the conduct of all officers and employees as may be engaged in the administration of the said Consumers' Division, to exercise and perform in connection with said Consumers' Division the functions and duties now exercised and performed, or authorized to be exercised and performed, by the National Recovery Administration, and to report to the President on all matters relating thereto.

4. No person transferred by this Order shall by such transfer acquire a civil service status. Any new appointments under this Order may be made without regard to the Civil Service Rules and Regulations.

5. All Orders and Regulations heretofore issued concerning the administration of Title I of the National Industrial Recovery Act, as amended, are hereby modified to the extent necessary to make this Order fully effective.

6. This Order shall become effective on January 1, 1936.

THE WHITE HOUSE

December , 1935.

*It was signed Dec 21/1935
See memo. on that date*

December 16, 1935.

Dear Eleanor:

Enclosed is the information which you asked for in regard to Red House.

Affectionately yours,

Mrs. Franklin D. Roosevelt,
The White House,
Washington, D. C.

Mrs. Klatz. 66
Gov Secy's files
SWP

December 18, 1936

MEMORANDUM

TO: Mr. Bell
FROM: Mr. Bartelt
SUBJECT: Delay in Salary Payments on the Red House Farms Project at Red House West Virginia

The following is a report of my investigation of the delay in making pay roll payments to employees on the Red House Farms Project at Red House, West Virginia.

The Red House Farms Project was federalized and taken over by the Resettlement Administration on or about October 16. The employees are paid twice a month, through the Treasury Accounts and Disbursing Offices at Charleston, West Virginia.

A long distance telephone call to our Charleston office on Saturday afternoon elicited the following information:

End of Pay Period	Received in Treasury Accounts Office in Charleston, West Virginia	Sent to Treasury Disbursing Office, Charleston, West Virginia	Paid	Number of Employees	Amount of Pay Roll
Oct. 31, 1936	November 30, 9 a.m.	November 30, 10:30 a.m.	Dec. 3	122	\$2,069.00
Nov. 15, 1936	December 9, 11 a.m.	December 10, 1:45 p.m.	Dec. 11	117	2,069.50
Nov. 30, 1936	December 12, 9 a.m.	December 15, 10:30 a.m.	Dec. 14	115	1,992.00

It will be noted from the above that the pay roll for the period ended October 31 was not received by the Treasury Accounts Office until November 30, a month later; that the pay roll was held in the Treasury Accounts Office

Memorandum to Mr. Bell
December 16, 1956

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only one and one-half hours and that it was paid on December 5, following an intervening half holiday on Saturday and a Sunday. The pay roll for November 15, 1956 was received at the Treasury Accounts Office in Charleston, twenty-four days after the close of the pay period; and after being cleared through the Treasury Accounts and Disbursing Offices, was paid on December 11. The pay roll for November 30 was received in the Treasury Accounts Office on December 12 at 9 a.m. and after clearance through the Treasury Accounts and Disbursing Offices was paid on December 16.

It appears that the delay in handling the October 31 and November 15 pay rolls was due to confusion in the Resettlement Administration in Washington. The first pay roll was prepared at Red House Farms and sent to the Resettlement Administration at Washington. Mr. Braswell, of the Resettlement Administration, states that it was in such condition, however, that it could not be paid. After some confusion in the Resettlement Administration as to where the pay rolls should be administratively handled, it was finally determined to handle them from Raleigh and on November 28, Mr. Braswell took the pay roll to Raleigh. His records show that the pay roll was sent to Charleston on November 29 and the Treasury's records at Charleston show that it was received in the Treasury Accounts Office on November 30, 9 a.m. In the meantime, it appears that the time sheets for the pay roll period ended November 15 were sent from Red House to the Resettlement Administration in Washington, where, during the confusion, they were temporarily misplaced. Mr. Braswell, of the Resettlement Administration, says that these time sheets were received by him at Raleigh on December 8, from which Mr. Braswell made up a pay roll. This ~~pay roll~~ as previously indicated, was received in the Treasury Accounts Office on December 9 at 11 a.m. This pay roll was paid by the Treasury Disbursing Office at Charleston on December 11.

In the case of the November 30 pay roll, the time sheets were sent by the Red House Farms Project to the Resettlement Administration at Raleigh, for the purpose of preparing the pay roll. Mr. Braswell, pay roll clerk

*Note: Since this was written, Red House Farms Project Manager advises that he did not prepare pay roll but sent time report to Resettlement Administration in Washington. This difference, however, is not material.

Memorandum to Mr. Bell
December 16, 1936

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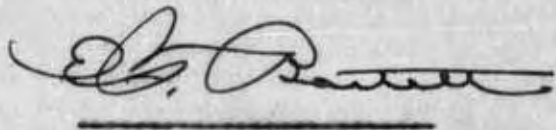
for the Resettlement Administration at Raleigh, states that the pay roll was sent to Charleston on December 9.

While there has been in unfortunate delay in the Resettlement Administration in connection with the handling of the Red House pay rolls, the delay was due to the confusion following federalization and it is believed that the matter can be readily corrected. The administrative officers of the Resettlement Administration (Mr. Cannon, of the Washington Office, and Mr. Braswell, of the Raleigh Regional Office) appear to be very cooperative. As you know, the organization of the Resettlement Administration is divided into eleven regions. The city of Raleigh is the administrative headquarters for the states of North Carolina, Tennessee, Kentucky, Virginia, and West Virginia and it is understood that the allotments for projects in these states are administratively controlled in the office at Raleigh and for this reason the time sheets for the Red House Farms Project are sent to Raleigh for the preparation of the pay roll. This office has already advised representatives of the Resettlement Administration that it would not be necessary for the time sheets to be sent to Raleigh for the preparation of the pay roll, inasmuch as allotment and encumbrance accounts are maintained upon the Treasury's books at Charleston, and that the Treasury would see that the allotments are not overencumbered. Specifically, we have made the following recommendations for consideration of the Resettlement Administration: First, that the pay rolls be prepared and certified by the manager of the Red House Farms Project; that such pay roll be sent directly to the Treasury Accounts Office at Charleston; that a copy of the pay roll be promptly forwarded to the regional headquarters of the Resettlement Administration at Raleigh; that a representative of the Accounts Office at Charleston would be sent to the Red House Farms Project for the purpose of instructing the project manager and the pay roll officer of the project in the matter of preparing the pay rolls and subsequently *will* give such other assistance as may be necessary to see that the pay rolls are prepared properly. Secondly, if, for administrative reasons the foregoing plan is not acceptable to the Resettlement Administration, that the accounts for the Red House Project which are now maintained on the books of the Treasury's Charleston office, be removed therefrom and

Memorandum to Mr. Bell
December 16, 1935

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transferred to the Treasury's books in our Raleigh office. Should this be done the Treasury's Raleigh office will be instructed to keep a tickler for awhile on the Red House Farms pay roll and to get in telephonic communication with the Raleigh office of the ^{Administration} in the event that the pay rolls do not come into the Treasury offices on time. This matter will be followed up to a conclusion by this office and you will be advised of the results.



December 16, 1935

MEMORANDUM

TO: Mr. Bell

FROM: Mr. Bartelt

SUBJECT: Delay in Salary Payments on the Red House Farms Project at Red House, West Virginia

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The Red House Farms Project was Federalized and taken over by the Resettlement Administration on or about October 15. The employees are paid twice a month, through the Treasury Accounts and Disbursing Offices at Charleston, West Virginia.

A long distance telephone call to our Charleston office on Saturday afternoon elicited the following information:

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Nov. 15, 1935	December 9, 11 a.m.	December 10, 1:45 p.m.	Dec. 11	127	2,053.50
Nov. 30, 1935	December 12, 9 a.m.	December 13, 10:30 a.m.	Dec. 14	115	1,922.00

It will be noted from the above that the pay roll for the period ended October 31 was not received by the Treasury Accounts Office until November 30, a month later; that the pay roll was held in the Treasury Accounts Office

Memorandum to Mr. Bell
December 16, 1935

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only one and one-half hours and that it was paid on December 3, following an intervening half holiday on Saturday and a Sunday. The pay roll for November 15, 1935 was received at the Treasury Accounts Office in Charleston, twenty-four days after the close of the pay period; and after being cleared through the Treasury Accounts and Disbursing Offices, was paid on December 11. The pay roll for November 30 was received in the Treasury Accounts Office on December 12 at 9 a.m. and after clearance through the Treasury Accounts and Disbursing Offices was paid on December 14.

It appears that the delay in handling the October 31 and November 15 pay rolls was due to confusion in the Resettlement Administration in Washington. The first pay roll was prepared at Red House Farms and sent to the Resettlement Administration at Washington. Mr. Braswell, of the Resettlement Administration, states that it was in such condition, however, that it could not be paid. After some confusion in the Resettlement Administration as to where the pay rolls should be administratively handled, it was finally determined to handle them from Raleigh and on November 25, Mr. Braswell took the pay roll to Raleigh. His records show that the pay roll was sent to Charleston on November 21 and the Treasury's records at Charleston show that it was received in the Treasury Accounts Office on November 23, 9 a.m. In the meantime, the pay roll for the period for the pay roll period of November 15 was sent from Red House Farms to the Resettlement Administration at Washington, where, during the confusion, it was carelessly misplaced. Mr. Braswell, of the Resettlement Administration, says that these time sheets were received in Raleigh on December 2, from which Mr. Braswell made the pay roll. This ^{payroll} was previously prepared and sent to the Treasury Accounts Office in Charleston on December 11 and the pay roll was paid by the Treasury Accounts Office at Charleston on December 11.

In the case of the November 30 pay roll, the check is made to the Red House Farms Project to the Resettlement Administration at Raleigh, for the purpose of retaining the pay roll. Mr. Braswell, pay roll clerk

There is a handwritten note at Red House Farms Project which indicates that he did not prepare pay roll for the time report to Resettlement Administration in Washington. This difference, however, is not

Memorandum to Mr. Bell
December 16, 1935

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for the Resettlement Administration at Raleigh, and that the pay roll was sent to Charleston on December 9.

While there has been an unfortunate delay in the Resettlement Administration in connection with the handling of the Red House pay rolls, the delay was due to the confusion following federalization and it is believed that the matter can be readily corrected. The administrative officers of the Resettlement Administration (Mr. Gammon, of the Washington office, and Mr. Bracwell, of the Raleigh Regional Office, appear to be very cooperative. As you know, the organization of the Resettlement Administration is divided into eleven regions. The city of Raleigh is the administrative headquarters for the states of North Carolina, Tennessee, Kentucky, Virginia, and West Virginia and it is understood that the allotments for projects in those states are administratively controlled in the office at Raleigh and for this reason the time sheets for the Red House Farms Project are sent to Raleigh for the preparation of the pay roll. This office has already advised representatives of the Resettlement Administration that it would not be necessary for the time sheets to be sent to Raleigh for the preparation of the pay roll, inasmuch as allotment and encumbrance accounts are maintained upon the Treasury's books at Charleston, and that the Treasury would see that the allotments are not overencumbered. Specifically, we have made the following recommendations for consideration of the Resettlement Administration: First, that the pay rolls be prepared and certified by the manager of the Red House Farms Project; that such pay roll be sent directly to the Treasury Accounts Office at Charleston; that a copy of the pay roll be promptly forwarded to the regional headquarters of the Resettlement Administration at Raleigh; that a representative of the Accounts Office at Charleston would be sent to the Red House Farms Project for the purpose of instructing the project manager and the pay roll officer of the project in the matter of preparing the pay rolls and subsequently *will* give such other assistance as may be necessary to see that the pay rolls are prepared properly. Secondly, "if, for administrative reasons the foregoing plan is not acceptable to the Resettlement Administration, that the accounts for the Red House Project which are now maintained on the books of the Treasury's Charleston office, be removed therefrom and

Memorandum to Mr. Bell
December 10, 1935

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transferred to the Treasury's books in our Raleigh office. Should this be done the Treasury's Raleigh office will be instructed to keep a tickler for awhile on the Red House Farms pay roll and to get in telephonic communication with the Raleigh office of the ~~Administration~~ ^{Administration}, in the event that the pay rolls do not come into the Treasury offices on time. This matter will be followed up to a conclusion by this office and you will be advised of the results.

D. S. Parker

WVB

Monday, Dec. 16, 1935.

The offerings of spot silver in the London market this morning totaled 12,150,000 ounces.

About 10 AM one of the New York banks advised receipt of a Cable from the London brokers asking if we desired them to make a firm offer to us. No reply was made to this Cable as we had previously advised the London brokers that anyone was free to make us firm offers of silver at any time and we did not want to be in a position of having to ask them to make offers.

At 10:30 we received several offers of silver from Bombay, the lowest offers totaling 950,000 ounces at 26 pence, equivalent to 57.68¢. There were also other offers amounting to 3,000,000 additional ounces on an up scale. At about the same time an offer was received from the London brokers of 12,150,000 ounces at 26 pence, equivalent to 57.68¢. After consulting with the President, Mr. Morgenthau decided to accept the offer of 950,000 ounces from Bombay, and 750,000 ounces of the total offered from London. At first it was the idea to purchase 1,000,000 ounces in London, but it was thought best not to purchase the same amount in the London market each day as it would be too easy for them to trace this procedure. The purchase of 750,000 ounces in the London market enabled the price to be fixed at 26 pence, but only about 5% of the total amount offered for sale was taken care of by this bid.

The price of silver in the New York market was fixed at 60¢, off 1¢ from Friday. After the fixing, several offers were received of additional silver from both London and Bombay at the same price as the fix, all of which offers were declined.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 16, 1935

TO Secretary Morgenthau

FROM Mr. Haas *GH*

Subject: Meeting of Committee on Alternatives for Processing Taxes,
December 6, 1935, U.S.D.A.

Present:

Forrest Black, Solicitor's Office, U.S.D.A.
A. J. Black, Chief, Bureau of Agricultural Economics, U.S.D.A.
Carl C. Farrington, Bureau of Agricultural Economics, U.S.D.A.
Mordecai Ezekiel, Economic Adviser to the Secretary, U.S.D.A.
O. V. Wells, Agricultural Adjustment Administration, U.S.D.A.
Louis H. Bean, Agricultural Adjustment Administration, U.S.D.A.
Herman Oliphant, Treasury Department.
George C. Haas, Treasury Department.

Mr. Black submitted a statement concerning legislative proposals in the case of an adverse decision, and Mr. Farrington submitted a statement based on Treasury data, as to the source of Treasury income, and possible sources for new taxes.

After considerable discussion, as to whether the old bill should be amended or a new bill written, the conclusion was reached that it would be desirable, if the decision were unfavorable, to correct it with the minimum of legislation possible, but exactly what that minimum would be could not now be determined.

December 16, B35

Senator McNary called on me at my request. I explained to him just what we have been doing and showed him our purchases for last week. When I got through he asked me how Key Pittman felt. I told him he was entirely satisfied. The Senator got up and said, "I am entirely satisfied."

December 16, 1935

The Chinese Ambassador called my house last night at seven o'clock.

He had been instructed by Finance Minister Kung to inform me that on December 12 the Japanese made a raid on the Chinese National Bank by buying \$2,500,000 of foreign exchange and paid for it in yen.. Kung wanted the Ambassador to see whether we would not give them another commitment for 50,000,000 ounces. I told him, "Let's clean up one contract at a time."

Sze said the boat to San Francisco only sailed every other week and he doubted if they would be able to fill their contract, but that he also believed a boat sails for Seattle. I told him to send somebody down to see Mr. Lochhead and we would try to work it out to take shipments at Seattle in order to assist them. He said that boats sailing from Shanghai would not take more than 5,000,000 ounces; that anything over that, the insurance premium ran high. I told him that was up to them whether they wished to pay the extra insurance premium. He told me the annual settlement date now came at the end of January and they were nervous about that. I did not take much stock in this.

I want to tell Lochhead that the first silver we take from them should be the 2,000,000 ounces of silver which they still owe us at 50 cents before we take any of the higher priced silver.

COPY

MEMORANDUM

December 17, 1935

Conference with the Secretary and Senator Bulkley, Senator Bulkley delivering Moore's letter stating that he would turn profits back to the liquor syndicate when and as he was able.

The Secretary expressed doubt as to the sufficiency of this assurance. I pointed out that the legal effect of this language was an obligation to pay within a time that would be reasonable under the circumstances.

Senator Bulkley agreed with this interpretation, and the Secretary expressed himself as satisfied with it.

The Syndicate is to write the Secretary a letter designating the Cleveland Community Chest or the American Red Cross as the ultimate recipient of these profits. He said he would require the same arrangement with Pollack and Harper, and would, thereafter, submit to Bulkley his proposed publicity statement.

(Initialed) H. O.

December 16, 1935.
Monday

Harry Hopkins: me you didn't want to get into this four billion eight hundred million dollars.

H.M.Jr.: Yes

H.: But, - are you lunching today?

H.M.Jr.: Yes

H.: Well, - with the boss?

H.M.Jr.: Yes

H.: Well, this is the only thing - I - that seems to me important to you - is not the detail of this or who is going to get money -

H.M.Jr.: Yes

H.: - but this one fact,

H.M.Jr.: Yes

H.: There's about three hundred and sixty million dollars -

H.M.Jr.: Yes

H.: - that the President can still allocate around one place or another.

H.M.Jr.: There was.

H.: Well, there is.

H.M.Jr.: No

H.: Well, I think there is, Henry -

H.M.Jr.: Well -

H.: - I'll show you there is.

H.M.Jr.: Well, all right.

H.: Assume there is for this discussion.

H.M.Jr.: O. K.

H.: If he gives that money to anybody else -

H.M.Jr.: Yes

H.: - they committed it -

H.M.Jr.: You mean, anybody else but Ickes?

H.: Anybody but me.

H.M.Jr.: Oh! oh!

H.: Don't get sarcastic.

H.M.Jr.: Oh! oh, oh, oh, oh, oh ---

H.: They committed it.

H.M.Jr.: Yes

H.: So that for all practical purposes it at some point in the game is going out of the Treasury.

H.M.Jr.: Yes

H.: Ours is the only outfit that he can't - that he's got control of the money.

H.M.Jr.: Yes

H.: Now that's the only point I want to make.

H.M.Jr.: I get you.

H.: And I think it's an important one.

H.M.Jr.: Yes - listen, -

H.: Yes

H.M.Jr.: I read your article in Collier's -

H.: You did?

H.M.Jr.: And I think it's very good.

H.: Well, that's nice, Henry.

H.M.Jr.: It - it flowed very well and very interesting.

H.: Well, that's fine.

H.M.Jr.: If you did it yourself -

H.: I did it.

H.M.Jr.: Did you really?

H.: Yes, sir!

H.M.Jr.: Really?

H.: Yes, sir.

H.M.Jr.: Well, if you did it yourself you're good.

H.: 'Atta boy.

H.M.Jr.: (Laughter) Listen -

H.: Yes

H.M.Jr.: I'm going over there at two o'clock but nobody can get me in on this thing on my emotions any more.

H.: I see

H.M.Jr.: In other words you are going to keep your mouth shut?

H.: I think so

(Laughter)

H.M.Jr.: All right, I

H.: - if you go winking at me, damn you, if I get in a tight jam, I suppose you're going to enjoy it some today.

H.M.Jr.: Oh - listen, I - you know the Treasury's policy - we're on an hourly basis.

H.: (Laughter) All right.

H.M.Jr.: O. K.

H.: Goodbye

H.M.Jr.: Goodbye

December 17, 1935

The Secretary asked the Chinese Ambassador to come in at 4:30. Coolidge, Oliphant and Lochhead were present.

HM, Jr. said "I had a cable from Professor Buck yesterday, which reads as follows:

'December 16, 1935

Kung states shipment of silver at this time can not be done without being known and this may result in criticism by Chinese public and criticism by Japanese and suggest it is more advisable leave silver in Bank of China vaults Shanghai, turning key over to Second Bank and have portion of equivalent fund placed at disposal for stabilization purposes. Will pay portion of shipping fees in advance if desired. However, prepared to deliver if you feel public result is not important factor but must begin shipping immediately because of limited amount of silver allowed aboard each steamer.' "

Mr. Morgenthau then told the Chinese Ambassador "I answered him yesterday, as follows:

'December 18, 1935

Your cablegram sixteenth regard to silver Bank of China vault: STOP Have considered this suggestion previously and do not wish to change arrangement as originally made calling for payment aboard U. S. Steamer STOP Feel advisability of time and amount of shipments entirely a decision for Chinese banking officials.'

Mr. Morgenthau continued: "The point I want to make is this: our agreement with you expires on February 11. We are ready any time to live up to our end of the agreement, but it ends on February 11. I want to make it perfectly clear to Kung that 'advisability of time and amount of shipments entirely a decision for Chinese banking officials.'

The Chinese Ambassador said, "He sent me a telegram

which I received yesterday and he said when shipment is made, of course the public will know. I assume that the Secretary of the Treasury will have no objection. I told him that the Secretary of the Treasury wants shipments made as quickly as possible."

HM, Jr., said, "As far as the publicity is concerned, it does not worry me at all. They can handle it at their end any way they want to."

The Ambassador said, "Previously when I came to see you, you said, 'I want everything secret.' Mr. Morgenthau said, 'That was at the time we were negotiating. Now the silver is ready to be shipped.'"

The Ambassador then asked the Secretary, "Can we say, if we are asked for what purposes we are selling the silver, that it is for stabilization purposes?" Mr. Morgenthau said, "Yes. But I want to make it clear that it is useless for you to come around here on February 10 and ask for an extension of the agreement. We are ready to help you at this time to move this silver." The Ambassador, replying, said: "I will tell him."

PARAPHRASE OF CABLE RECEIVED FROM PROFESSOR BUCK, SHANGHAI, CHINA, DEC. 16, 1935

Kung says shipment of silver now impossible without publicity which may cause criticism by Chinese public and by Japanese. Thinks it advisable to leave silver in Bank of China vaults, Shanghai, and give key to Second Bank, placing portion of funds at disposal for stabilization purposes. Part of shipping fees will be paid for in advance if desired. If you think public result unimportant factor, ready to deliver, but shipping immediately imperative due to limited amount silver allowed on board each vessel.

PARAPHRASE OF CABLE SENT TO PROFESSOR BUCK, SHANGHAI, CHINA, DECEMBER 17, 1936

Referring to your Cable December 16 regarding silver Bank of China vaults have previously considered this suggestion and do not wish to change arrangement as originally made specifying payment aboard U. S. steamer. Think advisability of time and amount of shipments solely a decision for banking officials of China.

December 17, 1935

Buck

Your cablegram 16 reference your talk Kung stop
Concerning additional silver purchases feel that present
arrangements should be carried out prior to consideration
of new ones stop His reference to staying on silver stan-
dard and his opinion that some method of using both gold
and silver in world is necessary are noted with interest
in view of the underlying monetary policy of the Adminis-
tration as expressed in President's message to the Congress
of May 22, 1934 stop Further expression of his views on
this subject would be welcome stop Not deemed advisable to
depart from Treasury's fixed policy of not commenting on
possible future price of silver

O.K. W.M. J. President
also by
H.C. 19th

December 16, 1935

Kung states Japanese are determined to break China's new monetary system and they made a raid last Friday Yokohama Specie Bank, purchasing two and one half million United States dollars. At present there are seven hundred fifty million yuan notes but only two hundred million yuan equivalent in foreign exchange, including proceeds of the ~~five hundred~~⁵⁰ million ounces, thus reserve insufficient.

Additional stabilization funds urgently needed and desire you take another hundred million ounces. The proceeds would be used for stabilization purposes and currency reform. Complete reform of subsidiary currency definitely under way and dies for 5, 10 and 20 cent pieces arrived few days ago.

Coppers will all be exchanged for one cent and a half-cent pieces. Silver coin of 50 cents and one dollar denominations will be issued and probably of 25 cents. Some hard money needed and even the dollar will be a token coin. Intention is to use silver for some coinage and Kung refers to staying on silver standard in public statements but use of silver in token coins and as reserve is meant. Kung expressed opinion that bi-metallism or some other method of using both gold and silver in world is necessary as there is not enough gold. Managed currency and redemption in gold and silver seem best. Kung anxious to know future of United States policy regarding price of silver and states if the prices now become lower while China is carrying

Cable from Professor Buck, Dec. 16.

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out her new monetary policy she will be very adversely affected because her monetary assets in silver will become greatly reduced. Kung states no serious difficulties in administration new monetary policy. Ten million silver dollars already collected from people and three hundred millions from banks. Leaving silver in provinces desiring to keep it will help establish local confidence in the legal tender notes. Branches of Reserve Board established Canton, Tientsin, Hancow, Tsingtao and Sianfu, with local people undoubtedly as members, by Central Reserve Board. Two universities investigating (ore) returned from various interior points, report ready acceptance legal tender, confirming similar report from various sources.

Tuesday, December 17, 1935

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The London brokers advised that a total of about 13,500,000 ounces of spot silver was on offer this morning. This entire amount was offered to us at 24 7/8 pence, equivalent to 55.20¢, and upon our acceptance of 1,000,000 ounces of this offer their price was fixed accordingly. The New York price was fixed at 59¢, off 1¢ from yesterday. Mexico asked for a bid on 500,000 ounces which was given to them on the basis of the New York price of 59¢, less expenses, which they promptly accepted. Later in the day one of the London brokers offered a further 2,000,000 ounces of silver at 24 5/8 pence, equivalent to 54.65¢, which offer was declined.

December 17, 1935

The Secretary met today with Mr. Sewall Key, of the Department of Justice, Mr. Oliphant, Commissioner Helvering and Kent.

Mr. Helvering stated that he was a little disturbed with the way a large number of tax refund cases were being handled. He said that under the present procedure he knows nothing about a refund until the order from the Attorney General directing settlement comes through. The Commissioner, as the administrative officer, attaches his signature to the recommendation of the Attorney General that the tax payer is entitled to refund and certifies the case for refund. He added that the present procedure has not worked out quite as Internal Revenue had expected under the Executive Order.

Mr. Key said the Department of Justice is concerned as to the possible defense of the case in the courts. He was under the impression that when Justice referred a case to the Internal Revenue Bureau, with respect to administrative settlement, a letter was written stating why Justice thought they could not defend the Treasury's position. Kent, however, stated that the case is simply returned with a letter which generally says, "You are hereby authorized and directed by the Attorney General to refund."

Mr. Key stated that when Justice first had occasion to suggest that settlement be made because Justice thought there was no defense to the case, a letter was written giving the view of the Justice Department and requesting the Internal Revenue to consider it and advise Justice if it agreed and, if so, to put it through for settlement. He also stated that Jackson had conferred with Wideman and said the Treasury wanted a specific instruction from the Attorney General directing settlement. The Attorney General, Key added, did not like the idea of directing an officer of another Department to do a certain thing, but upon further conference with Jackson, Jackson said that was what they wanted and Key explained that that was the reason for the direction.

HM, Jr. offered the suggestion that in the future the Department of Justice, before directing refund or settlement, first informally submit to the Internal Revenue a tentative decision; in other words, say "This is what we propose to do," and asking for approval, or suggestions and criticisms, and giving the reasons why in some cases Justice considers the case a doubtful one to defend. HM, Jr. also was of the opinion that they should start this procedure at once and

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continue it through January. Mr. Key approved the suggestion and said that at the end of January, Justice will ask the Treasury if they wish the action continued or abandoned. He expressed the desire of the Attorney General to cooperate with the Treasury Department and said that any suggestions or recommendations from the Treasury Department would be very helpful to his office.

December 17, 1935

HM, Jr. called the President this morning and told him that Bombay came through with an offer of $6\frac{1}{2}$ million ounces of silver at 58- $\frac{3}{10}$ cents and London came through with an offer of 13 million ounces at 55.20, a drop of over $2\frac{1}{2}$ cents from yesterday.

The Secretary told the President he thought we ought to take about 2 or $2\frac{1}{4}$ million ounces. The President suggested taking 1 million ounces just to see what would happen. Mr. Morgenthau pointed out that the price was dropping very fast, but he would carry out his wishes and buy 1 million ounces in London. No silver would be bought in Bombay. He also said he would take $\frac{1}{2}$ million ounces in Mexico at today's price and drop the price one cent in the New York silver market.

Silver

9.28

DEC 17 1935 LONDON

APPROXIMATELY THE SAME AMOUNT OF SILVER WILL BE
OFFERED IN LONDON SILVER MARKET TODAY AND UNLESS
AMERICA IS WILLING TO TAKE A LARGER AMOUNT THE
POSITION OF SILVER WILL NOT BE RELIEVED BUT
WILL BE WORSE AS SELLING ORDERS CONTINUE TO
ACCUMULATE.

LONDON SILVER MARKET

12.45

DEC 17 1935

LONDON - SILVER MARKET WAS WEAK WITH SPECU-

LATIVE HOLDERS SHOWING INCREASED NERVOUSNESS
AND OFFERINGS WERE SLIGHTLY MORE THAN YESTERDAY
QUOTATIONS FOR BOTH SPOT AND FORWARD SIL-
VER ON THE LONDON METAL MARKET AFTER THE CLOSE
WERE NOMINAL-

11.26

DEC 17 1935

ADD LONDON SILVER

LONDON - TRANSACTIONS IN SILVER WERE RATIONED
TO 5 PC OF THE OFFERINGS

December 18, 1935

On Tuesday, November 19, Boake Carter, news commentator on the "Philco" program broadcast over the Columbia Broadcasting System, "revealed" the reorganization of the semi-military and efficient Coast Guard Service by a "landlubber", Mr. Ballenger, whom he described as a former tax investigator and an eye doctor. Ballenger, he said, was placed in direct charge of the Coast Guard over the head of the Commandant by Secretary Morgenthau. He concluded his broadcast with the statement that "Mr. Morgenthau owes an explanation to the public. Let him make it quickly." (Copy of Mr. Carter's remarks of November 19 is attached. See Exhibit I.)

On Tuesday, November 26, Boake Carter again referred unpleasantly to the Coast Guard reorganization and stated over the radio that "seven days have passed and the Treasury Secretary has not condescended yet to reveal why the Guard is becoming the latest deserving jobholders' paradise." He offered to use the explanation when furnished. (See Exhibit II, attached, for that portion of his broadcast which referred to the Coast Guard.)

Some of the newspaper men heard Carter's broadcast and at the press conference the following day referred to Mr. Carter's "cracks" at the Coast Guard. HM, Jr. explained the situation to the men and gave them his guess as to the motive of the attack against him. (See Exhibit III, attached, for excerpts from the press conference on this matter.)

On Tuesday, December 3, Boake Carter again devoted part of his broadcast to a discussion of the Coast Guard, approaching the subject by saying there was still no explanation from the Treasury and he would relate "another little Coast Guard story." (See Exhibit IV, attached.) As a matter of fact, however, Gaston had tried to reach Boake Carter on the telephone and had left word for him to call back, but Boake Carter ignored the request.

Gaston then got in touch with Harry Butcher, Washington manager of the Columbia Broadcasting System and Butcher said he thought Carter was doing wrong and was particularly "burned up" that Carter had again gone on the air attacking the Treasury without having attempted to reach Gaston after Gaston had called him. Gaston told Butcher he would not give Carter the satisfaction of a reply, but would give Butcher a memorandum on the facts. It was arranged that the Secretary would write a letter

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to Harry Butcher inclosing a letter addressed to Boake Carter which Butcher would see was delivered to Carter. Mr. Butcher had already arranged that Mr. Carter would broadcast the entire letter as the Secretary's reply to the statements about the Coast Guard. The Secretary wrote Mr. Butcher that if Carter did not see fit to broadcast the full text of the letter, he, the Secretary, would be glad to discuss Mr. Butcher's suggestion that the Treasury itself take time on the Columbia chain to present its case. (Copy of letter to Mr. Butcher is attached; see Exhibit V, and copy of letter to Mr. Carter is marked Exhibit VI, also attached.) On December 10, Boake Carter read the Secretary's letter in full over the radio.

However, this did not end the discussion for on December 17 he again referred to the Secretary's letter by "reporting in rebuttal on the defense made in Secretary Morgenthau's letter." In this broadcast he ended his "rebuttal" by stating "our main point having been won by the elimination of a bad selection system, the plaintiff having opened the case closes the rebuttal and will let the case stand on its merits." (See Exhibit VII attached.)

This constituted Boake Carter's final radio discussion of the Coast Guard Service.

Excerpt from:
Boake Carter's
Phileo Broadcast
Tuesday, November 19th
Nineteen Thirty - five

Quietly and without any fuss or furor, efforts are being made to turn the nation's coast guard service from a military to a civilian outfit. Quietly and without any fuss or furor, long range plans are being worked out to emasculate the coast guard altogether, turn it, it is reported in inner circles, into a body which can be loaded with needy political jobholders under the jurisdiction of the Inter-State Commerce Commission - or as the reports have it, some transportation authority and eventually, under the supervision of the Department of Commerce. True, the long range developments could not be accomplished without an act of Congress, repealing the old act creating the guard - but nevertheless the ground work, it is said, is being subtly and neatly laid - and hardly a word of these reported impending changes has reached public ears. So let taxpayers hear now what is being done to the coast guard. Up until now, the guard has been a virtually independent unit - patrolling the coast - divided into perhaps two main categories - doing police work and saving lives and keeping an eye on anything that floats around the nation's coastline. It is under the official jurisdiction of the Treasury Department, although since its creation the guard has been allowed to build itself up and the Treasury has kept hands off on guard policy matters. So, through the years, there grew up a fine body of semi-military men, operated efficiently and smartly, with a magnificent record to show, a nucleus for an excellent naval reserve, with a commandant with a lifetime of guard service behind him. Politics found no happy hunting ground in this good outfit. But in the past year, Treasury Secretary Morgenthau began the quiet changes. A

civilian employe was placed in direct charge of the guard over the head of the commandant. His technical title is Technical Advisor to the Administrative Assistant to the Secretary of the Treasury - one of those fancy titles that covers a lot of ground, but doesn't give the game away. The civilian advisor is Edwin R. Ballinger. He is 44. He comes from Iowa. His qualifications to head the coast guard - which deals with the sea, ships and shipping, are magnificent. They include service as an investigator in the Internal Revenue Bureau - i.e., a tax collection investigator - and also possession of a prosperous practice as an optometrist. The tax investigator and eye doctor probed the coast guard in every nook and cranny. Finally he wrote a report. A shake-up came. Coast guard headquarters was reorganized and the plum of head man was given to the Ex-Tax Investigator. Two high guard officers who spoke their minds when they learned they were to be told how to run their business by a landlubber, were kicked out to the Pacific coast. Further evidences of civilian control for this old military outfit, include selection of new coast guard station sites - by the Treasury, open to politics. Civilians picking spots for coast guard work and the guardsmen told to run along and bowl their hoops and wait for landlubber orders. A new promotion system has been drawn up, by which regular guard officers, experienced men, may be kicked out for virtually no reason except the whim of the head man - to be replaced, no doubt with civilians. The bill was drawn secretly. Not a guard officer knew about it. It failed by a whisker to pass in Congress last session. It is to be resubmitted this session. Therefore, let congressmen beware and be on their toes when this is dumped upon their laps again. Subversive efforts are being made to destroy one of the best semi-military outfits the nation possesses. To turn it into a civil outfit would destroy a national defense reserve, open the flood gates for political skullduggery, and load an added bill

BOAKE CARTER

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on the taxpaying public's shoulders without them getting a cent's worth of decent service and protection in return. The scheme is a well-laid plan. No public explanation has been made by the Treasury as to its reasons for making these changes. If it works in secret and in the dark, then the inference for the reasons are not pleasant to contemplate. Let it be smoked out and explain why it prepares to scuttle one of the best services the nation possesses. The coast guard's morale has been badly shattered by the last few months' procedure. Mr. Morgenthau owes an explanation to the public. Let him make it quickly.

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Exhibit II

Excerpt from:
Boake Carter's
Philco Broadcast
7.45 to 8.00 P.M.
Tuesday, November 26th
Nineteen Thirty-five.

