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At the White House today for 45 minutes beginning at 12:45. The Attorney General, Stanley Reed and Herman Oliphant were also there at my suggestion.

The President, in fine fettle, opened up by asking me to state "our problems." When I demurred, not being a lawyer, the A. G. observed that that was so much the better for a clear view of the legal problems involved.

I gave a thumb nail sketch: of the difficulty of using the "Commodity Corporation" to buy gold, on which difficulty the President said he and the A.G. had agreed. I outlined the plan Reed and Oliphant had developed for a "bank of discount" to liquify banks, make loans to industry and buy gold; and, that failing, their plan to buy gold with R.F.C. debentures.

Asking the status of the Treasury's plan for a liquifying corporation (which today he said O'Connor had decided to change to a bank), the President launched out on a discussion of the need for an agency to refund funded corporate debts in order: to teach business to amortize its funded debts; to strip Wall Street of half its useless refunding business by which it lives and to break the jam caused by its opposition to the Securities Act "They will find out that act is not going to be relaxed" he said. His point, that the bankers can name but one company wanting new capital when they complain of the act, was an incisive one, as the basis of the theme he was developing.

Returning to the proposed bank, his approval of it was obvious in the way he fitted it into the third part of the moving pattern of governmental finance which he sketched with remarkable clarity and understanding-- its tripartite nature: 1. financing the ordinary operating budget, now well over into the black, 2. public works financed by long term borrowings serviced by increased taxes and 3. government credit to agriculture, trade and industry, this third a sweeping innovation, of which the R.F.C. in the last administration was but a beginning. "We have made pikers out of you fellows" he said to Reed.

He ended by saying the development of plans for the bank of discount should carry along the departments involved and suggested that Reed and Oliphant work with O'Connor, "some one from the Treasury" and Bruere. When I asked if Woodin should be brought in he said, with impatience, "No, he's in bed sick." He declined my suggestion that he mention it to the Executive Council today and asked me to push it along.

Right at the outset he said "We have not said we want to buy gold. I want the power to do so if I decide I want to." None of his later statements committed him beyond this position.

Earlier he said he had tried for six weeks to get the Treasury to find a way to buy gold but that was "like punching your fist into a pillow."

PREFACE

Pursuant to House Resolution 183, passed June 10, 1933, the Ways and Means Committee appointed a subcommittee to investigate methods of preventing the evasion and avoidance of the internal revenue laws, to consider means of improving and simplifying such laws, and to study possible new sources of revenue. This subcommittee submitted a preliminary report to the Ways and Means Committee on December 4, 1933, suggesting changes in the internal revenue laws which it is believed will result in additional revenue of \$270,000,000.

In order to afford the public an opportunity to be heard on the recommendations of this subcommittee and to submit other recommendations looking toward revenue revision, the Ways and Means Committee, on December 7, 1933, adopted a motion to begin public hearings on the proposed revenue revision legislation beginning December 15, 1933. Pursuant to this motion a subcommittee was named and authorized to prepare a schedule of hearings. The following notice was given to the press and mailed to all persons who had expressed a desire to be heard:

NOTICE OF REVENUE HEARINGS

WASHINGTON, D.C., December 9, 1933.

In contemplation of a revision of the revenue laws, the Committee on Ways and Means of the House of Representatives announces to all concerned that it will hold public hearings at Washington, D.C., beginning Friday, December 15, 1933, at 10 a.m., at which time officials of the Treasury will be heard, and beginning on Monday, December 18, 1933, the committee will hear other persons desiring to be heard.

A tentative schedule of hearings has been arranged as follows:

MAJOR PROBLEMS

	Item No. Subcommittee Report—Part I
December 18:	
(1) Changes in income tax-rate structure.....	1
(2) Capital gains and losses.....	3
(3) Personal holding companies.....	4
December 19:	
(1) Consolidated returns.....	8
(2) Exchanges and reorganizations.....	5
(3) Foreign tax credit.....	7
December 20:	
(1) Depreciation and depletion.....	2
(2) Dividends out of pre-March 1, 1913, earnings.....	6
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MINOR PROBLEMS

December 21: Minor problems as discussed in part II of the report of the subcommittee and miscellaneous.

Hearings will be conducted in the Ways and Means Committee room in the New House Office Building, Washington, D.C. Sessions will begin at 10 a.m. and 2 p.m., unless otherwise ordered by the committee.

Persons desiring to be heard should apply to the clerk of the committee at least 1 day prior to the date of the hearings on the subject concerned in order to be assigned time on the calendar for that day. In making such application, the following information should be given: Name; business address; temporary address in Washington; business or occupation; the person, firm, corporation, or association represented; subject concerning which testimony will be given; number of the section of the Revenue Act of 1932 or other act to which it relates, if any; and the amount of time desired.

In order to avoid duplication of arguments or suggestions, it is requested that persons having the same problems to present agree upon one representative to present their views. So far as practicable the committee will seek to recognize witnesses who are qualified to give first-hand information.

Briefs may be submitted in lieu of oral testimony; but if such papers are printed on both sides of the sheet, two copies must be filed with the clerk for printing in the record.

In accordance with the foregoing notice and subsequent action of the committee, hearings were held from December 15 to 21, 1933, inclusive, and from January 9 to 11, 1934, inclusive, during which time a large number of witnesses testified. Stenographic minutes of each day's proceedings were printed in unrevised form for the immediate use of the committee. Copies were furnished the witnesses for such corrections or additions to their testimony as they might care to make. The changes thus made have been observed in this revised edition.

The chronological order of the proceedings has been disregarded, the testimony and briefs being grouped according to subject matter. Where a witness spoke on a number of subjects, or where his testimony was of a general nature, his remarks have been included under the heading of "General Statements." In a few such instances it has been possible to break up the testimony according to subjects without destroying the text, but where the witness only incidentally referred to some other matter, the testimony is included under the heading to which he primarily addressed himself.

A general index of witnesses and subjects, together with a table of contents, have been included for ready reference.

E. W. G. HUFFMAN, Clerk.

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## REVENUE REVISION, 1934

FRIDAY, DECEMBER 15, 1933

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
Washington, D.C.

The committee met at 10 o'clock a.m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee is assembled this morning to conduct hearings on the contemplated changes in the internal revenue laws. We have present the Acting Secretary of the Treasury, Hon. Henry Morgenthau, Jr., and Hon. Guy T. Helvering, Commissioner of the Bureau of Internal Revenue, and other representatives of the Treasury Department. Secretary Morgenthau will be the first witness. Mr. Secretary, we will be pleased to hear from you.

The Chair will state, Mr. Secretary, that you have the right to make your main statement without interruption, if you prefer, at the end of which you will be asked to answer such questions as members of the committee may see fit to propound.

## GENERAL STATEMENTS

## STATEMENT OF HON. HENRY MORGENTHAU, JR., ACTING SECRETARY OF THE TREASURY

MR. MORGENTHAU. Mr. Chairman and members of the committee, with your permission I will read from this document:

The Treasury Department appreciates the opportunity afforded it by the Committee on Ways and Means to present its views with respect to the amendments to the income and estate-tax laws now under consideration. Probably the Department can be of some aid to the committee by furnishing the results of its actual experience in collecting taxes. Accordingly, the Treasury has undertaken to ascertain the results of its experience in the administration of the provisions proposed to be changed, including in particular the various methods of tax avoidance which the Department has found to be commonly employed, and to indicate from such experience the probable effects and the results of the changes under consideration. This memorandum summarizes this information.

The changes now under consideration by the committee are specifically designed to prevent avoidance of the income tax and thereby to increase the revenues therefrom. The Treasury Department is in hearty accord with this objective. An outstanding feature of our income tax is that, in the first instance, it is self-assessed by the taxpayer, who makes up his own return. It is therefore highly desirable that it be so drawn as to encourage the maximum of coop-

eration on the part of the great mass of honest taxpayers. This cooperation can be retained, even though the tax rates are relatively high, provided the taxpayer is convinced that the provisions for the tax are inherently fair and are being applied without discrimination. On the other hand, if taxpayers become convinced that the provisions are essentially unjust, or that numerous people are evading them by the use of various devices, our whole income-tax revenue system will be seriously injured. We have already had sufficient experience with laws which cannot be enforced because the public believes them to be discriminatory or unfair.

Consequently the Treasury approaches the proposals of the subcommittee from exactly the point of view adopted by the committee. That the income-tax law should be revised to eliminate any loopholes which now exist, and to distribute the tax burden fairly among taxpayers. Moreover, particularly in these times, legitimate business transactions should not be impeded by being driven to take uneconomic forms. The income tax should properly take a reasonable toll from the business transactions in the community; it should not stop the traffic entirely.

With your permission I will now read the conclusion:

In this memorandum the Treasury Department has attempted in the main to discuss the specific proposals of the subcommittee. These involve almost wholly amendments to the income-tax law. It has not been attempted to set forth here any recommendations as to other forms of taxation, to be adopted in addition to or in substitution for existing taxes. These recommendations can be made after the Budget estimates are completed and transmitted to Congress.

Finally, there is a great need, which the subcommittee recognizes, for a complete and thorough-going revision of the revenue laws, with resulting simplification. In this connection the administrative provisions of all internal-revenue taxes should be reorganized and assembled into a single code, which could be left substantially unchanged from year to year. More important than this, the whole question of the relation of the taxing system of the United States to those of the several States should be carefully studied, and steps taken to coordinate the two. The President has strongly urged this program. The execution of these major tasks will require careful planning and study before any recommendations for legislation can be made. The Treasury has started this work, and expects, in due course, to present the results in completed form for your consideration.

The CHAIRMAN. Are there any questions Mr. Hill?

Mr. HILL. Mr. Chairman. Mr. Secretary, I have not had opportunity to read your entire statement, and you read only the first part and the conclusions you reached. I am at a decided disadvantage, therefore, to ask questions as to your views expressed in the statement. Were they in some respect, or in any respect, different from the recommendations which the subcommittee of this committee shows as the studied efforts of this committee in the tax-revision matter?

Assuming that you have read the subcommittee's report, as reference is made to it in your report, I would like to ask whether you are in accord with, or do you differ from the recommendations made in that report?

Mr. MORGENTHAU. May I answer the question not directly?

The CHAIRMAN. Mr. Secretary, some of the members have suggested, since the acoustics in the room are not very good, that you speak a little louder.

Mr. MORGENTHAU. What I would like to do, if the committee is willing, would be to have Mr. Magill, who is working with the Treasury Department on this very subject, read the rest of the report, and if it is your pleasure, let him answer the questions, particularly as our report touched on the subcommittee's report.

Mr. HILL. Mr. Chairman, I would like very much to have that done, because we have not had an opportunity before to read the statements, and it would be a great help to us if we could have it read here.

Mr. MORGENTHAU. I would also like to make another request, because you realize this is quite new to me and I do not know what the procedure is. I would like to know, while Mr. Magill is reading this, and also Mr. Helvering, who today is here, whether the committee wishes me to stay here the whole time. I do not know what the custom is, but I am at the disposal of the committee.

Mr. HILL. Of course, we would like to have your reaction to some of the questions asked by the committee, and if it is not too great a sacrifice on your part, we would like to have you remain for the morning session at least.

Mr. MORGENTHAU. If it is agreeable, can Mr. Magill read this report and make a statement?

The CHAIRMAN. We thank you, Mr. Morgenthau.

The next witness is Mr. Roswell Magill, representing the Treasury Department. Mr. Magill.

#### STATEMENT OF ROSWELL MAGILL OF THE TREASURY DEPARTMENT

Mr. MAGILL. Mr. Chairman and members of the committee: I am sorry that this printed document could only be given to you at this comparatively late time, but of course you appreciate, and particularly the members of the subcommittee, that the matters which they have gone over are matters of very far-reaching consequence, and the Treasury wanted to take enough time to make as careful a study as we could of these propositions before we gave indications of our own experience and our judgment as to the various proposals, in this statement which has been given to you this morning.

I believe we have covered all of the definite recommendations which are made in the subcommittee's report and have also indicated a few additional recommendations which the Treasury believes might be adopted in the interest of efficient administration of the income tax law.

As the Secretary stated, we have not attempted to cover, in this particular statement, any recommendation for other taxes, either in substitution for or in addition to those which we now have.

We thought, since your consideration was at present being directed to these particular proposals, that the best thing to do was to speak to those, leaving the question of other recommendations for later action.

If it is your pleasure, I will be glad to read the part of the report which the Secretary did not read, and which covers our major problems.

The CHAIRMAN. I think that is what the committee desires.

Mr. MAGILL. Then starting on page 2, we deal with no. 1 of the subcommittee's report which was entitled "Major Problems", of which there are eight or nine in the report.

The first takes up the "Tax-Rate Structure".

The Treasury fully agrees with the subcommittee that, from the point of view of revenue administration, it is desirable to reduce the normal tax rates from 2 sets to 1, and to adjust the surtax rates accordingly. The resulting increased simplicity of the rate structure is a sufficient reason for the change. Until the budget estimates are available, the Treasury is not in a position to express an opinion as to exactly what the normal tax or surtax rates for 1934 should be. Studies by the Department indicate, as shown by the attached table, that the proposed schedule would impose higher rates upon taxpayers in receipt of net incomes in excess of \$7,000, with the largest percentage of increase on taxpayers with net incomes from \$15,000 to \$20,000.

TABLE I.—Total normal and surtax on average incomes as reported for 1932 at 1932 rates, and at rates proposed by Ways and Means Committee

Net income classes (thousand dollars)	1932 act	Ways and Means Committee proposal	Percentage increase (+), decrease (-), as compared with 1932 act—Ways and Means Committee proposal
			Percent
5-0	\$96.73	\$99.73	+3.10
0-7	136.25	121.00	-10.50
7-8	174.70	194.88	+11.55
8-9	202.25	200.24	-1.00
9-10	292.15	306.12	+4.75
10-11	354.02	412.52	+16.52
11-12	423.13	498.26	+17.76
12-13	485.41	570.08	+14.80
13-14	561.79	657.90	+15.64
14-15	613.00	728.00	+19.56
15-20	826.97	1,062.46	+28.17
20-25	1,470.85	1,799.86	+22.37
25-30	2,173.92	2,522.95	+15.84
30-40	3,860.73	5,749.28	+48.99
40-50	5,329.20	8,280.11	+54.22
50-60	7,402.21	8,485.00	+13.57
60-70	10,300.28	11,693.48	+12.69
70-80	13,728.79	15,232.16	+10.50
80-90	17,407.94	19,282.57	+10.63
90-100	21,961.95	25,251.84	+16.30
100-150	32,827.46	35,794.28	+9.04
150-200	54,841.95	59,708.53	+8.87
200-250	77,928.78	84,050.96	+7.71
250-300	98,630.44	104,075.06	+10.17
300-400	155,941.24	163,915.89	+5.13
400-500	177,267.94	189,921.11	+9.04
500-750	257,127.08	255,854.19	-0.50
750-1,000	344,673.82	396,443.57	+14.75
1,000-1,500	501,103.91	608,746.23	+21.48
1,500-2,000	668,622.33	813,844.32	+21.71

Note.—This table shows total normal and surtax under the 1932 act for "average individual income" as reported in the 1932 income-tax returns. These "average incomes" take account of the proportions of income derived from dividends, tax-exempt bonds, and other sources. Although incomes of individual taxpayers in the various net income classes will differ substantially from the averages, the total normal and surtax on the basis of these averages are more typical of the actual taxpayers in the different income groups than are taxes computed for taxpayers with specified types of income.

Mr. VINSON. Mr. Chairman, what will be the procedure with reference to interrogation? Will we wait until the particular subject is completed and then discuss that, or await the completion of the reading of the whole report?

The CHAIRMAN. We will just be governed by the pleasure of the witness. As far as that is concerned, if he doesn't care to be interrupted, we will not do it.

Mr. COOPER. Mr. Chairman, in that connection, I think it would be much better if we discussed each subject after his reading of the discussion of that subject.

Mr. MAGILL. That would be perfectly agreeable with me, Mr. Chairman.

The CHAIRMAN. Then we will proceed with that understanding. Mr. MAGILL (reading):

The Treasury doubts the wisdom of instituting the policy of permitting the personal exemption and credits for dependents to be used as an offset in computing the surtax as well as the normal tax. The basic reason for a personal exemption is to exempt from income taxation persons whose incomes are so small that they should not be subject to the income tax at all. Obviously this reason has no application to surtax rates, which presumably are levied on taxpayers who are thought to be able to pay not only the flat normal rate, but a progressive rate in addition. Moreover, since the amount of the exemption in fact operates to reduce by so much the top bracket of the taxpayer's income, the proposed provision will give the wealthy taxpayer a decidedly greater reduction in actual taxes paid than the smaller taxpayer. Such an arrangement runs directly counter to the progressive rates of surtaxes. In order to preserve the sound principle on which this exemption has been given, it is recommended that it be authorized as heretofore only in the case of the computation of the normal tax, and that the surtax rates be revised accordingly.

Mr. HULL. In order that the views of the subcommittee may be set out on this question in this hearing, I ask that paragraph 1 of the subcommittee's report be included at this point in the record, together with exhibit B appended to the report.

The CHAIRMAN. Without objection it is so ordered.

(Par. 1 from the report of the Subcommittee of the Committee on Ways and Means is as follows:)

(1) TAX-RATE STRUCTURE

(a) Normal tax.—Section 11 of the Revenue Act of 1932 provides for a normal tax equal to 4 percent of the first \$4,000 of the net income in excess of the credits provided in section 25, plus 6 percent of the balance over \$4,000.

Your subcommittee recommends the use of one normal rate of 4 percent and the adjustment of the surtax rates so that the tax burden on incomes other than dividends and partially tax-exempt interest will remain practically unchanged. The principal advantages of this change are (1) simplification (2) increased tax on dividends; and (3) increased tax on partially tax-exempt interest.

Our first revenue acts provided for one normal rate and graduated surtax rates. There appears to be no good reason for having both a graduated normal tax and a graduated surtax, since the principle of ability to pay can be adequately taken care of by the graduated surtax alone. Certainly, it is much simpler to have one normal rate of tax. How the change can be made without appreciably decreasing the revenue through adjustment of surtax rates will be explained later.

It is believed that dividends may be properly subjected to a somewhat greater income tax. Under the Revenue Act of 1932 a single man with a net income from dividends of \$50,000 pays a tax of \$4,960, while a single man

with a net income from salary of \$50,000 pays a tax of \$8,720. In such a case the man with dividend income under the recommendation of your subcommittee, will pay a tax of \$4,900. In other words, instead of paying \$8,720 less tax than the salaried man he will pay only \$1,820 less tax. This is due to the fact that dividends are now subject to an 8-percent exemption from income tax, while under the proposal they will only be subject to a 4-percent exemption. It is the opinion of your subcommittee that this increased tax on dividends can well be borne.

In the case of partially tax-exempt income a similar result is obtained from the single 4-percent normal rate, since this income is also exempt from normal tax. Your subcommittee deliberated at length in regard to the question of making all tax-exempt income taxable but came to the conclusion that the only proper way to handle the subject in its broad aspect was through an amendment to the Constitution. However, it believes that the higher tax resulting from the use of one 4-percent rate is justifiable. This higher tax will apply only to obligations of the United States issued after September 1, 1917, which are not wholly tax exempt. In exhibit A of the appendix to this report a memorandum from the staff of the Joint Committee on Internal Revenue Taxation will be found which treats at length of the subject of wholly and partially tax-exempt interest.

(b) *Surtax.*—Section 12 of the Revenue Act of 1932 provides for surtax rates starting at 1 percent on net incomes of more than \$6,000 and reaching 55 percent on net incomes of more than \$1,000,000. Fifty-three different rate brackets are provided for in this act.

