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REPORT ON SECRETARY MORGENTHAU'S
PRESS CONFERENCE, SEPTEMBER 9, 1936.

Mr. Thomas Callaghan in charge of the Secret Service Office at Chicago was in the Secretary's Office today to offer an explanation in defense of certain charges against him. Also present were Mr. Murphy, Assistant Chief of the Secret Service; Mr. Wilson; Mr. Oliphant; Mr. McReynolds and Mr. Graves. Following is the stenographic transcript of the meeting:

H.M., Jr. Mr. Murphy, are you going to act as attorney for this fellow? (To Mr. Callaghan). The reason I am having these people in is that normally I sort of have a committee here so I want them to hear. Each man here has his own judgment, and after talking we will talk it over and decide what to do. I may be interrupted; may have to stop this thing. If I do I will go on, but I want you to feel you have all the time that is necessary. When we get through each man will help advise me what is the fair thing, and I want Mr. Murphy here to aid because he says he knows you have 25 years' service and he has the background of the Secret Service, and McReynolds has been in the Government I don't know how many years. So we have got this thing and you will have plenty of time to answer it and explain it. If I don't get through with it this session we will keep at it but I may have to break off to do other things. The first thing I want to check up is your income tax. The first year Callaghan filed no income tax for the years 1926, 1927 and 1928, although having net income as follows: 1926, \$4,800; 1927, \$4,842; and 1928, \$6,225. Why didn't you file an income tax in 1926, 1927 and 1928 when in each case you should have?

Callaghan: It's my recollection, Mr. Secretary, that I did file for those years. Of course, it's 8 or 9 or 10 years ago, and I am not positive. But that was my last recollection. The reason I say this I filed before 1926 and after, and I can find no reason why I should have skipped those years.

H.M., Jr. There is no record in the bureau.

Callaghan: That's what Mr. Wilson told me. I thought the thing over and the only conservative reason I can see is that perhaps after I had filled out the returns that there were no taxes to be paid, and the Internal Revenue agents who made them up did not file them. With exemption at that time and my salary, there is a possibility there was no tax to be paid.

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H.M., Jr. But still the responsibility for filing is yours.

Callaghan: Yes sir, I acknowledge that.

H.M., Jr. You have no excuse.

Callaghan: No sir, except my last recollection is that they were filed. I filed before and afterwards.

H.M., Jr. "For four of the six years from 1929 to 1934, Callaghan although filing returns for those years failed to make complete disclosures of income as follows:

<u>Year</u>	<u>Actual Net Income</u>	<u>Amount Returned</u>
1929	\$7,005.31	\$3,578.75
1931	4,557.99	3,469.73
1933	7,492.61	1,827.50
1934	4,250.00	3,780.00

Callaghan: Yes sir. I left that matter entirely to the Internal Revenue agent and I assume that owing to his position and experience in the Internal Revenue, that whatever figures he brought back were correct.

H.M., Jr. Well, what the revenue agent says is right, as he put down the figures that you gave him.

Callaghan: Yes sir. I gave him all the figures and had a memorandum that was available. I kept no books nor accounts and had to rely a good deal on memory.

H.M., Jr. Here's the way we go along. 1926, 1927 and 1928 no record in the Bureau of Income Tax Returns; 1929, 1931, 1933 and 1934, the amount of the return every year showed a discrepancy.

Callaghan: I gave him everything I had available.

H.M., Jr. The answer is you didn't.

Callaghan: I had no books to give him, or accounts.

H.M., Jr. But the answer is you didn't. In 1929 you gave him \$3,578, and your net income was \$7,000.

Callaghan: That was the way he figured. I don't know whether he took off the 3 1/2% pension, but he knew what my salary was and I left the matter entirely in his hands.

Wilson: I believe it was five transactions on the stock market which netted him--that were a return of \$4,000. In reporting his stock transaction he reported one loss on Yellow Cab stock of \$2,200 and that was the only stock transaction that was reported.

H.M., Jr. But he did not report his profits?

Wilson: No, sir.

Callaghan: He had everything in there that transpired. He went over to my broker's office.

H.M., Jr. Did you use more than one broker in 1929?

Wilson: One broker.

H.M., Jr. Who was the broker?

Callaghan: Thompson, McKinney and Company. Either that or Scott-Brown.

H.M., Jr. He reported no stock transactions?

Wilson: One stock transaction upon which there was a loss of \$2,200. That was all that was on the return.

H.M., Jr. What was the difference in 1933? \$5,000?

Wilson: In 1933 the big difference \$5,400 loss on stock Insull Corporation. The deputy collector who prepared the return for Mr. Callaghan states that Mr. Callaghan advised him that he had a loss of \$5,400 on this stock. The deputy collector states that he was not advised the name of the stock, so he had no way by which he could determine whether it was a proper loss to take in that year. I might say that the loss should have been taken in the year 1932, and it was not taken in that year and I don't believe it was clearly understood by a great many taxpayers in Chicago at that time whether they should take the loss on Insull stocks in the year 1932 or 1933.

H.M., Jr. (To Mr. Callaghan). Do you want to say anything?

Callaghan: Only that I had the loss and it was taken on the wrong year.

H.M., Jr. You did not report it in 1933.

Callaghan: Yes, I know. I reported it in 1934. I thought that was the year. I still had the stock certificate, and I told the revenue agent and he said it was a \$5,400 loss, so we will take it off this year.

- H.M., Jr. Did he take it off in 1934?
- Wilson: For the year 1933.
- H.M., Jr. But he did report the loss?
- Wilson: Yes. He did report the loss in 1933. In the 1933 return, also, there was an item of \$200 interest on a loan of \$2,000 to the exhibit of the World's Fair that was not reported as income. Mr. Callaghan has told us that he did not understand that to be interest. He thought it was return of some small loans which he had made Mr. Rogers.
- H.M., Jr. I will go into that later on, but the main thing that stands out in my mind in 1926, 1927 and 1928 he made no returns.
- Wilson: Correct.
- H.M., Jr. Do you feel in 1929, 1933 and 1934 that there is any indication of intent to defraud the Government--that is, it is a thing that any person might mistake; he might make through a technicality.
- Wilson: In the year 1929 there was a net profit of over \$4,000 earned by Mr. Callaghan on stock transactions which was offset by a loss of \$2,200 on one stock, the Yellow Cab stock. He reported only the loss on the Yellow Cab stock and did not report the profit on five other blocks of stock.
- Callaghan: I gave all that data to the Internal Revenue agent; in fact I did not handle any of those transactions. I can explain how they were bought and sold. Mr. Scott is a personal friend of mine.
- H.M., Jr. Who is he?
- Callaghan: He is the senior of Scott-Brown and Company. When I got hooked up on the Yellow Cab stock, my broker sent over to me one day and said he would have to have more collateral, and I had no more money, I assured Mr. Scott, but asked him to figure up how much I would lose if he sold out. He figured \$5,000. I said that's all the money I have in the world and he said I don't think you should lose it. I will loan you a thousand dollars to take to your broker. He did and I took it to the broker's house and he said transfer your account to my firm and I will try to pull you up and if I do, you keep your hands out of the stock market. He bought a lot of things for me that I did not know anything about and one day he called me up and said I told you if I ever got you even you should keep out of the stock market, and I said all

right. He said I have and I have a return profit for you. I don't know what Mr. Scott bought or sold.

H.M.,Jr. He didn't send you notices?

Callaghan: No sir.

H.M.,Jr. He never notified you?

Callaghan: No. He told me he was doing some buying and selling and that when he got me even.....

H.M.,Jr. Usually there are notices with proofs of sales, but he did not send you these?

Callaghan: He might of sent some slips which I did not pay attention to.

H.M.,Jr. But he did send you notices?

Callaghan: Yes, I got some notices about the sale of so-and-so.

H.M.,Jr. Then that contradicts what you said a minute ago.

Callaghan: But I don't remember any particular stock.

H.M.,Jr. Now listen, if you got a notice that he bought or sold, and you didn't look at it.....

Callaghan: Yes sir, but he bought a lot of stock that I didn't get notices on.

H.M.,Jr. But a minute ago you said you didn't remember.

Callaghan: But I am trying to remember back seven years.

H.M.,Jr. But when you gave out your income for that particular year.....

Callaghan: I gave Mr. Scott everything I had. All the notices I had I gave him.

H.M.,Jr. Evidently, the only one you gave him was the only one you made a loss on.

Callaghan: I gave him everything I had and told him everything I could remember; but I can't remember all the details of what Mr. Scott bought or sold for me.

- H.M., Jr. But evidently the only thing you gave him was the one you had a loss on.
- Callaghan: No. I believe there were losses on others.
- H.M., Jr. But you didn't give him the notices on the stocks you made a profit on.
- Callaghan: I got notices from time to time, at the end of the month, that I did not pay any attention to. I left the matter entirely to Mr. Scott.
- H.M., Jr. You are supposed to handle money for the United States Government, aren't you?
- Callaghan: Yes sir.
- H.M., Jr. Pretty careless about your own affairs.
- Callaghan: I admit I was pretty lax. I should have paid more attention.
- H.M., Jr. This is the next thing "from about 1928 to 1934 Joe Rogers conducted a pool room in Chicago and accepted bets on horse races. This man also operated two shows at the Chicago Exhibition. In 1926, Rogers was indicted in connection with the shipment of a trunk containing 90 ounces of morphine from New York to Chicago and while this indictment was later dismissed it is evidence that Rogers was in fact engaged in the illicit sale of narcotic drugs." Are you familiar with that?
- Callaghan: No sir.
- H.M., Jr. Is this news to you?
- Callaghan: It is not news to me, but at the time I knew Mr. Rogers he only mentioned that incident to me once, Mr. Secretary, and then he did not go into much detail; said he was the victim of circumstances; that he had five or six years with different carnivals and that when these things closed up the men working for him sent in trunks with their goods to the Sherman Hotel and that he had received a telegram from one of these men, or somebody, asking if he would accept a trunk from him at the Sherman Hotel until he called for it. This is the story that he gave me and he told the man he would and the trunk arrived and he received a check for it and that on the day it arrived or the day after the narcotic agent walked in and arrested him. Rogers told me that he told the narcotic agent at that time, if you will wait a day or so the man who owns that trunk will call for it and you can arrest him. But he said that

he didn't wait; they arrested him.

H.M., Jr. "Callaghan was introduced to Rogers in 1926 by Operative in Charge Perry of the Birmingham Secret Service District. This was at the time when Rogers was under indictment on the narcotic charge, and at Perry's request, Callaghan accompanied Perry and Rogers to the Office of the United States Attorney in Chicago and introduced Perry and Rogers to the United States Attorney."

Callaghan: Yes sir.

H.M., Jr. "Since this time there has been a very free relationship between Callaghan and Rogers. Callaghan has commonly accompanied Rogers to prize fights, hockey games, etc., and on a number of occasions he has loaned him money in amounts ranging from a few dollars to \$2,000. One such loan in the amount of \$2,000, Callaghan explains as being in fact, a transfer of money to Rogers, presumably to be invested in a certain exhibition at the Chicago World's Fair; the amount having been returned to Callaghan by Rogers upon the latter's finding that the proposed investment was not advisable. Callaghan maintains an official account in the Continental Illinois National Bank. In May, 1934, he allowed Rogers to use this account in connection with the sale of some \$7,000 worth of liberty bonds, the proceeds of the sale being deposited in this account and later checked out to Rogers by Callaghan.

"Callaghan had an official account in the Continental Illinois National Bank, where official funds were kept for payment to informers and for other official purposes. It has already been stated that Callaghan deposited the proceeds of the sale of liberty bonds for Joe Rogers in this account, and later checked this out to Rogers. Callaghan admits also that on some occasions he would deposit personal funds in this account and use it for the payment of household bills." As I understand it that account is strictly to do business as an agent of the Secret Service.

Callaghan: Yes, sir.

H.M., Jr. That's your Government account.

Callaghan: That was the official account. We closed it out.

H.M., Jr. Do I understand, Murphy, that men have accounts where they deposit money?

Murphy: Very unusual. Very unusual for him to have an official account.

H.M., Jr. But I understand this was at the Continental and was official.

Callaghan: Yes, sir.

Murphy: Explain how.

Callaghan: For the purpose of depositing money we would receive from raised notes, or money we would take from criminals which we did not want to keep around the office.

Murphy: Most agents sent their personal check and on our recent trip..... I don't know of another official account to keep their official money separate.

Callaghan: That account was opened with the consent and approval of the chief.

Murphy: It's really better than sending a personal check.

H.M., Jr. I personally think it is a good idea.

Murphy: It's much better to do it that way. We have very little except in large districts.

H.M., Jr. Provided it is legally used. Let me ask you. If you had your account at the Continental did you have a personal account?

Callaghan: No other checking account. I had a bank account, a savings account, in the same bank.

H.M., Jr. Is that true?

Wilson: I believe it is.

H.M., Jr. In May, 1935, Callaghan allowed Rogers to use this official account?

Wilson: Yes, sir.

H.M., Jr. How do you explain that?

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Callaghan: Rogers came to see me. He was building a project at the World's Fair called Hawaiian Gardens. Said he had two hundred men working for him and he needed money for his payroll, and he came to the office this morning and said he would like to get some money on my liberty bonds; and ordinarily through a broker's office it will take several days, but if you have a deposit or account at the Continental it will be a big accommodation for me to put them through that. In other words, it was merely a question of identifying him. I told one of the boys in the office to take him over to the bank and identify him, and he did that, and the bank asked how much money he wanted on the bonds and he said \$1,000 and they drew a check for a thousand dollars in my name because it was my account. He came out the next day and said he could use \$2,500, and I wrote out a check and the following day he came in for \$3,500, and it was simply an accommodation. I never counted it. It was, I felt, like taking a man over to the bank and identifying him with a check. I could have accomplished the same thing with my own account at the bank.

H.M.,Jr. Why didn't you?

Callaghan: It didn't occur to me. I figured as we had a checking account there, there would be no objection.

H.M.,Jr. How was this official account made out?

Callaghan: Thomas J. Callaghan.

H.M.,Jr. Agent of the Secret Service?

Callaghan: No, I don't think that was added for the reason that if there was a payment in the form of a check, we thought best to keep Secret Service out of it.

H.M.,Jr. In other words, it's a personal account open to you.

Callaghan: Yes, I used it once or twice to pay personal bills. If my wife wanted to pay a bill at Marshall Fields, I would bring down the money.

H.M.,Jr. You used it for your personal business and Government business; and used it to clear Government accounts for friends?

A. I don't think I have used it for more than two or three checks for household bills, and as for putting the liberty bonds through, there was nothing improper I could see in it.

H.M.,Jr. Supposing those bonds had been stolen?

- A. I believe he told me they were for him and his wife.
- H.M.,Jr. How did you know that?
- A. I took his word for it. He never did anything since I have known him that would warrant otherwise.
- H.M.,Jr. Do you think a Government official's account as Agent of the Secret Service should be used for household bills?
- A. No, sir.
- H.M.,Jr. Do you think it should be used for clearing friend's bonds through it?
- A. No, sir.
- H.M.,Jr. Don't you think it was pretty careless? I think it was indiscreet and careless. I think it was damned indiscreet.
- Callaghan: I had another account at the bank and I figured that since I was depositor and the mere identification of Rogers.....
- H.M.,Jr. Why didn't he just draw it all out at one time?
- Callaghan: I suppose he just wanted to draw it out as he needed it. He had some 200 men working for him at the time. The whole thing was not in there more than three days. It never involved any of the Government funds; it never interfered with them in any way, but it was a personal accommodation. I admit that.
- H.M.,Jr. "Acceptance of Favors and Gifts. The following is quoted from the regulations of the Secret Service Division:

"It is expressly enjoined upon each commissioned officer of this Service to abstain from asking or accepting any gift, loan, accommodation or other thing of value***** from any person who has had, or is likely to have, official connection with the Division, or from any other person whose action may seem to be inspired by said officer's connection with the Secret Service force.

" In 1933, Callaghan made a net profit of \$3,400 as the result of an investment made for him by one Addison Stillwell, who operates on the stock market with his brother, W. J. Stillwell. Callaghan advanced no funds in connection with this transaction and put up no collateral, but claims that the investment was made for him by Stillwell purely out of personal friendship. A possible motive for Stillwell's

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interest on Callaghan's behalf in this transaction came to light in 1935 when W. J. Stillwell was investigated for income-tax evasions. At that time, he requested Callaghan's assistance in connection with the investigation, and Callaghan in turn visited the Intelligence Unit of the Bureau of Internal Revenue to find out what he could do about the matter on Stillwell's behalf. Incidentally, the investigation of W. J. Stillwell indicates an additional tax liability amounting to \$617,000, covering a period of six years, and Stillwell's prosecution is now under consideration."

Are you familiar with that?

Callaghan: Yes, sir.

H.M., Jr. "In 1933 Callaghan made a net profit of \$3400." This profit of \$3400-was that reported?

Wilson: Yes, sir.

H.M., Jr. In his income tax?

Wilson: Yes, sir. He made a mistake. He made an error in calculating \$62, but that was merely a clerical error.

H.M., Jr. "A possible motive for Stillwell's interest on Callaghan's behalf came to light in 1935 when W. J. Stillwell was investigated for income-tax evasions. At that time he requested Callaghan's assistance in connection with the investigation, and Callaghan in turn visited the Intelligence Unit of the Bureau of Internal Revenue to find out what he could do about the matter on Stillwell's behalf."

When was the profit made?

Wilson: In 1933.

H.M., Jr. And this income-tax of Stillwell; what year was that?

Wilson: The years 1929, 1930, 1931, 1932 and 1933.

H.M., Jr. Covering that same period?

Wilson: Yes, sir.

H.M., Jr. "A possible motive for Stillwell's interest on Callaghan's behalf in this transaction came to light in 1935 when W. J. Stillwell was investigated for income-tax evasions. At that time he requested Callaghan's assistance in connection with the investigation and Callaghan in turn visits the Intelligence Unit of the Bureau of Internal Revenue to find out what he could do about the matter on Stillwell's behalf."

When did Callaghan take him to the Bureau?

Wilson: He did not take him to the Bureau. He received a special delivery letter and Mr. Stillwell was in New York City and he wrote to Chicago a letter which Mr. Callaghan took to the office of the Intelligence Unit and discussed it with Mr. Horace George, the acting agent in charge in 1935.

H.M., Jr. But he made the profit for him in 1933.

Callaghan: The man had no idea that he would ever be under investigation. He was not then under investigation, and he has been a personal friend of mine since I have been in Chicago; never asked me to do anything. His brother who wrote me the letter has never done anything for me.

Wilson: Well, he asked you to take the letter over to the Bureau.

Callaghan: No, sir, he did not. He wrote me a letter saying the Treasury Department was looking up his books; in fact, I have the letter here if you want to read it. I did what I thought was the most honorable thing. Instead of trying to find out who Mr. Peabody was I went right down to the Intelligence Unit and showed them the letter-which I thought was the most open handed way to do.

The Secretary then read aloud the following letter addressed to Mr. Callaghan from W. H. Stillwell:

"Dear Tom:

The Treasury Department has mentioned some of my tax matters and claims I failed to pay the proper amount for the year 1931. As a result of it all I have shown the Department all the books, records, etc. Government auditors have spent several weeks going over the whole matter. Now then on top of all this there is a man named Peabody, who is in the Intelligence branch of the Treasury. He has interviewed my tax expert in Chicago and has had complete access to all of our records. In spite of all our cooperation with the Department, he is still annoying the life out of everybody. He has

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come to the East to interview my former Secretary in spite of all the records, etc., being in Chicago. For the life of me I don't know what he wants. As yet I haven't seen him since he has been here. However, I expect to see him before he goes back to Chicago.

"What I wanted to know is do you know him? Is he a friend of yours? If so can you find out what he wants? If it's within my power I would gladly tell him anything he wants to know. If you could impress upon him that I am no crook and have filed tax returns since 1918, the year my father died, I would appreciate it.

"I don't mind ordinary Government auditors going over my books until the cows come home. I am used to it, as they have been doing it for years'. However, when they put Intelligence officers on the matter, I do wonder what it's all about. Perhaps, I have some kind "friend" in Chicago who is in back of all of it.

"Anything you could do in the whole matter I would most certainly appreciate. However, if he is just one of those unpleasant government "dicks", just forget all about it. He has been given access to every record I have and has spent days with the man who keeps the records for me. I can't do any more than that.

"Do you ever come to New York? Am planning to buy a farm in Maryland and get back to nature. Give my best to the Cardinals if you should see them.

"When you answer, write care Hotel Ritz - Carlton, Madison Avenue at 46th St, as I am not at this office very much.

"All the best and as ever

W. H. Stillwell."

Aug. 27th, 1935.

Who are the Cardinals, referred to in this letter?

Callaghan: They are people we spent a week with fishing up in New York.

H.M.,Jr. Is that their name?

Callaghan: Yes, sir. I did not say anything in that letter, and took it down to George and let him read it.

H.M.,Jr. "It is difficult to understand how the Stillwell's could have made what amounts to a gift of \$3400 to Callaghan unless they expected something from him in return.

"Callaghan's office contains a number of articles of furniture, which were donated to him by various people. Among these are three rugs given him, as he says, by a Syrian rug salesman whose name he does not recollect; two leather charis, donated by one Harry Solomon*****"

Who is Harry Solomon?

Callaghan: He is President of H. W. Solomon Investment Corporation. A man who up to a while ago controlled about 17 hotels and apartments in the city of Chicago, and is at present a member of the Board of Education there.

H.M.,Jr. Any trouble with the Government?

Callaghan: Never.

H.M.,Jr. (Continued reading). "*****two clocks, and a mahogany glass cabinet given him by one Harry Richman; a lamp donated by one Harry Siegel*****"

Who is Harry Siegel?

Callaghan: President and owner of the Midwest Feature Company; is a large advertising concern in Chicago.

H.M.,Jr. (Continued reading). "*****300 elephants presented by various persons; and a desk set donated by one Bob McLaughlin.

"Bob McLaughlin is a brother of Red McLaughlin, a notorious gangster, who was murdered in Chicago in 1931. When Red McLaughlin was himself on trial for murder, Bob McLaughlin testified in his defense. Bob was later accused of giving perjured testimony, and served 30 days in jail on the charge."

Callaghan: Bob McLaughlin at that time was President of the Chicago Checker Cab Company and I figured he would be a valuable asset to the Service and to our office for the reason he had under his control something like 1000 taxi drivers, whom we very often had occasion to use in identifying people passing me. I don't associate with Bob McLaughlin, but I keep up the acquaintance for the good of service.

H.M., Jr. "Reports from the Christmann Brewing Company submitted to the Alcohol Tax Unit as of May 31, 1936, indicate that on that date Callaghan owned 250 shares of the preferred stock in that company. This stock was acquired by Callaghan, according to his own statement, in 1932 or 1933. If Callaghan still owns this stock it is in violation of your order dated February 15, 1936, reading as follows:

" February 15, 1936.

"Treasury Department Order No. 11.

"To the Commissioner of Internal Revenue,
Commissioner of Customs,
Commandant of the Coast Guard,
Chief of the Secret Service.

"It is hereby ordered that no officer or employee in the Department or Field Services of the Bureau of Internal Revenue, the Bureau of Customs, the Coast Guard, or the Secret Service, shall, directly or indirectly, have any interest, whether as owner or part owner, stockholder or otherwise, in any business, the whole or any substantial part of which consists of the production, sale or distribution commercially of distilled spirits, wine, or fermented malt liquor, nor shall any such officer or employee, directly or indirectly, with or without compensation, engage in any such business, or have any connection, whether as a partner, officer, director, employee, agent, attorney, or in any other capacity, with a person, firm, or corporation engaged in any such business.

"You will bring this order immediately to the attention of all officers and employees in your respective organizations.

(Signed) Henry Morgenthau, Jr.,
Secretary of the Treasury."

That order went out February 15th, after the trouble we had in Detroit and Cleveland, and on May 1, you still had 250 shares?

Callaghan: I tried to sell it and I could not get ten cents a share. The postmaster of Chicago advised me, and sold me that stock himself. He told me it was a good investment. That was several years ago.

H.M., Jr. Not the present postmaster?

Callaghan: The previous one just before this man; and I tried to sell that stock. I paid two dollars a share for it and tried to sell it.

H.M., Jr. When did you try to sell it?

Callaghan: For the last year.

H.M., Jr. Did you write to the Chief and say you had this stock?

Callaghan: No, sir.

H.M., Jr. What do you think this order of February 15th means? You know what happened to Brown.

Callaghan: He was interested in a big way.

H.M., Jr. I know but why didn't it occur to you immediately to write to the Chief and say I have 250 shares of this stock. I can't sell it. What do you advise me to do?

Callaghan: I thought I would wait until I could sell it. I was willing to sell it for ten cents.

H.M., Jr. Here it is September 9 and this order was dated February 15. What do you think I wrote that for? Pass time?

Callaghan: It's such a small amount.

H.M., Jr. You are supposed to get people to obey the law, and this order got publicity. You know about the fellow in Detroit, Brown, and the fellow in Cleveland you know all about.

Callaghan: I figured they were mixed up in the liquor business.

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H.M.,Jr. Did you read that order?

Callaghan: Yes, sir. It says no officer or employee of the Secret Service which directly or indirectly have any interest whether as owner or part owner, stockholder, or otherwise in any business, the whole or any substantial part of which consists of the production, sale or distribution commercially of distilled spirits, wine or fermented malt liquor. I didn't consider that beer would come in that category.

H.M.,Jr. Why don't you say, I just thought I could get away with it; they would not find I have 250 shares. What is fermented malt liquor?

Callaghan: That's whiskey; Scotch whiskey.

H.M.,Jr. It isn't as I understand. What is fermented malt liquor?

Graves & Gaston: Beer and ale.

H.M.,Jr. I have given an order about drinking in the Secret Service. I suppose that's just a joke, too.

Wilson: No, sir.

H.M.,Jr. Well, believe me if I was in the Secret Service and I got an order and I had one share, and whether it was only worth one penny, I would write a letter and say I owned 250 shares; I'm trying to sell it. Can I have time or what should I do about it. But there is no indication on your part that you have taken any interest in this order.

Callaghan: I tried to get rid of it right away, and another man asked me to hold on and he would try to get me a little better price.

H. M. Jr.: You might say he is careless. He isn't very careful about his own stuff and he was going to get rid of the stock, etc. But this thing I certainly impressed on Chief Moran, and we got out an order. Mac, they were supposed to sign for these things.

McReynolds: Yes sir.

H. M. Jr.: What is the use of getting out an order?

Callaghan: I did not think it was serious. Nothing like that case up in Wisconsin. I don't think they make a thousand cases of whisky in a year.

H. M. Jr.: I consider it serious. It shows you can't carry out orders when you get them. What is your reason for being such a good friend of Rogers?

Callaghan: Simply because he is a likable fellow and he has never done anything that was dishonorable since I have known him. He is a man of good principle; I have never seen him do anything wrong; we go to hockey games together, and that's all.

H. M. Jr.: Your reason for associating with him is so that you can get information on the underworld?

Callaghan: Yes. We have had notes passed by bootleggers and bookmakers where they refuse to identify, and Rogers has given us information. He has given us the description of some fellow who has been around a number of poolrooms in Chicago, passing notes, and he has never been afraid to give us information.

H. M. Jr.: What do you know about Joe Rogers?

Wilson: I don't know anything additional except what appears in the report, and he had a poolroom where they accepted bets on horse races.

H. M. Jr.: Recently?

Wilson: Up to a year or a year and a half ago. He had an interest in that place for approximately five or six years.

Callaghan: In Chicago, betting on horse races is legal. There are five or six race tracks where you can go out and bet but in the city of Chicago there is an ordinance but everybody who goes out to the tracks bets money and the State taxes the revenue and it is legal.

H. M. Jr.: Do you want to ask any questions Mr. Oliphant?

Oliphant: No.

H. M. Jr.: Mr. Graves?

Graves: No.

H. M. Jr.: Mr. McReynolds?

McReynolds: No, I think you have covered everything.

H. M. Jr.: Mr. Murphy?

Murphy: I don't know of any questions. As far as presents in his office, my own chief knew it; I knew that he had a very fancy office.

Callaghan: I take pride in it. It was a terrible looking place when I went there and every gift in that office is from a reputable business man in Chicago who has never asked me for a favor.

H. M. Jr.: Mr. Wilson, any questions?

Wilson: No.

H. M. Jr.: (to Mr. Callaghan) Suppose you step out.

(to Mr. Murphy) What do you think, Joe?

Murphy: Certainly, as far as Joe Rogers is concerned, all our men know men like Joe Rogers. I don't say they all associate intimately and go to fights, but they do know them, a good many of them. As far as his transaction with the official account is concerned, he had no right to use it in his own name, and I don't see, if the bond matter is over, I don't see that that enters into anything, although I don't see why Rogers could not handle it on his own and he must have a bank account but didn't want to show it up. All I

can say about Stillwell is. I don't know him, never heard of him, don't know why he did make \$3,000. for him without he was very friendly to him and it's a case of a rich man trying to help somebody.

Oliphant: When was that?

Murphy: In 1933. Income tax evasion shows up in 1935, but I think he did the proper thing when he took to Mr. Irey's men the letter from Stillwell and let them read the letter. I don't see any harm in that. I don't know how serious it is. I think it is serious that he did not file an income tax in those three years and the only point that was not explained, in one year when he made a profit of four or five thousand dollars and put in a loss of \$2,200., how many transactions were made for him.

Wilson: As near as I can determine from the Revenue Agent's records, there were six transactions, six blocks of stock he had; one was Yellow Cab in which he had a loss of \$2,200. That was reported on his income tax return. There were five other blocks of stock that were sold upon which he netted a profit in excess of \$4400.

Murphy? Just five transactions?

Wilson: As near as I can determine from the records of the Revenue Agent.

Murphy: In reference to that, any man, unless he is immensely wealthy, if he makes \$5,000. and makes a loss of \$2000. knows he has a profit.

H. M. Jr.: He tripped himself up on that. He said he got 'some' slips.

Murphy: He should know he had a profit of \$3,000. That was in the year he put the loss on Insull stock?

Wilson: No, that was another year. The year he had stock transactions, he made profits in 1929. It was in 1923 he took a loss on Insull stock. I think he is excusable for taking a loss on the Insull stock.

Murphy: I wouldn't know the difference myself.

H.M., Jr. That is a mistake anybody might make.

Murphy: Yes, sir. But he said the fellow was going to make some money. Then you asked if he got slips and he said "Yes". If there were only six transactions and the fellow brought in the slips and I made you some money, he would look at the slips. That year and the year he did not file. I don't know how important it is in the Internal Revenue, but that to me is a serious charge. The fact that he knows a crook and associates with him and goes to poolrooms, we all do that; we all know that. I know murderers and have sat at the table with them.

H.M., Jr. How do you feel about his owning the stock in the beer company and still owning it?

Murphy: I don't understand that. Two or three of our boys have similar stock. When prohibition was abolished there were many ads in the paper and they had small blocks and I think they all disposed of it. When I checked up on the offices, I did not question Callaghan because Wilson had been there and Callaghan was being investigated.

H.M., Jr. But this order came out on February 15th.

Murphy: He positively should have made mention of the stock. I want to make this clear, I did not question their finances or stock. Two or three of the boys had stock, one of them, I know, had \$1,500, in some company. They sold that stock.

McReynolds: We have had lots of correspondence in the Secret Service and the other Treasury Agencies since that order came out disclosing things of this kind. They are trying to sell. They kept themselves on the right side by disclosing everything they had and showing that they were trying to live within the order, and Callaghan apparently did not tell anybody he had this stock.

H.M., Jr. What are the degrees of discipline that I could use if I wanted to? What are the least serious and most serious steps that I could take?

Murphy: In our particular service, to discipline is to demote him and transfer him. That's about all we can do. He loses salary and he loses his position.

H.M., Jr. I would like to ask this--did you, in your contact with Federal officials, judges, United States attorneys, find any case where a counterfeiter was let off light, or a check forger, or any information that any cases were swayed?

Murphy: Not the slightest. He has run a very fine office in sentencing and prosecuting everybody that was brought before him, and I know the judges have great respect for him because I have played golf with the judges out there and I know they are very friendly, and when the Carney Case was on trial he had our men in the court room and I don't think he would at any time go to him and intercede. I don't think Callaghan is dishonest. His income tax evasion, I can't explain; but he has been in a position for years to graft if he was a grafter and I don't think anybody can find that. He lives modestly, wife does her own house work, no maids, no cars, dresses well.

H.M., Jr. You don't think he is a grafter?

Murphy: I make no excuses for the income tax feature. He should have reported that stock as a matter of courtesy to you and the Chief. His income tax is another matter, another branch, but I don't hold it against him for knowing Rogers. The bond transaction.....

H.M., Jr. The bond transaction could be, it might be phony, and then again it might be just what he says it is.

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- Murphy: It could be. I think the bonds are honest. I think this man Rogers has several thousands set on the Midway and I don't think he handles stolen securities. He is like the man down in the loop--a sport; a good fellow.
- H.M., Jr. If it had been the other way around, if Rogers had been lending money to Callaghan, it would have been something else.
- Murphy: I don't think his bank accounts will show anything but a regular life.
- Gaston: I think he had been hiding it away.
- H.M., Jr. But we haven't any proof.
- Murphy: I don't think he pays taxes. Like all book makers--they very seldom pay taxes or keep books.
- H.M., Jr. On the other hand this thing has shaken my confidence in this fellow. His method of handling money. He didn't tell the truth here.
- Murphy: On that official account, he is the only one who has it.
- H.M., Jr. But he didn't tell the truth one minute--so many transactions I couldn't keep track of them. I asked him did he get slips.
- Murphy: What I think he meant--he didn't get every slip from the broker. I don't think he meant to lie.
- Oliphant: I don't think we can whittle it down to nothing. I think it is serious. If he were an applicant for a position, you wouldn't consider him a minute. On the other hand, here is a man who has been in the service. If the income tax were not in it, I would say here is a man who has been jerked up here; let him rehabilitate himself and wind up as a first class man. It all boils down, if you want to rehabilitate. In view of the income tax the rest of it is serious. I can't explain it all the way, but it is serious.
- H.M., Jr. Take the whole record. The answer is no, because I can't overlook certain things, such as the income tax.
- Oliphant: Well, take the whole record leaving out the income tax. Take the rest of it--his relation to Stillwell. What is this whole picture? It is a picture of a man too much of a good fellow to be a police officer in a community, and not enough of

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independence to be free to deal with this fellow who has a police record.

Murphy:

Maybe, but I know a little bit more. This man Scott was the owner of a very large brokerage office in Chicago--in fact, I have been to that office with Callaghan. They are intimate friends. I never heard of Stillwell, but he does meet men like Stillwell. Scott is a man who said I will get you out of the market, and you keep your hands out of the market. I do know their families are together. He is a great golfer in the 70's. To accept a favor from a rich man like that--I don't blame Callaghan because in 1935 he said I am in trouble with the Internal Revenue. He took that letter to the proper officials and showed it to them; didn't attempt to influence; just gave them the letter.

H.M., Jr.

Suppose this was the Metropolitan Police Force. What would you do? Let's say they have 25 Callaghans. How many inspectors have they in New York City?

Murphy:

I don't know.

H.M., Jr.

Say there is a force and 25 inspectors, and Callaghan has that rank of about inspector in Wall Street, and this thing happens. What would they do with a fellow? What would Valentine do with him?

Murphy:

Do you want my candid opinion? I don't think they would do anything, because I think every police officer in Wall Street makes money. They receive handsome Christmas gifts.

H.M., Jr.

What would La Guardia do?

Murphy:

He would probably dismiss it. But I mean they receive handsome Christmas gifts.

H.M., Jr.

But La Guardia would can him?

Murphy:

But Stillwell--I don't see why he would make \$3,000 for him.

H.M., Jr.

Solely for my own information I want each person to write what they think he deserves. My feeling is that whatever we do--I am just going to talk out loud--I think he ought to be moved out of Chicago. No question of that. Let's take Kansas City--should we move him to Kansas City where there are three men, or should we put him on the street--on the beat? (The votes were as follows:

Dismissed /

~~III~~

8
 Permit him to resign
 with prejudice II

another chance I

another chance
 in a reduced position III

copy

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Dismissed	1
Permit him to resign with prejudice	11
Another chance	1
Another chance in a reduced position	111)

Murphy: But he's too valuable to reduce that much. The most serious charge against Callaghan is that he made friends. In other words, his friends were doing something for him, and not crooks.

Gaston: I think the most serious charge is the income tax.

H.M., Jr. (To Mr. Murphy). You know what you wrote. What did you mean?

Murphy: I meant another District.

H.M., Jr. Is Kansas City too small?

Murphy: That would be a good change.

H.M., Jr. Bring the Kansas City fellow to Chicago and send Callaghan to the City. I'm going to talk in this room. None of you can repeat this, on your honor. I think Chief Moran has to take a lot of this. If not for Chief Moran, this fellow would not have gone along this way for 10 or 15 years, the way he has, and nobody has pulled him up; and I take an interest in Secret Service and suddenly I find this thing,-- after all he says 1929, 1930 and 1931. Rogers in Washington has not taken any interest whether I have paid any income tax or whether my room is full of furniture, and Chief Moran has been there. Rogers has never said a word to me.

Murphy: It is true.

H.M., Jr. And if this thing is so terrible, why shouldn't Chief Moran share this thing with me?

Murphy: That's true. I'm not sure, but I think he has always been candid in saying you gave it to him. I don't think he intends to say you purchased it.

Wilson: He was entirely frank to say where it came from.

H.M., Jr. Do you agree with me that he ought to be moved out of Chicago?

Murphy: That all depends upon how serious you in the Treasury consider evasion of income tax.

H.M., Jr. For an ordinary Government employee, I consider it serious. For a man who is in the Secret Service and the Secret Service is one of our police agencies, a man who has to arrest people,--that fellow ought to be above reproach.

Murphy: Yes, there is no question about it.

H.M., Jr. That fellow ought to be the first fellow to file his income tax, and the fact that he had six stock transactions, on five of which he made a profit and the only one he reports is the one on which he had a loss, at least that's the only one that showed up---take myself for example, I won't even buy a share of stock until I first refer it to my personal lawyer to see if there is any possible way my position here could influence me if I bought 100 shares of that stock. I won't even own a Baby Bond, I won't even let my children own a Baby Bond. Mind you, he has been in the Government service for 26 years. His attitude ought to be..... The first thing I want to do is to be fair to the man who hires me. Who is that? Uncle Sam. He's cheating his own boss. His attitude is just the same as any other taxpayer-----If I can get away with something, I am going to get away with something. I personally think that the least that we could do with this fellow is..... I hope, I say 'hope', in this room, for a rebirth for Secret Service and I want to put it back to where it was in the old days when it was a star organization, and I think with a fellow like Callaghan in the second most important city that the very least we could do with that fellow is to move him to another city as the head of Secret Service in some other city. And you would be satisfied with that?

Murphy: Yes, sir.

H.M., Jr. Do you think that would be fair?

Murphy: Well, I'd feel, Mr. Secretary, that something should be done for what he has done, and we have only one way of doing it-----reduction and transfer----that's about all we have. We can lay a man off and punish him, but that punishes his family just as much as him. I think that would be fair if you consider both facts. He did

not report stock dealings nor file an income tax.

H.M., Jr. I don't lay so much stress on his friendship with Joe Rogers. I don't like his running \$7000 worth of bonds through the Government account when he could have done it through his other account. I don't like his mixing a Government checking account with his personal account. I don't like it that he failed to report any income tax for three years and I don't like his letting a fellow make \$3000 for him. No matter if it was two years subsequent, that fellow had income tax troubles. I don't say that fellow could look ahead two years. It's against Secret Service regulations to take presents or favors.

Murphy: From any person they feel would ask a favor.

H.M., Jr. But he subsequently did ask him a favor.

Murphy: Two years afterwards. Yes, sir.

H.M., Jr. He admits he is careless about his own money, and that's the fellow who is in charge of the second most important city. The least we can do to that fellow is to move him to some place like Kansas City and leave him there in charge. That's the least we could do. Let me ask anybody if he thinks that's unfair.

Graves: I am not sure that I am going to answer your question exactly as you mean it, but my opinion is it is unfair to the Government to put him in charge of any other city. I think he has completely disqualified for holding any position in the Secret Service.

McKeynolds: I would like to analyze it a little bit. You started with income tax---he took deductions for losses and did not report profits---then he must have known they were there. I don't see a particle of difference in going up to the Government till and taking \$40 out of the till and putting it in your pocket and refusing to pay by failure to disclose the fact that you owe it to the Government in the same amount. I don't see one particle of difference. From that standpoint I think any one having in that way unlawfully, knowingly evaded, has put themselves in a position where they are subject to criminal prosecution from the Government for doing that, just the same as if they took the money out.