COAST GUARD:

A week ago tonight, we reported that efforts, also quiet and sub-rosa, were being made to slowly transform the coast guard, the oldest semi-military outfit in the United States - with an honorable record of national service since 1790, into a civilian outfit at the instance of higher-ups in the Treasury. Hundreds of people seemed astounded at this - yet it did not astonish those in the coast guard service, whose morale has been hurt by seeing one of the few federal outfits, untouched by politics, gradually being filtrated by civilians and political jobholders. But, as one officer observed, this matter having now been brought out into the open, all services personnel may now talk about it openly and publicly without fear of being disciplined. The more it is discussed, the better for public understanding of the guard, its functions, its costs and the purposes it serves. Therefore, in that light, let us report another indication of the civilian-izing that is going on in this service. For years, the guard has had pay clerks who through long years of service and merit, worked up from the ranks of the enlisted man, and became warrant officers. These coast guard men, who from years of experience know the ins and outs of guard costs as related to the sea and all it calls for, are now dropped down a peg, and are serving civilian jobholders who now hold the jobs once theirs and who have had little or no experience in

Boake Carter

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the ins and outs of coast guard costs and figures. The inexperienced civilian jobholders are drawing down more pay than the experienced guard men were drawing before the scuttling process began. Yet they are relieving little of the experienced men of the work. In other words, the civilians have been foisted on the guard - so little solid work, draw down better pay for doing nearly nothing - add one more expense to the general taxpayer - and help undermine the efficiency of this unit which has been serving the nation for 145 years without let-up. What is the reason for this? That question we asked of Secretary of the Treasury Morgenthau last Tuesday. It was observed that the nation at least is due an explanation as to why the United States Coast Guard is being suddenly surreptitiously and furtively civilized. Seven days have passed, and the Treasury Secretary has not condescended yet to reveal why the guard is becoming the latest deserving jobholders paradise. When the explanation is made, we'll be glad to use it. Further incidents of the undermining of one of the nation's best reserve national defense units - a pretty serious thing to be doing will be reported from time to time.

.....

Q. Mr. Secretary, I understand this radio commentator, Mr. Boake Carter, made the crack --

A. What's his name?

Q. Boake Carter made cracks at the Coast Guard; who's the high officials; he says there's a high official brought in here--

Mr. Gaston: That's Ballinger he's talking about.

Mr. Morgenthau: Well, I wish Mr. Boake Carter might meet some of you fellows and get some of the ethics of reporting and not take backstairs gossip as facts; he didn't consult Mr. Gaston and he didn't consult Admiral Hamlet and he hasn't talked to me; where he got his facts, I don't know. Yet, it's a rather unusual procedure for a man to go on the air and demand an answer and so forth and so on when he hasn't even had the decency to come around and talk to anybody here. As a matter of fact, what we are doing over there is, I think, very constructive, and we are putting in some, what I call, business administrative practices at headquarters; we have had Mr. Ballinger, whom I consider a very good administrative man, make the study--purely administrative procedure, and I think they are going to be helpful, and if Mr. Boake Carter is so interested in the taxpayers' money, one of the objects is efficiency and lower the cost of running the Coast Guard; off the record, I think Mr. Boake Carter is very much skating on thin ice and that's a fact and that's why I just let it go at that; I think it's going to be embarrassing for him and his sponsor and I don't know whether it's just an accident or not that he's attacking me on the radio, but they have a big tax suit pending; it isn't embarrassing for me, but it may be very embarrassing for Mr. Boake Carter that this tax suit is pending. It doesn't worry me a bit, but we have a grand job over there. What I said about this tax suit business is off the record; the other is on the record--but it's a new experience for me.

Q. How could it embarrass him, off the record or any other way?

A. I mean, here they go, on the record, attacking the Treasury.

Q. It looks like they are in as bad with the Treasury as they can be.

A. It looks bad this way; it might look as though they are trying to scare us but we don't scare easily.

Q. Any changes in personnel?

A. Just a shift; but I can tell you that from the Secretary's office, there hasn't been a single recommendation made, but we have made shifts; we have made consolidations; we have cut in business procedure methods; we have consolidated budgeting, mode of buying and in each district we have a central purchasing agency, but there hasn't been a single political or any kind of recommendation made by me for any kind of appointment. There was no party politics of any kind; it's simply a question -- and some of the old boys have gotten shifted out of their swivel chairs; if you are a sailor you ought to be willing to go anywhere.

Q. Some of them get seasick?

A. That simplifies matters enough. But I'm personally willing to have anybody go over there and turn the thing inside out and it's such a good story that, I don't want to get personal, but certain papers won't write it.. It's a good story and the boys have done a good job; it's a purely administrative study made in administrative procedure, and they've cut a lot of red tape and consolidated certain functions.

Excerpt from:
Boake Carter's
Philco Broadcast
7.45 to 8.00 P.M.
Tuesday, December 3rd
Nineteen Thirty-five

This being Tuesday night once more, and there still being no explanation being made by Treasury Department authorities as to why the civilianizing of the Coast Guard, under the tutelage of an announced expert reorganizer with virtually no past knowledge of the sea, coast guard duties and its complexities - let us add then, a third coast guard story, of interest it would be to taxpayers and citizens in general who pay for and ask only for a non-pork barrel, efficient life-saving and coast guard patrol unit - which has been the case up until recently. There are at present on duty with the War Department somewhere in the region of 200 - possibly a trifle less - coast guard warrant officers. They have been warrant officers for from ten to twelve years and have had from 15 to 20 years service or more. When the economy act came, these men were reduced to the grade of chief petty officer, first class, and so on down the line. The temporary warrant officers - attached to the army - have held down almost every job conceivable in the coast guard - having served as officers in charge of larger patrol boats; executive officers, watch officers, engineer officers and so on. Posts requiring initiative, experience, and years of knowledge of the sea back of them. This group of coast guard veterans were transferred to the army for temporary duty with the Civilian Conservation Corps. Irrespective of the fact

Boake Carter

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that this sounds not unlike the usual story of the fish out of water, the interesting part of the situation lies in the fact that when the CCC tour of duty ends for these 175 or so coast guard veterans, they face either stepping out into civilian life and looking for a job or else returning to coast guard duty with the grade of chief petty officer, after having been warrant officers, executives, watch and engineer officers of patrol boats in active sea duty for many years. Many may wonder how on earth a coast guard officer can keep abreast of new developments pertaining to ships, while running around with an army assignment. The answer is that he cannot keep abreast of developments. He gets rusty and he drops behind in his knowledge of modern craft, the latest construction wrinkles, the latest things to be on the lookout for in coast guard duty. If this be an example of civilian re-organization - then we'd better put the army on the battleships and let the navy march up the hill and down again. There would be at least an equal amount of nonsense to it. An explanation as to why the guard is being revamped under the authority of the supervision of an ex-internal revenue investigator, would interest many millions of people who thought they were paying for the upkeep of something somewhat different. Perhaps it will come from the Treasury before next Tuesday - when no doubt we shall have another illuminating little coast guard story to report.

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Exhibit V
104

COPY

December 6, 1935

Mr. Harry C. Butcher,
General Manaher, Station WJSV,
Columbia Broadcasting System,
Earle Building,
Washington, D. C.

My dear Mr. Butcher:

I am enclosing a letter to Mr. Boak^{er} Carter which I hope you will be good enough to forward to him. It is my understanding that Mr. Carter will broadcast this entire letter as my reply to the statements he has made about the Coast Guard in his news broadcasts. I have tried to keep it a reasonable length and I believe it will not take up too much time in view of the time that Mr. Carter has devoted to the same subject in three separate broadcasts. If for any reason Mr. Carter should not see fit to broadcast the entire letter, I shall hope to be able to discuss with you your suggestion that the Treasury itself take time on the Columbia chain to broadcast a reply.

I appreciate greatly your own expressed desire to give the Treasury a hearing and so to maintain the reputation of the Columbia Broadcasting System for editorial fairness.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Exhibit VI

TREASURY DEPARTMENT

Washington

105

December 6, 1935.

Mr. Hoake Carter,
c/o The Columbia Broadcasting System,
Washington, D. C.

Dear Sir:

Through the courtesy of the Columbia Broadcasting System I have received transcripts of portions of your radio broadcasts of November 19th and 26th in which reference is made to the Treasury Department and the Coast Guard. I regret that you did not come to the Treasury Department or to any of the responsible officers of the Coast Guard for information, for I feel sure that if you had done so you would not have given currency to unfounded rumors that might seriously disturb without reason the morale of a very fine arm of the Government service.

The substance of your charges was that efforts were being made under my direction to transform the Coast Guard into a civilian outfit and that it was (I quote your words) "gradually being filtrated by civilians and political jobholders."

It is very easy to deal in a few words with these statements. They are simply not true. Whoever gave you this information informed you badly. I shall be glad to make all the Coast Guard personnel records available to you if you wish to see them. They will reveal to you that not one civilian has been placed in a position of authority in the Coast Guard since I have been Secretary of the Treasury and that there have been no additions whatever to the small force of civilian employees on the Coast Guard rolls. There has not been any political appointment to the Coast Guard nor any political appointment of a cadet to the Coast Guard Academy in my term of service and there will not be any while I hold my present position.

I was puzzled by your reference to the pay clerks, who you said have been dropped down a peg and are now serving civilian jobholders, until it was explained to me that you had probably been given a distorted version of the arrangement by which Coast Guard officers and men are now receiving their checks through the regional field disbursing offices of the Treasury Department. But the fact is that these disbursing offices were set up by executive order and that they disburse payrolls not merely for the Treasury Department but for other departments of the Government. Their officers are not in any way in authority over the Coast Guard warrant officer pay clerks and they have not replaced them. The importance of the duties of the warrant pay clerks and their value to the Coast Guard have not been diminished.

But you said also that while the Coast Guard was officially a part of the Treasury Department the Guard in the past had been allowed to build itself up and that the Department had kept hands off in policy matters. That, I hope you will agree, is a rather ludicrous statement which reflects an undeserved discredit on my predecessors. You accuse me in effect of taking an interest in the Coast Guard, and I fear I shall have to plead guilty.

The Coast Guard is an essential part of the law-enforcing agencies of the Treasury, engaged in protecting the Nation's revenues, and it has other important duties, including the great humanitarian work of saving life at sea. It must cooperate with other revenue enforcing agencies of the Treasury Department and I have sought to make that cooperation even more effective with results that I think I can say in all modesty have been gratifying. I have devoted a great deal of time and attention to getting the officers and men of the Coast Guard better equipment with which to work -- better ships, better airplanes, improved shore stations. I know they have appreciated it and I would have considered myself false to my responsibility if I hadn't done it. A landlubber can be of some service.

Now let me deal with the case of Mr. Edwin R. Ballinger, who you said was given the task of reorganizing the Coast Guard and was placed in the position of head man over the head of the Commandant. Mr. Ballinger is, as you stated, a technical expert on the administrative staff of the Treasury Department and he did investigate the Coast Guard and propose some changes in organization and procedure which have been put into effect. He did not promote himself into a position as head of the Coast Guard. He holds no position in it whatever, but has moved on to perform similarly valuable work in another branch of the Treasury. You chose to honor him by speaking of him as an eye doctor. If he was that then that profession lost a very valuable man when he chose to enter the Government service nearly twenty years ago. He was a member of the staff of the Bureau of Internal Revenue, before I attached him to the staff of the Treasury proper because I had learned something about his work. He is an expert in organization and particularly the organization and procedure of Government offices. He is not a politician but a civil service merit system employee of the Government, a conspicuously able member of that fine body of career men who are the backbone of the Federal service, whether they go by the title of Admiral, or General, or Captain, or Colonel, or plain Mister. He has been of splendid assistance to the Commandant and other officers of the Coast Guard in improving their organization and they recognize it.

I shall not go into detail as to the administrative changes he recommended, but there is no reason why you should not know all about them if you are interested. It is enough to say here that the changes have not been in the direction of diminishing the authority of the commissioned officers of the headquarters staff, but that on the contrary their authority has been strengthened.

May I suggest that you come to headquarters and learn more about the Coast Guard. It is a fine organization. I am proud of it and of my connection with it and I want its merits to be known.

Sincerely yours,

H. MORGENTHAU, JR.

Secretary of the Treasury.

Exhibit VII
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Boake Carter - Tuesday, December 17, 1935.

....In the law courts it is the legal procedure for the plaintiff to close as well as open his case and the burden of proof is upon him, and, therefore, this gives him always the opportunity to present his case and the other side then makes its defense, and then the plaintiff may answer in rebuttal what has been brought up in defense. On this basis we report in rebuttal on the defense made in Secretary Morgenthau's letter to us regarding the reorganization and changes in the Coast Guard -- and the check comes from authoritative sources within the Guard itself. We gladly take back the charge about the Guard being filtrated by civilians -- as yet civilians have not been placed in the Guard -- one up for the Secretary and one down for us. However, the score is this way: It is interesting to note that the Secretary said, "Not one civilian has been placed in a position of authority in the Coast Guard since I have been Secretary," and in addition "Mr. Ballinger, a Civil Service employee under whose direction reorganizations were made has finished and has moved on to perform other work of a similar character in the Treasury Department." Both these observations were written December 6th; and yet, it is interesting in the extreme to discover that the very same day this civilian who reorganized a sea-going outfit, telephoned for two officers of the Coast Guard, one a captain and one a commander, to step over to the Treasury Department for a conference with him, which would seem to indicate that he may have moved on but not so very far and it is interesting to know that he still remains an ex-officio member of all boards. It didn't seem very sound for a civilian to reorganize a sea-going outfit.

- 2 -

We have to have seagoing officers, just as the Navy does. If the Navy brought in a civilian to reorganize and tell it what to do, we would soon have a civilian navy. The civilian in question, as the Secretary observes, may be one of the very best Civil Service men in the world, but he is not a marine expert and cannot be expected to know the problems of men carrying on duties at sea. If there is to be an investigation of the Coast Guard, either a well-informed Navy officer or a seaman familiar with sea-going personnel should do the job, for a civilian cannot appreciate the intricate problems confronting a sea-going outfit. Reorganizer Ballinger may be a very excellent chairman of such a board, but we fail to see his qualifications as judge and jury, and as a result of this weakness architects working on construction and repairmen and engineers have been lumped together under engineers in the Coast Guard reorganization plan. The Navy Department, the Navy Yards and private shipyards do not operate this way. The Naval architect outranks the engineer. But here under this civilian organization the Guard's architects have been shifted and put under the engineers and it is a case of the cart before the horse.

And now for the most interesting thing of all. We refer to the Army and Navy Journal of December 7th, a quasi-official publication regarding service matters - and incidentally most accurate - and it reports thusly, about the new selection plan proposed for the Coast Guard. After an exhaustive study the general board of the Coast Guard throws overboard the draft and suggests a continuation of the present

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promotion system. Had not the spotlight of publicity been thrown upon the proposed selection system it might have been law before an opportunity to study it arose. What was probably an unfair promotion system drawn up in secret in the last session of Congress has been junked because of the publicity, and if that is so, it is very pleasing. After all, here is the point: The Guard has three main duties -- acting the part of policeman, saving lives at sea and saving property. The public is most interested in saving life at sea, and yet no less the police end of it enters in. It is a humanitarian outfit and has a wonderful record for nearly a hundred and fifty years. If that is the record of the Guard it seems hard to understand why it should be reorganized. If it had fallen down one would understand. We still contend that such a job should be performed by at least former naval officers or men understanding the problems of the sea. However, our main point having been won by the elimination of a bad selection system, the plaintiff having opened the case closes the rebuttal and will let the case stand on its merits.

--oOo--

Wednesday, December 18, 1935

The London silver brokers advised that there were 13,000,000 ounces of silver for sale in the London market and transmitted an offer for this amount to us at 24 5/16 pence, equivalent to 53.95¢.

The National City Bank received Cable offers of silver from their Bombay office as follows:

150,000 Ounces @ best	(Limit 50.50¢)
150,000 " @ best	(Limit 48.81¢)
1,100,000 " @ best	(Limit London fixing if possible)
905,000 " @ best	(No limit)

I telephoned the Secretary and advised him of these offers and he asked if I had any suggestion. I told him that if it was not considered desirable to let the price drop too fast I thought we could afford to buy the silver offered from Bombay at say, 53¢. This would be about 1¢ under the price of the silver offered from London and would not take too much advantage of a "best" offer made from Bombay. Mr. Morgenthau stated that he would consult with the President and advise me of the result. A little later the Secretary again called and stated that he had talked this question over with the President, who was very "hard boiled" as regards the offerings of silver. The President feels that we could not very well pay higher rates than that at which the silver was offered, and it was therefore decided to accept the offers in Bombay at the equivalent of 50¢, which would take care of all the offers except the one for 150,000 ounces which was limited to 50.50¢. I pointed out to the Secretary that London would probably not be able to fix a price today and he said that if London was willing to offer, say not more than 500,000 ounces at the same price that we were paying

Wednesday, December 18, 1935 -2-

in Bombay, namely, 50¢, we would also accept this amount from them. As this was a decided drop in price from yesterday in the foreign markets, it was decided to fix the New York price at 56¢ against yesterday's price of 59¢, and although this would still be a wide spread against the foreign market, it would be somewhat more in proportion than if the price was only dropped 1¢.

The London brokers made a second offering of 5,000,000 ounces of silver at 23 9/16 pence, equivalent to 50¢, and stated that if we took 1,000,000 ounces of this amount they would establish a fixing at the same price. We offered to accept only 500,000 ounces which they refused to sell and later in the day quoted a price of 23 pence, which was the equivalent of 51¢, but explained that this was a price at which there were sellers but that no transactions had been done.

December 18, 1935

Mr. Lochhead telephoned the Secretary, who is in Richmond today, and told him that London offered 13,000,000 ounces of silver at 53.95 and that Bombay offered 2,405,000 ounces of silver on the following terms: they offered 150,000 ounces at a limit of 50.50, another 150,000 at a limit of 48.80 and on the balance there was no limit set. It was Mr. Lochhead's idea, in order not to let the price drop too fast, that we could afford to buy the silver offered from Bombay at 53 cents. The Secretary said he would talk this over with the President and let Lochhead know later on.

The Secretary talked to the President and reported that he could not see any reason why we should offer to pay more for silver than was asked. The President suggested that we pay 50.50 and, after some discussion, the Secretary convinced the President that we should offer to pay 50 cents. The President wanted to find out at what price the market would level off and support itself.

The Secretary told the President about the Mexican situation and the President was very much upset about it. A full report on this is included in the attached report as of yesterday's date, marked Exhibit I.

The Secretary said he would come in to see the President at the White House on Thursday morning. Mr. Morgenthau reminded me of the fact that at the time we had the negotiations with the Chinese, when HM, Jr., wanted to drop the price to 40 cents, the President was very much against it and now he is perfectly willing to see the price of silver go down.

December 17, 1935.
Tuesday

Tom
Lockett: Mr. - Mr. Secretary?

H.M.Jr.: Yes

L.: This is Tom Lockett.

H.M.Jr.: Yes

L.: I'm talking to you for the Secretary of the Treasury.

H.M.Jr.: Yes

L.: The Banco - the bank of Mexico is buying all of the newly refined silver produced in Mexico -

H.M.Jr.: (Aside: Tell Mr. Coolidge to come right away.)

L.: It amounts to about five million ounces a month.

H.M.Jr.: Yes

L.: The Secretary is - he has contracts with all these silver mining producing companies -

H.M.Jr.: Yes

L.: - and a very great uncertainty has gotten into his mind as whether or not you are interested and will be interested in the purchase of that newly mined silver.

H.M.Jr.: Well, we've bought all this newly mined silver this year and we've bought just under sixty million ounces -

L.: Yes

H.M.Jr.: And our best figure that we've got is that that's all the newly mined silver that he produced.

L.: Well, it's - the trouble of it is he's been selling you from reserve.

H.M.Jr.: Well, that's his bad luck.

L.: And that's what's gotten him into this partial difficulty.

H.M.Jr.: Well, that's his bad luck. You know, I'm getting sick and tired of this business, Lockett, and I don't know whether you're talking for the United States Government or whether you're working for Mexico.

L.: Well, I'm working for you.

H.M.Jr.: Well, I'm not sure of it. That information that you gave me the other day was outrageous.

L.:

H.M.Jr.: That telling me that they were going to close their doors and that they had - that their monetary reserve was below their note issue and not telling me that they only need fifty per cent.

L.: Well - well, you see, here's what I do, Mr. Secretary, -

H.M.Jr.: Your job is to tell me what the United States' interest is down there - not what the Mexican interest is.

L.: Well, I - I -

H.M.Jr.: And you didn't tip me off at all and we had to work it out here.

L.: Yes

H.M.Jr.: And I almost bought that stuff on entirely false information.

L.: Well, I'm certainly sorry - I -

H.M.Jr.: Well, you've certainly got every reason to be.

L.: Yes, I - I try to repeat to you what the - the Minister was sitting right here.

H.M.Jr.: Yes, but you called me twice.

L.: Yes

H.M.Jr.: And the first time he wasn't sitting there.

L.: No, he was not.

H.M.Jr.: No, and you did not give me the right information.

L.: Well, I certainly tried my best to. Let me - let me explain this to you. His interest in it is this, that he has these contracts with these mining companies and he has fear that probably you will not be interested in buying - buying their freshly mined silver.

H.M.Jr.: Well, we've bought all their newly mined silver. I can't help it if he's used up their reserves.

- L.: Yes - well now, here's - he's getting by all right on his reserves. He issued his statement and so far no reaction has taken place, but -
- H.M.Jr.: Well, I thought all his banks were going to close and everything else - ?
- L.: Well, he - that's - he was certainly up in the air and now he will have coming in each month five million ounces of new silver which he wants to sell to you.
- H.M.Jr.: Now just hold the wire a minute -
- (Pause)
- H.M.Jr.: Hello -
- L.: Hello -
- H.M.Jr.: Well now, it - this thing is a very unsatisfactory way to do business and -
- L.: I can't quite hear you.
- H.M.Jr.: I say this is a very unsatisfactory way to do business. I don't like to have to do business always on a five minute notice.
- L.: Yes
- H.M.Jr.: And if the Mexican Secretary of the Treasury is worried he'd better come up and see me.
- L.: Yes, sir. Well I'll tell him then too to communicate in some form direct with you.
- H.M.Jr.: He better - if he's so worried about this thing - now the American Metal Company, for instance, would like to sell us direct, but the Mexican Government won't let them do it.
- L.: That's right.
- H.M.Jr.: Now all of that information - I don't get any of that from you -
- L.: Yes
- H.M.Jr.: I've got to get around and get it and I'm not getting any information out of you that I couldn't get from a man who is on the Mexican payroll.

- L.: Yes, well, I want you to know that - that I try to get this to you as - as it comes to me.
- H.M.Jr.: Yes, but you don't give me the United States Government's side of it.
- L.: Well, I'll - I'll certainly try to watch it because that is - that is indeed my purpose.
- H.M.Jr.: Well, I mean, as far as I'm concerned, you've called me up now - I know about the American Metal Company, you don't tell me that.
- L.: Yes, well, this is the situation, that the Mexican Government will not let any metal company sell direct.
- H.M.Jr.: Well, that's just too bad and I'm looking - I'm working for the American people.
- L.: Absolutely
- H.M.Jr.: Now, if the Mexican Secretary of the Treasury has got some problems he'd better come up and see me.
- L.: Well, I'll - I'll tell him then that - the thing - the thing to do that if he feels any - if he's in a bad situation that he should see you.
- H.M.Jr.: He'd better see me and he'd better approach me through the State Department.
- L.: Well, I'll - I'll do that.
- H.M.Jr.: And if you're - and I certainly hope that if you're down there that I get some information which will be useful to me from the standpoint of the Treasury.
- L.: Yes, well I - I try to make it that way and in the future I'll watch it closer.
- H.M.Jr.: Well, you'd better.
- L.: I'll do that.
- H.M.Jr.: All right
- L.: All right, thank you.
- H.M.Jr.: Goodbye

ADD LONDON SILVER

2.00

LONDON - BROKERS PRIVATE CABLES RECEIVED
HERE FROM BOMBAY CONFIRM THE SUSPENSION OF
SILVER DEALINGS THERE UNTIL SETTLEMENT DAY ON
MONDAY - IT IS FEARED DIFFICULTIES MAY RISE
OVER SETTLEMENT

DEC 18 1935

LONDON SILVER

1145

DEC 18 1935

LONDON - BULLION BROKERS REPORT THAT
AMERICA WOULD NOT BID FOR ANY SILVER AT SELLING
PRICE OF 23 D FIXED AND SO THERE WERE NO OTHER
BUYERS IN THE MARKET - NO SILVER WAS SOLD

LONDON SILVER

DEC 18 1935

115
LONDON - IN THE LONDON SILVER MARKET THERE
WERE 23 SELLERS BUT NO BUSINESS WAS TRANSACTED
QUOTATIONS ON THE LONDON METAL MARKET
UNOFFICIAL FOR 999 FINE SILVER SPOT AND THREE
MONTHS FORWARD ARE NOMINAL

DOW JONES TICKER - December 18, 1935.

LONDON SILVER

9.20

DEC 18 1935

LONDON - THE POSITION OF SILVER REMAINS UNCHANGE
BUT IT IS LIKELY THAT THE PRICE WILL AGAIN BE
LOWER AS IT HAS BEEN REPORTED THAT BUSINESS HAS
BEEN DONE IN BOMBAY AT LOWER LEVELS-

December 19, 1935

I showed the President Eddie Greenbaum's letter with the enclosure, Mr. "X" being Henry Hooker. The President was very much upset and I said, "should I not show you these things" and he said, "yes, but what are you going to do. Henry Hooker has been sort of a doormat and house pet all my married life. He sits around on the floor and plays with the children, stays here at the White House and, of course, if he calls anybody up on the phone from the White House they will say 'this is the White House calling'. What am I going to do - have somebody watch all of those telephone calls". I said, "being philosophical for the moment, the great trouble in this world is money and greed". The President said, "it certainly is. Everyone seems to have it".

I showed him the cable from Buck and the two proposed answers; one by Oliphant and one by Coolidge. He Okay'd the one by Oliphant and I sent it.

I asked him to release me from the proposed meeting on NRA between Berry, Martin and myself. I suggested that Roper take my place. He said, "all right".

The President was upset by all the comments in the press about the budget and spending and wanted to know if either he or I could not say something about it and show how false some of the statements were. I told him that I thought it was useless; that the statements in the press that he referred to were largely for political reasons and that if we answered them they would only have the satisfaction of feeling that they were getting under our skin.

I showed the President the attached memorandum on silver in Mexico.

I find him in a grand humor these days and very much interested and very sympathetic about my headaches. He took five minutes at the beginning of the conference to tell me a long story about his grandfather, Delano, who was a trader living in China. He used to go to the mountains of Japan for his vacation. He suffered acutely from headaches. In Japan he was told that when the Japanese get headaches they change from a rice diet to an exclusive corn diet. A Japanese suggested to his grandfather that for three days he only eat rice and drink rice water. He did this and got over his headache. The President said his grandfather did that for the rest of his life. He said, "this shows that the Japanese through thousands of years had learned by experience what the medical profession is just beginning to learn through science".

GREENBAUM, WOLFF & ERNST
285 MADISON AVENUE
NEW YORK

TELEPHONE CALEDONIA 5-1582

HEWMAN LEVY

LAWRENCE S. GREENBAUM
EDWARD S. GREENBAUM
HERBERT A. WOLFF
MORRIS L. ERNST
JONAS J. SHAPIRO
WALLACE D. JENNINGS
SAMUEL J. SCHUR
ALEXANDER LINDEY

JEROME HANDLER
IRVING MINTZ
DAVID H. MOSES
LOUIS ZINGESSER
THEODORE S. JAFFIN
BENJAMIN KAPLAN
JUSTIN N. REINHARDT

December 13, 1935.

Hon. Henry Morgenthau, Jr.,
Treasury Department,
Washington, D. C.

Dear Henry:

Here is a memorandum about the matter that I mentioned
the other day.

I told you the name of "X" and can give you the names
of the other parties if you want them. It may interest you to know
that the Chairman of the Committee referred to in the ~~tax~~ memorandum
is a prominent Republican.

Sincerely yours,

Eddie

ESG:EA
Enc.

Several years ago, the B. T. A. ruled that income received by Special Masters in the State Court is not taxable by the Federal Government. The Bureau took no ~~part~~^{appeal} and acquiesced in this decision. In spite of this, last year it determined to make assessments on income thus received in 1933 and 1934. The Commissioner thereafter promulgated a ruling which had the effect of holding that the taxes should not be assessed for 1933, but the Bureau continued to take steps to assess the 1934 income.

A group of Chicago Masters In Chancery organized and retained a well known Chicago tax lawyer to represent them. They felt that it was grossly unfair of the Government to seek to collect a tax retroactively, which had been held not valid. They felt that if the Government had a real point and felt that B.T.A. was wrong, then the Government could raise the question in a case arising out of 1935 income.

They were told that in order to present this matter in Washington, it was necessary for them to employ an attorney who had connections there. Naturally, this Committee felt dissatisfied with the necessity of hiring such Special Counsel in view of the fact that their own counsel was qualified to represent them. However, as the Committee is acting for others, it went into the matter further. The Chairman of the Committee came to New York to see "X" who was the one suggested as being the proper one to handle this in Washington. The Chairman interviewed "X" in New York and said that although he knew nothing about tax matters, he had contacts, and contacts were everything in Washington; that when he was down there, he stayed at the White House and telephoned to different departments to make appointments and the call was given as "White House calling." The effect of this was stated to be "very, very benefi-

2.

cial." He said that he wanted a retainer of \$15,000 and the balance of his fee would be on a contingency. He said that he would be glad to work with the Chicago Tax lawyer, but said that in view of the fact that he was not an expert on tax matters, he would have to employ lawyers outside his own office to work on the tax question, and also said significantly that he presumed that the clients would not be interested in what he did with the money that they paid. When the Chairman of the Committee got back to Chicago, "X" telephoned him stating that on reconsideration, he felt that if he were retained, he would have to work on the matter alone and that the Chicago Tax lawyer should not remain in the case.

Dec. 17, 1935.

Buck:

Your cablegram 16 reference to your talk Kung stop concerning additional silver purchases feel that present arrangements should be carried out prior to consideration of new ones stop His reference to staying on silver standard and his opinion that some method of using both gold and silver in world is necessary are noted with interest in view of the underlying monetary policy of the Administration as expressed in President's message to the Congress of May 22, 1934 stop Further expression of his views on this subject would be welcome stop Not deemed advisable to depart from Treasury's fixed policy of not commenting on possible future price of silver.

C O P Y

TREASURY DEPARTMENT

126

UNITED STATES COAST GUARD

WASHINGTON

From: Spagent, Shanghai, China, December 16, 1935.
To: The Secretary of the Treasury.

Message from Buck. Kung states Japanese are determined to break China's new monetary system and they made a raid last Friday Yokohama specie bank, purchasing two and one half million United States dollars. At present there are seven hundred fifty million yuan notes but only two hundred million yuan equivalent in foreign exchange, including proceeds of the fifty million ounces, thus reserve insufficient.

Additional stabilization funds urgently needed and desire you take another hundred million ounces. The proceeds would be used for stabilization purposes and currency reform. Complete reform of subsidiary currency definitely under way and dies for 5, 10 and 20 cent pieces arrived few days ago.

Coppers will all be exchanged for one cent and half-cent pieces. Silver coin of 50 cents and one dollar denominations will be issued and probably of 25 cents. Some hard money needed and even the dollar will be a token coin. Intention is to use silver for some coinage and Kung refers to staying on silver standard in public statements but use of silver in token coins and as reserve is meant. Kung expressed opinion that bi-metallism or some other method of using both gold and silver in world is necessary as there is not enough gold. Managed currency and redemption in gold and silver seem best. Kung anxious to know future of United States policy regarding price of silver and states if the prices now become lower while China is carrying out her new monetary policy she will be very adversely affected because her monetary assets in silver will become greatly reduced. Kung states no serious difficulties in administration new monetary policy. Ten million silver dollars already collected from people and 300 millions from banks. Leaving silver in provinces desiring to keep it will help establish local confidence in the legal tender notes. Branches of Reserve Board established Canton, Tientsin, Hancow, Tsingtao and Sianfu, with local people undoubtedly as members, by Central Reserve Board. Two universities investigating ore returned from various interior points, report ready acceptance legal tender, confirming similar report from various sources.

Nichol.

* Meaning not clear, but no error is apparent.

December 19, 1935.

COPY OF CABLE RECEIVED BY FEDERAL RESERVE BANK OF NEW YORK
FROM BANCO DE MEXICO

#50 In order to decide as to the advisability for us to continue our silver purchasing contracts with our miners we would like to know whether you would undertake to buy up to 5,000,000 ounces monthly. In that event we would buy for you daily such amounts as the miners would offer to us within the above mentioned monthly limit at the quotation which you would wire daily at 10 a. m. New York time less 1/4 of one cent United States currency for each ounce as our handling commission it being understood that we would telegraph you daily at our close of business the amount of ounces purchased for our account.

December 19, 1935

HM, Jr., called the President and told him that a cable had been received by the National City Bank from their Bombay office stating that there would be no offers of silver from that market today as the price of 50 cents, which was set yesterday, was unexpectedly low. He also told the President that London offers 13 million ounces at 49.23, which is $\frac{3}{4}$ -cent down from yesterday. The President suggested taking 1 million ounces in London.

The Secretary told the President that the New York price yesterday was 56 cents and that he wanted to drop it 2 cents today, making it 54 cents, and that he would also like to buy 500,000 ounces from Mexico at today's New York price.

* * * *

HM, Jr. called Coolidge and told him that with the uncertainty of things in France, he would like Coolidge to take twice as many bonds today; that is, 1 million of the 2-7/8's for FDIC.

Thursday, December 19, 1935

A Cable received this morning through the National City Bank from their Bombay office stated that there would be no offers of silver from that market today as the price of 50¢ which was set yesterday was unexpectedly low. It further added that there has been some small buying of silver in the Bombay market for hoarding purposes. The London brokers offered a total of 13,000,000 ounces at the rate of 22 $\frac{3}{16}$ pence, equivalent to 49.25¢, and 1,000,000 ounces of this amount was accepted. The price in New York was set at 54¢, down 2¢ from yesterday. After the London fixing several offers were received from that market at the fixing price, and one or two offers at prices below the fixing. These offers were refused with the explanation that they arrived too late for consideration.

At the same time the New York price was fixed at 54¢ it was decided to indicate to the Banco de Mexico that we would accept 500,000 ounces of silver from them at this price less usual expenses.

December 19, 1935

The following is copy of a cable received by the Federal Reserve Bank of New York from the Banco de Mexico:

- #50. In order to decide as to the advisability for us to continue our silver purchasing contracts with our miners we would like to know whether you would undertake to buy up to 5,000,000 ounces monthly. In that event we would buy for you daily such amounts as the miners would offer to us within the above mentioned monthly limit at the quotation which you would wire daily at 10 a.m. New York time less 1/4 of one cent United States currency for each ounce as our handling commission it being understood that we would telegraph you daily at our close of business the amount of ounces purchased for our account.

December 19, 1935

Mr. Haas presented to the Secretary the attached memorandum outlining financing needs for the cotton program of the AAA.

HM, Jr.'s comment was to the effect that the \$50,000,000 they need should be taken out of the \$90,000,000 customs receipts which AAA now has and called attention to the fact that AAA now has \$50,000,000 of that fund unobligated.