In view of the change recommended in the normal rates, your subcommittee recommends changes in these surtax rates to maintain the same tax on ordinary income as at present, and your subcommittee deems it wise to recommend further the reduction in the number of surtax brackets from 53 to 27 for the purpose of simplification.

A comparison of the present and proposed surtax rates follows, the much simpler form of the latter being obvious without argument:

## Present surtax rates

Percent		Percent	
\$0,000—\$10,000	1	\$04,000—\$06,000	30
\$10,000—\$12,000	2	\$06,000—\$08,000	31
\$12,000—\$14,000	3	\$08,000—\$10,000	32
\$14,000—\$16,000	4	\$10,000—\$12,000	33
\$16,000—\$18,000	5	\$12,000—\$14,000	34
\$18,000—\$20,000	6	\$14,000—\$16,000	35
\$20,000—\$22,000	8	\$16,000—\$18,000	36
\$22,000—\$24,000	9	\$18,000—\$20,000	37
\$24,000—\$26,000	10	\$20,000—\$22,000	38
\$26,000—\$28,000	11	\$22,000—\$24,000	39
\$28,000—\$30,000	12	\$24,000—\$26,000	40
\$30,000—\$32,000	13	\$26,000—\$28,000	41
\$32,000—\$34,000	15	\$28,000—\$30,000	42
\$34,000—\$36,000	16	\$30,000—\$32,000	43
\$36,000—\$38,000	17	\$32,000—\$34,000	44
\$38,000—\$40,000	18	\$34,000—\$36,000	45
\$40,000—\$42,000	19	\$36,000—\$38,000	46
\$42,000—\$44,000	20	\$38,000—\$40,000	47
\$44,000—\$46,000	21	\$40,000—\$42,000	48
\$46,000—\$48,000	22	\$42,000—\$44,000	49
\$48,000—\$50,000	23	\$44,000—\$46,000	50
\$50,000—\$52,000	24	\$46,000—\$48,000	51
\$52,000—\$54,000	25	\$48,000—\$50,000	52
\$54,000—\$56,000	26	\$50,000—\$52,000	53
\$56,000—\$58,000	27	\$52,000—\$54,000	54
\$58,000—\$60,000	28	\$54,000—\$56,000	55
\$60,000—\$62,000	29	Over \$1,000,000	55
\$62,000—\$64,000	29		

## Proposed surtax rates

Percent		Percent	
\$4,000—\$6,000	4	\$62,000—\$65,000	35
\$6,000—\$8,000	5	\$65,000—\$71,000	38
\$8,000—\$10,000	6	\$71,000—\$80,000	41
\$10,000—\$14,000	8	\$80,000—\$90,000	45
\$14,000—\$18,000	10	\$90,000—\$100,000	50
\$18,000—\$22,000	12	\$100,000—\$150,000	52
\$22,000—\$26,000	14	\$150,000—\$200,000	53
\$26,000—\$30,000	16	\$200,000—\$300,000	54
\$30,000—\$34,000	18	\$300,000—\$400,000	55
\$34,000—\$38,000	20	\$400,000—\$500,000	56
\$38,000—\$44,000	23	\$500,000—\$750,000	57
\$44,000—\$50,000	26	\$750,000—\$1,000,000	58
\$50,000—\$56,000	29	Over \$1,000,000	59
\$56,000—\$62,000	32		

(c) *Credits against net income.*—Under section 25 of the Revenue Act of 1932, there are allowed as credits against net income for normal tax (but not for surtax) purposes, dividends, interest on obligations of the United States, personal exemptions, and credits for dependents.

To carry out the policy of retaining practically the same tax burden on ordinary income, it is necessary in connection with the proposed plan to allow the personal exemptions and credits for dependents as an offset against surtax as well as normal tax. Moreover, in accordance with the principle of ability to pay, there seems to be no good reason why these credits should not be allowed for the computation of both taxes. Under present law, for instance, a single man with an income of \$7,000 from dividends pays exactly the same tax as a married man with 10 children having the same income from dividends. The personal exemptions and credits for dependents would appear to be in lieu of deductions for necessary living expenses. They should obviously apply to both taxes as do all other ordinary deductions.

(d) *Effect of rate structure changes.*—The changes recommended in paragraphs (a), (b), and (c), above, are inter-related, and it is now necessary to point out the combined result of these changes. The exact results are shown in four tables, which will be found in exhibit B of the appendix, showing the present and proposed taxes on various amounts and kinds of net income in the case of both single and married persons.

An examination of these four tables is sufficient to determine the following facts in relation to the effect of the changes proposed in the rate structure of existing law:

First. The tax on income from salaries, business, wholly taxable interest, rents, royalties, etc., is not changed to a consequential amount in any case. There is absolutely no change on net incomes of \$6,000 or less. Above \$6,000 there is a slight increase on the single man and a slight decrease on the married man. These slight changes seem proper. Under existing law a married man in this class pays a tax of \$30,100 on an income of \$100,000, while a single man on the same income pays \$30,220. This slight difference in tax of \$120 is obviously insufficient in view of the difference in ability to pay of the two persons. Under the proposed rates these two individuals will pay taxes of \$29,810 and \$30,620, respectively.

Second. The tax on income derived from dividends and partially tax-exempt Government obligations will be substantially increased as a result of the proposed changes, although such tax will still be substantially lower than the tax on earned income. For instance, at present the married man's tax on an earned income of \$100,000 is \$30,100; and an income from dividends of like amount \$22,460. Under the proposed rates the tax in the latter case will be \$25,910 instead of \$22,460. It is believed this increase can well be borne both in the case of dividend income and in the case of income from partially tax-exempt interest.

The subcommittee is of the opinion that these changes in the rate structure will increase the revenues of the Government by approximately \$30,000,000 annually.







Mr. HILL. Will you explain to the committee, Mr. Magill, just how that operates to reduce taxes in greater proportion in the higher brackets than in the lower brackets?

Mr. MAGILL. It is in this way, the surtaxes, of course, are levied at progressive rates. You may take out, say, \$2,500 for a married man, and he is exempt on that part of the income which is subject to surtaxes, and you would thereby reduce the total amount which is subject to surtaxes at all, which has the effect of taking \$2,500 out of the top bracket of the taxes.

Mr. HILL. If you retain the present \$6,000 beginning of the surtaxes?

Mr. MAGILL. That is right.

Mr. HILL. Suppose you commence with surtaxes a little lower down the line, that could be compensated for by that method—that is, the losses you sustain under the suggestions you bring to our attention would be compensated for by commencing at a lower point of surtaxes?

Mr. MAGILL. Yes. Our suggestion in substance is this. We would suggest that it would be better instead of allowing the personal exemption against the surtaxes to start the surtaxes perhaps a little higher.

I can illustrate the point, perhaps, in this way. Under the present law the greater tax saving to a married person without dependents would be \$200, or 8 percent times the \$2,500 exemption, whereas under this proposal the taxpayer could get an advantage of \$1,500 or upward—that is, \$2,500 times the highest surtax rate.

Mr. HILL. That is only carried through the top bracket?

Mr. MAGILL. That is right. In other words, this arrangement will operate to give a greater advantage to a wealthy man than to a poor one. Of course, it is argued that is proper, but on the other hand our suggestion is that instead of starting at \$4,000, start a little higher and change the rates a little, bit so that you will not be giving the wealthy man a big advantage as compared to the smaller one in this respect.

Mr. HILL. Specifically have you any recommendations to make?

Mr. MAGILL. We can give you the recommendations if you wish them, but I did not put them in here, as to the rates which we have calculated.

Mr. HILL. That is as to surtaxes?

Mr. MAGILL. Yes, which will operate substantially as these do.

Mr. HILL. We shall be very glad to have that.

Mr. MAGILL. Then we will furnish you with that.

Mr. HILL. You will put it in the record in connection with your statement?

Mr. MAGILL. Yes. I don't know that I have it this morning, but I can give it to you tomorrow.

The matter referred to follows:

## INDIVIDUAL RATE STRUCTURE—ALTERNATE SURTAX PROPOSAL

Pursuant to the request of the Committee there is submitted below an alternate schedule of surtax rates which applied to net income without a credit for personal exemption and for dependents would produce substantially the same amount of additional revenue as the committee proposal.

\$6,000 to \$8,000	2	\$56,000 to \$62,000	32
8,000 to 10,000	4	62,000 to 68,000	35
10,000 to 12,000	5	68,000 to 74,000	38
12,000 to 14,000	6	74,000 to 80,000	41
14,000 to 16,000	7	80,000 to 86,000	45
16,000 to 18,000	8	86,000 to 100,000	50
18,000 to 20,000	10	100,000 to 150,000	52
20,000 to 22,000	12	150,000 to 200,000	53
22,000 to 26,000	14	200,000 to 300,000	54
26,000 to 30,000	16	300,000 to 400,000	55
30,000 to 34,000	18	400,000 to 500,000	56
34,000 to 38,000	20	500,000 to 750,000	57
38,000 to 44,000	23	750,000 to 1,000,000	58
44,000 to 50,000	26	Over \$1,000,000	59
50,000 to 56,000	29		

It will be noted that in this schedule the rates for tax brackets in excess of \$20,000 are the same as in the committee proposal.

As compared with the committee proposal for surtaxes, the alternate proposal involves two changes: (1) Surtax rates apply to net income (that is, no credit is allowed against the surtaxes for personal exemption and for dependents) and (2) more moderate surtax rates are provided for tax brackets up to \$20,000.

In table I there are shown taxes under the above alternate proposal as compared with the present law for the four cases for which taxes under the committee's proposal were shown on pages 29-31 of the report of the committee; namely, for income from salary, business, or wholly taxable interest—a married individual and a single individual—and for income from dividends or partially tax-exempt bonds—a married individual and a single individual.

Table II summarizes the normal taxes and surtaxes under the 1932 act, the committee proposal, and the alternate surtax proposal, as applied to average incomes reported for 1932. These average incomes take account of the proportions of income ordinarily derived from dividends, tax-exempt bonds, and other sources in the various income classes. Although incomes of individual taxpayers in the various net income classes will contain different proportions of these items of income, the total normal taxes and surtaxes computed on the basis of these averages are more typical of the taxes which will be paid by the average taxpayer in the different income groups than those computed in other ways.



tax rate and also against the surtax rate, but it would not be giving two exemptions, really.

Mr. LEWIS. What do the \$2,500 exemptions on normal and surtaxes contemplate?

Mr. MAGILL. The proposal of the subcommittee is this: Take a man, say, with a \$10,000 income; when he computes his normal tax at 4 percent under the committee proposal he takes off the \$2,500 first, then pays 4 percent on \$7,500. Now, then, when he computes his surtaxes, the surtax rates proposed by the committee start at \$4,000, but again he is permitted to take off this \$2,500.

Mr. LEWIS. Isn't that two exemptions?

Mr. MAGILL. In one sense, yes.

Mr. VINSON. Mr. Chairman, in that connection, what the committee proposes to do is in effect to make the exemptions allowed now for marital status and dependents to be in the category of deductions; that is exactly what it is, isn't it?

Mr. MAGILL. Yes; or to state it a little differently, the effect of the committee's recommendation as far as changes in the law are concerned, in the case of a married person without dependents, is similar to starting the surtax at \$6,500 instead of \$4,000.

Mr. VINSON. That is your recommendation, that the surtax start at \$6,000?

Mr. MAGILL. Yes; that surtaxes begin as at present.

Mr. LEWIS. Then we lose the surtax on the difference between the \$4,000 and the \$6,000?

Mr. MAGILL. Under the present law, yes.

Mr. HILL. What I would like for you to do is to submit a definite statement of your recommendations as to surtaxes with reference to the rate changes which the subcommittee proposes and, with which you disagree.

Mr. MAGILL. Yes; I will do that.

Mr. CROWTHER. At page 2, Mr. Magill, the statement is made, "Until the Budget estimates are available, the Treasury is not in a position to express an opinion as to exactly what the normal tax or surtax rates for 1934 should be." If the Budget estimates were available, this committee could determine what the normal rate should be. Does the committee, or a few of your individuals, intend to relieve us of that mathematical computation?

Mr. LEWIS. I hope they will do that, and then there is no need for us to do anything about it.

The CHAIRMAN. Don't give a nod, Mr. Magill; you will have to speak out.

Mr. MAGILL. I beg your pardon.

The CHAIRMAN. The Chair would like to suggest to the members of the committee that when one member has the witness, unless that member yields, you should not break in, because it produces confusion.

Mr. CROWTHER. We will excuse Mr. Lewis this time, if it doesn't happen again. That is all I wanted to know, if there was any functioning to be left to this committee or if you want to prepare the whole procedure down there, recommending the rates, method, and one thing and another.

Mr. MAGILL. No, sir; we do not.

Mr. CROWTHER. There is still something for this committee to do in spite of Mr. Lewis' suggestion.

Mr. MAGILL. Yes, sir.

Mr. COOPER. Let me see if I understand you correctly. Here on page 2 of your statement this language appears:

Studies by the Department indicate, as shown by the attached table, that the proposed schedule would impose higher rates upon all taxpayers in receipt of net incomes in excess of \$7,000, with the largest percentage of increase on taxpayers with net incomes from \$15,000 to \$20,000.

I invite your attention to exhibit B on page 29 of the subcommittee's report as to married persons with incomes whose salaries compose the whole taxable interest, and beginning there at \$7,000 it is shown that the reduction occurs from there on down on that table. At \$7,000 there is a reduction of \$10; at \$8,000 there is a reduction of \$20, and so on down. Now, do you agree with the statement contained in this exhibit B of the subcommittee's report?

Mr. MAGILL. The difference between the two is indicated in the footnote to our table 1 on page 2.

The statisticians in calculating the actual effect of the committee's proposals used what they call the average incomes which have been worked out on the basis of the Department's experience, and the reason for the difference is that these average incomes include income from dividends, which your exhibit B on page 29 does not.

What they have tried to do is to take what would be the situation for the average taxpayer in the different brackets, and as I say, that varies somewhat from the table on page 29.

Mr. COOPER. Isn't it true this recommendation of the subcommittee contemplates a slight increase to the single person and a very slight decrease or reduction to the married person within the same brackets?

Mr. MAGILL. I would have to rely on the statistical experts who worked this out in my behalf. I did not make up table 1.

Mr. COOPER. When that is done, substantially the same effect is had from the application of the schedule proposed by the subcommittee, as now obtains in our rate structure?

Mr. MAGILL. I assume from exhibit B on page 29 that is what the subcommittee attempted to do.

As I say, our statistical people told us that taking account of the average taxpayer who has income from dividends or from tax exempt interest, as well as these other items you consider in exhibit B, the effect would be to the majority of average taxpayers, an increase above \$7,000.

Mr. COOPER. Of course we do take into consideration the surtaxes that are not now received from partially tax exempt interest and dividends, in arriving at this schedule that is proposed here.

Now, in view of that situation, do you think it is quite accurate to make the statement here that all taxpayers in receipt of net income in excess of \$7,000 will have a higher rate?

Mr. MAGILL. I think it is not. I think it would be better to say the average taxpayer. I think you are quite right in your statement.

Mr. HILL. Will the gentleman from Tennessee yield?

Mr. COOPER. I yield.

Mr. HILL. The only increase in these taxes as set out in your statement on a change of the normal rate and also a change or increase in the surtax rate, comes from the fact that that additional 4 percent surtax will be applied to dividends from corporations and from partially tax exempt Government securities, which are subject only to the surtax.

Mr. MAGILL. That is right.

Mr. HILL. And there will be an increase in the taxes only of those taxpayers who have these two forms of income?

Mr. MAGILL. I think, yes. So far as I am aware—and perhaps I have said this to you, Mr. Cooper—as far as I am aware, exhibit B is perfectly correct for what it purports to be.

The reason for the difference between exhibit B of your committee and the table 1 of this statement is that in computing the increase here the Treasury took into account the fact that the average man would be in receipt of income from dividends and partially exempt interest.

Mr. HILL. I want to ask you if the Treasury Department has any objection, or any desire in favor of the adding of an additional 4 percent of surtaxes here, which has the effect of reaching dividends from corporations and interest on Government securities subject only to surtax.

Mr. MAGILL. As you will see here, we have made no such objection in this report.

Mr. TREADWAY. Dr. Magill—am I correct in the name, Dr. Magill, or is it Mr. Magill?

Mr. MAGILL. Mr. Magill, but I am also a doctor; but I prefer Mr. Magill.

Mr. TREADWAY. All right, Mr. Magill. Of course our interest in this matter is the aggregate sums to be secured equitably to taxpayers. Isn't that correct?

Mr. MAGILL. Yes, sir.

Mr. TREADWAY. That is our objective. Now, I understood you to say you expected to submit tomorrow possibly a revised schedule different from the subcommittee's report here.

Mr. MAGILL. What Mr. Hill asked, as I understood it, was this, and what we propose to submit, at least, would be this, a table using substantially the committee's rates which would give effect to this suggestion of ours not to apply the personal exemption against surtaxes.

Mr. TREADWAY. Have you made any estimate as to the aggregate difference that would make in your final estimate as to the receipts from income taxes?

Mr. MAGILL. May I ask our experts on that, who have made the study? [After conference with associate:] He says there will be no substantial difference in revenue from the suggested rates we will give you, as compared with the committee's rates.

Mr. TREADWAY. Then we will arrive at the same aggregate total, whether we use your schedule or the subcommittee's schedule; is that correct?

Mr. MAGILL. Yes, sir.

Mr. TREADWAY. The gentleman answering as your expert has been with us many times and we like to see old faces once in a while.

Now, one other general inquiry? What is your view of any deduction for earned income?

Mr. MAGILL. We state in this report in that regard—

Mr. HILL (interposing). As I understood, we are going to take up one paragraph at a time and dispose of that.

Mr. TREADWAY. Well, we are on income now, but I am not particular, and if you don't want to hear the witness's views on it, we will not ask for it.

Mr. HILL. I just ask that you wait until we get to that paragraph.

Mr. TREADWAY. Where is that paragraph? I haven't had a chance to look at it.

Mr. MAGILL. That is on page 14.

Mr. TREADWAY. Then you would prefer not to make any statement with reference to earned income until you get to page 14?

Mr. MAGILL. I am at your service for whatever you want.

Mr. HILL. That is the stand we adopted in advance.

Mr. MAGILL. We took these things up in the order in which they appear in the subcommittee's report.

Mr. VINSON. Mr. Magill, if I understand correctly, you make the statement with reference to the tax-rate structure, the Treasury thinks that the one normal rate with the surtax rate as recommended is acceptable and preferable?

Mr. MAGILL. That is right.

Mr. VINSON. Do I understand you to say that the experts in the Treasury computed that the return upon the rates as set forth in the subcommittee's report would be substantially the same as the revenues that would be returned on your present rate?

Mr. MAGILL. No; it is my understanding that they computed that there would be substantially the increase which the subcommittee reports.

Mr. VINSON. Now, in regard to that new yield, the recommendations of the subcommittee subjects to taxation corporate dividends and what you term partially tax exempt interest. That is correct, isn't it?

Mr. MAGILL. Yes, sir.

Mr. VINSON. At the present time those dividends are not subject to taxation until they reach the surtax brackets?

Mr. MAGILL. Yes, sir.

Mr. VINSON. Then, as far as the yield from a taxpayer who makes a return under the 1932 act, and who would make a return under this proposal, having no income from tax exempts or corporate dividends, the tax he would pay would be substantially the same?

Mr. MAGILL. I think that is true. I think that is what is set forth in your table B.

Mr. VINSON. In other words, the return would be substantially the same. There would be a slight reduction on the return of the married man and possibly a slight increase on the single man?

Mr. MAGILL. Yes, sir.

Mr. VINSON. Now, on page 2, in your table 1, do you think where you show the percentage increase between the 1932 act and the recommendation of the subcommittee, that really is a plain picture of what the subcommittee's recommendations are?

Mr. MAGILL. Well, that was the intention.