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- H.M., Jr. That's all right. Mr. Mellon did that---at least he has been charged with that. He was Secretary of the Treasury and he was worth a couple million dollars. He could spend a couple million dollars defending himself. Would you put Mr. Mellon in charge if he was proved guilty?
- McReynolds: If he was proved guilty. Of course.
- H.M., Jr. There is no difference between Mr. Mellon, except this fellow hasn't got anything. Mr. Mellon can spend a couple million dollars defending himself.
- McReynolds: There is no argument.
- Murphy: The only thing I argue, he has been in position for years if he was a grafter and to point to his acquaintance with the underworld does not.....
- H.M., Jr. The fellow has not been proven a grafter.
- Murphy: Positively not.
- H.M., Jr. The fellow is careless with his own money; he has been very careless about his income tax.
- Murphy: Very careless.
- H.M., Jr. On the other hand he has a responsible Chief and the Chief has taken no steps to check up on this man. Certainly, whatever punishment we mete out to Callaghan one can't help but say how much of that responsibility is the Chief's.
- Murphy: Positively true.
- H.M., Jr. And how much punishment should be meted out to his Chief. Should he have to share this responsibility? If we are going to be fair on Callaghan, then the question comes up, what is the Chief's responsibility?
- Murphy: I've been in 37 years and until your administration I never knew the Service to be checked up.
- H.M., Jr. Do you think I am wrong?

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Murphy: Oh, no, because we have had more to turn up in the last five years than in the last fifty years.

H.M., Jr. The last eighteen months.

Oliphant: I think the Treasury is engaged in raising it to what have been the standards of the Service.

H.M., Jr. But I can't help being influenced by the fact that this thing has been going on for God knows how long. There is such a thing that when it has been done so long it becomes common law.

Oliphant: Not that type of thing. I can't get away from the background, living in a cheap house; wife without a maid; 80 or 90% of that life and you have a perfectly normal situation; man too much of a good fellow.

H.M., Jr. He was in position to make an awful lot of money if he wanted to accept graft.

McReynolds: I don't think any one charged him with being a grafter.

Murphy: I don't know what he could have made in Chicago as a grafter in the days gone by. Unlimited---so closely associated to courts, judges, square liquor cases, counterfeiting cases, if he were a grafter. I don't think he could continue to do it because in the course of time the judges would find it out, but I do know he has their confidence and he could not have it if he interceded for persons.

H.M., Jr. There was a fellow at the White House in charge of a detail was known to get drunk and they put him there and he has come back all right.

Murphy: I don't think he has touched a drop since.

H.M., Jr. It's awfully easy to break a man, and the hardest thing to build them up. If a fellow can build a man, that's the great art. I think what I'll do with this man is to take him out of Chicago and put him into some smaller city on trial.

Oliphant: Watching him for a year is a very important item.

~~201~~

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H.M., Jr. And I think there are a couple of fellows here who think I ought to fire him. Some thought I ought to dismiss him. What do you think, Wilson?

Wilson: I don't think anything would develop in a year that would give us any guidance on this. I think that any action that should be taken should be taken now. It's one thing to bear in mind the service has been lacking in discipline.

H.M., Jr. No question about it.

Wilson: All right. If an example is made out of some particular man it may have a particular effect on the whole service.

H.M., Jr. After this meeting is over, I want you men to have ready for me Monday--McReynolds, recommendations for promotion in Secret Service. I want to start at the bottom. I made a suggestion that we consider the men who have been in the Service five years ought to get the minimum; the fellow, seven years, something, ten years ought to get the maximum. I want to start at the bottom. I want to do this as fast as we can. If you fellows are ready for me Friday noon I will do it.

McReynolds: Depends on your organization and how it is going to set up, and what assignments these fellows are going to get. Graves and I talked on it yesterday. It is my opinion that the next move on this, not only Secret Service, but the rest of them, is to set up uniform Districts.

H.M., Jr. That's stuff-----You'll have to let this thing go. Some of these fellows getting \$2000---\$2,200 have been in the Service ten years.

McReynolds: There are not many of them.

H.M., Jr. Murphy, how low is it?

Murphy: Practically all up to \$2,600.

H.M., Jr. What are the fellows in the other service getting?

Murphy: They start at \$2,600.

H.M., Jr. Wilson, what are the men who have been with you five years getting?

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Wilson: \$3,200 to \$3,300.

H.M., Jr. I have a reason and I want to move now, and when you are ready I want to move.

Murphy: On seniority alone it's a little difficult because of assignment across the street. In the past we always made it a point to promote a man who serves years there because he has to dress a little better.

H.M., Jr. That's all right. If you fellows will come in the minute you are ready to report,--I want to start at the bottom and work up.

McReynolds: We can start at the bottom but can't go to the top without difficulty.

Murphy: In Secret Service I know every man.

H.M., Jr. Where do you want to send Callaghan? Who is the best man to bring to Chicago?

Murphy: Davenport is capable and honest. He has only one fault. He is picayunish--picks on his men.

H.M., Jr. Got anybody better?

Murphy: Off hand I would not like to say. John Marsh in Memphis is a good man.

Wilson: I have heard Marsh spoken of very well in other service.

H.M., Jr. When we move Callaghan, does he get less salary when he goes down?

Murphy: It all depends on what you are going to pay Kansas City. I don't know that salary, off hand. He's drawing \$4,800 now and if he went to Kansas City he would have to take some reduction in salary. We don't pay that District \$4,800.

H.M., Jr. What does it pay? We could cross that. For anybody in charge of a District I don't think \$3,600 is enough. I don't think any Secret Service men are paid enough.

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Murphy: I will give you an example, Davenport's son resigned when he went to Intelligence and he's now making \$800 more than Davenport.

H.M., Jr. What about Marsh?

Murphy: He is a capable man, he has a nice District in Memphis.

H.M., Jr. Will the President be out of there Friday? Could we have a look at him on Friday? Davenport, you say is fair, but Marsh-----wouldn't he rather go to Chicago with an increase?

Murphy: Most men are ambitious.

H.M., Jr. Let's bring Marsh in. Certainly I don't want Foster.

Murphy: No, he wouldn't do.

Wilson: We can bring Marsh in on Friday.

H.M., Jr. Have him in on Thursday and we can look him over.

Murphy: He's out of Knoxville today.

H.M., Jr. It won't take me very long. Get him in here early Friday morning or late Thursday night. I think that this is all right.

Olyphant: I think that it goes without saying these tax penalties will be collected.

H.M., Jr. Maybe you don't think I am strict enough.

Olyphant: The purpose of the penalty is in some sense to compensate for the wrongdoing.

Gaston: It seems to me that whatever is decided about Callaghan, something ought to be done about gifts in Secret Service. When Scott did this for Callaghan he knew he was likely to be in Dutch, but of course, Callaghan didn't know that.

Olyphant: I think that when a man puts himself in the position of taking that much money he is in the potential position of being asked for favors.

Murphy: You said you wanted your liquor regulation changed.

H.M., Jr. I want it worded something like this. I want to say to Secret Service that while they are on duty, except the White House detail---let's put it this way---the White House detail---when they are on duty they can't take any liquor. When they are off duty, they can drink within moderation, and like a gentlemen; exclusive of White House detail, a man can't drink while on duty except if it is in line of duty in connection with 'roping'-----is that what you call it?-----and when off duty they should drink in moderation, and at all times behave themselves like gentlemen. Work it over, because I know they are not living up to it. For instance when the President was down south, one of his boys at the White House said all the people were waiting in Miami; they can't take a drink. The President said if they took a drink in moderation, all right. I don't want them to go to the President to get an O. K.

Murphy: They were really there for ten days or two weeks when he was at sea.

H.M., Jr. I want it so they can live up to it. Talk it over, and I think it better to handle it by word and mouth.

(At this point, Secretary sent for Mr. Callaghan to come into the Office.)

Callaghan, we have given this matter very careful consideration. In regard to your income tax, it is no argument. Treat it like any other situation, that is, pay what you owe plus interest plus penalty. No argument about that. I feel that you have been very careless about your personal affairs.

Callaghan: Yes, sir.

H.M., Jr. The fact that we have no evidence that you took any graft personally weighs with me a lot and the fact that you lived moderately,--but the fact that does remain as we see it---after all, the man you are working for is Uncle Sam.

Callaghan: Yes, sir.

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H.M., Jr. And the first person that you should treat right is your boss.

Callaghan: Yes, sir.

H.M., Jr. And you haven't done it. You were supposed to have had six stock transactions in that year and you only reported one and that was a loss.

Callaghan: I was lax in letting somebody else do that for me.

H.M., Jr. The fact remains you have not been careful about your personal affairs and if you are not careful about your personal affairs, it shakes my confidence as to whether you would be careful about Government affairs. The fact that you have a Government account and you let \$7,000 worth of bonds go through it,---you took an awful risk.

Callaghan: I did.

H.M., Jr. I think I can say that what I am going to do----- while they think I am being fair, some thing I am being too easy..... what I'm going to do is this; I am going to put you in charge of some city other than Chicago, a smaller city; move you out of Chicago and move somebody in; don't know yet who, waiting for recommendations, but I have to have people-----when I send out a regulation on February 17, we have had a lot of correspondence with other agents asking what they should do with their stock.

Callaghan: I offered mine for sale right away.

H.M., Jr. But you have nothing to show that. You didn't communicate with anybody in the Treasury. Here is a District order from the Secretary of the Treasury. There were two other Secret Service men, one in Detroit and one in Cleveland, one gets fired and the other disciplined. You did nothing until we dug it up.

Callaghan: I offered it for sale. I can't sell it.

H.M., Jr. Why didn't you write to Chief Moran?

Callaghan: I thought the most natural thing was to get rid of it. I will sell it to anybody in here for a nickel.

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- H. M., Jr. Better get it off your books. Get rid of it for anything. But right along you haven't been careful enough about your personal affairs.
- Callaghan: No, sir, I will admit that.
- H.M., Jr. When a man is not careful about his personal affairs, how careful is he about the Government's affairs? I don't know where I will move you, but I will move you to some city where we want to pick the man to succeed you. That's up to Murphy and Wilson to find someone. No person in the room thinks that I am being unfair, a couple of people think I am being too easy.
- H.M., Jr. We took a vote, three people wrote that you be dismissed, so I think I am being fair and when I give you this other assignment I want to do everything to help you. I am not going to pester you. I am not going to be picking at you. I want you do succeed. I think you made a mistake but I will do everything I can to help you to succeed.
- Callaghan: I will try my best to make good.
- (At this point Mr. Callaghan left the room.)
- H.M., Jr. That's that! You are satisfied, Joe?
- Murphy: Yes, I am satisfied. I know he's a good man. I know he is not a crook.
- H.M., Jr. Let's see whether we can help him. Give him time about moving. I don't want it to cost him a lot of money. Does he own his own home?
- Murphy: No, he has an apartment.
- H.M., Jr. Give him time and make it just as easy as you can. I don't want to hurt him at all if I can help it.

Dear Tom:

The Treasury Dept. has mentioned some of my tax matters and claims I failed to pay the proper amount for the year 1931. As a result of it all I have shown the Dept. all the books, records, etc. Government auditors have spent several weeks going over the whole matter. Now then on top of all this there is a man named Peabody, who is in the Intelligence branch of the Treasury. He has interviewed my tax expert in Chicago and has had complete access to all of our records. In spite of all our cooperation with the Department,

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is still amusing the lips out
myself. He has come to the East
interview my former secretary in
of all the records etc. bring in
case. For the lip of me I don't
on what he wants. As yet I
not see him since he has been
Homer. I expect to see him
for he goes back to Chicago.

What I wanted to know is do
know him? Is he a friend
yours? If so can you find
out what he wants? If it
thru my power I would gladly
him anything he wants to
now. If you could impress upon
that I am no crook and have
led tax returns since 1918, the year
my father died. I would appreciate

Don't mind ordinary Gort.
When going over my books
said the cows come home. I am
ed to it, as they have been doing
for years. However, when they
Intelligence officers on the matter
do wonder what it's all about
perhaps, I have some kind
friend in Chicago who is in base
all of it.

Anything you could do in
the whole matter I would most
certainly appreciate, however, if
is just one of those unpleasant
moment "dicks", just forget all
about it. He has been given
access to my record I have

... has spent days with
... man who keeps the
... records for me. I can't do any
... more than that.

Do you ever come to N.Y.
... planning to buy a farm
... Maryland and get back
... nature. Give my best to
... Cordelia if you should
... see them.

When you answer, write
... Hotel Ritz-Carlton, Madison
... at 46th St, as I am not
... this office any more.

All the best and as
... ever.

W.H. Stowell

5-27-35

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September 9, 1936

Callaghan asked to see the Secretary alone after the hearing in the Secretary's office this morning. Just as the Secretary was leaving for lunch at his home he talked to Callaghan. Callaghan, almost on his bended knee, asked for another chance and told the Secretary he would never regret it if he gave it to him.

After lunch, the Secretary sent to Callaghan to come to his home. He told Callaghan he wants to give him another chance and will send him back to Chicago to make good.

September 8, 1936. ~~217~~ 42

Notes for the Secretary's use in his conference with Mr. Callaghan,

Wednesday, September 9, at 10 a.m.

The charges against Callaghan may be boiled down to the following:

1. Evasion of income tax for the years from 1926 to 1934.
2. Improper association with Joe Rogers, gambler and suspected narcotics violator.
3. Commingling of personal funds with official bank account for accommodation of himself and Joe Rogers.
4. Acceptance of favors and gifts in violation of regulations.

1.--Evasion of Income Tax.

Callaghan filed no income tax returns for the years 1926, 1927, and 1928, although having net income as follows:

1926.	\$4,800
1927.	4,842
1928.	6,225

For four of the six years from 1929 to 1934, Callaghan, although filing returns for those years, failed to make a complete disclosure of income as follows:

<u>Year</u>	<u>Actual net income</u>	<u>Amount returned</u>
1929	\$7,005.31	\$3,578.75
1931	4,557.99	3,469.73
1933	7,492.61	1,827.50
1934	4,250.00	3,780.00

For the years 1930 and 1932, Callaghan's returns were correctly made, but showed no tax liability, and he paid no tax. For the years 1929, 1931, 1933, and 1934, by omitting a part of his income from his returns he disclosed no liability and paid no tax. His excuse is that he relied upon certain internal revenue officers (one of whom is now dead) to prepare his returns, and he assumed them to be correctly prepared.

The fact remains that Callaghan actually had taxable income during seven of the nine years from 1926 to 1934, but by failing to render returns for certain years, and by omitting income from his returns for other years, he paid no tax during this period.

2.--Association with Joe Rogers.

From about 1928 to 1934, Joe Rogers conducted a pool room in Chicago, and accepted bets on horse races. This man also operated two shows at the Chicago Exposition. In 1926, Rogers was indicted in connection with the shipment of a trunk containing 90 ounces of morphine from New York to Chicago, and while this indictment was later dismissed, there is evidence that Rogers was in fact engaged in the illicit sale of narcotic drugs.

Callaghan was introduced to Rogers in 1926 by Operative in Charge Perry of the Birmingham Secret Service District. This was at the time when Rogers was under indictment on the narcotic charge, and at Perry's request Callaghan accompanied Perry and Rogers to the office of the United States Attorney in Chicago and introduced Perry and Rogers to the United States Attorney.

Since this time, there has been a very friendly relationship between Callaghan and Rogers. Callaghan has commonly accompanied Rogers to prize fights, hockey games, etc., and on a number of occasions he has loaned him money in amounts ranging from a few dollars to \$2,000. One such loan in the amount of \$2,000, Callaghan explains as being in fact a transfer of money to Rogers, presumably to be invested in a certain exhibit at the Chicago World's Fair, the amount having been returned to Callaghan by Rogers upon the latter's finding that the proposed investment was not advisable.

Callaghan maintains an official account in the Continental Illinois National Bank. In May, 1934, he allowed Rogers to use this account in connection with the sale of some \$7,000 worth of Liberty Bonds, the proceeds of the sale being deposited in this account and later checked out to Rogers by Callaghan.

3.--Commingling of Personal Funds with Official Bank Account.

As above stated, Callaghan had an official account in the Continental Illinois National Bank, where official funds were kept for payment to informers and for other official purposes. It has already been stated that Callaghan deposited the proceeds of the sale of Liberty Bonds for Joe Rogers in this account and later checked this out to Rogers. Callaghan admits also that on some occasions he would deposit personal funds in this account and use it for the payment of household bills.

4.--Acceptance of Favors and Gifts. *copy*

The following is quoted from the regulations of the Secret Service Division:

"It is expressly enjoined upon each commissioned officer of this Service to abstain from asking or accepting any gift, loan, accommodation or other thing of value * * * from any person who has had, or is likely to have, official connection with the Division, or from any other person whose action may seem to be inspired by said officer's connection with the Secret Service force."

In 1933, Callaghan made a net profit of \$3,400 as the result of an investment made for him by one Addison Stillwell, who operates on the stock market with his brother, W. J. Stillwell. Callaghan advanced no funds in connection with this transaction and put up no collateral, but claims that the investment was made for him by Stillwell purely out of personal friendship. A possible motive for Stillwell's interest

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on Callaghan's behalf in this transaction came to light in 1935 when W. J. Stillwell was investigated for income-tax evasions. At that time, he requested Callaghan's assistance in connection with the investigation, and Callaghan in turn visited the Intelligence Unit of the Bureau of Internal Revenue to find out what he could do about the matter on Stillwell's behalf. Incidentally, the investigation of W. J. Stillwell indicates an additional tax liability amounting to \$617,000, covering a period of six years, and Stillwell's prosecution is now under consideration. *cm*

It is difficult to understand how the Stillwells could have made what amounts to a gift of \$3,400 to Callaghan unless they expected something from him in return.

Callaghan's office contains a number of articles of furniture which were donated to him by various people. Among these are three rugs given him, as he says, by a Syrian rug salesman whose name he does not recollect; two leather chairs, donated by one Harry Solomon; two clocks and a mahogany glass cabinet given him by one Harry Richman; a lamp donated by one Harry Siegel; three hundred elephants presented by various persons; and a desk set donated by one Bob McLaughlin.

Bob McLaughlin is a brother of Red McLaughlin, a notorious gangster, who was murdered in Chicago in 1931. When Red McLaughlin was himself on trial for murder, Bob McLaughlin testified in his defense. Bob was later accused of giving perjured testimony, and served 30 days in jail on the charge.

5.--Addendum.

In addition to the foregoing matters, which were included in the

formal charges against him, Callaghan should be questioned about the following:

" Reports from the Christmann Brewing Company submitted to the Alcohol Tax Unit as of May 31, 1936, indicate that on that date Callaghan owned 250 shares of the preferred stock in that company. This stock was acquired by Callaghan, according to his own statement, in 1932 or 1933. If Callaghan still owns this stock, it is in violation of your order dated February 15, 1936, reading as follows:

" "February 15, 1936.

" "TREASURY DEPARTMENT ORDER NO. 11.

" "To the Commissioner of Internal Revenue,
Commissioner of Customs,
Commandant of the Coast Guard,
Chief of the Secret Service.

" "It is hereby ordered that no officer or employee in the Departmental or Field Services of the Bureau of Internal Revenue, the Bureau of Customs, the Coast Guard, or the Secret Service, shall, directly or indirectly, have any interest, whether as owner or part owner, stockholder or otherwise, in any business, the whole or any substantial part of which consists of the production, sale or distribution commercially of distilled spirits, wine, or fermented malt liquor, nor shall any such officer or employee, directly or indirectly, with or without compensation, engage in any such business, or have any connection, whether as a partner, officer, director, employee, agent, attorney, or in any other capacity, with any person, firm, or corporation engaged in any such business.

" "You will bring this order immediately to the attention of all officers and employees in your respective organizations.

(Signed) "Henry Morgenthau, Jr.,
"Secretary of the Treasury." "

HNG/mff

~~211~~

NAR:C:HJA

September 9, 1936

The Honorable,
The Secretary of State.

Sir:

I have the honor to refer to the arrangements which your Department made in the past for the direct exchange of information between central narcotic services in a number of foreign countries and the Bureau of Narcotics in this Department, and to inform you that hereafter the Customs Agency Service is clothed with full authority to receive and impart information, by direct communication or otherwise, with relation to all phases of the international illicit traffic in narcotic drugs as it affects the United States.

Accordingly, you are requested to advise the foreign governments having such direct contact, that in lieu of existing arrangements, Mr. Thomas J. Gorman, Deputy Commissioner of Customs in Charge of the Customs Agency Service, has been designated to carry out this direct exchange of information.

You are also informed that all contact with your Department in regard to the international narcotic traffic, whether as to smuggling matters originating in the Customs Service, or as to matters of foreign control of the legitimate traffic originating in the Bureau of Narcotics, will be handled or supervised by Assistant Secretary Wayne C. Taylor. I shall appreciate it, therefore, if you will instruct the appropriate officers in your Department that this contact by or with Mr. Taylor will cover telephone messages, mail, and other contacts between the two Departments. In view of the present arrangement, the practice now in force of sending despatches and other mail relating to narcotic matters to the Bureau of Narcotics direct from your Department is to be discontinued.

Respectfully,

(S igned) Henry Morgenthau, Jr.

Secretary of the Treasury.

HJA/jhr

September 9, 1936

My dear Mr. Mallet:

Thank you very much for your letter of September 8th transmitting the message for me which you received from Sir Warren Fisher.

Cordially yours,

Mr. V. A. L. Mallet,
Counselor, British Embassy,
Washington, D. C.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 9, 9 a.m.

NO.: 844

FROM COOCHRAH

UTMOST SECRET AND CONFIDENTIAL.

I refer to my telegram No. 843 of September 8, 8 p.m. Minister of Finance Auriol stressed the secret and unofficial character of the document under reference when he handed it to me yesterday evening. Any equivocation in the present negotiations, he said, would lead to an attack on the franc which would make necessary an immediate imposition of control of exchange. Secretary Morgenthau's reaction to this draft, including any suggestions for modifications, are being sought by Auriol. I gave the background for this draft in my telegram No. 831 of September 2, 5 p.m. An English translation of the constituent parts of the draft, which has been checked by Rueff, follows:

"Proposed note to the American and British Governments.

One. The Government of the Republic, while it has always discarded the possibility of unilateral devaluation, a simple episode in the economic struggle among nations, susceptible in turn of giving rise to new devaluations,

-2-

devaluations, is, on the contrary, very desirous of a real economic and monetary peace. It sees in this the principal means of putting an end to the development of antarchic tendencies, ^{thus} of ~~Germany~~ lessening the restrictions and restraints of all sorts which paralyse trade and which create an atmosphere of general insecurity, involving the (END OF SECTION ONE)

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SPECIAL GRAY

Paris

Dated September 9, 1936

Rec'd 8:25 a.m.

Secretary of State
Washington

RUSH

844, September 9, 9 am (SECTION TWO)

gravest dangers to peace..

Two. To this end the Government of the Republic desires in the first place to remedy the economic disequilibrium occasioned in the world by the fall of prices and by resultant devaluation of certain currencies. It is ready in so far as it is concerned to participate in a pre-stabilization agreement fixing the new monetary relations with precision and clarity, taking into account the world level of prices. The stipulations of such an arrangement should be maintained through the practice of close collaboration among the contracting parties and could not be modified except by common accord or in case of exceptional and unforeseen circumstances the final objective of the contracting parties being the general return to the international gold standard when the conditions necessary are found realized.

The text which constitutes an annex to the present note if it receives the approval of all the parties concerned

U -2- #844, Sept. 9, 9 am. (Sec. 2) from Paris

concerned would presumably be of a nature to lead to the desired result.

Three. The Government of the Republic deems also that the conclusion of the afore mentioned agreement by attenuating the disequilibrium which at present isolates certain national economies should make possible immediate and vigorous action with a view to reduction of obstacles to trade. It is ready to consult with the American and British Governments as to the conditions under which such action could be undertaken with a

WILSON

MLP:CSB

U
A portion of this telegram
must be closely paraphrased
before being communicated
to anyone. (C)

Paris

Dated September 9, 1936

Rec'd 8:50 a.m.

Secretary of State

Washington

RUSH

844, September 9, 9 a.m. (SECTION THREE)

view to general resumption of trade and international transactions which it holds to be the necessary preface to political organization of peace.

(End of note)

Proposed prestabilization agreement.

The high contracting parties are decided to devote all their efforts and to establish the closest collaboration among themselves towards maintaining the rates of their respective currencies within the limits fixed in the attached table. These limits shall not be modified except by common agreement or subject to notifying the contracting powers in case of exceptional and unforeseen circumstances, the final objective of the contracting parties being the general return to the international gold standard when the conditions necessary are found to be realized.

(Table, read down:)

Currencies:

Currencies:

Dollar.

Pound.

Franco.

Rate against:

Pound, Franco,

Dollar, franco.

Dollar, pound.

Lower limit:

Upper limit:*

(The above headings in the final paragraph are for a table which the French prefer to leave blank for the present. The rates would be established once the text of the agreement is approved in principle.)

Unless circumstances may yet force France to act unilaterally, the need for haste was suggested to me privately by Rueff. (END OF MESSAGE)

EA:DJW

September 9, 1936

Mr. Lochhead gave the Secretary the cable which he received from Cochran. (No. 844, attached.) HM, Jr. read it and called Secretary Hull. He told Mr. Hull of the important cable which Cochran had sent us and asked that he send someone over to help draft an answer. HM, Jr. also told Mr. Hull that before the answer actually goes he would like to have a chance to show it to him personally.

In a few minutes, Feis came to the Treasury and HM, Jr. called in Taylor, Oliphant and Haas, Lochhead already being present. He handed Feis the cable and Feis read it. HM, Jr. then said to Mr. Feis, "I would like to work with you and Secretary Hull only. Will you agree to that. Please do not discuss it with anybody else." Mr. Feis replied, "Up to the present that is the way the matter stands." Continuing, HM, Jr. said, "I do not care for anybody else's advice over there." Mr. Feis then stated, "Secretary Hull may turn to Judge Moore," to which HM, Jr. answered, "I am going to ask Secretary Hull to confine it to you and himself."

Getting down to a discussion of the draft of reply, HM, Jr. said, "Let me give you my feeling on this thing. When they try to get us to say 'These limits shall not be modified except by common agreement or subject to notifying the contracting powers in case of exceptional and unforeseen circumstances,' I know that we are not ready for that because when the United States Government puts its name to it we can live up to it, but the other fellows cannot. And, second, when they say 'the final objective of the contracting parties being the general return to the international gold standard when the conditions necessary are found to be realized,' that is not the Roosevelt philosophy. I cannot say that." Oliphant remarked, "There is no practical problem making it necessary or wise."

Continuing, HM, Jr. said, "What are we ready to do? First, I think that each of the three countries ought to put up \$100,000,000, but first we ought to agree as to what we can stand as to devaluation of the French franc and what they want. If they devalue X%, we will agree not to go under that. Second, how are we going to maintain these currencies? I think we ought to agree on very wide points

-2-

at the beginning -- plenty of fluctuation -- and then each country put up \$100,000,000 to try to keep each currency in proper relation to the others and as we gain some experience and find that it is working out successfully then these points can be gradually narrowed down. This will have to be a gentlemen's agreement. We will not sign a thing and just as long as it is physically possible we intend to stick to it. Then, the next thing which I am not prepared to answer yet -- England is going to come back and say, Well, under these conditions, will you give up gold? and under these conditions the answer is, Yes, as between these points. I do not know whether anybody agrees with me, but that is how I feel.

Oliphant remarked, "I check all the way down the line on it, except one detail." Oliphant said, in substance, Under this plan, would gold have to be sold or quoted at other than \$35.00 an ounce? HM, Jr's response was, "If I understand foreign exchange, it is gold in terms of Sterling and gold in terms of francs." Mr. Lochhead then gave the following explanation: "At the present time the United States Treasury has a fixed price of \$35.00 at which it will sell gold, so that the other countries know exactly what they will have to pay for gold which they purchase here. However, in order for the United States to purchase gold in France or England it will be necessary to decide at what price France and England will sell to us. France will probably set a definite rate, but England does not have any fixed rate at which they will sell gold. It would be necessary for us to obtain assurances from the English that they would sell us gold when Sterling reaches a certain level at a fixed price. Until this level is determined it is impossible to figure out what the price of gold in terms of Sterling should be, but this can be very readily worked out as soon as the Sterling-Pound level is determined." Mr. Oliphant then said, "I am still in the dark. Under this plan, would gold ever be sold or quoted at other than \$35.00?" HM, Jr's reply to this was: "The anchor would be \$35.00 here in New York." Mr. Oliphant then said, "We are on an international gold standard," and Mr. Morgenthau's reaction to this was: "That would not worry me. These fellows would get anchors on both sides. That is Archie's problem. Let's skip that."

Mr. Feis asked, "We will say that we will sign noth-

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ing. I do not know whether you mean by that that it is all to be kept completely secret between the three Treasuries or whether it is public knowledge. The thing may divide into two parts: (1) there will be public knowledge of the statement of intention embodied in their first sentence, and (2) the substance of your gentlemen's agreement." HM, Jr. answer to this was: "Would this not go along the same lines as we did with China? We gave a public announcement of a general nature, but the details were worked out between the Bank of China and the Federal Reserve and were not made public." Feis then stated: "Our ideas agree. We ought to give the public our intent. About the \$100,000,000, do we want to set an absolute limit?" This led to the following discussion:

Mr. Morgenthau asked Mr. Feis, "How much gold has France?" Mr. Feis replied, "3½ billion." HM, Jr. then said, "Let's say they devalue 25%. What is the profit?" Feis answered, "The profit will be about \$800,000,000 or \$1,000,000,000." HM, Jr. then said, "I would have the nerve to say to them what I did to China: every dollar you make of profit has to go into the stabilization fund." Feis' response to this was: "The Blum Cabinet is counting on that \$800,000,000 or \$1,000,000,000 to carry them through until the period of devaluation is over. I think I would ask for half of it, knowing what a hole they are in." To this, HM, Jr. replied, "I would ask for the whole and probably get half, rather than ask for a half and get a quarter. I have never done business by cable and it is a terrific disadvantage. You can say things across the table that you cannot write." Feis' reaction to this was: "The telephone would be risky. Cabling is best and it is best to get it in writing. We will go along with the French and will then not know what the British will do. You have framed it up to look desirable on our part and requiring only that the British take a similar position, so you can just state this simple supposition."

Oliphant then said, in substance, If France devalues we will simply say that we will keep exchanges stable with whatever resources we have, not mentioning gold specifically. At this point, HM, Jr. told the group the following: "I would rather draft this thing this way: The purposes outlined, we think, are fine from the French viewpoint. Now, as to this agreement, what we have already said we can only

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repeat -- that if the French and the British wish to join with us in a tripartite agreement in world stabilization after depreciation of the franc on the part of the French, we feel there should be three stabilization funds in order to cope with this thing successfully and we should arrive at figures for the upper and lower points of exchange in relation to each other and fix points at which each stabilization fund would furnish gold for shipment when necessary to keep the exchanges from going past the points agreed upon and that, furthermore, if this went through we would be willing to give up gold to both England and France under the following conditions: (That is Lochhead's job and he will figure it out if an agreement is arrived at.); that this agreement would have to be a gentleman's agreement; that we would do everything possible to make it successful, but we would have to watch our internal price level just as they would. I would rather put it this way instead of saying that we will not agree to this and we will not agree with that. I think we ought to make them talk as to how much they would devalue. We think this is a fine move and this is what we have been waiting for, for three years, and we will do everything possible to make it successful. I want you five to go into another room and try your hand at this thing and come back at 3 o'clock and I will ask Secretary Hull to see me at four o'clock."

HM, Jr. then called Mr. Hull on the 'phone, while the group was present, and said to Mr. Hull: "As to the method of answering this thing, there is no disagreement among us. I have suggested that our men and Feis try their hand at drafting an answer and if agreeable to you we will come over at four and show you what we have done. If agreeable to you, I should like to take this up only with you and Feis." Hull said that Feis and Livesey "are one" and with that one exception he agreed.

Secretary Morgenthau then called Admiral Waesche and told him to have a plane at the Washington-Hoover airport at five o'clock ready to take Lieut. Tollaksen with a message to the President.

Olyphant then said: "This can be set up as a statement of purpose or a gentlemen's agreement." HM, Jr.'s suggestion was: "Think about it and then come back." Turning to Mr. Feis, the Secretary asked: "What did you say about the economic effect?" Feis replied, "There are two ways in which

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the public may look upon a stabilization agreement. The first, and narrow, viewpoint is that if France stabilizes the franc at a lower level, there will be a flow of gold from the United States to France which may cause a great deal of criticism by ignorant commentators. You know the way they will shout -- that this is the price the United States is paying for devaluation; that we are losing a lot of gold and, for that reason, if there is too much emphasis put at this point there might be a fall in stock prices due to the feeling that the foreigners would be selling their holdings in order to repatriate their funds. On the other hand, if we forestall this criticism by mentioning in our statement that this stabilization will mean a redistribution of gold which has come into this country from fright and should rightfully go back to other countries, the long range thinkers will immediately decide that this is a constructive move and that the general benefit to world stabilization, in which we will obtain our full share, will more than offset any loss of gold on our part."

HM, Jr. said, "I agree with you. I think that the short-sighted person will be offset by the smart fellow who will say that this thing is right."

The group returned to Mr. Morgenthau's office at three o'clock with draft of reply, which Mr. Morgenthau took over to Secretary Hull. Secretary Hull gave his approval.

(In this connection, see Lochhead's report of the meeting in Secretary Hull's office, dated September 9, attached.)

The Secretary returned to his office and handed the envelop addressed to the President, containing the draft of reply, to Tollaksen who was waiting for it. HM, Jr. then wired Secretary McIntyre that the messenger was on his way and asked him to see that the President received the envelop tonight. (Copy of message attached.)

For The Embassy at Paris,

FOR COCHRAN from the Secretary of the Treasury.

Your 844 September 9th. The document which Minister of Finance Auriol gave you last night for transmission to this Government has received our most interested consideration.

Please give the Minister of Finance the following message verbatim:

I have studied with most interested attention the text of the communication which the French Government indicates it might send to the American and British Governments. I understand the circumstances which have brought the French Government to consider realignment of the franc and to seek to take this action in such a way as it might result in bringing added stability into the field of foreign exchanges and increasing the movement of international trade. Furthermore I foresee that the creation of such stability should correct and ultimately bring to an end the disturbing and unwelcome movement of funds from one monetary center to another, which in itself is so clearly an element of uncertainty in the exchange and monetary situations. It would bring it about that the movements of capital would be governed by economic considerations and not by panic fears which have so recently caused extensive and disturbing refuge movements.

Sept 9, 1936
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The text as now drafted seems to me possibly to raise certain questions and to foreshadow certain immediate commitments which I do not believe to be essential to the achievement of this desirable purpose, and on which the American Government must necessarily express its views. I have in mind particularly the last sentence in the English translation of numbered section two. I do not wish to suggest any specific revision of the text of this communication but rather merely to state what the position of this Government has been and would be in the contingency which his communication envisages:

(1) It is and has long been the purpose and constant effort of this Government to maintain stability of the dollar in international exchanges, and thereby to contribute to continued exchange stability, and during the large part of this period substantial stability has been achieved.

(2) This Government has not been unmindful of a like purpose and effort on the part of the British and the measure of success which has attended their efforts.

(3) Should the French Government for reasons of domestic policy realign on a mutually satisfactory basis the value of the franc in international exchange, this

Government will continue to use appropriate available resources for maintaining stability in international exchange on such new basis in the confident expectation that the British authorities will continue their purpose and effort in the same direction.

(4) The French Government will understand that in the continuous development of this Government's policy and decisions in the exchange field our ultimate and final decisions will have to take into consideration internal prices and economic conditions.

This Government would anticipate that some statement of intention substantially similar to that which it has just made would be forthcoming as well from the French and British Governments and possibly given simultaneous publication by all three governments. This government is further-
more prepared to discuss the precise measures that the ^{Treasuries} ~~cen-~~
~~tral banking institutions~~ of the three countries might con-
template in immediate fulfillment of this statement of in-
tentions.

September 9, 1936.

My dear Mr. President:

I am sending you through Coast Guard the original text of a cable from Mr. Cochran received at the Treasury at noon to-day.

In collaboration with the State Department we have hurriedly drafted a tentative reply to this message. I am not at all sure just how we should handle this very important and delicate situation.

After you have read Mr. Cochran's cable and our tentative answer I would appreciate it if you would call me on the telephone.

Respectfully yours,

(Signed) Henry Morgenthau, Jr.

The President,
Asheville, N. C.

STANDARD FORM No. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM

The White House
Washington
SEPTEMBER 9, 1936.

Charge to Treasury Department
(Office of the Secretary)

U. S. GOVERNMENT PRINTING OFFICE 72052

Honorable Marvin H. McIntyre,
Assistant Secretary to the President,
Care Presidential Party,
Asheville, North Carolina.

Lieutenant Tollaksen US Coast Guard took off at five o'clock carrying very important confidential message from me for the President STOP Would appreciate your seeing that the President receives this message tonight STOP I have told Tollaksen to look you up on his arrival at Asheville tonight.

Henry Morgenthau, Jr.

FORM 4
TREASURY DEPARTMENT
CHIEF CLERK

Treasury Department
TELEGRAPH OFFICE

8W E 6 GOV COL

1936 SEP 10 AM 8 17

GP ASHEVILLE NOCAR 1058P SEPT 9 1936

JOS E MURPHY

1936 SEP 10 AM 8 17

WASHNDC

LETTER DELIVERED TEN THIRTY TONIGHT

STARLING

815A

MEMORANDUM

Wednesday, September 9, 1936

Secretary Morgenthau called on Secretary Hull this afternoon to discuss a cable received from Cochran transmitting the text of a proposed note to be forwarded to the U. S. Treasury by the French regarding stabilization, together with the tentative reply drafted this afternoon. Accompanying Mr. Morgenthau were Mr. Taylor, Mr. Oliphant, and Mr. Lochhead. In addition to Mr. Hull, Mr. Feis and Mr. Livesey were also present.

Secretary Hull stated that the French proposal brought up the question of the gold standard, domestic prices in the United States, and also the possible movement of gold from this country which might result from any stabilization agreement. He wondered what the reaction would be of various groups in this country to any such agreement, especially from the group representing the advocates of a managed currency. Mr. Morgenthau stated that as far as the return to the gold standard was concerned he would not give any assurances of this under any circumstances and that he was not ready at the present time to enter into any firm agreement on stabilization. It was his idea that the United States Government should not put anything in writing at the present time, relying upon a gentleman's agreement to accomplish anything possible in the present circumstances.

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In making a binding agreement the objection would be that the United States would be in a position and be prepared to keep this agreement, whereas it was not certain that the other contracting parties would be in such a position. The Secretary explained to Mr. Hull that the British economic position was in satisfactory shape at present and that we get very special and extensive charts which show the comparative positions of all the countries which might be included in any exchange stabilization.

Mr. Hull was interested in knowing what Mr. Morgenthau's opinion was as to the possible British reaction to this approach by the French government. Mr. Morgenthau felt that the British were not prepared to make any agreements until after our elections and that he personally was disposed to proceed very slowly. Mr. Hull also thought that nothing in the form of an agreement should be put in writing and that general discussions only should be had at the present time, but that the subject should be kept alive until after elections.

The question was brought up as to whether the French would be able to get along without some action until after our elections, and it was thought doubtful whether they could do so. As the British pound was over 5.06 today, it was also thought that the British were not finding the situation entirely comfortable.

Mr. Hull felt that the next two weeks should be devoted to putting in some spade work on this subject and that we should proceed very slowly. He stated that he was very uneasy about the French situation at the present time, more so than at any time since he has been in office.

Mr. Morgenthau stated that he was sending copies of the French cable, as well as our proposed reply, to the President by aeroplane tonight and would not do any-

thing further until he had heard from him. He thought it possible that the President would prefer that no specific reply be dispatched until he returned.

Mr. Hull thought that we might make a real start on this situation in about two months. Mr. Morgenstern pointed out that if the French had taken this action in June when we had suggested it that the chances of its success were very good, whereas the situation had changed for the worse so materially since that time that he was doubtful of the results.

Dr. Fels pointed out that this French proposal appeared to be fantastic and that they apparently had not learned much in the past three years. He thought that our performance in keeping the dollar stable spoke louder than any written assurance we could give the French.

Mr. Livenessy felt that the French were in a desperate situation and would have to do something immediately. He did not feel that we should merely turn back their inquiry without giving them some definite assurance.

Dr. Fels thought that our proposed cable covered the ground fully and gave them all that they could possibly expect.

Mr. Morgenstern expressed the opinion that the President would not allow him to go any further than the proposed cable, and in fact he was doubtful if he would be willing to go even that far.

Mr. Hull again stated that he did not think that anything should be put in writing.

Mr. Fels felt that some general joint public statements by the three Governments, even though not specific as to details, might do a great deal of good in

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the general economic situation throughout the world at this time.

Mr. Hull stated that he had told the British on various occasions that they should state what their permanent economic objective was as soon as possible and not allow the world to feel that they were merely following a policy of expediency.

It was decided to send a cable to Cochran this evening telling him that his cable was having attention and that a reply would be dispatched as soon as possible, and in the meantime nothing further would be done until the President's reaction was obtained.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 9, 5 p.m.

NO.: 845

FROM COCHRAN.

Lazard today invoiced to Lazard \$1,122,000 gold bars; National City to National City 34,115,000 francs; Guaranty to Guaranty 41,666,000; all NORMANDIE; National City to National City 50,885,000 francs AQUITANIA. By four o'clock this afternoon Guaranty had sold \$2,700,000 most thereof going to Switzerland. This morning both Swiss franc and Dutch florin weakened due to domestic sales thereof in their respective countries but a little stronger this afternoon. Forward franc offered rather heavily. Rentes down 20 to 50 centimes. Strong demand for Rio Tinto Royal Dutch and other international shares.