TREASURY DEPARTMENT

132

INTER OFFICE COMMUNICATION

DATE December 19, 1935

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Financing of the Cotton Program

- I. The 1936 cotton program as originally outlined contemplated a crop of 12 million bales for next season, an increase of about $1\frac{1}{2}$ million bales over the December 1 estimate of a 1935-36 output of 10.7 million bales. This increase was expected to equal the reduction in carryover which was anticipated for the beginning of the new crop year on August 1, 1936. Under these conditions, the 1936-37 supply of American cotton would have been approximately unchanged from the preceding year; and, according to the AAA, the price of spot cotton would also have been likely to remain unchanged, on the average, fluctuating around the current level of about 12 cents, or slightly under.
- II. It is now considered advisable to hold the cotton crop down to about 11 million bales in 1936-37. According to the AAA, an 11 million bale crop plus the expected carryover will probably mean 13-cent rather than 12-cent cotton in 1936-37.
- III. It is estimated that the revised cotton program, calling for an 11 million bale crop, will cost \$50 millions more than the 12 million bale program, for which latter they have the money.

IV. Where will the additional \$50 millions come from?

It may be noted first that if the Supreme Court should overthrow the processing taxes the whole question of financing agricultural adjustments would have to be re-opened. If this were to happen, the additional needs of the cotton program could best be considered at that time.

Under present conditions, however, the following means of obtaining an additional \$50 millions for the cotton program appear to be open:

- (1) The cotton program has already incurred a deficit with the Treasury of about \$60 millions, due to a failure of the cotton processing taxes to cover related expenditures. This deficit could be allowed to mount up to \$110 millions.
- (2) The \$4.8 billions fund for work relief could be drawn on for certain current expenditures of the AAA coming within the requirements of the Act establishing this fund. The money thus saved could be earmarked for the later expenses of the cotton program.
- (3) \$92 millions of current customs revenues have already been allotted to the AAA, of which \$40 millions is needed for adjustment payments in connection with the cotton loan. Of the \$52 millions remaining, \$50 millions could be set aside for the cotton crop reduction program, without prejudicing the issue as to whether or not customs receipts should continue to be drawn on for the financing of agricultural adjustments. It is certain that customs receipts already earmarked for the AAA will be spent by that organization for one purpose or another.

(4) A direct appropriation of \$50 millions might be obtained from Congress.

(5) The deficit incurred under the new cotton program might be met by an increase in the processing tax. Such an increase, however, hardly appears practical at the present time.

December 19, 1935.
Thursday.

135

Meeting in Secretary Morgenthau's office
on Associated Gas

Present: Secretary Morgenthau
Mr. Mc Reynolds
Mr. Kent
Mr. Helvering
Mr. Jackson
Mr. Gaston
Mr. Oliphant

Mr. Jackson: In the first place, the Associated Gas claim the right to file a consolidated return. These go back in the old years - one consolidated return - they claim that permission. Claim also the right to file with all of these companies individually. The first study was made to see whether they were entitled to file a consolidated return. It was found that they were not entitled to file but probably would be entitled to file in some number of groups.

Mr. Kent: 10 or 11 - groups.

Mr. Jackson: They could file 10 or 11 which would represent consolidated groups.

Mr. McReynolds: There were some - we had to file in addition to that 11 groups.

Mr. Jackson: That's right.

Mr. Jackson: Then you had this situation - the Commissioner couldn't say "you cannot file". The objection was with them. We had to work it out with them either by forcing them to accept the 11 groups or get individual audits. You would have been 5 years completing it.

Mr. Morgenthau: You mean ridiculously high or low?

Mr. Jackson: High because they had so many transactions between companies which would result in loss to one company and gain to another. If they could not offset those losses it would have been a ridiculous tax. We then worked out exceptions of the 11 grouping dividends and single return they were not entitled to. Then under that they were to furnish certain information, which has not yet been furnished. That agreement wasn't reached until last spring while I was in Pittsburgh. The Commissioner says there is a fairly sound basis for assessment so that the first reason for the delay was the complication of that system which had to be revised on a detailed basis. The next thing - while

- 2 -

there is no criticism of the Treasury or Commissioner - is that this would not even now come to a head except on the basis of jeopardy. They would get a 30 day notice then one to six months discussing objections.

Mr. Morgenthau: Is not there some way of getting that in the newspapers as a background? Can't you fellows, with Herbert Gaston, get the fellows in the Treasury Press to sit down with you and say "here is the story"? Get whoever Helvering designates to say that this is background. We may lose this thing if the Federal Court - Judge Mack - should settle it. Then we would be out in the cold. I think it ought to be done to-day. Don't explain it to me but explain it to the boys for a background.

Mr. Gaston: I did tell them some of the facts.

Mr. Morgenthau: Settle it after you leave here.

Mr. Morgenthau: Is there something I have to settle at two o'clock?

Mr. Jackson: Kineen (?) told me that Travis has the theory that he can get an injunction and stop this tax being assessed. I tried to find out the basis on which he thought he could get an injunction but I was not successful. It may be that their injunction action will be based on some such theory as vindictiveness which will answer the whole thing beautifully. Our theory yesterday was that we would recommend making a proposition to Judge Mack and to the Associated Gas that the whole matter be adjusted by that Court. Mack is a good Judge.

Mr. Morgenthau: Don't get me too much into the legal thing. I can't follow you. Just put something up to me like this: Do you want to do it or don't you.

Mr. Morgenthau: Is there anything particular, as a layman, that I have to decide?

Mr. Jackson: You have to decide the question of policy, which we had planned for Monday but which this injunction development may change. You may find yourself in Court before Monday or after Monday.

Mr. Jackson: As a matter of policy - in the first place, we don't want to get this Associated bear on our laps if we can help it. We don't want to go ahead and sell as we would be forced to sell under this jeopardy assessment. We don't want to be forced to sell this thing and we don't want to force the obligations of wrecking it. However, we think the best way out, to protect the government and give appearance of not being political or vindictive

- 3 -

is to say to Mack "we have tried to protect the government and, under the law, we would be required to settle this property. We don't want to injure anybody". We will forego our right to sell or assess and urge this company be liquidated in an orderly way by the Court, provided the Management of this company will withdraw their objections and let this Court administer. We will not trust these assessments longer to this Management. We are willing to stand aside in this thing and have it administered by the Court in an alternative fashion.

Mr. Morgenthau: But the Commissioner would also have to agree and is that Court - a record of Receiverships - pretty good?

Mr. Jackson: Yes, it is pretty good.

Mr. Morgenthau: Is this appeal to the Court private or open?

Mr. Jackson: Openly.

Mr. Morgenthau: I would say this was the procedure to follow: Let the Court appoint a Receiver. We will take our chances on getting dividends out of what is left.

Mr. Kent: Suppose that the situation takes such a turn it becomes necessary to suggest someone to the Court for one of the Trustees - who would be suggested?

Mr. Morgenthau: Don't let's discuss that now. We are not going to let anyone from the present Management be Trustee.

Mr. Jackson: I don't think it will get that far. Undoubtedly the Court will say that we have to have somebody in this picture to continue this business who is familiar with its past. Sometimes they have one Trustee - sometimes two and three.

Mr. Morgenthau: My suggestion to the President was the Public Service Commissioner of New York - Mulvey.

Mr. Jackson: He would be a good man, if he would take it.

Mr. Oliphant: Won't he take it?

Mr. Jackson: I don't know - Mulvey is making more money than he got as Public Service Commissioner.

Mr. Morgenthau: The President picked him and made him Public Service Commissioner of New York.

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Mr. Jackson: You don't know where you will make this argument or when. It may change between now and Monday and, in the second place, if it does or does not you have to make your argument through the Attorney General's office. You have to get somebody in this thing to represent you in Court or else be represented by your own staff.

Mr. Morgenthau: Is that decision up to me? I thought I had a couple of good lawyers. You want me to know whether I go along with this idea of Judge Mack appointing this thing. Who will present Department's case?

Mr. Jackson: That is something that has to be decided.

Mr. Morgenthau: Are you going to do it?

Mr. Jackson: I can't - Attorney General has to be in Court.

Mr. Morgenthau: Why don't you get together after this meeting and see me tomorrow morning and have another meeting tomorrow?

Mr. Morgenthau: Let me just tell you a rather amusing thing - strictly in confidence in this room. At a quarter to seven last night Bill Stanley called me up and said he was trying to get Oliphant and couldn't. He just wanted to let me know that he was suing me on this Kansas soap thing. He just wanted me to know that this was not an unfriendly act. I said, "I don't know what it is". He said it is just a business matter. He said, "I am suing you - it is not an unfriendly act. I have checked with the Attorney General and McIntyre and they said it is all right for me to take this case. He said, "anyway I understand that Oliphant has not made up his own mind and that he (Oliphant) was not up in the air about it". I said, "Bill, I don't know what you expect me to say. I don't know anything about the case but thank you for calling". I may have said to him, if I had been quick on my trigger, "you might have called me up at 3 o'clock and asked me how I felt about it but you are calling me up 3 hours after you sue me and now you are telling me about it". I told the President about it and he scratched his head and said he couldn't understand it.

December 20, 1935.
Friday.

Meeting in Secretary Morgenthau's office
on Associated Gas and Electric

Present: Secretary Morgenthau
Mr. Jackson
Mr. Kent
Mr. Helvering
Mr. Oliphant

Mr. Helvering: Well Mr. Travis himself came down and stated that while he perhaps could not say that he was the General Attorney for the Associated Gas and Electric he was there in their behalf on this case.

Mr. Helvering: The first part of his talk was to the effect that he would like me to review my assessment and get it down to where it belonged. We told him we computed the tax on the best information we had and we thought we were correct and there no way it could be changed. He wanted to know if we would join with him in an opinion with the Attorney General on that question. I told him I didn't think the Attorney General could give him an opinion to exercise the discretion of the Commissioner of Internal Revenue.

Mr. Helvering: The next thing brought up was absolutely arbitrary information as to who might appear on deficiency tax when there was no jury. He kept pounding on that for an hour - bringing it back each time. I told him very candidly that information came to me that people in his own organization had asserted before Court that they were bankrupt - the Court had held that, from evidence submitted, that the petition was filed in good faith and probably they could make that showing - give him a chance to approve or disapprove that. I told him that there was also information in the Income Tax Unit that there was an immense tax due from these people. I said I could be charged with dereliction of duty by not taking action.

Mr. Helvering: His third proposition was that he would impose an injunction. I told him I could not answer that question until we knew what he was filing. There are the three points.

Mr. Morgenthau: It is still up in the air?

Mr. Helvering: The conference ended with the burden being on them.

Mr. Morgenthau: Is there a conference before Judge Mack?

Mr. Helvering: There is a hearing set down.

Mr. Morgenthau: Did the question come up as to whether we would or would not agree on Judge Mack appoint Receivers?

Mr. Helvering: Oh no.

Mr. Morgenthau: You didn't get that far?

Mr. Helvering: He didn't know about that.

Mr. Oliphant: Was there indication that if Justice handled this thing it will not be difficult for them to make adjustment of it?

Mr. Helvering: Only by his questions. Various questions were asked who would handle this.

Mr. Morgenthau: You mean as between Departments?

Mr. Helvering: No - who would handle in Court. All cases certified by us were handled by Department of Justice.

Mr. Morgenthau: Any question whether or not we would ask for decision in view of my determination?

Mr. Helvering: There was no power in extreme cases.

Mr. Morgenthau: Then there is really nothing for me do?

Mr. Oliphant: One other thing - under the statutes he said he would have to advise his client one or two things - proceed with injunction or file voluntary proceeding in bankruptcy, which would be filed in the Northern District of New York.

Mr. Helvering: He didn't say where he would file it.

Mr. Morgenthau: Who was at the conference with you?

Mr. Helvering: Rogers, Camphor, Burrs, Hill and Fiscall from the General Counsel's office. From my office Russell and myself.

Mr. Morgenthau: Who will go Monday to New York?

Mr. Oliphant: That seems to be one of the questions before us. It will not be handled in the routine way by the Department of Justice. The proper person to handle it will be Jackson.

Mr. Morgenthau: We have to be awfully careful on this. I do think the Treasury has to watch its step if Justice men deal with them.

Mr. Jackson: There is even further difficulties of policy involved, in this particular case where they are charging the assessment against the Associated as the result of the utility fight. I have the feeling that if I go up there, being in the utility fight, they are going to say, "there is the link between the utility fight and this assessment. He is fighting utility one day and taxes next." It will be a visible sign of the deal which they claim is made here. I am perfectly willing to go if that is the decision.

Mr. Morgenthau: May I ask this? The normal thing would be for the Department of Justice to do it.

Mr. Oliphant: District Attorney of New York.

Mr. Morgenthau: Have you had a conference with the Attorney General on this?

Mr. Oliphant: No sir.

Mr. Morgenthau: Wouldn't that be the next move?

Mr. Oliphant: Yes it is. That is the thing I want to talk to you about. I have a feeling that we can go too far in this matter using our people on these things because under the statute the Attorney General has the appropriation.

Mr. Morgenthau: I agree with you. The next thing would be to have a conference with the Attorney General - whatever branch handles it.

Mr. Jackson: They are not familiar with the background of this case and there is plenty of reason here, if we wanted to, to take this case at least in its preliminary stages.

Mr. Oliphant: We can make available any member of our staff if they want to use them.

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Mr. Jackson: In view of the situation I am in on this thing with utilities it would put the administration where they could make that argument strong.

Mr. Morgenthau: It is a good point.

Mr. Jackson: I don't want to be misunderstood - I would like to go up there but I am afraid I am just not the man under the circumstances.

Mr. Morgenthau: I think you are right. Did anybody have a Press Conference with Gaston?

Mr. Oliphant: Camphor prepared a memorandum. He was out to my house last night and showed it to me. It does not give as good a background as Gaston should have. I think it was framed a little different.

Mr. Morgenthau: The thing to do is to get out publicity. That is important. Get the public mind at least so that they will be half way friendly towards us.

Mr. Helvering: This is no criticism of Camphor but he feels this thing so strongly that we would have to tone down on some of his statements a little.

Mr. Jackson: I don't think Camphor is the man to present this to the United States Court, although he is a most capable and zealous man. He would be a good man to sit at the elbow of whoever does it.

Mr. Morgenthau: You will talk to the fellows in your office as to who to see in the Attorney General's office?

Mr. Oliphant: Yes.

Mr. Morgenthau then asked each man in the room if he had anything more and they all answered "no".

WCNS30

Secy. Morgenthau Silver

THE GOVERNMENT BOUGHT SILVER EVERY DAY THIS WEEK, SECRETARY MORGENTHAU SAID TODAY IN ANSWERING QUESTIONS ON THE CONTINUED DECLINE IN WORLD SILVER PRICES.

THE SECRETARY AGAIN REFUSED TO REVEAL DETAILS OF THE SILVER PURCHASE PROGRAM, NOR WOULD HE STATE THE PLACE OF THE TREASURY'S BUYING THIS WEEK.

HE INDICATED, HOWEVER, THAT THE GOVERNMENT THIS YEAR IS BUYING VIRTUALLY ALL OF MEXICO'S 72,000,000 OUNCE OUTPUT AS WELL AS THE ESTIMATED FORTY MILLION OUNCE PRODUCTION THIS YEAR IN THE U.S.

THERE WERE INTIMATIONS THAT THE TREASURY WAS SEEKING TO CONFINE MOST OF ITS PURCHASES TO ORIGINAL SILVER PRODUCING COUNTRIES WHERE TREASURY BUYING WOULD RECEIVE LESS INTERRUPTION FROM SPECULATORS.

QUESTIONED AS TO WHETHER OR NOT THE FEDERAL TREASURY HAS BEEN A SELLER AS WELL AS A BUYER OF SILVER IN THE WORLD MARKET THE TREASURY SECRETARY SAID "I WON'T ANSWER."

12/19--R1105A

MORGENTHAU SAYS TREASURY SILVER BUYING
CONTINUES - INDICATES BUYING BEING CONFINED
TO SILVER PRODUCING COUNTRIES

DEC 19 1935

WASHN - THE TREASURY HAS PURCHASED SILVER
EVERY DAY THIS WEEK INCLUDING TODAY SECY
MORGENTHAU SAID THIS MORNING - HE INDICATED
SILVER PURCHASES WERE BEING CONFINED TO SILVER
PRODUCING COUNTRIES SUCH AS MEXICO AND PERU
IN ORDER TO AVOID SILVER RELEASED FROM HOARDS
IN OTHER PARTS OF THE WORLD - THE TREASURY IS
NOW BUYING THE ENTIRE MEXICAN PRODUCTION OF
NEWLY MINED SILVER HE SAID - ASKED IF HE
BELIEVED THE DROP IN SILVER PRICES MIGHT HAVE A
SIMILAR EFFECT ON COMMODITY PRICES HE POINTED
OUT THAT COMMODITY INDEXES HAVE INCREASED DURING
THE PAST TEN DAYS WHILE SILVER PRICES HAVE
DECLINED - THERE IS NO SIGNIFICANCE IN THE FACT
THAT N Y SET A SILVER PRICE YESTERDAY BEFORE ONE
WAS ANNOUNCED IN LONDON CONTRARY TO CUSTOM
BECAUSE THE LONDON PRICE WAS MERELY NOMINAL
ACCORDING TO THE SECY

DEC 19 1935

11.10 am

-0- *Silver-London* DEC 18 1935 *9.45*
THERE IS NO CHANGE IN THE SILVER POSITION IN
LONDON THIS MORNING BULLION BROKERS HAVING A
LARGE ACCUMULATION OF CASH SELLING ORDERS WHICH
ARE BELIEVED TO BE LARGELY IN EXCESS OF 12 000
000 OUNCES ALTHO BROKERS REFUSE TO GIVE THE
EXACT FIGURE- IN ADDITION THERE ARE STILL SOME
20 000 000 OUNCES OF FORWARD SILVER FOR SALE-
BROKERS CAN DO NOTHING BUT AWAIT AMERICA-S
ACTION-

-0-

WCNS22

London

LONDON--A DAILY MAIL DISPATCH FROM BOMBAY SAYS A U. S. BANK HAS BEEN BUYING 1,500,000 OUNCES OF SILVER IN BOMBAY DAILY AND THAT WITHIN THE PAST FEW DAYS BULLION BROKERS HAD OFFERED A SIMILAR AMOUNT DIRECT TO THE U. S. TREASURY. WHETHER ANY OF THE LATTER OFFERINGS WERE TAKEN OR WHETHER THE TREASURY IS STILL BUYING FROM BANKS COULD NOT BE LEARNED.

12/19--N945A

London Silver Price

WCNS33

LONDON--THE WORLD MARKET FOR SILVER CONTINUED TO DECLINE TODAY. BULLION BROKERS FIXING A PRICE OF 22 3/16 PENCE AN OUNCE--A DROP OF 13-16 PENNY FROM YESTERDAY'S QUOTATION AND EQUIVALENT AT CURRENT EXCHANGE TO 49.26 CENTS A FINE AMERICAN OUNCE.

12/19--R1120A

WCNS41

ADD SILVER, LONDON (WCNS33)

THE AMERICAN EQUIVALENT WAS DOWN 1.80 CENTS AN OUNCE FROM YESTERDAY'S LEVEL.

IT WAS THE FIRST TIME BAR METAL HAD SOLD IN THE LONDON MARKET AT THAT PRICE IN MORE THAN A YEAR.

BULLION BROKERS SAID SALES HAD OCCURRED TODAY AND THAT 6 PER CENT OF THE OFFERINGS WERE TAKEN. THE BUSINESS WAS PRORATED AMONG SELLERS.

TODAY'S DECLINE CARRIED THE PRICE DOWN 7 PENCE AN OUNCE -- EQUIVALENT TO 14.38 AMERICAN CENTS FROM THE LEVEL WHICH PREVAILED PRIOR TO THE PRESENT CRISIS LESS THAN TWO WEEKS AGO.

IT ALSO BROUGHT THE WORLD PRICE BELOW THE LOW POINT OF OFFERINGS IN BOMBAY WHERE DEALINGS WERE SUSPENDED WHEN NO BUYERS COULD BE FOUND. OFFERINGS IN THE INDIAN MARKET WERE MADE AT AN AMERICAN EQUIVALENT OF 49.69 CENTS AN OUNCE.

12/19--R1143A

WCNS54

ADD SILVER, LONDON

BULLION BROKERS SAID THE U. S. TOOK ONLY 6 PER CENT OF THE OFFERINGS AND THAT SALES WERE PRORATED. THE U. S. DID NOT BUY HERE YESTERDAY AND ON MONDAY AND TUESDAY TOOK UP 5 PER CENT OF THE OFFERINGS. ON THURSDAY AND FRIDAY OF LAST WEEK THE AMERICAN TREASURY PURCHASED 18 PER CENT OF THE OFFERINGS.

12/19--N1208P

Bombay Silver

Bombay

WCNS18

BOMBAY--THE SILVER MARKET COLLAPSED TODAY, NO BUYERS BEING FOUND FOR HEAVY OFFERINGS ALTHOUGH SELLERS WERE WILLING TO SELL METAL BELOW AN AMERICAN EQUIVALENT OF 50 CENTS AN OUNCE.

12/19--N932A

WCNS21

ADD SILVER, BOMBAY

NO BUSINESS IN SPOT OR FORWARD METAL WAS TRANSACTED. SELLERS OFFERED METAL AT 50 RUPEES PER HUNDRED TOLAS--EQUIVALENT TO 49.69 AMERICAN CENTS AN OUNCE--THE LOWEST SILVER PRICE IN MORE THAN A YEAR.

PREVIOUSLY BANKS HAD PEGGED THE PRICE AT AN EQUIVALENT OF 58.14 CENTS AN OUNCE FOR GENERAL SETTLEMENT OF BUSINESS TRANSACTED ON THE BOMBAY BAZAAR.

IN VIEW OF THE SHARP BREAK HERE AND IN OTHER MARKETS, FEARS AROSE REGARDING DIFFICULTIES WHICH MIGHT BE ENCOUNTERED WHEN ACTUAL SETTLEMENT IS MADE. THE PERIOD FOR THESE CLEARING UP TRANSACTIONS ALREADY HAS STARTED.

12/19--N945A

ADD BOMBAY SILVER MARKET

DEC 19 1935

140

BOMBAY -BY U P- NO BUSINESS IN EITHER SPOT
OR FORWARD METAL WAS TRANSACTED - SELLERS OFFER-
ED METAL AT 50 RUPEES PER HUNDRED TOLAS THE
LOWEST SILVER PRICE IN MORE THAN A YEAR

PREVIOUSLY BANKS HAD PEGGED THE PRICE AT AN
EQUIVALENT OF 58 14 CENTS AN OUNCE FOR GENERAL
SETTLEMENT OF BUSINESS TRANSACTED ON THE BIG
BOMBAY BAZAAR

IN VIEW OF THE SHARP BREAK HERE AND IN
OTHER MARKETS FEARS AROSE REGARDING DIFFICULTIES
WHICH MIGHT BE ENCOUNTERED WHEN ACTUAL SETTLE-
MENT IS MADE - THE PERIOD FOR THESE CLEARING UP
TRANSACTIONS ALREADY HAS STARTED

-0-

LONDON -BY U P- A NEWS DISPATCH FROM BOMBAY
SAID THAT A UNITED STATES BANK HAD BEEN BUYING
1 500 000 OUNCES OF SILVER IN BOMBAY DAILY AND
THAT WITHIN THE PAST FEW DAYS BULLION BROKERS HAD
OFFERED A SIMILAR AMOUNT DIRECT TO THE UNITED
STATES TREASURY - WHETHER ANY OF THE LATTER
OFFERINGS WERE TAKEN OR WHETHER THE TREASURY IS
STILL BUYING FROM BANKS COULD NOT BE LEARNED

THOMAS WIRES SILVER SENATORS ON MEETING IN

JANUARY

12.30

DEC 19 1935

WASHN - SENATOR THOMAS DEM OKLA AFTER A
CONFERENCE IN NEW YORK ON WEDNESDAY WITH
A GROUP OF ECONOMISTS WITH WHOM HE HAS BEEN
ASSOCIATED IN THE PAST SENT A TELEGRAM TO
SILVER SENATORS URGING THE NECESSITY FOR A CON-
FERENCE EARLY IN JAN TO DISCUSS WHAT CONGRESS
SHOULD DO WITH RESPECT TO THE -CURRENCY WAR
OF GREAT BRITAIN FOR CONTROL OF EXCHANGE
CURRENCIES AND WORLD TRADE- THE TELEGRAM WENT
TO SENATOR PITTMAN AMONG OTHERS AS WELL AS
SECY OF TREASURY MORGENTHA-U

SENATOR THOMAS STATED THAT HE INTENDS TO
CALL A CONFERENCE IF THE REACTION TO HIS
TELEGRAM FOR SUCH A MEETING IS FAVORABLE-

Silver Stocks Strong

VCNS48

NEW YORK--REASSURED BY SECRETARY MORGENTHAU THAT THE U.S.
TREASURY WAS CONTINUING SILVER PURCHASES BUT IN PRODUCING COUNTRIES SUCH
AS MEXICO AND PERU, TRADERS RESUMED PURCHASE OF SILVER SHARES ON THE
STOCK EXCHANGE TODAY.

SILVERS RECORDED GAINS RANGING TO MORE THAN 2 POINTS.

AROUND NOON PRICES WERE FRACTIONALLY HIGHER IN A LONG LIST OF ISSUES.

12/19--R1153A

LONDON SILVER MARKET

9.75

DEC 20 1935

LONDON - IT IS OFFICIALLY ANNOUNCED THAT THE
LONDON SILVER MARKET WILL BE CLOSED TOMORROW-

LONDON SILVER MARKETS TO BE CLOSED SATURDAYS

UNTIL FURTHER NOTICE-

LONDON - BULLION BROKERS STATE THAT THE LONDON
SILVER MARKET WILL BE CLOSED SATURDAYS UNTIL
FURTHER NOTICE-

DEC 20 1935

DEC 20 1935

2571

LONDON SILVER

1,00

DEC 20 1935

LONDON - SALES OF SILVER IN LONDON MARKET

WERE PRORATED ON THE A BASIS OF 8 PC OF OFFERING

LONDON SILVER MARKET 12.25
LONDON - UNOFFICIAL QUOTATIONS FOR SPOT AND 3
MOS FORWARD SILVER ON THE LONDON METAL MARKET
AFTER THE CLOSE WERE NOMINAL -

DEC 20 1935

Silver Imports - Dept. of Commerce

XWCNS33

SILVER IMPORTS FOR THE WEEK ENDING DEC. 13 SHOWED AN INCREASE
OVER THE PREVIOUS WEEK DESPITE COLLAPSE OF PRICES ON THE LONDON SILVER
MARKET, THE DEPARTMENT OF COMMERCE REPORTS.

12/20--R1019A

LONDON SILVER MARKET

~~CORRECTION~~

LONDON - THERE WERE 8 000 000 OUNCES OF CASH
SILVER OFFERED IN THE SILVER MARKET HERE TODAY
AND NOT 80 000 000 OUNCES AS PREVIOUSLY PRINTED-

SILVER IMPORTS UP FROM PREVIOUS WEEK

WASHN - SILVER IMPORTS FOR WEEK ENDED DEC

13 WERE 13 761 345 DLS COMPARED WITH 10 250 935

DLS IN THE WEEK ENDED DEC 6 DEPT OF COMMERCE

REPORTED-

DEC 20 1935

SILVER EXPORTS FOR WEEK ENDED DEC 13 WERE

240 477 DLS COMPARED WITH 111 291 DLS IN PREV-

IOUS WEEK WHILE NO GOLD WAS EXPORTED WEEK

DEC 13 COMPARED WITH 87 071 DLS IN PRECEDING

WEEK-

WCNS9

Am. Silver Speculators' profits

AMERICAN SILVER SPECULATORS AND DEALERS WERE REVEALED TODAY TO HAVE PROFITED NEARLY \$3,000,000 OVER THE PAST 18 MONTHS.

SINCE JUNE, 1934, WHEN THE FEDERAL GOVERNMENT BEGAN ITS SECRET SILVER PURCHASES IN DOMESTIC AND WORLD MARKETS, THE TREASURY REVEALED THE GOVERNMENT HAD COLLECTED \$1,436,587 IN TAXES ON PROFITS OF PRIVATE SILVER TRANSACTIONS. THE TAX IS 50 PER CENT OF THE PROFIT, INDICATING THAT REPORTED PROFITS WERE NEARLY \$3,000,000.

12/20--R852A

WCNS36

ADD SILVER

THE DEPARTMENT'S WEEKLY GOLD AND SILVER STATEMENT SHOWED THAT \$13,761,345 WORTH OF SILVER WAS IMPORTED FOR THE WEEK OF DEC. 13 AS FOR THE WEEK ENDING NOV. 29.

SILVER EXPORTS LAST WEEK OF \$240,477, WERE MORE THAN DOUBLE THE PREVIOUS WEEK.

GOLD IMPORTS FOR THE WEEK ENDING DEC. 13 AMOUNTED TO \$50,376,690 CONTRASTED WITH \$121,404,795 FOR THE PREVIOUS WEEK. THERE WERE NO SILVER EXPORTS.

12/20--R1029A

Bangkok, Siam
11:9-36
[Signature]



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FE 893.515/929

December 20, 1935

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, with reference to previous correspondence in regard to the effects on China of the silver policy of the United States, encloses, for the information of the Secretary of the Treasury, a copy of despatch No. 287 under date November 9, 1935, with its enclosures, from the American Minister at Bangkok, Siam.

Enclosure:
From Legation Bangkok,
No. 287, November 9, 1935,
with enclosures.

Department of State

AU
SON

FE

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

Treasury.

LEGATION OF
THE UNITED STATES OF AMERICA

No. 287.

Bangkok, November 9, 1935.

**Subject: Editorials of the BANGKOK TIMES on
American silver policy.****The Honorable****The Secretary of State,
Washington, D. C.****Sir:**

I have the honor to transmit herewith copies
1-2/ of editorials which appeared in the BANGKOK TIMES
of October 31st and November 8th regarding the
American silver policy, with particular relation to
its effect on China. It is thought that the comment,
as coming from this source, may be of interest to the
Department.

The BANGKOK TIMES, a daily newspaper, has a cir-
culation of several hundred and is the only English
newspaper

- 2 -

newspaper in Siam. It is edited by an Englishman, Mr. W. H. Mundie (see Confidential Biographic Data Report), and is read by foreigners, chiefly Europeans and Americans, in Siam. It also receives the attention of Siamese officials, determining in some degree the views which they acquire on international matters.

The Siamese language newspapers, so far as the Legation has ascertained, have made no comments on the effects of the American silver policy in the Orient.

Respectfully,

James M. Baker,
American Minister.

Enclosures:
1-2. As stated.

851.5

JMB:HLN

Copy to Legation at Peiping.

A true copy of
the signed
original) H/M

57

Enclosure No. 1 to despatch No. 237, dated November 8, 1935, from the Legation at Bangkok.

The Bangkok Times,
Thursday, 31st October, 1935.

THE SILVER POLICY

A month ago the war scare was causing a flight from European currencies into dollars. In the two weeks ending on September 21st France sent £ 9½ millions to New York; Holland, £ 8,360,000; and Great Britain, nearly £ 6 millions. In this connection it may be noted that Mr. Herbert Bratter, the American silver expert, declares that the only defence of his country's silver policy is that the purchases of silver do tend to counteract mildly the potential effects of the large influx of gold into the United States. They keep out a portion of the gold that might otherwise flow in. Mr. Bratter is the expert who visited the Far East in 1934 on behalf of the United States Treasury to survey financial conditions in China, Japan and the Philippines. He has now left the Government service, and in the Washington POST he has made a slashing attack on the silver policy of the present Government.

He argues that opening American mints to the free coinage of foreign silver at 65 3/8 cents (29 3/16d.) an ounce "is simply carrying one step further the dollar depreciating measures which have failed to restore prosperity, and the full inflationary effects of which have still to be felt." That point is of minor interest to the majority of people here; but he does claim our attention when he asserts that only the smallest amounts of silver come from the countries on a gold standard. Contrary to the purposes of the Silver Act of 1934, most of the silver purchased by the American Treasury comes from China and Hongkong, where its loss causes "painful deflation." All the same the silver bloc in Congress is evidently strong enough to keep the Treasury buying. There has been no serious suggestion of abandoning the policy.

It is worth noting, however, that according to some reports the silver party has now split into three groups, and that the united front has disappeared. In support of that statement we read that the tobacco interests in America have come to the conclusion that they made a mistake in supporting the proponents of the silver legislation in their successful efforts to rush the enactments through Congress. As the experts on this side of the Pacific argue from the very commencement, dear silver is detrimental to trade with China. The American policy has cut deeply into the tobacco sales to that country. That of course was inevitable. In the first half of this year there was stagnation in China's export trade, and therefore imports could not be doing really well. As the policy is harmful to trade, it must in the end be of

doubtful

- 2 -

doubtful value to the silver producers themselves. As the NORTH CHINA DAILY NEWS says, it is not often that so complete a justification of the argument advanced on China's behalf has occurred.

Enclosure No. 2 to despatch No. 287, dated November 8, 1935, from the Legation at Bangkok.

The Bangkok Times,
Friday, November 8, 1935.

THE CURRENCY PROBLEM.

China was driven to do something about her currency. A week before action was taken the Banks both in Shanghai and Hongkong were refusing to quote forward rates. The exchange value of the dollar was falling seriously. Then came the shooting of the Premier and the run on the Banks. Nanking therefore put out a comprehensive scheme embracing "financial and budgetary reorganisation, currency reform, the stabilization and nationalization of silver, and the establishment of an independent central Bank having sole control of the note issue." That sounds all right, but everything must depend on how it is worked out. According to one message the Chinese currency is now to be linked with sterling; but what will happen is still a bit uncertain, and that applies to a wider field than our Far East. Even this month one American Senator, on his way to Manila, expressed a confident opinion that the price of silver would rise to \$1.29 per ounce. But about the same time another expert in New York, not knowing that China was on the point of going off silver, said that that country would eventually get back all the silver that the United States had bought, and that "they won't have to pay above 25 cents an ounce for it."

The fact is China could not maintain her old silver standard indefinitely while America maintained her present silver policy. Smuggling went on continuously, and with that kind of foreign holding ex-territorial rights it could not be checked. Japan feels a bit upset because she was not consulted, and possibly because it is not proposed to link the yuan with the yen. Well, one cannot help thinking it would have been wiser if both Europe and Japan had been consulted. Much will depend on the policy of the foreign Banks. Ex-territorial rights come into play again; and we fancy it would have been better if the support of the Banks had been secured beforehand. Still the future of the Banks in China depends on the prosperity of that country, and they will no doubt do what they can to help.

The weakness of the Shanghai and Hongkong dollars was causing alarm in London banking circles before China took action. Three months ago Tcs. 100 was worth 86 3/8 Hongkong dollars, and the Hongkong figure has now slumped to 128 1/8. In the same time the value of the China or Shanghai dollar fell from 1s. 6d. to 1s. 2d.; and it is at the latter figure China hopes to stabilize. Even if she succeeds, it is an ugly drop for Hongkong if it has to go to the same level; and hitherto the theory has been that Hongkong and China have the same currency basis. It means

- 2 -

a big check to trade. China's action in trying to check the movement of silver was not followed in Hongkong, and hence the recent big difference in the value of the two dollars. Things are not too prosperous here in Siam, but our neighbour's experiences on both gold and silver standards, make one feel that this country acted very wisely in linking the tical with sterling.

Chinese Ambassador

December 20, 1935.
Friday

H.M.Jr.: Could you talk to me over the phone or - ?

Sao-Ke

Sze: Yes, yes, I - asked me to cable
home about this smuggling.

H.M.Jr.: Yes

S: Well, I as follows:

H.M.Jr.: Yes

S: - Smuggling by Japanese definitely decreased -

H.M.Jr.: Yes

S: - I think Japanese authority more definite than
about December first.

H.M.Jr.: Yes

S: - Formerly several hundred Japanese smugglers frequently
arrived Shanghai single vessel

H.M.Jr.: Yes

S: Now

H.M.Jr.: Yes

S: Japanese authorities lending all cooperation

H.M.Jr.: Yes

S: - although confidentially it appeared absent of any new
Japanese Counselor Official, often only half hearted and
spasmodic -

H.M.Jr.: I see.