Mr. VINSON. Well; don't you think it is confused, don't you use one base in arriving at the fact that there are percentages of

increase, and a different base under the proposed suggestions from what is used in the 1932 act?

Mr. MAGILL. Yes. I think in order to understand the table it is absolutely essential to give a great deal of attention to the note underneath the table which explains how it was worked out.

Mr. VINSON. And you almost have to have a microscope to read it?

Mr. MAGILL. I am sorry; that is the fault of the Printing Office.

Mr. VINSON. You have to have a definite basis, and that base, under the recommendations of the subcommittee, shows certain income that is subject to the surtax rate that was not subject to it under the 1932 act. That is correct?

Mr. MAGILL. Yes, sir.

Mr. VINSON. So in this table 1 you really have a base for 1932 taxes, one computation figure, then when you get to the recommendations of the subcommittee you have a different base, an increase in income.

Mr. MAGILL. As I said, I didn't make this up, but it is my understanding that the computation under the 1932 act and under the Ways and Means subcommittee proposal, on precisely the same basis.

Mr. VINSON. Which is understandable when you realize what it is, but to look at it one would naturally think you are using the same base.

Mr. VINSON. If it were the same composition in 1932 and 1933, I submit to you that except for the slight difference with reference to the single man, which would be slightly more, and the married man slightly less, the tax would be the same, unless you have tax exempts and corporate dividends.

Mr. MAGILL. That is, of course, the difference.

Mr. VINSON. Take a man, then, with an earned income of \$10,000 and no income in the way of tax exempts and corporate dividends, under the 1932 act, and the proposal, it would be the same. Then, if you add the tax exempts and corporate dividends, he would pay less tax under the act of 1932 on that than under this suggestion.

In other words, you have a different base.

Mr. MAGILL. Can I state it, perhaps, this way? If his income was all from salary, then subject to these qualifications which you have given as to the marital status, I believe the tax would not be greater under the proposal of the subcommittee than under the 1932 act.

If it were all from dividends, it would be very different under the two proposals. What we have tried to do here is to use the case of the average taxpayer as we find that from our experience, and work out what the result would be if the man were the average, in the different classes, the average man with tax exempts, the average man with dividends, and so forth.

Mr. VINSON. But the only difference in the tax, except for the minor exceptions we have mentioned, is the tax on corporate dividends and partially tax exempts; is that right?

Mr. MAGILL. I think that is right, yes.

Mr. LEWIS. Mr. Magill, have you, in your labors down there, made any effort to integrate the normal and surtax rates into one rate? My difficulty in this subject is that the normal tax is one ball in the air, and now here the surtax is another ball in the air, exemptions another, and now they insert a fourth. I have enough difficulty with the ball in the air, and I want to know if you have made any effort

down there to integrate these rates into one rate so that a man can read this when it is reported and know what the rate is going to be on the specific income.

Mr. MAGILL. We have that under consideration, but it is not in this report. What we have done is to take the rates the subcommittee has proposed and to speak with reference to those.

Mr. LEWIS. We hope very much you will complete your work and give us your recommendations on the subject.

Mr. HILL. Will the gentleman from Maryland yield to me on that? Mr. LEWIS. Surely.

Mr. HILL. If you integrate the rates into one, and call it one rate, which it would be, with a mixture of normal and surtaxes combined, it tends to destroy the detail of any one rate, and then corporate dividends and interest on partially tax exempt Government securities would go entirely tax free.

Mr. LEWIS. Oh, no, that is a condition you can provide for under given circumstances, and meanwhile the average rate would be comprehensible to the average normal human being.

Mr. HILL. The statement is made on the basis of the present law that corporate dividends and interest on partially taxable securities are subject only to surtaxes.

Mr. SHALLENBERGER. I would like to get this information if I could. The final result of your report is that the proposed rates of the subcommittee would increase the rates instead of decrease them?

Mr. MAGILL. Your conclusions would be true. I think there is about a 10 percent increase under the subcommittee's proposals over the present law. What we have tried to show here is a calculation as to about how that would operate in the case of the average taxpayer.

Mr. SHALLENBERGER. Your report, as I read on page 2, in almost every case there would be an increase under the committee's proposal, whereas in their report on page 29 they show reductions.

Mr. MAGILL. That is the point. This committee's recommendations will undoubtedly increase the yield of income taxes realized of taxpayers whose income comes from dividends and also taxpayers whose income comes from partially exempt tax securities.

Mr. COOPER. In substance, that is practically all of the difference there is?

Mr. MAGILL. I believe so; yes, sir.

Mr. COOPER. Those two items are dividends and partially tax-exempt interests?

Mr. MAGILL. Yes; and this also, as you have pointed out in your report, gives a slight benefit to the married man as distinguished from the single man.

The CHAIRMAN. The impression has gone out to the public that the recommendations of the subcommittee show an increase all along the line in income taxes, that being incorrect in that it is only on the two forms of corporate dividends and partially tax-exempt interests. Is that correct?

Mr. MAGILL. Yes, and the difference as to the single man and the married man.

Mr. HILL. Getting back to the question of whether or not the same exemption should be allowed on surtaxes as is allowed on normal taxes, in the first place the income tax is levied upon the concept

of net income. For the purpose of reaching the net income certain deductions are allowed, and those deductions are allowable both as to the taxation through surtax rates and the normal tax rates.

Now, after the deductions are all taken from the gross income and the net income is arrived at, we then have in addition to that certain exemptions allowed to taxpayers from the net income. The purpose of this exemption, I take it, is to permit the taxpayer some allowance for moneys necessary for living expenses. They are not deductions from his gross income, but they are allowed as exemptions from his net income after the man has paid out all of the expenses in the operation of his business and has a net income, he still has to live.

Now, upon that theory, why wouldn't the burden of living expenses figure in the matter of the levying of surtaxes as well as in the levying of normal taxes?

May I just read here from the subcommittee's report to set out its attitude on the question, as the basis for further inquiries I may desire to make.

On page 3 of the subcommittee's report, beginning with the second paragraph under subdivision C, they say this:

To carry out the policy of retaining practically the same tax burden on ordinary income, it is necessary in connection with the proposed plan, to allow the personal exemption and credit for dependents as an offset against surtaxes as well as normal taxes. Moreover, in accordance with the principle of ability to pay, there seems to be no good reason why these credits should not be allowed in the computation of both taxes under the present law. For instance, a single man with an income of \$7,000 from dividends pays exactly the same income as the married man with 10 children with an income from dividends. The exemptions and credits for dependents would appear to be necessary to care for living expenses that should obviously apply to both taxes as did all other deductions.

Now, if these exemptions are allowed to compensate somewhat for the living expenses which a taxpayer must incur for himself and his family, why shouldn't the same rule, or the same principle, apply as to exemptions—I mean to say the same principle apply in the matter of surtax rates as in the matter of normal rates?

Mr. MAGILL. I think the reason which we would give would be that the surtax rates do not start until you get to more than the income which we would regard as necessary to make a bare living. The present exemption and credit for dependents, as you say, I think are designed to keep from taxing individuals whom we regard as having so small an income they should not be taxed at all.

The surtaxes are levied on the ground the man now has sufficient income so that he should not only pay the normal tax, but an additional tax besides, so that the logic or the theory that would lead you to agree to an exemption from normal taxes does not apply to surtaxes.

Mr. HILL. Under the theory of progressive taxes as applied today?

Mr. MAGILL. Yes.

Mr. HILL. In the case of a man with 10 children, he has a larger obligation than in the case of a single man, and wouldn't that apply to surtaxes as well as normal taxes?

Mr. MAGILL. The illustration is very effective, and the only difficulty I have with it is that it is not a normal case.

Mr. HILL. It is not exceptional to find men with 3 or 4 or 5 children!

Mr. MAGILL. I am not objecting to the children, but to the class of income.

Mr. HILL. I am speaking of the case of a man who has children, whether 1, 2, or 10, and he has a greater burden in maintaining a family than does the single man.

Mr. MAGILL. That is absolutely correct.

Mr. HILL. And if you apply to it the principle of ability to pay which is the underlying principle in all progressive taxation, it seems to me you might very consistently say that the exemption for living expenses should apply to surtax rates as well as normal tax rates.

Mr. MAGILL. I certainly think you can. You could argue along the same lines that a man with a large income is under the necessity of spending more money on living expenses than the man with a small income, and therefore he should get a larger exemption.

All we are pointing out is that previously we have not given exemptions on that theory.

Mr. HILL. We have not felt impelled to follow that theory, that would be stereotyping the action of this committee. It is a theory that since we have always done it, we ought to continue to do it. Of course, I am not saying you have not adduced additional reasons to that rate-fixing proposition.

The CHAIRMAN. Are there any further questions?

Mr. Magill, if I understand you correctly, you, representing the Treasury Department, have made a careful study of the report of the subcommittee and the recommendations contained in that report, and if I understand, the Treasury Department assisted the subcommittee in making its investigation and recommendations, and you approve the recommendations made with the exceptions you have noted?

Mr. MAGILL. Yes, sir; that is correct.

The CHAIRMAN. Are there any further questions?

Mr. CROWTHER. Mr. Chairman, was your inquiry directed to the whole report or this one section?

The CHAIRMAN. This one section.

Mr. TREADWAY. Mr. Magill, just one general question. Will you be good enough to tell us your qualifications for tax advice?

Mr. MAGILL. Well, yes; such as they are. I practiced law in Chicago for 3 or 4 years after I was admitted to the bar. I was down in the Treasury Department in 1923 and 1924 and worked on the Revenue Act of 1924 at that time.

Mr. TREADWAY. In what capacity?

Mr. MAGILL. My capacity was special attorney in the Treasury Department, and you doubtless recall Mr. Gregg's work at that time. I was under him.

Mr. TREADWAY. You were under best of training, I will say that.

Mr. MAGILL. Since that time, in all of the intervening period I have been professor of law in Columbia University, teaching taxation.

Mr. TREADWAY. As a teacher rather than an adviser?

Mr. MAGILL. I have done consulting work in addition to that.

Mr. TREADWAY. On the side, you might say?

Mr. MAGILL. That is right.

Mr. TREADWAY. How long have you now been connected with the Treasury?



Mr. MAGILL. About 3 weeks.

Mr. VINSON. Mr. Chairman, in view of the fact this tax rate structure will have to be given considerable study, I suggest we recess at this point until 2 o'clock this afternoon to give the subcommittee an opportunity to read the statement of the Treasury.

Mr. TREADWAY. I think it is quite evident that is just a different way of saying the Democrats want an executive session.

Mr. VINSON. No; not at all. We want an opportunity to examine this statement in its present form.

The CHAIRMAN. Will it be agreeable to you, Mr. Magill, to return at 2 o'clock?

Mr. MAGILL. I am at your service, gentlemen.

The CHAIRMAN. Then we will recess.

Mr. HILL. Just before we recess, Mr. Chairman, it was requested that the Acting Secretary of the Treasury remain here. I appreciate the fact he has manifold duties in his office, and, while he suggests that he would be perfectly willing to remain if we request him to do so or to return after Mr. Magill has completed his statement, I think it would be a great deal better if the committee would permit him to come back after Mr. Magill has completed his statement, in the event the committee desires to ask him any questions.

Mr. TREADWAY. That is entirely agreeable to me. We respect the extent of Mr. Morgenthau's duties. The only point on which I am at variance at all, and I don't know that it is even a point, is whether or not Mr. Magill has entire authority to speak authoritatively for the Treasury Department, since we so frequently get witnesses that have not any authority.

Mr. HILL. We will find that out at once.

Mr. TREADWAY. Mr. Magill has complete authority to represent you, Mr. Morgenthau!

Mr. MORGENTHAU. He has authority and confidence.

Mr. TREADWAY. What is that you said?

Mr. MORGENTHAU. He has my authority and confidence. I also would like to say I appreciate this, and I will hold myself in readiness to come back, but there being so many things for me to do, I appreciate your courtesy.

#### AFTER RECESS

Mr. MAGILL. Mr. Chairman, is it your pleasure that I should continue with the reading of this report, or would you like to ask questions?

Mr. HILL. I think you might read one division at a time, and then we will interrogate you.

The CHAIRMAN. Suppose you proceed on the same lines that we followed this morning.

Mr. MAGILL. I think we had come to paragraph 2 on page 3:

(2) *Depreciation and depletion deductions.*—The Treasury has considered two distinct problems in connection with these deductions: (1) the proposed limitation on such deductions to 75 percent of the depreciation and depletion actually incurred; and (2) discovery and percentage depletion.

(1) The depreciation and depletion deductions are intended to remove from gross income such amounts as in fact represent a return to the taxpayer of a portion of his capital investment. If no such deduction is allowed, the taxpayer can contend with much force that he is in reality subjected to a capital tax in the guise of an income tax. Deductions for depreciation and depletion are fundamentally the same in character as deductions for the cost of goods sold

WEDNESDAY, JANUARY 3, 1934.

#### LETTER IN RE SAVINGS IN RENTALS AS COMPARED WITH COST OF NEW BUILDINGS (SEE P. 464)

Mr. ARNOLD. In connection with a question that was asked by Mr. Taber the other day, I have a letter from Mr. Robert, Assistant Secretary of the Treasury, which I would like to submit for the record. This letter is by way of explanation.

(The letter above referred to is as follows:)

TREASURY DEPARTMENT,  
Washington, December 26, 1933.

HON. WILLIAM W. ARNOLD,  
Chairman Subcommittee on Appropriations for the  
Treasury Department,  
House of Representatives, Washington, D.C.

MY DEAR MR. CHAIRMAN: During the hearings before your subcommittee in connection with the estimates for the Public Works Branch of the Procurement Division, Congressman Taber requested the following information:

"Statement showing saving on each building completed or in course of construction beginning with the year 1926, indicating in separate columns previous costs of rent, etc., entire cost of building, maintenance and upkeep, interest on money expended at the rate of 2½ percent and amortization at 1 percent."

As there was some doubt as to the time required to prepare such a statement, this office was asked to furnish an estimate of cost and time necessary to prepare a statement giving the complete picture respecting public buildings completed and under contract beginning with the fiscal year 1926.

The Treasury and Post Office Departments are of the opinion that an accurate statement showing the details of all public building authorizations since 1926 will require a force somewhere between 30 and 40 post-office inspectors and clerks for a period of approximately 30 days.

Each public building project authorized by Congress was carefully analyzed by the Appropriations Committee and the hearings will show, in practically all of the 800-odd cases, that data respecting present space occupied, proposed space, rental savings, and working conditions was furnished the committee at that time. In order to comply with the request of Congressman Taber, it would be necessary to review and tabulate all of the information previously furnished the Appropriations Committee and, in addition, review all post-office inspectors' reports in order to determine the working conditions obtaining in present occupied space, the additional estimated saving by reason of consolidation of offices, efficiency in operation, and labor savings through modernized mail-handling equipment.

To give a clear picture of all the benefits derived by the Government through new construction, all of the above factors should be taken into consideration and an attempt made to evaluate space provided for future expansion and the savings which would have developed through improved facilities. A statement showing rentals only will not give a true picture and would be unfair to Members of Congress in whose districts buildings have been completed or are now under contract.

Further, many millions of dollars will be realized through the sale of Federal buildings which have been replaced by new structures on new sites. In most of these cases the land adjoining the old property was so improved as to warrant consideration of a new site and the sale of the old property. The estimated sale value of these old properties at the time the new projects were authorized should be taken into consideration. Also, it should be remembered that a considerable number of public buildings were authorized where no rentals were then being paid. In such cases the report showed very congested quarters and the use of basement space for workroom purposes.

Should your committee desire the assemblage of all this information respecting the 800 odd buildings authorized by Congress since 1926, the Treasury and Post Office Departments will start preparing the data at the earliest possible moment.

Very truly yours,

L. W. ROBERT, JR.,  
Assistant Secretary of the Treasury.

TUESDAY, DECEMBER 19, 1933.

## OFFICE OF THE SECRETARY OF THE TREASURY

STATEMENTS OF HON. HENRY MORGENTHAU, JR., ACTING SECRETARY OF THE TREASURY; MR. D. W. BELL, COMMISSIONER OF ACCOUNTS AND DEPOSITS; MR. WILLIAM H. McREYNOLDS, ADMINISTRATIVE ASSISTANT; AND MR. S. R. JACOBS, ASSISTANT COMMISSIONER, PUBLIC DEBT SERVICE

Mr. ANNOLD. We have with us this morning the Acting Secretary of the Treasury, Mr. Morgenthau. We will be glad to have Mr. Morgenthau make a general statement, and when he has concluded his general statement, an opportunity will be given those who may wish to inquire particularly about matters in the Treasury Department.

Mr. Morgenthau, we will be glad to hear your statement.

## GENERAL STATEMENT

Mr. MORGENTHAU. Mr. chairman and gentlemen of the committee, the Treasury estimates of appropriations for the fiscal year 1935 have been prepared prior to the time of my recent appointment in the Treasury. I have, therefore, not had an opportunity to give them the detailed study which otherwise I should have done. However, the heads of the various Treasury activities are now appearing before your committee and are making such detailed explanations of the estimates as you desire. I shall, therefore, place in the record only a very brief statement touching on the Treasury budget for 1935, but I shall be glad to furnish the committee with any additional information it may desire.

## ESTIMATE FOR TREASURY DEPARTMENT ACTIVITIES, 1935

The grand total of the Treasury Department appropriations for 1934 is \$1,804,021,257. The grand total of budget estimates for 1935 is \$1,514,021,941, a reduction of \$289,999,316. These comparative figures differ by approximately \$17,000,000 from the figures shown in the subcommittee print of the Treasury Department 1935 budget, in view of changes which have occurred in some of the permanent and indefinite items since the submission of the budget figures to your committee. Omitting items for the sinking fund, interest on the public debt, internal revenue, customs and other miscellaneous refunds and indefinites, and public buildings construction, the appropriations for operating expenses for the Treasury Department during 1934 aggregate \$138,483,219 as compared with budget estimates for 1935 of \$97,027,809, a decrease of \$41,455,350. The principal item of decrease is in the office of the Supervising Architect where the appropriations for 1934, exclusive of public buildings construction, aggregate \$31,919,025 against budget estimates for 1935 of \$5,135,000, a decrease of approximately \$27,000,000. This large decrease is accounted for by the fact that there has been transferred to the Post Office Department, under the terms of the Executive order of the President of June 10, 1933, the duty of supervising the operation of public buildings used for postal purposes.

In the Coast Guard there is a reduction of \$7,244,000. With the repeal of the eighteenth amendment, it is felt that the activities of the Coast Guard in preventing the smuggling into this country of intoxicating liquors can be largely curtailed. The reduction in the amount of Coast Guard estimates does not contemplate any curtailment of any of the other activities of that service.

A 10 percent reduction in appropriations for salaries is also included in the 1935 budget. This aggregates \$8,856,203 for all of the departmental appropriations for the payment of personnel.

On a cash withdrawal or obligation basis, the expenditures for 1934, exclusive of the items indicated above, aggregate \$113,509,880 as compared with estimated operating expense estimates for 1935 of \$97,027,869, or a net reduction of \$16,482,011.

A division of procurement and a division of disbursement are being set up in the Treasury Department under the terms of the Executive order of June 10, 1933. Progress in the setting-up of these organizations has been explained to you within the past few days.

Tables with respect to the number of employees in the Department, including the field service and with respect to civil-service retirements, have been prepared for insertion in the record if the committee so desires. Statements also are at hand for the record showing savings effected under the various economy measures restricting expenditures during the current year. They show that the actual savings for 1933 are \$19,567,733 and the estimated savings for 1934 are \$10,444,154.

Mr. ANNOLD. This estimate that you have given for 1935 covers the ordinary functioning of the Treasury Department, exclusive of all relief funds, as I understand it?

Mr. MORGENTHAU. That is right.