The exchange most sought after is sterling. On Monday the Bank of France lost 150,000,000 francs gold and on Tuesday 160,000,000 to British control. Intervention was again felt when the Control brought the rate down from 76.92 this morning and the Control apparently had an active day. Yesterday's cable summarized reasons for weakness of the franc, which continue to obtain. According to Cariguel, the Governor is still studying the question of earmarking gold in New York.

-2-

After mentioning the factors causing weakness of the French franc, the FINANCIAL TIMES says: "nevertheless usually well-informed quarters are still firmly convinced that no major movement will (END SECTION ONE)

U

GRAY

Paris

Dated September 9, 1936

Rec'd 1:45 p.m.

Secretary of State

Washington

845, September 9, 5 p.m. (Section Two)

be made this side of November and that recent wide fluctuations in rates are mainly the reflex of sentiment".

After referring to the recrudescence of threatened strikes and to French Communist attitude, the FINANCIAL NEWS today writes: "Moreover, the Figures of additional armament expenditures published yesterday formidable as they may appear, are but a foretaste of what will be coming later. Germany is presumably spending in four months about as much as France intends to spend in four years. Before long the French Government will realize that to keep pace with Germany in the rearmament race, much larger amounts will be required. To borrow tens of milliards of francs from the Bank of France would inevitably lead to the rapid deterioration of the technical position of the franc. And yet there will be no alternative -- except devaluation, for which France is not yet ready. When it does come it will be very drastic. A high official of the French Treasury is

quoted

U -2- #845, Sept. 9, 5 p.m. (Sec. 2) from Paris

quoted as having said that if and when France devalues it will be at the rate of 50%". Further in the article the writer holds that "the balance of probabilities is against a devaluation within three months".

Under city notes LONDON TIMES today analyzes economic factors in French situation and then adds "for political reasons the Government is unable to tackle France's really important problem, namely, that of an overvalued currency.

WILSON

CSB:RR

~~221~~

September 9, 1936

NAR:C:HJA

The Honorable,
The Secretary of State.

Sir:

I have the honor to refer to the arrangements which your Department made in the past for the direct exchange of information between central narcotic services in a number of foreign countries and the Bureau of Narcotics in this Department, and to inform you that hereafter the Customs Agency Service is clothed with full authority to receive and impart information, by direct communication or otherwise, with relation to all phases of the international illicit traffic in narcotic drugs as it affects the United States.

Accordingly, you are requested to advise the foreign governments having such direct contact, that in lieu of existing arrangements, Mr. Thomas J. Gorman, Deputy Commissioner of Customs in Charge of the Customs Agency Service, has been designated to carry out this direct exchange of information.

You are also informed that all contact with your Department in regard to the international narcotic traffic, whether as to smuggling matters originating in the Customs Service, or as to matters of foreign control of the legitimate traffic originating in the Bureau of Narcotics, will be handled or supervised by Assistant Secretary Wayne C. Taylor. I shall appreciate it, therefore, if you will instruct the appropriate officers in your Department that this contact by or with Mr. Taylor will cover telephone messages, mail, and other contacts between the two Departments. In view of the present arrangement, the practice now in force of sending despatches and other mail relating to narcotic matters to the Bureau of Narcotics direct from your Department is to be discontinued.

Respectfully,

/S/ Henry Morgenthau, Jr.
Secretary of the Treasury.

HJA/jhr

Minutes of Meeting at Secretary's home,
September 9, 1936, at 8:15 P.M.

Present: The Secretary, Messrs. Taylor,
Haas, Lochhead, and White.

Mr. White briefly reviewed the recent developments in Europe which had a bearing on the international monetary situation. Numerous charts depicting changes in our international competitive position and in the economic, fiscal and monetary position of leading foreign countries were carefully examined by the Secretary and the others present. The unfavorable situation in France and the very favorable condition of England were particularly noted.

The British-French situation was discussed in detail. After considering the extent to which the wholesale price-foreign exchange situation would be altered by an assumed devaluation of the French franc of 25 percent as indicated by the charts, the Secretary expressed the opinion that it was too great a devaluation to permit in view of the position it would leave the United States. He stated that we ought to think in terms of 15 or 20 percent devaluation for the franc and move beyond that level only if absolutely essential. He requested that figures be computed and charts be drawn to show a rate of devaluation which would leave the United States at a level equal to that of the base year, and also on the bases of 15 and 20 percent devaluation.

The Secretary expressed the view that he did not believe anything would come of the efforts of the French with regard to devaluation, because France's proposals would not be likely to receive a favorable hearing from the British. He stated that he had received information which led him to believe that the British would do nothing before elections.

Mr. Taylor suggested that the international competitive position of the United States would be less unfavorable if France alone were to devalue than would be the case if numerous of the other countries indicated on the charts were to devalue along with France, and suggested that computations be made of the result of devaluation of France alone, and of varying combinations of other currencies inasmuch as it was not at all certain which currencies would follow the franc nor by how much. He also stressed the fact that England was more important to us, and that as far as France alone was concerned we could afford to be generous provided sterling and the sterling group did not drop in terms of the dollar.

Minutes of Meeting Sept. 9, 1936.

Mr. Taylor also suggested the preparation of data indicating the importance of sterling countries' trade compared with dollar countries' trade.

Mr. Lochhead was of the opinion that a dollar-sterling-franc ratio of five dollars to the pound and one hundred francs to the pound, which would make the franc five cents, continues to be a reasonable objective to shoot at, though it was also agreed that the recent rise in prices in France placed her in a less favorable competitive position than she was six months ago. He also expressed the view that though the British considered that they went back to too high a pound in 1926 that did not mean that the current rate was too high because the general situation had altered considerably since that date.

Mr. Haas expressed the view that the situation had changed considerably since four or five months previously and that there was not the same pressure to secure de facto stabilization nor the same gains to be achieved by de facto stabilization in view of the disturbed political situation in Europe. He recommended that we proceed very cautiously; the other present agreed with this view.

It was pointed out though it might be desirable not to do anything with the present disturbed European state, there was a possibility that France might be forced by the domestic situation to suspend gold payments. In that event, some de facto tripartite arrangement might be much more desirable than the alternative possibilities.

The Secretary emphasized that he did not intend to push matters at this time, but would await developments.

H. D. White

September 9, 1936

My dear Mr. Mallet:

Thank you very much for your letter of September 8th transmitting the message for me which you received from Sir Warren Fisher.

Cordially yours,

Mr. V. A. L. Mallet,
Counselor, British Embassy,
Washington, D. C.

September 8, 1936

My dear Mr. Secretary:

I am inclosing herewith, for your information, photostatic copy of letter which I have just received from Mr. V.A.L. Mallet, Counselor of the British Embassy.

Sincerely,

Secretary of the Treasury

The Honorable

The Secretary of State.

Inclosure.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris

DATE: September 9, 1938

NO.: 340

FOR COCHRAN FROM SECRETARY OF THE TREASURY

CONFIDENTIAL

Reference your No. 844.

This telegram is receiving prompt and full attention.
A reply will be made as promptly as possible.

For your own information, it may be necessary to
reserve reply until the President's return to Washington.
He is expected to return Friday.

EA:DJW

PARTIAL PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris

No.: 343

DATE: September 9, 1936.

For Cochran from the Secretary of the Treasury

Reference is made to your 344 of September 6. We have given our most interested consideration to the document which M. Auriol, Minister of Finance, gave to you last night to be transmitted to this Government.

Please give the following message verbatim to the Minister of Finance:

I have studied with most interested attention the text of the communication which the French Government indicates it might send to the American and British Governments. I understand the circumstances which have brought the French Government to consider realignment of the franc and to seek to take this action in such a way as it might result in bringing added stability into the field of foreign exchanges and increasing the movement of international trade. Furthermore I foresee that the

creation

U -2- #342, September 9, 1936 12 p.m. to Paris

creation of such stability should correct and ultimately bring to an end the disturbing and unwelcome movement of funds from one monetary center to another, which in itself is so clearly an element of uncertainty in the exchange and monetary situations. It would bring it about that the movements of capital would be governed by economic considerations and not by panic fears which have so recently caused extensive and disturbing refuge movements.

The text as now drafted seems to me possibly to raise certain questions and to foreshadow certain immediate commitments which I do not believe to be essential to the achievement of this desirable purpose, and on which the American Government must necessarily express its views. I have in mind particularly the last sentence in the English translation of numbered section two. I do not wish to suggest any specific revision of the text of this communication but rather merely to state what the position of this Government has been and would be in the contingency which his communication envisages:

(1) It is and has long been the purpose and constant effort of this Government to maintain stability of the dollar in international exchanges, and thereby to contribute to continued exchange stability, and during the large part of this period substantial stability has been achieved.

U -3- #342, September 9, 1936 12 p.m. to Paris

achieved.

(2) This Government has not been unmindful of a like purpose and effort on the part of the British and the measure of success which has attended their efforts.

(3) Should the French Government for reasons of domestic policy realign on a mutually satisfactory basis the value of the franc in international exchange, this Government will continue to use appropriate available resources for maintaining stability in international exchange on such new basis in the confident expectation that the British authorities will continue their purpose and effort in the same direction.

(4) The French Government will understand that in the continuous development of this Government's policy and decisions in the exchange field our ultimate and final decisions will have to take into consideration internal prices and economic conditions.

This Government would anticipate that some statement of intention substantially similar to that which it has just made would be forthcoming as well from the French and British Governments and possibly given simultaneous publication by all three Governments. This Government is furthermore prepared to discuss the precise measures that the treasuries of the three countries might contemplate in immediate fulfillment of this statement of intentions.

(END SPECIAL GRAY)

HULL

SENATE	MEMBERS	HOUSE
HARRISON, MISS., CHAIRMAN	ROBERT L. DOLGENTHAU, N. C., VICE CHAIRMAN	
MAN N. KONG, UTAH	THOMAS H. CULLEN, N. Y.	
DR. F. GEORGE, GA.	ALLEN T. TREADWAY, MASS.	
COZZENS, MICH.	ISAAC SACHAROFF, N. J.	
W. KEYSER, N. H.		

BRYANT C. BROWN, SECRETARY

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L. H. FARVER
CHIEF OF STAFF

S. D. CHESTNUT
ASST. CHIEF

COLIN F. STAM
CLERK

Congress of the United States

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

Washington

September 9, 1936.

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

My dear Mr. Secretary:

Reference is made to the recent conference in your office in respect to a survey of the Federal tax system along the lines suggested in your letter to the President dated August 10, 1936. You asked at the conference that requests for such information as the Joint Committee on Internal Revenue Taxation required in its work should be addressed to you so that you could keep personally in touch with the progress being made. This Committee, while continuously engaged in tax studies, finds it necessary from time to time to revise the nature and scope of its studies in order to anticipate the changing requirements of Congress. With this objective in view our program of work was revised shortly after the close of the last session of Congress. In view, however, of the suggestions contained in your communication of August 10, addressed to the President, further revision was necessary in order that the scope of the work in general might take into consideration the suggestions set forth in your letter and further that this committee might have the cooperation and assistance of your office in the preparation of these studies. Since we have already had certain informal discussions with members of your staff, it seems advisable at this time to suggest a tentative plan of procedure with respect to subjects which may be submitted to the Congress at the next session and also to outline certain other major problems which in my opinion require exhaustive study in the near future. For the purpose of classification I shall designate those problems which may be completed in time to be considered by the next Congress as short-term problems and those requiring a longer time as long-term problems.

SHORT-TERM PROBLEMS

1. Miscellaneous Taxes.

In line with the suggestions of your letter of August 10, 1936, a survey of miscellaneous taxes with the exception of Agricultural Adjustment Act, Social Security Taxes, Estate and Gift Taxes, and Capital Stock

Taxes, should be made. This survey in substance should at least include:

(a) History of the Tax. Revenue receipts and rates since the tax has been in force, with a brief discussion of any revisions that have been made in the application of the levy.

(b) Inequities. A discussion of the inequities that have developed in the imposition of the tax. Does the tax bring about double taxation? What improvements might be suggested toward curing inequities?

(c) Administrative Difficulties. A discussion of the administrative difficulties which have developed in connection with the collection of the tax. What legal points are still in dispute in the courts? Does the tax result in much litigation? If so, summarize the legal issues involved. State conflicts in circuit courts, if any exist. Discuss fully what methods of tax avoidance, if any, are disclosed. State approximate cost of collection. What suggestions might be made as to improving the administration of the tax?

(d) Economic Effect. Discussion of the economic effect of the tax. State approximate number of establishments. What is the trend in volume and value of the product? Does the tax bring about unfair competitive conditions? Is the rate sufficiently high to seriously effect the volume of transactions? What suggestions might be made in respect to eliminating or modifying the tax?

2. Undistributed Profits Tax (Revenue Act of 1936).

The Joint Committee will undoubtedly desire to study the operation and effect of the undistributed profits tax during the next session of the Congress. In order to furnish a proper background for such a study, it is suggested that a statistical analyses be made to develop the past dividend policy of corporations classified by industry. It is also suggested that the surplus of certain groups of corporations be studied in order to determine the extent to which such surplus has been accumulated and the extent to which it is liquid. The effect on the revenue of allowing a carry-over for the net loss of the prior year for the purposes of the undistributed profits tax should also be estimated. Some further investigation might also be made as to the possibility of certain relief provisions in the case of debt-ridden corporations and corporations with a deficit.

3. Special Income Tax, Estate Tax and Gift Tax Problems.

Experience in legislation shows there is brought to light as the result of administration a substantial number of problems of an urgent

- 3 -

nature. These involve as a rule tax avoidances, serious inequities as between taxpayers similarly situated and unreasonable administrative burden. In order that such questions may be thoroughly analyzed prior to presentation to Congress I suggest that necessary machinery be set in motion in order that these problems may be gathered, sifted and analyzed thoroughly for the purpose of forming a basis for legislation. I understand that the Commissioner is gathering suggestions from his field and office forces which can well form a starting point for the above analysis.

4. Statistical Information.

It appears impossible to make a complete survey of the income tax, but statistics on certain questions of importance should be gathered as follows:

(a) This office has been advised that the statistical section of the Bureau is making an analysis of the effect of the capital gain and loss provisions as shown by the 1934 returns. It is hoped that this analysis will be completed and a copy furnished the Committee.

(b) Statistics showing, as far as may be, the effect of the high surtax rates of the Revenue Acts of 1932 and 1934 should be made, together with data showing the amount of tax-exempt securities held by a representative group of wealthy taxpayers for the years 1929 to 1935, inclusive.

LONG-TERM PROBLEMS

While it is not expected that any of the following problems can be studied at the present time I realize a number of major problems requiring extensive study press for solution before the tax laws can be expected to operate with any reasonable degree of smoothness on the part of the Government and with fairness to the taxpayer. The most important of these, in my opinion, are:

- (1) Study of possible improvements in the adjudication of taxes by the Board of Tax Appeals and the Courts,
- (2) reasonable simplification of the income tax laws,
- (3) revision and codification of the liquor laws,
- (4) revision of the penalty and interest provisions of the laws with the object of consistency and reasonableness, and
- (5) study of the personnel problem of the Bureau of Internal Revenue.

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Honorable Henry Morgenthau, Jr.

9-9-36

- 4 -

If you agree with me as to the desirability of making the studies outlined under the heading of "Short-term Problems", I would greatly appreciate it if you would instruct certain members of your staff to begin the collection of data indicated. Mr. Chesteen, Assistant Chief of Staff of this Committee, and I, will be glad to contact with your staff to clarify the general statements made in this letter. I shall also write you from time to time more in detail in respect to specific subjects. If you believe the general plan should be modified, please give me the advantage of your suggestions.

Very respectfully,

L. H. Carter
Chief of Staff

RECEIVED

SEP 9 11 31 AM '36

SECRETARY OF TREASURY
OFFICE

September 10, 1938

The President called me at 11 o'clock last night. He said, "That is a good cable you have drafted. In fact, it is better than good. I am particularly pleased at the way you handled the gold standard." He said, "I have only one suggestion to make. In the last paragraph, where you say that the three central banks should handle this, make it read 'the three Treasuries'." He said, "Get this cable off tonight as I want it in Paris by ten o'clock tomorrow morning. Inasmuch as the French say there is a hurry, I do not want any delay in answering." He said, "I have just one other suggestion. I think that this is so important that you ought to show it to Cordell Hull" and I said, "I have," and that pleased him very much.

He also seemed pleased that I had sent the thing by aeroplane and he said, "I am holding the plane in case I wanted to send you a message, but" he said, "now it will not be necessary."

I got Fels on the telephone and told him to arrange to send a message in their most confidential code. He sort of demurred at the lateness of the hour and I said, "These are the President's orders and the message must go." He called me back within three minutes and said that he had gotten his coding people out of bed and they would handle it if I could send the message down. I asked the White House to send a car, which they did, and I sent the message to the State Department.

I called Cochran this morning, and the following is a record of the conversation.

Thursday
September 10, 1936
9:22 a. m.

H. M.
Cochran: - accepted your message at twelve o'clock noon -

HMjr: Yes

C: - subject to one reservation.

HMjr: I see.

C: Simply because I was not certain about the sentence to which you referred.

HMjr: Yes

C: They did that in the last sentence.

HMjr: Well, you'd better not say anything on the phone.

C: Yes, well anyway you'll have that.

HMjr: How was it received? - How was it received?

C: Rather well -

HMjr: Yes

C: Only, if it's down a little more concretely, you see?

HMjr: What's that?

C: I say he wants to put something concretely.

HMjr: I know, but we've got to establish the principle first.

C: Yes, that's just exactly it. And I had talked to his assistant, the man with the long name -

HMjr: Yes

C: - before we went in -

HMjr: Yes

C: And I got him to agree with me and he said, 'Well, you know my -- rather has the mind of a jurist' -

HMjr: Yes

C: ' - he wants to get everything down so specifically'.

HMjr: Yes

C: And I - I've been trying to talk to him to get his ideas first.

HMjr: Well, weren't you surprised that I got off the answer so quickly?

C: Yes, I should say so. I remarked about that in the reply. And the people here thought it was a good sign.

HMjr: Yes, well -

C: And I read that the message was filed at midnight last night.

HMjr: It was.

C: And they delivered theirs to the other people last night -

HMjr: Yes

C: Incidentally, the same man with whom I talked when I was there.

HMjr: What's that?

C: I say, the man who received the message across the Channel -

HMjr: Yes

C: - was the same man with whom I talked on that visit, remember?

HMjr: Yes - yes

C: He's in charge. The other man is up in Scotland.

HMjr: Oh - well, they haven't heard anything yet from across the Channel.

C: Yes

HMjr: What?

C: I say, the man who received the message yesterday -
HMjr: Yes
C: - over there -
HMjr: Yes
C: - is the same one I talked with on my visit.
HMjr: I get you.
C: See?
HMjr: Well, will you know when they hear from England?
C: Yes, I think I will.
HMjr: Yes
C: I am going to keep in touch with him. They're
going to call me, assuming that he is going to have
any other word to send you -
HMjr: Yes
C: If so I am to go over at seven o'clock.
HMjr: Yes - Now, I wish you'd check up with your tele-
graph arrangements - it - there's something wrong,
I mean it takes so terribly long for your messages
to come through.
C: Is that so?
HMjr: Are they using Western Union or Postal Telegraph
or what?
C: We - we checked up yesterday morning and the last
part of my message was received in Washington at
eight fifty -
HMjr: Well -
C: We got - we put in a query as to what time the
message was received.
HMjr: Well, how many hours was that?
C: Well, that was quite a bit because it left - the

last part of it left a little after eleven.

HMjr: Well, how many hours do you figure that took?

C: Now, you see that would be - eleven - that would be - that's - that's fairly long.

HMjr: What?

C: That's fairly long.

HMjr: That's what I think, -

C: Yes

HMjr: Now, my message came through much quicker, didn't it?

C: Oh - it got here this morning -

HMjr: Yes

C: - which is quicker, yes

HMjr: Yes

C: - at eight o'clock this morning -

HMjr: Yes

C: Eight forty this morning -

HMjr: Yes - all right. Well then, I'll - I mean - but it was - it was not displeasing to them?

C: Oh no, not at all. The only thing - they want to get at something concrete.

HMjr: Well -

C: My point is that they've made - want to await the further reply from the other side.

HMjr: Yes

C: I don't know. They've asked me about a counter proposal - if we had it.

HMjr: Yes

C: And I said, 'Well, we've put out two snares - you're-the ones who are making the proposal'.

HMjr: Yes

C: And he said, 'Well, we are entirely in agreement - the thing to do is to set it down on paper'.

HMjr: Yes

C: So that's the way he looks at it.

HMjr: O. K.

C: But, my friend is talking with him this afternoon.

HMjr: All right -

C: They also talked with - with the highest man.

HMjr: They are?

C: See?

HMjr: All right.

C: - who has sent his greetings to you and to

HMjr: Fine

C: And if I get anything early this evening -

HMjr: Yes

C: - around seven or eight o'clock -

HMjr: Yes

C: - why, I'll send you off a wire yet tonight.

HMjr: On the - you mean on the telephone?

C: Well, just as you prefer.

HMjr: No, you'd better use the cable.

C: I see. It's - it's better I think, on this.

HMjr: Yes - and tell them to use their most confidential code, you know?

C: We're using that, absolutely.

HMjr: The most confidential -

C: All right - well, I'll see if they have anything tonight.

HMjr: O. K.

C: And then I'll send it off.

HMjr: Fine

C: All right then.

HMjr: Goodbye.

Cochran said the message would be delivered at twelve o'clock this morning.

I was surprised the President acted so quickly, but he seemed to think that the seriousness of the situation demanded it.

He told me that the drive through the Smoky Mountains was one of the most beautiful he had ever taken and he urged me to take it soon.

The question came up, when talking to Feis, whether we should inform the British and I said positively no, and much to my surprise he agreed with me.


FEDERAL RESERVE BANK
OF NEW YORK

September 10, 1956.

Dear Mr. Lochhead:

Enclosed are memorandums of telephone conversations which I had today and concerning which I advised you earlier by telephone.

Yours faithfully,



Allan Sproul,
First Vice President.

Mr. A. Lochhead,
Treasury Department,
Washington, D. C.

enclosures (2)

September 10, 1964.

Mr. Teetshead
Allan Sporeal

I put in a call to Mr. H. A. Sigmund of the Bank of England this morning and was told that he is away on a holiday and will not be back until September 22. I then asked to speak to Mr. Bolton but was finally connected with Mr. Gattorna, deputy governor, at 11:30 a. m. October 1964.

I told Mr. Gattorna I had called up to find out what is going on in the London and Paris markets inasmuch as we have not been in touch directly with them for some time. Mr. Gattorna said that the undertone of the franc has been very weak for the past several days, following a period of some weeks during which the market was inactive (although even during this period of inactivity there was some continued outflow of funds from France). Mr. Gattorna said that he thought the factors contributing to the recent increased weakness of the franc included the repercussions of the Spanish situation on the French political situation, the recently announced increased expenditures for rearmament, the reported loan to Poland for armament purposes, and the fact that Monday was the last day of grace for the filling of reports of foreign assets by French nationals. This latter factor, he seemed to think, caused considerable churning about in the market as French holders of foreign assets attempted to get them in the best shape for withstanding any action which the French Government might now take with respect to them, and he cited as an example some French selling of securities held in the United States and the transfer of the resulting cash to London.

I said to Mr. Gattorna that from the looks of the exchanges it appears that the British Equilibrium Account is not operating so strongly nor so consistently in France as it had in previous periods of crises in French monetary

September 10, 1938.

Mr. Lockheed

Allan Spreul

-2-

affairs. Mr. Catterns said that they were doing the best they could but did not develop this question.

I then told Mr. Catterns that while I was aware of the effect upon sterling of the movement of funds from the continent to London, I had been a little puzzled by the continued strength of sterling, even in periods when the movement from the continent was evidently very small in volume, and at a time when other factors might have contributed to some weakness of sterling. He asked me what other factors I had in mind, and I told him that I was thinking of such things as the continued British purchases of securities in this market, the repatriation of certain British properties formerly owned by Americans, and the seasonal factor which used to begin to be an element of weakness of sterling at this time of the year. Mr. Catterns said that he knew of no special factors that contributed to the strength of sterling; that it apparently is a consequence of the almost continuous movement of funds, in smaller or larger volume, from the continent to London.

Mr. Catterns then said that, as we must know, the situation in Europe is very bad, with continued uncertainty in most countries and with nervousness as to both political and monetary developments. In this situation he indicated that he thought it most unfortunate that the Bank of France had been largely isolated from effective participation in the job of handling the situation by reason of the fact that most of those who had the necessary training and experience for this sort of work have had authority taken out of their hands.

September 18, 1950.

Mr. Lockheed

Allen Spruel

-4-

I told Mr. Catteras that I had called merely to keep in touch with them and to get their views on the situation, inasmuch as we hadn't had a direct conversation for some time, and thanked him for the expression of his views.

AS:GMP

COPY

September 19, 1898.

Mr. Lockwood

Allen Sprevall

I put in a call for Mr. Gariguael of the Bank of France this morning and the connection was made at 11:35 a. m. I told Mr. Gariguael that I had nothing special on my mind but that it had been some time since anyone here had talked with him and I wanted to keep in touch with him and learn what had been going on in the Paris market. Mr. Gariguael said that the market had been a little quieter today, although it is still losing gold to New York, \$6,000,000 having been taken for shipment here in today's trading. He said that the Bank had also been losing some gold to Belgium during the last few days but today the demand for belgians had been smaller. The British Control, he said, had done nothing today. I said that it appears, from the action of the exchanges, that the British Control has not been operating so strongly nor so consistently as it had in previous crises of weakness of the franc. Mr. Gariguael said that in the case and indicated that he thought it was due to the desire of the British not to embarrass the French by taking large amounts of gold from the Bank of France (it is also possible, of course, to interpret the action of the British as representing a desire not to accumulate too large amounts of gold in Paris under present unsettled conditions).

Mr. Gariguael then said that it was a pity that the British cannot buy gold in the United States, as he thought it would relieve the French situation considerably if the British Control could operate in dollars.

Mr. Gariguael then said that they have been considering whether they should not send a substantial amount of gold to us to be earmarked in the name of the Bank of France. He have been asking ourselves, he said, whether we ought not to take the market in hand and become the only sellers of dollars in

September 19, 1936.

Mr. Lockwood

Allen Spruell

-2-

Paris. In order that we might be able to do that, he said, it would be necessary for us to have a substantial supply of gold in New York. I said that this would be similar to the operation they had carried out a short time ago when they had sent \$15,000,000 to this country to be earmarked. Mr. Carignol said yes, but that they were now considering sending a much larger amount and would want to be absolutely sure that such gold, if earmarked here, could be shipped back to France under any circumstances. I told Mr. Carignol that, as he knows, it is not possible in any country to obtain a guaranty against any future changes in laws or regulations but that, under existing circumstances, gold sent to this bank by the Bank of France, to be earmarked in its name, would be at the free disposal of the Bank of France; that the Federal Reserve Bank of New York holds a license from the Secretary of the Treasury to earmark gold sent to it from abroad by foreign central banks and to export such gold upon instructions from the foreign central bank. I pointed out, furthermore, that all of the experience of the past few years has indicated that gold held under earmark for foreign central banks in this country is considered to be at the free disposal of such foreign central banks. Mr. Carignol said that this was what he wanted to know and that he would get in touch with me in case they decide to proceed with the proposed shipments.

Mr. Carignol telephoned to me at 1:55 p. m. and said that the Bank of France is trying to make arrangements to ship \$10,000,000 of gold to New York by steamer leaving France tomorrow, such gold to be earmarked here in the name of the Bank of France. Mr. Carignol said he did not know whether they

September 10, 1938.

Mr. Lockhead

Allen Spraul

-3-

were too late to make the necessary arrangements for this shipment but that, in any case, he wanted to ask whether we can agree to an immediate earmarking of gold here for the account of the Bank of France against gold which the Bank of France would earmark for us in Paris, pending shipment to the United States by the first available steamer. I told Mr. Carigual that this is something which I would have to take up with the Treasury at Washington, that I would do so immediately and call him back.

AS:GMP

COPY

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris

DATE: September 10, 1936

NO.: 343

FOR COCHRAN FROM SECRETARY OF THE TREASURY.

Your telegram 847, Rush.

I had in mind the sentence to which specific reference was made in my 342. The sentence began "The stipulations of such an arrangement", and ended with "when the conditions necessary are found realized". Will you please make this clear to the Minister of Finance immediately.

EA:DJW

September 10, 1936

Today Cable No. 847 from Cochran was received and Feis brought it in to the Secretary at 12:30. It was as follows:

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 10, 1 p.m.

No.: 847

FOR THE SECRETARY OF THE TREASURY

FROM COCHRAN

I delivered personally and verbatim at noon today the message contained in the Department's 342, September 9, midnight, to the Minister of Finance in the presence of Baumgartner, under reservation as to one point, however. That point is, will you please confirm whether the text of your communication under acknowledgment was correct in citing "the last sentence in the English translation of numbered Section 2." Did the Secretary of the Treasury actually have this sentence in mind; that is, the last sentence in Section Two, which sentence constitutes a short separate paragraph, or was it the final sentence of the first paragraph of Section 2 instead?

The quick response of the Secretary of the Treasury was much appreciated by the Minister of Finance. He talked by telephone with Premier Blum while I was with him and Blum asked that his greetings be conveyed to Washington. The American reply is being discussed by Auriol with Baumgartner and with Premier Blum, I think. If there is a further message to send to Washington, Baumgartner will communicate with me late this evening.

I was told by Baumgartner that Monick had delivered the text of the draft document to Phillips yesterday evening in the British Treasury in Chamberlain's absence.

EA:DJW

The following reply was sent by the Secretary to Cochran:

September 10, 1936.

AMEMBASSY,

PARIS (FRANCE).

FOR COCHRAN FROM SECRETARY OF THE TREASURY.

Your 847 RUSH.

The sentence which I had in mind to which specific reference was made in my 342 began "The stipulations of such an arrangement" and ended "when the conditions necessary are found realized". Please immediately make this clear to the Minister of Finance.

EA:HF:DJW

Mr. Lochhead brought to the Secretary's attention a telephone call received by the Federal Reserve Bank of New York from Cariguel inquiring if the U. S. Treasury would be willing to earmark \$10,000,000 in gold for the account of the Bank of France. Permission to do so was not granted by Secretary Morgenthau. Mr. Lochhead prepared a report on this incident and it is attached hereto.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 10, 1 p.m.

NO.: 847

FOR THE SECRETARY OF THE TREASURY

FROM COCHRAN

I delivered personally and verbatim at noon today the message contained in the Department's 342, September 9, midnight, to the Minister of Finance in the presence of Baumgartner, under reservation as to one point, however. That point is, will you please confirm whether the text of your communication under acknowledgment was correct in citing "the last sentence in the English translation of numbered Section 2." Did the Secretary of the Treasury actually have this sentence in mind; that is, the last sentence in Section Two, which sentence constitutes a short separate paragraph, or was it the final sentence of the first paragraph of Section 2 instead?

The quick response of the Secretary of the Treasury was much appreciated by the Minister of Finance. He talked by telephone with Premier Blum while I was with him and Blum asked that his greetings be conveyed to Washington. The American reply is being discussed by Aurioi with Baumgartner and with Premier Blum, I think. If there is a further message to send to Washington, Baumgartner will communicate

-2-

communicate with me late this evening.

I was told by Burgartner that Henick had delivered the text of the draft document to Phillips yesterday evening in the British Treasury in Chamberlain's absence.

EA:BJV

Treas'y.

September 10, 1936.

AMEMBASSY,

PARIS (FRANCE).

FOR COCHRAN FROM SECRETARY OF THE TREASURY.

Your 847 RUSH.

The sentence which I had in mind to which specific reference was made in my 342 began "The stipulations of such an arrangement" and ended "when the conditions necessary are found realized". Please immediately make this clear to the Minister of Finance.

EABF:DJW

MEMORANDUM

Thursday, September 10, 1936

Mr. Lockhead advised Secretary Morgenthau of a telephone call which the Federal Reserve Bank had from Carignol of the Bank of France in which Carignol inquired whether we would be willing to earmark \$10,000,000 in gold for their account at the Federal Reserve Bank in New York against which they would earmark for our account in the Bank of France an equal amount to be shipped on the first available steamer.

The Bank of France at present has \$15,000,000 in gold earmarked at the Federal Reserve Bank and they expect to ship another \$10,000,000 tomorrow if arrangements can be completed in time, but inquired of the Federal Reserve if we would earmark gold for them as desired if they requested it.

Mr. Morgenthau decided not to grant this permission as he felt that the present was not a proper time to do so. He stated that we were all clear in the Stabilization Fund right now, with no balances abroad or gold in France, and he had so informed the President. He said that he did not care to go into the question any further as he had a hunch that it was not the proper thing to do and he preferred to follow this hunch.

Mr. Taylor and Mr. Oliphant were also present and agreed in this decision. Mr. Oliphant stated that if the Secretary's reaction had been favorable to this request it would undoubtedly bring up quite a number of legal complications which he was glad would not need to be gone into.

Thursday
September 10, 1936
9:22 a. m.

H. M.
Cochran: - accepted your message at twelve o'clock noon -

HMjr: Yes

C: - subject to one reservation.

HMjr: I see.

C: Simply because I was not certain about the sentence to which you referred.

HMjr: Yes

C: They did that in the last sentence.

HMjr: Well, you'd better not say anything on the phone.

C: Yes, well anyway you'll have that.

HMjr: How was it received? - How was it received?

C: Rather well -

HMjr: Yes

C: Only, if it's down a little more concretely, you see?

HMjr: What's that?

C: I say he wants to get something concretely.

HMjr: I know, but we've got to establish the principle first.

C: Yes, that's just exactly it. And I had talked to his assistant, the man with the long name -

HMjr: Yes

C: - before we went in -

HMjr: Yes

C: And I got him to agree with me and he said, 'Well, you know my -- rather has the mind of a jurist' -

HMjr: Yes

C: '- he wants to get everything down so specifically'.

HMjr: Yes

C: And I - I've been trying to talk to him to get his ideas first.

HMjr: Well, weren't you surprised that I got off the answer so quickly?

C: Yes, I should say so. I remarked about that in the reply. And the people here thought it was a good sign.

HMjr: Yes, well -

C: And I read that the message was filed at midnight last night.

HMjr: It was.

C: And they delivered theirs to the other people last night -

HMjr: Yes

C: Incidentally, the same man with whom I talked when I was there.

HMjr: What's that?

C: I say, the man who received the message across the Channel -

HMjr: Yes

C: - was the same man with whom I talked on that visit, remember?

HMjr: Yes - yes

C: He's in charge. The other man is up in Scotland.

HMjr: Oh - well, they haven't heard anything yet from across the Channel.

C: Yes

HMjr: What?

C: I say, the man who received the message yesterday -
HMjr: Yes
C: - over there -
HMjr: Yes
C: - is the same one I talked with on my visit.
HMjr: I get you.
C:5 See?
HMjr: Well, will you know when they hear from England?
C: Yes, I think I will.
HMjr: Yes
C: I am going to keep in touch with him. They're going to call me, assuming that he is going to have any other word to send you -
HMjr: Yes
C: If so I am to go over at seven o'clock.
HMjr: Yes - Now, I wish you'd check up with your telegraph arrangements - it - there's something wrong, I mean it takes so terribly long for your messages to come through.
C: Is that so?
HMjr: Are they using Western Union or Postal Telegraph or what?
C: We - we checked up yesterday morning and the last part of my message was received in Washington at eight fifty -
HMjr: Well -
C: We got - we put in a query as to what time the message was received.
HMjr: Well, how many hours was that?
C: Well, that was quite a bit because it left - the

-4-

last part of it left a little after eleven.

HMjr: Well, how many hours do you figure that took?

C: Now, you see that would be - eleven - that would be - that's - that's fairly long.

HMjr: What?

C: That's fairly long.

HMjr: That's what I think, -

C: Yes

HMjr: Now, my message came through much quicker, didn't it?

C: Oh - it got here this morning -

HMjr: Yes

C: - which is quicker, yes

HMjr: Yes

C: - at eight o'clock this morning -

HMjr: Yes

C: Eight forty this morning --

HMjr: Yes - all right. Well then, I'll - I mean - but it was - it was not displeasing to them?

C: Oh no, not at all. The only thing - they want to get at something concrete.

HMjr: Well -

C: My point is that they've made - want to await the further reply from the other side.

HMjr: Yes

C: I don't know. They've asked me about a counter proposal - if we had it.

HMjr: Yes

C: And I said, 'Well, we've put out two snares - you're the ones who are making the proposal'.

HMjr: Yes

C: And he said, 'Well, we are entirely in agreement - the thing to do is to set it down on paper'.

HMjr: Yes

C: So that's the way he looks at it.

HMjr: O. K.

C: But, my friend is talking with him this afternoon.

HMjr: A ll right -

C: They also talked with Blum - with the highest man.

HMjr: They are?

C: See?

HMjr: All right.

C: - who has sent his greetings to you and to the man across the street.

HMjr: Fine

C: And if I get anything early this evening -

HMjr: Yes

C: - around seven or eight o'clock.

HMjr: Yes

C: - why, I'll send you off a wire yet tonight.

HMjr: On the - you mean on the telephone?

C: Well, just as you prefer.

HMjr: No, you'd better use the cable.

C: I see. It's - it's better I think, on this.

HMjr: Yes - and tell them to use their most confidential code, you know?

C: We're using that, absolutely.

HMjr: The most confidential -

C: All right - well, I'll see if they have anything tonight.

HMjr: O. K.

C: And then I'll send it off.

HMjr: Fine

C: All right then.

HMjr: Goodbye.

Sept. 10, 1936

Archie Lochhead brought to Secretary's attention telephone call from Cariguel to F R B of New York asking if U.S. Treasury would be willing to earmark \$10,000,000 gold. H.M.Jr. refused permission. (Lochhead's memo on this request and disapproval attached, also dated Sept. 10.)

See p. 105

Filed in Stabilization Folder under date of Sept. 10, 1936.

September 10, 1936

I called Steve Early and told him that Morris Cooke came in to see me and asked me to send 300 people to fill up the auditorium when the President addresses the World Power Conference. He told me that Roper said he would send 500.

I told him I thought his idea was absolutely crazy and I thought it was a terrible thing to order Government employees on Government time to go to hear the President in order to fill the auditorium and that I was sure the President would not want any such thing done.

Steve Early agreed with me.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 10, 1936

TO Secretary Morgenthau
FROM Mr. Taylor

On Tuesday, September 8th, I called on Secretary Hull and discussed with him the question of resuming financial reporting service through our embassy in London. I showed him the draft of *you* unsigned letter and asked him if there were any suggestions he had as to the wording, et cetera; that we felt that it was essential to have adequate reporting from London and that Cochran's reporting was so good and so complete that we saw no reason why the London situation could not be handled the same way. Secretary Hull agreed that we should get as good service as possible from London and explained some of the difficulties present in the London situation which were not present at Paris and other points on the Continent. He suggested that we try to work it out with Feis. He also stated that he did not think a letter was necessary and made it evident that he did not wish to receive it.

Yesterday, after talking to you the night before, I had lunch with Feis and told him exactly what our position was. Feis is going to draft a personal letter to Butterworth and let me see it before he sends it.

uet

ASSISTANT SECRETARY OF THE TREASURY

~~233~~
115

September 10, 1936.

Memorandum for MRS. KLOTZ:

Mr. Taylor says this letter is to be returned for your files and that it is not to be sent to the State Department as he read it to Secretary Hull when he was over there the other afternoon.

*MCP
P.O. Robertson*

116

~~234~~

FROM: MR. GASTON'S OFFICE

TO:

Mr Taylor (1)

Mr Lockhead (2)

Miss Klotz (3)

~~235~~

~~205~~

THE SECRETARY OF THE TREASURY
WASHINGTON

The Honorable,

The Secretary of State.

Dear Mr. Secretary:

I beg to acknowledge receipt of your letter of August 28, also cable No. 798 of August 27.

You will undoubtedly remember that some time ago I spoke to you about our difference with Mr. Butterworth of the American Embassy in London. I have also mentioned this on several occasions to Mr. Phillips.

The experience which Cochran had in London with Mr. Butterworth and Mr. Butterworth's letter dated August 21 to Mr. Phillips seem to me to bring this situation forcibly to your attention as well as mine.

It has been several months now since our Embassy has furnished us any reports on financial developments. We have found it necessary to go to outside sources in London in order to obtain information. I think you will agree with me that the United States Treasury ought to be able to get essential information from our Embassy staff in London.

Sincerely yours,

Secretary of the Treasury.

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY
WASHINGTON, D. C.

OFFICIAL BUSINESS

RETURN AFTER FIVE DAYS

PENALTY FOR PRIVATE USE TO AVOID
PAYMENT OF POSTAGE, \$300

The Honorable,

The Secretary of State,

Washington, D. C.

~~237~~

The Honorable,

The Secretary of State.

Dear Mr. Secretary:

I beg to acknowledge receipt of your letter of August 26, also cable No. 798 of August 27.

You will undoubtedly remember that some time ago I spoke to you about our difference with Mr. Butterworth of the American Embassy in London. I have also mentioned this on several occasions to Mr. Phillips.