S: That authority keeps silver thieves from smuggling -

H.M.Jr.: Yes

S: For penalty we

H.M.Jr.: Yes

S: - losing premiums they pay for silver.

-2-

H.M.Jr.: Yes

S: So, in other words, you see, the Chinese Government law is just the same - to see whether they succeeded in smuggling arms or not -

H.M.Jr.: Well, it's - but it's - it's less

S: It's less, you see.

H.M.Jr.: Yes

S: But so far, the - obviously physical realities very few Chinese arrest Japanese smugglers.

H.M.Jr.: I see

S: We cannot trace direct connection between two smuggling situations and change commercial buying policies.

H.M.Jr.: Yes

S: Because the change in policies would just take place -

H.M.Jr.: I see

S: Chinese Governments protects infrequently against smuggling

H.M.Jr.: Yes

S: But no specific protest about silver alone.

H.M.Jr.: Yes

S: Because they'll be carrying on smuggling on silk and all kinds of silk and sugar

H.M.Jr.: Yes

S: - and all kinds of stuff -

H.M.Jr.: Yes

S: - used to be a large group of Japanese who made a specialty of smuggling from Japan into China.

H.M.Jr.: Yes

S: Then I got another wire - it said that - 'Please assure

the Secretary of the Treasury - '

H.M.Jr.: Yes

S: - 'that I'm trying to do according to his wishes and I'll start shipping this silver -'

H.M.Jr.: Yes

S: - ' Washington today'.

H.M.Jr.: That's right

S: There'll be twelve million ounces -

H.M.Jr.: That's right

S: - including two - balance from the last sale.

H.M.Jr.: That's right

S: And he said, 'I'm also trying to ship

H.M.Jr.: Yes

S: - the request I made through '- he made through Buck, you see?

H.M.Jr.: Yes

S:

H.M.Jr.: His what?

S: I say, at his apprehension

H.M.Jr.: Oh -

S: Because he thought more than either may be temporarily expedient to postpone -

H.M.Jr.: Oh -

S: , he said, account of my five wires to him in matters

H.M.Jr.: Yes

S: So he thought he made - he definitely made it. And of course he has every wish, you see, to fulfill the contract and he appreciates all the help you have given

H.M.Jr.: Fine

S: So he hopes that this explanation will be satisfactory to you.

H.M.Jr.: Surely

S: All right - now you're going away today?

H.M.Jr.: I'm going away and I'll be up on the Farm for a week.

S: When will you be back?

H.M.Jr.: I'll be back a week from tomorrow.

S: A week from tomorrow? I called you Press Conference they gave yesterday.

H.M.Jr.: Yes

S: I wondered if you could tell me anything about the conference you were to call, - ?

H.M.Jr.: No - no - I was misquoted.

S: You were misquoted?

H.M.Jr.: No conference has been called.

S: But will be called?

H.M.Jr.: No, I didn't say that.

S: You didn't say that at all?

H.M.Jr.: No

S: Because if it is going to be so - I'd like to communicate, you know, at home -

H.M.Jr.: No - that - that was wrong.

S: Likely be called?

H.M.Jr.: I can't say, Mr. Ambassador.

S: Yes

H.M.Jr.: But I did not say that at my Press Conference.

S: You didn't say that?

H.M.Jr.: No, sir

S: Now I wonder - if later when you come back - if you can tell me anything?

H.M.Jr.: Well, let's see when I get back.

S: Of course, if you're going to call one, I thought you see -

H.M.Jr.: Oh, if I'm going to call one I'd get in touch with you right away.

S: See if you could get me earlier because then - you see, if you'd have a conference I'd like to have a good man come, you see?

H.M.Jr.: Well, I -- I - I was entirely misquoted. And if there's any idea of a conference I'll get in touch with you at once.

S: Yes, thank you.

H.M.Jr.: At once

S: Yes, thank you - because I'd like to get a good man come

H.M.Jr.: Well I - yes

S: they're not used to it, you see?

H.M.Jr.: Well

S: That's almost the situation right now.

H.M.Jr.: Mr. Ambassador, I was misquoted - there's no plan at present on foot for a conference.

S: I see - thank you.

H.M.Jr.: There's no plan.

S: Yes, but is it true that you are buying now from Mexico and Cuba?

H.M.Jr.: I can't - I can't do all this over the phone, Mr. Ambassador, I'm sorry.

S: I see - All right, sir, I'll see you when you come back,

may I?

H.M.Jr.: I hope so.

S: All right

H.M.Jr.: I hope you have a very pleasant Christmas.

S: Thank you, same to you.

H.M.Jr.: Thank you, very much,-Goodbye

7252

EXECUTIVE ORDER

6/2

TERMINATING THE NATIONAL RECOVERY ADMINISTRATION AND TRANSFERRING
CERTAIN AGENCIES AND FUNCTIONS THEREOF TO THE DEPARTMENTS OF COMMERCE
AND LABOR

By virtue of and pursuant to the authority vested in me by Title I of the National Industrial Recovery Act (48 Stat. 195), as amended by Senate Joint Resolution 113, approved June 14, 1933, it is hereby ordered as follows:

1. The National Recovery Administration and the office of Administrator thereof are hereby terminated.
2. The Division of Review, the Division of Business Cooperation, and the Advisory Council, as constituted by Executive Order No. 7075 of June 15, 1935, together with all of their officers and employees, files, records, equipment, and property of every kind, are hereby transferred to the Department of Commerce. The Secretary of Commerce is authorized and directed, under the general direction of the President, to appoint, employ, discharge, and fix the compensation and define the duties and direct the conduct of all officers and employees engaged in the administration of the agencies transferred by this Order to the Department of Commerce, to exercise and perform in connection with the said agencies the functions and duties now exercised and performed, or authorized to be exercised and performed, by the National Recovery Administration, to report to the President on all matters relating thereto, and to terminate the functions and duties of the said agencies not later than April 1, 1936.
3. The Consumers' Division, established within the National Recovery Administration by Executive Order No. 7120 of July 30, 1935, together with all of its officers and employees, files, records, equipment, and property of every kind, are hereby transferred to the Department of Labor. The Secretary of Labor is authorized and directed, under the general direction of the President, to appoint, employ, discharge, and fix the compensation and define the duties and direct the conduct of all officers and employees as may be engaged in the administration of the said Consumers' Division, to exercise and perform in connection with said Consumers' Division the functions and duties now exercised and performed, or authorized to be exercised and performed, by the National Recovery Administration, and to report to the President on all matters relating thereto.
4. No person transferred by this Order shall by such transfer acquire a civil service status. Any new appointments under this Order may be made without regard to the Civil Service Rules and Regulations.
5. All Orders and Regulations heretofore issued concerning the administration of Title I of the National Industrial Recovery Act, as amended, are hereby modified to the extent necessary to make this Order fully effective.
6. This Order shall become effective on January 1, 1936.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

December 21, 1935.

Regraded Unclassified

HANDY HARMAN QUOTE ON SILVER WILL NOT BE MADE
TODAY-

NO FOREIGN QUOTATION ON SILVER WILL BE MADE
TODAY-

AMN BANKS BUY CHINESE SILVER

DEC 21 1935

SHANGHAI - BY U P- A SPOKESMAN FOR THE

CENTRAL BANK SAID TODAY THAT THE GOVT HAD SOLD SILVER AND GOLD TO THE NATL CITY AND CHASE NATL BANKS OF NY IN ORDER TO PROVIDE ADDITIONAL EXCHANGE STABILIZATION RESERVES -

TE -- THE SPOKESMAN DECLINED TO NAME THE AMOUNT SOLD - USUALLY RELIABLE SOURCES ESTIMATED IT AS IN EXCESS OF 15 000 000 YUAN

INFORMED OPINION WAS THAT THE SILVER WAS SOLD TO THE UNITED STATES GOVERNMENT THROUGH THE BANKS

-0-

TOKYO -BY U P- THE SHANGHAI CORRESPONDENT OF THE NEWSPAPER ASAHI CABLED THAT THE PRESIDENT LINCOLN SAILING FOR THE UNITED STATES WOULD CARRY SILVER VALUED AT 10 000 000 YUAN - THE CORRESPONDENT SAID IT WAS RUMORED THAT THE U S WAS PURCHASING 100 000 000 YUAN MORE - THERE WERE REPORTS THE CORRESPONDENT SAID THAT THE CHINESE GOVERNMENT WAS FINDING ITS NEW MONETARY POLICY MOST DIFFICULT AND THERE WERE DIFFERENCES AS TO POLICY

WCNS18

TOKYO--THE SHANGHAI CORRESPONDENT OF THE NEWSPAPER ASAHI CABLED TODAY THAT THE PRESIDENT LINCOLN, SAILING TODAY FOR THE U.S., WOULD CARRY SILVER VALUED AT 10,000,000 YUAN (\$3,000,000). THE CORRESPONDENT SAID IT WAS RUMORED THAT THE U.S. WAS PURCHASING 100,000,000 YUAN MORE.

12/21--R904A

WCNS17

SHANGHAI--A SPOKESMAN FOR THE CENTRAL BANK SAID TODAY THAT THE GOVERNMENT HAD SOLD SILVER AND GOLD TO THE NATIONAL CITY AND CHASE NATIONAL BANKS OF NEW YORK IN ORDER TO PROVIDE ADDITIONAL EXCHANGE STABILIZATION RESERVES.

THE SPOKESMAN DECLINED TO NAME THE AMOUNT SOLD. USUALLY RELIABLE SOURCES ESTIMATED IT AS IN EXCESS OF 15,000,000 YUAN (\$4,500,000).

12/21--R903A

December 21st

I am going to try and dictate some of my ideas that have been developing in my mind during the last couple of months in regard to unemployment problems and financing of the same.

I have had at least six meetings with the President at which Ickes and Hopkins were present. At these meetings Ickes practically never opened his mouth and Hopkins kept talking in terms of employing the people on relief rolls. At the first meeting the President was talking of a five year program starting at five billion dollars and tapering it off - the total program equalling 15 billion dollars. During the series of these meetings Hopkins and Ickes were supposed to bring in projects which I should take and tell the President whether or not I can finance the program. The suggestions of these two men were so fantastic and sketchy that I suggested having Admiral Peoples and his men analyze the projects which Hopkins and Ickes either had done or were about to do, particularly to see what percentage of money allocated would be spent on direct labor on the job. Ickes' housing projects for Atlanta and Boston showed 28% of direct labor. Hopkins' varied from 30 to 40%. Neither of these men's projects came up to the qualification of real low cost housing in city and country. The only project which I developed for the President which would come up to the qualifications would be the Transcontinental Highway.

To sum up the position which the President has taken as I understand it and through considerable guidance on my part is:

1. That in the future we should discontinue direct relief and have only work relief.
2. That all work relief projects must take the men off the relief roll; that they must pay them a security wage of about \$50 a month.
3. That he will ask for 5 billion dollars but will say that he will not spend it all if private employment increases.
4. That the projects must be of such a nature that they do not compete with private capital.
5. That the projects must be allocated so that they can take care of the relief loads where they are the heaviest.

6. That half of the projects should be self-liquidating with a 100% prospect of getting the money back.
7. That excess appropriations of Army and Navy due to possible war should come out of these projects.
8. That he is ready to balance the budget on the regular expenditures.
9. That he is not afraid that by the government fixing a low wage that that will be the standard wage for communities because he feels that as employment increases wages will go up.

The President has set so many requirements around these projects that I do not believe they can ever spend the money under the conditions laid down by him. What I am going to propose to him on the 26th is the following:

1. That we take all of the money from all sources that can be used for Public Works in one form or another and put it into a new pool from which Hopkins can get his money from the 15th of February on (his funds will be exhausted at that time) and also that we can immediately start new projects on the new basis which the President will set up.

My object in doing that is the following: Bell tells me that he thinks our deficit for this fiscal year will be around 3 billion dollars. I want to increase the deficit to 4 billion and then for the year beginning July 1, 1935 have the President ask for 3 billion 9. I think this is of tremendous importance as I believe the financial community will be satisfied if they can see that beginning July 1, 1935 we have passed the peak of our expenditures. I have not said a word to the President about this as I feel I want to save all of my ammunition for the last minute as my chances for success are greater this way.

I am also going to suggest to him the complete unscrambling of the alphabet organizations. I feel that we are very vulnerable and that if each of these organizations would get their money directly from the Treasury via the Director of the Budget instead of getting it from three or four sources it would be much more economical and businesslike and the country will have more confidence in the Administration. My big fight is going to be to keep expenditures for the next fiscal year to a sum which will be less than the expenditures of this fiscal year. If I can accomplish this, any fears that I may have as to inflation and the printing of paper currency will be put to the background for keeps but if we keep on spending more money each year I greatly question if we can keep Congress from forcing us into the printing of paper money with which to pay the deficit.

On three different occasions I told the President emphatically that he would not get a complete work program until he decided who was going to run the show, and he equally emphatically told me that he was going to get a program first and then decide who was going to run the show. I am sorry to say that up to date I have been right. If the President a month ago would have designated one person and told him to develop a program we would have had one by now. Instead of that Hopkins and Ickes have been constantly jockeying for the place and have held back and have not given the President the best that they have in them. It seems almost tragic to think that the fate of the unemployed in America is waiting to be decided and these two men both seeking power can hold up this whole program. Certainly, beginning with the 26th of December I am facing a great crisis and unfortunately there is no one in the President's Administration that I can go to for assistance - so the whole thing boils down as to a battle of wits between the President and myself and I hope that the outcome will be the best for all concerned.

The University of Chicago

Department of Economics

December 23, 1935

Secretary Henry J. Morgenthau, Jr.
Treasury Department
Washington, D.C.

Dear Mr. Morgenthau:

In connection with the statement I made during our telephone conversation Saturday evening last, relating to the enforcement of Section 303 of the Tariff Act, I would like to bring to your attention instruction number 8 on forms numbers 138 and 139 of the Customs Bureau (consular invoices). This requires that there be given in the invoice information as to "All rebates, drawbacks, and bounties, separately itemized, allowed upon the exportation of the merchandise." Since the problem in connection with German imports is how to determine the amounts of secret subsidies, instruction number 8 seems to meet the situation, as commodities would not be properly documented for clearance through customs unless instruction number 8 were carried out by the exporter. It might be worth while to inquire whether the customs authorities are enforcing this requirement.

May I also point out that this instruction does not clearly enough cover the definition of subsidies and bounties in Section 303 of the Tariff Act, and should be rephrased so as to make it clear that rebates, drawbacks, and bounties received from cartels or other non-official bodies are to be listed as well as official subsidies.

The invoice would be more satisfactory for purposes of customs administration if there were a specific place on it where the exporter was required to state what rebates, etc., he had received or expressly to declare that he had received none. With the present form he can simply fail to carry out instruction number 8 without it appearing clearly in the document that he had ignored it.

Very sincerely,

Jacob Viner

JV-W

December 23, 1935

London offered us today 8,100,000 ounces of silver at 47.70 cents per ounce. The price on Friday was 48.25. We are going to take 1,000,000 ounces, but we will only offer them 47.25, or one cent less than Friday's price, the idea being that we will continue to drop the price in London until some other buyer appears. In Bombay the nominal price is 52.50 cents. The interior of India is buying silver in Bombay. Mexico offered us 1,000,000 ounces and we will only take 500,000, because we want to keep them anxious until their Secretary of the Treasury arrives. We will take this silver at 51 cents, the same as the New York price. In New York we are dropping the price to 51 cents, which is one cent down from Friday.

ADD LONDON SILVER 12.30
LONDON - SALES IN THE SILVER MARKET WERE 25,000,000
RATED ON THE BASIS OF 10 PC OF OFFERINGS-
DEC 23 1935

December 23, 1935

Secretary Morgenthau

Mr. Haas

Subject: The Business Situation

I. SUMMARY: FOURTH QUARTER INDUSTRIAL ACTIVITY AND EARLY 1936 OUTLOOK

Industrial activity in the last three months of 1935 promises to exceed that of any three months' period since the second quarter of 1930. A 5 point rise in the FIB index of industrial production from 90 to 95 between September and October was followed by a 2 point gain to a preliminary index of 97 for November (see Chart 2). The continued high rate of manufacturing output in the first two weeks of the present month indicates that the December adjusted index will equal or exceed that of November.

Improvement during the late fall was general. Consumption goods industries in particular led the advance in October; automobiles, tobacco products, food products, and textiles scoring large gains. Preliminary reports for November indicate that textiles and food products will decline more than seasonally, but that tobacco and automobiles will show further increases. Accompanying the rise in automobile output, the production of iron and steel has shown a steady upward trend in the last two months. Electric power production, freight car loadings, and total value of construction contracts also moved ahead in both October and November, on a seasonally adjusted basis.

October indexes of factory employment and payrolls were at the highest levels since November 1930 and March 1931, respectively. Although employment declined 0.8 percent and payrolls 0.7 percent in November, it is notable that these declines are the smallest which have occurred in either series between October and November since 1926. Employment in the durable goods groups actually increased in November, reflecting the high rate of automobile output; but in the Eastern Seaboard States, where the automobile industry is relatively unimportant, as well as in the Cleveland district, fewer workers were employed last month than in October.

Despite this generally favorable record, there are indications that the fall upturn in industrial activity, uninterrupted so far, may be temporarily halted in the early months of 1936. Current operations are

dependent to a fairly large degree on the unseasonable increase in automobile production occasioned by the introduction of new models in November instead of in January. However, no substantial set-back to further recovery is anticipated for these months, since generally low inventories and sustained activity in important basic industries other than automobiles may well hold output at its current level throughout the late winter.

II. THE RECENT BUSINESS RECORD

1. Fourth Quarter Automobile Production Exceeds All Expectations (Chart 2)

Automobile production in the United States and Canada in the fourth quarter of 1935 will be over one million cars and trucks. The heights reached in the last seven weeks have exceeded the most optimistic expectations of the industry; 1935 output is now estimated at 4,100,000 cars and trucks, far ahead of the 1930 total of 3,510,000 which the manufacturers had previously hoped to reach this year.

Total output in November, estimated at 410,000 cars and trucks compared with 385,000 in October, surpassed that of any other month immediately subsequent to the introduction of new models, with the exception of January 1929. Production in the first three weeks of December bettered the November average.

The retail demand for cars has been highly satisfactory since the November shows. New car sales have had one unfavorable aspect, however: stocks of used cars accepted in partial payment have been piling up rapidly, with little possibility of their reduction before spring. This situation slows up new car sales and offers some threat to a continued high rate of automobile output during the late winter and early spring.

2. Related Industries Up Sharply

Trailing in the wake of the spectacular automobile output, new high records for 1935 have recently been registered by several important indicators of business activity:

(1) Average daily steel ingot production reached the high mark of the year in November, enjoying its fourth consecutive monthly rise, and has held up well in succeeding weeks (Chart 2). Recent gains may be largely attributed to increased demand from the motor manufacturers, although support afforded by the miscellaneous group of consumers has also been important.

(2) Electric power production continues to set new high records; actual output in the week ending December 14 was the highest ever recorded, due in part to the rise in automobile output (Chart 2).

(3) The average weekly volume of freight cars loaded in October was the best for any month since October 1931 (Chart 2). A seasonal recession was felt in November and early December, due largely to the falling off in shipments of farm products. On an adjusted basis, however, railroad freight traffic has made an excellent showing since early fall, a record which has had an encouraging effect on the railroads' depressed traffic receipts.

(4) October textile output was the best recorded in any month since the pre-WPA boom; November production, allowing for seasonal influences is expected to be close to that of October. During November, cotton consumption reached the highest level prevailing in any similar month since 1933. Silk consumption declined slightly. Wool consumption is expected to show little change in November from the October figure, which was the highest for any month since May 1933. Although retail textile sales have held up well, a major influence in recent months has been the demand for upholstery fabrics from the automobile and furniture industries.

3c. Construction Contracts Off Seasonally in November (Chart 3)

The total value of construction contracts awarded in 37 Eastern States decreased from \$201 millions in October to \$165 millions in November, due to a fall in the volume of residential building from \$55 millions to \$40 millions. The decline in residential building is, however, relatively unimportant when due allowance is made for seasonal influences and for the fact that the October record contained several unusually large multi-family projects; furthermore, the volume this month was double that of November 1934. Prospects for increased residential construction next year are enhanced by the continued upward in rents, by the growing availability of funds for mortgage loans, and by the stable level of building costs, which have remained virtually unchanged since late in 1933.

Publicly financed construction exceeded the total of the previous month for the sixth consecutive period. The November total was \$118 millions compared with \$114 millions in October and \$74 millions in November 1934.

3d. Real Estate Investments Increasing

Investment funds are now flowing into construction and real estate in much greater volume than in either of the last two years. Mortgage investments made by 46 life insurance companies during the first 11 months of 1935 are four times as great as those in the same period of 1934, although they constitute less than 8 percent of the total volume of new investments of life insurance companies in this period as compared with about 30 percent in the last half of 1933 (Chart 5).

stimulated by Government loan activities, the volume of mortgage loans made by building and loan associations during the first ten months of this year is double the very low volume for the same period in either 1935 or 1934. More than 1,000 Federal type of savings and loan associations, with resources amounting \$450 million, and situated in 703 cities and towns in 46 States, have been chartered by the Federal Home Loan Bank Board since Congress provided for Federally-supervised associations in June 1933. In nine States, the number of investors in Federal associations already exceeds 50 percent of all investors in all associations of the building-and-loan type in those States.

B. Equipment Orders Expanding

The recent large orders for business and household equipment afford further evidence of the means and disposition to invest in the future. Third quarter orders for electrical goods, as reported to the Department of Commerce, exceeded those of the third quarter in each year since 1930. In the three months from September to November, machinery tool orders surpassed those of the corresponding period in each year since 1935.

Values of electric refrigerators in the first nine months of 1936 were larger than in any full year heretofore recorded. Refrigerating machine sales continue to set new high records, with shipments for September 67 percent above September 1934, and the 9 months' total 18 percent above the like 1934 period. Shipments of radiators during the first nine months of 1936 showed an advance of 14 percent over the corresponding months in 1934. The rate of operations in ligninure plants has also shown a steady rise during the summer and early fall.

C. Farm Income Up In October

Reports just received on each receipt from the sale of principal farm products in October show gains of more than seasonal proportions in all regions. Farm income including Government payments during the first ten months of 1935 totaled \$5.6 billion, (of which \$404 million were in rentals and benefits), compared with \$6.2 billion in the corresponding period last year and \$4.1 billion in 1933. The largest increase occurred in the Far Western and West North Central States, whereas in 1934 the most spectacular gains over the preceding year occurred in the Southern area.

Although the Pacific Coast and drought areas are making the best showing this year as compared with last, other regions are not far behind. In the North Atlantic States, farm income in October, excluding Government payments, was 12 percent larger than a year ago and the largest for any October in five years. In the East North Central region, receipts from marketing in October made a new high for this year, whereas the seasonal peak is usually reached in July and August. Substantial

ains were recorded in the South Atlantic States in income from livestock; increased shipments of cotton, cottonseed, and tobacco, on the other hand, fell just short of offsetting lower prices for these crops in this area. In the South Central States, which had been affected most of the hardship by the 1934 drought, receipts from marketing in October were 15 percent above the year previous.

7. Retail Trade in Farm and City Areas Showing Improvement. (Chart 4)

From mid-October to mid-November, urban retail sales were depressed, due to the unseasonably warm and wet weather, but in the last half of November they more than overcame their early slowness. Preliminary reports indicate that the Christmas trade will be the best since 1927, possibly the best since 1929. Both urban and rural retail sales were higher last month than in November 1935, with increases ranging from 0 to 15 percent for the former as against an increase of 15 percent for the latter.

III. FINANCE

1. Corporation Profits and Security Prices (Chart 5)

Reflecting improved business activity, profits of 220 industrial and mercantile concerns in the third quarter of 1935 were above those of any quarter since the third quarter of 1930, according to a survey made by the Federal Reserve Bank of New York; other profit studies revealed the same conclusions. As compared with earnings a year ago, the capital goods producers made the best record this year, in particular the manufacturers of machinery and tools, building supplies, and electrical equipment.

Noting in sympathy with earnings reports, stock and bond prices also reached higher levels during the fall, although a brief rise in stock prices in the first half of November has been followed by a reaction in the past four weeks. The spread between the yields of long-term Treasury bonds and our index of high-grade corporate issues has been virtually unchanged for the past two months (Chart 7). A small rise in the price of long-term Treasury's took place during late September and October, following the considerable decline of the previous two months. Corporate bond prices tardily followed the upturn in Government, partially restoring the differential to 48 points on October 19, since which date variations have been minor. The yield on long-term Treasury's amounted to 8.78 percent on December 19, as against 8.50 on corporates -- a differential of .28 on that date.

The market is as yet on a cash basis (Chart 6). Following three consecutive increases in Brokers' Loans reported by New York City member banks, there was a decline in the week ending December 16. On that date such loans amounted to only \$946 million as compared with a total of over a billion dollars in the summer of 1934. Other evidence confirms

was indication that stock buying on margin is not extensive as yet. However, the constant increase in specie reserves, recently augmented by a gold influx which carried the monetary gold stock above the \$10 billion mark, the lack of margin liquidation in the case of bank loans on securities, and the failure of margin liquidations effective on brokers' loans to prevent pyramiding of profits after stocks have risen sharply, provide the basis for an increased flow of credit into the stock market in the future.

Is New Security Offerings

While the improvement in business activity has been great enough to prompt considerable replacement of old and obsolete industrial equipment, the gains have not yet reached the point where existing plants are being replaced to supply the existing demand. According to a recent study made by the EIU, only \$40 million of new corporate securities offered for cash in the first ten months of 1935 were designed for acquisition and enlargement of plants and equipment; \$160 million of the total of \$190 million were used for the repayment of indebtedness. The volume of corporate offerings is gradually increasing, however, and the total in November reached \$200.5 million, smaller than September and only half as great as in July, but over eight times the figure for November 1934.

IV. REVIEW OF PROSPECTIVE STOCK ISSUES (Chart 1)

In Chart 1, the first depression year, rather than any one of the years generally termed "normal", has been chosen as the point of comparison with current conditions. During 1935, a very few industries have stood out as bettering all previous business records, including those of 1929. A larger group of series reflecting changes in economic activity has recently approached 1930 levels. The record of this situation have in some cases been led to conclude that we are but one year away from a restoration of the business volume of 1929. There is no necessary correspondence between the rate of decline and the rate of increase during various phases of the business cycle. With this warning in mind, however, it becomes of interest to compare third quarter records this year with corresponding conditions five years ago.

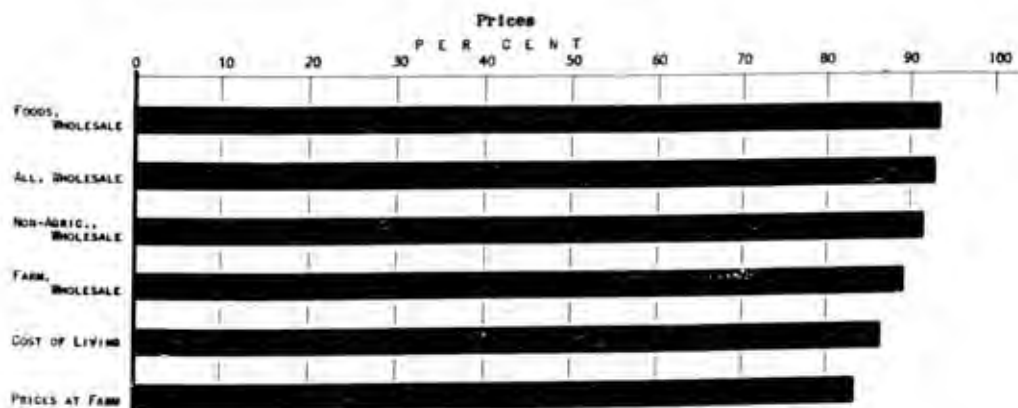
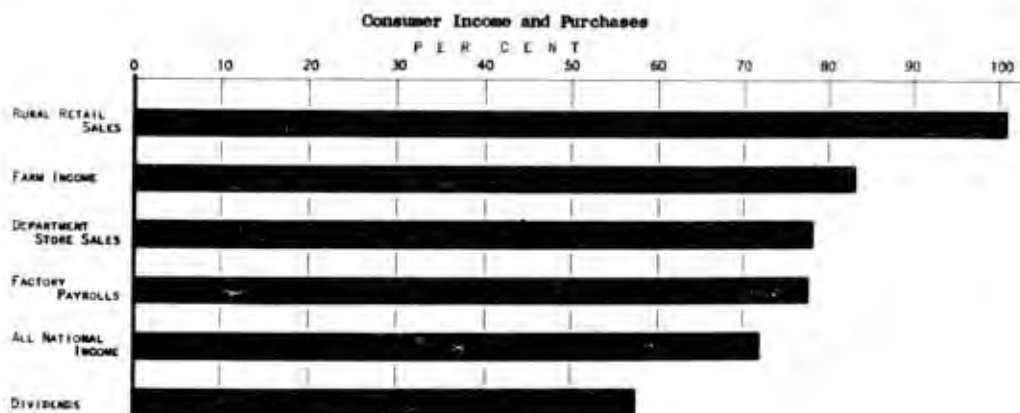
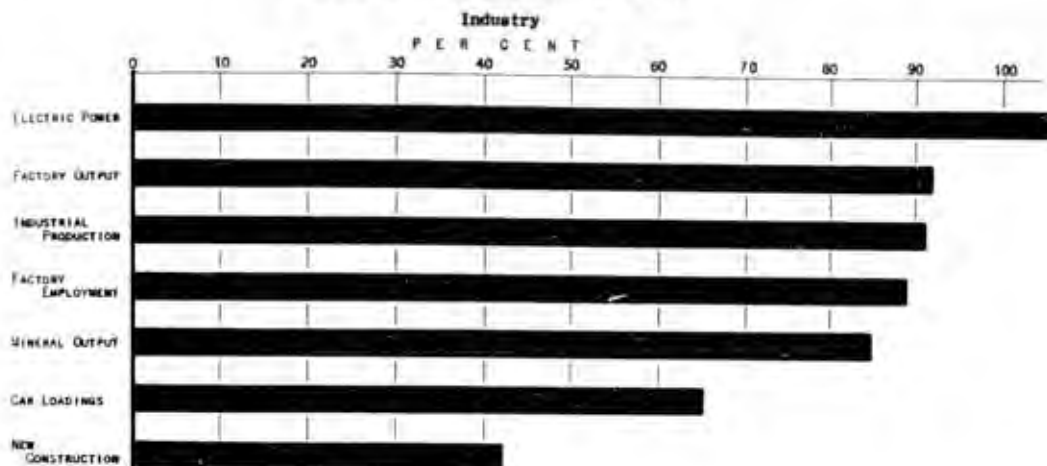
Industry: The chart shows that by the third quarter of this year factory output and factory employment had both regained all but about 10 percent of the ground lost since 1930. Electric power production in 1935 has surpassed all previous records, responding to increased electrical demand of homes, offices, and factories, as well as to the normal inflation of demand which has accompanied recovery. Car loadings and new construction in the third quarter of this year were still sharply depressed as compared with the first full depression year, although recently railroad freight traffic has shown considerable improvement, and

new construction has held its own during a period when outdoor work is generally curtailed.

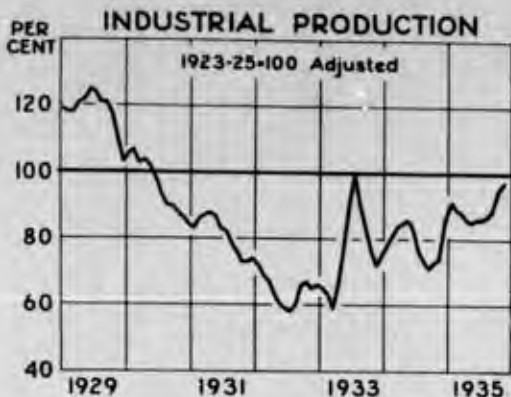
Consumer Income and Purchases: While national income is expected to increase \$3 to \$4 billions this year from the total of \$20.2 billions in 1934, the wide gap between its third quarter level and that of 1930 reflects the continuance of severe unemployment over wide sectors of industry and trade. The greatly improved condition this year of our farming population, however, is reflected in the recent gains in farm income, only 17 percent below that of 1930 during the third quarter of this year. Increased farm income has stimulated purchases in farm areas, where retail sales have actually surpassed the volume of five years ago. In comparison, department store sales make a poor showing, although reports of late fall and holiday business coming in from all parts of the country indicate that department store sales this season are equalling and in some cases exceeding 1930 levels. Factory payrolls, as shown on the chart, are considerably closer to their 1930 volume than are dividends, although it is likely that the addition of interest payments to dividends would place current labor income and current property income at about the same distance from comparable 1930 figures.

Prices: Wholesale prices fell much more rapidly during the depression than did the cost of living, but they have since increased more than living costs, so that by the third quarter of this year the combined index of wholesale prices averaged over 90 percent of 1930, as against a third quarter average of 86 percent for living costs. The 1930 relationship between wholesale prices of agricultural and industrial products has been largely restored. Prices received at the farm have lagged somewhat behind wholesale prices in the recovery of ground lost since 1930, although Government payments have been a significant additional source of income to farmers during the past three years.