(The following tables were submitted for the record:)

## NUMBER OF EMPLOYEES IN DEPARTMENTAL SERVICE

Bureau, office, and division	Oct. 31, 1932	Oct. 31, 1933	Gain (+) or loss (-)
Accounts and Deposits	43	43	—
Appointments	25	21	-4
Bond roll (contingencies)	9	7	-2
Bookkeeping and Warrants	74	72	-2
Budget	39	35	-4
Chief Clerk	434	402	-32
Coast Guard	194	216	+22
Comptroller of Currency	340	292	-48
Customs	101	107	+6
Disbursing Clerk	39	25	-14
Engraving and Printing	4,842	4,998	+156
Federal Farm Loan	135	133	-2
Industrial Alcohol	150	123	-27
Internal Revenue	3,424	3,392	-32
Loans and Currency	672	640	-32
Mint	14	11	-3
Narcotics	105	101	-4
Public Debt	23	24	+1
Public Debt Accounts and Audits	30	29	-1
Public Debt (contingencies)	201	161	-40
Public Health	232	204	-28
Register of the Treasury	11	12	+1
Secret Service	43	47	+4
Secretary	4	4	—
Solicitor of the Treasury	102	102	—
Supply	101	—	-101
General Supply	778	—	-778
Supervising Architect	690	830	+140
Treasurer of the United States	—	—	—
Procurement:			
(a) Public Works	—	700	+700
(b) Branch of Supply	—	104	+104
Total	13,095	12,490	-605

## NUMBER OF EMPLOYEES IN FIELD SERVICE

Bureau, office, or division	Oct. 31, 1932	Oct. 31, 1933	Gain (+) or loss (-)
Coast Guard	12,962	10,897	-2,065
Customs	9,218	8,715	-503
Federal Farm Loan	113		-113
Industrial Alcohol	1,014	1,206	+192
Internal Revenue	8,301	8,403	+102
Mint	547	533	-14
Narcotics	10	28	+18
Public Debt	10,215	9,600	-615
Public Health	180	182	+2
Secret Service	8,301		-8,301
Supervising Architect		1,360	+1,360
Procurement (a) Public Works		41,208	+41,208
Total	61,359	61,208	-151

## NUMBER OF EMPLOYEES RETIRED, ELIGIBLE FOR RETIREMENT, RETAINED, ETC.

(Number of persons retired or, eligible for retirement, retained in the departmental and field service of the Treasury under the Civil Service Retirement Act, and under sec. 214 of the Revenue Act of June 30, 1932 and sec. 5 of the Independent Offices Appropriation Act of June 16, 1933)

Bureau, office, or division	Retained	Retired			Total number
		On account of age from Aug. 20, 1924, to Nov. 30, 1933	On account of disability from Aug. 20, 1924, to Nov. 30, 1933	Granted annuity under sec. 7	
<b>DEPARTMENTAL</b>					
Accounts and Deposits	1	1			2
Appointments	3	3	2		8
Auditors	10	11	1		22
Bookkeeping and Warrants	9	5	1		15
Chief clerk	1	7			8
Coast Guard	55	20			75
Comptroller of the Currency	2	1			3
Customs	2	1			3
Debiting clerk	1	1			2
Engraving and Printing	1	2	13	1	17
Industrial Alcohol	1	79	8	3	91
Internal Revenue	1	83	8	3	93
Loans and Currency	1	1			2
Mint	1	1			2
Narcotics	1	1			2
Printing	4	26	1	7	38
Procurement	45				45
Prohibition	3	5			8
Public Debt Accounts and Audit	3	5			8
Public Debt Service	7	7	4		18
Public Health	7	1			8
Public Money	3	1			4
Register of the Treasury	31	34	1	1	67
Secret Service	9	2			11
Secretary	1	3		3	7
Supply	7	2			9
Treasurer	97	101			198
War Risk Insurance	14	3			17
Total departmental	9	1,203	839	31	2,162
<b>FIELD</b>					
Coast Guard	1	18	2	4	25
Customs	1	608	237	3	849
Customs	1,233	892	4	94	2,023
Industrial Alcohol	1	34	16	6	57
Internal Revenue	1	229	62	113	415
Mint and Assay	4	368	36	8	416
Narcotics	1	1			2
Prohibition	10	6	5		21
Public Health	78	53	5	4	140
Subtreasury	24	9	20		53
Total field	6	2,721	746	172	3,545
Grand total	15	3,924	1,585	203	5,703

## TRANSFERS OF PUBLIC WORKS ADMINISTRATION FUNDS TO PUBLIC HEALTH SERVICE, OFFICE OF SUPERVISING ARCHITECT, AND COAST GUARD

Mr. ARNOLD. What transfers have been made to the Treasury Department of funds from other sources?

Mr. JACOBS. There is an allotment from Public Works.

Mr. BELL. That will be covered in detail by the services receiving these allotments.

Mr. ARNOLD. That is under the public buildings item.

Mr. BELL. Yes, sir. This table shows a total of \$65,226,037 in allotments made to the Treasury from the National Industrial Recovery appropriation.

Mr. ARNOLD. To what activities are they transferred?

Mr. BELL. To the Public Health Service, \$1,142,000; to public works under the supervising architect, \$39,150,000, and to the Coast Guard, \$24,834,000.

## TREASURY RECEIPTS FISCAL YEARS 1934 AND 1935

Mr. ARNOLD. Mr. Secretary, can you give us a general idea as to the receipts and disbursements of the Treasury?

Mr. BELL. The estimated revenue from all sources for 1934, including the processing taxes under the Agricultural Adjustment Act, amount to \$3,248,000,000, the estimated processing tax amounting to \$403,000,000. The total for 1935 is \$3,974,000,000, and the estimate of processing tax in this year amounts to \$548,000,000. These are the latest revised estimates submitted to the Budget, but which are subject to change just before the Budget goes to the Printer.

Mr. ARNOLD. From all sources?

Mr. BELL. Yes, sir; from all sources. The total for 1934 is \$3,248,000,000, and for 1935, \$3,974,000,000.

The CHAIRMAN. In making up that estimate, did you take into consideration any probable revenues that might flow into the Treasury by reason of additional revenue legislation?

Mr. BELL. No, sir; we did not.

The CHAIRMAN. The estimate you have given us is on the basis of the present revenue law?

Mr. BELL. Yes, sir.

The CHAIRMAN. As I understand it, the figures as to the expenditures are collected by the Bureau of the Budget?

Mr. BELL. Yes, sir.

The CHAIRMAN. And the Treasury Department does not have a complete picture as to all of the departments, but that will come from the Budget Bureau.

Mr. BELL. We do not have complete expenditure figures at this time.

Mr. TABER. You gave us the figure for the ordinary receipts for the fiscal year 1935 as approximately \$3,900,000,000; you gave us the figure for 1934 as approximately \$3,200,000,000. Was that excluding in each case the processing tax and the miscellaneous receipts?

Mr. BELL. No, sir.

Mr. MORGENTHAU. The 1934 figure, exclusive of the processing tax, is \$2,845,000,000, and for 1935, exclusive of the processing tax, \$3,426,000,000.

Mr. TABER. That is exclusive of the processing tax in each case?

Mr. MORGENTHAU. In both cases; yes.

Mr. TABER. And nothing else exclusive in your estimate?

Mr. MORGENTHAU. No, sir.

Mr. TABER. Now, I would like to have you break that down for the record in a table which will show comparable figures for 1934 and 1935, showing the income-tax estimate, the customs estimate, the estate-tax estimate, the internal-revenue estimate, and then miscellaneous revenue.

Mr. MORGENTHAU. We will be glad to furnish that.

(The statement requested is as follows:)

*Latest revised figures as to receipts for the fiscal years 1934 and 1935*

	1934	1935
Customs	\$390,000,000	\$460,000,000
Internal revenue:		
Income tax	564,000,000	1,265,000,000
Miscellaneous internal revenue	1,252,000,000	1,440,000,000
S. R. A. taxes	153,700,000	20,000,000
Processing taxes	405,000,000	548,000,000
Miscellaneous receipts	150,143,750	170,248,479
Total	\$3,207,742,750	\$3,074,348,479

#### FOREIGN-DEBT PAYMENTS

The CHAIRMAN. Mr. Secretary, what can you tell us about the foreign-debt payments?

Mr. MORGENTHAU. I can tell you very little, for the reason that just before the President appointed me as the Under Secretary and Acting Secretary, he transferred the responsibility of collecting the foreign debt to the State Department. Therefore, since I have been there, I have really had practically nothing to do with that. I am not trying to avoid answering your question, but those are the facts.

#### REFUNDING OPERATIONS, 1934

Mr. ARNOLD. To what extent did you have refunding operations in the fiscal year 1934?

Mr. BELL. Except for the short-dated indebtedness, which has been rolled over as it matured, the only refunding was the \$900,000,000 operation on October 15.

Mr. ARNOLD. How was the refunding made?

Mr. BELL. The Secretary of the Treasury exercised his option under the terms of the Fourth Liberty loan issue by calling about \$180,000,000 of the fourth 4½ percent Liberty loan bonds, and offering in exchange therefor an issue of 4½-3½ percent 10-12-year Treasury bonds maturing October 15, 1945.

Mr. ARNOLD. That was a short-term refunding?

Mr. BELL. No, sir; those were 10-12-year Treasury bonds. This issue and the issue of 3½ percent Treasury bonds of 1941 on August 15, 1933, were the only long-term refunding operations we have had so far during the fiscal year 1934.

Mr. ARNOLD. Those were 10-year bonds?

Mr. BELL. 10-12 year Treasury bonds issued on October 15.

Mr. ARNOLD. What was the experience of the Treasury Department as to the subscriptions under this refunding operation.

Mr. BELL. Out of the bonds called amounting to about \$1,800,000,000, we received in exchange about 50 percent, or \$900,000,000.

Mr. ARNOLD. How was the difference to be refunded or taken care of, over and above the new bonds you have sold, and the number that will have to be refunded in 1934?

Mr. BELL. Of course, that is hard to tell at this time. They have to be taken care of on April 15 in some form, either by payment in cash, or refunded into some other maturities. It will depend entirely upon the market conditions around April 1, 1934, as to what the Treasury will offer the holders of such bonds.

Mr. ARNOLD. So far, under the certificates and bonds that you have offered the public, what has been your experience with reference to the subscriptions equalling or exceeding the offerings?

Mr. BELL. There have been substantial oversubscriptions. There have been two bond issues during the current year, the dates being August 15 and October 15. The Treasury offered on August 15, a 3½ percent Treasury bond of 1941 in the amount of \$500,000,000, or thereabouts, and it received subscriptions totaling \$3,224,000,000.

Mr. ARNOLD. Was there any other offering?

Mr. BELL. For the October 15 issue, the Treasury offered \$500,000,000, or thereabouts, for cash in connection with the exchange offering for fourths, and it received subscriptions of \$1,989,000,000.

Mr. ARNOLD. So that the subscriptions you have had, under these offerings that you have made, have been largely in excess of the offerings.

Mr. BELL. Yes, sir.

Mr. ARNOLD. Now, have you had any direct borrowings, aside from the refunding operations?

Mr. BELL. Yes, sir.

Mr. ARNOLD. Give us some information about that.

Mr. BELL. In addition to the foregoing, the Treasury offered on August 15, in connection with the bond issue offered at that time, \$350,000,000 of 1½ percent 2-year notes, and it received subscriptions amounting to \$1,577,000,000. On September 15, in connection with an exchange offering, we offered 9-month one-fourth of 1 percent Treasury certificates in the amount of \$175,000,000. There were only about \$220,000,000 of maturing certificates outstanding. We had sufficient cash at that time, and it was not necessary to have a cash offering. On December 15, the Treasury offered \$950,000,000 of 2½ percent 1-year Treasury certificates, and it received subscriptions amounting to \$2,806,000,000.

Mr. ARNOLD. Do you have a statement there showing the offerings and the subscriptions?

Mr. BELL. Yes, sir.

Mr. ARNOLD. Is that in a form to go into the record?

Mr. BELL. I will be glad to put it in the record. It is the only copy I have, but I will have one made for the record.

(The statement referred to is as follows:)

## SUBSCRIPTIONS TO TREASURY OFFERINGS

STATEMENT No. 1.—Showing dates, amounts offered, subscribed and allotted, and ratio of total subscriptions to total amount offered, calendar year 1935

Date of issue	Date of maturity	Class of security	In millions of dollars			Percentage of subscriptions to amount offered
			Amount offered	Amount subscribed	Amount allotted	
Feb. 1	Feb. 1, 1938	Notes 2½ percent	350	7,402	277	1,121
Mar. 15	Aug. 15, 1935	Certificates 4 percent	500	915	660	230
	Dec. 15, 1933	Certificates 4½ percent		915	472	
May 2	Apr. 15, 1936	Notes 2½ percent	500	1,202	572	340
June 15	June 15, 1938	do	500	3,226	621	561
	Mar. 15, 1934	Certificates 4½ percent	400	2,353	480	289
Aug. 15	Aug. 1, 1941	Notes 3½ percent	1,500	3,254	835	441
	Aug. 1, 1935	Notes 1½ percent	350	1,077	323	461
Sept. 15	June 15, 1934	Certificates ½ percent	(1)	175	175	(1)
Oct. 15	Oct. 15, 1942	Bonds 4½-4¾ percent	(1)	1,989	500	300
Dec. 15	Dec. 15, 1934	Certificates 2½ percent	950	2,804	992	205

<sup>1</sup> The offering was for \$200,000,000 or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to allot in full all subscriptions for which payment is tendered in 1½ percent Treasury certificates of Series TS-1935, \$201,000 of these certificates were tendered and accepted.

<sup>2</sup> The amount of this offering was limited to the amount of securities maturing Sept. 15, 1933, series TS-1933, tendered and accepted.

<sup>3</sup> (Cash exchange) \$500,000,000 of this issue was offered for cash subscription. The amount of the issue for exchange subscription is limited to the amount of Fourth Liberty Loan bonds tendered and accepted.

<sup>4</sup> Approximately the final figure.

## TREASURY BALANCES

Mr. TABER, Mr. Secretary, I asked the Bureau of Accounts and Deposits to supply for the record a memorandum showing the balances in the Treasury at different times over the last year and a half or 2 years. Now, I have that statement here, and if you care to check it, I will hand it to you. That statement indicates that you are now carrying an average balance of, perhaps, from \$500,000,000 to \$600,000,000 above the balances carried before.

Mr. MORGENTHAU. That is right.

Mr. TABER. Why is it that you are carrying such large balances?

Mr. MORGENTHAU. The answer is that Mr. Woodin felt that in these times he would like to have a large balance in the Treasury to meet any possible extraordinary emergency expenditures that might have to be made.

## RETIREMENTS OF EMPLOYEES

Mr. TABER. How many 30-year forced retirements have you had in your department?

Mr. MORGENTHAU. None.

Mr. JACOBS. Unless they came about in connection with a reduction of force.

Mr. MORGENTHAU. We will look that up and give an exact statement of it.

NOTE: Retirements after 30 years' service on reduction of force were 28 in the departmental service and 146 in the field service.

## EMPLOYEES IN TREASURY DEPARTMENT NOT PAID OUT OF TREASURY APPROPRIATIONS

Mr. TABER. Have you any people working in the Treasury Department who are not paid out of Treasury appropriations?

Mr. MORGENTHAU. Yes, sir.

Mr. TABER. How many are there, and from what appropriations are they paid?

Mr. MORGENTHAU. We will supply a statement of that for the record.

Mr. TABER. Give them by bureaus, with the amount of the appropriation or the amount of the allotment from which they are paid.

Mr. McREYNOLDS. We will be glad to furnish that.

Statement showing employees in the Treasury Department who are not paid from Treasury appropriations

Bureau	Appropriation or allotment	Number of employees
Internal Revenue	Processing Int. Advances in Agricultural Adjustment Administration (transfers to Internal Revenue administrative expenses)—\$1,500,000.	1,242
		1,007
		1,249
Coast Guard	National Industrial Recovery, Treasury, Coast Guard—\$4,861,574.	1,58
		400
		456
Treasurer of the United States	Advances to Agricultural Adjustment Administration (transfer to Treasurer of the United States, administrative expenses)—\$25,000.	63
	Working fund: Treasury Department Civil Works Administration—\$250,000.	473
Public Health Service	Care of the insane, Alaska, Department of the Interior, transfer to Public Health Service, Treasury—\$4,478.	1
	Philippine Government—\$37,493.	80
	Medical and hospital services penal institutions, Department of Justice (transfer to Public Health Service, Treasury Department)—\$267,673.	164
	National Industrial Recovery, Public Health Service—\$121,200.	37
Comptroller of the Currency	Expenses, national banking emergency, act Mar. 9, 1934, transfer to Treasury Department—\$1,000,000.	354
Total, Treasury Department		3,983

<sup>1</sup> Permanent.

<sup>2</sup> Temporary.

<sup>3</sup> Administrative.

<sup>4</sup> Mechanics, laborers, etc.

Mr. TABER. There are a number of people who have been taken into the Treasury recently. Are all of them paid out of Treasury appropriations, or those who went in at the time you went into the Treasury, Mr. Morgenthau?

Mr. MORGENTHAU. Yes, sir.

Mr. TABER. Referring to Mr. Gaston, what is his position?

Mr. MORGENTHAU. Assistant to the Secretary.

Mr. TABER. He is paid out of regular Treasury appropriations?

Mr. McREYNOLDS. He is paid out of the Emergency Banking Fund at the present time.

Mr. TABER. And Mr. Bailie?

Mr. MORGENTHAU. He is paid out of the same fund.

Mr. TABER. And Mr. Oliphant?

Mr. MORGENTHAU. He is paid out of the same fund.  
 Mr. TABER. And Mr. McReynolds?  
 Mr. McREYNOLDS. Out of the regular appropriation.  
 Mr. TABER. What about Tom Smith?  
 Mr. MORGENTHAU. No salary.  
 Mr. TABER. And Mr. Magill?  
 Mr. McREYNOLDS. He is paid from the regular appropriation.  
 Mr. TABER. What is his position?  
 Mr. MORGENTHAU. He is assistant to the secretary on income tax matters especially.

## TREASURY RECEIPTS FOR 1934

Mr. TABER. I have before me one of the daily statements of the Treasury, this one being for December 13. That statement indicates that the total receipts for 1934, or the fiscal year up to date, have been \$1,280,451,085.82. Included in that figure there seems to be \$126,680,083.85 of processing taxes. Are there any other tax receipts of a different character than ordinary revenues of the Government?

Mr. BELL. Do you mean receipts similar to the processing tax receipts?

Mr. TABER. That is a rather extraordinary proposition. Are there any similar to that?

Mr. BELL. No, sir; I do not know of any. There are, of course, cases where Congress makes appropriations of specified receipts, if that is what you have reference to. That is done in a few cases, such as the reclamation receipts and others of that character, which are included in the item "other miscellaneous" in the Daily Statement.

Mr. TABER. You say they are covered into miscellaneous receipts?

Mr. BELL. Yes, sir; included in that item.

Mr. TABER. Which run to a total of \$22,242,000.

Mr. BELL. Yes, sir. The total of all such receipts is relatively insignificant.

## GENERAL AND EMERGENCY EXPENDITURES

Mr. TABER. This statement shows expenditures of a general character of \$1,296,664,416, and it shows what are called "Emergency expenditures" amounting to \$873,122,681. Now, with the exception, perhaps, of this Agricultural Adjustment Administration item of \$39,495,950.08, the rest are items which were in some way or other in previous years budgets, were they not?

Mr. BELL. The Civil Works Administration was not in a previous budget.

Mr. TABER. But the comparable expenditures were?

Mr. BELL. You are speaking now of Public Works construction?

Mr. TABER. Yes.