The experience which Cochran had in London with Mr. Butterworth and Mr. Butterworth's letter dated August 21 to Mr. Phillips seem to me to bring this situation forcibly to your attention as well as mine.

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Sincerely yours,

Secretary of the Treasury.

WCS

The Honorable,

The Secretary of State.

Dear Mr. Secretary:

I beg to acknowledge receipt of your letter of August 26, also cable No. 798 of August 27.

You will undoubtedly remember that some time ago I spoke to you about our difference with Mr. Buttersworth of the American Embassy in London. I have also mentioned this on several occasions to Mr. Phillips.

The experience which Cochran had in London with Mr. Buttersworth and Mr. Buttersworth's letter dated August 21 to Mr. Phillips seem to me to bring this situation forcibly to your attention as well as mine.

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DRAFT OF LETTER TO SECRETARY HULL

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You will undoubtedly remember that sometime ago I spoke to you about our difference with Mr. Butterworth of the American Embassy in London. I have also mentioned this on several occasions to Mr. Phillips.

The experience which Cochran had in London with Mr. Butterworth and Mr. Butterworth's letter dated August 27 ^{to Mr. Phillips} seem to me to bring this situation forcibly to your attention as well as mine. ~~other than actual~~

It has been several months ^{now} since our Embassy has furnished ^{US any report on financial developments} any information. We have found it necessary to go to outside sources in London in order to ~~get~~ ^{obtain} ~~information~~ ^{information} ~~necessary financial information~~ ^{with which to operate.}

I think you will agree with me that the United States Treasury ought to be able to get ^{essential} necessary information that it needs from our Embassy staff in London. ~~I sincerely hope you will be able to bring this about.~~

Sincerely,

September 10, 1936.

Dear Mr. Hickerson:

Confirming our conversation of Tuesday afternoon, the Treasury Department will appreciate it if you would convey through our Legation at Ottawa, our sincere apologies to Mr. and Mrs. C. M. Bullock, and Mr. and Mrs. G. H. Whiteford for the delay and inconvenience caused them by Customs officers at North Troy, Vermont.

The Treasury Department has fully investigated this case and finds that it was a simple case of mistaken identity, the Customs office at North Troy having received information which it had every reason to believe to be accurate that the car in which Mr. and Mrs. Bullock and Mr. and Mrs. Whiteford were travelling should be searched for narcotics. The information received unfortunately did not include a description of the individual, or individuals, suspected of transporting the narcotics.

The Treasury Department would be more than glad to give you complete details of any aspects of this case, but I do not think that they would alter the situation, which, as I have stated above, boils down to a simple case of mistaken identity, based on information which the Agents had every reason to believe to be reliable.

Thanking you for your cooperation in this matter,

Yours sincerely,

(Signed) Wayne G. Taylor

Assistant Secretary.

John Dewey Hickerson, Esq.,
Office of Secretary of State,
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION


~~311~~
123

DATE September 10, 1936

TO Secretary Morgenthau
FROM Mr. Taylor

I called on Secretary Hull in connection with the case of Mr. and Mrs. Bullock and Mr. and Mrs. Whiteford, Canadian citizens, who had been searched for narcotics at the North Troy, Vermont, Customs office. I explained to Secretary Hull and Mr. Hickerson that the Treasury was extremely sorry for the mistake, which was one of mistaken identity and that we would like to apologize for the misunderstanding but that we did not think it advisable to reveal the source of the information which had been furnished Customs.

I am writing a memorandum to the State Department confirming my conversation and they will in turn pass the apology on through the legation to Dr. Skelton, who originated the complaint.

W.T.


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September 1 1936

The Honorable,

The Secretary of State.

Sir:

I have your letter dated August 26, 1936, File No. WE 611.4228/57, and its inclosure, copy of a communication dated August 21, 1936, from the Canadian Legation relative to the treatment accorded Mr. and Mrs. C.M.Bullock and Mr. and Mrs. G.H.Whiteford, by customs employees at North Troy, Vermont, on July 11, 1936.

I am causing an investigation to be made of this matter and in accordance with the suggestion contained in the communication from the Canadian Legation I will be pleased to advise Mr. Bullock when a report is received.

Very truly yours,

(Signed) H. Morgenthau, Jr.,
Secretary of the Treasury.

P.S. Thank you for bringing this matter to my attention.

C
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Y

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STATE DEPARTMENT
WASHINGTON

In reply refer to
WE 611.4228/57

August 26, 1936.

CONFIDENTIAL

My dear Mr. Secretary:

I am enclosing for your information a copy of a note which I have received from the Canadian Legation in this city, outlining briefly the complaint of a party of Canadian citizens, consisting of Mr. and Mrs. C. M. Bullock and Mr. and Mrs. G. H. Whiteford, against the treatment said to have been received by them at the hands of our customs officers at North Troy, Vermont. Mr. C. M. Bullock is the son of the Honorable W. S. Bullock, a member of the Legislative Council of Quebec. The latter is, I understand, particularly upset over the incident and I am enclosing for your confidential information a copy of the letter which he addressed to the Canadian Under Secretary of State for External Affairs.

The Canadian Legation is being informed that the case is being referred to you for investigation.

Sincerely yours,

(Signed) Cordell Hull

The Honorable,
Henry Morgenthau, Jr.,
Secretary of the Treasury,

Enclosures:

From Canadian Legation,
No. 131;
To Canadian Under Secretary
of State for External
Affairs from W. S. Bullock,
July 28, 1936.

No. 131:

His Majesty's Charge d'Affaires for Canada presents his compliments to the Secretary of State and has the honour to bring to his attention a case in which stirring indignities are said to have been experienced by a party of Canadian citizens, consisting of Mr. and Mrs. C. M. Bullock and Mr. and Mrs. G. H. Whiteford, Mr. Bullock described the incident in the following words:

"On the eleventh of July Mrs. Bullock and I, accompanied by my brother-in-law and sister-in-law, Mr. and Mrs. G. H. Whiteford of 3411 Prud'homme Avenue, Montreal, were proceeding to Old Orchard Beach, Maine, for a short vacation.

"At approximately eight o'clock in the morning, Standard Time, we cleared through the port of North Troy, Vermont, going through the usual routine of baggage inspection and obtaining the necessary tourists' permit. About an hour and a half later, fifty-four miles beyond the United States line and just a few miles from Saint Johnsbury, Vermont, we were stopped by two officers in a State radio car who had been despatched from North Troy with orders to return my car and passengers there. I attempted to get an explanation from the two officers, but they could give me none. The two ladies were then forced to return to North Troy in the officers' car, and Mr. Whiteford and I had to drive back in my car with one of the officers.

"We arrived back in North Troy at approximately eleven A.M., and were detained there until exactly one-fifty P.M., Standard Time.

"The proceedings there were as follows: I was called first into the chief collector's office and my person was thoroughly searched. Mr. Whiteford then followed me, and was subjected to the same performance. Next in order were our wives, who were thoroughly searched by a lady officer.

"In their case they were forced to remove all their clothing, and even their hair was gone through thoroughly. Finally my car was gone over thoroughly. They went through each and every article of clothing in our baggage and removed the spare tire from its wheel, took off the headlights and, in general, missed no spot in or on the car.

"I attempted several times to get a reason or an explanation from the Collector at North Troy, Mr. H. B. Corliss, but he said he had nothing to say except that he

- 2 -

had received a radio call from State Headquarters at Saint Albans, Vermont, a point about sixty miles from North Troy which I had not gone through at all, instructing him, as well as all other officers and patrol cars in the State, to look out for my car and return it to North Troy for further inspection.

"I understand the name of the officer in Saint Albans who issued the call is Jones, although I am not positive of this".

In bringing the foregoing to the notice of the Secretary of State, Mr. Mahoney will be obliged if Mr. Hull will be so good as to cause full investigation to be made of the complaint and has the honour to suggest that the appropriate authorities of the Government of the United States may care to give consideration to forwarding a direct communication to Mr. Bullock in this case.

CANADIAN LEGATION,

WASHINGTON, D.C.,

August 21, 1936.

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Y

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ROXTON POND, Quebec
July twenty-eighth
1936

Dear Doctor Skelton:

My son, Charles M. Bullock, has written to you today complaining of insulting treatment he and his wife received recently in North Troy, Vermont, at the hands of United States customs and immigration officers there.

I may say that the indignities offered to my daughter-in-law and to her sister, and the failure of the officers to offer any explanation of their extraordinary conduct, have created an extremely bad impression in every member of our family and among our friends.

I shall be profoundly grateful if your department will discuss the incident with the government of the United States so that my son will be given a rational and satisfactory apology for the cavalier treatment.

Yours faithfully,

Legislative Councillor for
Wellington.

O.D. Skelton, Esqre., M.A., Ph.D., LL.D.,
Under-Secretary of State for External Affairs,
Ottawa,
Canada.

Thursday
September 10, 1936
11:40 a. m.

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HMjr: Burgess -
W.R.
Burgess: Yes, sir, how are you?
HMjr: I'm fine. Well, I don't know whether you saw my
little announcement --
B: I haven't seen it yet, no. I've just been out of
my room a little while.
HMjr: Thirteen times -
B: Thirteen times?
HMjr: Yes
B: Well, my word!
HMjr: Yes
B: Thirteen times?
HMjr: Yes
B: Well, that's better - that's bigger than the ten
that I thought, isn't it?
HMjr: Yes - Burgess, why did the Guaranty not come in?
B: Oh, didn't they come in? I haven't -
HMjr: Well, they took ten. The Irving took nothing, - the
Irving Trust.
B: Well, the Irving never goes in for these bonds.
HMjr: Oh, they don't?
B: No, no - And the Guaranty is - keeps awfully
short. They have a policy of holding the bonds
which they feel they need for their earnings.
HMjr: But how about - even for their customers?
B: Oh well, they must have come in for their customers.
HMjr: Well, they only showed ten.
B: Well, there must be something wrong with those figures,
I think.

HMjr: No, they've been checked. The First National Bank of New York could have taken forty-five, they took twenty-five.

B: The First? - well, they always put in twenty-five.

HMjr: Yes

B: That's their - that's their fixed rule.

HMjr: Yes, but the Guaranty looks kind of funny.

B: Well, I don't know - I don't believe they'd want any themselves. They - they're following that policy.

HMjr: Well, I mean I don't give a damn, because it's thirteen. But, I just wondered if it wasn't politics.

B: No, I don't think it's politics in it, no. I think it's - they have a policy, they may recommend to their customers they shouldn't buy them, I don't know.

HMjr: Yes

B: Of course that's the right that anybody has.

HMjr: Oh yes

B: - to exercise his judgment whether he wants any given issue or not.

HMjr: That's right.

B: And, - but I'm a little surprised at that, because I've talked to them very recently -

HMjr: Well, when you get a chance, without being obvious, sound them out a little bit, will you?

B: Yes, yes

HMjr: What?

B: Sure

HMjr: Just sound them out a little bit.

B: Yes

-3-

HMjr: I'm not going to do anything about it.

B: Oh, well, I'll keep in touch with them, I always do.

HMjr: Yes

B: Well, that's pretty swell.

HMjr: I think so.

B: Pretty successful.

HMjr: Well -

B: We're going over the subscriptions very carefully -

HMjr: Yes

B: And raising a question whenever there seems to be any doubt -

HMjr: Yes-

B: - getting the bank fellow over and talking it over with him, - throwing out any that seem to be - seem to be not played according to the rules of the game.

HMjr: All right - all right, - well, we're going to have a quiet spell as far as the bond market goes now.

B: What's that?

HMjr: It'll be quiet I imagine.

B: Oh, I think so.

HMjr: Yes

B: I think so. It'll take a while to distribute these, you know. I don't think the market will be very enthusiastic for a while: I hope not.

HMjr: No - No, I hope, - I hope not.

B: Yes

HMjr: I don't want it to snap like that.

B: Right, yes

HMjr: One of the reasons I got it out was that it was kind of quieted down.

B: Sure

HMjr: Yes

B: Sure

HMjr: Yes

B: A good thing to do.

HMjr: Well, thank you.

B: A ll right.

HMjr: Goodbye.

B: Goodbye.

COPY

~~249~~

BUREAU OF INTERNAL REVENUE
Office of
Chief, Intelligence Unit

ELI-DW

September 10, 1936.

Memorandum in re: Request of Thomas E. Dewey,
Deputy Assistant District
Attorney, New York, New York,
for information and assistance.

A conference was held in the office of the Secretary at 3:00 o'clock this afternoon, at which were present, besides the Secretary and Mr. Dewey, Mr. Oliphant, Mr. Gaston and myself. The conference was with respect to the request of Mr. Dewey that he be furnished with copies of certain messages heard on telephone wires supervised by agents of the Intelligence Unit in their investigation of the case against Arthur Flegenheimer, alias Dutch Schultz, et al. In addition to the copies, Mr. Dewey had requested that he be permitted to interview the officers making notes of the conversations, with the thought in mind of using these officers before a grand jury or petit jury, in the event developments indicated the value of such procedure.

It was concluded that the copies of the transcripts should be furnished to Mr. Dewey, together with the names of the officers making notations of such messages; and that he would be permitted to interview these officers to determine whether they could testify as to the voices heard, and whether such testimony would be of value to him in his prosecution of certain alleged crooked lawyers and labor leaders in New York City, principal among the lawyers being J. Richard Davis. Mr. Dewey further stated that, in the event his request was complied with, he would in each case where he desired to use an officer before a grand jury or petit jury make specific request of this office for authority to do so, and would not attempt to use the officer until approval was obtained. He also stated that he would review the transcripts of telephone conversations in the office of Mr. McQuillan in New York City.

Mr. Dewey was informed by the Secretary, after the others present had stated there was no objection to such action, that his request would be complied with, with the understanding that the matter be handled in the manner outlined above.

Accordingly, it was directed that I address a communication to Special Agent in Charge McQuillan, telling him of the decision of the Secretary and authorizing him to cooperate with Mr. Dewey in the manner agreed.

"E. L. I."

Thursday
September 10, 1936
12:57 p. m.

Jesse
Jones: Hello, Henry

HMjr: How are you?

J: Oh, pretty well. I understand you have been selling
some more bonds.

HMjr: Well, I just thought I might be able to sell you a
couple.

J: Well, that's fine, I'll be delighted to.

HMjr: I'll let you in on the ground floor.

J: All right.

HMjr: I won't charge you more than a hundred -

J: - what I can have.

HMjr: I won't charge you more than a hundred and one and
a half.

J: How much were the over subscriptions?

HMjr: Thirteen times

J: What?

HMjr: Thirteen times

J: Thirteen?

HMjr: Yes

J: One three?

HMjr: One three

J: Oh, my Gosh!

HMjr: And you get an allotment of about eight per cent.

J: Well, I'll declare - well, that's marvelous,
Henry, isn't it?

HMjr: It's pretty good for an amateur.

J: Well, it's pretty good for anybody.

HMjr: (Laughs)

J:

HMjr: How's your health?

J: Well, I'm making progress slow, Henry.

HMjr: Yes

J: I find that I'm pretty far down in the well -
if I don't
all the time.

HMjr: Well, I'm sorry.

J: But I'll be all right by October I think.

HMjr: Are you going up to that Bankers' Convention?

J: I think I will, I don't know.

HMjr: Yes

J: I sent Bob Fleming a notice a week ago that I
might not feel like doing it.

HMjr: Well, the important thing is to get well. There's
lots to do.

J: That's right.

HMjr: Yes

J: Well, I just wanted to talk with you and congratulate
you on what you have done. I knew it was good, but
I didn't know how good.

HMjr: Well, I didn't either, Jesse, until late last night.

J: Yes

HMjr: But, I am very much pleased because I think it'll
help just at this time.

J: Yes

HMjr: They can't -

J: I'll be seeing you early in October, Henry.

HMjr: Well, I'll look forward to seeing you.

J: Goodbye

HMjr: Goodbye

Friday
September 11, 1936
9:35 a. m.

137

HMjr: Burgess -
W. R.
Burgess: Yes, sir, how are you?
HMjr: Oh, a little tired -
B: (Laughs)
HMjr: - otherwise all right. Bell and Kilby are here and we've got a kind of a tough nut to crack.
B: Yes
HMjr: If we give the fellows who got five thousand in subscription a hundred per cent allotment, see?
B: Yes
HMjr: And figure that the rest get seven per cent -
B: Yes
HMjr: It comes to four forty-eight, see?
B: Four forty-eight?
HMjr: Yes, it works out - so that you can have the figures that I've got - seven per cent is three fifty-three, see?
B: Yes
HMjr: And a hundred per cent to the five thousand fellows is ninety-five million.
B: Gosh, as much as that, is it?
HMjr: Yes, it's four forty-eight and the estimated adjustment is four hundred and sixty-four. Now, I don't like --
B: I don't get that last.
HMjr: Well, it's three fifty-three plus ninety-five -
B: Yes
HMjr: - plus sixteen.
B: Well, what's the sixteen?

HMjr: They always have to allow a certain amount for adjustments.

B: Oh, I see.

HMjr: See? - brings it to four sixty-four. Now, I don't like to go over the ten per cent.

B: Well, what would six per cent be on that?

HMjr: Well, let me just tell you what the boys would like to do.

B: Yes

HMjr: The boys would like to give only an eighty per cent allotment on the five thousand, because they say in the Kansas City district they've already sold some of the five thousand and they think it's a heavy padding in the five per cent.

B: Oh, I think you're committed to -

HMjr: What?

B: - to a full allotment on the fives, aren't you?

HMjr: What's that?

B: I thought you were committed to a full allotment -

HMjr: Well, I think ev - what's that? - Only through practice, that's the way I feel.

B: I thought it said so in the circular.

HMjr: Preferred allotment - I'm afraid they'll say we're not taking care of the little fellow.

B: Yes, I am too.

HMjr: What?

B: Yes, I'd be afraid of a bad reaction on that.

HMjr: I think the next time we've got to something like Kilby says, make them take registered bonds.

B: Yes

-3-

- HM jr: But I thought we could take that up another time. I'm afraid that they'll always think that we're not taking care of the little fellow.
- B: Yes, I'm afraid of that. I would rather cut the other down to six and a half or something --
- HM jr: Well, - well, toward the public it would be three fifty-three plus ninety-five which is four forty-eight. They don't know anything about this estimated adjustment Do you think it would look bad if it went over to four -?
- B: No, I think it's all right in this case. You've got such a huge over subscription, - everybody wants them.
- HM jr: I hate to go below seven.
- B: Yes, yes.
- HM jr: What?
- B: I think you're - I think that's all right.
- HM jr: You do? - Now, just a moment.
- B: a certain advantage.
- HM jr: Yes, but if we didn't give the boys a there'll be an awful squawk.
- B: Oh, I think there would be an awful squawk about that, yes.
- HM jr: All right, now just a minute. - You don't think there would be a kick on the four sixty-four?
- B: No - well, of course four forty-eight is what's coming out, isn't it?
- HM jr: Pardon me?
- B: Will that make it come out the four sixty-four or will four forty-eight --
- HM jr: Well - it would be months.
- B: Yes - No, I don't really think there will.

HMjr: Well, he said he'd know tomorrow.

B: Yes

HMjr: Well, even if it does. what of it?

B: I don't think that - (Pause)
- a little over your ten per cent but it's such a small issue after all.

HMjr: Yes

B: I tell you it isn't ten - it isn't more than ten per cent of the total issue.

HMjr: No

B: As soon as they exchange it.

HMjr: No - I think - I mean, what does the six per cent figure? (Spoken to someone in Secretary's office)
Including the adjustment six would only be just over the four hundred.

B: Yes

HMjr: I'd rather take the seven.

B: Well, I think I would too.

HMjr: Now, just a minute, please.

(Pause)

HMjr: - five thousand the full allotment and I think next time we'll have to work out somehow or other that on the five thousand or ten thousand I'll have to take registered bonds.

B: Well, I'm not sure that's the answer.

HMjr: Well, we don't have to settle that now. The boys want to go places so I'll tell them this.

B: O. K.

HMjr: Thank you very much.

B: First rate.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Friday, September 11, 1936.

Press Service
No. 8-38

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 2-3/4 percent Treasury Bonds of 1956-59.

Reports received from the Federal Reserve banks show that subscriptions for the cash offering, which was for \$400,000,000, or thereabouts, aggregate \$5,134,000,000. Subscriptions in amounts up to and including \$5,000 were allotted in full and those in amounts over \$5,000 were allotted 7 percent, but not less than \$5,000 on any one subscription.

Preliminary reports of exchange subscriptions, in payment of which Treasury Notes of Series D-1936, maturing September 15, 1936, were tendered, indicate that practically all of the maturing notes will be exchanged for the new bonds.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

ccOoo

TREASURY DEPARTMENT

142

Washington

FOR IMMEDIATE RELEASE,
Friday, September 11, 1936.

Press Service
No. 8-38

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Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

ooOoo

September 11, 1936.

The following were present at the 9:30 meeting this morning:

Mr. Bell
Mr. Gaston
Mr. Gibbons

Mr. Haas
Mr. McReynolds
Miss Roche
Mr. Taylor

Mr. Morgenthau: You gave me a release on the 168,000 families - that they will get medical care.

Miss Roche: I didn't explain the problem.

Mr. Morgenthau: Is it settled?

Miss Roche: Dr. Alexander told me definitely that they expected to settle it to-day positively. Meanwhile a wire came from Rex Tugwell saying to go ahead on it.

Mr. Morgenthau: I'd like to know what the program is.

Miss Roche: It is cooperative. Families for relief getting \$17.00 a month will be given another \$1.50 on their check.

Mr. Morgenthau: Give me a one page memo on it. * I want to take it up at Cabinet to-day. I go over there at 2 o'clock. Get Alexander to clear it by two.

Miss Roche: I will do that.

Mr. Morgenthau: Do you think that is hurrying them on it?

Miss Roche: I don't think so.

Mr. Morgenthau: Well after you have taken care of the 168,000 how about the rest of them?

Miss Roche: Well we are taking care of them if this works out. We can move out and then move into other states.

Mr. Morgenthau: Will you say that in the memo?

Miss Roche: Yes.

* Memo attached.

Mr. Morgenthau: I like that.

Miss Roche: I think we should take the worst spot and make it work.

Mr. Morgenthau: These drought relief families get \$17 a month and out of that there is nothing left for medical care. How much extra?

Miss Roche: \$1.50 a month. \$1.50 will go into the cooperative arrangement which all the doctors and Public Health agreed to.

Mr. Morgenthau: I think that is distinctly worthwhile. Let's take it out of the land purchasing program. If I had set up one the first I would spend would be the \$1.50. and nothing else.

Mr. Morgenthau: It is moving isn't it?

Miss Roche: Yes.

Mr. Morgenthau: Will you be able to do something for the doctor at Bethesda.

Mr. McReynolds: I don't think so. I don't think you can legally do it.

Mr. Morgenthau: I am not peppy to-day so I can't fight you but I will take you on Monday.

Mr. Morgenthau: You still have the 5 million haven't you?

Mr. McReynolds: No there is not 5 million - about a million and a half.

Mr. Morgenthau: All we need is a million and a quarter.

Mr. McReynolds: It can't be done without getting into a jam. Congress will be here before they use it.

Mr. Morgenthau: They can design the building the way they want it. I will hit it Monday. I am interested.

Mr. Morgenthau: When will you be on the Secret Service?

Mr. Mc Reynolds: I have the list - 62 per month.

Mr. Morgenthau: I have to see Archie. He has a cable from Paris.

Mr. Morgenthau: Get this thing straight - I have all the apple pickers I need. I am not doing it for myself.

Mr. McReynolds: I didn't mean your apple pickers.

Mr. Morgenthau: My man can't take any more men on. Every bag and every ladder is in use. This isn't for me. I talked to my man at 9:30 last night and he can't use another man.

Mr. McReynolds: They are paying in that particular locality 40¢ per hour. They made adjustments in all other counties except this one. They were taken off some projects in this case. In this particular place the apple pickers want 30¢ and they are paying 40¢.

Mr. Morgenthau: Tell Corry that Mr. Roosevelt happens to live in that county and when he goes up there a week from Saturday he will get an earful. Gill told me they were making an unemployed survey in Dutchess County because they were tired of hearing the statements made. The survey should be through in Dutchess County. Look at the statement the County Chairman made about Dutchess County in the President's home. Red Hook is in Dutchess County. O.K. Mac?

Mr. McReynolds: Yes.

Mr. Morgenthau: This fellow said they were paying them 72¢ an hour didn't he?

Mr. McReynolds: 70¢ an hour. Corry says they are paying 40¢ on other projects and the apple men want to pay 30¢.

Mr. Morgenthau: It is perfectly true - 30¢.

Mr. Morgenthau: George?

Mr. Haas: I have nothing to report.

Mr. Gaston: I have nothing except that Works Progress thing to take to Cabinet.

Mr. Morgenthau: Please.

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Mr. Bell: I will have a memorandum by 12 on the so-called Balance Sheet - United States Government.

Mr. Gaston: It has turned into a cooperation project between Tommy Corcoran and us.

Mr. Bell: Well he sort of abandoned the crop article. He is working on something along the same line to use in an illustrated booklet. He wants to show in the booklet figures - how much this government spent for good roads and then he will put a chart there.

Mr. Morgenthau: That's alright as long as Corcoran comes to us.

Mr. Gaston: He has called us up.

Mr. Morgenthau: He's alright - don't you think so?

Mr. Bell: Yes he is a smart youngster.

Mr. Morgenthau: As long as he talks with Herbert or Dan it is O.K.

Mr. Morgenthau: Herbert, I don't see why there should not be a Public Health release when we do give medical attention to these drought families.

Miss Roche: Let's wait till it is all actually tied up.

Mr. Gibbons: O'Brien's brother - they offered him some PWA job. Jim Farley would like us to take care of him till after election.

Mr. Morgenthau: I can't do it. Let's wait until after election. We offered him a job at Elmira.

Mr. Gibbons: There was not enough money in it.

Mr. Morgenthau: Well let someone else do it. I offered him all he's worth.

Mr. Bell: There will be a lot of people out of employment in November.

Mr. Gibbons: It is purely political on Jim's part.

Mr. Morgenthau: Well we offered him a good job. Let him get someone else.

Mr. Morgenthau: Will you (meaning Gibbons) and Wayne Taylor look into this trouble George Harrison is in over his yacht. They have slapped a fine on him of \$4,000. He didn't smuggle anything.

Mr. Gibbons: It is probably Department of Commerce.

Mr. Morgenthau: No it is us - it's Customs and if he didn't do anything then a nominal fine is in order. They didn't report it.

Mr. Taylor: They were late. They gave themselves up voluntarily.

Mr. Morgenthau: On their own?

Mr. Taylor: Yes.

Mr. Morgenthau: That's better yet. Well you two look into it.

Mr. Gibbons: Did you see in the paper the day I came in the jam on 5 ships. To make it worse LaGuardia had a Reception Committee down to meet the Olympics. I talked to Stewart. I want to talk to you sometime.

Mr. Morgenthau: I had Ballinger on the docks Tuesday to handle 9,000 people. He handled it beautifully - went through wonderful. He covered 9 docks. I am writing the man in charge complimenting him on the way it was handled. The report is in. One fellow made a squawk - said he waited two hours. Ballinger took him aside and found he had only waited a half hour.

Mr. Gibbons: You couldn't hear yourself think. I said "for God's sake go over there and stop that noise."

Mr. Morgenthau: After election I am not going to let anyone on the dock until the baggage has been examined. When the baggage has been cleared then they can kiss their friends. In Europe your baggage is cleared first. They say an average of 5 friends for every person that comes in.

Mr. Morgenthau: Alright Steve - anything else?

Mr. Gibbons: Not a thing.

Mr. Morgenthau: Wayne and Gibbons stay please.

TREASURY DEPARTMENT

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F

INTER OFFICE COMMUNICATION

DATE September 11, 1936

TO Secretary Morgenthau

FROM Miss Roche

Attached is memorandum of our plan for meeting medical care needs of drought relief families in North and South Dakota.

Dr. W. W. Alexander, Deputy Administrator, Resettlement Administration, has just 'phoned me that they are going ahead with the plan as it is outlined for North and South Dakota.

149 8
~~149 8~~

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 11, 1936

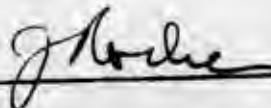
TO Secretary Morgenthau
FROM Miss Roche
Subject: Medical Care Needs in Drought Area

As requested by you in our conference last evening with Dr. Parran, I called Dr. Alexander of the Resettlement Administration in regard to the medical care needs in the States of North and South Dakota, which are so acutely affected by the drought situation. I talked with Dr. Alexander instead of Mr. Baldwin because Dr. Alexander is Deputy Administrator acting in Dr. Tugwell's place when he is away.

In the two States there are approximately 168,000 farm families. It is expected that during the coming winter at least half of these farm families, and perhaps 60 per cent of them, will require some sort of aid from the Resettlement Administration. This aid is given in the form of cash grants or loans which are used for the purchase of food for the families and for the live stock. The average grant now being given per family in the two Dakotas is \$17.00 per month, per family.

Obviously, this amount makes any provision for medical care by the families themselves absolutely out of the question. Dr. R. C. Williams, assigned by the U. S. Public Health Service to Resettlement Administration, who has just returned from the drought area, has worked out a very thorough and constructive program for medical care which has been approved by both the State Health officials of North and South Dakota, and also by the both State Medical Associations. It also has the approval of the Resettlement officials of those States.

Dr. Alexander assured me in his talk with me this morning that they expected to put Dr. R. C. Williams' plan into effect tomorrow. I shall follow this up in the morning, and if the delays and quibblings which have impeded the plan so far continue, I will immediately notify you.



F

September 11, 1936.

Dear Mr. Simons:

This will acknowledge your letter of September 9th which informs me of the resolution calling for a semi-annual meeting of the Board of Directors of the Endowment Fund of the American National Red Cross.

So far as I know now, the morning of October 7th is free. It is impossible, however, for me to tell so far in advance of a date what other demands upon my time may arise. May I suggest that you schedule the meeting in accordance with your present plans, and that you check with me on the morning of Monday the 5th to be sure the arrangement is still in force?

Sincerely,

Henry Morgenthau, Jr.

Mr. Howard J. Simons, Secretary,
Board of Trustees, Endowment Fund,
The American Red Cross,
Washington, D. C.

GNP:bs

NATIONAL OFFICERS

FRANKLIN D. ROOSEVELT, PRESIDENT
 WALTER EVANS HUGHES, VICE PRESIDENT
 HERBERT HOOVER, VICE PRESIDENT
 STANLEY REED, CHURCHMAN
 T. JEFFERSON COOLIDGE, TREASURER
 MARCEL T. BOARDMAN, SECRETARY

NATIONAL EXECUTIVE OFFICERS

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



THE AMERICAN RED CROSS

THE BOARD OF TRUSTEES

OF THE
 ENDOWMENT FUND
 WASHINGTON, D. C.

September 9, 1936

BOARD OF TRUSTEES

HENRY MORGENTHAU, JR., CHAIRMAN
 T. JEFFERSON COOLIDGE
 HENRY P. DAVISON
 HOWARD W. FENTON
 WILLIAM D. HOOVER
 WILLIAM A. JULIAN
 HARRY S. MEEK
 CONCORAN THOM
 FELIX H. WARBURG

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[Handwritten initials]

HOWARD J. SIMONS, SECRETARY
 JAMES A. HENDRIS, ASSISTANT SECRETARY
 THE WASHINGTON LOAN AND TRUST CO., TREASURER

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

My dear Mr. Secretary:

At its meeting held on March 27, 1935, the Board of Trustees of the Endowment Fund of the American National Red Cross passed a resolution calling for regular semi-annual meetings of the Board of Trustees to be held twice each year on the first Wednesday in April and October, the exact time and place to be designated by the Chairman and the Secretary to advise the Trustees of these facts sufficiently in advance along with such information as might be available as to the subjects to be considered.

In the past the meetings of the Board of Trustees have been held in the office of the Secretary of the Treasury or the Undersecretary of the Treasury. They have usually been held at 10:00 in the morning. This year this will be October 7.

I would very much appreciate your letting me know whether or not that day is suitable to you and if so whether we might hold the meeting in your office at 10:00 A. M. I should imagine the time of the meeting would extend not more than an hour and a half. The main subject to be considered is the investment policy insofar as diversification of securities is concerned. In addition to this, there will be a few lesser items of business including resolutions for investment of available cash in the Endowment Fund, consideration of securities that might be declared worthless and consideration of possible further liquidation of the lower grade railroads still held in the Fund.

Mr. Parker of Standard Statistics Company is now preparing an analysis of the portfolio along with a report containing his observations and recommendations. As soon as his report is received copies will be sent to all Members of the Board.

Sincerely yours,

[Signature of Howard J. Simons]
 Howard J. Simons,
 Secretary, Board of Trustees,
 Endowment Fund.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 11, noon

NO.: 853

FOR THE SECRETARY OF THE TREASURY FROM COCHRAN

The Ministry of Finance has been informed of telegram No. 343 of September 10, 1 p.m. from the Department. We had both interpreted the original message in this sense.

I was told this morning by Baumgarten that the Minister of Finance is studying carefully the message from the Secretary of the Treasury but will await news from Monick as to British reaction before calling ^{me} (X) to the Ministry again. The desirability of seeing how far we are all in agreement on general principles before raising the question of details was suggested by me. Yesterday when I delivered the message to Auriol, he quickly remarked that it revealed that on general lines the Americans and French were in agreement. The knowledge of how to cast such agreement into concrete terms was Auriol's problem. Yesterday and today Baumgarten indicated to me his own efforts to influence the Minister to be satisfied with a less specific and rigid agreement than would normally be sought by Auriol's juridical mind.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 859

DATE: September 11, 7 p.m.

FOR THE SECRETARY OF THE TREASURY FROM COCHRAN.

The French Financial Attaché, Jean Appert, called on me today. He sails on the PARIS September 17 for New York, and is being kept informed of our negotiations by Baumgartner.

150,376,000 francs gold bars LAFAYETTE were today invoiced to the Federal Reserve Bank in New York by the Bank of France. This constitutes the beginning of operation under the plan suggested in my 826 of September 3, 7 p.m. It has not yet been decided when the next shipment will be made. Treasury's reasons for not approving the parity idea were fully understood by Gariguel. He was personally reluctant to propose the idea.

Baumgartner told me that if an agreement between the three main countries on the proposition for French currency alignment is reached at an early date, Parliament would be convened earlier than the regular date (provisionally understood to be October 23) to pass the monetary law which would be necessary. It would be planned to place an embargo on the export of gold immediately before or simultaneous

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tanecus with the announcement of the special session, since three or four days' notice is required to assemble Parliament and since notice for a special session would arouse suspicions as to devaluation.

WILSON

EA:EB

Friday
September 11, 1936
9:10 a. m.

George
Harrison: Hello

HMjr: Hello, George

H: Good morning, Henry

HMjr: How are you?

H: First rate, thank you. I'm glad to hear you.
I just called up to say hello, - yesterday -

HMjr: Yes, we didn't do badly.

H: Oh, it was a fine job.

HMjr: Burgess was most helpful.

H: Yes

HMjr: - very helpful.

H: Well, I - I'm delighted you did what you did.

HMjr: Yes

H: I had a chat with Wayne Taylor before I went away.

HMjr: Yes

H: And we talked then about the possibility of doing
something with the new money and it looked more
and more likely whereas really it had been - it
didn't look as though it were going to be possible.

HMjr: No

H: But, it was - turned out beautifully and I think
you did just the right. thing.

HMjr: Well, the reaction in the Street seems to look very
good.

H: Very good.

HMjr: Yes - I saw a memo somewhere that you had some
trouble with Customs at Bar Harbor?

H: (Laughs) I certainly have. (Laughs)

HMjr: What was it?

H: Well, I chartered my boat -

HMjr: Yes

H: - to Horton Sinkler -

HMjr: Yes

H: - of Philadelphia. Very reputable, nice people apparently - he married Louise Elkins and they've lived at Northeast for a great many years. I chartered them for a month.

HMjr: Yes

H: And then to my charter he had and the boat and so on. And, he went fishing off Nova Scotia for ten days or two weeks and when he came back - he came back to Northeast and didn't report to the Customs for about six days.

HMjr: Yes

H: Whereas, I believe under the law he is supposed to report within twenty-four hours.

HMjr: Yes

H: Well now, under the law I presume the Matthew who happens to be my captain who is a very low fellow, is, I suppose legally the fellow who violated the law.

HMjr: Yes

H: And technically the fines or penalties amount up to about four thousand dollars I think.

HMjr: For heaven's sakes!

H: A thousand for the captain and five hundred for each passenger - But, under the law - the law drafts clearly the way to make clear that it's intended to refer to a merchant ship ---, don't you know?

HMjr: Yes

H: And as soon they - as soon as Sinkler got word

that he had to report, he ran over - went over to Bar Harbor at once with the Captain and all the papers, swore that they hadn't brought anything at all --

HMjr: Yes

H: And that it was purely a matter of ignorance as to the necessity of reporting within twenty-four hours that had made the delay.

HMjr: Yes

H: And the fact that they went over there -

HMjr: Yes

H: - as they did, voluntarily -

HMjr: Yes

H: - indicated too that there wasn't any intention whatever to defraud.

HMjr: Yes

H: And I think the whole thing is perfectly honest and straight and above board and nothing was brought in.

HMjr: Yes

H: They've all told me that and under the statute you are authorized to waive the penalties if in your judgment there was no intention to defraud. Now, I just got - the Captain just got word yesterday from the Bar Harbor thing that he was to file an application for remission of penalty or something like that - I forget - a statement of the case.

HMjr: I see.

H: And an application for remission of penalty.

HMjr: Yes

H: And I think it would be a perfectly proper thing for the Treasury to do if they feel like doing it. Under the law you are authorized to do it.

HMjr: Yes

H: And considering the character, first of my own Captain and the character of Sinkler who is, I understand, top notch -

HMjr: Yes

H: I'm sure there was nothing wrong anywhere.

HMjr: Did you take it up with Wayne?

H: Well, I mentioned it to Wayne when it first came up and asked him what to do. And he said to do nothing -

HMjr: Yes

H: - until this formal notice came through.

HMjr: I see.

H: Now, it did come through yesterday.

HMjr: I see. Well, when Wayne comes in at nine-thirty I'll see what he's done about it.

H: But I don't think he's done any more than that.

HMjr: Yes

H: I don't know - the letter here says, 'File a formal statement and application..' - I don't know what that involves or what I should say in it for him or what he should say in it.

HMjr: Yes, well I'll look into it, George.

H: The facts are just as I have given them to you, Henry.

HMjr: Yes, but I don't think as a smuggler you'd be a success.

H: (Laughs) I'm sure I wouldn't. Oh yes, I found this out. Then when I went up to Northeast to get my boat -

HMjr: Yes

H: I found out up there - I made some inquiries around some friends of mine - - that as a rule those boats, those yachts that go out and go off fishing off the Canadian Coast never think of reporting when they come back. And it was only because I wrote up to the Captain a letter which he got when he land - as soon as he landed -

HMjr: Yes

H: - reminding him that he should do that. They got busy on it, though it was, as I say, six days late.

HMjr: Well, I guess - well, I'll look into it and I'm glad the boys are on the job anyway, I mean Customs.

H: Yes, well, they're on the job -my men/^{are}on the job, but only late. I mean, as I say, they went over there and voluntarily presented themselves.

HMjr: Well, I'll look into it George.

H: If you can spare me any worry and nonsense about it I'd appreciate it very much.

HMjr: O. K.

H: Thank you.

HMjr: You're welcome.

H: Goodbye, Henry

HMjr: Goodbye.

September 12, 1936

The Secretary telephoned from the Farm today and instructed Gaston's office to get out a press release, for tomorrow morning's papers, denying the accuracy of the statement appearing in the morning newspapers, based on a press release of the Republican National Committee, that Secretary Morgenthau has a nephew on the payroll of the Agricultural Adjustment Administration.

TREASURY DEPARTMENT

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Washington

FOR IMMEDIATE RELEASE,
Saturday, September 12, 1936.

Press Service
No. 8-40

Secretary Morgenthau today made the following statement:

In a press release issued by the Republican National Committee and given wide publicity in today's newspapers this statement appears:

"Secretary of the Treasury Henry Morgenthau, Jr. has a nephew on the payroll of the Agricultural Adjustment Administration."

This statement is untrue.

ooOoo

My dear Mr. Roosevelt:

Replying to your letter of August 10 addressed to Mr. Olyphant, the applicable legislation vests the designation of members of the Board of Review in myself and provides that the nine members of the Board of Review shall be designated from members of the Treasury Department. As you will appreciate, the technical staff of the Department is peopled with scores of men who have devoted years of faithful service to the Government, and, to outstanding native ability, add the wisdom of extended experience in the handling of tax matters. Those hitherto and hereafter to be designated for the Board of Review will be chosen on the basis of length of service, training, and experience.

Mr. Daniel J. Hanlon does not fall in the group of men who, on this basis, merit such advancement and recognition as designation on the Board of Review involves. He will, however, be considered for other phases of the refund work along with other members of the Treasury staff and candidates who have been recommended for positions in the Bureau.