THE ECONOMIC SITUATION
3rd Quarter, 1935 as Percentage of 1930

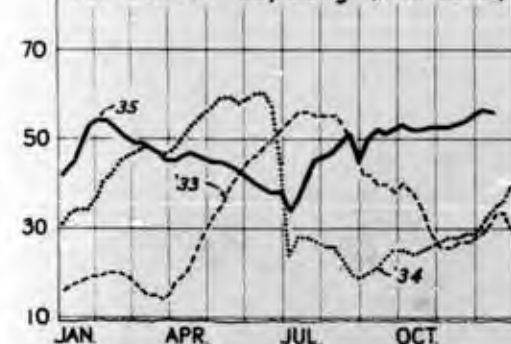


INDUSTRIAL ACTIVITY



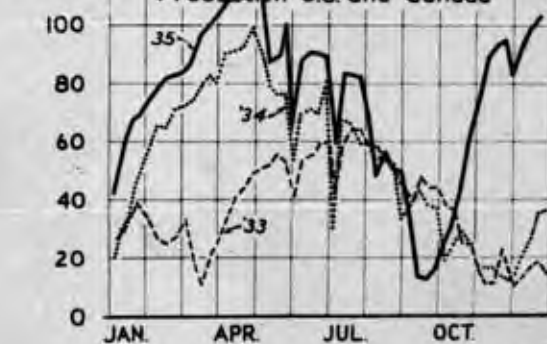
STEEL INGOT PRODUCTION

Per Cent of Capacity (Dow Jones)



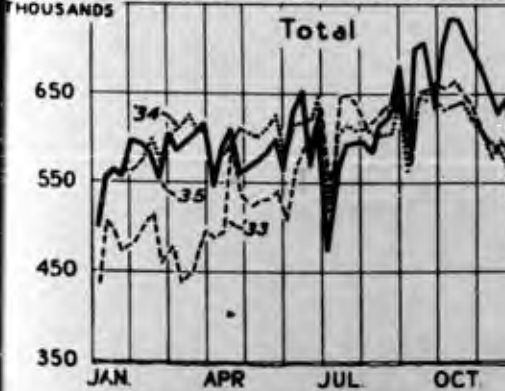
AUTOMOBILES

Production U.S. and Canada



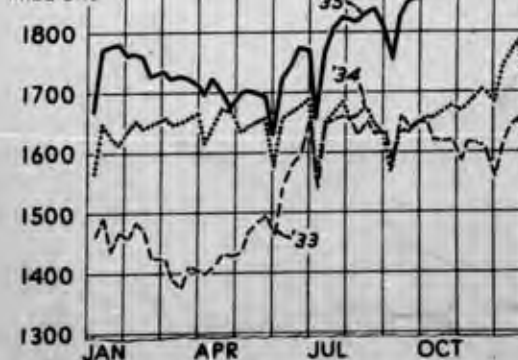
FREIGHT CAR LOADINGS

Total



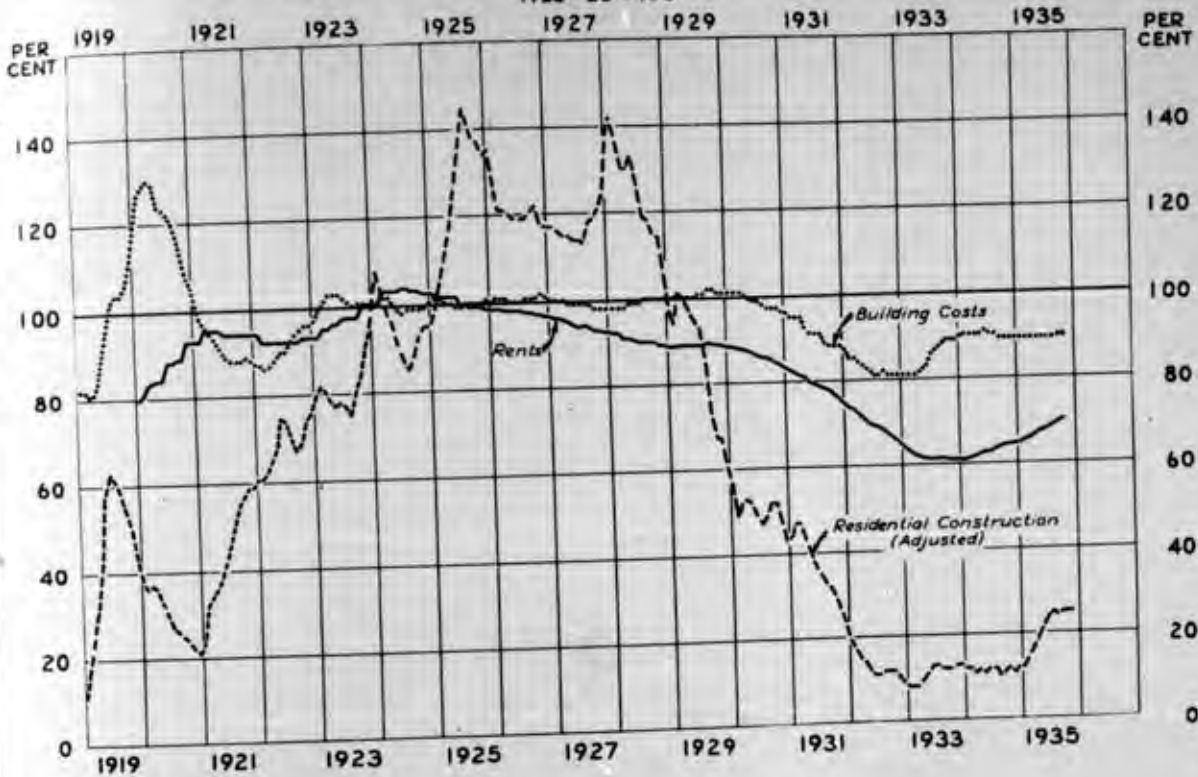
KILOWATT ELECTRIC POWER PRODUCTION

HOURS MILLIONS

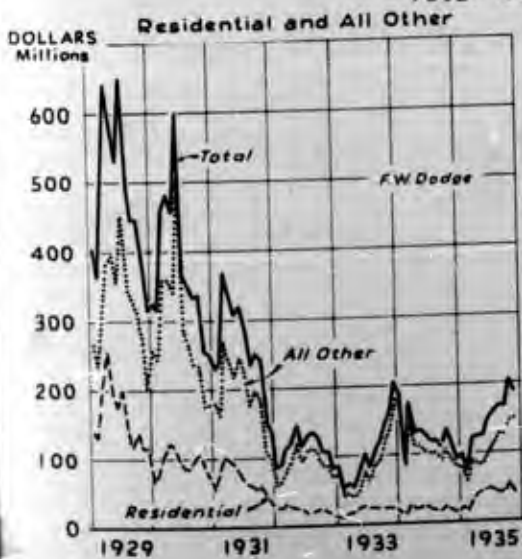


BUILDING SITUATION

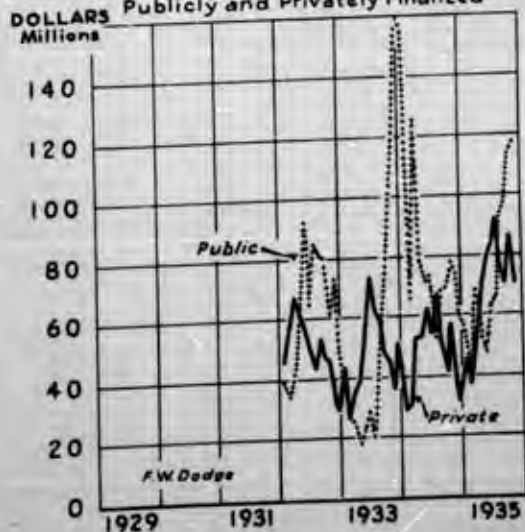
Residential Construction, Rents and Building Costs
1923-'25 = 100



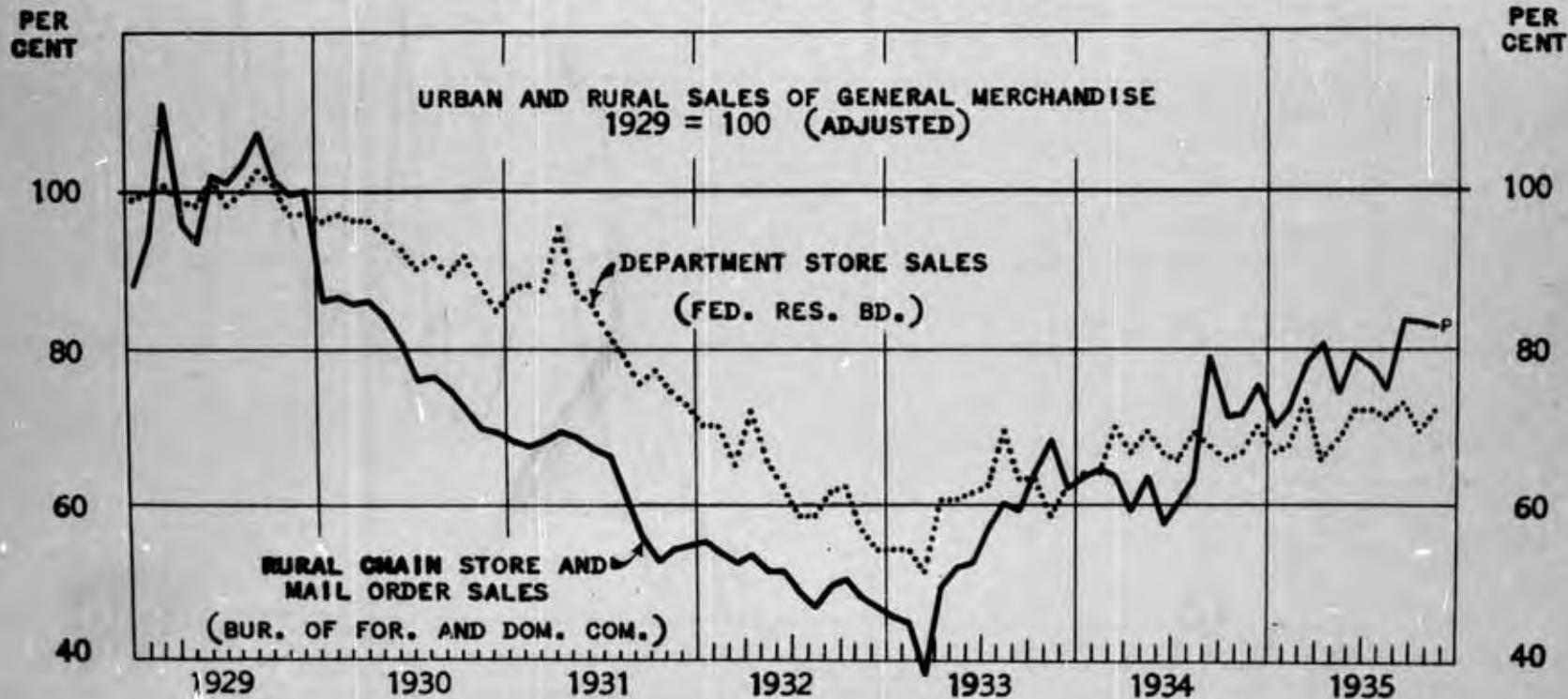
Total Contracts - 37 States



Publicly and Privately Financed



R E T A I L T R A D E



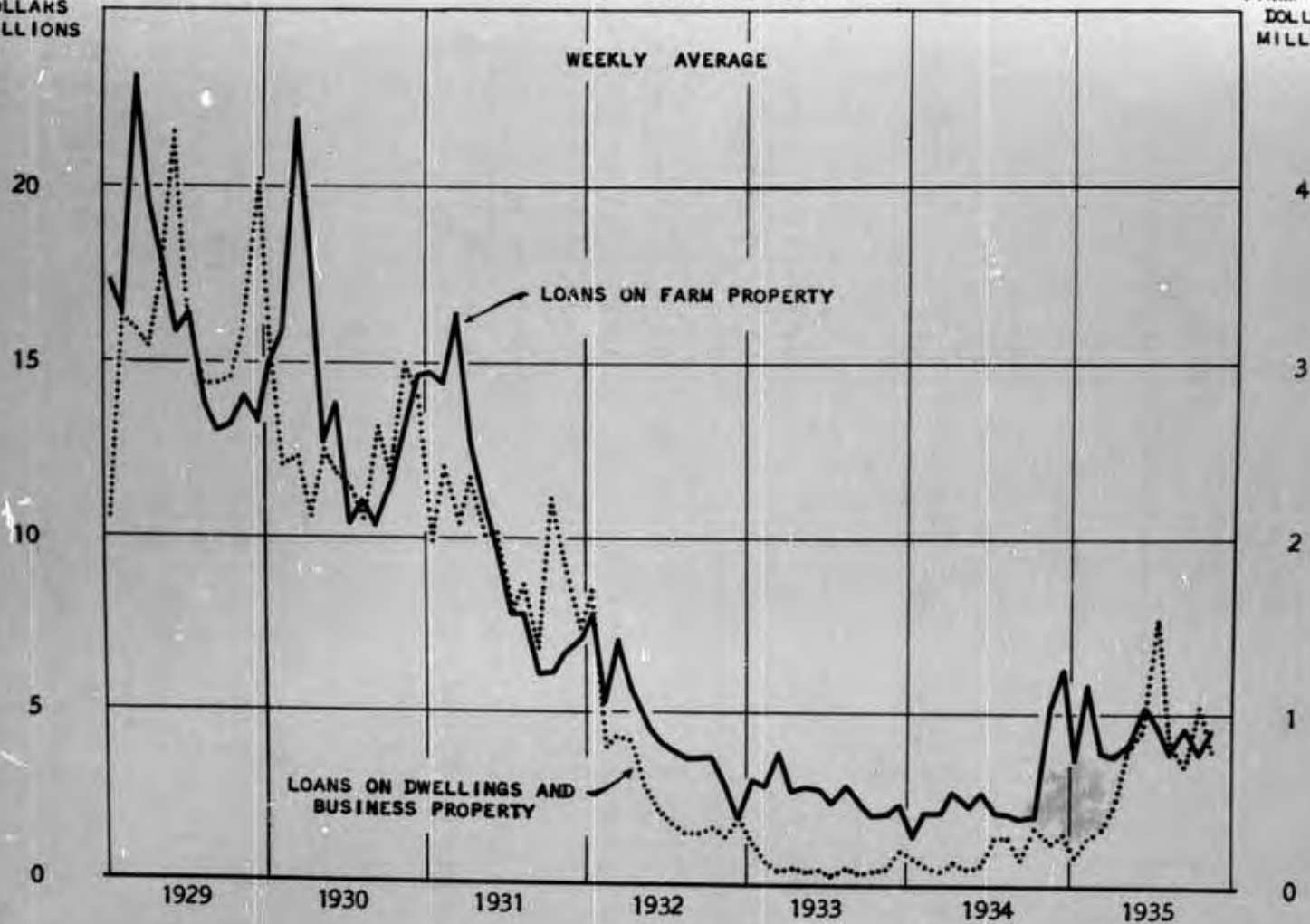
Office of the Secretary of the Treasury
Division of Research and Statistics

C-61a 192

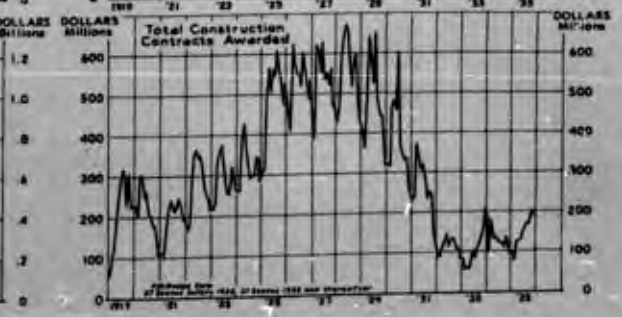
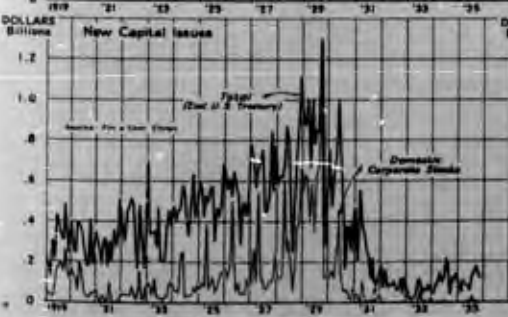
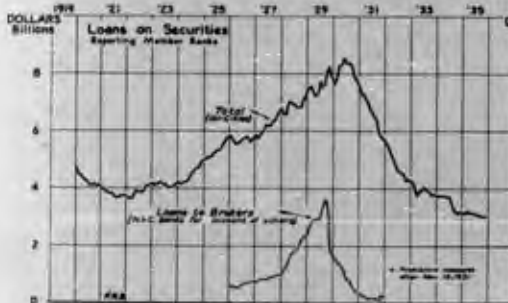
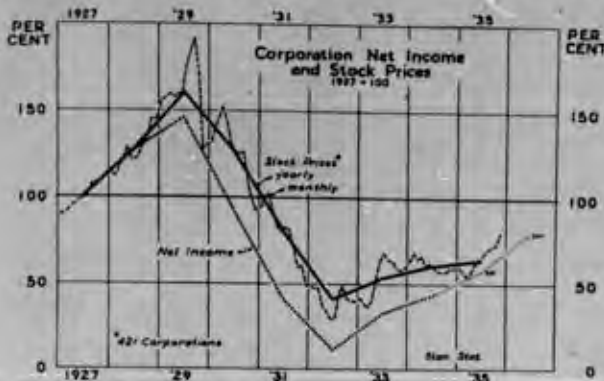
URBAN LOANS
DOLLARS
MILLIONS

LEADING LIFE INSURANCE COMPANIES

FARM LOANS
DOLLARS
MILLIONS

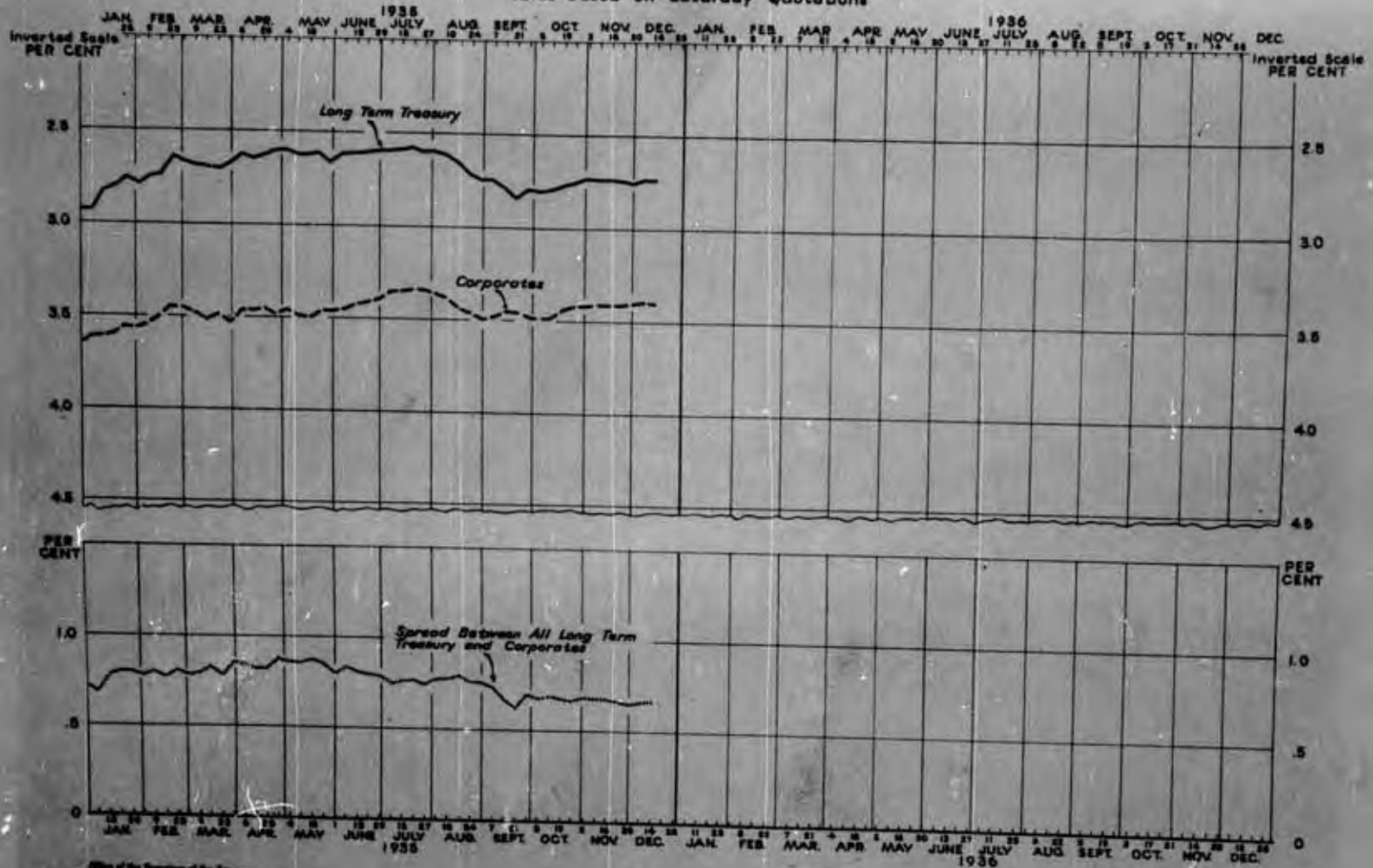


STOCK PRICES, PROFITS AND RELATED FACTORS



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS

Yields Based on Saturday Quotations



Office of the Secretary of the Treasury
Bureau of Research and Statistics

F-56A

LONDON SILVER MARKET

DEC 24 1935

LONDON - THE PERCENTAGE OF SILVER SALES
AGAINST OFFERINGS TODAY WAS NOT AVAILABLE - THE
OFFTAKE WAS SLIGHTLY BETTER

TNT 1230

WCNS21

THE FEDERAL TREASURY PAID AN AVERAGE OF 57 CENTS AN OUNCE FOR THE NEARLY 775,000,000 OUNCES OF SILVER ACQUIRED UNDER THE ROOSEVELT ADMINISTRATION, OFFICIAL TREASURY FIGURES SHOW.

THE COST OF THE 761,774,000 OUNCES OF THE METAL PURCHASED UP TO DECEMBER 6 WAS SET AT \$438,698,442. THIS METAL IS BEING WRITTEN UP ON THE TREASURY BOOKS TO \$1.29 PER OUNCE, OR TO A TOTAL OF \$982,688,460. THUS, THE TREASURY WILL SET UP A "PAPER PROFIT" OF \$543,990,018 ON ITS SILVER PURCHASES TO DATE, REGARDLESS OF FACT THAT THE METAL COST MORE THAN THE MARKET PRICE.

THIS "PROFIT" ALREADY HAS BEEN WRITTEN UP ON APPROXIMATELY 362,000,000 OUNCES. THE REMAINDER IS STILL IN THE TREASURY IN THE FORM OF BULLION AND WILL BE SET UP AS CURRENCY BACKING AS SOON AS THE NECESSARY NEW MONEY CAN BE PRINTED.

and seigniorage
Money will be issued only to the extent of the cost price.

12/24--R937A

During the week of Christmas, while H. M. Jr., was at the farm, he called me on the telephone and told me that he had asked the President whether he wouldn't send his father as a delegate at the Coronation of King George in Greece. And he said he would. And H. M. Jr. could hear him ask Moore over at the State Department and tell him. They would go to Greece and then come back via Palestine.

December 24, 1935

Lochhead reported to the Secretary today that London offered us, today, 7 million ounces of silver at 46.87. That is only down $\frac{1}{2}$ cent from yesterday. Yesterday it was 47.25 cents. It is interesting to note that yesterday they offered us 8 million ounces and we took 1 million and the fact that they are now offering us 7 million shows that there are no other buyers.

Bombay is closed for three days.

Mexico is offering us 500,000 ounces.

The Secretary talked to the President and then gave Lochhead the following orders: to drop the price in London one cent and take 1 million ounces; drop it one cent in New York and take 500,000 ounces from Mexico.

Lochhead, who was talking from the Federal Reserve in New York, put Knoke on the telephone and the Secretary wished him a Merry Christmas and told him that he had done a very fine job for the Treasury this year and that he especially appreciated it because he knew that the work was very hard.

H.M., Jr., then talked to Coolidge and Coolidge reported that the AAA wants to put a subsidy on export tobacco, the amount involved being 1 million dollars. He said the State Department was quite upset about it and that this matter will come up before the Commercial Treaty Committee on Friday. The Secretary told Coolidge that inasmuch as this million dollars was Customs money that he ought to tell the AAA that they will need all of this money for cotton and that he, The Secretary, wished to vote down this matter.

Mr. Oliphant reported that Associated Gas in New York went over well yesterday. Kent turned to the lawyers representing Associated Gas and told them in no uncertain terms that they ought to get busy and agree with those creditors to a volunteer bankruptcy. H.O. said that was just fine, because then there is no chance of their taking it into another Court.

Gibbons reported that he hopes to have a resignation within the next twenty minutes from the Buffalo Collector of Customs.

December 28, 1935

HM, Jr. gave Lochhead orders to keep the price of silver the same today in New York; that is, 50 cents.

LONDON HOLIDAY

DEC 26 1935

LONDON - TODAY WAS A HOLIDAY -BOXING DAY-
AND THERE WERE NO FOREIGN EXCHANGE OR GOLD
QUOTATIONS

December 27, 1935

The Secretary called in from Governor Lehman's home in New York City at 11:30.

Lochhead told him that London, without coming to us, at the regular time fixed the price of silver at 48.80 against the last price of 48.25. They made no offers to us. He told the Secretary that cotton is up 3 points, the commodity index is up 17 points, wheat is unchanged, industrials are up half a point, the bond market is unchanged.

HM, Jr. said he wanted more details from the Chase, who are handling things for us in London, as to what happened in the London market today.

Lochhead then said that in regard to the New York market we have had the price unchanged in New York for two days. There is some feeling in the market that we have pegged the price at 50 cents and if we leave it that way again today they will believe it to be a certainty. He also said that if we do not "close the gap" on this side by lowering the price, London will "close the gap" by bringing up their price to the 50-cent level and when it has reached that level we may get a large amount of silver offered and, if we do not wish to accept, we will have to go through the same trouble again. HM, Jr. told Lochhead that he did not have the time to go into it at this moment, but that he was in complete disagreement with him. He said that 50 cents is the price we nationalized on. "It is not an accidental price. I have had it in mind for several days," Mr. Morgenthau told Lochhead.

HM, Jr. said he is anxious to know whether at a price of 50 cents, the Japanese smuggling from China will stop. He also said that someone, without speaking to him, had given out the average price at which we have acquired our silver; that is, 57 cents, and that he wanted to look into this matter when he got back.

The Secretary then put in a call to the President and came back on the telephone and spoke to Lochhead and Mrs. Klotz and reported that the President could not come to the 'phone and he had to give the message to Miss Tully, who relayed it to the President. The President approved setting the price at 50 cents in New York and doing nothing in London.

Lochhead read the cable which we are sending to Buck and also the one we are sending to India. They are as follows:

"Cable to Nicholson and Buck - Shanghai.
Employ six intelligent young men at
Treasury expense to go into the interior

"of China to assist you in preparing a quick survey of the effects of the recent drop in the price of silver. What changes have occurred in general business volume and prices? Is silver being turned in to government banks, being hoarded, or being sold at a premium? What is public reaction? Answer by January fourth."

The cable to India:

"Employ six intelligent young men at Treasury expense to go into interior of India to prepare a quick survey of conditions since the recent drop in the price of silver. Have any changes occurred in general business volume and prices outside large cities? What is public reaction? Answer by January fourth."

The Secretary told Mrs. Klotz to call up Mr. Reed at the State Department and tell him that while the Secretary of the Treasury of Mexico was here, he wanted to give a stag dinner in his honor on January 1 and asked Mr. Reed to take it up with the Mexican Embassy and get a list of those whom they thought should be invited.

Cable to Nicholson and Buck - Shanghai.

Employ six intelligent young men at Treasury expense to go into the interior of China to assist you in preparing a quick survey of the effects of the recent drop in the price of silver. What changes have occurred in general business volume and prices? Is silver being turned in to government banks, being hoarded, or being sold at a premium? What is public reaction? Answer by January fourth.

Cable to India

Employ six intelligent young men at Treasury expense to go into interior of India to prepare a quick survey of conditions since the recent drop in the price of silver. Have any changes occurred in general business volume and prices outside large cities? What is public reaction? Answer by January fourth.

December 27th

H. M. Jr. saw Harry Hopkins today, also Admiral Peoples and Ickes. Admiral Peoples told H. M. Jr. that Ickes did not play fair on the whole building program and that he had told the President so. Harry Hopkins came around to H. M. Jr.'s way of thinking and agreed that from July 1, 1935 to July 1, 1936 he could carry on his relief program with 4 billion dollars. H. M. Jr. was quite excited over this as he had been advocating this to the President for some time and has been working for weeks to convince Hopkins and Ickes. Unscrambling the alphabets we will have about 900 million to take care of Hopkins until July 1, 1936 when the new building program will begin.

Bell and H. M. Jr. saw the President this afternoon and things went very well. H. M. Jr. made his little speech and the President liked it.

December 28th

H. M. Jr. asked McClerkin, Senator Robinson's Secretary, whether there was any criticism about him amongst Senators and Congressmen. Mc Clerkin said that the feeling on the Hill towards Mr. Morgenthau is one of friendship and affection. He said that Glass has been talking about too many Brain Trusters around here. Next Monday there will be a meeting of the silver and bonus Senators and he will try to find out what happens.

ADD BAR SILVER

1045
DEC 27 1935

LONDON - BY U P- THE BETTER TONE WAS ATTRIBUTED
TO BELIEF IN SOME QUARTERS THAT THE U S NOW THAT
THE SILVER PRICE HAS FALLEN TO ABOUT THE LEVEL
WHICH EXISTED AUG 1934 WHEN THE SILVER PURCHASE
ACT BECAME EFFECTIVE WILL HOLD THE PRICE
AROUND THE 50 AMN CENTS MARK-

ADD LONDON SILVER

DEC 27 1935

1170

LONDON - BY U P- ALL OFFERINGS WERE TAKEN BY INDIAN AND SHORTS WHO COVERED ON BELIEF THE PRICE DECLINE HAS RUN ITS COURSE

IT MARKED THE FIRST TIME SINCE DEC 11 THAT ALL THE METAL OFFERED HAD BEEN ABSORBED AND THE FIRST TIME IN MANY MONTHS THAT THE U S WAS NOT THE PRINCIPAL SUPPORT OF THE MARKET-

IT COULD NOT BE LEARNED WHETHER THE SILVER POOL REPORTEDLY ORGANIZED LAST WEEK UNDER MANAGEMENT OF A LEADING N Y BANK TO CARRY FORWARD OR FUTURE SILVER FOR ORIENTAL BANKS HAD ANY PART IN THE INDIAN BUYING-

OFFERINGS WERE REPORTED AS THE SMALLEST IN SOME TIME AND FIXING OF THE PRICE WAS MADE AT THE USUAL HOUR FOR THE FIRST TIME IN 18 DAYS -

DJ 4.15
BRITISH GOLD AND SILVER MOVEMENT

DEC 27 1935

LONDON - LONDON GAZETTE REPORTS THAT ON
DEC 24 SILVER IMPORTS WERE VALUED AT 1 124 578
PDS OF WHICH 1 047 656 PDS CAME FROM HONGKONG
EXPORTS WERE VALUED AT 21 125 PDS

UNITED KINGDOM IMPORTS OF GOLD TOTALED
23 026 PDS - EXPORTS TOTALED 32 781 PDS

LONDON SILVER MARKET

LONDON - REPORTS WHICH ARE UNCONFIRMED
STATE THAT A STRONG GUARANTEE SYNDICATE HAS
BEEN FORMED HERE WHICH WILL SHOULDER THE
CONTINGENT LIABILITIES IN SILVER SO THAT
FORWARD BROKERS CONTRACTS WILL BE HONORED
WITHOUT DIFFICULTY - PRIVATE SPECULATORS WILL
HOWEVER NOT BE RELIEVED OF THEIR LIABILITIES
BULLION BROKERS REFUSE TO CONFIRM OR DENG
-- DENG THIS -- DENY THIS DEVELOPMENT

CONTS&&--

11.55

DEC 27 1935

LONDON SILVER MARKET

DEC 27 1935

LONDON - BANKERS HAVE -- HERE BELIEVE THAT
REPORTS THAT A LONDON SILVER SYNDICATE HAS BEEN
FORMED ARE VERY PREMATURE AND THAT SUCH A
DEVELOPMENT IS UNLIKELY 1.45

WCNS68

CHAIRMAN PITTMAN OF THE SENATE SILVER INVESTIGATING COMMITTEE, TODAY APPROVED THE TREASURY'S RECENT CONDUCT OF SILVER PURCHASES, INCLUDING THE RECENTLY LOWERED PRICE.

"THERE ARE MONETARY AND EXCHANGE FACTORS INVOLVED WHICH JUSTIFY THE PRESENT COURSE," HE SAID. "I AM SATISFIED THAT SECRETARY MORGEN THAU IS CONDUCTING THE PURCHASE PROGRAM SATISFACTORILY."

PITTMAN EXPRESSED BELIEF THAT CHINA WILL ABANDON EVENTUALLY ITS ATTEMPT TO MAINTAIN A MANAGED CURRENCY AND WILL RETURN TO A SILVER STANDARD TO WHICH ITS PEOPLE HAVE BEEN ACCUSTOMED FOR AGES.

HE SAID HE DID NOT FORESEE ANY MAJOR SILVER LEGISLATION IN THE COMING SESSION OF CONGRESS.

12/26--R455P

LONDON BULLION BROKERS REPORT THE POSITION
IN SILVER IS SLIGHTLY IMPROVED WITH OFFERINGS
SMALLER

DEC 27 1935

-0-

9.45 am

ADD LONDON SILVER-- LONDON SILVER
ALL OFFERINGS OF SILVER WERE TAKEN TODAY BUT
NOT BY AMERICA-

DEC 27 1935

455a

GOLD AND SILVER IMPORTS OFF

11.41

WASHN - IMPORTS OF GOLD DURING THE WEEK
ENDED DEC 20 WERE 11 423 178 DLS COMPARED
WITH 50 376 690 IN THE PRECEDING WEEK THE
DEPT OF COMMERCE REPORTED -

DEC 27 1935

IMPORTS OF SILVER DURING THE WEEK
MONTIONED WERE 7 231 765 DLS COMPARED WITH
13 761 345 DLS IN THE PRECEDING WEEK

Mr. Bell's First Budget
Message. 216

December 28, 1935

This is copy of the Budget message which was reviewed by the Secretary with Mr. Bell and Mr. Edy this (Saturday) morning prior to a conference to be held at the White House this afternoon.

This is copy of the Budget message which was reviewed by the Secretary of the Treasury with Mr. Bell and Mr. Edy Saturday morning, Dec. 28, prior to a conference at the White House held Saturday afternoon.

2
2

DEC 28 1935

217

To The Congress of the United States:

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1937, together with this message which is definitely a part thereof. The estimates have been developed after careful analysis of the revenues, obligations and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed in the tables which follow.

Certain features of this Budget justify emphasis here:

1. There is reflected that sharp decrease in the spread between income and outgo which I promised in the Summation of the 1936 Budget in September last. I shall say more about this important fact in another section of the message.

2. Likewise as indicated in the Summation, the state of economic recovery is such that receipts from prevailing tax sources on the basis of present rates appear more than adequate for financing the ordinary operations of the Government in 1937, and no new or additional taxes will be proposed. To this subject also there will be further reference.

3. Legislation enacted by the first session of the Seventy-Fourth Congress makes it necessary to provide in the 1937 estimates new appropriation items aggregating \$684,600,000.

- 2 -

This total will become approximately \$785,000,000 should the Congress reject my recommendation, hereinafter offered, for repeal of that part of the Agricultural Adjustment Act which appropriates a sum equal to 30 per cent of customs receipts to the Secretary of Agriculture to encourage exportation and domestic consumption of agricultural commodities.

Legislation enacted by the first session also permits including in these estimates a total of \$769,000,000 of additional receipts, of which about seventy per cent will accrue under the Bituminous Coal Conservation Act, the Railroad Employees' Retirement Act and the Social Security Act. It is worthy of note that but slightly less than thirty per cent of this increase will be derived under the Revenue Act of 1935.

4. A Federal public works program of \$404,000,000 is recommended to meet in part the development and improvement requirements of the Government, and as a proper Federal contribution to work opportunity. While this program represents an increase of about \$200,000,000 over the amount for similar purposes for which the Congress made specific appropriations for the current fiscal year, it is \$ less than the total amount made available for Federal public works in 1936, considering allotments made from emergency funds.

5. The estimated receipts for the fiscal year 1937 exceed total appropriations required for that year by \$57,000,000, and exceed expenditures for the same purposes by \$420,000,000. These figures exclude postal service and recovery/^{and}relief, but include public debt retirements, Civilian Conservation Corps, and the Federal public works program.

6. No appropriation is contemplated at this time for relief. A request for an appropriation for this purpose may be submitted later in the session when requirements can be more accurately estimated. Indications are that the amount will not exceed \$.

The Economic Outlook

Fundamental to any realistic appraisal of the financial position of the Government is a consideration of the economic situation of the Nation. Since March, 1935, our National program of activities and expenditures has reflected our efforts to combat the economic stagnation which was stifling the progress and threatening the morale of our people. Gradually yet surely with each succeeding year we have made gains first on one front and then on another with continuous and healthy improvement of the economic status. In the Budget Statement of September, 1935, I cited a number of factors which showed that the outlook for the current fiscal year was favorable. These optimistic prospects are being realized.

The record reveals that the improvement which took place during the fiscal year ended in June 1935 has continued, and in the six months just past the economic gains of the early part of 1935 have been extended. At the year-end industrial activity was at the highest level for the recovery period, although still 20 per cent smaller than in 1929.

The improvement in industrial activity in 1935 was broader than that which occurred during any previous upturn of the past three years. Expansion during recent months was most noticeable in the manufacture of automobiles and of certain other durable goods. Equipment for factories, farms, and homes was produced in increasing volume. Output of building materials, while still relatively small, gained steadily. Merchandise production of less durable goods held up well, and in a few instances--notably, wool textiles and shoe manufacture--output records approached

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or even exceeded 1929. A fact of equal importance with increased production during 1935 was the rapid movement of goods into consumer channels. The calendar year 1936 opens without evidence of any of the overstocking which proved a burden during certain earlier phases of recovery.