Mr. BELL. The Federal Emergency Public Works Administration includes items comparable to similar expenditures under previous budgets. The Emergency Conservation Corps item is not comparable; the Tennessee Valley Construction project when classed as a construction project may be comparable to previous Public Works, but the Federal Deposit Insurance Corporation is not comparable.

Mr. TABER. As to the Federal Deposit Insurance Corporation, that is true. The whole thing shows an excess of expenditures, less public debt retirements, of \$84,145,511.30. Is that correct?

Mr. BELL. Yes, sir.

Mr. TABER. And the public debt as of that date was \$23,542,308,976.80.

Mr. BELL. Yes, sir.

## ESTIMATES OF INCREASED REVENUE RECEIPTS

Mr. LUDLOW. I think it would be very gratifying to the country to know that your estimates of Treasury receipts for the fiscal year 1935 indicate such a sizable increase. Now, I would like to ask you whether in the formation of those estimates any consideration was given to the proposed liquor tax. Is it reasonable to assume, with the liquor tax so sure to go into effect, that there will be quite a measurable increase on that account over the amounts you have estimated from revenue laws already in force?

Mr. BELL. It is not a large net increase when you eliminate the taxes imposed under the National Industrial Recovery Act.

Mr. McREYNOLDS. I think we should clarify that statement: Of course our estimates of receipts from liquor taxes are based upon the present revenue laws. There is no estimate of the receipts from an additional tax because of any proposed amendment to the law.

Mr. LUDLOW. As you foresee it, is there not likely to be a large additional increase there?

Mr. McREYNOLDS. I presume so, but the estimates of the Treasury and of the Budget are not based on what may be derived from future laws.

Mr. LUDLOW. To what extent have you visualized recovery in these estimates?

Mr. MORGENTHAU. We have given consideration to that. We are counting on better times.

## SECURITY OFFERINGS TO GENERAL PUBLIC

Mr. LUDLOW. I would like to ask this further question: In the offering of Government securities, I am glad to see the general acceptance of those securities all over the country. Of course that has stimulated a feeling of immeasurable confidence and hopefulness among the people. Now, to what extent are those offerings, speaking by and large, widely diffused among the people?

Mr. MORGENTHAU. I will be glad to supply an answer to that for the record.

Mr. LUDLOW. I think it would be well to put it into the record.

Mr. BELL. I do not think we have much information on that.

Mr. MORGENTHAU. We will supply what we have. You want to know how much there has been under \$10,000, for instance.

Mr. LUDLOW. I think that would be informative.

Mr. BELL. As you understand, the large part of the subscriptions, including those from individuals come through banks. In connection with the recent December 15 offering we took all subscriptions of \$5,000 and less. Anybody who subscribed up to \$5,000 got his subscription in full.

Mr. LUDLOW. Is there any limitation on large offerings and subscriptions?

Mr. BELL. Under this offering subscriptions over \$5,000 were allotted 17 percent.

Mr. McLEOD. Could you furnish a statement showing the demand for Government securities offered during the last three years, bringing them down to date? I want to know what the demand was for securities offered by the Government during the last 3 years.

Mr. MORGENTHAU. You mean what they all subscribed? Mr. McLEOD. Yes; how much offered and how much oversubscribed.

Mr. MORGENTHAU. We will get that.

Subscriptions to Treasury offerings showing dates, amounts offered, subscribed and allotted, and rate of total subscriptions to total amount offered, beginning with fiscal year 1920

(Amounts shown in millions)

Date of issue	Date of maturity	Class of security (percent)	Amount offered	Amount subscribed	Amount allotted	Percentage of subscriptions to amount offered
1920						
Sept. 16	June 15, 1920	Certificates 4%	\$200	\$1,400	\$550	Percent
Dec. 10	Sept. 15, 1920	Certificates 2 1/2%	225	725	342	297
1920						
Mar. 15	Dec. 15, 1920	Certificates 3 1/2%	450	1,200	443	307
June 16	June 15, 1921	Certificates 2 1/2%	325	1,200	420	300
Sept. 15	Sept. 15, 1921	Certificates 2 1/2%	325	1,200	394	301
Dec. 15	June 15, 1922	Certificates 1 1/2%	150	350	180	320
Do	Dec. 15, 1921	Certificates 1 1/2%	250	315	208	307
1921						
Mar. 16	Sept. 15, 1921	Certificates 1 1/2%	200	400	300	334
Do	Mar. 15, 1922	Certificates 2	350	1,225	524	354
Apr. 15	Dec. 15, 1921	Bonds 2 1/2, 1941-54	400	1,112	524	422
June 15	June 15, 1922	Certificates 1 1/2%	225	600	370	330
Sept. 15	Sept. 15, 1922	Bonds 3, 1921-25	800	6,315	821	799
Do	Sept. 15, 1922	Certificates 1 1/2%	800	941	300	118
Dec. 15	Dec. 15, 1922	Notes 3 1/2	600	704	400	417
Do	June 15, 1922	Certificates 2 1/2%	300	600	325	333
Do	Sept. 15, 1922	Certificates 2	400	400	220	112
1922						
Feb. 1	Aug. 1, 1922	Certificates 3 1/2%		200	220	180
Do	Feb. 1, 1923	Certificates 2 1/2%	250	250	140	100
Mar. 15	Mar. 15, 1923	Certificates 2 1/2%	200	31	30	215
Do	Oct. 15, 1922	Certificates 3 1/2%	200	31	30	408
May 2	May 2, 1924	Notes 3	600	2,420	561	1,110
Do	May 2, 1923	Certificates 2	225	2,407	284	755
June 15	June 15, 1923	Certificates 1 1/2%	225	1,700	280	472
Do	June 15, 1924	Notes 2	150	1,054	374	250
Aug. 1	Aug. 1, 1924	Notes 2 1/2%	400	1,143	417	220
Do	Aug. 1, 1920	Notes 2 1/2%	325	1,707	345	1,771
Sept. 15	Sept. 15, 1927	Notes 2 1/2%	325	2,653	363	583
Do	Sept. 15, 1923	Certificates 1 1/2%	700	4,312	634	707
Oct. 15	Apr. 15, 1927	Notes 3	400	2,000	651	1,500
Jan. 15	Dec. 15, 1928	Notes 2 1/2%	450	8,308	508	1,500
Do	Dec. 15, 1925	Certificates 2 1/2%	350	6,677	301	1,500
Do	Dec. 15, 1925	Certificates 2 1/2%	250	4,125	254	1,852

<sup>1</sup> Exchange only. All other subscriptions related.  
<sup>2</sup> These certificates were offered with an 18% amount set, in connection with the campaign to get the funds back into circulation.

Mr. BELL. You understand that large oversubscriptions do not necessarily mean a demand. If the banks want the securities offered they paid their subscriptions two or three and even four times in order to get what they actually want.

Mr. McLEOD. That is their policy; so it would not make much difference?

Mr. BELL. No; I do not think so.

Mr. McLEOD. That has been their policy for the past 3 years of their excessive offerings; is that a fact?

Mr. BELL. Two years, anyhow. I am not so sure that it goes back as far as 3 years.

TRANSFER OF COAST GUARD TO THE NAVY

Mr. ARNOLD. I do not know whether this is something that it is proper to announce at this time, or whether, or not, it should be made public, but there has been some discussion in the newspapers about the transfer of the Coast Guard to the Navy. Have there been any studies made in that regard, and have they been completed?

Mr. MORGENTHAU. So far as I know, we are not making any studies, and we have not been asked to make any.

Mr. ARNOLD. So no definite steps have been taken toward the transfer of the Coast Guard.

Mr. MORGENTHAU. Absolutely nothing.

Mr. McLEOD. Is there a definite policy established by you, Mr. Secretary, or have you formed an opinion, relative to the transfer of the Coast Guard to the Navy?

Mr. MORGENTHAU. I have no definite opinion, and the one which I have is what I call a "horseback" opinion. I believe that the enforcement of the collection of revenue belonging to the Treasury can be done better by the Treasury Department than it can by somebody else. That is the way I feel about it.

Mr. McLEOD. I take it from your answer, then, that you would prefer to see the Coast Guard remain in the Treasury instead of being transferred to the Navy?

Mr. MORGENTHAU. Merely as a "horseback" opinion, I will say that I would rather see the Coast Guard stay in the Treasury. I have not made a great study of it, but that is the way I feel today. It is a police job, in a sense, and I think that the Coast Guard can do that better than the Navy can. It is for the protection of the revenue.

Mr. McLEOD. And they could do it with less danger, possibly, to the Federal Government than as the water police force of the Navy?

Mr. MORGENTHAU. I do not know what you mean by less danger.

Mr. McLEOD. Do you feel that the Navy Department could police the waters in the same fashion that the Coast Guard could, without certain dangers arising against the good will of the Federal Government?

Mr. TABER. Foreign complications, you mean?

Mr. McLEOD. Foreign complications.

Mr. MORGENTHAU. As long as the ship is flying the American flag, I do not think it makes much difference, so far as that is concerned.

Mr. McLEOD. That question has been raised.

Mr. MORGENTHAU. It is a United States ship, flying the American flag, and whether it is the Coast Guard or the Navy that has to shoot across the bows of another vessel, I do not think makes much difference.

The CHAIRMAN. We are responsible for either one?

Mr. MORGENTHAU. Yes, sir; that is right.

## COST OF OPERATION OF EMERGENCY ORGANIZATIONS

Mr. McLEOD. What is the anticipated cost for 1934 and 1935 of the newly created emergency bureaus of the Government?

Mr. MORGENTHAU. We do not know.

Mr. BELL. That is being compiled by the Budget.

Mr. McLEOD. What is the cost of the emergency bureaus since their creation up to the present time?

Mr. McREYNOLDS. I think you would have to get that from the Director of the Budget. We do not have any such figures.

Mr. BELL. I can give it to you for the fiscal year 1934 from the daily Treasury statement—\$873,000,000 since July 1.

Mr. McLEOD. Is that the total, including everything, of every nature?

Mr. BELL. Yes, sir.

Mr. McREYNOLDS. That includes even the regular allotments to the departments, does it not?

Mr. BELL. Yes, sir.

Mr. McLEOD. It includes the pay checks made out to C.W.A. employees, and everything?

Mr. BELL. Yes, sir.

Mr. McLEOD. Will the Treasury Department have any funds available to continue in employment the so-called emergency employees of the Civil Works Administration after, say, the middle of February? Will any funds, of any nature, be available in the Treasury Department for such purposes?

Mr. MORGENTHAU. As I understand, they received an allotment of about \$400,000,000, and we have no control over how fast Mr. Hopkins will spend that money or when that will expire. We have no control over Mr. Hopkins.

Mr. McLEOD. Including Mr. Hopkins' bureau, the Civil Works Administration, together with the other emergency bureaus, will there be any expenditure available after the middle of February?

Mr. MORGENTHAU. I cannot answer that.

Mr. McLEOD. Will it be possible to supply that for the record?

Mr. MORGENTHAU. We will make inquiries, but I do not think the information is available.

Mr. BELL. It has not been completed yet.

Mr. McLEOD. Do you think it will be possible for you to ascertain the extent to which this money is going out and how fast the remaining money will go out?

Mr. MORGENTHAU. We will make an honest effort to give you the information. But I would say off-hand that so far as the Treasury is concerned I do not think it is available. It will be in the President's budget.

## TOTAL OF GOVERNMENT EXPENDITURES 1920-34

Mr. McLEOD. In one of my previous questions I asked for the anticipated cost of operation of the Government, including the newly created emergency bureaus. In that same table, can you give the comparative total of Federal Government expenditures for all purposes, by years, from 1930 up to the present time?

Mr. MORGENTHAU. We will do so.

Statement showing total expenditures of the Government by fiscal years 1930, 1931, 1932, 1933, and 1934 to date

Fiscal year:	
1930	\$3,994,152,487.09
1931	4,219,950,338.88
1932	5,274,325,513.62
1933	5,306,623,054.14
1934 to Dec. 20	2,431,052,097.77

## EMPLOYMENT OF SUBSTITUTE OR PART-TIME EMPLOYEES ON EMERGENCY WORK

Mr. McLEOD. Are substitute Federal employees eligible for Civil Works or other emergency Federal works employment?

Mr. McREYNOLDS. Yes, sir; I should think they would be.

Mr. McLEOD. Substitute Federal employees are eligible?

Mr. McREYNOLDS. I can see no reason why they would not be.

Mr. McLEOD. In other words, a substitute postal clerk is eligible for employment with the Civil Works Administration?

Mr. McREYNOLDS. Of course that does not come to us. It is not a question over which the Treasury has any jurisdiction. I have not had occasion to inquire. There may have been some ruling on it, one way or the other; but I should say off-hand that there would be nothing to prohibit it.

Mr. McLEOD. The Treasury makes provision, of course, for its own substitute clerical force?

Mr. McREYNOLDS. The Treasury has no substitute force.

Mr. McLEOD. There is no substitute eligible list?

Mr. McREYNOLDS. There is no substitute force in the Treasury Department.

Mr. McLEOD. Or in any of its branches, under the supervision of the Treasury?

Mr. McREYNOLDS. Not that I can think of at the moment; in other words, in the sense of a substitute postal employee.

Mr. McLEOD. I used that only as an example.

Mr. McREYNOLDS. There are some Treasury offices where, because of a lack of funds or excessive number of employees, furloughs for brief periods are required from time to time. Employees in these offices work only part of the time, but it is a major part of the time. The Treasury has no substitute roll similar to the substitute roll in post offices, where substitutes are carried subject to call as needed.

Mr. McLEOD. But you say the Treasury has these part-time employees available?

Mr. McREYNOLDS. Here and there; yes. But most of them are employed but 2 days a month, or something like that.

Mr. McLEOD. That brings out the point that I had in mind. Is such an employee as you have cited eligible for emergency employment?

Mr. McREYNOLDS. Of course that would be up to the Civil Works people, whether they will put them on. I have no idea that they would give employment to a person who was already employed the major part of his time; although, as I say, that is something over which we have no control.

Mr. McLEOD. Has there ever been an interpretation of that by your department?



Mr. McREYNOLDS. Not by the Treasury.

Mr. McLEOD. Then you do not know?

Mr. McREYNOLDS. We have no business to know. It is not under our jurisdiction. We have no control of it, Mr. McLeod.

Mr. McLEOD. It is under your jurisdiction to the extent of your own Department?

Mr. McREYNOLDS. Oh, yes.

Mr. McLEOD. As to who is eligible and who is not eligible?

Mr. McREYNOLDS. Well, if it is Civil Works employment, we would have no occasion to know whom they would employ.

Mr. McLEOD. All right; let us put it this way, then: Take one of your eligibles who works part time, as you have cited. Could that eligible continue to work part time, occasionally, if the same individual were employed in the Civil Works Administration? Would that be permitted by your Department, in other words?

Mr. McREYNOLDS. There are no rules that would prohibit it.

Mr. McLEOD. Is there a policy established on the part of the Treasury Department in that regard?

Mr. McREYNOLDS. I do not know that the question has ever come up.

Mr. BELL. As a matter of fact, we do not have any part-time employees.

Mr. McREYNOLDS. There are practically none. The Bureau of Engraving and Printing has a group that is employed all but 2 days a month, on the average. None of those people could be employed in Civil Works, because they are not available for it.

Mr. McLEOD. I raised that point at this particular time due to the fact that there are so many of the emergency bureaus that are either directly or indirectly under the supervision of the Secretary of the Treasury, and there are instances that I know of in which individuals have been denied employment by the Civil Works Administration due to the fact that I have cited. Therefore, if there is not a policy adopted up to the present time by this Department, undoubtedly there will be. But you say that up to the present time that has never been established?

Mr. McREYNOLDS. There has not been occasion to consider it, Mr. McLeod, because of the type of employees that we have. There are none of them who are available a sufficient time for any other employment.

Mr. McLEOD. You mentioned that you have employees that are employed part time; you said the greater part of the time?

Mr. McREYNOLDS. Yes.

Mr. McLEOD. What is their status? How do you construe their employment?

Mr. McREYNOLDS. They are regular employees, merely furloughed a maximum of 2 days a month.

Mr. MORGENTHAU. And that is in only one place.

Mr. McREYNOLDS. Yes; there is only one office in Washington in which that has happened.

Mr. MORGENTHAU. That is the Bureau of Engraving and Printing; nowhere else except the Bureau of Engraving and Printing.

Mr. McLEOD. Are you basing all of these answers on the status of the administration end of the Treasury Department, or are you also

considering field service that comes within the Treasury Department indirectly?

Mr. McREYNOLDS. Well, there are some field places where they are furloughing employees. In Public Health there are still some furloughs; are there not, captain?

Mr. JACOBS. There are a few.

Mr. McLEOD. In other words, there are Internal Revenue, Coast Guard, Customs, Narcotics, Public Health, there are so many subdivisions directly and so many others indirectly under your supervision, and I do know for a fact that those conditions have existed in certain sections of the country. Therefore I was trying to find out what the policy will be, if you do not have it so established at the present time.

Mr. McREYNOLDS. The occasion has not arisen in the Treasury, so far as I have been able to find out, for a consideration of such a policy, because of the fact that insofar as we have employees who must be furloughed, because of lack of funds to pay their salaries or because of lack of work, the furlough is of such short duration and so spread as to make those people not available for employment on the emergency funds, and therefore we just naturally have never given it any consideration.

Mr. McLEOD. You are speaking of a group entirely different from the group that I have in mind.

Mr. McREYNOLDS. I am talking about all of these people that are on the Treasury roll. In the Public Health Service, in all these hospitals, they have a short furlough or leave without pay because of lack of funds, but it is only an intermittent thing that comes a few days at a time, now and then.

Mr. McLEOD. Might I ask, therefore, a concluding question in that regard? Would it be your policy, Mr. Secretary, to disregard that fact as to your own employees, throughout the field and otherwise, as to the waiver of their eligible status for employment within your jurisdiction, in the event they ever worked under these emergency bureaus?

Mr. MORGENTHAU. If you do not mind, I should be glad to give that question some consideration. My reason for asking it is that there is practically none of that in the Treasury Department, and none of it has ever been presented to me before.

Mr. McLEOD. I think it would be a helpful policy for the future, and might pertain to all departments. It would probably be accepted and followed by other departments if adopted by the Treasury Department, and in my opinion it is a fair policy. That is why I wanted to bring it up.

Mr. MORGENTHAU. It is the first time it has ever come up so far as I am concerned, and I do not want to give a snap answer.

#### FROZEN DEPOSITS IN UNLICENSED NATIONAL BANKS

Mr. McLEOD. Banks are also indirectly under your supervision, are they not?

Mr. MORGENTHAU. Through the Comptroller's office.

Mr. McLEOD. You know the amount of frozen deposits in all of the unlicensed national banks in the country?

Mr. MORGENTHAU. We can get the figures.

NOTE.—The amount of frozen deposits in unlicensed national banks on December 20, 1933, was \$430,092,000.

Mr. McLEOD. Do you know the total number of unlicensed national banks up to the present time?

Mr. MORGENTHAU. We can give you that also.

NOTE.—The number of unlicensed national banks in the country on December 20, 1933, was 484 (exclusive of banks placed in receivership since March 4, 1933, or otherwise in liquidation.)

Mr. McLEOD. Then you do not know at the present time whether or not it is a fact that the frozen deposits in all of the closed national banks do not exceed \$466,000,000?

Mr. MORGENTHAU. I do not.

Mr. McREYNOLDS. The Comptroller's office presented a statement yesterday covering that.

Mr. MORGENTHAU. We will give it to you. If there is anything you want, we will give it to you. We have nothing to hide.

Mr. ARNOLD. I think you will find that in the record. I think that figure was given by the Comptroller yesterday.

Mr. McLEOD. I did not recall that answer. I asked for the total unlicensed banks.

NOTE.—Frozen deposits in all of the closed national banks in receivership as of December 20, 1933, amounted to \$935,460,279. The number of national banks in receivership was 1,358.