Very truly yours,

Secretary of the Treasury

Mr. James Roosevelt
90 Broad Street
New York City

HO:vm 8/18/56

~~MA~~

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
DATE: September 14, 8 p.m.
NO.: 865

FOR SECRETARY OF THE TREASURY FROM COCHRAN

I was told this afternoon by Baumgartner that the British reply has been received by Monick who is bringing it tonight to Paris for study tomorrow by the Ministry of Finance. Information of negotiations has been given to the Bank of England which has sent to Paris Cobbold in charge of foreign business who discussed the question today with Under Governor of Bank of France, Fournier. On Wednesday Auriol hopes to have a reply for transmission to the Secretary of the Treasury. Auriol has again expressed his appreciation of the frank spirit of cooperation evident therein and of the promptness with which Secretary Morgenthau provided his reactions to the French proposal. Although regretting the present delay, Auriol has thought it best to wait for the British reply before proceeding further in the matter.

EA:DJW

BRITISH EMBASSY,
WASHINGTON, D.C.

Secret.

Sept. 14th 1936.

—

My dear Mr. Secretary,

I enclose the message
from Sir Warren Fisher as
just received.

If you wish ~~to~~ see
me any time I am of
course at your service.

Yours very truly
Victor Astor

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Mr. A. Eden

Mr. V. A. L. Mallet

14th September, 1936
" " "

Most Secret.

Following from Sir W. Fisher for
Mr. Morgenthau.

The French note has now been received through M. Monick and has been considered by the Chancellor.

M. Monick was informed this afternoon that the Chancellor would be ready to give the assurance that a reasonable alteration in value of franc would not be followed by counter measures such as a further depreciation of the pound sterling by way of reprisal or discriminatory duties on French goods, His Majesty's Government would on the contrary continue their endeavour to rid the sterling exchange rate of those undue fluctuations which the exchange equalisation fund was set up to prevent.

M. Monick was further informed that it would not be possible for the Chancellor to guarantee that the pound sterling should be linked to gold between fixed points. The Chancellor is not therefore prepared under present conditions to limit his power of independent action by a formal agreement such as

that proposed in French note. In any undertaking he may give Chancellor must be governed not only by the considerations set forth in the French note (the weight of which he fully realises) but also by the view he may have to take from time to time of the credit policy needed for domestic recovery and the prospects of stable international relations.

The Chancellor wishes to assure Mr. Morgenthau that while he feels unable to enter into any formal convention for the reasons explained his action will continue to be directed to the ends which Mr. Morgenthau in common with the French Government and His Majesty's Government have in view. The Chancellor has expressed to the French Government the view, which he hopes will commend itself to Mr. Morgenthau, that the maintenance by each country of the greatest possible stability in monetary relations and a due consideration at all times for the effect of its decisions upon other countries afford a more desirable as well as a more practical basis of cooperation at this stage than any formal convention.

BRITISH EMBASSY,
WASHINGTON, D. C.

Sept. 14th 1936.

Secret.

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I enclose the message
from Sir Warren Fisher as
just received.

If you wish to see
me any time I am of
course at your service.

Yours very truly
Victor Gollancz

Mr. A. Eden

Mr. V. A. L. Mallet

14th September, 1936

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BRITISH EMBASSY,
WASHINGTON, D. C.

Sept. 14th 1936.

Secret.



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Yours very truly
Victor Atwater

Mr. A. Eden

Mr. V. A. L. Mallet

14th September, 1936

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Sept. 14, 1936.
10:30 a.m.

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H.M.Jr: Hello

Operator: Mr. Mallet.

H.M.Jr: Hello

Mallet: Hello - good morning Mr. Secretary.

F.M.Jr: How are you?

Mallet: I'm very well thank you. Well I've seen you've been away for a week.

H.M.Jr: Yes. Mr. Mallet, I wondered if you had any news about Bewley as to when he was coming back.

Mallet: No except that I mentioned when I telegraphed - I mentioned that you had said such and such a thing.

H.M.Jr: Yes

Mallet: And they answered to me and said that with regard to that matter they would wait and see first of all what or if proposals they got from another quarter.

H.M.Jr: I see.

Mallet: What?

H.M.Jr: I see.

Mallet: You know what I mean?

H.M.Jr: Yes perfectly.

Mallet: I think they would probably wish to have a talk with him before they sent him back. I imagine that's what it would be.

H.M.Jr: I see.

Mallet: But normally speaking he is due back on the 8th of October.

H.M.Jr: I see.

Mallet: Unless anything happens before that. You feel strongly that you would be moving back --

Mallet: Yes - quite. Well in the meanwhile --

H.M.Jr: Unfortunately, it takes me a long time to get acquainted. I'm worse than you Englishmen are supposed to be.

Mallet: (Laughter) Well I know that Bewley would very much appreciate it - the way that he just managed to get acquainted with you.

H.M.Jr: If I - I feel more strongly then I'll make a definite request.

Mallet: Yes - quite.

H.M.Jr: See.

Mallet: Well if there's anything I can do sir I'm here to let you say something.

H.M.Jr: Right. Thank you.

Mallet: Goodbye.

September 14, 1938

Mr. Mallet today sent to the Secretary a message from Sir Warren Fisher in which the Secretary was informed that the French note had been received and considered by the Chancellor. (Copy of Sir Warren's message is attached.) Sir Warren also in his message to the Secretary gave him the substance of the Chancellor's reply to Monick.

Upon receipt of Mr. Mallet's letter and Sir Warren's message, HM, Jr. got in touch with Taylor and told him to ask Dr. Feis, Lochhead and Oliphant to come to the Secretary's home at 8:15. Lochhead had already left the office and could not be reached.

At this meeting Dr. Feis raised the point that before communicating the contents of the British message to Cochran or having it come out in Paris and as a matter of courtesy the Secretary should communicate with Mr. Mallet and ask him to come to the Secretary's home and then inquire if it would be agreeable to the British if Mr. Morgenthau gave Cochran the substance of their reply. HM, Jr. decided to send for Mr. Mallet.

Mr. Mallet arrived at about 8:30. The following is a transcript of the conversation:

HM, Jr.: After reading your note, it seemed to me that you might want to do something tonight, because one never knows.

M.: Well, that's why I wanted to get it to you the very moment I received it.

HM, Jr.: This is what I had in mind. In the first place, I will answer it tomorrow, formally.

M.: Yes.

HM, Jr.: I won't attempt to answer it tonight, but I will in the morning. I am very much pleased with the tone and the friendliness of it, and, I might say, so was the President. I will attempt to answer it in the same manner tomorrow, but I won't do it tonight.

M.: No, quite.

HM, Jr.: What I would like to do is this, and before I do it, I would like to get the sense of it to Cochran, our man in Paris.

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M: I see; yes.

HM,Jr: In order that he would be posted and so that he could talk to them, because this is a three-cornered thing and we have to keep it moving.

M: Yes.

HM,Jr: But on account of being marked "Secret", I did not want to do that unless you thought it was all right.

M: I think that's perfectly all right -- oh, certainly! Because, after all, the secrecy, I take it, is because of the whole business.

HM,Jr: I did not want to do that ...

M: That's very good of you, Mr. Secretary. I am quite sure that would be all right to convey it to him.

HM,Jr: What I wanted to do -- and I don't mind your making notes -- this is the original of our note to the French. They give you our note that we sent to Cochran.

M: You received an identical request from the French that we did? I have not had the text. All I have had is what I communicated to you. I take it they must have acted identically.

HM,Jr: Yes. (Mr. Morgenthau at this point gave Mr. Mallet a copy of the Treasury's reply to the French draft document and Mr. Mallet paraphrased it. HM,Jr. also gave Mr. Mallet a copy of the French draft document to read.)

M: This is only a draft that they communicated? I am very ignorant of what's been going on because I have had no communication until you spoke to me.

HM,Jr: The way I interpreted it, here is a proposed draft which we are going to present to the British and United States Governments and -- using the American vernacular -- if you don't like it, you make suggestions.

M: They don't want to put it in final form until they have something acceptable. This is the message, I suppose, which corresponds to the answer which we gave to Monick?

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Taylor: That's right.

M: I will read my paraphrase back to you to see if it is agreeable.

That shall go off tonight, at once.

HM, Jr: Thank you.

M: I am very grateful to you and I can tell them that you are contented with the action taken in London and that you are perfectly satisfied.

HM, Jr: Yes. And tomorrow morning there will be a message and if you wish, you can explain.

M: I will say that you are sending a message tomorrow.

HM, Jr: But that the tone of it and the spirit was very acceptable.

M: Thank you very much indeed.

After Mr. Mallet departed, Dr. Feis told the Secretary that while waiting for Mr. Mallet to finish his paraphrase, He and Oliphant and Taylor had been working on the draft of a cable to Cochran giving him a paraphrase of the English reply. He said he had also called Mr. Hull and read him the message that the three of them had worked on and that Hull said it sounded all right to him. HM, Jr. affixed his signature to the draft and Feis said he would take it immediately to the State Department, have it coded and sent to Cochran.

Following is the cable sent to Cochran:

September 14, 1936

AMERICAN EMBASSY, PARIS

FOR COCHRAN FROM SECRETARY OF TREASURY

This afternoon Mallet, Charge British Embassy in Washington, transmitted to me from Sir Warren Fisher a most secret note

of which following is a paraphrased summary.

Quote Most Secret Message Mr. Monick has presented a note from the French Treasury and the Chancellor has given it consideration.

This afternoon Mr. Monick was informed of the Chancellor's readiness to give assurance that if there should be a reasonable change in the value of the franc counter measures would not follow comma such as a further depreciation of the pound as a reprisal or the imposition on French goods of discriminatory duties period On the contrary His Majesty's Government would continue every effort to bring it about that the Sterling exchange rate would not undergo undue fluctuations the prevention of which was the reason for creating the exchange equalization fund

Furthermore Mr. Monick was told that the Chancellor did not believe it possible to give a guarantee that the pound sterling should be linked to gold within points that were fixed period Therefore the Chancellor was not prepared under existing conditions to place a limit upon his power to act independently comma by entering into a formal agreement such as the French note proposed period The Chancellor must be governed in any undertaking which he might give not only by the considerations contained in the French note (he realizes fully the weight of these considerations) but also by the opinion he may form from time to time of the credit policy which stable international relations and domestic recovery might make necessary.

While the Chancellor feels unable to enter into any formal agreement for the reasons that just have been given comma he is desirous of assuring Mr. Morgenthau that his action will continue to be directed to those ends which Mr. Morgenthau jointly with both His Majesty's Government and the French Government have in prospect.

The view has been expressed to the French Government by the Chancellor that the maintenance by each country of the greatest possible stability in monetary relations and appropriate considerations at all times of the effect of its decisions upon other countries afford both a more practicable and a more desirable basis of cooperation at this stage than any convention of a more formal character comma and the Chancellor hopes that this view will commend itself to Mr. Morgenthau Unquote

You will observe that the British reply is in main substance the same as our reply to the French Treasury, which would seem to afford an adequate basis for continuing the

discussion between the three Treasuries. Therefore I communicated with Mallet and expressed this judgment to him, adding that the spirit of the British communication was very acceptable.

I think it important that the Treasuries of the three countries should be completely informed of the course of all conversations. For that reason I told Mallet that I planned to inform you of the text of the note from Sir Warren Fisher to me and to authorize you in turn to pass this information on to the French Treasury. Please therefore inform the Secretary of the French Treasury that the British have informed me of their reply to the French note and of my reaction to it. In addition if you believe it helpful you are authorized to pass on to the French Treasury all or part of the paraphrased text of the British note to us given you above.

September 14, 1936

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PARTIAL PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris

DATE: September 14, 11 p.m.

NO. 348

STRICTLY CONFIDENTIAL

FOR COCHRAN FROM SECRETARY OF TREASURY.

Mallet, Chargé of the British Embassy in Washington, this afternoon transmitted to me a most secret note from Sir Warren Fisher. The following is a paraphrased summary thereof.

A note from the French Treasury was presented by Mr. Monick and the Chancellor has given it consideration.

This afternoon Mr. Monick was informed of the Chancellor's readiness to give assurance that if there should be a reasonable change in the value of the franc counter measures would not follow, such as a further depreciation of the pound as a reprisal or the imposition on French goods of discriminatory duties. On the contrary His Majesty's Government would continue their effort to bring it about that the Sterling exchange rate would not undergo undue fluctuations the prevention of which was the reason for creating the exchange equalization fund.

Furthermore,

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Furthermore Mr. Monick was told that the Chancellor did not believe it possible to give a guarantee that the pound sterling should be linked to gold within points that were fixed. The Chancellor was not prepared under existing conditions to place a limit upon his power to act independently, by entering into a formal agreement such as the French note proposed. The Chancellor must be governed in any undertaking which he might give not only by the considerations contained in the French note (he realizes fully the weight of these considerations) but also by the opinion he may form from time to time of the credit policy which stable international relations and domestic recovery might make necessary.

While the Chancellor feels unable to enter into any formal agreement for the reasons that just have been given, he is desirous of assuring Mr. Morgenthau that his action will continue to be directed to those ends which Mr. Morgenthau jointly with both His Majesty's Government and the French Government have in prospect.

The view has been expressed to the French Government by the Chancellor that the maintenance by each country of the greatest possible stability in monetary relations and appropriate considerations at all times of the effect of its decisions upon other countries afford both a more practicable and a more desirable basis of cooperation at this stage than any convention of a more formal character, and the Chancellor hopes that this view will commend

itself

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itself to Mr. Morgenthau. (End of British note)

As you will observe, the reply of the British is in main substance the same as our reply to the French Treasury, which would seem to afford an adequate basis for a continuation of the discussion among the Treasuries of the three countries. I therefore communicated with Mallet, expressing this judgment to him and adding that the spirit of the communication of the British was very acceptable.

I believe it important that the Treasuries of the three countries should be completely informed of the course of all conversations, and for that reason I told Mallet that it was my plan to inform you of the text of Sir Warren Fisher's note and to authorize you in turn to forward this information on to the French Treasury. Mallet approved of this. Will you therefore please inform the French Minister of Finance of my reaction to the French note and also please tell him that the British have informed me of their reply to that note. Furthermore, if you believe it helpful to the French Treasury, you are authorized to pass on to them all or a part of the paraphrased text of the note we have received from the British.

EA:DJW

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September 14, 1936

Graves and McReynolds had a meeting with the Secretary today.

Graves reminded the Secretary of the meetings in the Western and Southern States, during July, of all enforcement agencies and said he would like to resume the meetings in districts which had not been visited.

The Secretary said he thought Graves should be in Washington just now, but suggested that he could go next week, while the Secretary will be away, and mentioned Boston as the district to be visited next. Graves, however, thought Chicago and Louisville should be covered. The Secretary agreed, saying that if he has not had the enforcement agencies meeting in Chicago he certainly thought Graves should do so and should include Detroit. Graves explained that the Detroit people would come to the Chicago meeting and they could do that next week and also include Cleveland. The Secretary approved.

McReynolds brought to the Secretary's attention the fact that Irey had told him that he was being investigated by the Department of Justice people. Irey had told McReynolds that he had received this information from one of the women attorneys who works for the Department of Justice. It is not Hoover's department which is doing the investigating, but a Mr. Tatro, who is in the Tax and Penalty Section, which is what is left in Justice of the old Alcohol Tax Unit, is spreading the story that he has affidavits to the effect that Irey has taken graft in the settlement of cases and that he, Tatro, is making an investigation.

HM, Jr. inquired if Justice had not been making an investigation of the Coast Guard and McReynolds answered that that was all cleared up because Waesche made some suggestions when they came to see him and they notified him the next day that they were in error in permitting the man to make the investigation, and took him off the work. HM, Jr. wanted to know if Justice had put it in writing that they were in error and McReynolds said no.

The Secretary decided to call the Attorney General. He told Mr. Cummings: "It has been brought to my attention

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and I can't vouch for it and just want to pass it along to you for what it is worth, that you have a fellow by the name of Tatro who is working in the Tax and Penalty Section of the Justice Department. He is supposed to be making an investigation of Elmer Irej. Would you mind looking into it? He used to be with us and we let him out. Irej is supposed to have taken graft in settlement of cases. This was brought to my attention and I am bringing it now to yours. I can't vouch for it. Some day I hope these people will realize that you and I don't give those kind of orders. I don't say Tatro has, but it was brought to my attention and I am passing it right on to you."

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September 14, 1936

Admiral Standley called the Secretary while McReynolds and Graves were present and said the Navy had reached a point where they thought they could arrive at a satisfactory solution in connection with the return to the Coast Guard of certain radio stations, but suggested that Courtney, Admiral Standley's Communications Officer, and Admiral Waesche of the Coast Guard should have Secretary Morgenthau's authority to go ahead and thrash the thing out. He said since the Coast Guard wants it, the Navy will turn the stations back to the Coast Guard and will replace some equipment or furnish new equipment since it would be good sense to better the conditions if possible.

HM, Jr's suggestion was that the matter be cleared up by Thursday noon, so that the basis of the settlement could be finished. Admiral Standley said he would tell Courtney to get in touch with Waesche and he thought the arrangements could be completed by that time.

September 14, 1936.

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FOR THE SECRETARY:

Poughkeepsie:

In Poughkeepsie I walked up Main Street from the station thinking that I might ask persons enroute where to find the U.S. Employment Service. None of them had ever heard of it. I stopped in City Hall where it was equally unknown. It was suggested to me that the WPA, on the second floor of the County Court House, might be able to tell me about it.

On the second floor of the County Court House, just before I reached the WPA headquarters, I saw a "National Reemployment Service" sign. In one of the small rooms, about 10 feet by 20 feet, are the staff of 7 and the files and records of Dutchess County unemployed.

Mr. Daniels, a fairly capable, friendly and sympathetic man of around 50 is the manager of the office. Most of the employer-contact that is done is done by him. He has a statistician-interviewer and a file clerk-interviewer, both men. He has a woman stenographer who also does some interviewing and there is another young lady whose work is largely in the domestic help field. Two NYA boys complete the office personnel. Card records are piled on open tables, there being limited filing cabinets. During the two or three hours that I spent in the office there were no applicants for registration or for jobs.

Mr. Daniels and the two men in his office and I engaged in a long and friendly discussion of the unemployment service activities in Poughkeepsie and the possibilities of increasing placements in private industry. They were unfamiliar with the fact that more money was to be available for the purpose of an intensified employer contact program. Mr. Daniels is of the opinion that some increase in private placements can be secured through making more field visits to employers. Much of the industry in Poughkeepsie, he says, is made up of sweatshop garment trade establishments which have migrated there from New York to escape the rigorous regulations now in force in New York City. Not only would it be unfruitful to make field visits to these employers, in Mr. Daniels' opinion, but for the most part he would refuse to refer workers to these establishments because of the wages and working conditions.

A new factory of some sort is about to build in Poughkeepsie and Mr. Daniels has it in mind to see the personnel manager with a view to furnishing the 400 workers which they will need. He may also contact the construction company for a like purpose.

Mr. Daniels and his staff feel that the re-interview program now getting started is extremely important in any reemployment program. They emphasize the necessity for having complete and accurate records of the unemployed and the necessity for job specification analysis so that the right man may be fitted into the right job.

With more money they could employ a person whose whole time would be occupied in visiting employers. The more visits, they say, the more placements. They do not believe it possible, however, to find jobs for the 5,300 on their rolls, half of whom are on relief. They feel that with better physical facilities, somewhere on the ground floor where applicants could have freer access to them, and where an interview would not be quite so public a process, their services could be visibly improved.

Mr. Daniels outlined some of the difficulties which face them in placing people in industry. Employers have sometimes secured workers through the employment service office who have turned out to be unsatisfactory. It is difficult to get those who are at work on PWA or WPA projects to transfer to jobs in private industry. There are some difficulties about union labor members, although for the most part both the unions and the veterans organizations are friendly and cooperative.

The difficulty with supplying workers to farmers who may be in need of temporary help for haying or strawberry picking and the like is that the workers do not have transportation facilities and farmers do not furnish it. Moreover, people on relief are reluctant to go off for a few days or a few weeks employment because of the red tape and delay necessary to get back on relief at the expiration of the temporary employment.

A Poughkeepsie society lady, on August 15, wrote a letter to the President of the United States, complaining because she could not find a cook. The letter was referred to the Poughkeepsie office of the NRS. In the meantime the lady had inserted an ad in the local paper for a cook. The NRS office read the advertisement and sent a cook, who was hired. When the letter, referred by the White House, was received in Poughkeepsie at the NRS office, they called on the lady in question, who readily admitted that she did not even know that her cook had come from the NRS office.

A farmer complained to the NRS office that, after he had hired a worker on Monday the worker left on Tuesday to go to another job found for him by the NRS. The NRS explained that they sent him a card in the regular course and that if the first farmer had used the NRS to secure his help, no confusion would have resulted.

Mr. Daniels feels that there is a very considerable opposition to his activities among the business men of Poughkeepsie, largely because of their intense feeling against the President and the Administration at Washington. There is no disposition to further the activities of an agency whose success will reflect credit upon Roosevelt. The Poughkeepsie Press is particularly unfriendly. One press release showing a considerable number of employment service placements on WPA and PWA projects and 7 placements in private industry, won a headline of "SEVEN MEN PLACED BY THE REEMPLOYMENT SERVICE".

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The President of the local Chamber of Commerce recently requested from the NRS a breakdown of their registration list by classes of workers. This breakdown was refused by Washington -- and in Mr. Daniels' opinion the request was made with a view to political use of the information asked for.

I talked for a few minutes with the Secretary of the Chamber of Commerce who may not have known about this request made by the President of the Chamber of Commerce because he assured me that the Chamber was not active in any way in employment exchange operations and that they left that field exclusively to the NRS office. While he did not seem to have a very high opinion of the activities of the NRS, he thought that perhaps they were doing as well as they could.

Mr. Daniels did not seem very receptive to the idea of additional publicity for his office, stressing rather a quiet program of careful interviews of applicants, staff knowledge of job specification in industry, letting satisfied employers who use the service extend such use and some increase in field visits to employers.

In the afternoon the field supervisor of the NRS arrived from Schenectady. He was a person that seemed to me distinctly inferior to the Poughkeepsie manager. He talked on all sides of the question, accomodating his beliefs on particular matters to what he thought might please the

questioner. He would blow hot and then blow cold. At first he thought there was very little possibility of any results from additional field visits but ended up with the statement that the whole thing is a matter of salesmanship and that more employees could be sold to the employers if an intensified effort were made in that direction. He even said that he had a plan for bringing in a "flying" squad of 6 NYA workers to go up and down street after street contacting employers. He was very much opposed, however, to the publicity methods of other salesmanship campaigns and thought that posters and speeches were very much out of place. He objected to managers under his supervision making speeches. Mr. Daniels was scheduled to make an address in a couple of weeks before a womens professional group who had cooperated with his office. The supervisor did everything he could to discourage the idea and said that, in any event, his manuscript would have to be forwarded to Washington for approval before delivery. He and Mr. Daniels both expressed the opinion that jobs are scarce these days and they would like to keep theirs and they have no intention of saying anything that will offend the Washington headquarters.

Mr. Carey, the supervisor, said that several county offices had no managers. One of them is Kingston. He recommended a man for the place in May and consideration of the appointment is still pending in Washington.

Both Mr. Carey and Mr. Daniels were pretty pessimistic about the possibilities of employment service efforts in getting present unemployed back to work. They look upon the job of the employment service as being mainly a long time free public service activity which will be an adjunct to the social security and unemployment insurance setup. This job, plus the emergency job of registering and placing workers on relief and work relief projects of WPA and PWA they regard as their main business. They rather feel that the emergency job is one which is beyond their control and for which they should not be held responsible to any great extent. Something can be done to increase the number of placements but by no means can the 5,300 unemployed be put back to work by such efforts.

N.B. I had intended to visit a couple of bankers but encountered Judge Mack at lunch and by the time he finished with his anecdotes banks were closed for the day.

Mr. Daniels was greatly pleased to make Judge Mack's acquaintance and it developed that one of the most troublesome of the unemployed on his registration lists is a cousin of the Judge's.

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New York City:

The New York City picture is extremely confused and confusing and I could only make a beginning at penetrating the maze and getting some superficial idea of what it is all about.

I visited the headquarters office and talked to Mr. Bowers who holds the position of Director of the Division of Placement and Unemployment Insurance in the N.Y. Department of Labor/^{and} is also State Director of the NRS; Mr. Holden who is Associate Director of the NRS and Mr. Berner who is Director of the metropolitan and suburban section of the State Employment Service or Division of Placement. I also visited 3 of the 4 State employment service offices in Manhattan where workers go to get jobs, where registration records are kept and where there is contact established with employers.

While in N.Y. City the job is being done by the N.Y. State Employment Service, now known as the Division of Placement and Unemployment Insurance, the NRS also has headquarters there and furnishes a good many of the workers in the office of the State Employment Service. There is a considerable degree of confusion (to one who has not lived with the system) between the activities of the State agencies and those of the Federal agencies, between emergency activities and long time permanent activities, between employment agencies and relief agencies.

The State employment service offices seemed to be fairly business like record and file stations. The fact that they are on upper floors and the officials pretty well guarded from

-9-

visitors seemed to me to make for discouragement of applicants who desire to use them. #

Those to whom I talked in the office which serves hotel and restaurant workers and employers were quite enthusiastic about the possibility of increased placements resulting from increased employer contacts. They feel very definitely that the number of field visits made shows up strongly in the number of placements. The same thing is true in the office which serves the commercial firms in supplying white collar office workers. In the office serving industrial firms, however, with skilled and semi-skilled workers there was little encouragement for any activity in the matter of field visits. In several lines there is a scarcity or complete lack of skilled workers. One is the metal trade. One is the machine tools. One is the garment trade. Manifestly it will do no good to visit employers in these lines because there are no workers to supply them. This division maintains a training course for garment workers and is really doing an apprentice training job in that field. They are inclined to feel that any money they may get out of the 2 and a half million will not be devoted to more field visits.

Whereas the Washington headquarters of the U.S. Employment Service had told me that the white collar project workers on the staff of the employment service in New York would not be rehired under the new reinterview program because they are not up to standard, the New York office says that practically

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everyone of them is being rehired. Whereas the Washington office of the U.S. Employment Service told me that contact with employers is now substantially retransferred from the WPA Bureau of Industrial Relations to the employment service, the New York office says that most of their contacts with employers are through the WPA Bureau of Industrial Relations -- that requests which come from employers to the WPA bureau are referred to the employment service.

Employers who hire union labor use union headquarters as an employment exchange and members of unions go to their union headquarters for employment opportunities. The unions, it is said, are friendly and cooperative with the employment service.

A number of the staff of the employment service in New York are being attracted away to private employment. If one of these could be retained by a small increase the process is difficult because the matter has to be referred to Washington for decision and that takes a long time.

Mr. Bowers at the head of the N.Y. State Division of Placement and Unemployment Insurance feels that before the unemployment service can be successful it will have to be put under the same general head as the Social Security Board. He has a good many doubts about the possibility of building up a successful joint program between Federal Government and the State Government, thinking that where there is a difference in political alignment there may be some working against each other.

Mr. Bowers and Mr. Holden were both fairly lukewarm about the employment service solving the unemployment problem. They appear to be much more interested in the long term sound building of an employment service to mesh into the social security program than to work in the emergency field. 25

Mr. Bowers was somewhat more sympathetic to accomplishing reemployment by an intensification of field effort. He tells me that the U.S. Treasury Bureau of Internal Revenue is now trying to collect a Federal income tax from employees of the State Employment Service on the theory that the operation of employment offices is not essentially a governmental function, and so State employment service employees are not exempt from the Federal Government income tax.

The employment service of the State of New York has been operating for a number of years and had built up a reputation in the N.Y. City office for being able to find employees in certain lines of industry. Up state New York, Connecticut, and New Jersey made frequent use of the N.Y. City office. The establishment of an overall U.S. Employment Service with local State supervision and administration has caused some difficulty in that the N.Y. office now has to refer New Jersey and Connecticut inquirers to their own state employment offices rather than deal direct.

I am impressed with the consideration that there is plenty of reorganization needed in the employment service and unemployment insurance program from the long time viewpoint, irrespective of the emergency program.

I gather that in the emergency program of getting persons unemployed back to private employment, something can be done in the matter of intensification of field visits and employer contacts but that such efforts will naturally be only a beginning toward the accomplishment of the desired end.

I had a short talk with Col. Sommervell whom I had known several years ago. He is going to recommend to Hopkins that the Federal Government appropriate half a billion for relief for the next fiscal year to be matched by a like amount by the states and the administration of the whole to be turned over to the states to administer. He will recommend another half a billion to be appropriated by the Federal Government for expanded expenditure by regular departments of the government. He considers it desirable to eliminate the heavy administrative overhead and detailed organization of the Federal WPA.

Upm

BUREAU OF THE BUDGET

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Office of the Acting Director

To Mrs Klotz

Here is memo
from Gill re percentages
of funds contributed
by local communities
to relief. He has promised to
submit another statement
showing the amount of
money involved in each
case. This for the Secy.

DBB
9-21
MR. BELL

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WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING
1724 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HARRY L. HOPKINS
ADMINISTRATOR

MEMORANDUM

September 14, 1936.

TO: Mr. Bell
FROM: Mr. Gill

In response to your request, I am attaching a tabulation showing the percentage of funds pledged by sponsors in each state for projects approved by the President under the 1936 Act, as compared with all projects approved under the 1935 Act. Although this tabulation indicates that in most states sponsors have pledged a larger proportion of funds than formerly, the following points should be considered in any interpretation made of the attached data:

1. The tabulation for the 1936 Program is based on a 42 percent sample for the country as a whole and the sample is undoubtedly inadequate for certain of the states. We expect to be able to have a complete tabulation available in the near future.
2. The volume of projects which have been submitted under the 1936 Act varies widely between the states. In many states a sufficient number of projects were approved under the 1935 Act so that it has been necessary to submit relatively few new projects to date, and, consequently, the percentage figures under the 1936 Program for these states are not significant. In other states, a relatively large volume of new projects has been submitted, but these still may represent only a fraction of the projects actually in operation in the state.
3. In interpreting these figures in relation to the cost of the Program to the Federal Government, it is essential that man-year cost figures from Federal funds be considered. This is particularly important inasmuch as we have adopted a general policy of having the states require smaller contributions on projects where the total man-year cost was low, and a larger amount of funds should be provided by sponsors where the total man-year cost is high. Thus, some states may have

Mr. Bell

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September 14, 1956.

elected to submit projects having a lower total man-year cost and, consequently, a lower proportion of funds obtained from sponsors, but this would obviously not increase the cost to the Federal Government. We expect to have the figures on man-year costs, by states, on approved projects available in the near future.

4. Past experience has indicated that the projects selected for operation have a substantially larger proportion (approximately 28 percent) of sponsors' funds than approved projects. From the large reservoir of projects available, State Administrators quite naturally select those with higher sponsors' funds for actual operation.

5. As a matter of policy, we have urged State Administrators to operate at least a certain number of high cost projects representing substantial additions to local communities for the purpose of improving the quality of the work done under the Program.

Attachments: Statement showing percent of cost borne by sponsors in each state on projects approved under the 1935 Act, as compared with projects approved under the 1936 Act, together with a statement in interpretation of this tabulation.

September 14, 1936

No change appears in the sponsors' proportion of costs borne by sponsors on Works Progress Administration projects authorized by the President for the 1936 program over those approved for the 1935 program. For both of these the sponsors' contribution averages 14 percent of the total costs, the balance being absorbed by the Works Progress Administration.

Among individual States there are substantial variations in the share of costs borne by sponsors over these two programs. In fact, most States show sizeable increases as may be seen in the attached table. Thirteen States show absolute increases in the percentage of sponsors' participation from 1 to 5 percent; 15 States, from 6 to 15 percent; and 4 States, even higher. These are the States which had a large volume of projects approved under the E.R.A. Act of 1935. Having these reserves, most of these States have submitted relatively few new projects through September 1st of this year and have been in a position to select for transmittal to Washington those projects which have the highest sponsors' participation.

The 16* states which show decreases in sponsors' contribution in the second program over the first are chiefly the ones which have had to submit a relatively large volume of projects to Washington under the 1936 program.

The President approved for these States under the old program, approximately 28 percent of the total Federal value of projects for the United States, but under the new program, approximately 37 percent of the total value authorized. Under the necessity of submitting a greater volume of projects, these States have been unable to procure, in all cases, as high a proportion of sponsors' contribution as they did formerly.

* Thirty-two States show increases, 16 decreases and 2, Kentucky and Tennessee, no change.

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However, even these average sponsors' contributions of 14 percent are undoubtedly an understatement of the sponsors' share in the costs of either program. This figure is based upon projects approved by the President and those made eligible for prosecution. It does not represent projects in operation or completed. While final reports on the latter are not yet available, preliminary indications are that the State Works Progress Administrations have selected for prosecution the projects with the highest contributions from sponsors. It is therefore expected that final reports will show the 14 percent figure to be an understatement of the sponsors' share of costs on both programs.

SPONSORS' PARTICIPATION IN THE COST OF W.P.A. PROJECTS APPROVED BY THE PRESIDENT
UNDER THE EMERGENCY RELIEF APPROPRIATION ACTS OF 1935 AND 1936
BY STATES

STATES	PERCENT OF COSTS BORNE BY SPONSORS	
	1935 Program	1936 Program*
Total - United States	14	14
Alabama	22	21
Arizona	18	24
Arkansas	20	19
California	13	22
Colorado	14	38
Connecticut	18	27
Delaware	17	8
District of Columbia	4	32 **
Florida	18	15
Georgia	22	10
Idaho	20	23
Illinois	12	20
Indiana	15	18
Iowa	17	21
Kansas	16	27
Kentucky	20	20
Louisiana	8	30
Maine	13	26
Maryland	12	8
Massachusetts	14	16
Michigan	11	25
Minnesota	10	6
Mississippi	16	20
Missouri	13	23
Montana	15	17
Nebraska	14	28
Nevada	24	18
New Hampshire	18	19
New Jersey	11	14
New Mexico	11	24
New York City	0	5
New York State	20	21
North Carolina	19	33
North Dakota	14	21
Ohio	13	9
Oklahoma	12	34
Oregon	13	9
Pennsylvania	11	6
Rhode Island	19	31
South Carolina	23	15
South Dakota	15	12
Tennessee	27	27
Texas	21	4
Utah	21	23
Vermont	16	26
Virginia	14	7
Washington	10	12
West Virginia	5	8
Wisconsin	9	16
Wyoming	29	24

*Projects approved by the President to September 1, 1936.

**Only one project by September 1, 1936.

RELIEF AND WORK RELIEF IN ILLINOIS

Summary

The Illinois Emergency Relief Administration is planning to make a sample reinvestigation of WPA rolls in two areas in Chicago and two down-State, to determine whether WPA families are still in need. The reinvestigation will begin September 8th and be completed about October 1st. If 10 percent of the workers are found not to be in need the examination will be extended to the entire State.

The sample study is to cost \$25,000. The entire study will cost \$250,000. The study is to be made by the social work staff of the Illinois Emergency Relief Commission, which no longer has the power to give relief, but which still certifies needy workers to WPA.

* * * * *

WPA has been taking care of 150,000 workers. This is a decrease from 200,000 in March.

There has been no reinvestigation of workers since their admittance to the WPA. It is estimated that from 10 to 20 percent of WPA workers will be found ineligible to relief work, upon reinvestigation. This is apart from the number that may be returned to private industry by the President's reemployment drive. The U. S. Employment Service reports that some WPA workers are refusing jobs in private industry.

* * * * *

Relief rolls are still rising. There are perhaps 46,000 eligible workers now on relief rolls whom WPA has not employed. Every worker on WPA who is not in need is keeping a needy worker on relief rolls from obtaining WPA employment.

On July 1st, the Illinois Legislature abolished State relief, and returned all relief-giving to local agencies. There are now 1454 relief-giving agencies in Illinois.

Down-State, relief is in the hands of the county supervisors and township commissioners. Many of them cannot read and write. They do not know their monthly expenditures until the grocer sends the bill. Their

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objective is to keep expenses down, and to make the people who receive relief feel as miserable as possible. Some of the local officers are trying hard to learn their new job, but the tradition is that of the Elizabethan Poor Law.

* * * * *

In Chicago, all relief work except pure routine ceased in July and August. No new families were admitted. Checks were sent regularly to families without visiting or investigation. Relief staffs received no old salaries whatever. Relief staff workers were dispossessed, and fainted in the office from hunger.

City officials insisted that they could not raise any more money by taxation. State officials refused to give them any more State money until local money was made available. Relief offices are now reopened in Chicago, but the tax battle between Chicago and down-State continues.

The background of the struggle is a contest for the political power inherent in relief funds and relief voters. The situation will reach a climax by mid-winter. The unemployed are organizing again to bring pressure on the Legislature.

Field Visit,
August 22 - 29, 1936

September 15, 1936

EL

Reinvestigation of WPA workers

The plan of investigation provides that all workers now on WPA will be asked to reapply for WPA employment. It is expected that 5 to 10 percent of the workers will never reapply, because they know they cannot qualify. (Reapplication is a highly useful device in clearing relief rolls.) Another 5 to 10 percent will be found after investigation to have adequate resources.

The investigation will include a full report on all the sources of the family's income, and all its needs, a complete family budget. The definition of need is very carefully worded. Families whose total income, excluding WPA, is two-thirds or more of its budget needs will not be considered eligible for WPA.

"They will find plenty to open their eyes," said one certification agent, when told of the proposed reinvestigation.

Standard of need

This investigation contrasts in several vital points with the study of WPA works proposed by Mr. Gill.

Mr. Gill defined need in such a way that all workers whose families earned any amount under the security wage were classified as "substandard." This put all the families with incomes ranging from \$1 to \$50 (or over) a month among those "in need" of WPA work. It made the upper limit of income in WPA families about twice the security wage.

In the Illinois State study, families will be classified as needing WPA employment only if their income is less than two-thirds of their needs (\$33 out of \$50). Families needing \$50 and having incomes of \$1 to \$33 will be classified as needing WPA. Under normal social work practice, families with an income of \$33, and in need of \$17, would get \$17 and not \$50.

The IERC study is superior to the WPA plan also in that budget needs are used, and not security wages. The security wage can never be used as the basis of determining need. It is unfair to large families and over-generous to small families, and to those with other workers in the family. It puts a premium on constant efforts to raise security wages.

The IERC study also takes account of non-cash income - garden produce, wood, and other means by which relief families can be made partly self-sustaining.

The IERC investigation is to be made by case workers who know how to analyze family income and verify the families' statements, not by statistical agents who take the family's answer to questions as final.

(In all reexamination of relief rolls the essential points are:

Budget standards of need, not WPA wages,
Careful definition of need to exclude families with
income enough to cover most of their budget needs,
Investigation by trained family visitors, if possible,
under State auspices.

It is particularly important to exclude families with part of their needs covered, because WPA has encouraged families to keep the principal worker on WPA and send the others into private industry.)

Attitude toward Federal program

The attitude toward next year's Federal program was one of hopelessness. It was generally felt that the Federal Government had made a final decision for high-paid work-relief, separate from direct relief. The State and local people had protested as vigorously as possible against this program. They thought it would be hopeless to volunteer any opinions about this year's Federal Program.

The people in Chicago who knew the situation put up the most vigorous fight they could make against abandonment of direct relief. They led the country in the vigor of their protests. Now they are almost in a stupor about it, with the firm conviction that the Federal Government does not want to hear what they have to say, and has no intention of reconsidering the program in the light of local experience.

They say, "If the Federal Government had only given us a year's warning, we could have reestablished direct relief, on a State and local basis, so that Federal aid would not have been any longer needed. But they went out so quickly we could not get reestablished."

Joel Hunter, Superintendent of United Charities, outlined the principles of a sound work program in 1934 when he was on the Advisory Committee for the Social Security Bill. Mr. Hopkins refused to include his suggestions in the report. Mr. Hunter said, "I think it was the most unhappy day of my life." Mr. Hunter has about the same standards of public and private social welfare as Jane Adams.

When Mr. Hopkins was discussing the 1935 Program, with Chicago leaders, he said, "I want power, and I want money. I can spend money faster than anyone else, and I can stop spending it faster. I want full power to do it." They asked him if he would continue to give grants for direct relief. He said, "No, I want the power to give them, I want it in the Act. But I am not going to give grants for direct relief." They made no more suggestions.

Political stakes in relief

The staff of the IERC provided from 5,000 to 10,000 jobs. It spent \$10,000,000 a month.

(Few people have yet begun to realize how great are the stakes involved in control of relief, and the temptation they are offering to ambitious men.

Relief and work relief provide the largest number of office-holders, the largest funds, and the largest bloc of votes that politicians have been able to get hold of in many years. The funds are particularly useful, because there are no simple, rigid rules by which amounts for different families can be distributed. It is easy to create confusion over issues.

The bitter prejudice in this country against all public relief in the generation before the War followed just such a period of lavish relief-giving by public agencies.

The conflict over which party or faction shall control relief expenditures has already appeared in New Jersey, Pennsylvania, and Illinois. It will appear in many more States before February.)

Relief families

"Certified workers" are those referred to WPA by the relief agencies as in need and eligible for work. From them all new WPA workers are chosen.

New certifications are constantly being made by the State Emergency Relief Commission. Workers known to be no longer in need or not reporting for three months are "suspended" by WPA and referred back to the IERC for investigation. The Commission has no funds for such work.