Business improvement in the calendar year 1935 found immediate reflection in increased Treasury receipts from miscellaneous internal revenue sources. This is illustrated by the spectacular expansion last year in the manufacture and sale of automobiles and trucks, which had an immediate influence on the Government's income from levies on automobile and tire manufacture and on gasoline.

Last year's gains in trade, however, will not begin to augment the revenues to be derived from taxes on individual and corporate incomes or from levies on estates and gifts until the calendar year 1936. Consequently, a review of incomes in 1935 is of the most direct interest in its bearing on Treasury receipts in 1936 and 1937.

Increased employment and a more profitable level of operations in both industry and agriculture are estimated to have added from three to four billions of dollars to the total money income received by the American people in the calendar year 1935. A significant proportion of this total came from the marketing of farm products. This season, weather conditions have favored larger crops and prices have held up well, so that total cash income realized from the sale of crops and livestock and from governmental benefit payments in the calendar year

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1935 is estimated to have risen from 6 to 8 per cent above that of 1934, and well over 50 per cent above 1932. Moreover, the heavy debt burden hanging over our agricultural population at the beginning of 1933 was considerably lightened during the first two years of the recovery period. Higher incomes and lower interest charges have made possible greatly increased purchases of consumer goods and equipment by farmers during 1935. These purchases contributed greatly to the improvement in industry and trade which gave employment to city and town dwellers last year, and which was continuously reflected in our receipts during 1935 from certain miscellaneous tax sources.

Wholesale prices in general advanced during 1935. Agricultural products and industrial materials both moved upward. During the year a better adjustment was achieved between prices received by farmers and the prices charged for industrial products used on the farm, the ratio between the two price groups rising from 85 in January to 89 in November 1935. Meanwhile, the cost of living in cities increased by about 4 per cent during 1935. It is now about 17 per cent above March 1933, when the prices obtained by the primary producers of many of our food products as well as by a large number of merchants and manufacturers were at distress levels.

An expression of the continued improvement in agriculture and in business in the past year is found not only in higher incomes received by individuals, but also in the profits of our corporations. Industrial profits, as indicated by available reports of the large

Industrial corporations, were greater in each of the first three quarters of 1935 than in the corresponding periods of 1934, and are expected to make an even better showing in the fiscal quarter, due to the maintenance of activity and of consumer purchases at a high level during these months. For the calendar year 1935 as a whole, the combined net income of industrial, mercantile, utility and railroad corporations is expected to show an increase of about 30 per cent over 1934. Our corporation income tax receipts will begin to reflect these gains in the latter half of the current fiscal year ending on June 30, 1936.

The revival in the capital markets which began in the spring of 1935 is of great importance for future economic developments, since the expansion typified by new capital investments is essential to full re-employment. Although most issues thus far have been for the purpose of reducing interest charges on existing debts, it is significant that the capital markets, after several years of inactivity, are again absorbing new capital securities. Surplus funds available for investment and the continuation of exceptionally low interest rates have been favorable to these operations. Despite some increase in new offerings, however, the volume of surplus funds remains large, and bank loans of all types continue to be small relative to earlier years.

The outlook is for a better economic record in the next fiscal year, beginning in July 1936, than in either 1934 or 1935. Present indications are that buying of consumers' goods by city and farm dwellers will be sustained, that demand for industrial equipment and machinery will continue to increase, and that construction will be larger.

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Among the gains in industry and trade which are of particular significance to the future, the recovery in residential building which first became apparent early in 1935 is outstanding. The value of residential contracts is now only one sixth as great as in 1928, the peak year of residential construction in the 1920's. Other types of construction, with the exception of public works, are also relatively inactive. It is encouraging, however, that residential construction in recent months has been more than twice as large as in 1934. The upturn of 1935 represented the first sustained rise in new home building since the latter part of 1927, and the existence of a considerable deferred demand for housing provides the basis for further expansion in this field.

Review of the Fiscal Year 1935, 1936 and 1937

This review ^{that follows} ~~concerns itself not with budget estimates but primarily~~
 with actual cash received and paid out by the Treasury. ^{during fiscal year 1935 and} ~~The amounts of~~
~~the original estimates are given for purposes of comparison, and to show,~~
 also, ~~the conservative basis upon which they were predicted.~~

*the estimates
 receipts -
 and of purpose
 for the 1935
 1936 and 37*

Receipts--As pointed out in the Statement of the 1936 Budget, issued soon after Congress adjourned last fall, Treasury receipts for the year ended June 30, 1935, were slightly in excess of estimates prepared a year ago. Considering all sources except postal revenues, total receipts amounted to \$3,800,467,202, or \$89,000,000 above the estimate. Internal Revenue, including processing taxes on farm products, produced \$3,277,690,028, exceeding the estimate by \$80,000,000. Customs receipts amounted to \$343,353,033, an increase over the estimate of \$56,000,000.

Miscellaneous receipts estimated at \$217,813,426, fell short of the estimate by \$48,000,000; the amount actually received under this item was \$179,424,140. It should be understood that these figures do not represent a loss, or a decline in this source of revenue. At the time the estimate was made it was assumed amounts recovered on loans made by the Public Works Administration would be covered into the Treasury and applied to debt retirement. This was in accord with provisions of the National Industrial Recovery Act of June 16, 1933. A subsequent law, however, authorizes the Public Works Administration to sell securities to the Reconstruction Finance Corporation and to use the proceeds thereof for further loans. The adoption of this authorized policy deprived the Treasury of estimated receipts amounting to \$75,000,000. In other respects, receipts from miscellaneous sources of income exceeded the estimate by about \$27,000,000.

Expenditures— While actual receipts for the year were greater than anticipated, actual expenditures were less than the amount estimated by \$1,200,000,000. The aggregate of all expenditures was \$7,375,825,166 against an estimate of \$6,581,069,026. Approximately a billion dollars of this difference related to recovery and relief, and the regular agencies accounted for the remaining \$200,000,000.

The total spent for recovery and relief was \$4,262,257,208, whereas the 1936 Budget estimate was \$5,299,802,852. This difference is partly due to this factor:

When the Budget for 1936 was prepared it seemed probable that the Reconstruction Finance Corporation, in all accounts except relief, would close the year with an excess of loans over repayments; and the amount of the net expenditures was estimated at \$556,000,000. However, due to improved business conditions, the demands for Corporation assistance were so much less than estimated and the repayments of loans so much greater, that the Corporation actually closed the year with net receipts of \$107,000,000; and the net difference between the actual result and the estimate amounted to \$663,000,000. Other agencies spent for recovery and relief \$335,000,000 less than estimated.

For the operation and maintenance of regular departments and establishments of the Government actual expenditures were \$1,719,083,353 against the estimate of \$1,913,700,174.

For statutory debt retirements there was expended \$573,598,250 and for interest on the public debt \$820,926,353, whereas the amounts budgeted for these items were respectively \$772,566,000 and \$835,050,000.

Deficit and Public Debt— The year closed with a gross deficit of \$3,575,357,964 instead of the estimate of \$4,869,418,338. After deducting the amount paid out for statutory debt retirement the net deficit was \$3,001,799,714. The increase in the total outstanding gross public debt was \$1,647,751,210, which figure is properly obtained by subtracting from the net deficit the decrease in the general fund balance, the excess of trust fund receipts over trust fund expenditures and the amount of retirement of national bank notes from the gold increment. As of June 30, 1935, the total outstanding gross public debt was \$28,700,892,624, while on June 30, 1934, it was \$27,053,141,414.

Receipts for the Fiscal Year 1936

At the mid-point of the current fiscal period it is possible to draw upon the experience of the first six months in forecasting results of the whole year. Usually, the outlook is wholly favorable, even more so than when the 1936 Budget was presented in January, 1935.

Receipts—The same sources of income (excluding postal revenues) which a year ago were expected to produce receipts aggregating \$3,991,904,639 are now expected to produce a total of \$4,410,793,946. This latter figure is less than appeared in the Budget Statement in September by \$60,000,000, due to transactions in securities held by the Public Works Administration, with respect to which the explanation is the same as that on page of this message where the 1935 receipts from miscellaneous revenues are discussed.

Of the items comprising the whole, income taxes will develop \$1,444,112,000, or \$246,000,000 more than the 1936 Budget estimate. Miscellaneous Internal Revenue exclusive of processing taxes is now estimated at \$1,673,091,000, an increase of \$287,000,000. Receipts from customs are expected to reach a total of \$355,191,000, exceeding the original estimate by \$55,000,000. Other obnoxious, some upward and some downward, result in the new estimate of total receipts at a figure of \$419,000,000 higher than shown in the Budget for 1936 which was presented a year ago. [This increase in probable income is heartening indeed, and is convincing evidence of the pronounced upward trend in economic conditions.]

The present estimate for processing taxes in 1936, included in above total, is in round figures \$529,000,000, as against the original estimate of \$570,000,000. Actual receipts for the five months ended November 30, 1935, totaled \$57,000,000, while

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approximately \$160,000,000 of due payments have been impounded as result of preliminary court action.

It is pertinent to repeat here a statement appearing in the Summation of the 1936 Budget: "Estimates of receipts contemplate continued collection of processing taxes. If the attack which has been made upon this Act is sustained we will have to face the problem of financing existing contracts for benefit payments out of some form of new taxes."

Two new taxes, namely, the Bituminous Coal tax and the Railroad Employees' Retirement tax, both representing recent legislation, will contribute some \$38,000,000 to the revised estimate of receipts for 1936. Social Security taxes will not produce any income until the fiscal year 1937; and the effect of the Revenue Act of 1935 will not be reflected in receipts for 1936.

Expenditures— Indications are that expenditures during the present fiscal year will not reach the amount budgeted by approximately \$770,000,000; the total now foreseen is \$7,750,000,000, against the original estimate of \$8,520,413,609. For recovery and relief the revised estimate of expenditures is less than the original Budget estimate by \$427,000,000, while expenditures for all regular purposes will be less by \$331,000,000. The latter figure includes \$214,000,000 for servicing the public debt since debt retirement will require \$84,000,000 less than was budgeted and interest payments will be \$130,000,000 less. It thus appears that all other regular expenditures will be less than the original Budget estimate by about \$120,000,000.

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The work relief program developed during the summer and fall with a view to taking three and one-half million persons from the relief rolls attained its objective in December. Of about \$4,000,000,000 of funds available under the Emergency Relief Appropriation Act of 1935 for expenditure after July 1, 1935, a total of more than \$3,800,000,000 has been allotted for useful work in every State and Territory of the Nation. Cooperation by local units of government has been pronounced and helpful, and widespread improvement of the plant and facilities devoted to general public use is assured. The peak of the work relief operations will soon be reached.

Deficit and Public Debt--The revised estimates as set out herein show a gross deficit for the current fiscal year of approximately \$3,350,000,000, instead of the original Budget forecast of \$4,529,000,000. After deducting the amount of statutory debt retirement the net deficit will be \$2,800,000,000. / Since no significant change is expected in the general fund balance as compared with the beginning of the year, the gross public debt as at June 30, 1936, previously forecast at \$34,239,000,000, should not be greater than \$31,500,000,000.

The foregoing figures are set out in the following table for ready comparison between Budget estimates of a year ago and what are now considered probable.

Comparison of Original and Revised Estimates.
Fiscal Year 1936

	Budget Estimate, January, 1935	Revised Estimate
1. Receipts (Excluding Postal)-		
Income tax	\$1,188,000,000	\$1,434,112,000
Miscellaneous internal revenue	1,685,900,000	1,873,091,000
Processing taxes on farm products	570,000,000	529,000,000
Customs	298,000,000	353,191,000
All other	250,004,639	221,399,946
Total receipts	<u>3,992,904,639</u>	<u>4,410,793,946</u>
2. Expenditures-		
Regular	2,426,968,134	2,435,000,000
Interest on the public debt	875,000,000	742,000,000
Recovery and relief	<u>4,582,011,475</u>	<u>4,031,000,000</u>
Total expenditures	<u>7,883,979,609</u>	<u>7,208,000,000</u>
3. Net deficit	3,892,074,970	2,798,000,000
Statutory debt retirements	<u>636,434,000</u>	<u>552,000,000</u>
Gross deficit	<u>4,528,508,970</u>	<u>3,350,000,000</u>
4. Gross Public Debt	<u>\$34,239,000,000</u>	<u>\$31,500,000,000</u>

Postal revenues for the fiscal year 1936 are now estimated at \$25,000,000 over the original estimate.

The Fiscal Year 1937.

In order that a clear picture of the main Budget figures proposed herein may be presented, significant data are shown below for the four years 1934, 1935, 1936, and 1937. For the years 1934 and 1935 the figures are actual and for 1936 and 1937 they are, of course, estimated.

(In millions of dollars)

	1934	1935	1936	1937
I. REGULAR:				
1. Receipts-				
Income tax	818	1,099	1,434	1,943
Misc. Int. Rev.	1,470	1,657	1,873	2,103
Customs	313	343	353	354
Miscellaneous	162	180	183	160
Total	2,763	3,279	3,843	4,560
Taxes under Social Security, Rail- road Employees' Retirement and Bituminous Coal Conservation Acts	--	--	38	947
Grand total	2,763	3,279	3,881	5,107
2. Expenditures-				
Operation and maintenance of regular departments and establishments *	1,086	1,081	1,667	2,415
Veterans' pensions and benefits	556	606	720	791
Interest on National debt	757	821	742	805
Tax refunds (exclusive of processing taxes)	63	45	48	51
Total regular expenditures	2,462	2,553	3,177	4,062
II. RECOVERY AND RELIEF:				
1. Agricultural Adjustment Administration-				
Processing taxes	353	521	529	547
Expenditures (including refunds of processing taxes)	290	743	732	743
Excess of expenditures over taxes	- 63	+ 222	+ 203	+ 196
2. Other recovery and relief expend- itures	3,991	3,505	3,299	
Total recovery and relief expenditures	3,940	3,727	3,502	
Total expenditures (exclusive of debt retirements)	6,392	6,280	6,679	
Net deficit	3,629	3,001	2,798	
Debt retirements	360	574	552	580
Gross deficit	3,989	3,575	3,350	

* Includes estimated supplemental 1936 and 1937.

The interesting facts disclosed by this table are (1) the continuous increase in normal receipts of the Government reflecting progressive improvement in the economic status of our people, (2) the decline in expenditures for those extraordinary measures designed to combat the National emergency, from the peak year of 1934, and (3) the moderate increase in cost of the service on the public debt.

✓ These facts deserve some elaboration:

If a simple chart of Federal receipts and expenditures is prepared for a period of, say, 10 years ending June 30, 1937, it will be observed that the line or curve representing receipts, after running fairly level up to 1930, turned sharply downwards and the line representing expenditures began to move rapidly upward in 1931. In 1930, the depression caused Federal receipts to decline, as the chart would show, and this decline continued until 1932, in spite of new taxes imposed in that year. This downward movement of the curve of receipts was accompanied by an upward movement of the curve of expenditures as the Federal Government found it necessary to spend increasingly large sums for relief of distress, for loans to industry and business and for other contributions and aids designed to meet the National emergency. On January 1, 1935, the spread between the two curves was about \$3,000,000,000.

Since Government derives its income from taxes, and since the people can pay taxes only out of their income, this Administration in 1933 adopted this definite policy: That we would not attempt to have a balanced budget until the people could afford to balance it out of increased earnings.

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This policy is exemplified in the several legislative acts having for their objective the betterment of the economic status of all elements of the population; and the restoration of individual opportunity to work and earn and to purchase the products of industry, and from their increased earnings to pay a fair level of taxes for support of the Federal services. That this policy was sound and is meeting with success is obvious to all who will but compare the situation of today with that which prevailed three or four years ago.

The encouraging feature of this analysis is that it shows the lines representing receipts and expenditures to be converging. The first is going up and the second is going down. In other words, the spread between income and outgo is decreasing. The stimulus which the Administration policy has given to business and industry has reacted favorably upon both Federal income and expenditures. I think we have passed what we may call the peak spread. As emergency expenditures decline because of improved economic conditions, so will governmental receipts increase; and they will increase from natural causes rather than by virtue of legislating new sources or higher rates. This Nation of ours needs vast amounts of new construction and of new production, all of which will contribute its just share toward a balanced budget and the eventual retirement of the public debt.

This is worth noting: If between 1920 and 1930 the tax structure of the Government had remained unchanged; if it had not been lowered three times, as it was, the National debt caused by the World War would have been more rapidly paid off and would have been much less than it was when the depression overtook the country. And the speculative boom of 1929 could not have reached the proportions it did.

Directing attention now to a comparison between fiscal operations proposed for 1937 and now estimated for 1936, as set forth in the General Budget Summary on page and in Supporting Schedules 1 and 2, the following comment is pertinent:

Receipts—Receipts in 1937 from regular sources (exclusive of postal revenues, processing taxes and taxes imposed under the Social Security, Bituminous Coal Conservation and Railroad Employees Retirement Acts) are expected to reach a total of \$4,582,074,000, an increase of \$758,000,000 over similar receipts for 1936 now estimated at \$3,824,214,000, and \$1,300,000,000 over 1935. It should be pointed out here that this increase is due largely to increased payments of taxes under the old schedules. Only about \$222,000,000 will be produced in 1937 as a result of the Revenue Act of 1935.

From processing taxes the sum anticipated is \$547,300,000 against the estimate of \$529,042,000 for the current year, an increase of \$18,000,000. Other taxes recently authorized by the Congress under the Social Security, Bituminous Coal Conservation and Railroad Employees Retirement Acts will produce \$547,100,000 in 1937, and \$38,600,000 this year, an increase of \$508,500,000.

Thus 1937 receipts from all sources, except postal revenues, are estimated at \$5,676,000,000 against the revised estimate of \$4,392,000,000 for the current fiscal year. The increase in total receipts from stated sources is therefore \$1,284,000,000.

Postal receipts for the coming year are estimated at \$705,000,000, an increase of \$35,000,000 over \$670,000,000 anticipated in 1936. This is further evidence of the upward trend in business conditions.

An examination of the detailed estimates of the first four classes of receipts for 1937 as shown in the table on page indicates a gain over 1936 in income tax of \$528,500,000, the figures for the two years being respectively \$1,962,600,000 and \$1,434,112,000. Similarly, estimated receipts from miscellaneous internal revenue, exclusive of processing taxes, are up from \$1,855,291,000 to \$2,106,014,000, a gain of \$251,000,000. Customs receipts are forecast at \$354,000,000, substantially the same as anticipated for 1936. The reduction of \$22,000,000 in probable miscellaneous receipts, from \$181,650,000 to \$159,460,000, brings the net increase in the estimates of these four classes of receipts to \$758,000,000, as stated.

The provisions of the Social Security, the Bituminous Coal Conservation and the Railroad Employees' Retirement Acts are such that receipts during the fiscal year 1936 will be comparatively small while revenues from these sources in the next fiscal year will show substantial increases. The amounts estimated for 1937 from each of the new taxes in the order named are \$433,200,000, \$12,300,000, and \$101,600,000.

Expenditures— The expenditures for 1937 contemplated under this Budget will total \$6,700,000,000, or approximately \$1,000,000,000 less than is now estimated for 1936.

Of the two major categories of expenditure, namely, regular, and recovery and relief, allowances for regular activities amount to \$4,902,000,000 as compared with \$3,729,000,000 for 1936, an increase of \$1,173,000,000. For recovery and relief, expenditures as planned will be made from unexpended balances, practically all of which will have been obligated prior to June 30, 1936. The total of such expenditures in

1937 is estimated at \$1,700,000,000, which is a decrease of \$2,300,000,000 from the figure of \$4,031,000,000 for 1936.

In regular expenditures there is included \$805,000,000 for interest on the public debt, an increase of \$60,000,000 over the same item for the current year; and \$580,000,000 for statutory debt retirements, an increase of \$28,000,000. The cost of service on the public debt in 1937, therefore, will exceed that for 1936 by \$98,000,000.

Excepting debt retirement and interest, the increase in expenditures for regular activities is \$1,082,000,000 as compared with 1936. The major part of this increase is accounted for as follows: (a) For financing activities under the Social Security Act, the Railroad Employees Retirement Act, and the Bituminous Coal Conservation Act, \$525,000,000; (b) for increased public works, \$125,000,000; (c) for other new legislation,

\$

Among other increases in the expenditures for the regular activities are \$63,000,000 for the Veterans' Administration due to increased pensions and compensation to our war veterans; \$60,000,000 for the Veterans' Adjusted Service Certificate Fund in order to bring the annual contribution of the Government nearer its actual liability under existing law; \$175,000,000 for the Emergency Conservation Work, included in the regular activities for the first time; and \$130,000,000 for National Defense to meet the policy of the Congress and the Executive in making up for the delay by the United States in meeting the provisions of the naval treaties of 1922 and 1930, and to provide replacement and improved equipment and additional personnel for the Army.

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In the War Department Appropriation Act for the fiscal year 1935 the Congress adopted a policy of increasing the average enlisted strength of the Army from 118,750 to 165,000 men and towards accomplishing such purpose appropriated an additional \$20,000,000 for expenditure during that year. These funds are sufficient to maintain an average enlisted strength during 1936 of approximately 147,000 men. I am including in this Budget estimates sufficient in amount to maintain this average during the fiscal year 1937, with the purpose in view of providing in the 1938 Budget the funds necessary to recruit the Army to such strength by the close of that year as will produce an average enlisted strength of 165,000 throughout the fiscal year 1939, the maximum indicated by the Congress. I feel that this is as fast as we should proceed in this matter in the light of our fiscal affairs as we can now forecast them.

The principal decreases are \$12,000,000 in postal deficiency; and \$92,000,000 on account of Agricultural Adjustment Administration, due to the recommendation made herein for repeal of section 32 of the Act of August 24, 1935 which appropriated an amount equal to 30 per cent of the gross customs receipts for use in encouraging exportation and domestic consumption of agricultural products.

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Deficit and Public Debt-- The gross deficit for the fiscal year 1937 is estimated at \$ _____ including \$ _____ for statutory debt retirement, or a net deficit of \$ _____. It is estimated that the gross public debt on June 30, 1937, will amount to \$ _____ as compared with an estimated debt on June 30, 1936, of \$ _____.

Appropriations-- Appropriations recommended in this Budget aggregate \$6,300,000,000, while the appropriations already made for the fiscal year 1936, exclusive of the appropriation of four billion dollars for recovery and relief, amount to \$5,034,000,000, an increase of \$1,200,000,000 required for the fiscal year 1937 over the fiscal year 1936.

This increase is due to (1) appropriations amounting to approximately \$700,000,000, including supplementals to be submitted later, required to finance new legislation enacted at the last session of Congress; (2) an appropriation of \$246,000,000 to continue the operations of the Civilian Conservation Corps from March 31, 1936, to March 31, 1937; (3) an increase in specific appropriations of \$200,000,000 on account of general public works; and (4) increases in the general departmental requirements aggregating approximately \$137,000,000, due largely to the increase in the Army, Navy, and the Department of Agriculture.

The following table shows the estimates of appropriations which are anticipated will be necessary to administer new legislation enacted during the last session of Congress, and also shows the amount of receipts anticipated in 1937 from new tax provisions.

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Recent Legislation re:	Estimated Appropriations 1937	Estimated Receipts 1937
Social Security	\$462,000,000	\$433,200,000
Railroad Employees Retirement	47,625,000	101,600,000
Bituminous Coal	1,155,000	12,300,000
Motor Carrier Act	1,700,000	
Public Utility Act	1,630,000	
Federal Power Act	1,412,400	
Amendments, Pension Laws	46,470,039	
Postal 40-hour week	27,607,700	
Elimination Diseased Cattle	17,500,000	
Soil Conservation	27,500,000	
Agricultural Research and Extension	11,500,000	
Reduction int. rate, Fed. Land Banks	24,550,000	
National Labor Relations Board	735,000	
Other, Miscellaneous Items, several departments and estab- lishments	<u>8,895,000</u>	
Total	\$698,841,903	
Estimated receipts a/c new taxes except processing taxes, 1937	\$547,100,000	\$547,100,000 ✓

Because there has not been time to plan the organization and methods required, no detailed estimates are included in the Budget for expense to be incurred by the Bureau of Internal Revenue in collecting taxes authorized by the three new acts heretofore referred to. However, the probable expense has been approximated and is included in the totals as a lump sum. The necessary supplemental estimate covering the remainder of the current year will be transmitted during the early days of the session, together with complete details for 1937. Likewise no estimate for administering the Potato Act has been prepared since I am hoping this Act will be amended along lines to be recommended by the Secretary of Agriculture, and a supplemental estimate can then be transmitted.

Existing authorizations for the Federal Aid Highway System provide for appropriations of \$125,000,000 for each of the fiscal years 1936 and 1937. Under these authorizations \$40,000,000 has previously been appropriated for the fiscal year 1936. Towards the balance of \$85,000,000 authorized for that year there is provided under the item "General Public Works Program" an estimate of \$60,000,000, which it is believed will be sufficient to meet commitments maturing during 1937. As to the authorization of \$125,000,000 for the fiscal year 1937, I have included language in this Budget, which I trust the Congress may see fit to adopt, having for its purpose the cancellation of this authorization for 1937 and making it applicable to the fiscal year 1938. I feel that this course is fully justified in view of the fact that during the fiscal years 1933 to 1936, inclusive, there has been made available from emergency funds a total of ^{approximately} \$1,000,000,000 for the construction of highways and the elimination of grade crossings, and that from these funds there will be available for expenditure during the fiscal year 1937 a total of ^{more than} ~~approximately~~ \$250,000,000 in addition to the \$60,000,000 provided for in the General Public Works Program, previously referred to. Moreover, roads of secondary classification and farm to market roads are being constructed under allotments of emergency funds in amounts approximating \$115,000,000.

A fair appraisal of the condition of the country permits the anticipation of reduced aggregate expenditures for relief, all levels of government considered. The Federal government has contributed

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unmistakingly for this purpose, tiding over the depletion of local resources. Federal funds are financing the major portion of an expanded works relief program now under way in all states, providing useful work for 3 1/2 million people previously unemployed. Federal legislation, notably the Social Security Act, has laid the foundation for, and funds from the National Treasury will assist the states in financing, a modern plan of old age pensions, unemployment insurance and aid for the handicapped. All this the government has done apart from its far-seeing and beneficial program of general recovery. I consider it logical and timely, therefore, for the Federal government to terminate its participation in direct relief and to expect the states to reassume their fundamental responsibility in this respect.

I am in complete agreement with the opinion quite generally held that the able bodied unemployed can be restored permanently to a self-sustaining basis only as they are absorbed by the work of private enterprise. The fact is, our whole program of recovery has been predicated upon our conviction that this must be true. What we have been doing in providing funds for direct relief and in providing widespread employment on public projects was designed and frankly identified as an emergency effort by the National government against the time of business revival.

Fortunately, the processes of substantial recovery are at work. Industry, as I have said, is expanding, and nearly all business has experienced a decided up-turn. The work relief program will carry well into the spring and early summer by which time we may expect to see further private reemployment among all ranks of workers. Leaders in the

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field of commerce and industry encourage me to feel they can continue to fill more jobs month by month.

Therefore, I propose at this time no appropriation for the purpose of direct relief. However, developments will be watched and as the weeks pass we can form a precise judgment as to the real probability of need for Federal relief funds. If conditions warrant I shall transmit a specific recommendation and estimate, the amount of which should in no event exceed \$. The appropriation and expenditure of such a sum would bring the deficit to \$ instead of \$ as indicated.

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The following table shows a comparison of the appropriations required, exclusive of the \$4,000,000,000 for recovery and relief, the estimated revenues, and the estimated expenditures, for the fiscal years 1936 and 1937. The figures include operations for account of the Agricultural Adjustment Administration.

	(In millions of dollars)	
	<u>1936</u>	<u>1937</u>
1. <u>Appropriations made and submitted</u>	\$5,066	\$5,802
Deduct appropriations of postal revenues	<u>670</u>	<u>705</u>
Total for regular activities	4,396	5,097
Add supplemental items to be submitted	<u>125</u>	<u>500</u>
Total	<u>4,521</u>	<u>5,597</u>
2. <u>Total estimated receipts</u>	5,080	6,359
Deduct postal revenues	<u>670</u>	<u>705</u>
Total revenues available for regular activities	<u>4,410</u>	<u>5,654</u>
3. <u>Total estimated expenditures</u>	4,989	5,439
Deduct estimated expenditures from postal revenues	<u>670</u>	<u>705</u>
Total	4,319	4,734
Add estimated expenditures from supplemental items	<u>125</u>	<u>500</u>
Total estimated expenditures for regular activities	<u>4,444</u>	<u>5,234</u>
4. <u>Excess receipts (except postal) over appropriations</u>	<u>- 111</u>	<u>57</u>
5. <u>Excess receipts over expenditures, regular activities</u>	<u>- 34</u>	<u>420</u>

It will be noted that for 1937 the estimated receipts exceed the total appropriations ^{by \$57,000,000} and also the total expenditures for the regular activities of the Government, including public debt retirement, the Civilian Conservation Corps and increased public works by \$420,000,000.

It is appropriate for me here to refer to certain general aspects of the program and finances of the Government, and to offer some specific recommendations.

Appropriation Transfer Provisions-

The text accompanying a number of the estimates has been drafted to include provisions for transfers between appropriations within the same department. This provision will add a measure of administrative flexibility and will tend to promote economical execution of the program as a whole.

The prevailing practice of apportioning by months the expenditures authorized by Congress and proposed by departments is proving effective and encourages more thoughtful planning of work. This system of expenditure control functions under the supervision of the Director of the Budget.

Emergency Agencies-

From time to time during the past three years various agencies were created by law and by Executive Orders under authority of law to perform specific functions necessary to alleviate conditions imposed by the emergency. A few of these agencies may become permanent units of the Government. Others are rapidly completing the major purposes for which they were created; and as we emerge from the depression we may consider their discontinuance, or the consolidation of their remaining functions with one or more of the permanent establishments.

Within the last few months control of the administrative expense of twenty agencies has been vested in the Bureau of the Budget which after a general survey of all of them has effected substantial reductions in proposed expenditures for administrative purposes. Allowances for administrative expenses are subject to such adjustment as the status of the agency warrants.

The twenty agencies brought under the Budget are the Agricultural Adjustment Administration; Commodity Credit Corporation; Electric Home and Farm Authority; Export-Import Banks (2); Farm Credit Administration; Federal Coordinator of Transportation; Federal Deposit Insurance Corporation; Federal Emergency Administration of Public Works; Federal Emergency Relief Administration; Federal Farm Mortgage Corporation; Federal Home Loan Bank Board; Federal Housing Administration; Federal Savings and Loan System; Federal Savings and Loan Insurance Corporation; Federal Surplus Relief Corporation; Home Owners' Loan Corporation; National Recovery Administration; Reconstruction Finance Corporation and Tennessee Valley Authority.

A number of this group, as the emergency is dissipated, will not be required beyond the time necessary for their liquidation.

and the activities under it,
~~The Home Loan Bank Board / Federal Savings and Loan Insurance Corporation~~

~~These, Federal Deposit Insurance Corporation, Federal Farm Mortgage Corporation, Federal Housing Administration, with respect to Title II of the Federal Housing Act, and the Tennessee Valley Authority are engaged in activities of a more or less permanent character. The authority and duties of the Federal Housing Administration under Title I will expire on April 1, 1936, unless extended by the Congress and such extension is~~

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recommended up to December 31, 1936. The Farm Credit Administration, as agricultural conditions improve further, should finance a large part of its administrative expenses by assessment made on the credit agencies under its supervision as is done by the Home Loan Bank Board.

The Federal Savings and Loan Division of the Home Loan Bank Board was established to promote the formation of Federal Savings and Loan Associations. I feel that no additional appropriations need be made for this promotional work.

The work of the Federal Coordinator of Transportation will be completed on June 17, 1936. Thereafter, if further studies are desired relative to transportation problems, such studies can be made by the Interstate Commerce Commission and the office of the Federal Coordinator of Transportation can be discontinued.

The Home Owners' Loan Corporation, Federal Farm Mortgage Corporation, and Reconstruction Finance Corporation, as they discontinue active loaning operations, will begin to liquidate. The first two of these are authorized to issue bonds guaranteed as to principal and interest by the United States in the amounts of \$4,750,000,000 and \$2,000,000,000 respectively.

The Home Owners' Loan Corporation will cease making loans on June 13, 1936, at which time it is estimated that approximately \$3,200,000,000 of bonds of the Corporation will have been issued. The Corporation has also issued \$100,000,000 of its bonds to the Federal Savings and Loan Insurance Corporation in exchange for its capital stock. It is further authorized to issue \$300,000,000 of bonds for the purpose of obtaining funds to purchase shares in Federal and State thrift and home-financing institutions. I believe

Recommendation

To give effect to the estimates included in this Budget and to promote the financial interest of the Government I urge legislation to accomplish the following:

1. Provide as to those appropriation titles for which appropriate language is included in the text accompanying the estimates, provisions to permit transfer of funds from one appropriation to another within the same department under certain restrictions and subject to approval by the Director of the Budget.

2. Repeal that provision of the Agricultural Adjustment Act, as amended, which appropriates a sum equal to 30 per cent of customs receipts to the Secretary of Agriculture to encourage exportation and domestic consumption of agricultural commodities.

3. Repeal that provision of the Agricultural Adjustment Act which now permits the Administration to draw funds from the Treasury without limitation; and amend the same Act so as to require that estimates for financing programs of crop control and benefit payments shall be included in the annual Budget for consideration by the Congress.

4. Limit the authority of the Home Owners' Loan Corporation to issue bonds guaranteed by the United States as follows: For obtaining funds to purchase shares in Federal and State thrift and home-financing institutions, to an amount of \$100,000,000; for all purposes, to an amount of \$3,750,000,000, thus reducing the bond-issuing authority of this agency by \$1,000,000,000.

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2. Amend Section 3679 of the Revised Statutes so as to bring all agencies of the Government, including government-owned and government-controlled corporations, within the authority of the Director of the Budget with respect to their apportionments of appropriations.

With respect to all of the above, draft of appropriate legislation is transmitted herewith.

The credit of the Government is in sound condition. On October 15, 1933, war time issues of First and Fourth Liberty Bonds were outstanding in the aggregate amount of \$8,200,000,000, bearing interest at an average rate of about 4-1/8%. Today this entire amount has been refunded, of which about \$5,000,000,000 was exchanged for long-term bonds bearing interest at rates ranging from 2 3/4% to 3 1/2% per annum. \$1,900,000,000 was exchanged for Treasury notes bearing interest from 1 1/2% to 2 1/2% per annum, and the balance was paid in cash. The average rate on the securities issued to refund the Liberty's is less than 2 3/4% per annum, a saving of approximately 1-3/8% a year, or an annual reduction in interest payments of more than \$100,000,000 on these particular securities.

The average rate on the interest bearing debt was on June 30, 1934, approximately 3.18%, whereas on November 30, 1935, it had been reduced to 2.575%.

During the first session of the 7th Congress the Agricultural Adjustment Act was amended so as to appropriate a sum equal to 30 percent of customs receipts to the Secretary of Agriculture to encourage exportation and domestic consumption of agricultural commodities. I include herein no estimate of expenditure for account of this legislation and in another section of the message I recommend its repeal for these reasons:

By appropriating directly instead of authorizing an appropriation the amendment denies to the President the opportunity to consider the need and include appropriate estimates in the Budget; and it denies to the Congress the opportunity to review such estimates in their relation to the whole program of the Government. The Amendment violates the principles of the Permanent Appropriation Repeal Act of 1934, and of the Budget and Accounting ^{Act} of June 10, 1921. It is in conflict with sound administration in that it provides in advance for large annual expenditures without any attempt to coordinate income and expense. It is in conflict with recognized principles of taxation in that general revenues are made available for financing a service the benefits of which are not general but are peculiar to a special group of beneficiaries. The amendment was passed in the last days of the session as a result of conference agreement and without the debate and consideration by the Congress which the import of the measure clearly justifies.