#### DAILY CASH BALANCE

Mr. ARNOLD. With reference to this increased daily cash balance that you carry, might that not be accounted for to some extent by the fact that the Public Works Administration and the Civil Works Administration will in all probability bring about large withdrawals, and a larger cash balance will be necessary? Does not that enter into it?

Mr. MORGENTHAU. Possibly. It is just a situation which Mr. Woodin set up, and that is the way he wanted to run it; that is all.

Mr. ARNOLD. We can see that there will be an enormous outgo by reason of the Public Works Administration and the Civil Works Administration.

Mr. MORGENTHAU. There will be.

Mr. ARNOLD. And naturally it would require a larger cash balance?

Mr. MORGENTHAU. I am sure Mr. Woodin was very wise in what he did.

#### ADEQUACY OF 1935 ESTIMATES

Mr. TABER. Have you made enough of a study of your Department to be able to say to us whether or not, in your opinion, the estimates which you have asked for will be sufficient to carry the Treasury Department through the fiscal year 1935?

Mr. MORGENTHAU. I am satisfied with these figures which are being presented to you by the Bureau heads.

Mr. TABER. And you do not think you will have to come before us asking for a deficiency?

Mr. MORGENTHAU. Unless something absolutely unforeseen turns up. I mean, I have nothing in mind now which would create a deficiency. When these estimates were given to me, and after Mr. Douglas had gone over them, I asked every Bureau head to give me a statement as to whether he felt that he could or could not live within that budget, and certain adjustments were made based on those statements; and I am now relying on the Bureau heads, although I realize that I am responsible to Congress. But I do not know of a single Bureau head who has not his appropriation to the point where he can live within it. No Bureau head has filed a statement with me to the effect that he cannot live within his appropriation.

Mr. McREYNOLDS. There is only one factor that might conceivably require additional funds. The estimates for supplies and material have been held down fairly closely, because nobody knows what the next year's level of prices is going to be.

Mr. MORGENTHAU. On paper; for instance.

Mr. McREYNOLDS. One item is currency paper. We do not know what it will cost. It will probably cost somewhat more than it did last year. But it seemed only reasonable, and it seemed to me only fair to Congress, to say—

Here is what we had to pay last year for the quantity of paper that we required for printing the currency and what-not. We are asking for the same amount. It may cost more this year. If it does cost more, when we find out how much more it will cost, we will come back and tell you what additional amount is needed.

The CHAIRMAN. We would just cut it out; that is all.

Mr. McREYNOLDS. The control of expenditure under those conditions is so lessened as to make it impracticable, in my opinion.

#### EMPLOYMENT OF EXPERTS TO INVESTIGATE AND REORGANIZE METHODS OF ADMINISTRATION

Mr. ARNOLD. Mr. Secretary, in this item for salaries, and so forth, in the office of the Secretary, I see you are asking, under new language, for \$100,000 to be expended for investigation and reorganization and to secure better methods of administration. I wish you would tell the committee just what you have in mind in that provision.

Mr. MORGENTHAU. In the first place, this language is exactly the same language that Congress used in giving me what I asked for last year for the Farm Credit Administration.

Mr. McREYNOLDS. The first paragraph.

Mr. MORGENTHAU. That is the first paragraph. The thought is this: I find that the office of the Secretary is very much undermanned; that I am called on each day to do a great many things due to the various emergencies which exist. For example, suddenly, within two weeks we are called on to clear 4 million checks for C.W.A. that have to be supervised. We have to get the space. A lot of things have to be done over night. We were called on to assist in the setting up of the Federal Alcohol Control Administration. That was done between Friday night and the following Monday morning. The Secretary's office was called on to set up that organization. There is not a day that passes when there is not something special, and it is always an emergency. I mean it is not something that can be done in a week or a month.

I feel that the office of the Secretary should really run the Treasury Department. It should not be half a dozen independent agencies, without any central control. I feel that if it really can be run from the office of the Secretary, we can save money and we can serve the people better.

Take, for instance, the income tax. I brought down Mr. McGill to personally pass on the big cases before they come across my desk. In his case he gave up a \$11,500 job at Columbia University to go to work for the Government at \$8,000.

Mr. McREYNOLDS. Minus 15 percent.

Mr. MORGENTHAU. Minus 15 percent. There are not many people like Mr. McGill who will do that out of patriotism for the Government. I do not think it is fair for the Government to ask them to do it. He ought to be paid a minimum of \$10,000.

The office of the Secretary has no traveling expenses, and if I wish to travel I have to charge it to some other bureau, even though it has nothing to do with the bureau.

I made the statement, I believe, when I appeared before this same committee last spring that if they would give me eight \$10,000 men I would multiply that in savings many, many times, and I demonstrated that I could do it, and did do it, and kept my word. Congress gave me eight \$10,000 men. The job that I have now is many, many times more difficult than the one I had in Farm Credit. We are taking in billions instead of hundreds of millions; and I honestly believe that if Congress would give me that money it would be a very good investment, and that it would enable me to go through the various bureaus of the Treasury and reorganize them. Some of them need it very badly.

In an earlier part of this hearing Mr. Taber asked about three people and what rolls they are on. We have found places for them, perfectly legally, but I admit that I would feel happier, and I think they would feel happier, if they were on the regular Treasury budget rather than on some special fund. Now, I have never hidden anything that I have done. I have always answered all questions.

Mr. ARNOLD. Just how would you expect to spend this \$100,000?

Mr. MORGENTHAU. To be specific, I would take these three men that Mr. Taber asks about—Mr. Oliphant, Mr. Gaston, and Mr. Bailie—who are on the emergency banking fund, and I would put them on the pay roll.

Mr. ARNOLD. And what would you have them do?

Mr. MORGENTHAU. Mr. Oliphant is filling the position of general counsel for the Department, a position that never existed before. He is tying up all the legal things and centralizing them. When one of these very, very important decisions comes to me, having to do with law, he can advise me whether or not I shall act on it. Mr. Bailie is down here on a temporary basis for a few months. He is advising me on questions of Government issues. He is an expert at that; I am not. Mr. Gaston is helping me in relation to giving out information and in public relations. We have never had any such person in the Treasury before. Heretofore you could often get more information about the Treasury in a stockbroker's office than you could in a newspaper. I have put a stop to that. We are giving more legitimate information today about the Treasury than was ever given out before, but we have stopped a lot of leaks.

There is not a day when something does not come up. Let us take this question of opium, for instance; the amount of opium that should come in. Is it right that only three companies should have the exclusive privilege of importing and handling opium? I do not know. I want to get somebody who knows the opium situation to come down for 2 or 3 months and advise me on the opium situation. There are a number of very important problems that are coming up, and I would like to have this fund so that I could hire people for 2 months, 3 months, or a year if necessary, to give me specific technical advice on particular problems. When they are through, they will go home and attend to their regular business.

Mr. ARNOLD. It is your idea that through an expenditure of this kind you can bring about greater efficiency in the Treasury Department?

Mr. MORGENTHAU. Very much so.

Mr. ARNOLD. And economy at the same time?

Mr. MORGENTHAU. Absolutely. I can fortunately come before you gentlemen and say, "I made similar statements to you 9 months ago, and here is my record." Now, if I were a big spender, and had not done what I said I would do before Mr. Buchanan's committee in March, it would be a different matter; but I have got a record to point to. You gave me exactly the same thing 9 months ago, and if you will give me this now, I think I can do at least as well with the Treasury as I did with Farm Credit, on efficiency and saving of money.

#### EMPLOYMENT OF EXPERTS OUTSIDE CLASSIFIED SERVICE

Mr. ARNOLD. You are asking that these selections be made without reference to the civil service law?

Mr. MORGENTHAU. Yes, sir. It will make it a little bit easier, but I am not going to insist on it; because these people that are coming, I feel quite sure, can qualify under the civil service law. I am not going to insist on that.

Mr. ARNOLD. The only inconvenience that might bring you would be some delay in their getting the civil service status?

Mr. MORGENTHAU. That is right. And I want to point out that this money that I am asking for is only to be used for Treasury purposes. We are not going into any other department. It is only for our own particular Department; and, as I say, I sincerely hope that you will be able to see your way to give it to me, because it means a very great deal to me.

Mr. ARNOLD. Have you broken this item down definitely into the number of positions and rates of pay? I am talking about this \$100,000 item.

Mr. McREYNOLDS. No, sir; it has not been broken down. Of course, we can make a prediction as to what might be done, if you like, Mr. Chairman. It is intended to be used ordinarily for temporary employment.

Mr. ARNOLD. The \$100,000?

Mr. McREYNOLDS. Yes, sir. It is for temporary employment except for possibly three or four cases. Otherwise it would be for temporary employment purely—to bring a man in who can direct or give adequate advice with respect to special problems that come up.

There are a lot of organization problems in the Treasury. There are three or four Executive orders that are just in process of being carried out.

Mr. MORGENTHAU. Since I have come in I find that I have got three brand new jobs to do. We have got to organize the Procurement Division, which is a tremendous job. I believe Admiral Peoples appeared before you. He has to be advised from the Secretary's office. We have got this Executive order on a central disbursing officer, which just went into effect on the 15th. Then we have Internal Revenue—Industrial Alcohol—which is really a big job. There is really an organization problem there. There are three brand new jobs, each one a big job in itself, and they have to be handled and handled well. And so far as the office up there is concerned, I believe we have got less administrative assistance in the office of the Secretary than in any other department in Washington. I do not believe any other department has as little assistance as we have down there.

Mr. ARNOLD. And you are asking that you may call in specialists, we will say, along particular lines that might be needed, and pay them out of this \$100,000 fund their subsistence expense; and per diem not to exceed \$25 per day?

Mr. MORGENTHAU. That is right.

Mr. ARNOLD. Those would be purely temporary, and used for the length of time that their services were wanted?

Mr. MORGENTHAU. Two or three, I would like to say, might be permanent.

Mr. LUDLOW. That has no reference to these eight men to be employed at \$10,000?

Mr. McREYNOLDS. It is all one problem. The \$25 a day item is merely meant to cover men whom we might want to call down for 2 or 3 days at a time.

Mr. MORGENTHAU. For example, I am asking the President of the American Institute of Architects whether he will suggest 2 or 3 men who will come down to make a study of our Supervising Architect's office prior to going into the Procurement Division. Those people would come in for a week, or possibly 2 weeks, and make a study of the Supervising Architect's office. But with the big consolidations going on there are literally millions that can be saved on a permanent basis—not just for today, but permanently—if we do the job well.

Mr. ARNOLD. You provide here for one position not in excess of \$10,000 per annum unless specifically authorized by law, and \$8,500 for positions for 8 officers or employees. Are they to be permanent and paid out of this \$100,000, or is that outside the \$100,000?

Mr. McREYNOLDS. You did not get the significance, Mr. Chairman. The provision authorizes not to exceed eight at not to exceed \$10,000.

Mr. LUDLOW. The question I was asking, and what Mr. Arnold was asking, was, are those eight to be paid out of this \$100,000?

Mr. McREYNOLDS. Oh, yes.

Mr. BOYLAN. Under this temporary employment at \$25 a day, you are likely to get, for a comparatively insignificant compensation, the services of men who are worth many times what you would pay them.

Mr. McREYNOLDS. In discussing the rate that we put in there, we meant that to be a nominal rate. Now, referring to the civil service angle; I have never had, in my contacts with the Civil Service Commission, any difficulty in getting a clearance for the people that

have been selected to be brought in; because, after all, if they are the outstanding men that we want, there cannot be any difficulty. It is merely a question of a few days' delay in working it through. That is the only reason for suggesting exemption from civil service.

But the rate I consider a nominal one. Nearly everyone who is brought down under these conditions is a man who is getting a larger compensation. They are coming down as a matter of accommodation. We provide the \$25 a day rate where a man comes for only a few days, and we pay him on a per diem basis. It is easier to get a man if you have a definite limitation on the per diem rate, so that you can pay him \$25 per day, which, after all, is only about \$8,000 a year. That is the maximum rate that is set, and nobody has his feelings hurt about his compensation being fixed at \$25 per day instead of \$100 per day. That is true, because this is a limitation of law. You can get them for that, whereas if we had no limitation, we would have to pay in many instances as much as \$100 per day, because a man's professional pride would not permit him to come for a less amount if we had the authority to pay him more.

Mr. BOYLAN. While you are paying a nominal rate, you get the service. You get a service that is worth many times that amount.

Mr. McREYNOLDS. There is no question about that.

Mr. ARNOLD. Are there any questions that any member desires to ask Mr. Morgenthau before he leaves?

#### BREAKDOWN OF REGULAR APPROPRIATION FOR SALARIES, OFFICE OF SECRETARY

Mr. TABER. I have a question that I would like to ask, and it would be perfectly satisfactory to have the answer supplied in the record. I would like to have a statement, Mr. Secretary, of the breakdown of the ordinary appropriations which you are asking. I see that you are asking for \$250,000, and this special expenditures proposition amounts to \$100,000.

Mr. MORGENTHAU. That is right.

Mr. TABER. I would like to have a breakdown of, at least, the \$150,000 that is being asked for.

Mr. McREYNOLDS. That is already in our regular budget sheets.

Mr. TABER. It is not in the figures that we have before us.

Mr. McREYNOLDS. If there is anything further you want in addition to that, we will be glad to supply it. I am willing to supply a breakdown of the \$100,000, if you wish it. I was simply pointing out that it would be only a prediction.

Mr. MORGENTHAU. Is there anything you want that is not in the budget?

Mr. TABER. No; I think that is all.

#### ADDITIONAL WORK IMPOSED UPON TREASURY DEPARTMENT BY TEMPORARY AND EMERGENCY BUREAUS

Mr. McLROD. Can you set out for the record the different temporary or emergency bureaus that are directly or indirectly under your jurisdiction?

Mr. MORGENTHAU. No temporary or emergency bureaus have been created under the Treasury. The emergency program has, how-

ever, thrown upon this Department a great deal of additional work, and for this reason it has been necessary to increase the force of the regular staff and in some cases we are employing temporary help. In this connection I have particularly in mind the additional work thrown upon the office of the Treasurer of the United States in making payments of the large number of checks issued throughout the country to those employed by the Civil Works Administration. In order to pay for this additional temporary help it was necessary to secure an allotment from the Civil Works Administration. The force of the Treasurer's office will be temporarily increased by several hundred employees, but as soon as the civil-works program has been completed the force will be promptly reduced to the regular staff.

The Agricultural Adjustment Act imposed upon the Secretary of the Treasury the duty of collecting the taxes levied under the provisions of that act. It was necessary, therefore, to increase the force of the Bureau of Internal Revenue to collect these taxes. The funds with which to pay this additional help have been transferred to the Treasury from appropriations made available to the Secretary of Agriculture in carrying out the provisions of that act. The act authorized the transfer of these funds for this purpose.

Other allocations made to this Department, such as those made to the Supervising Architect for certain public-work construction, to the Public Health Service, and to the Coast Guard, are administered by those bureaus, and it has not been necessary to increase the regular administrative force of these bureaus.

#### VACANCIES IN EXECUTIVE POSITIONS

Mr. McLEOD. Are there any vacancies in the executive branch of the Treasury Department at this time?

Mr. MORGENTHAU. Yes.

Mr. McLEOD. How many are there?

Mr. McREYNOLDS. We have that in the Department, and it can be supplied. Of course, there is a tremendous turnover among 50,000 employees. There are bound to be vacancies.

Mr. McLEOD. What I meant was the executive agency, in the administrative end of the Department.

Mr. McREYNOLDS. Do you mean vacancies in executive positions in the Treasury Department?

Mr. McLEOD. Yes.

Mr. McREYNOLDS. We will be glad to supply that.

Mr. McLEOD. There are several vacancies?

Mr. McREYNOLDS. Yes, sir.

Mr. MORGENTHAU. One assistant Secretary has just resigned, and his position is not filled.

Mr. McLEOD. They are not permanent vacancies?

Mr. MORGENTHAU. No.

Vacancies in executive positions in the Treasury Department

Number	Title	Salary
1	Assistant Secretary	\$5,000
1	Solicitor of the Treasury	4,000
1	Assistant Solicitor of the Treasury	5,000

Mr. ARNOLD. Mr. Secretary, we thank you very much for your kindness and courtesy. I think we can go ahead with those appropriation items with Mr. McReynolds and the other gentlemen present, Mr. MORGENTHAU. I thank you, gentlemen.

#### OFFICE OF THE SECRETARY—SALARIES

Mr. ARNOLD. Mr. McReynolds, for salaries in the Office of the Secretary, you are asking \$250,000 for 1935. That includes the \$100,000 that we have just been talking about, and we have gone into that rather fully. That will leave \$150,000 for 1935, for other activities. For 1934 there was appropriated \$145,538. Will you tell us about that difference, and explain how it comes about?

Mr. McREYNOLDS. There was transferred from one other Treasury Department item (the Bureau of Industrial Alcohol) about \$21,000. That was under the general 12 percent authority for transfers, to meet the needs of the Secretary's office. Of course the Secretary's office has been cut down very materially from year to year, so that they found a need for that additional money. That money was actually transferred, and this amount simply meets the present pay roll of the Secretary's office.

Mr. ARNOLD. After that transfer, if we take the amount impounded, of \$13,992, and the amount reserved administratively of \$1,546, there is left the net available amount for 1934 of \$151,830.

Mr. McREYNOLDS. Yes, sir.

Mr. ARNOLD. Will that carry you through 1934?

Mr. McREYNOLDS. Yes, sir.

#### ADVANCES TO FEDERAL LAND BANKS, ETC.

Mr. ARNOLD. There is an appropriation, paid-in surplus, Federal land banks, \$50,000,000; the item of payments to Federal land banks, reduction in interest on mortgages, \$15,000,000, and subscription to preferred shares, Federal savings and loan associations, \$50,000,000. There is another item of subscription to capital stock, Federal Deposits Insurance Corporation, \$150,000,000. Those appropriations have been available in 1934, and we will be glad to have you tell us how much has been advanced on those several items for the purposes therein provided.

Mr. BELL. Up to December 19 there was \$18,683,150.89 advanced on account of payments to Federal land banks, covering reductions of interest rates on mortgages paid in surplus. I can separate them, if you would like to have it that way.

Mr. McREYNOLDS. It was \$50,000,000 and \$17,000,000 plus.

Mr. BELL. It is estimated by the Farm Credit Administration that it will spend about one half of the \$15,000,000 in the fiscal year 1934 and the other half in 1935. I believe the half allocated for 1935 will, at least, last until January 1935, so that if more funds are needed, there can be a deficiency estimate to the Congress meeting in January 1935. The Federal saving and loan associations have just started. The first subscription was made a few days ago. It is estimated that the \$50,000,000 now appropriated will carry through until some time this summer, and, perhaps, until January 1935. An estimate for an additional \$50,000,000 was submitted to the Budget, but has

been withheld. The Director of the Budget believes that if the additional funds are needed before next January, he should put it in the last deficiency to be presented to the next Congress. If it is not needed it will go in the first deficiency appropriation bill submitted in January 1935. One hundred and fifty million dollars has been appropriated and advanced to the Federal Deposit Insurance Corporation. In other words, the Secretary has subscribed to the capital stock of this corporation, and has given the corporation that credit on the books of the Treasury. However, that has not been spent. About \$500,000 has been spent for Government securities for investment on behalf of the corporation.

Mr. TABER. How much is that?

Mr. BELL. \$560,000 has been spent, of which \$500,000 is for investment.

Mr. TABER. How much is the credit?

Mr. BELL. The full amount credited is \$150,000,000.

Mr. ARNOLD. That amount is fixed definitely by law, is it not?

Mr. BELL. Yes, sir.

Mr. ARNOLD. And the subscriptions to the preferred shares of the Federal loan associations are fixed definitely by law, are they not?