Certified to WPA (August 12)	<u>264,000</u>
Employed on WPA	148,000
Employed, other works program	16,000
Total employed	<u>164,000</u>
Certified but not available for WPA	56,000
Certified and available but not yet taken by WPA	46,000

There are about 46,000 workers on relief rolls who could be taken from local relief and put on WPA. There is another 56,000 in the certified lists whom WPA would not take, chiefly because they are employed part of the time in private industry. There are probably more than 50,000 WPA workers who will not qualify upon reinvestigation, and whose places will therefore be vacant.

About one-quarter of the original workers certified are no longer a relief responsibility. The proportion is rising. Chicago is losing 1,000 workers a month to private industry.

In Chicago, 83,548 relief cases were closed last year mostly to WPA. There were 16,264 reopened. Of these 9,000 had lost WPA employment, and 7,000 were given relief in addition to WPA earning. In Chicago, there are 23,000 men and 9,000 women certified to WPA who cannot be assigned until WPA rolls are reinvestigated.

Less than one-third of the workers dropped from WPA this spring had reapplied for direct relief before relief applications were stopped in July.

Funds

The WPA is spending over \$11,000,000 monthly in Illinois.

Public relief agencies spent three millions in July, but did not have enough for their needs. They are asking for \$4,598,000 for September.

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Public relief agencies are taking care of almost as many families as WPA.

In Chicago, nearly 10 percent of relief cases are WPA families which get supplementary income from direct relief.

Tax situation

State officials insisted that no State funds would be given Chicago until Chicago provided some relief funds.

A bill was passed levying a new property tax. When the city tried to sell tax-anticipation warrants, the investment companies were advised by counsel that the tax was unconstitutional (double taxation in certain areas). Chicago's Mayor asked for more State money. The State ordered the Relief Commission to credit Chicago with funds on hand equal to the anticipation certificates. It has been charged that the Mayor encouraged the ruling that the tax warrants were unaleable, because he wanted to save Chicago's funds.

As a result, the Chicago Relief Bureau gets about \$1,900,000 and needs \$2,850,000. The difference is met by giving relief families enough for food only. They get no rent, clothes, fuel, light or gas. The result is an increase in evictions, children returning to school without shoes, and men looking for jobs without decent clothes.

Joel Hunter of the United Charities says, there is no need for Chicago to be without revenue. They could collect enough funds for relief if they wanted to put their finances in order. They need Federal aid for the transition period, and for its effect on the local situation.

Administrative funds

The law sets administrative funds at a maximum of 8 percent for Chicago and 6 percent for down-State. This is not enough. It was a small margin even when funds were large. The ratio of administrative funds must be higher when the sums involved are smaller.

A bill is to be introduced raising administrative grants to 10 percent for Chicago and 8 percent for down-State.

Legislative situation

The purpose of the Legislature in returning relief to the localities was to reduce costs.

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They are still in session, trying to untangle the snarl of Chicago finances. They abolish a bureau every day.

There is a strong feeling in Chicago that the Legislature is also playing politics, that it abolished the Relief Commission in order to control it.

Social security

Illinois has not taken full advantage of social security.

The old-age pension bureau has received Federal approval, but it is over-staffed with political appointees.

Blind pensions have not yet been brought under the Federal system. There is a powerful lobby of blind people working on the Legislature to prevent the transfer. The reason is that so many of the people who receive blind pensions in Illinois are not blind. One "blind" pensioner was arrested for stealing chickens at night. Another was reading a newspaper when the investigator called.

The lobby of "blind" pensioners is organized, but the blind who ought to get Federal are not.

Local supervisors

The supervisors who now have charge of direct relief are applying the Elizabethan Poor Law code of making relief as hateful as possible.

They give the family a grocery order. Some of them have reestablished commissaries in their cellars where relief families come and get a basket of groceries.

They keep no records and do not know the number of families helped, or their need. They furnish financial reports on the back of an old deed, or a torn piece of paper. Letters sent by the Illinois Relief Commission pile up unread.

One supervisor wanted to refer his son to WPA. Asked for evidence that he was in need of relief, the supervisor said he had "given him grocery orders and some coal." Another supervisor referred for WPA work a woman on relief who had married a non-relief worker. He thought it would be nice if they both were working.

(The local supervisors want their local standard of need applied to relief families. They are in active rebellion against the FERA standard of generous relief. Local officials will continue to demand control in the Legislature until the welfare officials, who are far more competent, are willing to consider the needs of the working population who pay the taxes.)

There is no indication that social workers in Illinois have yet begun to realize that the depression is over, and that the public will not tolerate over-generous relief in a period when employment and taxes are rising.

If relief workers as a whole could see that one point, the supervisors would probably be glad to surrender direct relief, because they are finding it a much more difficult job than they expected. It will be far worse as winter comes on.)

WPA and State relief

Certification of workers to WPA involves an embarrassing situation. It means investigation by State relief officials of families who are the local supervisor's responsibility. This is done as a favor for WPA, without WPA assuming any financial or other responsibility.

Certification is unpopular in the localities. It is not understood. It is undoubtedly making worse the tangle of relationships between Federal, State and local agencies. It is also making the State Commission more timid in meeting the Legislature.

(The only alternative to this confusion is a clear distinction between term employment, independent of relief status, and work-relief, related to need, and independent of prevailing wages. This distinction was clearly maintained in the 1933 - 1934 programs of FERA and PWA.)

Now WPA is trying to clear its rolls, and asking the State officials to investigate old families - again without any contributions. The State certification agents say that if they investigated WPA suspensions alone they could do nothing else.

They say it would take the full time of one secretary just to file and copy WPA reports. When WPA sends carbon reports they have to send two-thirds of them back because they cannot be read.

WPA lay-offs

The first group of lay-offs in WPA was the normal turnover of private industry. These dismissals were needed by the operating people if the new program was to be made efficient.

(In other words, WPA is competing for the very people that private industry wants, and refusing to provide work for the less efficient, as they did in 1934.)

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The FERA work-relief program was on the opposite basis. The program was adjusted to the needs and skills of the workers.

The new projects are coming in from communities where local funds are highest and local officials most progressive. The communities most in need of projects do not get them.

WPA services

A family receives many incidental services once the head has been certified to WPA. Another member of the family may be referred to the Youth Administration or to the CCC. The family receives food and clothing in the distribution of surplus commodities. It is entitled to a household aid to help with the housework, in case of illness or other need.

(These extra services tend to make WPA families even more privileged, in contrast with the large number of families on low paid or irregular employment. This discrimination is offset in part by giving these special services to marginal families not on relief rolls, but that increases the cost of the services.)

Decline of self-help

WPA sewing projects are a good example of how WPA reduces the family's ability to support itself in exchange for elaborate made work at high cash wages.

Under the FERA works program, women brought their sewing to self-help sewing rooms, and made their children's clothes with some expert help, but without any question of wages. The women enjoyed the hour or so as a mental and emotional tonic.

The WPA is discouraging sewing rooms for family sewing because they are "inefficient." They hire women to sew on power machines at prevailing wages. The Federal Government buys the materials. The women are taught factory sewing instead of home sewing. At the end the children in the families get the articles produced, through another project, the commodity distribution project (with more costs) but they get the goods late, they are probably the wrong sizes and colors, at ten or twenty times the expense of the self-help projects.

PRINCIPAL PERSONS INTERVIEWED

WPA - Regional office

Mr. Uhlman, Financial Assistant to Howard Hunter, Administrator
Mrs. Burgoon, Employment Division

WPA - Illinois State Administration

Major Lake - Director of Engineering Division

Illinois Emergency Relief Commission

Miss Effie Doan, in charge of certifications to WPA
Mr. Ferebee, Chief of Finance and Statistics
Mrs. Elliott, Chief of Personnel

Regional meeting at Dixon with
Regional Director and about ten certification agents for
Northern Illinois townships

Treasury Department

Chief, Accounting Division
Mr. Milligan, Procurement Division

Private Agencies

Wilford Reynolds, Council of Social Agencies
(formerly Administrator, IERC)
Joel Hunter, Associated Charities
(Advisory Committee on Social Security, Washington, D. C. - 1934)
Mrs. Page, in charge of family service, Chicago Bureau of
Public Charities

U. S. Employment Service - Illinois State Labor Department Service

Mr. Emery, Chief
Supervisor, Clerical Division
Mr. Flum, Supervisor, Industrial Division

Industry

John Wacksek, Crossett, Wacksek-Gates Lumber Co.
Adam Trieschmann, " " " " "

September 15, 1936

The Secretary told the group at the 9:30 meeting that he was thinking of making a radio speech, of 15 minutes or more, on the history of the individual and corporate tax laws. His idea was it would run something to the effect that in 1913, when we had an income tax law, the Democrats were in power and it was a Democratic measure and Vice President Garner was one of the leaders, and that it has always been the policy of the Democratic party to raise money by taxes on income and from the beginning it has been opposed.

He cited as an example the case of a man with \$25,000 income and how much he would pay if he operated his business as an individual, how much as a partnership and how much as a corporation, and the same with a man with \$50,000 income. He said he wanted to show the reasons behind the Treasury's proposal for a tax on undistributed earnings.

Another thought he had was to explain that one of the Treasury's reasons for that proposal was because the Treasury found that certain groups were taking advantage of loopholes in the straight income tax and organizing holding companies and that the country was losing revenue and in order to carry out the Democratic policy of 1913 the Treasury was trying by this means to plug those loop holes.

In the speech he would refer to the claim that corporations used their surpluses to tide employment and business over the depression and answer that. He also wants to answer the criticism which alleges that the new tax law hurts the small corporation.

The Secretary mentioned that most of the criticisms can be found in Godfrey Nelson's articles in the New York Times.

In the speech he thought it would be well to mention that we could have put a tax on the consumer, such as the sales tax, but that the Administration did not want to do that as that would be contrary to good Democratic practices. He repeated that it is the Treasury policy, as long as there are loop holes, to try to plug them.

The Secretary told the group he wants this information by Thursday so he can show it to the President.

September 15, 1938

HM, Jr. called Cochran on the telephone from his home this morning. Cochran told the Secretary that he received the cable which Mr. Morgenthau sent him last night giving him the substance of the reply which the British had handed to Monick to present to Auriol in person. Cochran also told the Secretary he had delivered the substance of this message to the French Treasury before Monick had arrived back from England.

Cochran also advised the Secretary that he was sending Cable No. 870. It is as follows:

Sept. 15. 1 pm

I informed Baumgartner of Department's No. 348 this forenoon and left all of the paraphrased text of the British note to us with him.

The text of the British reply to the French had not yet been received by them since Monick is not arriving with it until this afternoon at four o'clock. Under the circumstances our communication will be presented by Baumgartner to the Minister of Finance only after Monick's arrival. I was told by Baumgartner that they would then call me to the Ministry either tonight or tomorrow.

Baumgartner sees that we are all in agreement on intentions and motives. Baumgartner's problem is to convince the Minister that the British and American replies offer a sufficient basis for developing the French request for unilateral devaluation in a form that will be accepted as a realization of international "monetary peace" by the French public. The tense situation obtaining here now, resulting from labor difficulties, is entirely known by the Ministry of Finance which does not want to give the public and particularly the Communists a reason through undisguised devaluation for rioting and possibly upsetting the French Government.

Today Dr. Feis brought in draft of reply to the Chancellor of the Exchequer acknowledging receipt of the substance of the British reply to the French note. HM, Jr. revised this draft slightly. Copies of both are attached.

PARAPHRASE OF TELEGRAM RECEIVED

from: American Embassy, Paris

date: September 15, 1 p.m.

No. 870

FOR SECRETARY OF THE TREASURY FROM COCHRAN

RUSH

I informed Baumgartner of Department's No. 348 this forenoon and left all of the paraphrased text of the British note to us with him.

The text of the British reply to the French had not yet been received by them since Monick is not arriving with it until this afternoon at four o'clock. Under the circumstances our communication will be presented by Baumgartner to the Minister of Finance only after Monick's arrival. I was told by Baumgartner that they would then call me to the Ministry either tonight or tomorrow.

Handwritten notes:
✓ the case - 98771.7 ✓
... - ... 600
... 2/7
Monick - 297

EA:DJW

Section 2 of telegram No. 870

Baumgartner sees that we are all in agreement on intentions and motives. Baumgartner's problem is to convince the Minister that the British and American replies offer a sufficient basis for developing the French request for unilateral devaluation in a form that will be accepted as a realization of international "monetary peace" by the French public. The tense situation obtaining here now, resulting from labor difficulties, is entirely known by the Ministry of Finance which does not want to give the public and particularly the Communists a reason through undisguised devaluation for rioting and possibly upsetting the French Government.

EA:DJW

September 15, 1938

HM, Jr. telephoned to Cochran from home this morning. In the course of the conversation, Cochran told the Secretary that we had informed him (Cochran) of the substance of the message which the British had sent to the French Government and that Cochran had received this communication before the Minister of Finance of France had had a chance to receive it from Monick, who was on his way from London to present it in person to Auriol.

Cochran also told the Secretary he was sending a cable today. (This is No. 870, as follows:

"September 15, 1 p.m.

I informed Baumgartner of Department's No. 348 this forenoon and left all of the paraphrased text of the British note to us with him.

The text of the British reply to the French had not yet been received by them since Monick is not arriving with it until this afternoon at four o'clock. Under the circumstances our communication will be presented by Baumgartner to the Minister of Finance only after Monick's arrival. I was told by Baumgartner that they would then call me to the Ministry either tonight or tomorrow.

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My dear Mr. Chancellor:

I wish to acknowledge with thanks receipt of the communication from Sir Warren Fisher to myself, giving me the substance of a reply made by the British Treasury to the French note, and also conveying your assurances that while feeling unable to enter any formal convention for the reasons explained, your action will continue to be directed to the ends which we, in common with the French and your treasuries, have in view.

I appreciate your action in so promptly informing me of the course of the discussion, ~~between the British and the French treasuries~~. Immediately upon the receipt of Sir Warren Fisher's message I informed Mr. Mallet that I felt ^{real great} ~~such~~ satisfaction in ~~the fact~~ that the line of action presented in your communication seemed to be so closely in accord with the views which I had communicated to the French treasury. ~~I take this occasion to again express my sense of satisfaction in that fact.~~ This exchange of views has served to disclose ~~the existence of~~ an ample basis for the ~~needed~~ cooperative effort.

So that the Treasuries of all three countries may be constantly and fully informed of the state of discussion, Mr. Mallet was ~~given~~ ^{shown} a copy of our reply to the French treasury, with the understanding that he would transmit to you its substance at once. We have taken corresponding action in Paris.

Assuring you of my high regard ~~and anticipating that the cooperation will continue~~, I am

Sincerely yours,

September 15, 1936

My dear Mr. Chancellor:

I wish to acknowledge with thanks receipt of the communication from Sir Warren Fisher to myself, giving me the substance of a reply made by the British Treasury to the French note, and also conveying your assurances that while feeling unable to enter any formal convention for the reasons explained, your action will continue to be directed to the ends which we, in common with the French and your treasury, have in view.

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Assuring you of my high regard, I am

Sincerely yours,

The Honorable
Neville Chamberlin,
Chancellor of the Exchequer;

September 15, 1936

My dear Mr. Chancellor:

I wish to acknowledge with thanks receipt of the communication from Sir Warren Fisher to myself, giving me the substance of a reply made by the British Treasury to the French note, and also conveying your assurances that while feeling unable to enter any formal convention for the reasons explained, your action will continue to be directed to the ends which we, in common with the French and your treasury, have in view.

I appreciate your action in so promptly informing me of the course of the discussion. Immediately upon the receipt of Sir Warren Fisher's message I informed Mr. Mallet that I felt real satisfaction that the line of action presented in your communication seemed to be so closely in accord with the views which I had communicated to the French treasury. This exchange of views has served to disclose an ample basis for the cooperative effort.

So that the treasuries of all three countries may be constantly and fully informed of the state of discussion, Mr. Mallet was shown a copy of our reply to the French treasury, with the understanding that he would transmit to you its substance at once. We have taken corresponding action in Paris.

Assuring you of my high regard, I am

Sincerely yours,

The Honorable
Neville Chamberlin,
Chancellor of the Exchequer;

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Tuesday, September 15, 1936.

Press Service
No. 8-43

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 2-3/4 percent Treasury Bonds of 1956-59.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	\$ 496,377,150	\$ 40,119,700	\$ 10,904,500	\$ 51,024,200
New York	2,703,503,200	200,519,050	307,082,700	507,601,750
Philadelphia	302,554,350	26,870,700	17,821,000	44,691,700
Cleveland	265,343,050	28,109,250	11,099,500	39,208,750
Richmond	160,703,950	17,904,250	34,502,500	52,406,750
Atlanta	122,892,300	18,502,500	7,425,500	25,928,000
Chicago	427,875,850	49,650,650	75,877,100	125,527,750
St. Louis	140,758,800	23,226,750	7,130,900	30,367,650
Minneapolis	63,016,800	9,233,450	12,179,000	21,412,450
Kansas City	94,683,150	15,514,250	6,662,800	22,177,050
Dallas	86,422,550	17,258,350	3,251,000	20,509,350
San Francisco	262,285,700	22,757,850	17,174,300	39,932,150
Treasury	3,305,850	298,500	750,000	1,048,500
TOTAL	\$5,129,722,700	\$469,965,250	\$511,860,800	\$981,826,050

ooOoo

September 15, 1936

I have just arranged that Commander Parker of the Coast Guard is to be sent for three months to Hawaii, as coordinator representing me personally.

SE

September 15, 1936

I got hold of Bell and Lochhead, in connection with the last paragraph of the attached memorandum from Dr. Burgess that the Federal Reserve yesterday had purchased \$7,000,000 of government bonds without my knowing it, and told them that in the future the actual buying and selling of bonds will clear through Lochhead and Bell is supposed to arrange for this to be done.

Memorandum

September 14, 1938

To: Secretary Morgenthau

From: Dr. Burgess
(Via Telephone)

Government security markets inactive. The new 2 3/4s of 1956-59 about 1/32 off from Saturday's close; other Treasury bonds closed from 1/32 to 3/32 off. Longer term Treasury notes from 1/32 to 2/32 off; other notes practically unchanged. Guaranteed issues generally unchanged.

High grade domestic bonds firm around Saturday's close, but very quiet. Second grade domestics fractionally off but inactive.

Polish issues were strong, from fractionally to over two points better than Saturday's close; French, Italian, and German government issues fractionally off; other foreign issues quiet and fairly steady.

Purchased for account Treasury agencies \$7,000,000
2 3/4% bonds of 1956-59.

? How Come?

Memorandum Of Conference With Secretary Morgenthau
On September 15, 1936 at 11:40 A.M.

Present: The Secretary, Messrs. Graves and Wilson, and ~~Mrs~~ Klotz.

The Secretary instructed that consideration be given to taking additional measures for the protection of the person of the President, particularly in connection with electrical devices which may be used to safeguard the President, and it is his desire that I secure the cooperation of the Bureau of Standards in this connection.

I have arranged to meet Dr. Briggs, Director of Bureau of Standards at 2:00 P.M. today for a conference on this matter.

The Secretary instructed that Mr. Hall of the Bureau of Engraving be conferred with in order to have preparations made for a school on counterfeiting in which Secret Service operatives may be instructed so that they may more intelligently determine whether specimens submitted to them are genuine or counterfeit. He particularly wishes Mr. Hall to prepare and submit some specimens of counterfeits in order to test out the ability of the agents.

I have arranged to meet Mr. Hall at his office at 10:00 A.M. on September 16th to pursue this matter.

The Secretary instructed that he be furnished a list of new counterfeits showing since July 1, 1936. This list is attached.

The Secretary further instructed that in future he be furnished with a memorandum when a new counterfeit shows, which instruction will be followed. I assume that the Secretary referred only to new counterfeit notes and not to coins.

Frank Wilson
Acting Assistant Chief

NEW COUNTERFEIT NOTE ISSUES SINCE JULY 1, 1936.

July 15 - \$10 Federal Reserve Note(Cleveland), 1928 B series, appeared in Chicago. Fairly deceptive.

July 16 - \$100 Federal Reserve Note(Boston), 1928 A series, appeared in Boston, Massachusetts. Very crude production.

August 25 - \$20 Federal Reserve Note(Kansas City), 1928 B series, appeared in Denver, Colorado. Fair. Only one note reported to date.

August 25 - \$1 Silver Certificate, 1935 series, appeared in Chicago. Fair deceptive. Only two or three specimens reported.

August 6 - \$1 Silver Certificate, 1928 A series, appeared in Benton Harbor, Michigan. Crude photographic production.

September 1 - \$1 Silver Certificate, 1928 A series, appeared in Benton Harbor, Michigan. Crude photographic production.

September 12 - \$5 United States Note, 1928 B series, appeared in New York City. Fairly deceptive.

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September 15, 1938

Mr. Berkowitz of the Hearst advertising staff came in to see the Secretary about advertisements on the baby bonds. He told the Secretary that 75% of our advertising goes into the Saturday Evening Post and the balance of 25% into a couple of other magazines.

He was just about to pull out a presentation to have Mr. Morgenthau advise in the Hearst papers when the Secretary told him that he was not a space buyer; that he had Mr. Taylor and Sloan and Bryan in charge of all space buying and as far as he knew, everybody seemed satisfied. The Secretary said, furthermore, that he is not advertising in newspapers and if he were he certainly would not advertise in the American Weekly and showed Mr. Berkowitz the attached cartoon.

HM, Jr. said to Mr. Berkowitz: "I have merchandise to sell and it happens to be paper which represents stock in the United States. If I am going to sell my merchandise, I want to go into a publication which will give me a break. I have no feelings against the Hearst organization because in November I am going to advertise in Good Housekeeping.

The Secretary also told Mr. Berkowitz, "I have Admiral Peoples in charge of purchasing the 42,000 different articles which we need to buy and I put Taylor and the other two men in charge of the advertising which we buy. I am too busy a person to bother about space buying, but," he again repeated, "if I were to handle it myself I certainly would not advertise in a paper which runs cartoons picturing Mr. Morgenthau as giving the business man a "red raw deal" and depicting the Government as an "insecure cockeyed" one.

Berkowitz handled himself very well. Just as soon as he realized that he had no defense, not being prepared to have Mr. Morgenthau attack him on the cartoon, he said, "Well, I certainly am going back and tell Mr. Hearst that he did not help me any by having this cartoon appear last night."

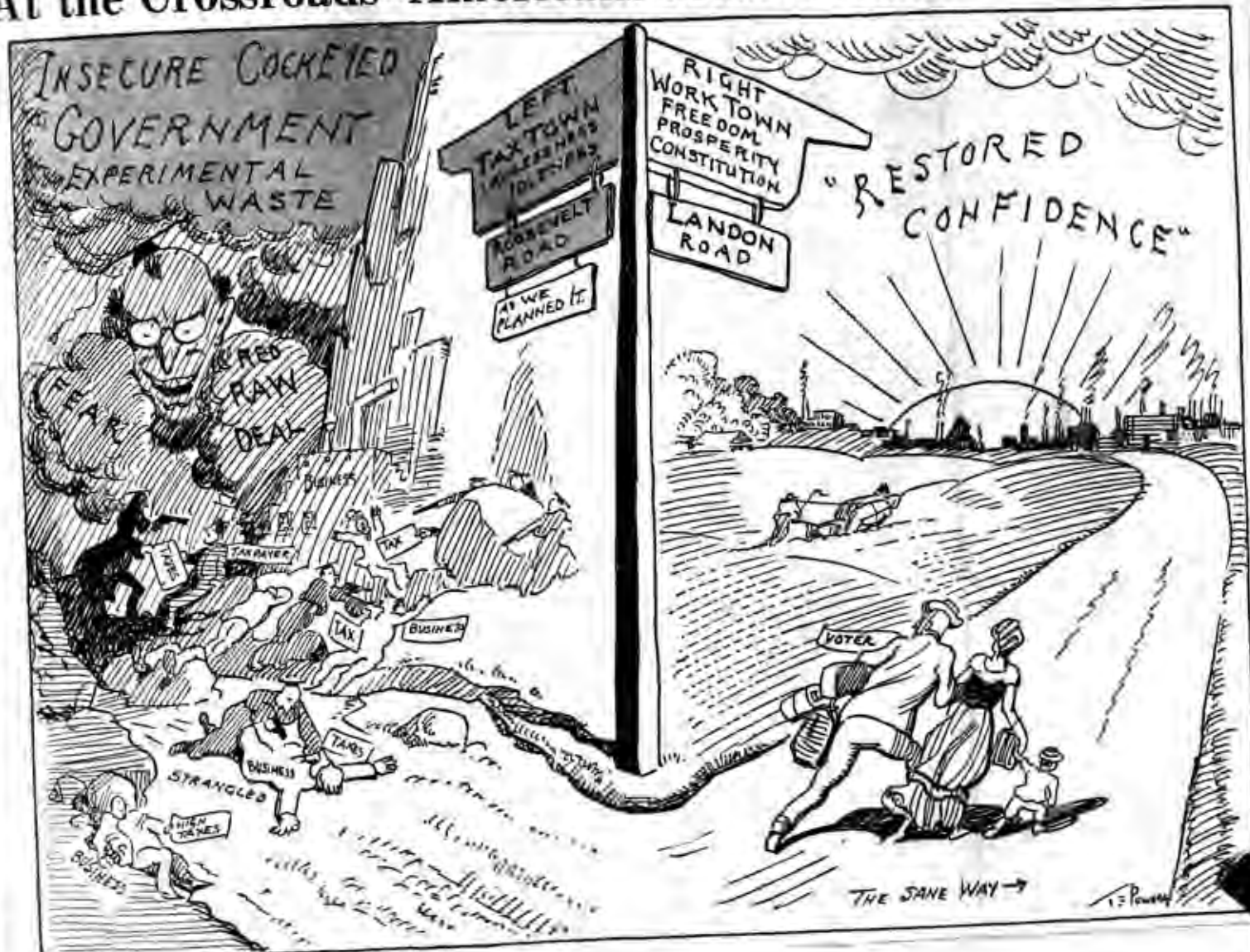
Editorial Page -- Sept. 14, 1936

THE WASHINGTON TIMES

MONDAY

At the Crossroads--Americans Must Choose!

By T. E. Powers



September 15, 1936.
10:15 a.m.

Hello.

H.M.Jr: Eugene Meyer.

E. M. Yes. Good morning.

H.M.Jr: How are you?

E. M. How are you Mr. Secretary?

H. M. Jr: Oh fine. Eugene, I didn't want to get into another long letter with you see.

E. M. I beg pardon?

H.M.Jr: I didn't want to write you another letter for this reason.

E. M. Yes.

H.M.Jr: If you read my letter of September 10th you will see that I referred to September 9th. The Washington Post which you sent me was a very fine article by Mr. Albright but it was September 8th.

E. M. Oh it was September 8th was it. Well I looked for - I was just in a hurry leaving and I sent for our Managing Editor and he said we carried that story. I sent for the 8th and then I sent for the 9th or he sent for the 9th and we had the story.

H.M.Jr: No

E.M. You see we didn't have it on the first day.

H.M.Jr: You had it on the first day and the second day the clippings that I sent you were all of the 9th.

E. M. We had it on the 8th.

H.M.Jr: You had it on the 8th.

E. M. Well -

H.M.Jr: And that was the original announcement you see.

E. M. Yes.

H.M.Jr: And then all the other papers carried it on the 9th which was a different story.

- 2 -

E. M. I see. I see. I'm sorry I haven't them with me.

H.M.Jr: Well if you look up my letter you see.

E. M. Yes.

H.M.Jr: I'm referring to the 9th and the 9th was the day which the papers all carried that we closed the books, etc. and so on.

E. M. Yes.

H.M.Jr: And that was the story that your paper did not carry.

E. M. Ah ha.

H.M.Jr: Now I don't want to get into one of these tit for tat correspondence because I don't want to be on that basis with you see and that's why I'm phoning it to you instead of writing it to you.

E. M. Yes.

H.M.Jr. And as far as I'm concerned let's forget it.

E.M. I'll have to look into - it's a different story is it?

H.M.Jr: It's a different story. The story that you sent me was the announcement Tuesday morning. Tuesday night at 5 o'clock I had the Press Conference and announced that we closed the books you see? And Wednesday morning's papers all carried the stories the books had been closed and that was the 9th and on the 9th your paper did not carry that story and all the other papers did.

E. M. Ah ha. Well

H.M.Jr: The 8th was the announcement which was released - the 8th was a Tuesday - we gave that story out on Saturday. All the papers carried it including yours. You gave us a very good story on the 8th and Tuesday night at 5:15 I had a Press Conference and announced that the books were closed.

E. M. I'm just wondering if one of our men was there.

H.M.Jr: Well it was announced - every other paper had it - The Associated Press - The United Press every paper carried it on the morning - Wednesday morning.

- 3 -

- E.M. We were a little short-handed there because not all of our men were back from their vacations.
- H.M.Jr: I don't want to get into -
- E. M. But any way there was nothing malicious or political about it.
- H.M.Jr: Well I wrote you - I got it out of my system - you answered me - you wrote me a very nice letter and I don't want to get into one of these long correspondence because it isn't important enough see. I mean that's the way I feel.
- E.M. Well it's important that if a story is omitted that wouldn't charge us as a paper with playing politics in our news presentation.
- H.M.Jr: Well -
- E. M. Even if the story was inadversly or carelessly or mistakenly omitted.
- H. M. Jr: Yes - well
- E. M. You see there's a constant fight for the space in the paper. There's a news - we have to carry so much national news that we're being scolded a good deal for not having enough local. See what I mean?
- H.M.Jr: Yes - well.
- E. M. I've been in the government and sometimes wondered why they didn't give more space to stories about matters that I knew or space --
- H.M.Jr; No but this is a story where the Secretary of the Treasury announces on Tuesday night that the books on a 900 million dollar financing are closed and I think that your readers are interested in that no matter how much other news they've got and even the Washington Herald, which doesn't carry much financial stuff, carried that story.
- E. M. Well I'll - I'll look into it a little more when I get back tomorrow, Henry.
- H.M.Jr: Right. And sometime - -

- 4 -

E. M. As I said I'm glad you wrote me.

H.M.Jr: And sometime just take a look at some of the editorials which they've written the last two or three months on finance.

E. M. I always look at them.

H.M.Jr: Well some of them are pretty tough. I - I mean on me. Sometime I'd like get a half a dozen of them and sit down with you.

E. M. I'll be glad to do it anytime.

H.M.Jr: Yes I think some of them are kind of - a little unfair.

E. M. Well I think (laughs) I think there's no intention to be anything but very fair. We're always glad to hear from you whenever you think so.

H.M.Jr: Well - I - I mean the tone of your letter was very friendly and that's why I'm phoning you instead of writing you because I don't want to -

E. M. I - I - I meant just what I said. I know that - the troubles of the job and I've got a lot of sympathy with the fellows that are carrying the load.

H.M.Jr: I think when you look it up - I think that I was correct that the story was omitted and - on the 9th.

E. M. Well if you've checked it up I'm sure it was.

H. M. Jr: Yes.

E. M. Well thank you very much, Henry.

H.M.Jr: Thank you.

E. M. How are your parents?

H.M.Jr: Oh they're fine.

E. M. That's good.

H.M.Jr: Simply fine. Thank you, Eugene.

E. M. Much obliged.

September 16, 1936.

Mr. Gill, Mr. McReynolds and Mr. Bell were present at a conference with the Secretary today.

The SECRETARY said: "As I understand it from July 1st to September 30th, WPA has been given \$350,000,000 as follows:

From October 1st to December 31st (This money to be spent in these months.)	\$394,000,000
Administrative expenses	36,000,000
Total of new money	780,000,000
Old money	150,000,000
Total	<u>\$930,000,000</u>

(These figures are exclusive of allocations to the National Youth Administration.)"

MR. GILL said: "I take it from this that there would be no more allocations made until December 31st."

MR. BELL replied: "There would be no more allocations made out of the Treasury until after December 31st."

MR. GILL then explained: "\$150,000,000 old money is theoretical but actually I don't think we will get \$150,000,000 old money."

MR. BELL replied: "You already have spent \$58,000,000 in two months. You are actually using this old money."

MR. GILL then remarked: "The land utilization of the Resettlement Administration, those people are charged to Tugwell and have never been included in our figures, but they have always been financed through WPA. At the present time they are taking money away from us to finance 150,000 people, and yet these people are not included in our figures."

To this MR. BELL answered: "In all of our allocations we have tried to make WPA responsible for the same kind of work that they were responsible for in 1936."

~~88~~

- 2 -

MR. GILL then said: "We have never been responsible for these projects."

MR. BELL added: "Tugwell has never put in requests for this purpose."

MR. GILL remarked: "Then that ought to be discontinued. It costs $2\frac{1}{2}$ million dollars a month."

The SECRETARY explained his opinion as follows: "It can be stopped. Since this thing happened we voted \$440,000 for soil conservation."

MR. GILL explained: "That is an entirely different outfit."

To which remark MR. MORGENTHAU replied: "I am talking about the money that was spent."

MR. GILL repeated: "That is an entirely different outfit."

The SECRETARY then said: "What I am trying to get at is that all soil conservation should be done in one place. They have \$470,000,000 and I say when we spend \$470,000,000 a year that is enough. You had me sidetracked for a moment."

"I want to come back to what I was saying. Personally, and on a business basis I am one of the best friends that Hopkins has. I feel that I am absolutely duty bound and the President has asked me to see you today to keep the President from being put in a position of obligating projects in excess of \$1,425,000,000. If the President checks me up, and he told me to do this, there may be a lot of things happening in order to take care of relief first."

"I say, look at this picture, there is \$934,000,000 which the President has authorized to be spent by your organization between July 1st and January 1st, which is \$30,000,000 more than I originally figured when I figured it would take \$1,960,000,000 to do the job for one year. From that we deduct \$100,000,000 dollars which I set aside for Tugwell, which comes to \$1,860,000,000. I figure \$150,000,000 a month for the first six months of this year which is \$900,000,000, and I figure \$160,000,000 for the second six months, which is the exact same average which you spent the year before."

- 3 -

"I did not figure that conditions would be any better. \$1,860,000,000 ought to carry WPA for twelve months. If we take \$1,425,000,000, and the President said in a message in May that he would ask for more, then the \$105,000,000 brings it up to \$1,925,000,000.

"After all, you people have been born and reborn three times in three years. It is your own doing. I have never been more serious about this thing than I am today. What we decide in the next week or ten days ought to be the future policy of what is going to happen to the unemployed for the calendar year, 1937. The Treasury has to plan eighteen months in advance. I am going to do all I can to save the President from committing himself upon \$1,425,000,000 and you are now \$300,000,000 in excess of existing funds. The time to do my fighting is now and not wait until you have started more projects.

"The smartest fellow I know is Bob Moses. His main trick is to build the Long Island Parkway to the most dangerous place and stop because he has no funds. Then his argument is 'you can't stop now', and, of course, he is given the money.

"I am telling you just what I am going to do. I am telling you the absolute truth. I want you to know what my objective is. I would appreciate it if you would be very careful if you repeat the conversations we have had here. There has been gossip I am trying to do this, that, and the other thing."

MR. GILL said to the Secretary: "If next year's relief policy is to be determined in the next ten days would it not be wise to have Harry Hopkins here when that policy is determined. I certainly do not feel that I can speak for Mr. Hopkins on anything as important as next year's policy."

MR. MORCEN THAU'S answer to this statement was: "If you say to me that you will carry on with \$930,000,000 up to January 1st, we will have no problem."

MR. GILL then stated: "We can't keep the present number employed, which is 2,300 plus soil conservation plus land utilization, etc., on this money."

~~88~~

- 4 -

MR. MORGENTHAU said: "Let's put our heads together and see how we can transfer some of these thousands which are now under WPA to other departments. Agriculture has \$470,000,000 for soil conservation and I don't see how they can spend that much. Suppose we tap that fund for \$100,000,000."

MR. GILL explained that many would really be carried on the benefits that formerly were carried on by AAA.

SECRETARY said to Mr. Bell and Mr. Gill: "I wish you two men would get together and prepare a memorandum so that everything that has to do with soil conservation should be put in Agriculture, reclamation should be transferred to Interior and so on. Following President Roosevelt's formula, ninety percent of this money must be spent for people who come off the relief rolls. It will stop spending money, now the regular departments will get this money from Congress and the only other appropriation would be for relief."

THE SECRETARY then asked Mr. Gill: "Where is Harry Hopkins going to be next week?"

MR. GILL answered: "On the West Coast some place, but he'll be back on October 1st."

SECRETARY then inquired: "Is it time enough for you to wait until Harry Hopkins gets back?"

MR. GILL replied: "If I had the responsibility, I would drop people in order to live within the \$930,000,000."

THE SECRETARY said: "Talk this over and when you have some idea let me know. I will be here until Friday noon. I would like to know what the trend is on WPA projects, that is, what actual appropriation goes to relief, labor, materials, etc. I want a breakdown of this. In addition, I want a breakdown of other WPA projects handled by other departments. I also want to know what is the cash contribution that communities make toward your projects."

MR. GILL stated: "About these individual projects, you will find it will come through with a low percentage going to relief. That is caused by the necessity of bargaining with the communities."

THE SECRETARY said: "The cost of projects is continually going up and the contributions from certain municipalities are continually going down."

9/14/36

Bill to spend out of the Treasury
from July 1. to Dec. 31 ³¹

not to exceed \$ 780,000,000
of the 1936 appropriation, this
to include administrative
expenses but not N.Y.A.

No additional amount can
~~not~~ be justified as extra
expenditures caused solely by
the drought because on the
above 780,000,000, there
will already be a sum-
of \$ 375,000,000 as per
attached memo of Aug 12
Full R

22

1,425,000,000.

200,000,000.

1,225,000,000

360,000,000.

420,000,000.

450,000,000.

370,000

1,600,000,000.

- \$ 375,000,000.

Written by
The President
on Aug. 12, 1936
J. W. G.

BUREAU OF THE BUDGET
WASHINGTON

SEP 14 1936

MEMORANDUM TO THE PRESIDENT:

The attached letter allocating \$183,700,000 to the Works Progress Administration has been prepared for your signature at the request of Mr. Gill. The amount requested is in excess of the quota which you indicated you were willing to give that Administration up to December 31, 1936. Mr. Gill, however, states that this additional amount will only carry the program through October 1936.

The following statement shows the allocations already made to the Works Progress Administration exclusive of allocations to the National Youth Administration:

For Projects

To October 1, 1936	\$ 350 M	
After October 1, 1936	<u>250 M</u>	\$ 600 M

For Administrative Expenses

Total allocations already made		<u>18 M</u>
		\$ 618 M

Quota agreed upon at conference on August 12, 1936

For period to October 1, 1936	\$ 360 M
For period October 1, 1936 to December 31, 1936	<u>420 M</u>

Total quota to December 31, 1936	\$ 780 M
Deduct allocations already made	<u>618 M</u>

Balance of quota to December 31, 1936	\$ 162 M
Estimated reserve for Administrative Expenses	<u>18 M</u>

Available for allocation within quota	\$ 144 M
---------------------------------------	----------

Law Bell
Acting Director

OK
Fuller

THE WHITE HOUSE
WASHINGTON

GR

SEP 14 1936

My dear Mr. Secretary:

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

AMOUNT: ~~\$100,000,000~~ *144,000,000*

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

Sincerely yours,



The Honorable,

The Secretary of the Treasury.

September 16, 1936

I talked to Cochran this morning and he told me that the French, on account of the strike situation at Lille, were not able to take up the British note. He doubts whether they will get to it until Thursday and, therefore, we will not have word until Friday.

PARAPHRASE OF TELEGRAM RECEIVED

From: American Embassy, Paris

DATE: September 16, noon

No.: 875

FOR SECRETARY OF THE TREASURY FROM COCHRAN

I was told this forenoon by Baumgartner that because of the cabinet meeting yesterday and today, the Minister of Finance had not yet been able to study the message which Monick brought from London last evening. As a consequence, the Minister is unlikely to communicate with us before Thursday.

EA:DJW

September 16, 1936

Mallet came in at 12:30 today. The Secretary said to him, "The reason I wanted to see you was because you spoke of going away. The word we have received is that on account of the strike situation in Lille, the Cabinet in France was unable to take up these notes. They doubted whether they would do it today, but thought they would get to it tomorrow. The earliest we may expect an answer is Friday. I gather that the strike situation is a little bit better today, but it was very critical yesterday." Mr. Mallet remarked, "I did not know the strike situation was bad." Mr. Morgenthau's response was, "It was so bad that they could not look at these notes."

Mr. Mallet then inquired of the Secretary, "I am pretty safe then to go up to Harvard? Would you like me to come back Saturday morning?" HM, Jr.'s answer was, "It is entirely up to you whether you should go up. If anything turns up, we will get in touch with the Embassy and they can reach you."

Mr. Mallet then said, "I will make a provisional booking on the plane Saturday so that I would not get stuck." HM, Jr. said, "I could fly you from Boston to Poughkeepsie and then you could come to my farm."

Mr. Mallet then asked the Secretary, "Do you think they will want to do the whole thing over the week-end?" HM, Jr. replied, "I have no indication what it will be or how they will receive it."

September 16, 1936.
11:55 a.m.

H. M. Jr: Hello.

Operator: Mr. Mallet has gone to lunch. He'll be in at about one o'clock our time.