If the Congress enacts legislation at the coming session which will impose an additional charge upon the Treasury provision for which is not already made in this Budget, I strongly urge that a provision be made for additional taxes to cover such charge. It is important that as we emerge from the depression that no new activities be added to the Government unless such activities carry with them the necessary additional revenue to meet the cost thereof.

The President dictated the attached, but it was not used for the reason that HM, Jr. did not show it to him again because HM, Jr. thought it was awful.

Pres 4. 6
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awful

I repeat that exclusive of relief appropriations only

the budget for 1937 is within balance to the extent of four million dollars. I have said that the proposed expenditures are all regular expenditures. All of them will be covered and a little more than covered by expected revenues from existing taxes.

Using the old practice of telling only half the truth some persons may glibly point out that what I have listed as regular expenditures — totaling five billion dollars exceed what used to be sited as regular expenditures of the Government in past Administrations; and that by comparison the Government is regularly spending a billion dollars or two billion dollars more each year than it did only a few years ago.

All of that is true, but it does not give the truth unless, at the same time, it is pointed out that the present total of five billion dollars includes in it three very important items which were not included in previous Administrations. The first of these items is for nearly three hundred million dollars for the continuation of the CCC camps; the second item is a program of public works of over four hundred million dollars as against the average appropriations in olden days of two hundred million dollars or less; and the third item is that agricultural adjustment payments in excess of five hundred million dollars are included in the regular expenses of the Government for the first time this year. By that, I mean, these payments are offset within seventy-two million dollars by receipts from new taxes.

This material was prepared by Admiral Peoples to be included in the President's budget message, but the President turned it down.

The President wishes the Director of the Budget to conduct spot surveys in each of the 48 states to determine the efficiency with which employables have been taken off the relief rolls and actually put to work on typical WPA projects. The survey should be general in character so as to be representative of the general conditions in each state. The Director of the Budget will have the assistance of such field inspectors of the Procurement Division as may be selected, representatives of the state disbursing offices, and of the state administrators as may be necessary.

The Inspection Engineer will have charge of the survey. He will call upon the state disbursing officer and the state WPA administrator (or such representatives as may be selected by them) to accompany him to make the joint survey and to submit a joint report direct to the Director of the Budget. The surveys must be made and reports delivered by air mail in Washington by December 28, 1935.

Bearing in mind the general character of the survey, and limited time available the communities to be selected in each state will be left to the discretion of the Inspection Engineer in agreement with the state administrator. Three or four or more communities typical of the general unemployment situation in the state, however, should be selected if possible, and in each community about ten major projects typical of the work relief program should be reported upon.

Each report will cover specifically the following points:

- (a) Locality
- (b) Character of project
- (c) Authorized or estimated cost
- (d) Date commencing work
- (e) Approximate date of completion
- (f) Actual number of employables on the payroll chargeable to the job
- (g) Actual number of employables working on the job
- (h) Number in excess, in the opinion of the Inspecting Engineer, of number which would be employed if job were done by contract -- to be expressed in terms of percentage.

To include
Reserve ment
projects.

(i) If such excess number were taken off job could they probably find employment in that community in commercial or industrial lines

(f) - *State average no. of days, after pay period, employed as on plant - report specific instances of unusual delay.*
General Relief Unemployment Situation

- (a) Total number of persons receiving direct relief from federal government on December 1 in that community
- (b) Total number transferred to all work relief rolls since that date on various WPA projects
- (c) Estimated number who will be drawing direct relief on December 31, 1935.

The attached is Upham's suggested draft for the close of the President's budget message. The President actually used the last paragraph.

The surest evidence that there is betterment in our economic life and that our people are enjoying a prosperity relatively greater than has been theirs for the past four years is found in the growth of our national income. From the low point reached in 1932 of forty billions, to which it had dropped from 80, there has been a rise, marked in the last two years, until, for 1935, conservative estimates place it well in excess of ~~thirty~~ fifty.

There is encouragement in this. It means not alone that the suffering and misery of depression days is nearing an end; it means as well that the Federal Government is approaching the time when its financial picture may be brought into better focus, when outgo will be taken care of from income, and budget maledictions disappear. For Treasury figures reveal that as national income climbs, the receipts of the Federal Government from income taxes, from custom duties, and from miscellaneous sources, correspondingly rise.

The estimated receipts for the fiscal year 1936 show a marked increase over 1935; likewise, estimates for 1937 show a still further rise. The actual receipts for the calendar year 1935, just ended, were considerably higher than for the calendar year 1934.

I said in my budget message a year ago that we proposed to balance the budget except for expenditures designed to return the unemployed to work. The budget which I am proposing for 1937 does more than that. Ordinary receipts will exceed the general expenditures of the Government by \$1,200,000,000. Some \$ of that excess of receipts over expenditures can be used for

statutory debt retirement, still leaving a surplus to apply on recovery and relief expenditures in further effort to reduce unemployment to the vanishing point.

There are three courses open to us. We can, as many urge, continue a heavy program of public works and Government expenditure in an attempt to hasten the recovery of private enterprise. Happily in my view, that is not necessary. The measures which have been ~~taken~~ instituted by the Congress and placed in execution by the Executive branch of the Government have provided the initial stimulus needed, and today we find business on the upgrade in every locality and in every line.

A second course of action, clamorously demanded by political critics of the Administration, would be to plan no expenditures at all which cannot be paid out of estimated revenues. In my view, that would be disastrous. The measure of recovery, produced in part through Government carrying the load which private enterprise was not in position to carry, is not so great that it could withstand the complete relinquishment by the Government of its end of the plank. For there is still substantial unemployment. And as long as that condition exists, there is a responsibility on Government. Those, if any there be, who advocate the complete abandonment of aid to unemployed, do not face facts as they must be faced. I continue to believe that an increasingly prosperous business community will eventually be enabled to provide work for all employables, and at the same time to reimburse the Government, out of their increased earnings, for its expenditures during the depression.

And so I recommend to you a third course, between these extremes. Let us not be unmindful of the value and necessity of reduced expenditures. They are provided for in the Budget I am submitting. But let us not risk the loss of the gains we have made by too hasty and unthinking cutting for cutting's sake. Let us rather consolidate our gains, protect them, and press on to a more sure position.

Our policy is succeeding. The figures prove it. Secure in the knowledge that steadily decreasing deposits will turn in time into steadily increasing surpluses, and that it is the deficit of today which is making possible the surplus of tomorrow, let us pursue the course that we have mapped.

Second Budget ²⁶³
message.

This is copy of the Budget message prepared as a result of Saturday's (December 28) conference with the President. Part of it (the four ribbon copies attached with HM, Jr's own interlineations in ink) was dictated by Mr. Morgenthau on Sunday, December 29, and it is in the form presented to the President Sunday afternoon, December 29, at a conference with Mr. Morgenthau, Mr. Bell and Mr. Edy.

This is copy of the Budget message prepared as result of Saturday's (Dec.28) conference with the President. Part of it was dictated by Mr.Morganthau Sunday, Dec. 29, and it is in the form presented to the President Sunday afternoon Dec. 29, at a conference with Mr. Morganthau, Mr. Bell and Mr. Edy.

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In my Budget message covering the fiscal year 1936, I said: "I am, however, submitting to the Congress a Budget for the fiscal year 1936 which balances except for expenditures to ~~carry~~ give work to the unemployed. If this Budget ~~receives~~ receives approval of the Congress, the country will henceforth have the assurance that with the single exception of this item, every current expenditure of whatever nature will be fully covered by our estimates of current receipts. Such deficits as occur will be due solely to this cause, and may expect to decline as rapidly as private industry is able to reemploy those who are now out of work."

In looking at the Treasury reports for the fiscal year 1936 I am more than pleased to find that we have not only accomplished what I said I would in my Budget message of a year ago but ^{the results as to} both expenditures and receipts have exceeded my ^{expectations} ~~present~~ ~~lowest~~ ~~hopes~~.

1. The record shows that in my Budget message of January 1935 I forecast that the expenditures for the fiscal year 1936 would be \$8,520,000,000. Our most recent estimate shows that our expenditures will be \$7,645,000,000, or \$875,000,000 less than originally forecast.

2. As to receipts, in January 1935 they were estimated at \$3,992,000,000, whereas at the present time ^{it appears they will be} ~~they are estimated~~ ~~at~~ \$4,410,000,000, or an increase of \$418,000,000.

3. I forecast in January 1935 a deficit of \$4,528,000,000 and the most recent figures show that the deficit will be ~~substantially~~ \$3,234,000,000, or a decrease of \$1,300,000,000 ^{in the deficit.} ~~in the deficit.~~

outlook 5

This tremendous improvement of the fiscal picture during
this present year has been brought about through policies which
I have instigated since I have been President. ~~This has been~~
~~brought about by~~

Now let us take a look at the Budget for the fiscal year 1937:

I estimate that exclusive of moneys for relief and recovery I will need \$4,451,000,000 with which to run the regular activities of the Government. I expect to pay for these activities with estimated receipts of \$5,654,000,000, leaving an excess of receipts of \$1,203,000,000. Out of this \$1,200,000,000 I will need \$580,000,000 for debt retirement, which will still leave a remainder of \$620,000,000 of excess receipts ~~xxxxf~~ over expenditures after having paid for all of the regular expenditures of the Government plus debt retirement.

At this time it is impossible for me to estimate the exact amount that I feel will be necessary to continue adequate care of the unemployed. We have too recently reached our goal of putting three and one half million people at work and the beneficial effects from this program have not yet been ^{fully realized} felt. However, ~~the~~ my fiscal policy to date of bringing this country out of four years of depression and misery is working and I feel that we must continue along the same lines until private industry can take care of the man who wants a job.

Right now my best estimate of the amount of money necessary to take care of the unemployed will be not to exceed \$

As recovery continues to progress with a corresponding increase in our National income the receipts of the Government will also be increased in the same ratio. Likewise, as our program of recovery progresses I am confident that private industry will gradually absorb the ~~men or women who is out of a job and want~~ ^{who} work, with the result that the burden of expenditures on the Federal Government for this purpose will also decrease. Therefore, only

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To the Congress of the United States:

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1937, together with this message which is definitely a part thereof. The estimates have been developed after careful analysis of the revenues, obligations and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed in the tables which follow.

In my Budget message covering the fiscal year 1936, I said: "I am, however, submitting to the Congress a Budget for the fiscal year 1936 which balances except for expenditures to give work to the unemployed. If this Budget receives approval of the Congress, the country will henceforth have the assurance that with the single exception of this item, every current expenditure of whatever nature will be fully covered by our estimates of current receipts. Such deficits as occur will be due solely to this cause, and may expect to decline as readily as private industry is able to reemploy those who are now out of work."

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The credit of the Government is in sound condition. On October 15, 1933, war time issues of First and Fourth Liberty Bonds were outstanding in the aggregate amount of \$2,200,000,000, bearing interest at an average rate of about $4\frac{1}{8}\%$. Today this entire amount has been refunded, of which about \$5,000,000,000 was exchanged for long-term bonds bearing interest at rates ranging from $2\frac{3}{4}\%$ to $3\frac{1}{4}\%$ per annum. \$1,900,000,000 was exchanged for Treasury notes bearing interest from $1\frac{1}{2}\%$ to $2\frac{1}{2}\%$ per annum, and the balance was paid in cash. The average rate on the securities issued to refund the Liberty's is less than $2\frac{3}{4}\%$ per annum, a saving of approximately $1\frac{3}{8}\%$ a year, or an annual reduction in interest payments of more than \$100,000,000 on these particular securities.

The average rate on the interest bearing debt was on June 30, 1934, approximately 3.18%, whereas on November 30, 1935, it had been reduced to 2.575%.

If the Congress enacts legislation at the coming session which will impose an additional charge upon the Treasury provision for which is not already made in this Budget, I strongly urge that a provision be made for additional taxes to cover such charge. It is important that as we emerge from the depression that no new activities be added to the Government unless such activities carry with them the necessary additional revenue to meet the cost thereof.

Recommendations

The following recommendations are offered:

Appropriation Transfer Provisions-- The text accompanying a number of the estimates of appropriations has been drafted to include provisions for transfers between appropriations within the same department. This provision will add a measure of administrative flexibility and will tend to promote economical execution of the program as a whole, and approval thereof by the Congress is recommended.

Federal Coordinator of Transportation--The work of the Federal Coordinator of Transportation will be completed on June 17, 1936. Thereafter, if further studies are desired relative to transportation problems, such studies can be made by the Interstate Commerce Commission. It is therefore recommended that the office of the Federal Coordinator of Transportation be discontinued.

Repeal Amendment to Agricultural Adjustment Act-- During the first session of the 74th Congress the Agricultural Adjustment Act was amended so as to appropriate a sum equal to 30 per cent of customs receipts to the Secretary of Agriculture to encourage exportation and domestic consumption of agricultural commodities. No estimate of expenditure for account of this legislation is included herein; and repeal of the amendment is recommended for the following reasons:

By appropriating directly instead of authorizing an appropriation the amendment denies to the President the opportunity to consider the need and include appropriate estimates in the Budget; and it denies to the Congress the opportunity to review such estimates in their relation

to the whole program of the Government. The amendment violates the principles of the Permanent Appropriation Repeal Act of 1934, and of the Budget and Accounting Act of June 10, 1921. It is in conflict with sound administration in that it provides in advance for large annual expenditures without any attempt to coordinate income and expense. It is in conflict with recognized principles of taxation in that general revenues are made available for financing a service the benefits of which are not general but are peculiar to a special group of beneficiaries. The amendment was passed in the last days of the session as a result of conference agreement and without the debate and consideration by the Congress which the import of the measure clearly justifies.

Apportionments of Appropriations--It is recommended that Section 3679 of the Revised Statutes be amended so as to bring all agencies of the Government, including government-owned and government-controlled corporations, within the authority of the Director of the Budget with respect to their apportionments of appropriations.

Draft of proposed legislation to effectuate these recommendations is transmitted herewith.

Review of Fiscal Years 1935 and 1936
and
The Fiscal Program of 1937

This review concerns itself with cash actually received and paid out by the Treasury in the fiscal year 1935; and with the estimates of receipts, appropriations and expenditure for the fiscal years 1936 and 1937.

Fiscal Year 1935

Receipts— Treasury receipts for the year ended June 30, 1935, were slightly in excess of estimates prepared a year ago. Considering all sources except postal revenues, total receipts amounted to \$3,800,467,202, or \$89,000,000 above the estimate. Internal Revenue, including processing taxes on farm products, produced \$3,277,690,028, exceeding the estimate by \$80,000,000. Customs receipts amounted to \$343,353,033, an increase over the estimate of \$56,000,000.

Miscellaneous receipts estimated at \$217,813,426, fall short of the estimate by \$48,000,000; the amount actually received under this item was \$179,424,140. These figures do not represent a loss, or a decline in this source of revenue. At the time the estimate was made it was assumed amounts recovered on loans made by the Public Works Administration would be covered into the Treasury and applied to debt retirement. This was in accord with provisions of the National Industrial Recovery Act of June 16, 1933. A subsequent law, however, authorizes the Public Works Administration to sell securities to the Reconstruction Finance Corporation and to use the proceeds thereof for further loans. The adoption of this authorized policy deprived the Treasury of estimated receipts amounting to \$75,000,000. In other respects, receipts from miscellaneous sources of income exceeded the estimate by about \$27,000,000.

Expenditures— While actual receipts for the year were greater than anticipated, actual expenditures were less than the amount estimated by \$1,200,000,000. The aggregate of all expenditures was \$7,375,825,166 against an estimate of \$8,581,069,026. Approximately a billion dollars of this difference related to recovery and relief, and the regular agencies accounted for the remaining \$200,000,000.

The total spent for recovery and relief was \$4,262,257,208, whereas the 1936 Budget estimate was \$5,259,802,852. This difference is partly due to this fact:

When the Budget for 1936 was prepared it seemed probable that the Reconstruction Finance Corporation, in all accounts except relief, would close the year with an excess of loans over repayments; and the amount of the net expenditures was estimated at \$556,000,000. However, because of improved business conditions, the demands for Corporation assistance were so much less than estimated and the repayments of loans so much greater, that the Corporation actually closed the year with net receipts of \$107,000,000; and the net difference between the actual result and the estimate amounted to \$663,000,000. Other agencies spent for recovery and relief \$335,000,000 less than estimated.

For the operation and maintenance of regular departments and establishments of the Government actual expenditures were \$1,719,083,353 against the estimate of \$1,913,700,174.

For statutory debt retirements there was expended \$573,558,250 and for interest on the public debt \$820,926,353, whereas the amounts budgeted for these items were respectively \$572,566,000 and \$835,000,000.

Deficit and Public Debt— The year closed with a gross deficit of \$3,575,357,964 instead of the estimate of \$4,869,418,338. After deducting the amount paid out for statutory debt retirement the net deficit was \$3,001,799,714. The increase in the total outstanding gross public debt was \$1,647,751,210, which figure is properly obtained by subtracting from the net deficit the decrease in the general fund balance, the excess of trust fund receipts over trust fund expenditures and the amount of retirement of national bank notes from the gold increment. As of June 30, 1935, the total outstanding gross public debt was \$28,700,892,624, while on June 30, 1934, it was \$27,053,141,414.

Fiscal Year 1936

Drawing upon the experience of the first six months of the current year it is possible to forecast with a fair degree of accuracy the results of financial operations for the whole 1936 fiscal period.

Receipts— The same sources of income (excluding postal revenues) which a year ago were expected to produce receipts aggregating \$3,991,904,639 are now expected to produce a total of \$4,410,793,946.

This latter figure is less than appeared in the Budget Statement in September by \$60,000,000, due to transactions in securities held by the Public Works Administration, with respect to which the explanation is the same as that previously stated in this text where the 1935 receipts from miscellaneous revenues are discussed.

Of the items comprising the whole, income taxes will develop \$1,434,112,000, or \$246,000,000 more than the 1936 Budget estimate.

Miscellaneous internal revenue exclusive of processing taxes is now estimated at \$1,573,091,000, an increase of \$187,000,000. Receipts from customs are expected to reach a total of \$353,191,000, exceeding the original estimate by \$55,000,000. Other changes, some upward and some downward, result in the new estimate of total receipts at a figure of \$419,000,000 higher than shown in the Budget for 1936 which was presented a year ago.

The present estimate for processing taxes in 1936, included in above total, is in round figures \$529,000,000, as against the original estimate of \$570,000,000. Actual receipts for the five months ended November 30, 1935, totaled \$57,000,000, while approximately \$160,000,000 of due payments have been impounded as result of preliminary court action.

It is pertinent to repeat here a statement appearing in the Summation of the 1936 Budget: "Estimates of receipts contemplate continued collection of processing taxes. If the attach which has been made upon this Act is sustained we will have to face the problem of financing existing contracts for benefit payments out of some form of new taxes."

Two new taxes, namely, the Bituminous Coal tax and the Railroad Employees' Retirement tax, both representing recent legislation, will contribute some \$35,000,000 to the revised estimate of receipts for 1936. Social Security taxes will not produce any income until the fiscal year 1937; and the effect of the Revenue Act of 1935 will not be reflected in receipts for 1936.

Expenditures--Indications are that expenditures including debt retirement during the present fiscal year will not reach the amount budgeted by approximately \$875,000,000; the total now foreseen is \$7,645,000,000, against the original estimate of \$8,520,413,609. Exclusive of debt retirement the total of expenditures now foreseen is \$7,093,226,332 while the original comparable figure was \$7,883,979,609. For recovery and relief the revised estimate of expenditures for the fiscal year 1936 is less than the original Budget estimate by \$589,000,000, while expenditures for all regular purposes will be less by \$286,000,000. The latter figure includes \$217,000,000 for servicing the public debt, since debt retirement will require \$84,000,000 less than was budgeted and interest payments will be \$133,000,000 less. It thus appears that all other regular expenditures will be less than the original Budget estimate by about \$69,000,000.

Deficit and Public Debt--The revised estimates as set out herein show a gross deficit for the current fiscal year of approximately \$3,234,000,000, instead of the original Budget forecast of \$4,529,000,000. After deducting the amount of statutory debt retirement the net deficit will be in round figures \$2,682,000,000. The gross public debt as at June 30, 1936 should not be greater than \$

The foregoing figures are set out in the following table for ready comparison between Budget estimates of a year ago and what are now considered probable.

Comparison of Original and Revised Estimates.
Fiscal Year 1936

	Budget Estimate, January, 1935	Revised Estimate
1. Receipts (Excluding Postal)-		
Income tax	\$1,188,000,000	\$1,434,112,000
Miscellaneous internal revenue	1,685,900,000	1,873,091,000
Processing taxes on farm products	570,000,000	529,042,000
Customs	298,000,000	353,191,000
All other	250,004,639	221,357,946
Total receipts	3,991,904,639	4,410,793,946
2. Expenditures-		
Regular	2,426,968,134	2,357,648,151
Interest on the public debt	875,000,000	742,000,000
Recovery and relief	4,582,011,475	3,993,578,187
Total expenditures	7,883,979,609	7,093,226,332
3. Net deficit		
Statutory debt retirements	3,892,074,970	2,682,432,386
	636,434,000	552,025,000
Gross deficit	4,528,508,970	3,234,457,386
4. Gross Public Debt		
	\$34,239,000,000	\$

Postal revenues for the fiscal year 1936 are now estimated at \$670,000,000, \$25,000,000 over the original estimate.

The Fiscal Program of 1937.

There is presented here a brief factual resume of the principal features of the Budget for the fiscal year 1937, the details of which appear in subsequent text and tables. A few high points stand out and justify emphasis.

Without impairing the ability of the Government to carry on its normal functions and to prosecute those activities essential to continued recovery, the Budget reflects a substantial decrease in the spread between income and outgo. This is consistent with the prediction made in the Summation of the 1936 Budget last September and is possible because of progressive improvement in the economic status of the people. Likewise, the state of National recovery is such that receipts from prevailing tax sources on the basis of present rates appear more than adequate for financing the ordinary operations of the Government in 1937, including service on the public debt; and no new or additional taxes are proposed.

Legislation enacted by the first session of the 74th Congress makes it necessary to provide in the 1937 estimates new appropriation items aggregating \$654,000,000. This total will become approximately \$785,000,000 should the Congress reject the recommendation, hereinafter offered, for repeal of that part of the Agricultural Adjustment Act which appropriates a sum equal to 30 per cent of customs receipts to the Secretary of Agriculture ~~to encourage agriculture and domestic~~
~~consumption of agricultural commodities.~~

Legislation enacted by the first session also permits including in these estimates a total of \$769,000,000 of additional receipts, of which about seventy per cent will accrue under the Bituminous Coal Conservation Act, the Railroad Employees' Retirement Act and the Social Security Act. It is worthy of note that but slightly less than thirty per cent of this increase will be derived under the Revenue Act of 1935.

A Federal public works program of \$404,000,000 is recommended to meet in part the development and improvement requirements of the Government, and as a proper Federal contribution to work opportunity. While this program represents an increase of about \$200,000,000 over the amount for similar purposes for which the Congress made specific appropriations for the current fiscal year, it is \$ less than the total amount made available for Federal public works in 1936, considering allotments made from emergency funds.

The success attending the operation of the Civilian Conservation Corps as an emergency activity justifies taking it into the Budget as a part of the regular program for 1937, and the estimates of appropriation and expenditure have been prepared accordingly. The appropriation recommended is for an amount of \$246,000,000, of which about \$25,000,000 should be made available for expenditure in fiscal year 1936. In addition, approximately \$75,000,000 for this purpose is included in the lump sum estimate for 1937 supplementals.

The following table gives a clear picture of the main figures proposed in this Budget and shows how they compare with similar figures for previous years.

(In millions of dollars)

	Actual		Estimated	
	1934	1935	1936	1937
I. REGULAR:				
1. Receipts-				
Income tax	818	1,099	1,434	1,943
Misc. Int. Rev.	1,470	1,657	1,873	2,103
Customs	313	343	353	354
Miscellaneous	162	180	183	160
Total	2,763	3,279	3,843	4,560
Taxes under Social Security, Rail- road Employees' Retirement and Bituminous Coal Conservation Acts	—	—	39	547
Grand total	2,763	3,279	3,882	5,107
2. Expenditures-				
Operation and maintenance of regu- lar departments and establish- ments *	1,066	1,068	1,591	2,806
Veterans' pensions and benefits	556	605	720	791
Interest on National debt	757	821	742	805
Tax refunds (exclusive of processing taxes)	63	45	47	49
Total regular expenditures	2,442	2,539	3,100	4,351
II. RECOVERY AND RELIEF:				
1. Agricultural Adjustment Administration-				
Processing taxes	353	521	529	547
Expenditures (including refunds of processing taxes)	290	743	621	619
Excess of expenditures over taxes	- 63	+ 222	+ 92	+ 72
2. Other recovery and relief expendi- tures				
Total recovery and relief expenditures	3,993	3,519	3,372	1,101
Total expenditures (exclusive of debt retirements)	3,930	3,741	3,404	1,175
Total expenditures (exclusive of debt retirements)	6,392	6,280	6,504	5,626
Net deficit	3,629	3,001	2,622	519
Debt retirements	360	574	552	580
Gross deficit	3,989	3,575	3,174	1,099

* Includes estimated supplemental 1936 and 1937.

Directing attention to a comparison between fiscal operations proposed for 1937 and now estimated for 1936, as set forth in the table, the following comment is pertinent:

Receipts--Receipts in 1937 from regular sources (exclusive of postal revenues, processing taxes and taxes imposed under the Social Security, Bituminous Coal Conservation and Railroad Employees Retirement Acts) are expected to reach a total of \$4,560,817,650, an increase of \$717,665,704 over similar receipts for 1936 now estimated at \$3,843,151,946, and \$1,281,730,319 over 1935. It should be pointed out here that this increase is due largely to increased payments of taxes under the old schedules. Only about \$222,000,000 will be produced in 1937 as a result of the Revenue Act of 1935.

From processing taxes the sum anticipated is \$547,300,000 against the estimate of \$529,042,000 for the current year, an increase of \$18,258,000. Other taxes recently authorized by the Congress under the Social Security, Bituminous Coal Conservation and Railroad Employees Retirement Acts will produce \$547,100,000 in 1937, and \$38,600,000 this year, an increase of \$508,500,000.

Thus 1937 receipts from all sources, except postal revenues, are estimated at \$5,654,217,650 against the revised estimate of \$4,410,793,946 for the current fiscal year. The increase in total receipts from stated sources is therefore \$1,243,423,704.

Postal receipts for the coming year are estimated at \$705,000,000, an increase of \$35,000,000 over \$670,000,000 anticipated in 1936. This is further evidence of the upward trend in business conditions.

2 An examination of the detailed estimates of the first four classes of receipts for 1937 indicates a gain over 1936 in income tax of \$508,488,000, the figures for the two years being respectively \$1,942,600,000 and \$1,434,112,000. Similarly, estimated receipts from miscellaneous internal revenue, exclusive of processing taxes, are up from \$1,873,091,000 to \$2,103,114,000, a gain of \$230,023,000. Customs receipts are forecast at \$354,000,000, substantially the same as anticipated for 1936. The reduction of \$22,654,296 in probable miscellaneous receipts, from \$182,757,946 to \$160,103,650, brings the net increase in the estimates of these four classes of receipts to \$717,865,704, as stated.

The provisions of the Social Security, the Bituminous Coal Conservation and the Railroad Employees' Retirement Acts are such that receipts during the fiscal year 1936 will be comparatively small while revenues from these sources in the next fiscal year will show substantial increases. The amounts estimated for 1937 from each of the new taxes in the order named are \$433,200,000, \$12,300,000, and \$101,600,000.

Expenditures—The expenditures for 1937 contemplated under this Budget will total \$6,753,598,470, or approximately \$1,900,000,000 less than is now estimated for 1936.

Of the two major categories of expenditure, namely, regular, and recovery and relief, allowances for regular activities amount to \$5,031,476,738 as compared with \$3,651,673,151 for 1936, an increase of \$1,379,803,587. For recovery and relief, expenditures as planned will be made from unexpended balances, practically all of which will have been obligated prior to June 30, 1936. The total of such expenditures in

1937 is estimated at \$1,722,121,732, which is a decrease of \$2,271,456,455 from the figure of \$3,993,578,187 for 1936.

In regular expenditures there is included \$805,000,000 for interest on the public debt, an increase of \$63,000,000 over the same item for the current year; and \$580,125,000 for statutory debt retirements, an increase of \$28,100,000. The cost of service on the public debt in 1937, therefore, will exceed that for 1936 by \$91,400,000.

Excepting debt retirement and interest, the increase in expenditures for regular activities is \$1,288,403,587 as compared with 1936. The major part of this increase is accounted for as follows: (a) For financing activities under the Social Security Act, the Railroad Employees' Retirement Act, and the Bituminous Coal Conservation Act, \$525,000,000; (b) for increased public works, \$125,000,000; (c) for other new legislation, \$163,400,000.

Among other increases in the expenditures for the regular activities are: \$60,000,000 for the Veterans' Adjusted Service Certificate Fund in order to bring the annual contribution of the Government nearer its actual liability under existing law; \$195,000,000 for the Emergency Conservation Work, included in the regular activities for the first time; and \$180,000,000 for National Defense to meet the policy of the Congress and the Executive in making up for the delay by the United States in meeting the provisions of the naval treaties of 1922 and 1930, and to provide replacement and improved equipment and additional personnel for the Army.

In the War Department Appropriation Act for the fiscal year 1935 the Congress adopted a policy of increasing the average enlisted strength of the Army from 118,750 to 165,000 men and towards accomplishing such purpose appropriated an additional \$20,000,000 for expenditure during that year. These funds are sufficient to maintain an AVERAGE enlisted strength during 1936 of approximately 147,000 men. The estimates of expenditure included in this Budget are sufficient in amount to maintain this average during the fiscal year 1937, with the purpose in view of providing in the 1938 Budget the funds necessary to recruit the Army to such strength by the close of that year as will produce an average enlisted strength of 165,000 throughout the fiscal year 1939, the maximum indicated by the Congress. It is felt that this is as fast as the Government should proceed in this matter in the light of the present forecast of fiscal affairs.

The principal decreases are \$12,000,000 in postal deficiency; and \$92,000,000 on account of Agricultural Adjustment Administration, due to the recommendation made herein for repeal of section 32 of the Act of August 24, 1935 which appropriated an amount equal to 30 per cent of the gross customs receipts for use in encouraging exportation and domestic consumption of agricultural products.

Deficit and Public Debt-- The gross deficit for the fiscal year 1937 is estimated at \$1,099,380,680 including \$580,125,000 for statutory debt retirement, or a net deficit of \$519,255,680. It is estimated that the gross public debt on June 30, 1937, will amount to \$ as compared with an estimated debt on June 30, 1936, of \$

Appropriations-- Appropriations recommended in this Budget aggregate \$6,400,000,000, including probable supplemental items estimated at \$600,000,000, while the appropriations already made and prospective supplemental items for the fiscal year 1936, exclusive of the appropriation of four billion dollars for recovery and relief, amount to \$5,146,000,000, an increase of \$1,254,000,000 required for the fiscal year 1937 over the fiscal year 1936.

This increase is due to (1) appropriations amounting to approximately \$700,000,000, including supplementals to be submitted later, required to finance new legislation enacted at the last session of Congress; (2) an appropriation of \$285,000,000 to continue the operations of the Civilian Conservation Corps from March 31, 1936, to March 31, 1937; (3) an increase in specific appropriations of \$200,000,000 on account of general public works; and (4) increases in the general departmental requirements aggregating approximately \$137,000,000, due largely to the increase in the Army, Navy, and the Department of Agriculture.

Because there has not been time to plan the organization and methods required, no detailed estimates are included in the Budget for expenses to be incurred by the Social Security Board, and by the Bureau of Internal Revenue in collecting taxes authorized by the three new acts heretofore referred to. However, the probable expense has been approximated and is included in the total lump sum of \$600 millions estimated to cover 1937

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supplementals. The necessary supplemental estimate covering the remainder of the current year will be transmitted during the early days of the session, together with complete details for 1937. Likewise no estimate for administering the Potato Act has been prepared since it is believed this Act should be amended along lines to be recommended by the Secretary of Agriculture, and a supplemental estimate can then be transmitted.

The following table shows the estimates of appropriations which are anticipated will be necessary to administer new legislation enacted during the last session of Congress, and also shows the amount of receipts anticipated in 1937 from new tax provisions.

Recent Legislation re:	Estimated Appropriations 1937	Estimated Receipts 1937
Social Security	\$462,000,000	
Railroad Employees Retirement	47,645,000	
Bituminous Coal	1,155,000	
Motor Carrier Act	1,700,000	
Public Utility Act	1,630,000	
Federal Power Act	1,412,400	
Amendments, Pension Laws	46,470,039	
Postal 40-hour week	27,607,700	
Elimination Diseased Cattle	17,500,000	
Soil Conservation	27,500,000	
Agricultural Research and Extension	11,500,000	
Reduction Int. rate, Fed. Land Banks	10,065,075	
National Labor Relations Board	735,000	
Other, Miscellaneous Items, several departments and establishments	<u>9,445,000</u>	
Total	\$664,906,978	
 Estimated receipts a/c new taxes except processing taxes, 1937	 \$547,100,000	 \$547,100,000

Existing authorizations for the Federal Aid Highway System provide for appropriations of \$125,000,000 for each of the fiscal years 1936 and 1937. Under these authorizations \$40,000,000 has previously been appropriated for the fiscal year 1936. Towards the balance of \$85,000,000 authorized for that year there is provided under the item "General Public Works Program" an estimate of \$60,000,000, which it is believed will be sufficient to meet commitments maturing during 1937. As to the authorization of \$125,000,000 for the fiscal year 1937, language is included in this Budget having for its purpose the cancellation of this authorization for 1937 and making it applicable to the fiscal year 1938. This course appears fully justified in view of the fact that during the fiscal years 1933 to 1936, inclusive, there has been made available from emergency funds a total of approximately \$1,000,000,000 for the construction of highways and the elimination of grade crossings, and that from these funds there will be available for expenditure during the fiscal year 1937 a total of more than \$250,000,000 in addition to the \$60,000,000 provided for in the General Public Works Program, previously referred to. Moreover, roads of secondary classification and farm to market roads are being constructed under allotments of emergency funds in amounts approximating \$115,000,000.

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not used

The Economic Outlook

Fundamental to any realistic appraisal of the financial position of the Government is a consideration of the economic situation of the Nation. Since March, 1933, the National program of activities and expenditures has reflected the effort to combat the economic stagnation which was stifling the progress and threatening the morale of the people. Gradually yet surely with each succeeding year gains have been made first on one front and then on another with continuous and healthy improvement of the economic status. In the Budget Summation of September, 1935, a number of factors were cited which showed that the outlook for the current fiscal year was favorable. These optimistic prospects are being realized.

The record reveals that the improvement which took place during the fiscal year ended in June 1935 has continued, and in the six months just past the economic gains of the early part of 1935 have been extended. At the year-end industrial activity was at the highest level for the recovery period, although still 20 per cent smaller than in 1929.

The improvement in industrial activity in 1935 was broader than that which occurred during any previous upturn of the past three years. Expansion during recent months was most noticeable in the manufacture of automobiles and of certain other durable goods. Equipment for factories, farms, and homes was produced in increasing volume. Output of building materials, while still relatively small, gained steadily. Meanwhile, production of less durable goods held up well, and in a few instances--notably, wool textiles and shoe manufacture--output records

approached or even exceeded 1929. A fact of equal importance with increased production during 1935 was the rapid movement of goods into consumer channels. The calendar year 1936 opens without evidence of any of the overstocking which proved a burden during certain earlier phases of recovery.