Mr. BELL. Yes, sir; at \$100,000,000, \$50,000,000 of which was provided for in the Fourth Deficiency Act of last Congress.

Mr. ARNOLD. Suppose you give us a statement for the record showing that breakdown.

Mr. BELL. I will do so. There are only two items, but I will be glad to break it down.

The statement is as follows:

Reduction in the interest rate on mortgages.....	\$1,265,003.83
Paid-in surplus of Federal land banks.....	17,417,547.06
Total.....	18,683,150.89

#### TEN PERCENT SALARY REDUCTION

Mr. ARNOLD. In making this estimate for the Secretary's office for 1935, did you take into consideration the 10 percent salary reduction?

Mr. McREYNOLDS. Yes, sir. What we did was to take the cash withdrawal basis authorized for 1934, rather than the appropriation. Then we stepped that up to the full 100-percent salaries and made the estimate. We then cut off 10 percent from the salaries, so that the amount in here is 90 percent of the regular salary rates.

Mr. ARNOLD. You are not asking for any change in personnel except as might come under the \$100,000.

Mr. McREYNOLDS. That is all; yes, sir.

#### COMMERCIAL FINANCE CORPORATION

Mr. McLEOD. I want to know if the Commercial Finance Corporation is directly or indirectly under the supervision of the Secretary of the Treasury.

Mr. McREYNOLDS. I do not know about that corporation.

Mr. McLEOD. It is known as the Commercial Finance Corporation.

Mr. McREYNOLDS. To guarantee bank deposits?

Mr. McLEOD. No; it is to finance business in distress. Its funds are partially subscribed by the Federal Government and partially

C O P Y

TREASURY DEPARTMENT  
WASHINGTON

For Immediate Release  
January 16, 1934.

Press Service  
No. 1 - 15

Following is the text of an address made by Secretary Morgenthau for the sound cameras today, (January 16, 1934):

The President has informed the Congress and the American people about his plans for a new and sounder money system, one that will serve better the needs of a modern nation. There is about four billion dollars of monetary gold in the country. Under the President's plan all of this gold will be held in the United States Treasury to protect and maintain the value of our money. The President now has authority to reduce the amount of gold in the dollar. He has asked Congress to decide that if and when he makes use of this authority the new dollar shall contain not more than 60 per cent, nor less than 50 per cent, of the present amount of gold.

Changing the amount of gold in the dollar does not mean any change in the number of dollars you hold or the dollars you owe. Your bank deposit and your checks and your notes will still represent the same number of dollars and there will still be one hundred cents in every dollar. The dollar will be backed by the full credit and resources of the United States government and the American people.

The President's plan means that the money system of the country shall be managed for you to the end that a more steady purchasing power for your dollar will be maintained.

TREASURY DEPARTMENT  
WASHINGTON

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For publication, afternoon newspapers,  
Wednesday, January 24, 1934.

Press Service  
No. 1 - 21

The Secretary of the Treasury today announced the revocation of three outstanding Treasury orders affecting trade with Soviet Russia.

1. A letter to the Director of the Mint rescinds instructions contained in Treasury Department letters of November 26 and December 23, 1920, and advises the Director of the Mint that gold of Soviet origin may now be received by the Mints upon the same basis as gold received from other nations. The orders of November 26 and December 23 required the Mints to reject all gold known to be of Soviet origin, or which as the result of investigation appeared to be of Soviet origin or involved in transactions for Soviet account. Gold suspected to be of Soviet origin, or involved in transactions for Soviet account, if tendered United States Mints or Assay Offices, was to be received only subject to investigation.

2. Treasury Department Order 44620 of February 10, 1931, a finding that convict labor is used in the production of lumber and pulpwood in certain areas in European Russia, is vacated by a new order "without prejudice to the presentation of evidence by any and all parties who may be interested, or to the Department's liberty, upon its own motion, to re-examine the facts by the use of representatives of the Government soon to be available in Russia".

The localities of European Russia affected by order 44620 were: (1) the Kola Peninsula, including the Murman Coast; (2) the Karelian Autonomous Soviet Republic; (3) the Northern area; (4) Zyrian Autonomous



area. The effect of the order was that lumber and pulpwood originating from these areas in Russia were not permitted entry until the importer, by preponderance of evidence, established that the particular shipment was not produced wholly or in part by enforced convict labor. The new order states that in view of the conflict in the evidence on which the original order was based and its inconclusive character "it can not now be accepted by the Department, which will shortly be in position to make a direct investigation of the facts by its own officers".

3. Treasury Department Order 44037 of May 19, 1930, in which the Secretary of the Treasury made a finding of dumping with respect to safety matches from the Union of Socialist Soviet Republics (Soviet Russia), is vacated in the same manner as the order above referred to.

The Secretary's order of today holds that the "finding published as TD-44037 is not supported by evidence at all sufficient to warrant it".

January 24, 1934.

Director of the Mint,  
Treasury Department,  
Washington, D. C.

Sir:

The instructions contained in Treasury Department letters to you dated November 26 and December 23, 1920, are rescinded and you are requested to instruct the mints and assay offices accordingly. Gold known to be of Soviet origin may be received upon the same basis as gold received from other nations.

Respectfully,

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

TREASURY DEPARTMENT,  
Washington, D. C.

January 24, 1934.

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

Reference is made to T. D. 44620, a finding that convict labor is used in the production of lumber and pulpwood in certain areas in European Russia.

The Department has carefully reviewed the record on which this finding was based. It is found that the evidence, in so far as it bears directly on the question involved, consists of affidavits of various persons, some testifying of their own knowledge and some by hearsay, that convict labor was used in lumber camps in various localities in Northern Russia. In so far as such evidence is direct, it consists mainly of affidavits of refugees from Soviet Russia. In a few cases the affiants appeared personally before United States officers in countries other than Russia and testified orally in support of their affidavits.

This evidence is contradicted by affidavits and statements of Russian officials that no convict labor was used in lumber and pulpwood production, and by affidavits of persons who had visited the localities in question and declared they saw no convict labor.

It is the opinion of the Department that in view of the conflict in this evidence and its inconclusive character, it can not now be accepted by the Department, which will shortly be in a position to make a direct investigation of the facts by its own officers.

It thus appearing that, on the record, the finding in question is not supported by evidence at all sufficient to warrant it, the same is vacated without prejudice to the presentation of evidence by any and all parties who may be interested, or to the Department's liberty, upon its own motion, to reexamine the facts by the use of representatives of the Government soon to be available in Russia.

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

TREASURY DEPARTMENT,  
Washington, D. C.  
January 24, 1934.

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

The Department refers to T. D. 44037, of May 19, 1930, in which the Secretary of the Treasury made a finding of dumping with respect to safety matches from the Union of Socialist Soviet Republics (Soviet Russia). It appears from the Department's files that the finding that such merchandise was being sold and was likely to be sold for less than its fair value was predicated upon the existence of a foreign market value higher than the exporter's sales price. The Department's evidence of this foreign market value consisted of official bulletins of the Soviet government setting forth certain so-called "wholesale prices" and of evidence in affidavit form corroborating these bulletins.

The Department is now satisfied that the conditions of the sales to which these prices relate is such that they do not establish a foreign market value within the meaning of the statute. The Department has no evidence at this time of any other sales and prices which would establish a foreign market value, or of the cost of production as defined in the statute.

It thus appearing that, on the record, the finding published as T. D. 44037 is not supported by evidence at all sufficient to warrant it, the same is vacated without prejudice to the presentation of evidence by any and all parties who may be interested, or to the Department's liberty, upon its own motion, to reexamine the facts by the use of representatives of the Government soon to be available in Russia.

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

Jan. 1

Louis Howe said to me - people have gotten into the Cabinet by past performances, political record, but you are the first man to go into the Roosevelt Cabinet who earned it.

Miss LeHand said, I am glad, not only for your sake but for the Presidents.

Jan. 8

I said to the President, I have just been baptized, and he said, I hope it will take. Then he said, I congratulate you and myself.

Jan. 19

Last night went to Earl Baillie's house and met there Parker Gilbert, Crane of the Federal Reserve, Frank Altschul, Loree of the Guaranty Trust and Oliphant. Out of the conference we got the following - that the only way we can keep the \$ from going down is thru an equalization fund; that as soon as we have this fund that we should have a free gold market in N.Y. Parker Gilbert felt that we should first operate the fund and then let the British come to us. Altschul also thought that if we began to put the screws on the French by letting the French ship unlimited amount of gold to our free market in N.Y. that this would result in the French running to Great Britain for help and in turn having Great Britain come and talk to us. They all doubted whether we could single handedly control the return of capital from abroad to the U.S. This seems to me to be a different position than what Altschul took a month ago. Out of the whole group I felt that Parker Gilbert was giving me the most sincere advice. My guess would be that Frank Altschul's position in the exchange is different today than it was when he was down here a month ago.

Jan. 30

Spoke to the Postmaster General. Asked him about Graves and he said that the Investigating Committee of Congress felt that those people who are in positions of responsibility in the P.O. under the previous administration should be transferred or gotten rid of so that it might not look as tho the present administration was giving its stamp of approval to what had happened before any air mail contracts by keeping on the people who might have had something to do

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with it. Farley said as far as Graves was concerned he thought he was a capable fellow and he personally thought well of him. (H.M., Jr's comment is that he thought this was the most stupid piece of reasoning he had ever listened to).

Feb. 9

At the Cabinet meeting George Dern started to read a report on the beet sugar industry by Eccles. After he had been reading about 15 minutes I could not stand it any longer and wrote to the President the attached note

THE WHITE HOUSE  
WASHINGTON

May I sing  
some soft  
music.

Yrs Chamber music.

Or a Pot-pourri.

U.S. TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY

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# PROVISIONAL REGULATIONS

ISSUED UNDER THE  
GOLD RESERVE ACT OF 1934

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JANUARY 30 AND 31, 1934



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1934

30000

## PROVISIONAL REGULATIONS

ISSUED UNDER THE

### GOLD RESERVE ACT OF 1934

#### ARTICLE I. GENERAL PROVISIONS

**SECTION 1. Authority for regulations.**—These regulations, deemed necessary and proper by the Secretary of the Treasury to carry out the purposes of the Gold Reserve Act of 1934, approved January 30, 1934, are issued by the Secretary of the Treasury, with the approval of the President, under authority of said Act.

**SEC. 2. Scope.**—Articles II, III, IV, and V of these regulations refer particularly to section 3 of the Gold Reserve Act of 1934; and articles VI and VII refer particularly to sections 8 and 9, respectively, thereof.

The provisions of these regulations may be revoked or modified at any time and any license outstanding at the time of such revocation or modification shall be modified thereby to the extent provided in such revocation or modification.

**SEC. 3. Titles and subtitles.**—The titles and subtitles of these regulations are inserted for purposes of ready reference and are not to be construed as constituting a part of these regulations.

**SEC. 4. Definitions.**—As used in these regulations, the term—

“Act” means the Gold Reserve Act of 1934, approved January 30, 1934.

“United States” means the Government of the United States, or, where used to denote a geographical area, means the continental United States and all other places subject to the jurisdiction of the United States.

“Continental United States” means the States of the United States, the District of Columbia, and the Territory of Alaska.

“Currency of the United States” means currency which is legal tender in the continental United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations.

“Person” means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents.



"Mint" means a United States mint or assay office, and wherever authority is conferred upon a "mint" such authority is conferred upon the person locally in charge of the respective United States mint or assay office acting in accordance with the instructions of the Director of the Mint or the Secretary of the Treasury.

"Mint district" means one of the following areas:

The mint district of Philadelphia, which for the purposes of these regulations consists of the States of Illinois, Indiana, Kentucky, Maryland, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Virginia, and West Virginia, and the District of Columbia.

The mint district of New York, which for the purposes of these regulations consists of the States of Connecticut, Delaware, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and Wisconsin, and Puerto Rico, the Virgin Islands of the United States, and the Panama Canal Zone.

The mint district of Denver, which for the purposes of these regulations consists of the States of Colorado, Iowa, Kansas, Minnesota, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Utah, and Wyoming.

The mint district of San Francisco, which for the purposes of these regulations consists of the States of Arizona, California, and Nevada, and the Territories and possessions of the United States not specifically included in other mint districts.

The mint district of Seattle, which for the purposes of these regulations consists of the States of Idaho, Montana, Oregon, and Washington, and the Territory of Alaska.

The mint district of New Orleans, which for the purposes of these regulations consists of the States of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Tennessee, and Texas.

"Gold coin" means any coin containing gold as a major element, including gold coin of a foreign country.

"Gold bullion" means any gold which has been put through a process of smelting or refining, and which is in such state or condition that its value depends primarily upon the gold content and not upon its form; but it does not include metals containing less than 5 troy ounces of fine gold per short ton, nor does it include gold coin.

"Fabricated gold" means gold which has, in good faith and not for the purpose of evading, or enabling others to evade, the provisions of the Act or of these regulations, been processed or manufactured for some one or more specific and customary industrial, professional, or artistic uses, but does not include gold coin or scrap gold.

"Scrap gold" means gold sweepings and fabricated gold, the value of which depends primarily upon its gold content and not

upon its form, which is no longer held for the use for which it was processed or manufactured.

Wherever reference is made in these regulations to *equivalents as between dollars or currency of the United States and gold*, \$1 or \$1 face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by the Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

Wherever reference is made in these regulations to "articles" or "sections", the reference is, unless otherwise indicated, to the designated articles and sections of these regulations.

**Sec. 5. General provisions affecting applications, affidavits, and reports.**—Every application, affidavit, and report required to be made hereunder shall be made upon the appropriate form prescribed by the Secretary of the Treasury and, except insofar as these regulations may otherwise specify, shall be executed under oath before an officer authorized to administer oaths. Duplicate copies properly executed shall be filed with the agencies designated in these regulations for that purpose. Action upon any application or affidavit may be withheld pending the furnishing of any or all of the information required in such forms or of such additional information as may be deemed necessary by the Secretary of the Treasury, or the agency authorized or directed to act hereunder. There shall be attached to the applications, affidavits, or reports such instruments as may be required by the terms thereof and such further instruments as may be required by the Secretary of the Treasury, or by such agency. Whenever additional information is requested it shall be furnished under oath.

**Sec. 6. General provisions affecting licenses.**—(1) Licenses issued pursuant to these regulations shall be upon the appropriate form prescribed by the Secretary of the Treasury. Licenses shall be non-transferable and shall entitle the licensee to acquire, transport, melt or treat, import, export, or earmark or hold in custody for foreign or domestic account, gold only in such form and to the extent permitted by, and subject to the conditions prescribed in, these regulations and such licenses.

(2) Licenses may be modified or revoked at any time in the discretion of the Secretary of the Treasury acting directly, or through the agency which issued the license, or any other agency designated by the Secretary of the Treasury. In the event that a license is modi-

fied or revoked (other than by a modification or revocation of these regulations), the Secretary of the Treasury, or the agency through which the license was issued, or such other agency designated by the Secretary of the Treasury, shall advise the licensee by letter mailed to the address of the licensee set forth in the application. The licensee, upon receipt of such advice, shall forthwith surrender his license as directed in such advice. If the license has been modified but not revoked, the Secretary of the Treasury, or the agency through which the original license was issued, shall thereupon issue a modified license.

(3) No license issued hereunder shall authorize the licensee to hold any gold coin, or any gold melted by any person from gold coin, unless the license contains a specific provision to that effect.

(4) No license issued hereunder shall exempt the licensee from the duty of complying with the legal requirements of any State or Territory or local authority.

(5) No license shall be issued to any person doing business under a name which, in the opinion of the Secretary of the Treasury or the designated agency issuing the license, is designed or is likely to induce the belief that gold is purchased, treated, or sold on behalf of the United States or for the purpose of carrying out any policy of the United States.

SEC. 7. **General provisions affecting export licenses.**—At the time any license to export gold is issued, the Federal Reserve bank or mint issuing the same shall transmit a copy thereof to the collector of customs at the port of export designated in the license. Collectors of customs shall not permit the export or transportation from the continental United States of gold in any form except upon surrender of a license to export, a copy of which has been received by him from the Federal Reserve bank or the mint issuing such license: *Provided, however,* That the export, or transportation from the continental United States, of fabricated gold may be permitted subject to the provisions of section 16(2): *And provided further,* That gold held by the Federal Reserve banks under article IV may be exported for the purposes of such article without a license. The collector of customs to whom a license to export is surrendered shall cancel such license and return it to the Federal Reserve bank or mint which issued the same. In the event that the shipment is to be made by mail, a copy of the export license shall be sent to the postmaster of the post office designated in the application, who will act under the instructions of the Postmaster General in regard thereto.

SEC. 8. **General provisions affecting import licenses.**—No gold in any form imported into the United States shall be permitted to enter until the person importing such gold shall have satisfied the collector of customs at the port of entry that he holds a license author-

izing him to import such gold or that such gold may be imported without a license under the provisions of article II or IV. Postmasters receiving packages containing gold will deliver such gold subject to the instructions of the Postmaster General.

SEC. 9. **Forms available.**—Any form, the use of which is prescribed in these regulations, may be obtained at, or on written request to, any United States mint or assay office, Federal Reserve bank, and at the Treasury Department, Washington, D.C.

SEC. 10. **Representations by licensees.**—Licensees may include in public and private representations or statements the clause "licensed on form TGL \_\_\_\_\_ (here inserting the number of the form of license held by the licensee) pursuant to the regulations prescribed under the Gold Reserve Act of 1934", but any representation or statement which might induce the belief that the licensee is acting or is especially privileged to act on behalf of or for the United States, or is purchasing, treating, or selling gold for the United States, or in any way dealing in gold for the purpose of carrying out any policy of the United States, shall be a violation of the conditions of the license. Each agency issuing licenses hereunder which receives notice of any such representations or statements made by or with the acquiescence of any licensee shall promptly notify the Secretary of the Treasury in order that he may advise it whether or not the license of the person making such representations or statements, or permitting such representations or statements to be made, should be revoked.

SEC. 11. **Penalties.**—Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody in violation of the Act, or of any regulations issued thereunder, including these regulations, or of any licenses issued pursuant thereto or hereto, shall be forfeited to the United States and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and, in addition, any person failing to comply with the provisions of the Act or of any such regulations or licenses shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

#### ARTICLE II. CONDITIONS UNDER WHICH GOLD MAY BE ACQUIRED AND HELD, TRANSPORTED, MELTED OR TREATED, IMPORTED, EXPORTED, OR EARMARKED OR HELD IN CUSTODY FOR FOREIGN OR DOMESTIC ACCOUNT

SEC. 12. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States), only to the extent permitted by, and subject to the conditions prescribed in, these regulations or licenses issued pursuant to these regulations.

**SEC. 13. Transportation of gold.**—Gold may be transported by carriers for persons who are licensed to hold and transport such gold or who are permitted by these regulations to hold and transport gold without a license.

**SEC. 14. Gold situated outside of the United States.**—Gold in any form situated outside of the United States may be acquired, transported, melted or treated, or earmarked or held in custody for foreign or domestic account without the necessity of holding a license.

**SEC. 15. Gold situated in the possessions of the United States.**—Gold in any form (other than United States gold coin) situated in places subject to the jurisdiction of the United States beyond the limits of the continental United States may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for the account of persons other than residents of the continental United States, by persons not domiciled in the continental United States: *Provided, however,* That gold may be transported from the continental United States to the possessions of the United States only under license for export issued pursuant to sections 25 (3), 32, 33, or 34, or, if fabricated gold, subject to the conditions specified in section 16 (2).

**SEC. 16. Fabricated gold.**—(1) Fabricated gold may be acquired, transported within the United States, imported, or held in custody for domestic account without the necessity of holding a license therefor: *Provided, however,* That it may be transported from the continental United States to other places subject to the jurisdiction of the United States only subject to the conditions hereinafter specified in paragraph (2) of this section.