H.M.Jr: Well -

H.M.Jr: Hello - yes

Mallet: Hello - His Excellency Secretary Morgenthau.

H.M.Jr: Yes.

Mallet: Mallet speaking.

H.M.Jr: Yes.

Mallet: I'm sorry to disturb you so late in the afternoon.

H.M.Jr: You haven't. We work --

Mallet: We have just had a telegram in from London.

H.M.Jr: Yes.

Mallet: A message for you and I wondered whether you would like me to communicate it to you this evening or would you rather that I wait until tomorrow morning. Whatever suited you.

H.M.Jr: No you mean you want to hand it to me?

Mallet: Well I - would you rather - I can put it in writing and send it down. It's just a straight message.

H.M.Jr: Well would you mind sending it to the house?

Mallet: I'll send it to your house in writing. If you want to see me any time tomorrow I'm at your disposal.

H.M.Jr: Thank you. It's 2201 R.

Mallet: Twenty-two O one R.

H.M.Jr: Yes we're only about

Mallet: Twenty-two O one R Street. It will be at your house in about a half an hour's time.

- 2 -

H. M. Jr: We're only five minutes from the Embassy. You know where Justice Hughes lives.

Mallet: Yes. I don't expect you will want to - if you did want to talk to me about it tonight I would be available but I think it's quite unnecessary.

H.M.Jr: Right.

Mallet: All right.

H.M. Jr: Thank you very much.

Mallet: Goodbye.

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September 16th

Dr. Woodward came in to see me at 11 o'clock. He says that I am completely within my rights when I write to the Governors about doctors who are illegally administering narcotics. The A. M. A. not only will not resent my action but will welcome it because Mr. Anslinger has brought these cases previously to their attention and up to now nobody has been able to do anything about it. I told him that every time I wrote a Governor I would send him a copy of the letter and he said he would be delighted in turn to pass this along to their State Medical Association and ask them to cooperate with me.

He thinks the question of policing narcotics is a state function rather than a federal one. He wanted me to study the question of incurable addicts. How could they be handled? At present this problem is unsolved. He says that a narcotic addict goes from one doctor to another to get the drugs that he needs and when we increase the price of bootleg drugs we simply aggravate the situation.

Dr. Woodward made an excellent impression on me. He not only is a doctor but is a lawyer and a former Health Commissioner of Washington and Boston.

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September 16, 1936

Puleston sent over the attached copy of naval message received at the Navy Department which confirms report of martial law in Shanghai.

The Secretary asked Lochhead to send a cable to Nicholson. The following is a copy of the message despatched to Nicholson:

Sept. 16, 1936

Mrs. Friedman

Mr. Lochhead

Please transmit the following by cable to Treasury Attache Nicholson:

"Cable at once what are conditions in Shanghai".

Morgenthau

~~78~~

Dear Mr Secretary.

Enclosed is message

confirming report of martial
law in Shanghai.

It looks as if the incident
in South China, between Japan
and the 19th Route Army may
become serious.

Faithfully,

W W Fulston

16 Sept

NAVAL MESSAGE

RECEIVED AT NAVY DEPARTMENT

ACTION COPY

251

1936

FE

3968 NPG 2 F00 TRAP LAMP V 00Y Q P00 P00 NITE 550 F02 0010
 FROM ; 4TH MARINES 936 SEP 16 5 01
 ACTION ; S0NCAF MARDET AMEMBASSY PEIPING
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U.S. GOVERNMENT PRINTING OFFICE 4-2742

8616 SHANGHAI W00UNG GARRISON HEADQUARTERS CONFORMS DECLARATION MARTIAL
 LAW SHANGHAI AREA FROM SEVENTEEN TO TWENTIETH SEPT INCLUSIVE 0948

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OFFICE SW
 NAVY INTELLIGENCE DIV
 RECEIVED



SEP 16 1936

09-2/EF16

MB 0452 16 SEPT NX.

~~72~~

Sept. 18, 1936

Mrs. Friedman

Mr. Lockhead

Please transmit the following by cable to Treasury Attache
Nelson:

"Cable at once what are conditions in Shanghai". Mergenthan

September 17, 1938

The attached report was sent to Secretary Wallace who read it and brought it back today.

On the strength of this survey, Mr. Wallace has decided to take a man from the Treasury Department, whom Bell will recommend, and make him an assistant to Mr. Jump. Mr. Jump is Director of Finance of the Department of Agriculture and the man selected will be an assistant to Mr. Jump and for the time being would be put on the Soil Conservation work.



UNITED STATES TREASURY DEPARTMENT

COMMISSIONER OF ACCOUNTS AND DEPOSITS

WASHINGTON, D. C.

August 31, 1936

ADDRESS ALL MAIL TO
S. TREASURY ACCOUNTS OFFICE

IN REPLY REFER TO
FILE

Handwritten notes:
254
Bell
Allen
Banning
myself

TO THE SECRETARY:

1. In accordance with your oral instructions of August 27, a preliminary survey has been made of the plans and fiscal procedure set up by the Department of Agriculture in connection with the administration of the Soil Conservation Act of February 29, 1936.

2. In the limited time allotted by you for the preparation of this report, a thorough study could not be made of the entire fiscal program of the Agricultural Adjustment Administration, but I believe that sufficient information has been obtained to acquaint you with the general situation.

3. At two o'clock in the afternoon of August 27, a conference was held in the office of Mr. Appleby, Assistant to the Secretary of Agriculture. This conference was attended by Mr. Bell, Mr. Allen, Mr. Banning and myself.

4. Mr. Appleby made a general statement concerning the problems confronting the Department of Agriculture in the administration of the Soil Conservation Act. After the conference in your office on Tuesday morning, Mr. Appleby conferred with Mr. Hutson, Assistant Administrator of the AAA and the five regional directors. In the afternoon conference with the Treasury representatives Mr. Appleby gave the distinct impression that the

progress thus far made and the procedure set up to carry out the provisions of the Soil Conservation Act were, generally speaking, satisfactory, and that it was not believed advisable to make material changes in the procedure at this time. It is also important to note in this connection that the General Accounting Office has been working for sometime on a system of administrative accounts for the AAA. While the General Accounting Office has not as yet provided the system of accounts to be used, it has approved certain blank forms for accomplishing payments, and has also agreed to furnish supervisory personnel for the pre-audit of vouchers in the field.

5. Mr. Appleby expressed the opinion that it would be advisable to follow the procedure already worked out in a diligent but not necessarily high-pressure manner. His concern appeared to be, not so much about the effectiveness of the procedure already established, but rather that a representative of the Secretary of the Treasury receive first-hand information in order to reassure you that adequate provision has been made effectively to carry out the provisions of the Soil Conservation Act. Mr. Appleby feels that any improved procedure possible for adoption this fall, while desirable, probably would not effect any substantial increase in the number of checks going out in October. The more fundamental improvement in the general fiscal set up of the AAA, he believes, will have to be introduced slowly, and after careful study and search for needed executives. It is believed that any searching inquiry on the part of Treasury officials into the activities and procedure of the AAA might give rise to

-3-

some rather delicate situations. One of Mr. Appleby's concerns appeared to be the autonomous nature of the five regional directors, which of course could be corrected by the Secretary of Agriculture through a reorganization of the functional distribution and the placing of all regional divisions under one Conservation director.

6. The conference in Mr. Appleby's office continued for an hour, after which Mr. Bell returned to the Treasury. In company with Mr. Appleby we proceeded to the office of Mr. Hutson, Assistant Administrator of the AAA. Mr. Hutson outlined in a general way the problems confronting the Agricultural Adjustment Administration and stated that he would appreciate any suggestions that the Treasury might wish to make. Mr. Hutson (in the presence of Mr. Appleby) stated that the plans for the new program were well formulated and that he thought it advisable to let matters take their normal course, rather than to take any extreme measures for the purpose of advancing the program. Mr. Hutson also stated, after the conference held with the five regional directors pursuant to your request, that it would be impracticable to speed up the program to the extent suggested by you. A revised schedule of proposed payments, which was compiled as a result of the conference held by the five regional directors after the meeting in your office Tuesday morning, is attached hereto. This schedule indicates that only 7 per cent of the payments will be made by November 1. In view of the unavoidable complications involved in the preparation of applications for payments, and the computation of amounts due under the

Act, there is some doubt in my mind as to whether the AAA will be able to perform in accordance with their revised schedule of proposed payments.

7. The AAA has on hand two major problems: First, the completion of all payments under the old program; and Secondly, the setting up of the new program under the Soil Conservation Act.

OLD PROGRAM

8. As to the old program there were on hand as of August 24, 1936, approximately 684,380 unpaid claims; ~~under the old program~~. These claims may be classified as follows:

- (a) In process of audit in the AAA91,413
(All of these will be paid within thirty days)
 - (b) In contract clearance sections of AAA. 88,751
 - (c) In the field, pending completion for transmission to Washington . . . 504,216
- 684,380

We are informed that practically all of the claims under the old program will be paid before November 1. The 91,413 cases in the process of audit in AAA will be cleared and paid within thirty days. The 88,751 cases in the contract clearance section of AAA are held pending correspondence with the field, awaiting settlement of claims, or assignment to the termination units.

The cases in the field comprise, for the most part, the 1936 wheat and rye contracts and the 1935 certificates under the sugar and tobacco programs. The AAA estimate that 90 per cent of 358,000 wheat and rye contracts will be paid during September

and October. Final certificates on 103,000 sugar and beet contracts are yet to be received, payments on which are expected to be made during October and November. The 105,000 tobacco certificates are expected to be received during September.

9. Payments made from the \$296,000,000 appropriation contained in the Act of February 11, 1936, for the purpose of liquidating AAA contracts under the old program have been made in more than two million cases amounting to \$171,000,000. The Agricultural Adjustment Administration estimates that the remaining payments due on the old AAA contracts will amount to \$55,000,000, and that administrative expenses under the appropriation act of February 11, 1936 will be approximately \$7,300,000. From this appropriation \$30,000,000 will be transferred to the \$440,000,000 appropriation for the new Soil Conservation program. This will leave approximately \$32,000,000 under the \$296,000,000 appropriation which eventually should revert to the Treasury.

THE NEW PROGRAM

10. For the new program Congress appropriated the sum of \$440,000,000, together with \$30,000,000 to be transferred from the \$296,000,000 appropriation made available for the liquidation of the old program. This makes a total of \$470,000,000 available during this fiscal year for the new Soil Conservation program.

11. The prospect for substantial number of payments to farmers under the new Soil Conservation Act Program before November 1 does not appear to be very promising. According to present

-6-

expectations payments under this act will be made to 4,639,100 farmers. Upon the basis of the latest information received from the Agricultural Adjustment Administration, these payments will be made as follows:

	<u>Number</u>	<u>Per Cent</u>
October 1936	338,877	7
November 1936	925,945	20
December 1936	1,251,946	27
January 1937	1,114,225	24
February 1937	552,500	12
March 1937	317,407	7
April 1937	<u>138,200</u>	<u>3</u>
Total	4,639,100	100

12. Organization. The administration of the new Soil Conservation Act will be carried out through State Committees, County and Community Committees, State Extension Services, and the Agricultural Adjustment Administration. Five regional divisions of the Agricultural Adjustment Administration will have charge of administration in five major areas making up the United States. Payments will be made to each participating farmer upon the filing of ^{an} applications by him, after evidence is submitted showing that he has fulfilled the conditions of the grant and performance has been certified by the appropriate County Committee. There will be no contracts with the farmers.

13. It would appear, from the standpoint of organization, that the Administrator of AAA works under certain difficulties. In the first place there are five regional divisions, each of which operates more or less independently. In the second place the AAA is different from the usual Governmental organization, in that it must function through State and county organizations, to whom

a large part of the subordinate employees are responsible for the routine work. For example, the Directors of the Extension Service, County Agents, and Community Supervisors are not Federal employees. An apparent weakness in the Agricultural Adjustment Administration, from the standpoint of organization, is that the Administrator does not have administrative control over employees of the State Extension Services or the County Committees, upon which the administrator must depend for information and the prompt dispatch of the routine work in the field.

14. Aside from the obstacles relating to the establishment of the field organization the new Soil Conservation program is more complicated than the old program. Under the new program the payments are based upon a number of factors, including -

- (a) Producers' treatment or use of land for soil restoration, or conservation or prevention of erosion;
- (b) Changes in the use of land;
- (c) Percentage of normal production of one or more designated commodities, which is equal to the percentage of the national production of those commodities normally required for domestic consumption; and
- (d) Any combination of the above mentioned factors.

15. Procedure. The field work involves the use of a number of prescribed documents for accomplishing the payment to each farmer complying with the requirements of the Act. These documents include - -

- (a) A work sheet prepared by the farmer for entering acreage utilization and average crop yields in 1935. The farmer is assisted in preparing this work sheet by a Community Committee. This work is completed.
- (b) From the farmer's work sheet a listing sheet is prepared by the County Committee on which the data furnished by the farmer is transcribed. This listing is made for the purpose of eliminating over-statements by the farmer, and to see that the base acreage and normal yields established for farms accurately represent the normal acreages and average yields on the farms. The analysis of listing sheets and the establishment of base acreages and normal yields will not be completed until the latter part of September. After this operation changes may be made on appeal by the farmer.
- (c) Farm maps and reports of performance are prepared by Committee Supervisors (employed by the County Committee) for determining acreage used in the various soil building practices. The bulk of the performance reports will be completed and submitted to the County Committee by October 1. On the average, one supervisor inspects a total of 100 farms, at the rate of about three farms per day.
- (d) Applications for payments are filled out for the farmer by County Officers from data appearing on the work sheets and reports of performance. The application forms were mailed August 28. After these applications have been signed by the farmer they are reviewed by the County Committee and delivered to the State Office.
- (e) A computation schedule is prepared by the State Office from the application as the basis for computation of the payment. The transcription of the data to the computation schedule and the checking of such data against the reports of performance and work sheets will involve a great amount of clerical work.
- (f) A schedule of payments is prepared upon completion of the administrative examination of a block of applications, which shows the name and amount due each payee

respective check numbers and other pertinent data. A block of applications for payment from a particular county will be listed on a public voucher form in the State Office and assembled for pre-audit under the supervision of the General Accounting Office.

- (g) After pre-audit by the General Accounting Office the vouchers will be forwarded to the Regional Disbursing Office of the Division of Disbursement for payment.

Our study discloses that a considerable amount of preliminary work for placing the program into operation has been accomplished, including the establishment of payment rates for diversion of acreage, the determination of practices under which payments will be made and the compilation of county ratios and bases of normal yields. While there are recognized difficulties such as the adjustment of county ratios, the handling of appeals, and the verification of the productivity of farms, we are unable at this time to make any recommendations with respect thereto.

The condition with respect to the operating phase of the program may be briefly summarized as follows:

- (a) About 90 per cent of all farm work sheets and county listing sheets have been submitted to the State Offices.
- (b) The analysis of the listing sheets began in most states during the latter part of June and should be completed by the latter part of September.
- (c) Farm inspections should be nearly completed by September 15 in the southern states and by October 1 in the northern states.
- (d) Forms for application for payment were mailed to the field on August 28.

- (e) Applications for payments will begin to flow into the State Extension Offices by October 1, 1936, and will continue during the following sixty days.

The dates as indicated under each step mentioned may be substantially delayed, depending upon the cooperation which the Agricultural Adjustment Administration receives from state and county agencies.

In the short time available, we have been unable to procure from the AAA a complete program with respect to the volume of work to be handled during each of the coming months according to the various stages of the program; nor have we been able to determine definitely what provision has been made to provide personnel for handling the work at each stage of the program.

It is believed that steps should be taken to provide a uniform system of weekly reports showing, (a) a forecast of proposed performance in connection with each stage of operation, this forecast to be currently compared with, (b) actual performance, and (c) the number of cases on hand at each stage of the program. These reports should be reviewed by an official directly responsible to the Administrator, and should be used as a means of checking the progress of the work and expediting the adjudication and payment of cases.

It is understood that two principal reasons have been assigned for the decentralization of payments under the new program, namely, (a) the future transition from Federal control to State control, and (b) the speeding up of payments under the

present program.

There are two reasons why it is believed that decentralization of this work under the existing organization set-up and contemplated procedure may cause delay in the progress of the program. Both of these difficulties grow out of the fact that administrative control over certain phases of the program pass out of the hands of the Administrator of the AAA. The first is that the administrative agencies in the field are not directly responsible to the Administrator of the AAA and the second is that in the final analysis prompt payments will depend in a large measure upon the dispatch with which the pre-audit units of the General Accounting Office approve vouchers for payment. It is not contended that these conditions will necessarily cause delays in payments but it is only pointed out that the administration of the program is not kept under exclusive administrative control of the Agricultural Adjustment Administration.

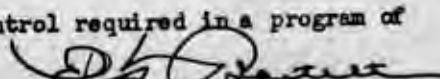
How

There is a further matter which should receive consideration. It is with respect to the setting up of a unified accounting control over all phases of the fiscal program. Although it is understood that the General Accounting Office is working upon a system of administrative accounts for the Washington office, it appears that the AAA has not been informed as to its approval. We have been unable to ascertain that there has been placed under a single supervisory official the responsibility for exercising general supervision over the accounting work in the field, although it is understood from Mr. Appleby that consideration is being given to the transfer of the accounting work of the AAA to the Director

of Finance of the Department of Agriculture. Officials interviewed expressed the opinion that the accounting work in the field would likely be handled separately by each division, but there is little information available as to how these separate accounting units will be coordinated and controlled by the Administrator's office in Washington.

While the situation with respect to the examination of vouchers in the field is not altogether unsatisfactory, Mr. Hutson indicated that there is some uncertainty as to all requirements of the General Accounting Office. Unless the requirements of the General Accounting Office are fully understood in advance there will result delays in the approval of vouchers that are submitted to the pre-audit unit of the General Accounting Office in the field.

The expansion of existing field accounting offices in certain states and the establishment of new accounting offices in other states by the respective regional divisions of the AAA may cause some difficulties unless the accounting function in the field, as well as in Washington, is immediately placed under unified accounting control operating independently of the administrative divisions. Considerable time will be required for completing arrangements for office space, securing equipment, training personnel, and generally perfecting the organization. There is considerable doubt that the decentralization of the accounting work in the field under the jurisdiction of the respective regional divisions with different ideas, practices, and standards, will provide necessary unified fiscal control required in a program of this magnitude.



SOIL CONSERVATION AND DOMESTIC ALLOTMENT ACT -- AGRICULTURAL ADJUSTMENT ADMINISTRATION

Location of State Accounting Offices	Estimated Number of Checks To Be Issued By Division of Disbursements							TOTAL
	October	November	December	January	February	March	April	
Northeast and East Central Regions								
Washington, D. C.	64,800	136,800	180,000	180,000	86,400	43,200	28,800	720,000
Southern Region								
Athens, Ga.	24,746	61,864	74,237	49,491	24,746	12,374		247,458
Columbia, S. C.	12,193	24,386	30,482	30,482	12,193	7,319	4,874	121,929
Auburn, Ala.	20,861	52,153	62,584	41,723	20,861	10,431		208,613
Jackson, Miss.	13,254	33,135	39,763	26,508	13,254	6,627		132,541
Baton Rouge, La.	9,746	24,364	29,237	19,492	9,746	4,874		97,459
Little Rock, Ark.	18,069	36,139	45,173	45,173	18,069	10,842	7,228	180,693
College Station, Tex.	44,986	112,465	134,958	89,972	44,986	22,493		449,860
Stillwater, Okla.	8,622	34,489	43,112	51,734	17,245	10,347	6,898	172,447
North Central Region								
Champaign, Ill.	13,200	39,700	66,100	66,100	39,700	26,500	13,200	264,500
Lafayette, Ind.	10,700	32,100	53,500	53,500	32,100	21,400	10,700	214,000
Madison, Wis.	3,050	15,350	30,650	36,750	18,400	12,200	6,100	122,500
Des Moines, Iowa	10,600	31,900	53,250	53,250	31,900	21,300	10,600	212,800
East Lansing, Mich.	3,400	17,000	34,000	40,800	20,400	13,600	6,800	136,000
Columbus, Ohio	4,550	22,750	45,500	54,600	27,300	18,200	9,100	182,000
Columbia, Mo.	13,000	39,000	65,000	65,000	39,000	26,000	13,000	260,000
Lincoln, Nebr.	3,950	19,750	39,400	47,200	23,600	15,800	7,900	157,600
St. Paul, Minn.	3,950	19,750	39,400	47,200	23,600	15,700	7,900	157,500
Brookings, S. D.	2,550	12,750	25,500	30,600	15,500	10,200	5,100	102,200
Western Region								
Fargo, N. D.	18,750	39,500	39,500	35,750	18,500	8,000		160,000
Manhattan, Kans.	12,500	50,000	50,000	12,500				125,000
Denver, Colo.	6,400	25,600	25,600	6,400				64,000
San Francisco, Cal.	7,400	22,200	22,200	14,800	7,400			74,000
Portland, Ore.	7,600	22,800	22,800	15,200	7,600			76,000
TOTAL	338,877	925,945	1,251,946	1,114,225	552,500	317,407	138,200	4,639,100

September 17, 1936

✓ The Secretary said today that his guess is that Couzens will be Comptroller General.

September 17, 1936

At 5:30 today the Secretary talked to Cochran and in this conversation Cochran said he was sending a cable (882) to the Secretary. Following is a transcript of the telephone conversation.

Thursday
September 17, 1936
5:40 p. m.

HMjr: Hello

Operator: - Mr. Cochran

HMjr: Thank you.

Operator: Here you are.

HMjr: Hello?

Operator: Hello

HMjr: Yes - hello -
H. M.
Cochran: Mr. Morgenthau -

HMjr: Hello, Cochran? (Squealing noise)

C: Hello

HMjr: Hello, Cochran?

C: Hello

HMjr: Cochran -

C: Can you hear me?

HMjr: I hear you very well.

C: Yes

HMjr: Can you hear me?

C: (Short Pause) No -

HMjr: Oh, Cochran?

C: Yes

HMjr: Do you hear me?

C: Yes, very well -

HMjr: Now, we're not on what they call the Diplomatic Channel, so be extra careful.

C: Surely

HMjr: I got your telegram eight eighty-two -

C: That was announcing that I was going over there.

HMjr: Yes, now, have you been?

C: I went there at seven fifteen -

HMjr: Yes

C: Your opposite number gave me the document.

HMjr: Yes

C: And made a speech to me.

HMjr: Yes

C: I returned to my office and translated it.

HMjr: Yes

C: Then I went back to his office where the one man checked the translation with me.

HMjr: Yes

C: Then I came back to my office and I got three clerks decoding it.

HMjr: Yes

C: I finished at ten-thirty and I just came over to dinner, I'm at the dinner table now.

HMjr: I see.

C: And the first three sections had left when I left the office at ten-thirty.

HMjr: Yes

C: And so you will have the whole thing within a very reasonable time now.

HMjr: Well, is it something we can accept?

C: It looks pretty good to me.

HMjr: It does?

C: Yes - there may be one or two little points - there may be from a political angle, that I don't know.

HMjr: Yes

C: Well, on the other hand from that side even, it may be just the thing, I'm hoping that it is.

HMjr: Well, you see, I'm anxious to get it because the President leaves here at eleven o'clock tonight for Cambridge.

C: Oh, he does?

HMjr: Yes

C: Well, this whole thing had left here, let's see, it's a quarter to twelve now, it had left here before eleven o'clock, see?

HMjr: I see.

C: Five or six would do.

HMjr: It's how many hours on the way?

C: Well, let's see, what time have you now? It's a quarter 'til --

HMjr: We have half past five here.

C: Half past five?

HMjr: Yes

C: Let's see, that's six hours difference.

HMjr: Six hours difference -

C: Yes - oh, you ought to have it easily - I've marked it 'Rush' and it went on the night wire, you see?

HMjr: I see.

C: So, much of it ought to be over across the street from you now, over in our Department.

HMjr: No, no, it's not.

C: It isn't in yet?

HMjr: How many sections?

C: There are probably five or six.

HMjr: Five or six?

C: I'm sure - there were five pages.

HMjr: Yes

C: And part of it is in that decode, you know, there?

HMjr: Yes, I know.

C: - take very long.

HMjr: Yes

C: I mean, the text of it.

HMjr: All right.

C: They're quite anxious, if we can, to take it in about this form, because they're pretty uneasy here. They think that they can put it across, you see, they've talked a special session.

HMjr: Yes

C: And they think they can put it across -

HMjr: Yes

C: - if we'll let it be in this form.

HMjr: Yes

C: First, we had to weaken it very much because they were afraid they couldn't get it by.

HMjr: Well now, when do you - I don't know when I am going to be answering this. When do you think they - when did they give it to the English?

C: They gave it to them at six o'clock this evening. I don't know who delivered it.

HMjr: Well, they won't get an answer from the English before Saturday, will they?

C: No, but at the same time, the man whose name I mentioned, you know?

HMjr: Yes

C: - who went out to the Far East?

HMjr: Yes

C: - was also handed a copy this evening just before I was there.

HMjr: I see.

C: So they have two copies.

HMjr: Well, when do you - when do they expect - when would they think they'd get an answer on this?

C: Well, I mean, they asked me if they could get an early answer. And I said, 'Well, we've acted very quickly, - '

HMjr: Yes

C: And I said, 'I'll get this off tonight'.

HMjr: Yes

C: I made them no promises whatever, except that I'd get it off tonight.

HMjr: Yes

C: But, I mean, this is in such form that you can see very clearly about what they want.

HMjr: Good

C: And, there are not many problems in it I am sure.

HMjr: All right.

C: And the only point I made at N -

HMjr: Yes

C: They discuss my English translation -

HMjr: Yes

C: - before we ever get out any declaration.

HMjr: Yes

C: in order to protect the British there in Washington.

HMjr: Yes

C: You see, so our text would be simultaneous.

HMjr: Yes

C: I mean, corresponding -

HMjr: Oh yes - all right, Cochran.

C: So you'll be a little pleased by it.

HMjr: I will be?

C: - anyway.

HMjr: What's that?

C: I say, I hope you will be rather pleased with it.

HMjr: All right, Cochran.

C: And you are so keen on it and sort of grasping at last straws, I'm afraid.

HMjr: Well, I saw that they had settled the Leo strike.

C: Yes, I mentioned that. That came through and if they could do something now while the situation is a little better -

HMjr: Yes

C: - it would be more favorable than waiting until another crisis comes.

HMjr: O. K.

C: See?

HMjr: Well, I am very much pleased with the way you are handling it at your end.

C: Oh, this is not anything yet.

HMjr: No, I say, I am pleased at the way you are handling it.

C: Oh - (Laughs) all right, I am glad then.

HMjr: Yes - all right.

C: Anyway, you'll have the whole thing and then I'll be there tomorrow.

HMjr: O. K.

C: Goodbye

HMjr: Thank you.

C: Goodnight

HMjr: Goodnight

-2-

Immediately upon concluding this conversation, the Secretary called the White House and asked McIntyre if he could come over to see the President. McIntyre told him to come right over.

Following is cable 882 from Cochran referred to in the above telephone conversation:

Sept. 17. 5 p.m.

At 4:30 I was asked by Baumgartner over the telephone to come to the Ministry of Finance this evening at 7 o'clock in order that the Minister might submit a proposal for a "joint declaration" to me. I was told by Baumgartner that Leith-Ross had an appointment to see the Minister at 8:30. It is my understanding that Leith-Ross, who is on his way from Geneva to London, has been in Paris for a couple of days.

Whether or not I can cable the proposal late tonight will depend upon my getting the officials of the Ministry of Finance to approve our translation, which will presumably have to be made. In the circumstances, I believe that such a checking is very desirable.

Upon returning to the office from the White House, the Secretary asked the group which has been working on the French document to hold themselves in readiness for a meeting which he will have at his house at 8:30 if the proposal for "joint declaration" referred to by Cochran in his cable above is received and decoded by that time.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 882

DATE: September 17, 5 p.m.

FROM COCHRAN FOR SECRETARY OF THE TREASURY.

At 4:30 I was asked by Baumgartner over the telephone to come to the Ministry of Finance this evening at 7 o'clock in order that the Minister might submit a proposal for a "joint declaration" to me. I was told by Baumgartner that Leith-Ross had an appointment to see the Minister at 6:30. It is my understanding that Leith-Ross, who is on his way from Geneva to London, has been in Paris for a couple of days.

Whether or not I can cable the proposal late tonight will depend upon my getting the officials of the Ministry of Finance to approve our translation, which will presumably have to be made. In the circumstances, I believe that such a checking is very desirable.

WILSON

W:EB

278

LMS

This telegram must be closely paraphrased before being communicated to anyone. (C) and (Special Gray)

Paris

Dated September 17, 1936

Rec'd 5:35 p. m.

Secretary of State,
Washington.

RUSH.

884, September 17, 9 p. m.

FOR SECRETARY OF THE TREASURY FROM COCHRAN.

At 7:15 this evening in the presence of Baumgartner, Rueff, and Monick, Minister of Finance Auriol handed me for transmission to you the French draft of the proposed text of a joint declaration. There follows my English translation of this document which translation has been approved by Rueff.

(BEGIN SPECIAL GRAY) "One. The governments of the United States of America, of Great Britain, and of France, equally anxious to safeguard peace and liberty and desirous of establishing as quickly as possible the best conditions for the return to international order have decided to make simultaneously the following declaration (END OF SECTION ONE).

effect ready

WILSON

SMS:EMB

LLS

SPECIAL GRAY

Paris

Dated September 17, 1936

Rec'd 6:20 p. m.

Secretary of State,
Washington.

RUSH.

884, September 17, 9 p. m. (SECTION TWO)

The undersigned Governments affirm their common will to pursue a policy tending to the development of prosperity in the world and to the improvement of the standard of living of all (social classes.)

They deem that the best means to accomplish this is to put an end to unilateral monetary manipulations which always risk leading to new adjustments and which provoke sudden movements of funds from one market to another detrimental to the equilibrium of national economies. They also desire to lighten and even to suppress progressively the restrictions and restraints of all sorts which paralyze trade and which create an atmosphere of general insecurity and uneasiness involving the gravest dangers to peace.

They are convinced that in order to maintain the maximum of liberty for international trade the maximum of stability must be assured for the principal currencies,

the

LMS 2-No. 884, September 17, 9 p. m., Sec. 2, from Paris.

part (the final objective being the complete return to the international gold standard when the conditions necessary are fully realized.)

(END SECTION TWO)

WILSON

EMB:SMS

LMS

SPECIAL GRAY

Paris

Dated September 17, 1936

Rec'd 6:25 p. m.

Secretary of State,
Washington.

RUSH.

884, September 17, 9 p. m. (SECTION THREE)

Two. With a view to such cooperation toward the economic and monetary peace desired by the nations, the Governments declare that their monetary policy is dominated by the two following principles:

On the one hand, the maintenance, by each country, of the greatest possible stability in its monetary relations with foreign countries.

On the other, careful consideration at all times to the effects of its decisions in this field upon the economy of other countries, common collaboration being necessary to the realization of these principles.

XX Three. Such stability, moreover, cannot be assured unless a lasting compromise among the various economies on the very basis of world prices is previously reestablished. *(went any of far high levels/ within each country)*

For this purpose the French Government has decided to proceed to the adjustment of its currency on the basis

LMS 2-No. 884, September 17, 9 p. m., Sec. 3, from Paris.

basis of these prices. The Governments of the United States and of Great Britain assure it of their close collaboration in order that this decision may constitute the starting point for a confident and constant cooperation among the three countries in the direction indicated by the present declaration and that it may benefit the entire world and peace.

(END OF SECTION THREE).

WILSON

ECC:SMS

LMS

SPECIAL GRAY

Paris

Dated September 17, 1936

Rec'd 7:25 p. m.

Secretary of State,
Washington.

RUSH.

884, September 17, 9 p. m. (SECTION FOUR)

Four. With a view to this common action, it is decided that the treasuries and the banks of issue of the three countries shall consult and unite ^{out} their efforts to maintain the maximum of stability ^{out} in international monetary relations, in order to reach the final object which consists of the complete return to the international gold standard. ^{out}

The three governments, moreover, shall consult whenever it is necessary in order to maintain or restore monetary stability and shall endeavor to regulate, if necessary by common negotiation, the difficulties which might compromise this stability in case of exceptional circumstances due to the conditions of their internal marked influence or of the general situation.

They declare also that immediate action shall be taken with a view to general resumption of trade and
international

LMS 2-No. 884, September 17, 9 p. m., from Paris. Sec. 4.

international transactions.

They hope that other nations will collaborate in this policy and thus strive for maintenance and organization of peace."

(END OF SECTION FOUR)

WILSON

SMS:ECC

LMS

This telegram must be closely paraphrased before being communicated to anyone. (C)

Paris

Dated September 17, 1936

Rec'd 6:05 p. m.

Secretary of State,
Washington.

RUSH.

884, September 17, 9 p. m. (SECTION FIVE)

Before handing the document to me the Minister of Finance delivered a really beseeching plea for our acceptance of this declaration and asked me to do what I could to hasten the matter. While it is understood that we or the British may wish to suggest minor amendments, he hopes that they will not involve serious changes in the form or sense of the declaration.

The Minister thinks a joint declaration much better evidence of cooperation and more effective than three simultaneous but somewhat different declarations. He said that a joint declaration over the names of President Roosevelt, Secretary Morgenthau, Premier Baldwin, Chancellor Chamberlain, and Premier Blum would give the world the first real evidence since the war that the three great powers are genuinely cooperating. He thinks a monetary peace on this foundation will be the basis for working toward economic peace and finally achieving political world peace. Other countries should quickly

follow

LMS 2-No. 884, September 17, 9 p. m., Sec. 5, from Paris,

follow to join in this declaration.

The Minister said that he was yielding on two points that the French had urgently desired. He reminded me how dear to a Frenchman is a signed contract but he said he was willing to trust in the loyal cooperation of the Americans and British without insisting upon the more formal arrangement which he had originally proposed.

(END OF SECTION FIVE)

WILSON

ECC:SMS

LMS

This telegram must be closely paraphrased before being communicated to anyone. (C)

Paris

Dated September 17, 1936

Rec'd 5:45 p. m.

Secretary of State,
Washington.

884, September 17, 9 p. m. (SECTION SIX)

The other point was in regard to fixed limits for pre-stabilization fluctuations of currencies. The Minister reminded me that France had devalued once since the war and that this operation had not been followed by success of long duration. France has been opposed to a second devaluation fearing illusory results and also fearful lest a whole series of devaluations constituting a downward race might ensue. It is to overcome such objections and fears that the Minister has sought as definite an arrangement as might be found possible.

Although they told me at the Ministry that the Lille strike had been settled this evening, they were all anxious for speed in this matter. They endeavored to prepare a draft which would in a sense give a practical response to the President's Chatauqua address and would embody the main points set forth in the replies of the American and British Treasuries to the original French proposal.

(END OF SECTION SIX)

WILSON

SMS:EMB

LMS

This telegram must be closely paraphrased before being communicated to anyone. (C)

Paris

Dated September 17, 1936

Rec'd 7:35 p. m.

Secretary of State,
Washington.

884, September 17, 9 p. m. (SECTION SEVEN)

After going over the translation with me Rueff said that the idea would be for France to get the adherence of Switzerland, the Netherlands, and Belgium after the joint declaration may be agreed to by the three major countries. He said that the Government's political advisers thought that Parliament would accept devaluation if clothed in this proposed international arrangement but if it will be published as an isolated and unilateral act devaluation would not be voted.

One draft of the proposed declaration was delivered to the British Treasury in London this evening and another copy handed to Leith-Ross who is remaining here until Saturday. If agreement is finally reached our translation should be of course checked with the British.

(END OF MESSAGE)

WILSON

CSB

The gov of U.S. after
consultation with
Brit + France
declares that it is
anxious to see
quad peace etc etc

September 17, 1938

The following were at the Secretary's house at 8:30 this evening; Dr. Feis, Mr. Taylor, Mr. Haas, Mr. Oliphant and Mr. Lochhead. The purpose of the meeting was to discuss Cable 884 from Cochran, in which he transmitted the French draft of the proposed text of joint declaration. The Secretary sent a copy of this cable by messenger to the President.

The first thing the Secretary said was: "Incidentally, Herbert, (Feis) Bullitt asked to come up here, but it was made in advance of knowing of this cable." Feis said, "Good! I am glad."

HM, Jr. read the cable through and then said, "God! I am sorry to have brought you all out here tonight." Feis said, "Speaking for myself, it is interesting." HM, Jr. answered, "But what does it mean? It's awfully disappointing to me. Do you agree with me, George?" Mr. Haas answered, "That's right." Feis expressed his opinion, as follows: "I think progress has been made in that as much as one can expect in one exchange of views." Oliphant said, "He has to go to his Chamber and state, 'I tried to get the nations to return to the gold standard, but they wouldn't do it.' He has to deal with his Chamber the same way Roosevelt has to do with Congress."

The Secretary then suggested: "Let's take this thing up, starting with number one." Reading: "The Governments of the United States of America, of Great Britain, and of France, equally anxious to safeguard peace and liberty and desirous of establishing as quickly as possible the best conditions for the return to international order have decided to make simultaneously the following declaration." HM, Jr. said, "Nothing in particular to discuss about that. Is there anybody who wants to say anything about that?" There being no answer, he said, "Skip that."

He resumed reading: "The undersigned Governments affirm their common will to pursue a policy tending to the development of prosperity in the world and to the improvement of the standard of living of all social classes." Oliphant's comment was, "We can't talk about social classes in America."

The Secretary then read aloud the second paragraph of Section 2: "They deem that the best means to accomplish this is to put an end to unilateral manipulations which always risk leading to new adjustments and which provoke

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sudden movements of funds from one market to another detrimental to the equilibrium of national currencies." He said, "I think we want to ask a change in that phraseology. The word 'manipulation'." Feis said, "Not manipulation, but the whole thing."

HM, Jr. concluded reading that paragraph and began to read the third paragraph, as follows: "They are convinced that in order to maintain the maximum of liberty for international trade the maximum of stability must be assured for its principal currencies, the final objective being the complete return to the international gold standard when the conditions necessary are fully realized."

Feis commented, "If you are giving it a little bit of thought, we could give them a little bit on that without the gold standard -- 'mutual stability must be assured for the United States to develop the maximum of stability for the principal currencies looking forward to the rebuilding of an international system'."

At this point, Ambassador Bullitt joined the group.

Mr. Oliphant asked the Secretary what his objection was to that paragraph and HM, Jr. replied, "I don't like any part of the first sentence about funds moving from one country to another." Feis, however, said, "Oh, that's all right. Very sound."

HM, Jr. then asked Dr. Feis the following: "How do you want to start on this, Herbert?" Dr. Feis replied, "Don't you think you can go on just as you are going, getting everybody's suggestions as you move along?"

Mr. Bullitt remarked, "I think the last sentence in that paragraph is a very severe statement for us to make." Feis explained, "We took it out in the original interchange," and Taylor said, "Let's take it out again."

The Secretary then read Section 3: "With a view to such cooperation toward the economic and monetary peace desired by the nations, the Governments declare that their monetary policy is dominated by the two following principles: On the one hand, the maintenance, by each country, of the greatest possible stability in its monetary relations with foreign countries. On the other, careful consideration at all times

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to the effects of its decisions in this field upon the economy of other countries, common collaboration being necessary to the realization of these principles." The Secretary commented: "Monetary relations with foreign countries dominated -- I don't like that. Monetary policy dominating our Government isn't the stability."

Feis said, "You have to go back to the whole four points."

Again referring to the text of the message, HM, Jr. again read: "With a view to such cooperation toward the economic and monetary peace desired by the nations, the Governments declare that their monetary policy is dominated by the two following principles: " Neither of those things are dominating in this country."

White said, "If you could get some other word besides 'dominating'. Maybe put in the word 'international'."

Oliphant suggested this phraseology: "From the standpoint of international monetary peace, the dominating purposes are these two things."

Bullitt said, "I think 'monetary peace' is doubtful and a dangerous one." HM, Jr. asked him, "You haven't seen the ones that have gone before this?" and Bullitt answered, "No."

HM, Jr. then said, "None of us like this. Personally I am discouraged, but you diplomats seem to like it."

Haas suggested to Mr. Morgenthau: "Substitute your previous 4."

Again reading, HM, Jr.: "Such stability, moreover, cannot be assured unless a lasting compromise among the various economies on the very basis of world prices if previously reestablished." Bullitt said, "The word 'very' is probably a translation. They mean 'true' basis of world prices." Oliphant agreed, saying, "It means on the basis of true world prices." Bullitt said, "Yes, I think so." Oliphant said, "They are trying to say that exchange rates ought to reflect price relations of the country, but I don't think that should be introduced."

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Feis said, "I don't think you have to bother with the first sentence of Section 3. That's the French preparation for their action. They want to say their price and cost level is out of accord with ours." HM, Jr. agreed, but added, "But they want us to sign this." Feis said, "I don't think that will cause you any trouble when you get the actual translation." HM, Jr. added, "The fact that it might be all right for their home consumption is no reason why we should accept, unless it is good for us." Feis said, "You will get an accurate translation of that sentence. It is not going to be one of the things in this note that will trouble you."