Business improvement in the calendar year 1935 found immediate reflection in increased Treasury receipts from miscellaneous internal revenue sources. This is illustrated by the spectacular expansion last year in the manufacture and sale of automobiles and trucks, which had an immediate influence on the Government's income from levies on automobile and tire manufacture and on gasoline.

Last year's gains in trade, however, will not begin to augment the revenues to be derived from taxes on individual and corporate incomes or from levies on estates and gifts until the calendar year 1936. Consequently, a review of incomes in 1935 is of the most direct interest in its bearing on Treasury receipts in 1936 and 1937.

Increased employment and a more profitable level of operations in both industry and agriculture are estimated to have added from three to four billions of dollars to the total money income received by the American people in the calendar year 1935. A significant proportion of this total came from the marketing of farm products. This season, weather conditions have favored larger crops and prices have held up well, so that total cash income realized from the sale of crops and livestock and from governmental benefit payments in the calendar year

1935 is estimated to have risen from 6 to 8 per cent above that of 1934, and well over 50 per cent above 1932. Moreover, the heavy debt burden hanging over the agricultural population at the beginning of 1933 was considerably lightened during the first two years of the recovery period. Higher incomes and lower interest charges have made possible greatly increased purchases of consumer goods and equipment by farmers during 1935. These purchases contributed greatly to the improvement in industry and trade which gave employment to city and town dwellers last year, and which was continuously reflected in receipts during 1935 from certain miscellaneous tax sources.

Wholesale prices in general advanced during 1935. Agricultural products and industrial materials both moved upward. During the year a better adjustment was achieved between prices received by farmers and the prices charged for industrial products used on the farm, the ratio between the two price groups rising from 85 in January to 89 in November 1935. Meanwhile, the cost of living in cities increased by about 4 per cent during 1935. It is now about 17 per cent above March 1933, when the prices obtained by the primary producers of many food products as well as by a large number of merchants and manufacturers were at distress levels.

An expression of the continued improvement in agriculture and in business in the past year is found not only in higher incomes received by individuals, but also in the profits of corporations. Industrial profits, as indicated by available reports of the large

Industrial corporations, were greater in each of the first three quarters of 1935 than in the corresponding periods of 1934, and are expected to make an even better showing in the final quarter, due to the maintenance of activity and of consumer purchases at a high level during these months. For the calendar year 1935 as a whole, the combined net income of industrial, mercantile, utility and railroad corporations is expected to show an increase of about 30 per cent over 1934. Corporation income tax receipts will begin to reflect these gains in the latter half of the current fiscal year ending on June 30, 1936.

The revival in the capital markets which began in the spring of 1935 is of great importance for future economic developments, since the expansion typified by new capital investments is essential to full re-employment. Although most issues thus far have been for the purpose of reducing interest charges on existing debts, it is significant that the capital markets, after several years of inactivity, are again absorbing new capital securities. Surplus funds available for investment and the continuation of exceptionally low interest rates have been favorable to these operations. Despite some increase in new offerings, however, the volume of surplus funds remains large, and bank loans of all types continue to be small relative to earlier years.

The outlook is for a better economic record in the next fiscal year, beginning in July 1936, than in either 1934 or 1935. Present indications are that buying of consumers' goods by city and farm dwellers will be sustained, that demand for industrial equipment and machinery will continue to increase, and that construction will be larger.

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Among the gains in industry and trade which are of particular significance to the future, the recovery in residential building which first became apparent early in 1935 is outstanding. The value of residential contracts is now only one sixth as great as in 1928, the peak year of residential construction in the 1920's. Other types of construction, with the exception of public works, are also relatively inactive. It is encouraging, however, that residential construction in recent months has been more than twice as large as in 1934. The upturn of 1935 represented the first sustained rise in new home building since the latter part of 1927, and the existence of a considerable deferred demand for housing provides the basis for further expansion in this field.

December 30, 1935

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H.M., Jr. told Lochhead today to set the price of silver in New York at fifty cents.

December 30, 1935

The Mexican Secretary of the Treasury was expected to meet with the Secretary today, but because of stormy weather conditions which made flying impossible, his arrival has been delayed.

Mr. Morgenthau asked Livesey and Reed, of the State Department, Coolidge, Oliphant, Haas and Lochhead, of the Treasury Department, to meet with him today at 10:30 for a preliminary discussion.

Mr. Morgenthau read the following memorandum from the Federal Reserve Bank of New York:

"December 28, 1935

Mr. Brockington of the American Smelting Company called this morning to say that according to latest advices received by him from his Mexican office the amount of silver purchased during 1935 by the Mexican Government through the Banco de Mexico was 48,275,591 ounces. Minor adjustments for the December figures would bring the above total down to about 48,025,000 ounces.

If the above figure is correct it proves that the Banco de Mexico which during 1935 sold 62,900,000 ounces (not including 2,751,000 ounces purchased in London) to our Treasury, supplied about 14,600,000 ounces out of its own reserves and not out of Mexican new production."

At the conclusion of the reading of the above, Mr. Oliphant inquired whether Mexico at the time it reorganized its currency and quit using pesos and substituted paper money continued to ship pesos here and Lochhead said, "Yes."

Mr. Morgenthau reminded the group that Mexico's production is 74,000,000 ounces. He said, "They certainly have as much at stake as we have and I think they ought to play ball. They certainly ought to maintain silver as part of their reserve. According to the London Agreement they ought to keep 7,000,000 ounces of newly-mined silver each year."

Mr. Morgenthau here referred to figures prepared by Haas and said their silver reserve is 197,000,000 pesos which equals,

in our currency, \$41,000,000 with silver valued at 50 cents an ounce.

In planning the approach to the conference with the Mexican officials, Mr. Morgenthau said, "I think I will ask the Mexican Secretary of the Treasury what their policy is as to the use of silver internally and what they are going to do to help. Certainly, up to now, they have done everything they could to hurt silver. I think it is proper, inasmuch as they are coming up here to sell us their output, to ask them what they are going to do to help."

Lochhead wanted to know if they kept silver in their reserves at the time they put out their paper money and Mr. Oliphant replied that if they put out their silver pesos, the problem of silver reserves would dissolve itself.

Mr. Morgenthau said, "I want to do everything possible to help Mexico, but on the other hand I want to get what is good for us first. They are in a difficult position on account of not knowing where they can sell their silver and this is the time for us to do what we want. Senator Pittman told me last night," he continued, "that he is more than pleased with what the Treasury has done. This is very important and I know that we have his entire sympathetic support."

"I think the thing to do is to let the Mexican Secretary of the Treasury come here and we will just listen to them, then digest what they say and we will see them again, but at the first meeting I will just listen," Mr. Morgenthau told the group. Livesey advised the Secretary, "On their foreign debt, I would say nothing. They just keep bringing it up again and again. They are very sensitive about their foreign debt," and HM, Jr. replied, "I will be no more sympathetic with their foreign debt than with anyone else."

Mr. Reed of the State Department then informed the Secretary that, politically, the present Government of Mexico is very strong. Mr. Morgenthau said he would like to see their most recent trade figures.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 30, 1935

to Secretary Morgenthau
FROM Herman Oliphant

Replying to your inquiry of December 20, 1935, concerning the law relative to the privilege of members of the family of the Secretary of the Treasury to buy, own or sell Government securities, I set out below the pertinent statute with the relevant portion underlined:

"Restrictions upon Secretary of Treasury. No person appointed to the office of Secretary of the Treasury, or Treasurer, or Register, shall directly or indirectly be concerned or interested in carrying on the business of trade or commerce, or be owner in whole or in part of any sea vessel, or purchase by himself, or another in trust for him, any public lands or other public property, or be concerned in the purchase or disposal of any public securities of any State, or of the United States, or take or apply to his own use any emolument or gain for negotiating or transacting any business in the Treasury Department, other than what shall be allowed by law; and every person who offends against any of the prohibitions of this section shall be deemed guilty of a high misdemeanor and forfeit to the United States the penalty of three thousand dollars, and shall upon conviction be removed from office, and forever thereafter be incapable of holding any office under the United States; and if any other person than a public prosecutor shall give information of any such offense, upon which a prosecution and conviction shall be had, one-half the aforesaid penalty of three thousand dollars, when recovered, shall be for the use of the person giving such information. (R.S. § 243.)"

Herman Oliphant

DEC 30 1935

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MEXICAN SILVER CONFERENCE OFF FOR TODAY
WASHN - SECY MORGENTHAU SAID THAT HE WOULD
NOT SEE EDUARDO SUAREZ SECY OF THE MEXICAN
TREASURY UNTIL TOMORROW AT THE EARLIEST - SECY
SUAREZ WAS EXPECTED TO ARRIVE LAST NIGHT BUT
WAS DELAYED AND THE CONFERENCE WAS POSTPONED
ACCORDING TO MORGENTHAU - SECY MORGENTHAU WOULD
SAY NOTHING ON THE PROPOSED NATURE OF THE
CONFERENCES OR THE SCHEDULE OF MEETINGS WITH
SECY SUAREZ

LONDON SILVER MARKET

10.34

LONDON - BULLION BROKERS STATE THAT INDIA ABSORB
ED MOST OF THE SILVER OFFERINGS AT THE FIXED
PRICE- THERE ALSO WAS A SMALL AMOUNT OF BEAR
COVERING-

DEC 30 1935

MEXICAN SECY OF TREASURY ARRIVES TO DISCUSS

SILVER POLICY

DEC 30 1935

12.10
WASHN - EDOUARDO SUAREZ SECY OF THE

MEXICAN TREASURY ARRIVED HERE THIS MORNING TO
DISCUSS THE AMERICAN SILVER PDOGAM WITH SECY
MORGENTHAU -

SECY SUAREZ CALLED BRIEFLY AT THE MEXICAN
EMBASSY AND HAS AN APPOINTMENT WITH SECY
MORGENTHAU LATER IN THE DAY-

THE TWO SECRETARIES ARE EXPECTED TO EXPLORE
THE FUTURE OF WORLD SILVER PRICES AND USE OF
SILVER AND GOLD AS MONETARY RESERVES HERE AND
IN MEXICO- BECAUSE THE MEXICAN GOVT HAS BEEN
SELLING THE COUNTRY-S NEWLY MINED SILVER
DIRECT TO THE U S TREASURY AND ALSO HAS
OFFERED ITS SILVER RESERVES FER AMN GOLD
MEXICO IS ESPECIALLY INTERESTED IN FUTURE WORLD
PRICES AND AMERICAN ACTIVITY-

LONDON SILVER MARKET

11.30

DEC 30 1935

LONDON - BULLION BROKERS STATE THAT ALTHO THERE
HAVE BEEN A FEW SMALL UNOFFICIAL TRANSACTIONS IN
FORWARD SILVER THE RESUMPTION OF THE OFFICIAL
FORWARD QUOTATION IS UNLIKELY FOR SOME WEEKS-

WCNS6

EDUARDO SUAREZ, SECRETARY OF THE TREASURY OF MEXICO IS EN ROUTE HERE BY AIRPLANE TO CONFER WITH U. S. TREASURY OFFICIALS. HE HAS BEEN DELAYED BY SNOW IN THE SOUTHWEST, THE TREASURY DEPARTMENT IS ADVISED. OFFICIALS PRESUME SUAREZ WILL CONTINUE HIS JOURNEY BY TRAIN, ARRIVING LATE TODAY.

12/30--N841A

WCNS109

*Press Conference
Secy Suarez*

SECRETARY MORGENTHAU TODAY DODGED QUESTIONS CONCERNING HIS FORTHCOMING CONFERENCE WITH EDUARDO SUAREZ, SECRETARY OF TREASURY OF MEXICO.

MORGENTHAU SAID THE FORTHCOMING CONFERENCE, WHICH MAY BEGIN TOMORROW, WAS DESIRED AT THIS TIME BOTH BY THE AMERICAN AND THE MEXICAN GOVERNMENTS, BUT BEYOND THIS FACT HE WOULD REVEAL NO DETAILS.

HE SAID HE HAD NO APPOINTMENT TO SEE SUAREZ EITHER TODAY OR TONIGHT AND REFUSED TO ANSWER QUESTIONS AS TO WHETHER THE CONFERENCE WAS RESULTING FROM PREVIOUS DISCUSSIONS.

12/30--R347P

H. M. Jr.

12/3/09 -

Bell

Alternative draft of pp 1-4, inclusive, containing
revenue estimates based on 1926 and 1928 business
conditions.



THE SECRETARY OF THE TREASURY
WASHINGTON

December 31, 1935

My dear Mr. President:

In connection with your forthcoming budget message to the Congress, I think it may be ^{useful} helpful to present to you the following observations respecting the Federal revenues.

The amount of tax receipts of the Federal Government is the joint result of two main factors. One of these is the tax structure — that is, the kinds and rates of taxes as determined by the Congress. The other is the amount of the national income.

With respect to the first of these factors, the Federal tax structure is the strongest in the history of the country. The Treasury has estimated that, given general economic conditions approximating those of 1928, the existing tax structure would produce receipts of more than \$7 billions annually, exclusive of processing and social security taxes and trust funds -- an amount almost double the average annual tax receipts of the years 1926 to 1930, inclusive, and substantially more than double those of 1935. Even with general economic conditions approximating those of 1926 rather than of 1928, the Treasury estimates that the existing Federal tax structure would produce annual receipts of over \$6 billions. During periods when the national income is increasing, Government revenues tend to increase even more rapidly, due to such factors as the

greater relative gain in taxable corporation incomes and the larger amount of individual incomes that becomes subject to higher bracket rates. The estimates reveal the great underlying strength of our present tax structure, although receipts of such magnitude cannot be expected to materialize until considerable further gains in economic activity have been recorded.

The actual revenue yield of the Federal tax structure during the fiscal year 1936 will be greatly influenced by the level of business activity and the national income reached during the calendar years 1934 and 1935; and the business conditions of the calendar year 1935 will continue to exert an influence upon the amount of Federal revenues received during the fiscal year 1937. Consequently, the business developments of the calendar year 1935 have a very direct bearing on Treasury receipts during the fiscal years 1936 and 1937.

All the outstanding statistical measures of business activity show that the year 1935 added substantially to the solid gains made during the two preceding years. Moreover, the records reveal that the business improvement which took place during the fiscal year ended June 30, 1935, has continued during the past six months; and has gained in breadth. Expansion during recent months has been most noticeable in the manufacture of automobiles and of certain other durable goods, such as equipment for farms and homes. The output of building materials, while relatively small, showed continuous gains over 1934. Meanwhile, activity in the less durable goods industries has held up well, and in a few instances -- notably shoe manufacture and the consumption of wool by textile mills -- 1935 records approached or even exceeded those of 1929.

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Another favorable aspect of the situation during 1935 was the rapid movement of goods into consumption, so that the calendar year 1936 opens with little evidence of the overstocking which, during certain earlier phases of our recovery, created temporary obstacles.

The business improvement of the calendar year 1935 found immediate reflection in a larger volume of Treasury receipts from miscellaneous internal revenue sources. Thus, the striking expansion in the manufacture and sale of motor vehicles had an immediate influence on the Government's income from excise taxes. But the Federal receipts from income taxes will not show the effects of the increased volume of business of the calendar year 1935 until 1936 and 1937.

Increased employment and a more profitable level of operations in both industry and agriculture are estimated to have added many millions of dollars to the total money income received by the American people during the calendar year 1935. A significant proportion of this came from the marketing of farm products. During the past season, weather conditions have favored better crops and prices have held up well, so that total cash income realized from the sale of crops and livestock and from contract benefit payments during the calendar year 1935 was well above that of 1934, and well over 50 percent greater than that of 1932.

Moreover, of great economic importance is the fact that the heavy burden of debt hanging over our agricultural and our urban population at the beginning of 1933 was considerably lightened during all three years of the recovery period. Higher incomes and lower interest charges have made possible greatly increased purchases of consumer goods and equipment by farmers

during 1935. These purchases, among other factors, contributed greatly to the improvement of industry and trade which gave employment to city and town dwellers last year, and which was reflected in increased Treasury receipts from miscellaneous tax sources during 1935.

Wholesale prices in general advanced in 1935. The prices of agricultural products averaged considerably higher than in 1934, while the prices of industrial materials showed little change. A better adjustment was achieved during the year between the prices received by farmers and the prices charged for industrial products used on the farm. Meanwhile, the cost of living in cities increased moderately -- by 2 to 3 percent.

The continued improvement in agriculture and business last year showed itself in increased business profits. Industrial profits, as indicated by the interim reports of large corporations, were greater in each of the first three quarters of 1935 than in the corresponding periods of 1934; and are expected to have made an even better showing in the final quarter because of the maintenance of activity and of consumer buying at a high level. For the calendar year 1935 as a whole, the combined net income of industrial and other corporations is estimated to have been about 30 percent greater than that of 1934. The Treasury's receipts from the corporation income tax will begin to reflect these gains during the first half of the calendar year 1936.

The revival in the capital markets, which began in the spring of 1935, is of great importance for future economic developments, because the kind of expansion financed by new capital investment is essential to the full employment of labor. Although most of the

December 31, 1935

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The Mexican Secretary of the Treasury, Senor Eduardo Suarez, accompanied by the Mexican Ambassador to the United States, Senor Dr. Don Francisco Castillo Najera, met with the Secretary today. Also present were Under-Secretary Coolidge, Mr. Oliphant, Mr. Haas and Mr. Lochhead of the Treasury, and Mr. Livesey and Mr. Reed of the State Department.

Mr. Morgenthau opened the meeting by saying he wanted to give the Mexicans a little background on what our situation on silver is in the United States. He said, "You know, the last time when silver went up to over 80 cents, I think we showed we wanted to be helpful and, if you remember, you had several million ounces of silver in London and we bought that silver and relieved you of that silver at that time. When you were changing your currency, we did everything possible to help you. The policy of Franklin D. Roosevelt is to be as helpful to Mexico as we can. That is why I am delighted that you have come here to see if we can work out our mutual problems.

"We have a very definite mandate from Congress in our Silver Purchase Act, and what we are trying to do is to carry that out in the spirit that Congress asked us to, but at the same time try to protect the Treasury. I think Mexico, as the biggest producer of silver in the world, and we as the second, have interests in common and both countries ought to work together.

"The future of the silver market," he continued, "is very uncertain; for instance, India used silver as a means of storing up wealth; China used it as money. You know as well as I do what happened. As I see it, the only country left on silver is Ethiopia. That is not very encouraging. To give you the picture, the way I see it, what made us change here was that we suddenly realized that all of the countries who had silver as a monetary reserve suddenly decided, within ten days, to sell it to us. Hong Kong offered us 100,000,000 ounces; you offered us 200,000,000 pesos, and Nanking offered us 200,000,000 ounces. Overnight we were offered all that silver! We saw that if this thing continued, we would reach the objective of the Silver Purchase Act -- that one-fourth of our monetary reserve should be silver -- practically overnight."

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Mr. Morgenthau explained to the visitors that, "What we are trying to do in the world market, which is more or less free from newly-mined silver, is to see at what price silver would support itself. It looks," he said, "as though at 50 cents silver would carry itself."

"The silver smuggled out of China has practically stopped," he continued. "Japan used to export about 7,000,000 ounces of silver a year and now they export 70,000,000 ounces. There is a possibility of getting China to again use silver. Bombay is a buyer of silver. Then it gets down to what your country and ours can do to set an example to the world -- you being the biggest silver producer and we, the second -- to keep silver so that it will be used both as a store of wealth and as money.

"The other side is the question of the newly-mined silver which you have," the Secretary told the Mexican officials, "and I believe we have bought all of it. Our attitude is that we want to do everything possible to continue the strong ties of friendship between the two countries. Our interests are along the same lines because we both have gold and silver in large quantities and I think we want to get the correct statistical position, which we do not have as yet. The question is, What you would like to do for the coming year and what we can do to help you? WE HAVE A RESPONSIBILITY FOR THE FUTURE OF SILVER.

The Secretary reminded the Mexican Ambassador that during the month of July there had been some discussion between his Government and the United States with respect to the United States silver policy. He also said that on July 24 the Mexican Ambassador had come in to see the Secretary and, "if my memory serves me right, at that meeting it was left that you would sound out Canada and North and South America, the silver producing countries," and the Ambassador agreed. HM, Jr. said, "It would be easy for someone from Canada to come down, but in view of our meeting on July 24, I think it would be best that you talk to Canada."

Mr. Suarez then said he thought his country should also get in touch with the Latin-American countries to discuss the use of silver and gold, and HM, Jr. said that would be fine.

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The Mexican Ambassador inquired, "Do you think we should sound out the Latin American countries?" and HM, Jr. said, "Yes; fine! I would keep it strictly on monetary problems." The Ambassador then said, "We will contact whoever has charge of the management of the currency and not have a meeting of Ministers. We will sound out the Latin American countries after we have talked to Canada."

Suarez said, "In our reserves we have a certain amount of gold and a big portion of silver. This silver is composed partially of newly-mined silver that we have purchased in accordance with the London Agreement, but the big part is silver pesos we had to retire from the market when the price of silver went up very fast. The crisis we had has passed. The situation is quiet. Still I am afraid in the near future we will have demand for dollars. If I find myself in heavy demand for dollars, could I sell some of the silver I have in the reserves to the Treasury Department?"

HM, Jr. replied, "If you find yourself in deep water and need dollars, we will find some way of helping you. We have done it for France, Holland and Belgium, which are much farther removed from us than you are, so there is no reason why we can not do it for Mexico."

Mr. Morgenthau then said to the Mexicans, "Our most recent figures show that, figuring silver at 50 cents an ounce, your silver reserve is \$41,000,000 and your gold reserve is \$43,000,000! But Mr. Suarez said, "I do not think these figures are correct," and HM, Jr., replied, "Could you let me have the correct picture?" Mr. Suarez said he would get it for the Secretary.

"You have in the Federal Reserve Banks in New York and San Francisco," said Mr. Morgenthau, "for your account, 11,000,000 ounces of silver which you have on deposit with them, and I think you asked them whether you could borrow against this silver and they said no. To date, we have bought from you 63,900,000 ounces of silver. We figure that your production for this year will be 72,000,000 ounces so that there are 8,000,000 ounces left and under the London Agreement you have to hold back 7,000,000 ounces."

Mr. Morgenthau said, "To this point we have just had one question -- dollar exchange."

Mr. Suarez then said that the Mexican Government purchases silver from the mining companies paying the mining companies the

official New York market rate on the day of delivery of the silver by the mines. He wanted to know if some arrangement could be made with the United States Treasury whereby the Mexicans could be protected against fluctuations in market price between the time they bought the silver from the mines and disposed of it to the United States. Mr. Morgenthau's reply was, "I would like to think that over."

"Now we come to the third point. I am not a diplomat," said Mr. Morgenthau, "and so I am going to tell you just what I have on my mind. As to your suggestion that we take part of your silver reserves with the thought that you would maintain the same silver reserve as we do in relation to gold, I would be greatly influenced on the decision that I made by what you will say to me as to what you propose to do to encourage the use of silver in Mexico. If I understand correctly, up to now what has happened this year, the use of silver has been decreased. You no longer use your coins. I appreciate the crisis is over. One of the ways you could encourage the use of silver is to have you go back to the actual use of the silver peso. I would be greatly influenced in deciding about the purchase of the silver reserve if you could tell me how you could encourage the use of the silver peso in Mexico."

Mr. Suarez replied that it would be popular to have the silver peso in Mexico again. He said, "It would be popular with the working man, but of course in certain parts of the country it is easier to use paper money. We will make a careful study to see if we can put this silver peso into circulation." Mr. Morgenthau said, "Wouldn't it be better, rather than to re-issue the old silver peso, to have a new silver peso with the silver content based on \$1.29 an ounce, the same as our currency is?" Mr. Suarez replied, "I think it would be quite feasible."

Mr. Morgenthau invited the Mexicans to return on Thursday for further discussion of the points brought out in today's conference which, to sum up, are as follows:

1. Buy newly-mined silver at a daily price giving time to deliver to the United States Assay Office.

2. The question of calling a conference with Canada and the Latin-American countries. As it now stands, Mr. Morgenthau told the Mexicans, the move of sounding out Canada is up to them.

3. The question of Mexico's monetary reserve. (Mr. Morgenthau told the Mexicans that our purchase was dependent on

their encouraging the use of the silver peso in Mexico.) Mexico would like to have their reserve ratio of silver on a parity with the United States and encourage North and South America to do likewise.

4. Dollar exchange.

At this point, Mr. Morgenthau read to the group a memorandum prepared by Mr. Graves (copy attached hereto, Exhibit 1) on the subject of the smuggling of alcohol from Mexico. After he had read it, the Mexican Ambassador said he would speak to his people in the Custom House Department and get their suggestions as to how Mexico might cooperate with the United States and endeavor to stop the smuggling. Mr. Morgenthau then handed Suarez a list of suggestions made by Lockett, our Commercial Attache at Mexico City (see copy attached, Exhibit II) which would indicate that negotiations are already under way between the two countries to combat the smuggling. Mr. Suarez said he hoped to have further word for Mr. Morgenthau on this subject at Thursday's meeting.

Before the group departed, Mr. Morgenthau said, "I will have to say something to the press and I think the best thing to say would be that we have had a very satisfactory conference together and when it is finally finished we will work out a formal statement, but until it is finished we can say nothing." This was agreeable to the Mexicans.

As soon as the meeting was over, Gaston came in to announce that the press was waiting anxiously for some news about the meeting. Mr. Morgenthau did not see the newspaper men himself, but asked Gaston to make the following statement to the press:

"The Secretary authorizes me to say that successful preliminary conversations were held on the silver situation and there will be further discussions."

Exhibit
I
319

ALCOHOL SMUGGLING FROM MEXICO.

With the closing of St. Pierre and St. Johns as liquor-smuggling bases, and the issuance by the Government of Cuba of a decree prohibiting exports of alcohol destined for illegal entry into the United States, smugglers now appear to be turning in the direction of Mexico as a source of supply for illicit spirits.

Alcohol manufactured in Mexico is at the present time being smuggled into the Gulf States from Tampico and into the West Coast States from Mazatlan and Ensenada. At all these ports, alcohol is being loaded directly aboard rum-running craft, usually of British registry, to be brought into American waters. On December 16—to cite a recent example—United States Customs officers seized the British oil screw G.S.G. in the territorial waters of the United States off the Louisiana coast, with a cargo of Mexican alcohol bearing the case marks of the J. A. and R. A. Mante Company, which is understood to operate a distillery near Tampico. There is evidence that a number of similar cargoes have been successfully landed in the United States not only from Tampico but from the other ports named above. There is evidence also that cargoes of spirits apparently not of Mexican origin have been brought into the United States via the free port of Cozumel. In addition to this water-borne traffic, which has been increasing in volume during the last few months, there is some smuggling of alcohol over the entire length of the Mexican border. At a number of points, alcohol is being brought surreptitiously across the boundary in small lots by individuals who use row boats, pack trains, automobiles, and, infrequently, airplanes, in evading the American Customs officers.

Although the aggregate of the illicit importation of Mexican alcohol into the United States is not now of alarming proportions, yet it is feared that as other bases for smuggling operations are eliminated, the Mexican traffic is likely to become our most important and difficult liquor-smuggling problem. To meet this situation, it would be extremely helpful if the Mexican Government, as a matter of cooperation with this Government, would adopt measures similar to those which have been adopted by other governments, calculated to put a stop to this illicit traffic. It has been suggested by Mr. Lockett, American Commercial Attache at Mexico City, that the Government of Mexico might be willing to institute a control based upon the application of an export tax to all alcohol, this tax, of course, to be refunded in any case upon submission of proper evidence to the Mexican Customs authorities that exportation was in legitimate trade.

To facilitate a consideration of this matter, a memorandum is attached outlining the provisions of an appropriate order in line with Mr. Lockett's suggestion.

320
Exhibit
II

SUGGESTED REGULATION FOR THE CONTROL OF
EXPORTS OF ALCOHOL FROM MEXICO.

SECTION 1. That on and after the date of issuance of this decree there shall be levied, collected and paid upon all alcohol or other spirits exported from the United States of Mexico an export tax amounting to two pesos (\$2.00) per liter, which export tax shall be in addition to all taxes imposed under existing law and shall be paid at the customhouse at the time the export declaration is made, provided that if the exporter shall secure within six months a landing certificate properly signed by the chief officer of the customs at the declared port of destination in the foreign country showing that the alcohol or other spirits legally entered the commerce of such country the export tax shall be refunded.

SECTION 2. That each person or corporation presenting a Factura Especial covering alcohol or other spirits to an officer of the Hacienda for certification shall place thereon, under oath, the following certificate,

"The alcohol or other spirits covered by this invoice is to be used or consumed in the United States of Mexico and is not to be exported without proper permit being secured and export declaration made at the custom-house and the export tax paid thereon".

SECTION 3. All alcohol or other spirits arriving at any port, including free ports or free zones, and shown by the manifest or other documents covering the shipment to be destined to a country other than Mexico shall be immediately placed in bond, and in addition a proper bond shall be exacted from the owner or person in charge of such shipment in an amount equal to double the export tax on such shipment, conditioned that if a proper landing certificate be not secured within six months showing that the alcohol or other spirits legally entered the commerce of the foreign country named on the export declaration the bond is forfeited.

SECTION 4. Any person or corporation violating the provisions of this decree or siding, assisting or facilitating the violation shall be penalized in an amount equal to double the export tax on the alcohol or other spirits in question, but not less than five hundred pesos (\$500.00), and further, there shall be paid to any person submitting information of a violation of this act one-fourth of any moneys recovered as a result of such information.

LONDON SILVER MARKET

DEC 31 1935 10.30
LONDON - THE FIRMNESS IN SILVER MARKET WAS DUE
TO THE FACT THAT OFFERINGS WERE ALL ABSORBED BY
INDIA AND GENERAL SPECULATIVE BUYING-

PRELIMINARY SILVER CONFERENCE SUCCESSFUL

MORGENTHAU SAYS

DEC 31 1935
11-45

WASHN - SECY MORGENTHAU FOLLOWING A CON-
FERENCE WITH EDUARDO SUAREZ MEXICAN SECY OF THE
TREASURY SAID THAT THE PRELIMINARY DISCUSSIONS
ON THE AMERICAN SILVER POLICY WERE VERY
SUCCESSFUL- THERE WILL BE FURTHER MEE GGS
TOMORROW NIGHT AND THURSDAY THE TREASURY HEAD
INDICATED- NEITHER THE MEXICAN NOR AMERICAN
OFFICIAL WOULD INDICATE THE MATTERS DISCUSSED
DURING THE ONE HOUR CONFERENCE BUT ONE OF THE
PRINCIPAL QUESTIONS IS THE PRICE WHICH THE U S
WILL PAY FOR MEXICAN NEWLY-MINED SILVER-

DEC 31 1935

MEXICAN SECY OF TREASURY ARRIVES TO TALK SILVER

WITH MORGENTHAU

10.35

WASHN - SECY OF THE MEXICAN TREASURY SUAREZ AND A GROUP OF STATE DEPT AND MEXICAN OFFICIALS CALLED ON SECY MORGENTHAU AT 10 30 THIS MORNING TO DISCUSS THE AMN SILVER PROGRAM- SECY SUAREZ WAS ACCOMPANIED BY THE MEXICAN AMBASSADOR FRANCISCO NAJERA EDWARD L REED HEAD OF THE MEXICAN DIVISION OF THE STATE DEPT AND FRED LIVESAY ECONOMIC ADVISOR TO THE STATE DEPT- THE TWO SECRETARIES ARE EXPECTED TO EXPLORE THE POSSIBILITIES OF CREATING A SILVER-GOLD RESERVE SYSTEM IN MEXICO AND ALSO THE AMERICAN TREASURY PLANS FOR THE FUTURE OF WORLD SILVER PRICES

Chinese Silver Shipment

WCNS4

SHANGHAI--ABOUT 25,000,000 YUAN (\$7,452,500) IN SILVER BARS WAS SHIPPED TO SAN FRANCISCO TODAY ON THE STEAMSHIP PRESIDENT HOOVER BY THE CENTRAL BANK OF CHINA AND THE BANK OF COMMUNICATIONS.

THE SHIPMENT WAS INTENDED TO PROVIDE ADDITIONAL EXCHANGE STABILIZATION RESERVES.

12/31--R834A

WCNS41

ADD SILVER

ACCOMPANYING THE MEXICANS WERE EDWARD L. REED, CHIEF OF THE MEXICAN DIVISION OF THE DEPARTMENT OF STATE, AND FREDERICK LIVESAY, ASSISTANT ECONOMIC ADVISER OF THE DEPARTMENT OF STATE.

THE MEXICANS WERE USHERED INTO MORGENTHAU'S OFFICE WITHOUT INTIMATIONS AS TO THE MATTERS TO BE DISCUSSED.

12/31--R1047A

WCNS33

Secy. Suarez

Mexican Conference

EDUARDO SUAREZ, SECRETARY OF TREASURY OF MEXICO, ACCOMPANIED BY
MEXICAN AMBASSADOR FRANCISCO CASTILLO NAJERA, CALLED ON SECRETARY
ARGENTHAU THIS MORNING TO DISCUSS THE SILVER QUESTION.

12/31--R1035A

Silver Conference

WCNS59

HERBERT E. GASTON, ASSISTANT TO SECRETARY MORGENTHAU, SAID
TODAY THAT THE TREASURY "HAD A VERY SUCCESSFUL PRELIMINARY CONFERENCE"
WITH MEXICAN GOVERNMENT OFFICIALS ON SILVER.

12/31--R1153A

WCNS61

ADD MEXICO SILVER CONFERENCE (WCNS59)

IT WAS INDICATED THAT FURTHER MEETINGS WOULD BE HELD BUT PROBABLY NOT UNTIL AFTER A DINNER PARTY TO BE GIVEN TOMORROW NIGHT BY MORGENTHAU FOR THE MEXICAN REPRESENTATIVES.

NEITHER MORGENTHAU NOR THE MEXICANS, EDUARDO SUAREZ, FRANCISCO CASTILLO NAJERA, MEXICAN AMBASSADOR, WOULD DISCUSS TODAY'S CONFERENCE BUT IT WAS UNDERSTOOD THAT IT RELATED ENTIRELY TO THE SILVER SITUATION ARISING OUT OF HEAVY AMERICAN SILVER PURCHASES IN MEXICO AND OTHER FOREIGN COUNTRIES.

12/31--R1155A

Add Silver Conference

WCNS63

ADD MEXICO SILVER CONFERENCE

SUAREZ SAID CUSTOMS MATTERS WERE NOT DISCUSSED IN THE CONFERENCE THIS MORNING OF UNDER-SECRETARY COOLIDGE, HERMAN OLIPHANT, GENERAL COUNSEL, AND ARCHIE LOZHHEED, FOREIGN EXCHANGE ADVISOR TO MORGENTHAU.

12/31--R1158A

Daniels

WCNS80

RALEIGH, N.C.--JOSEPHUS DANIELS, U.S. AMBASSADOR TO MEXICO, WILL
LEAVE TONIGHT FOR WASHINGTON TO DISCUSS THE NATION'S NEW SILVER POLICY
WITH SECRETARY MORGENTHAU.

12/31--R1226P

9.25 London Silver
THE LONDON SILVER MARKET AGAIN LOOKS BETTER
THIS MORNING WITH MORE BUYING THAN SELLING
ORDERS SO FAR RECEIVED- BUYING ORDERS ARE
MOSTLY FROM INDIA ^{DEC 31 1935} _{18 239} ALSO FROM OTHER QUARTERS
BULLION BROKERS WHILE PLEASSED WITH THE IMPROVE-
MENT IN THE MARKET ARE ANXIOUS LEST THE
MIMPROVEMENT MAY BE TOO RAPID AND LEAD TO A
FURTHER REACTION IN THE NEAR FUTURE - EVEN IF
IT SHOULD INVOLVE A SMALLER TURNOVER THEY
WOULD PREFER A MORE STABLE MARKET IN THE FUTURE

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