HM, Jr. however again read, "For this purpose the French Government has decided to proceed to the adjustment of its currency on the basis of these prices." Feis said, "Suppose it is cutting down 30%. It's implying that reduction of the franc. It is going to cut down on the ground that taking its course in price levels in relation to the sterling and the dollar cost in price level, at the present time the franc is overvalued."

White disagreed. He said, "I am opposed. It establishes at once that we agree that that is a proper basis and we don't at all, because that kind of arrangement would lead to very different results from what we would be willing to accede to. It has to be set in definite terms."

The Secretary said, "I have an entirely different objection. I have not made myself clear. Suppose I go ahead and sign this. They will say, Of course you knew what we meant. We meant 40%."

Feis told the Secretary, "I assume you would not sign anything until you know the basis."

Bullitt then said to the Secretary, "Reynaud, who was French Finance Minister and expects to be in again, said to me the other night that his one fear was that the Government at the present time would cut the franc only by 28% and that he felt that to establish the thing in a real stable manner it would be necessary to cut it very much more. That the 28% was the figure that the Belgians had used. It had been very successful then, but that the French had gone on for another long period and that they needed considerably more. He had very accurate information on when they were going to

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do. He was in on it, although he wasn't supposed to know about it."

Interrupting Mr. Bullitt, HM, Jr. asked: "You mean in on this?" Ambassador Bullitt replied, "Apparently. He said to me, about three days ago, that he hoped to Heaven he could stay in this country for two weeks, but he was very much afraid that we would manage to put the thing through before the end of September, in which case he would have to leave for France. He was to deliver a speech at Harvard and left instead immediately for France, having been tipped off that the thing had been decided on. My guess is that there is a lot of pressure being brought to bear to go higher than 30%. Of course, I know nothing about it."

HM, Jr.'s reaction to this was, "But I still say it." Bullitt remarked, "I quite agree. I am simply supporting your contention."

Oliphant said, "You remember, the last one left it blank."

Continuing his remarks, HM, Jr. said, "Let's be realistic. Let's say I took this just as it is written and they say subsequently at the end, when this thing is out, 'We will do something else.' But this is the declaration which the three sign! I sign this as it is. I am hooked!"

Oliphant said, "I assume there would be no signing until the parties knew what the devaluation was going to be."

HM, Jr. then said, "As far as I can see, this is all just shadow-boxing. They come back and do exactly what we say we cannot do. We won't talk about gold standard and all that stuff in the other telegram, at least they left the places blank. Why don't they get down to business? This thing is just a lot of hooey. It may be very nice for the French people, but there is nothing in here that the President and I have said on monetary things."

White said, "They speak there of the exchange rates -- that they ought to have that kind of relationship as is determined by the cost of living and prices. They establish some kind of a measuring stick for devaluation."

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HM, Jr. answered, "But they don't tell us what basis." White then said, "And we don't agree on the basis. I think we can demonstrate very quickly that that basis is not a proper basis on which to measure devaluation."

Taylor said: "I think you have to agree on the measuring stick. When you sign this document, you sign it blind."

The Secretary then said, "I want to just take a minute and see if I can sketch this for Bill Bullitt. We have had a preliminary note, which is here if you care to read it. It is not very long. Then we followed the thing through and told them how far we could go. Then the British very kindly delivered to me a sort of digest of what they were going to do and then we asked the British if we could send a paraphrase of their message to Cochran and in return for that we showed them what we had sent the French. We got one note from the French and we answered it and this thing comes back, and when you read their first note you will see why I am so disheartened on this thing."

Ambassador Bullitt said to the Secretary, "Reynaud said to me that it would be the object of the French Government to present this matter as an upward readjustment of the American and British currencies to the franc, rather than the downward readjustment of the franc. That it was their whole object to make it look as if America and England had finally realized that their currencies were wrongly valued. That's the way they want to sell it to the French people, -- this is not another devaluation of the franc; it's revaluation of the franc in terms of dollar and pound."

HM, Jr. said, "I did not see Reynaud when he was here." Bullitt said, "He has real chances of replacing Auriol."

Fels commented, "It runs perfectly true to pattern. The French, perceiving that we would try to assist this move by international cooperation, put their purposes in certain form and based them on certain principles and said, 'Revise them if you want to.' We went back and said 'This is our disposition. It's strong along the course you marked out. However, we won't undertake to revise your language and will set forth the elements of the problem as it appears to us in very different perspective and on

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substantially different principle. We transmit that to them. They, running perfectly true to pattern, whenever they write a note they are making certain concessions, still write back into their proposal -- just as they did in the debt moratorium negotiations -- some of the main principles that we have already said from our point of view were quite unacceptable, and develop their form just as they originally proposed it. And that's about where the situation stands. Of course it's disheartening. Every negotiation with the French since the war -- it runs perfectly true to pattern. I don't feel as hopeless about it as though it were not the pattern; as though you did not have to go through it every damned time."

The Secretary said, "We have everything to gain and nothing to lose. There is nothing in it for us. If we go on, this is going to be a great big generous gesture and we are sitting pretty. And all this stuff here would be terrible as far as our own people go -- as far as the American monetary policy goes."

To Dr. Feis, the Secretary said, "Come on, Herbert. How would you tackle this?" Feis answered, "I would draft an answer." The Secretary asked him, "Do you want to start it?" and Feis answered, "Sure."

Note: See page 8 of this report of meeting, following this page.

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FIRST DRAFT OF REPLY TO COCHRAN
DICTATED BY DR. FEIS

I have given immediate and careful study to the draft of the joint proposal transmitted through you by the French Minister of Finance.

First of all, I must point out that it makes no mention of the rate. As already stated in my previous message, joint action can only take place provided the chosen rate is mutually acceptable; if I read the British response to the French note correctly, that is their opinion also. Perhaps the Minister of Finance intended to indicate the basis of selecting the rate in the principles rather generally set forth in numbered section three of the proposed joint statement. However, it would be necessary that there be an understanding concerning the specific rate before any form of joint statement would be acceptable. If in addition the French Government wished some statement of principle regarding the basis of setting the rate to be included in the joint statement itself, there would have to be further discussion of the basis of principle as I do not find section three completely adequate.

The proposed statement as drafted in many of its features appears to me to require revision if it is to be feasible and sound and achieve the purposes for which it is designed. Chief among the revisions of substance are the following: (1) At the end of your numbered section one the draft reads as follows: "They are convinced that in order to maintain the maximum of liberty for international trade the maximum of stability must be assured for the principal currencies, the final objective being the complete return to the international gold standard when the conditions necessary are fully realized." As I have already stated in my previous message I believe that any such statement raises ultimate questions not essential for the present purpose and suggest that the last part of the sentence referring to the international gold standard be omitted. It might be feasible to substitute after the word currencies "contemplating the ultimate development of an international monetary system."

(2) In the numbered section two of the submitted

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draft is a declaration by which the Governments declare two principles as dominant in their monetary policy. I cannot subscribe to this statement of dominating principles as drafted and would suggest again consideration of the four elements of monetary policy that were summarized in my previous message, all of which I consider essential for a balanced presentation.

(3) As already stated above, the purport and exact significance of numbered section three is vague and I shall appreciate further explanation of the idea underlined.

(4) In numbered section four there is a repetition of reference to the international gold standard as follows: "In order to reach the final objective which consists of the complete return to the international gold standard." My previous remarks apply here.

In addition to these main points of substance there are many questions of phraseology that require further consideration of which I would mention the following. In numbered section one

At this point, HM, Jr. interrupted Dr. Feis to inquire: "May I interrupt you a minute. I just want to ask you -- I just want to say this: I take it you think this is the way to do it?" Feis answered, "No, I am not sure of it." HM, Jr., continuing, said: "Don't you want to tell Cochran that this is so far apart, won't they please read our note and please read the English note. I wondered if this is the way to take the thing, sentence by sentence." Feis explained, "I was going to take it sentence by sentence." HM, Jr. suggested that Dr. Feis proceed with his draft of message to Cochran.

Feis' dictation:

I have summarized above for you the main points in the joint declaration proposed by the French which appear to me to mark the divergencies between the policy to which this Government is willing to subscribe and that which the French Government again presents. I suggest that you immediately see the Minister of Finance and inform him that in response to his request for immediate reply I have instructed you to express the view that

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the French proposed draft does not seem to me adequately and in many points to represent the basis of the joint action which has guided me in my hope that such action might be possible. He will recognize the differences by carefully weighing again my previous message especially the four elements of the American position. Then in the discussion with him that I suppose will develop you are to be guided by my preceding statement regarding the particular features of the note that appear to represent the differences in approach between myself and the Minister of Finance. You may assure him that I completely understand the urgency of the situation he faces and I remain convinced that a joint statement will serve to assure desired monetary stability and to prepare the way for general economic improvement. I am willing to participate in any statement compatible with what appears to meet the American situation and such sound principles of monetary policy as may be tentatively set forth at this time. In this spirit I respectfully request him to study again my previous presentation.

Ambassador Bullitt then made the following suggestion. He said, "But may I make the suggestion, that if you send them a note like that, it's going to simply make them feel 'Oh, God! This is hopeless and there is nothing at all that we can do.' It seems to me there is a lot in there that is necessary to say, especially referring to your previous note and, most especially, pointing out you want figures, but you could perfectly easily take certain paragraphs of this note and say that these paragraphs we are ready to subscribe to, provided the rates are fixed. In that case you give them something concrete to go on, whereas here you are purely negative. It seems to me that a Government in the desperate case that they are, that if they have something concrete -- that you are ready to accept if the rate is set -- is much less apt to lose its head and think itself hopeless. You think you could take certain paragraphs and sentences out of that and put them together and make an acceptable one."

Fels, however, said, "I think we are giving them as much positive caste as possible. Our positive element is in the previous communication." Bullitt then said, "There are certain things in here which would make a perfectly proper agreement." Haas said, "The previous note gave them a suggestion of a note from our point of view."

Olliphant expressed his opinion as follows: "They

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started out by suggesting that we have contact. And they have that. We come back with the suggestion of a joint statement. They say, All right; we will work on that. Now, we submit you draft of a joint statement and they suggested fixed ratios. If you eliminate the unfortunate language with references to the gold standard and to the yard stick, they have adopted our position. And I think you can make the form purely unobjectionable."

Feis said, "I think it's the better way to handle it." Taylor said, "I have another feeling. We have been first in every time. I think this is the time for us to be second in, but indicate that there are certain points which have been raised, both as to form, which will require considerable study and in the meantime refer specifically to our original message and note the absence of any specific formula for rate." HM, Jr. however, said, "Why should we be second to England. Maybe Leith-Ross will answer it tonight." Taylor said, "In the first place, they can't take any action without calling a quorum." Haas said, "The British can solve some of our difficulties."

HM, Jr. said, "In the conversation I have had with the President on this thing, he seems to be very anxious to make an answer on this and not let the night pass without answering this. He wants very definitely to give the impression to the French that we are there just as quick as we can be and I don't see any particular advantage not to continue that policy." Taylor said, "If we do that, we have to do something extremely innocuous or bat them in the nose."

Feis said, "I think your suggestion would lose time." To the Secretary he said, "What kind of telephone conversation did you have with Cochran?" The Secretary answered, "Excellent." Feis said, "I was just wondering if this wasn't something that could be done over the telephone."

Bullitt remarked, "Everybody has this code in the world. The British have it just as soon as it is sent and the French have it. Don't be under an illusion that codes from Paris are confidential. Your telephone conversation might be picked up by speculators, but this would be secure."

HM, Jr. said, "I was just wondering if over the telephone I would permit Cochran to walk in there and to say that my

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Government has not had time to really clarify the points of view on this draft, but in response to your request for urgency, the Secretary gave me some indications of his first impression -- and let him march in there with the indication of our first impression."

Mr. White said, "They will come back with something and correct some of the things you object to and some of the sentence we still object to will still be in there and we will again be put in the position of objecting, whereas if we start off with a list of objections, they will have it before them in writing, just as we want it in writing, and I think they would very well want to know what was objected to."

HM, Jr. said, "I wouldn't want to risk this on the telephone. It's too great a responsibility. The thing I am talking about is this: it looks to me as though this is something like an architect drawing the plans of a house and his client won't tell him how much he is going to spend. If we knew how much they were going to devalue, I think we could get a joint statement very quickly. But as long as we don't know, I think all talks about the statement are useless."

Bullitt remarked, "Obviously vital to know that."

HM, Jr. then said, "What I feel like saying tonight would be to say to Cochran this: I suggest that the French Government read our note very carefully because we have stated our ideas in that note just as carefully as we know how up to the point that they tell us how much they will devalue. Then I can go on and say for him to let them know how much disappointed I am that they twice bring up question of gold standard."

Bullitt's reaction to this was: "I think if you want to be helpful, it would be valuable to say that for reasons set forth in our note, we cannot proceed until we know how much they are going to devalue and the only passages in their note which we are prepared to accept as of tonight are the following, and then give something concrete."

Haas said, "Another way of following the Ambassador's suggestion is to repeat ours, putting in what

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parts of theirs we can do and sending it back."

Ambassador Bullitt added, "When people are harassed as they are in France today and really worried, the only thing on God's earth they want is something concrete."

Haas' further suggestion was, "I think we should make it clear you are not bargaining. Just repeat the same thing back each time."

Mr. Bullitt said, "We are extremely satisfied with the way the world is running; that the United States is in a lovely position."

Fels replied, "On one point -- on two points, we are not in a lovely position. We are interested in bringing this thing off successfully, because if they don't devalue successfully they will have to control exchange and that means controlling trade and that means taking more or less the German line maybe to some extent; secondly, if they don't pull devaluation off successfully, the British may go down unless there is some such agreement as this and if the British go down substantially then we are faced with the whole problem of the sterling rate."

Bullitt added, "Then there is the further thing -- that if they don't pull it off, they are likely to have economic chaos; that they will have shooting around Paris."

The Secretary then said to the group: "I am going to do it the way I feel." He then proceeded to dictate the material which begins on page 14 of this report.

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SECOND DRAFT OF REPLY TO COCHRAN
DICTATED BY THE SECRETARY

For your information, my first reaction on reading the French note is a rather hopeless one, but realizing the seriousness of the situation we do not want to leave a stone unturned to bring about cooperative action between England, France and ourselves.

On re-reading our note of September 9 and a paraphrase of the British note furnished us by Mr. Mallet, it seems to me that the British Government and ourselves are pretty much in general agreement. This fact has evidently not registered with the French.

It goes without saying that we can not enter into any agreement which will definitely tie our hands or which looks forward to a return to the gold standard. We are prepared and have the means to live up to a monetary agreement. Unfortunately for the French, they do not have the same stability or wherewithal that we have at this time. Therefore, we are naturally reluctant to enter into a firm contract at this time. I also appreciate that the French have a different audience to cater to than we do, but on the other hand, if we are going to sign a joint note we must make it acceptable to the people in all three countries.

The following declaration based on the French, English and our own note would be acceptable to us:

(At this point, HM, Jr. suggested that Dr. Feis dictate the balance of the message.)

Dr. Feis dictating:

The following parts of the French note appear to us to be acceptable elements in a joint statement with minor changes in phraseology.

Numbered section one, except for the closing lines reading "the final objective being the complete return to the international gold standard when the conditions necessary are fully realized;" in that connection I refer again to my comment in my previous communication.

Ambassador Bullitt interrupted here to say: "This is

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something that should be done by Wilson in Paris. If you are dealing with the Government and are trying to write some sort of an agreement and they are trying to write a note to your Government and they say 'Is this going to be acceptable to your Government, you can say yes.'

Resuming his dictation, Dr. Feis said:

Section 3. Assuming in this section that the specific adjustment of the French currency is mentioned, the latter part of the section beginning "The Governments of the United States and of Great Britain assure it of their close collaboration, etc." is acceptable.

At this point the Secretary left the room to telephone to the President.

Dr. Feis resumed dictating:

Section 4. Omitting the reference to the gold standard, which reads as follows: "in order to reach the final object which consists of the complete return to the international gold standard."

These elements of the statement would, in my judgment, obviously be supplementation from the statement.

Dr. Feis concluded dictating.

Ambassador Bullitt asked, "Is Ed Wilson thoroughly familiar with what is going on? Does he talk to these people? Does he know enough of the American point of view?" Feis answered, "They understand the American point of view. They can tell where they can give and can't." The Ambassador said, "I quite agree, on your final negotiations. But they can tell the French why such things are totally impossible." Feis said, "Cochran can do that pretty much." The Ambassador then said, "If you had a man in there like Wilson, instead of Cochran, he would have said, 'What about rates?'"

The Secretary returned to the room after talking to the President. HM, Jr. said, "To paraphrase what the President said, 'It's terrible! It gives me a pain!' In the first place, as a diplomatic beginning, he said, 'This is in effect a treaty.' He thinks each Government would start off like this: 'The United States Government

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after consultation with Great Britain and France declares that it is anxious to safeguard peace,' etc. Section two -- no like. He particularly disliked 'maximum stability'. The last of Section two -- gold standard -- GUT! with a very loud voice; sounded like Ouch! Under Section three, paragraph three, where it says 'world prices' -- Why don't they say something about maintenance of price levels within each country? The Section four, paragraph one, where it speaks of 'banks of issue'. He crossed that out. Again they speak of maximum stability. Out! 'In order to reach the final object which consists of the complete return to the international gold standard' -- out! out!"

Bullitt remarked, "If Wilson and Cochran are conversant with this country's point of view, let them tell specifically what is the objection of this country and how they can make it acceptable, unless you want to send them a telegram instructing them how it should be."

The Secretary's response was, "I don't know Wilson. Cochran we have worked with very, very closely and I think he understands pretty well."

Feis said, "I have never known a better man in our service than Wilson, but I do not see, nevertheless, how he could operate without adequate instruction from this country."

Bullitt said, "Suppose he had for his confidential information, and to operate from, a draft that had been worked up by this group."

HM, Jr. expressed his opinion as follows: "The only way we can get anywhere on a monetary conference is for them to send someone to this country where I can go over any time and discuss it with the President, and unless they send somebody over, I think you can write notes to each other until I grow whiskers." Bullitt said, "The difficulty is it is changing from day to day for them to send anybody over here."

Ambassador Bullitt then suggested: "I suggest you send word to Cochran something along this line: Your cable 884, forwarding us English translation of French proposed note is very disappointing, so much so that it is almost impossible for me to make suggestions as to

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how to change it. However, we are giving it very careful study and consideration. The crux of this whole situation is how much do the French intend to devalue. I suggest that you try and find this out. Once we know this figure, the drafting of a declaration would be greatly simplified."

The Secretary then asked Ambassador Bullitt if he did not care to dictate the draft of a reply to the French note.

Ambassador Bullitt dictating:

Your 884, September 17, 8:25 pm. The French draft of a proposed joint note is in many respects very disappointing. For example, references to return to the gold standard would have to be eliminated and many other changes would have to be made. Before any declaration of any kind can be made, this Government must have a definite statement from the French Government with respect to the percentage of currency realignment contemplated. Please attempt to obtain such a statement at once from the French Government. We shall, in the meanwhile, formulate our objections to the French note and our suggestions for a declaration which in our opinion should not be a joint declaration, but a simultaneous one substantially identical and made by the Governments of the United States, France and Great Britain. If the French Government cares to give us a definite statement of the percentage of currency realignment contemplated, we will proceed with an examination of the suggested text for the purpose of making necessary eliminations and adding the required new material.

The Ambassador concluded dictating his draft.

He said, "One idea -- we are in a position where we hold things very much in hand and we have the resources to handle it. I remember over here when we were inclined to stabilize, in May of 1933, in fact offered to the French and British; that it was the French who refused; that the dollar was fluctuating and so was the pound; whereas the franc was stable and they had resources to do it forever. Their situation was so perfect that they would never have to put up money for a stabilization fund, which was what this Government

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proposed. It was actually the French Government which turned down stabilization in May, 1933, and then they started cursing at us for refusing it two months later."

Feis said, "On the other hand, we have very great interest in having this country participate as a world move. Immediate economic effects in this country; amount of increased standing gained by the Blum government -- all of those give us a very real interest." HM, Jr. agreed, saying, "All true."

Feis also said, "If you can reach an agreement, you will get a smaller percentage of devaluation than you would otherwise. Since that is so, I am still for taking a line of a very positive effort. We want to go along without yielding on things on which we just can't yield."

The meeting then adjourned and no reply was sent this evening to Cochran.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 17, 1936

TO Secretary Morgenthau

FROM Mr. Haas *[Signature]*

Attached is a photostatic copy of a Federal tax chronology, prepared in this Division. The information thereon, shown in schedular form, is intended to present "at a glance" a comprehensive picture of the Federal tax system as of 1928 and such subsequent changes thereto as were made by the separately enacted revenue laws to date.

The tax chronology will serve as a quick historical reference in instances where it is desired to determine what developments have occurred with respect to each tax and, in addition, will be found helpful in making rate comparisons or in determining what taxes were repealed and what new taxes were put into effect.

Title of law	Revenue Code				
	1938	1937	1936	1935	1934
Special taxes - Distilled					
Distilled spirits					
50 Any one or any article containing alcohol imported from Puerto Rico for consumption <u>in</u>	\$1.10 per proof gal.	No change	\$1.10 per proof in case 1931.	No change	No change
51 Perfume, lavender, essential - distilled spirits	\$1.10 per wine gal.	No change	\$1.10 per wine gal.	No change	No change
52 Wine based on distilled spirits					
53 Distilled spirits	Prohibition	Prohibition	Prohibition of (and then 4 plus 1/2) 1/2 plus or more 1/2	No change	No change
54 Sweet cherry, distilled spirits blended for export	-	-	10¢ per wine	No change	No change
55 Vanilla, refined or reconstituted from natural gum	-	-	10¢ per package	No change	No change
56 Orice petroleum, refined or processed in United States	-	-	1/10 of 1¢ per gal.	No change	No change
57 Denatured alcohol, refined or processed in United States	-	-	1/10 of 1¢ per gal.	No change	No change
58 Leaf tobacco, quantity less than leaf tobacco with, removed or subject to violation of law	10¢ per lb.	No change	No change	No change	No change
59 Cigarettes, imported from foreign countries	25¢ per lb. in addition to import duties.	No change	No change	No change	No change
60 Opium, manufactured for smoking purposes	\$200 per lb.	No change	No change	No change	No change
61 Flaxseed and residues	10¢ of price for which sold or issued	No change	No change	No change	No change
62 Narcotine in filled stems	\$200	No change	No change	No change	No change
63 Opium in filled stems	\$10	No change	No change	No change	No change
64 Imported filled stems	1/2 in addition to import duties	No change	No change	No change	No change
65 White phosphorus matches	2¢ per hundred	No change	No change	No change	No change
66 Other matches, manufacture of sale of matches for future delivery, which do not conform with regulations of Secretary of Agriculture	2¢ per lb.	No change	No change	No change	No change
67 Playing cards (slight tax)	10¢ per package of not more than 50	No change	No change	No change	No change
Special taxes					
68 Taxes with respect to employment (except carriers) - Income tax on employees - wages <u>in</u>	Social Security Act, approved August 14, 1935				
69 Excise tax on employees (except carriers) based on wages paid <u>in</u>					December months 1937-1938 - 10 1940-1941 - 15 1942-1943 - 20 1944-1945 - 25 1946-1947 - 30 1948 & thereafter - 35
70 Tax on employees of 2 or more based on total wages <u>in</u>					1937-1938 - 10 1940-1941 - 15 1942-1943 - 20 1944-1945 - 25 1946-1947 - 30 1948 & thereafter - 35
71 Taxes with respect to employment (carriers) - Denial tax on wages of employees of carriers	Carriers' Denial Act, approved August 20, 1935				1936 - 10 1937 - 20 1938 & thereafter - 35
72 Income tax on representation of employees of carriers					2% of compensation not in excess of \$200 per month until March 1, 1936
73 Excise tax on carriers based on wages					2% of compensation not in excess of \$200 per month after effective date - March 1, 1936
74 Tax on night fishermen					No change
75 Excise tax on sale price of vitamins and products within the United States	Vitamins and Derivatives Act of 1937, approved August 20, 1937				25% after effective date - Nov. 1, 1937 applicable only to such products also did not comply with the Vitamins and Derivatives Act. Such products also complied with the order were entitled to a credit of 25% of the amount of the tax
76 Impostion land tax	10 per annum. 1/2 years or more	No change	No change	No change	No change
77 Tax on circulation of national bank notes - Notes secured by US bonds	1/2 of 1%	No change	No change	No change	No change
78 Other notes	1%	No change	No change	No change	No change
79 Tax on circulation of State bank notes	1/10 of amount paid out	No change	No change	No change	No change
80 American tax on earnings of Federal Intermediate small banks	5% of net earnings until surplus fund equal called capital stock, then - after 5% of net earnings	No change	No change	No change	No change
81 Small Bank taxes	Under Act of August 21, 1915, U. S. Code, Title 48, Sec. 1211, the President is authorized to issue regulations for levying, assessing, and collecting the Small Bank license taxes, and collecting the Small Bank license taxes (not to exceed 5% of the value of the property), and other and franchise taxes (not to exceed 5% of gross earnings)	No change	No change	No change	No change
ESTIMATES					
(a) Comparison of total revenue from various sources (including estimated profits) - Summary (under law 1938, Sec. 104) comparing 1938 with 1937; income tax					
(b) Comparison of total revenue from various sources (including estimated profits) - Summary (under law 1938, Sec. 104) comparing 1938 with 1937; income tax					
(c) Comparison of total revenue from various sources (including estimated profits) - Summary (under law 1938, Sec. 104) comparing 1938 with 1937; income tax					
(d) Comparison of total revenue from various sources (including estimated profits) - Summary (under law 1938, Sec. 104) comparing 1938 with 1937; income tax					
(e) Comparison of total revenue from various sources (including estimated profits) - Summary (under law 1938, Sec. 104) comparing 1938 with 1937; income tax					

TREASURY DEPARTMENT
RETURN AFTER FIVE DAYS TO

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PENALTY FOR PRIVATE USE TO AVOID
PAYMENT OF POSTAGE, \$200

OFFICIAL BUSINESS

For Tax
Adv. Comm

Forward to
the Firm

Advisory Commission

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 17, 1936

TO Secretary Morgenthau

FROM Mr. Oliphant

Tried to get from Magill his notions of an outline of the studies that should be made but was not successful. Names of economists for the group which he mentioned for discussion were:

- Leland University of Chicago
- Groves University of Wisconsin
- Blakey " " "
- Canning Stanford University
- Martin University of Kentucky
- Lutz Princeton

HO

September 17, 1936

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Present at a meeting in the Secretary's office today were Mr. Gill, Mr. Bell and Mr. McReynolds.

Mr. Bell and Mr. Gill presented the following solution for the approval of projects in excess of classification limitations:

"In order to avoid projects being left uncompleted in whole, or in useful part, when funds are exhausted, both the Works Progress Administration and the Treasury will, when obligations in any Act limitations reach, say, 80% of the limitation, issue appropriate orders to the states to the effect that no further projects in that particular limitation may be started and that those in operation in the limitation must be tapered off to insure completion in whole, or in useful part, by the time the remainder of the Act limitation is exhausted."

After HM, Jr. read the above, his remark was "Which means what?" Bell said, "You are controlling it by obligations, and expenditures will always be less than obligations." McReynolds explained, "You are proposing merely to limit the obligations that can be incurred to 80% of the authorized amount of the expenditures." HM, Jr. then said, "I do not get it."

Bell gave the following explanation. He said, "Take the Women's Projects, on which we are up to the limit of \$85,000,000. That can be increased by 15%, equalling \$98,000,000. That amount can be expended under that limit. Suppose the President approves projects aggregating \$150,000,000. When the obligation is incurred by the State Administrators for this class of projects aggregating 80% of the \$98,000,000, or approximately \$78,000,000, then notification will go to the Works Progress Administration State Administrators and the Treasury State Accounts Offices that all projects under this limitation will be wound up within the balance of the funds available."

HM, Jr. then said: "The Women's Projects under the Act of Congress is \$85,000,000, increased by 15% equals \$98,000,000. Your thought is that Hopkins' organization can

authorize projects up to \$150,000,000, but when the obligations incurred equal 80% of the limitation of \$98,000,000, which is \$78,000,000, then orders will go out to stop? It will never work!" Bell's response to this was, "It will have to wrk."

Continuing, the Secretary said, "Now look! The system that you people set up was that before they could start a project they would have to earmark 100 cents on the dollar. That worked. Then came the middle of June. We made a deal with them that we could cancel that thing, in order that they stay within certain appropriations. They lived up to that. We came out of this on July 1 \$1,300,000,000 to the good. Now, they not only will not set up the money, but they are going to obligate money that we have not got. I mean, rather, approve projects for money that we have not got. The big difference between what we are talking about now and last June is that we had all this "velvet" then.

"Now you are talking about getting the President to put his signature -- authorizing projects in excess of money which Congress has given. I say that the President should not do it. Your method of working is wrong."

Gill asked, "What would you suggest?" and HM, Jr. replied, "That is not my job. I will not let the President put his signature authorizing projects far in excess of money that he has. I will never forget when I was in the Treasury only three weeks I discovered that the previous people misled him, to the tune of \$3,000,000,000."

Mr. Gill protested, saying "This does not do it, Mr. Secretary." Mr. Morgenthau's answer was, "It is illegal and he would be breaking his oath. It is just exactly as though I had \$1,000 and I say to my children, 'I am giving you each a check for \$500 to go to Europe. Now, of course it is \$1,500 but I want you to know that I do not expect you to spend it, because I only have \$1,000 in the bank. I hope to have another \$500 in six months, but in the meantime I want you to get started.'

Continuing, HM, Jr. said, "I say that there is nothing wrong with the Budget nor the Treasury, but your method of operating. I will not let the President do it until I

have forcefully brought it to his attention. After that, if he wants to do it, that is up to him."

Bell disagreed. He said, "I cannot say that he is breaking the law." HM, Jr. answered, "He is breaking the spirit of the law." Bell said, "He goes through two operations. He approves projects and then he allocates so much money." HM, Jr. said, "Maybe my upbringing is all wrong. Maybe I do not understand finance, but the President put me here for a reason. The Treasury was in bad shape when I came here. No one will ever know what hardships I went through."

"Let's say that the President is defeated and Landon comes in and he finds authorizations for projects of \$500,000,000 in excess of the \$1,425,000,000. Is he going to take this explanation?" Gill said, "He does not authorize. He approves."

Resuming his remarks the Secretary said, "The situation was different in June. We had the money. We now have not got the money and, I repeat, we have \$1,425,000,000 and they are asking him to approve up to \$2,000,000,000 and then stop it. It is not fair to the President to put him in that position. I think it is up to Hopkins to be here and work out a way how to take care of the unemployed. This is his job. Let him run it. My job is to see that the President does not put himself in a hole financially."

To Mr. Gill the Secretary said, "You should not have to take the heat on this. I don't want to put you in that position. Let Hopkins take it. It is not fair to put you up against him. Hopkins is responsible for spending this money. If he were sick now, as he was in June and July, I would not expect him to come back and see this thing through, but he is out making speeches and if he is well enough to do that he ought to be here to take care of this problem himself. This is not your plan. It is Hopkins' plan."

Gill, however, replied, "No, it is not Mr. Hopkins' plan. It is the best plan we were able to work out with the General Accounting Office. They wanted it their way. We do not like this approval of projects in excess of limitations." HM, Jr. then inquired of Mr. Gill, "Did you ever try to take this up with the General Accounting Office?"

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Mr. Gill answered, "Almost every day for a year and a half."

Again addressing Mr. Gill, the Secretary said, "I don't want you to repeat this, but the President asked me to straighten out Wallace's soil conservation checks with the General Accounting Office and I did, and they said it could not be done and I showed them that it could be done."

Gill said to the Secretary, "The trouble has been with McCarl. Mr. Hopkins would come to a perfect agreement with him; then come back to the office to try to work it out only to find that General Accounting stopped it."

At this point, HM, Jr. inquired of Mr. Gill, "What would you want from McCarl's office?" Gill answered, in substance, "At present we are having specific allotments made for each separate project authorized within a State."

Mr. Morgenthau asked, in substance, "Why couldn't we get the Comptroller General to consent to a blanket allotment for a State for all projects within a specific classification. Why don't we try to get the General Accounting Office to say that you can give a lump sum to a State and then let the State decide where the need is the greatest? Then this thing we are talking about would disappear."

Then the Secretary added, "To show you that I am not trying to keep you from spending money, we will try to see whether we can get this for you immediately. If you got that, it would solve everything." Gill's comment was, "Very close to that plan."

HM, Jr. said, "Let us tell the General Accounting Office that we will have to do this or you will have to do something illegal. We will go to the bat for you on this, but I do not want to put the President in the position that you suggested."

Gill was very pleased. He said, "This is fine!" HM, Jr. said, "This is something that I want and something that you want." Gill added, "This is grand! I want to go back to my office and put it down on one page."

Mr. McReynolds then said, "I do not understand all the internal details in respect to State operations and before I could argue I would have to have some more explanation."

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The group departed. In a few minutes the Secretary called Mr. Bell on the telephone and the following is a record of their conversation:

HMjr: Dan? -
D. W.
Bell: Yes

HMjr: If we should be successful in getting this thing through then I'd want to go back to the old system of making each State Administrator sign that piece of paper in which he assumes responsibility for completing the project, the way you showed me in that one for the District.

B: That certificate?

HMjr: Yes - I'd insist on that.

B: Yes, I think there are other protections you've got to have too -

HMjr: Well, you most likely will think of that. But, then certainly the State Administrator will have to hold him responsible -

B: Yes

HMjr: - that the project should be completed.

B: Yes

HMjr: See?

B: Yes - all right.

HMjr: I mean, that I would insist on.

B: All right.

HMjr: And you most likely can think of some more, what?

B: Well, I think we've got to have something like this eighty per cent, even on guilds.

HMjr: Well, anything else you want to chuck in there, but this --

B: But this is what they've been asking for a long time, you know?

HMjr: Well, I didn't know it. But certainly then they can't say that the State Administrator can't sign a certificate in which he assumes responsibility to complete the thing, because if he doesn't complete it it's because he's shifted the money to something else.

B: Yes

HMjr: What?

B: Yes

HMjr: Isn't that true?

B: Yes - All right, well we'll work out something. We've got to have some protection in there.

HMjr: Well, I'll leave that to your good judgment.

B: All right, goodbye.

*Original
File*

~~The approval of projects in excess of classification limitations stated in the Act would seem to require no assurance from the Works Progress Administration that obligations will not be incurred in excess of the Act limitations, for the reason that the Treasury would not prepare a warrant and the General Accounting Office certainly would not approve one carrying an allocation, which, together with previous allocations under the same limitations, exceeded the amount of that limitation in the Act. In other words, the System itself prevents us from getting allocations of funds in excess of Act limitations. Therefore, we could not expend in excess of Act limitations.~~

In order to avoid projects being left uncompleted in whole, or in useful part, when funds are exhausted, both the Works Progress Administration and the Treasury will, when obligations in any Act limitations reach, say, 80% of the limitation, issue appropriate orders to the states to the effect that no further projects in that particular limitation may be started and that those in operation in the limitation must be tapered off to insure completion in whole, or in useful part, by the time the remainder of the Act limitation is exhausted.

Thursday
September 17, 1936
10:13 a. m.

HMjr: Dan -
D. W.
Bell: Yes

HMjr: If we should be successful in getting this thing through then I'd want to go back to the old system of making each State Administrator sign that piece of paper in which he assumes responsibility for completing the project, the way you showed me in that one for the District.

B: That certificate?

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HMjr: Well, you most likely will think of that. But, then certainly the State Administrator will have to hold him responsible -

B: Yes

HMjr: - that the project should be completed.

B: Yes

HMjr: See?

B: Yes - all right.

HMjr: I mean, that I would insist on.

B: All right.

HMjr: And you most likely can think of some more, what?

B: Well, I think we've got to have something like this eighty per cent, even on guilds.

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B: But this is what they've been asking for a long time, you know?

HMjr: Well, I didn't know it. But certainly then they can't say that the State Administrator can't sign a

certificate in which he assumes responsibility to complete the thing, because if he doesn't complete it it's because he's shifted the money to something else.

B: Yes

HMjr: What?

B: Yes

HMjr: Isn't that true?

B: Yes - All right, well we'll work out something. We've got to have some protection in there.

HMjr: Well, I'll leave that to your good judgment.

B: All right, goodbye.

Thursday
September 17, 1936
10:57 a. m.

Operator: - who called you yesterday.

HMjr: That's all right.

Operator: Here you are.

HMjr: Hello -
Joe
Davies: Hello, sir, I'd like to speak to Secretary Morgenthau,
please.

HMjr: You are.

D: This is Joe Davies.

HMjr: How do you do?

D: How are you?

HMjr: Fine

D: About - a number of months ago I had occasion to
talk with the Boss and I spoke to him about Reds Condon -

HMjr: Yes

D: - whom I have known for a good many years and his
wife Evelyn, and who have been such splendid people -

HMjr: Yes

D: And such splendid help.

HMjr: Yes

D: And I spoke - I tried to get you on the phone at that
time but you were out -

HMjr: Oh yes

D: That is, I couldn't contact you and I happened to be
called in and I spoke to him in connection with the
Board of Tax Appeals.

HMjr: Right

D: And, I know that Condon is a man of ability and
good judgment and I suggested that I thought he'd

be available for the Board of Tax Appeals.

HMjr: Well -

D: And the Boss said at that time, 'Well', he said, 'I tell you, Joe', he said, 'I think that Board closed, but', he said, 'I know the Condons', and he said - he said you were asked that his record be looked up and he said, 'I'll speak to Henry about it' -

HMjr: Yes

D: ' - perhaps we can do something for him'.

HMjr: He did speak to me.

D: I see. Well, the only point is, Henry, - I feel this way about it, I don't think any man should ask for the position because of political service, but I think if the boy's record is good -

HMjr: Yes

D: - and he deserves recognition, I think it's only fair that we should call it to the attention of the men who are at the top, like yourself.

HMjr: Yes - well, that's all right. And, as I understand it, he called up the other day -

D: Yes

HMjr: And Mr. Helvering saw him for me because he's in Helvering's Department -

D: Yes

HMjr: As I understand it there is no vacancy now until thirty-eight.

D: Well, he was speaking - I - the Boss thought perhaps that his record might - if you'd - if his record was called to your attention you might look into it and see whether there would be any possibility of advancement for him where he is.

HMjr: Well -

D: They're good - they're fine young people and they're hard workers and ambitious and I suppose they've had more or less of a hard time financially.

HMjr: Well, I think he's getting a very good salary, I think he's getting fifty-six hundred now.

D: Yes - Well, I just wanted to call it to your attention.

HMjr: Oh well, I'm glad - I'm glad you have and - and -

D: Yes

HMjr: When I see Helvering I'll speak to him about it.

D: Tell me, how's your fine Dad?

HMjr: Oh, he's simply fine.

D: Is your mother well?

HMjr: Very well.

D: I wish you'd remember me to them both - they're very old friends of mine.

HMjr: I know they are.

D: Yes

HMjr: I'll certainly do that.

D: All right, old man, thank you.

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Thursday
September 17, 1936
5:10 p. m.

Forbes
Morgan: Hello

HMjr: Yes
Outside
Operator: Go ahead now, Morgenthau on the line -
Go ahead Mr. Morgan -

Forbes
Morgan: Yes

HMjr: Yes

M: Yes - hello -

HMjr: Yes, Forbes -

M: Yes, Henry

HMjr: They said you called me - ?

M: No, you called me -

HMjr: (Laughs) No

M: Oh, well, I'm sorry.

HMjr: They said they'd called me yesterday and today.

M: Well, they must have made a mistake.

HMjr: Well -

M: I'm sorry.

HMjr: All right.

M: O. K.

Thursday
September 17, 1936
5:30 p. m.

Operator: Hello

HMjr: Yes

Operator: I told her to have it on the Diplomatic Channel when I passed the call.

HMjr: Oh, well, never mind. Tell Mr. Taylor and Mr. Lochhead to come in.

Operator: Mr. Taylor and Mr. Lochhead?

HMjr: Yes

Operator: - Mr. Bullitt is calling you.

HMjr: All right. - Hello - hello?

Wm.

Bullitt: Hello, Henry?

HMjr: Yes

B: Look here, I have just this minute gotten word that I shall not be able to have supper, but I can get loose by eight-thirty. Is that too late for you?

HMjr: No

B: Can I come up to your place at eight-thirty?

HMjr: Yes - you may run into a conference.

B: Oh, God! What kind of a conference have you got on?

HMjr: Well, this - this note from Paris is on the way.

B: Oh, it's coming, is it?

HMjr: Yes

B: Well, that's fine, that's just what I wanted to know about.

HMjr: Yes

B: That's perfect.

HMjr: Ah -

B: What?

HMjr: I hope so - not your coming but the note.
Well, I'll be delighted to see you, Bill.

B: It will be. Well, then, I'll be up, Henry, just
as quick as I can get up. It'll probably be about
eight-thirty, see?

HMjr: All right, I'll either be asleep or drunk, one or
the other.

B: Why?

HMjr: I don't know, that's the way I feel.

B: When's your

HMjr: Well, that's when - I got - there's a Paris call
that's coming through right now.

B: A telephone call?

HMjr: Yes

B: Well, I'll hang up and let you get your business --

HMjr: And I'll see you at eight-thirty.

B: Fine, thanks a lot, Henry, goodbye.