(2) Fabricated gold may be exported, or transported from the continental United States, without the necessity of obtaining a license, provided that an affidavit shall have been executed on form TG-10 and filed in duplicate with the collector of customs at the port of shipment from the continental United States or with the postmaster at the place of mailing; and such collector or postmaster shall have endorsed on the duplicate copy of such affidavit that he is satisfied that the shipment from the continental United States is not being made for the purpose of holding or disposing of the fabricated gold outside of the continental United States primarily for the value of the gold content: *Provided, further,* That persons leaving the continental United States may carry with them fabricated gold owned by them and for their personal use in its fabricated form of a fine gold content not exceeding 15 ounces without the necessity of filing such affidavit or obtaining an export license.

**SEC. 17. Metals containing gold.**—Metals containing not more than 5 troy ounces of fine gold per short ton may be acquired, transported within the United States, imported, or held in custody for domestic

account without the necessity of obtaining a license therefor. Such metals may be melted or treated, exported, and held in custody for foreign account only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, article III.

**SEC. 18. Unmelted scrap gold.**—Unmelted scrap gold may be held and transported within the United States in amounts containing not more than 5 troy ounces of fine gold without the necessity of holding a license.

**SEC. 19. Gold in its natural state.**—Gold in its natural state (i.e., gold recovered from natural sources which has not been melted, smelted, or refined or otherwise treated by heating or by a chemical or electrical process) may be acquired, transported within the United States, imported, or held in custody for domestic account without the necessity of holding a license therefor. Such native gold may be melted or treated or exported only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, article III.

**SEC. 20. Rare coin.**—Gold coin of recognized special value to collectors of rare and unusual coin (but not including quarter eagles, otherwise known as \$2.50 pieces, unless held, together with rare and unusual coin and as part of a collection for historical, scientific, or numismatic purposes, containing not more than four quarter eagles of the same date and design, and struck by the same mint) may be acquired and held, transported within the United States, imported, or held in custody for domestic account without the necessity of holding a license therefor. Such coin may be exported only under license on form TGL-11 issued by the Director of the Mint. Application for such a license shall be executed on form TG-11 and filed with the Director of the Mint, Washington, D.C.

#### ARTICLE III. GOLD FOR INDUSTRIAL, PROFESSIONAL, AND ARTISTIC USE

**SECTION 21. "Twenty-five-ounce exemption."**—Any person requiring gold for use in the industry, profession, or art in which he is regularly engaged may replenish his stocks of gold (in addition to fabricated gold) up to the amount actually required for a period not exceeding 3 months (but in no event in an aggregate amount exceeding 25 ounces of fine gold held at any one time) by acquisitions of gold bullion held under licenses issued pursuant to section 23, without the necessity of obtaining a license for such acquisitions; and the gold so acquired may be held, transported, melted or treated, for use by such person in his industry, profession, or art but for no other purpose. Gold may not be acquired and held under this section by persons engaged primarily or incidentally in the business of buying and selling gold other than fabricated gold.

**SEC. 22. Licenses required.**—Except as permitted in article II and in section 21 of this article, gold may be acquired and held, transported,

melted or treated, imported, exported, or earmarked for industrial, professional, or artistic use only to the extent permitted by licenses issued under section 23 hereof.

**Sec. 23. Purposes for which licenses shall be issued.**—The mints shall issue licenses authorizing the acquisition and holding, transportation, melting and treating, importing, exporting, and holding for domestic account of gold which the mint is satisfied is required for legitimate and customary use in industry, profession, or art, by an applicant regularly engaged in the mint district of such mint (1) in the business of furnishing or processing gold for industry, profession, or art, or for sale to the United States, (2) in an industry, profession, or art in which stocks of gold in excess of 25 fine ounces are required to be maintained by the applicant.

**Sec. 24. Applications.**—Every application for a license under section 23 shall be made on form TG-12 (except that applications for export shall be made on form TG-15) and shall be filed in duplicate with the United States mint for the mint district in which is located the applicant's principal place of business. No person shall make application to more than one mint; and, in the event any one person is, through misrepresentation or mistake, issued a license under this article by more than one mint, all licenses issued to such person shall be void from the date of issuance to such person of a license by a second mint. Every applicant for a license under section 23 shall state in his application whether or not any applications have been filed by or licenses issued to any partnership, association, or corporation in which the applicant has a substantial interest or if the applicant is a partnership, association, or corporation, by or to a person having a substantial interest in such partnership, association, or corporation. No mint shall issue any license to any person if in its judgment more than one license for the same purpose will be held for the principal use or benefit of the same persons or interests. Any person licensed under this article acquiring a principal interest in any partnership, association, or corporation holding a license under this article for this purpose shall immediately so inform the mints which issued the licenses.

**Sec. 25. Licenses.**—(1) Upon receipt of the application and after making such investigation of the case as it may deem advisable, the mint, if satisfied that gold is necessary for the legitimate and customary requirements of the applicant's industry, profession, art, or business, shall issue to the applicant a license on form TGL-12, TGL-13, or TGL-14, whichever is designated in rulings of the Secretary of the Treasury for the kind of business, industry, profession, or art in which the applicant is engaged.

(2) Licenses issued under this article may entitle the licensee to acquire and hold not to exceed a maximum amount specified therein, which amount shall not be greater than the estimated requirements of the licensee for a period of 3 months; and such license may authorize the licensee to transport such gold from place to place within the United States, melt or treat it to the extent necessary to meet the requirements of the industry, profession, or art for which it was acquired and held or otherwise to carry out the purposes for which it is held under license, and may authorize the licensee to import gold so long as the maximum amount of gold held after importation does not exceed the maximum amount authorized by the license to be held.

(3) No license on form TGL-12, TGL-13, or TGL-14, shall authorize the licensee to export or transport from the continental United States, without a supplementary license on form TGL-15 issued by the mint which issued the license on form TGL-12, TGL-13, or TGL-14, gold in any form (except that fabricated gold may be exported or transported from the continental United States subject to the conditions specified in section 16 (2)). Export licenses on form TGL-15 shall be issued only with the approval of the Secretary of the Treasury, and upon application made on form TG-15 showing to the satisfaction of the mint and the Secretary of the Treasury that the export or transport from the continental United States is for a specific and customary industrial, professional, or artistic use connected with the applicant's business, and not for the purpose of using or holding or disposing of such gold beyond the limits of the continental United States as, or in lieu of, money, or for the value of its gold content.

(4) No license issued under this article shall entitle the licensee to acquire and hold, transport, melt or treat, import or export, or hold in custody any gold coin.

**Sec. 26. Records.**—Every person holding a license issued pursuant to section 23 shall keep exact records of all his acquisitions and deliveries of gold. His records shall contain the name, address, and license number of each person from whom he acquires, or to whom he delivers, gold (other than fabricated gold) and shall show the amount, date, and description of each such acquisition and delivery, and such records shall be available for examination by a representative of the Treasury Department for at least 1 year after the date of the disposition of such gold.

**Sec. 27. Reports.**—Every person holding a license on form TGL-12, TGL-13, or TGL-14 shall file with the mint which issued his license, on or before the 15th day of February, May, August, and November, a report on form TGR-12, TGR-13, or TGR-14, respectively, for the quarter ending on the first day of such months.

**ARTICLE IV. GOLD FOR THE PURPOSE OF SETTLING INTERNATIONAL BALANCES, AND FOR OTHER PURPOSES**

**SEC. 28.**—The Federal Reserve banks may from time to time acquire from the United States by redemption of gold certificates in accordance with section 6 of the Act, such amounts of gold bullion as, in the judgment of the Secretary of the Treasury, are necessary to settle international balances or to maintain the equal purchasing power of every kind of currency of the United States. Such banks may also acquire gold abroad or may acquire gold in the United States which has not been held in noncompliance with the Executive orders, or the orders of the Secretary of the Treasury, issued under sections 2 and 3 of the Act of March 9, 1933, entitled "An act to provide relief in the existing national emergency in banking and for other purposes", or in noncompliance with any regulations or rulings made thereunder or licenses issued pursuant thereto, or acquired and held, transported, melted or treated, imported, exported, earmarked or held in custody for foreign or domestic account in violation of the Act or regulations issued thereunder, including these regulations.

**SEC. 29.**—The gold acquired under section 28 may be held, transported, imported, exported, or earmarked or held in custody for foreign or domestic account for the purposes of settling international balances or maintaining the equal purchasing power of every kind of currency of the United States: *Provided*, That if the gold is not used for such purposes within 6 months from the date of acquisition, it shall (unless the Secretary of the Treasury shall have extended the period within which such gold may be so held) be paid and delivered to the Treasurer of the United States against payment therefor by credits in equivalent amounts in dollars in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as amended.

**SEC. 30.**—The provisions of this article shall not be construed to permit any person subject to the jurisdiction of the United States, other than a Federal Reserve bank, to acquire gold for the purposes specified in this article, or to permit any person to acquire gold from a Federal Reserve bank except to the extent that his license issued hereunder specifically so provides.

**ARTICLE V. GOLD FOR OTHER PURPOSES NOT INCONSISTENT WITH THE PURPOSES OF THE GOLD RESERVE ACT OF 1934**

**SEC. 31. Licenses required.**—Gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account, for purposes other than those specified in articles III and IV not inconsistent with the pur-

poses of the Act only to the extent permitted in article II or under a license issued under section 32, 33, or 34.

**SEC. 32. Gold imported in gold-bearing materials for reexport.**—The United States assay office at New York or the United States mint at San Francisco shall issue licenses on form TGL-16, authorizing the export of gold which such assay office or mint is satisfied was refined (or is equivalent to gold refined) from gold-bearing materials imported into the United States, provided such gold is imported, acquired, and held, transported, melted and treated as permitted in article II or in accordance with a license issued under section 28 hereof and subject to the following provisions:

(1) *Notation upon entry.*—Upon the formal entry into the United States of any gold-bearing materials, the importer shall declare to the collector of customs at the port where the material is formally entered that the importation is made with the intention of exporting the gold refined therefrom. The collector shall make on the entry a notation to this effect and forward a copy of the entry to the United States assay office at New York or to the United States mint at San Francisco, whichever is designated by the importer.

(2) *Sampling and assaying.*—Promptly upon the receipt of each importation of gold-bearing material at the plant where it is first to be treated, it shall be weighed, sampled, and assayed for the gold content. A reserve commercial sample shall be retained by such plant for at least 1 year from the date of importation, unless the assay is sooner verified by the Treasury Department.

(3) *Plant records.*—The importer shall cause an exact record, covering each importation, to be kept at the plant of first treatment. The records shall show the gross wet weight of the importation, the weight of containers, if any, the net wet weight, the percentage and weight of moisture, the net dry weight, and the gold content shown by the settlement assay. An attested copy of such record shall be filed promptly with the assay office at New York or the mint at San Francisco, whichever has been designated to receive a copy of the entry. The plant records herein required to be kept shall be available for examination by a representative of the Treasury Department for at least 1 year after the date of the disposition of such gold.

(4) *Application for export license.*—Not later than 3 months from the date of entry the importer shall file with the New York assay office or the mint at San Francisco, whichever has been designated to receive a copy of the entry, an application on form TG-16 for a permit to export refined gold not in excess of the amount shown by the settlement sheet covering the importation. The application shall be accompanied by two duly attested copies of the settlement sheet.

(5) *Issuance of serial numbered certificates.*—If the mint is satisfied as to the accuracy of the data shown on such application, it shall issue to the importer a dated serial numbered certificate, which shall show the amount of gold specified by the application and the amount specified by the settlement sheet. The Director of the Mint shall prescribe the form of such certificate.

(6) *Issuance of export license.*—Upon delivery of the serial numbered certificate to the assay office at New York or to the mint at San Francisco, whichever has issued the certificate, within 120 days from the date the certificate was issued, the mint shall issue to the applicant an export license on form TGL-16 to export refined gold in an amount not exceeding the amount specified in the settlement sheet as shown on such certificate.

(7) *Exportation prior to receipt of settlement sheet.*—Upon a showing in the application that an exportation with respect to any gold-bearing materials imported into the United States for refining is necessary prior to the time the settlement sheet can be procured, the assay office at New York or the mint at San Francisco, whichever was designated by the importer, may receive the application with duplicate certified copies of the report of the applicant's actual test assay. If prior reports of such applicant have been approximately substantiated by the settlement sheets, a license to export up to 90 percent of the amount of gold which such report estimates will be realized from such gold-bearing materials may be granted.

SEC. 33. *Gold imported for reexport.*—Gold may be imported, transported, and exported without the necessity of holding a license, provided the gold remains under customs custody throughout the period during which it is within the customs limits of the United States. Except as provided in the foregoing sentence, gold may be imported for reexport, held, and transported within the United States under the provisions of this section only under license. The United States assay office at New York or the United States mint at San Francisco may, subject to the following provisions, issue licenses on form TGL-17 authorizing the importation, holding, transportation, and exportation of gold which the office or mint is satisfied is imported for prompt reexport.

(1) *Notation upon entry.*—Upon the formal entry into the United States of gold intended for prompt reexport, the importer shall declare to the collector of customs at the port where the gold is formally entered that it is entered for prompt reexport. The collector shall make a notation of this declaration upon the entry and forward a copy of the entry to the assay office at New York or the mint at San Francisco, whichever is designated by the importer.

(2) *Application for license.*—The importer shall forthwith file an application on form TG-17 with the assay office at New York or the mint at San Francisco, whichever has been designated to receive a copy of the entry.

(3) *License.*—Upon receipt of the application and after making such investigation of the case as it may deem advisable, the assay office or mint to which the application is made, if satisfied that the gold was imported for prompt reexport, shall issue to the applicant a license on form TGL-17.

SEC. 34. The Secretary of the Treasury, with the approval of the President, shall issue licenses authorizing the acquisition, transportation, melting or treating, importing, exporting, or earmarking or holding in custody for foreign or domestic account of gold, for purposes other than those specified in articles III and IV, and sections 32 and 33 of this article, which, in the judgment of the Secretary of the Treasury, are not inconsistent with the purposes of the Act, subject to the following provisions:

(1) *Applications.*—Every application for a license under this section shall be made on form TG-18 and shall be filed in duplicate with the Federal Reserve bank for the district in which the applicant resides or has his principal place of business. Upon receipt of the application and after making such investigation of the case as it may deem advisable, the Federal Reserve bank shall transmit to the Secretary of the Treasury the original of the application, together with any supplemental information it may deem appropriate. The Federal Reserve bank shall retain the duplicate of the application for its records.

(2) *Licenses.*—If the issuance of a license is approved, the Federal Reserve bank which received and transmitted the application will be advised by the Secretary of the Treasury and directed to issue a license on form TGL-18. If a license is denied, the Federal Reserve bank will be so advised and shall immediately notify the applicant. The decision of the Secretary of the Treasury with respect to the granting or denying of a license shall be final. If a license is granted, the Federal Reserve bank shall thereupon note upon the duplicate of the application therefor, the date of approval and issuance and the amount of gold specified in such license.

(3) *Reports.*—Within 7 days of the disposition of the gold acquired or held under a license issued under this section, or within 7 days of export, if such exportation is authorized, the licensee shall file a report in duplicate on form TGR-18 with the Federal Reserve bank through which the license was issued. Upon receipt of such report, the Federal Reserve bank shall transmit the original thereof to the Secretary of the Treasury and retain the duplicate for its records.

## ARTICLE VI. PURCHASE OF GOLD BY MINTS

SEC. 35. The mints, subject to the conditions specified in these regulations, and the general regulations governing the mints, are authorized to purchase:

(a) Gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof, and which shall not have entered into monetary or industrial use;

(b) Unmelted scrap gold;

(c) Gold imported into the United States after January 30, 1934; and

(d) Such other gold as may be authorized from time to time by rulings of the Secretary of the Treasury; *Provided, however,* That no gold shall be purchased by any mint or assay office under the provisions of this article which, in the opinion of the mint, has been held at any time in noncompliance with the act of March 9, 1933, any Executive orders or orders of the Secretary of the Treasury issued thereunder, or in noncompliance with any regulations prescribed under such orders or licenses issued pursuant thereto or which, in the opinion of the mint, has been acquired and held, transported, melted or treated or held in custody in violation of the Act or of regulations issued thereunder, including these regulations.

SEC. 36. **Deposits.**—Gold in the form of unmelted scrap gold, coins, bars, kings, and buttons will be received in amounts of not less than one troy ounce of fine gold. Gold in the form of retort sponge, lumps, nuggets, grains, and dust, in their native state free from earth and stone, or nearly so, will be received in amounts of not less than two troy ounces of fine gold. Deposits of gold shall not contain less than 200 parts of gold in 1,000 by assay. In the case of gold forwarded to a mint by mail or express, a letter of transmittal shall be sent with each package. When there is a material discrepancy between the actual and invoice weights of a deposit, further action in regard to it will be deferred pending communication with the depositor.

SEC. 37. **Rejection of gold by mint.**—Deposits of gold which do not conform to the requirements of sections 35 or 36, or which otherwise are unsuitable for mint treatment shall be rejected and returned to the person delivering the same at his risk and expense. Any deposit of gold which has been held at any time in noncompliance with the act of March 9, 1933, any Executive orders or orders of the Secretary of the Treasury issued thereunder, or in noncompliance with any regulations prescribed under such orders or licenses issued pursuant thereto, or in noncompliance with the Act and any regulations issued thereunder, including these regulations, or any licenses issued

pursuant thereto or hereto may be held subject to the penalties provided in section 12 hereof, or sections 2 or 3 of said act of March 9, 1933.

SEC. 38. **Gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof.**—(1) The mints shall not purchase any gold under clause (a) of section 35 unless the deposit of such gold is accompanied by a properly executed affidavit as follows:

An affidavit on form TG-19 shall be filed with each delivery of gold by persons who have recovered such gold by mining or panning in the United States or any place subject to the jurisdiction thereof: *Provided, however,* That such persons delivering gold in the form of nuggets or dust having an aggregate weight of not more than 5 ounces, which they have recovered from mining or panning in the United States or any place subject to the jurisdiction thereof, may accompany such delivery with full and complete information on form TG-19 without the requirement of an oath.

An affidavit on form TG-20 shall be filed with each delivery of gold by persons who have recovered such gold from gold-bearing materials in the regular course of their business of operating a custom mill, smelter, or refinery.

An affidavit on form TG-21 together with a statement also under oath giving (a) the names of the persons from whom gold was purchased; (b) amount and description of each lot of gold purchased; (c) the location of the mine or placer deposit from which each lot was taken; and (d) the period within which such gold was taken from the mine or placer deposit, shall be filed with each such delivery of gold by persons who have purchased such gold directly from the persons who have mined or panned such gold.

In addition such persons shall show that the gold was acquired, held, melted and treated, and transported by them in accordance with a license issued pursuant to section 23 hereof, or that such acquisition, holding, melting and treating, and transportation is permitted under article II without necessity of holding a license.

SEC. 39. **Unmelted scrap gold.**—No deposit of unmelted scrap gold shall be accepted unless accompanied by a properly executed affidavit on form TG-22. In addition the depositors of such gold shall establish to the satisfaction of the mint that the gold was acquired, held, and transported by them in accordance with a license issued pursuant to these regulations.

SEC. 40. **Imported gold.**—The mints are authorized to purchase only such gold imported into the United States as has been in customs custody throughout the period in which it shall have been situated within the customs limits of the continental United States, and then only subject to the following provisions:

(1) *Notation upon entry.*—Upon formal entry into the United States of any gold intended for sale to a mint under this article,

the importer shall declare to the collector of customs at the port of entry where the gold is formally entered that the gold is entered for such sale. The collector shall make a notation of this declaration upon the entry and forward a copy to the mint designated by the importer.

(2) Upon the deposit of the gold with the mint designated by the importer, the importer shall file an affidavit executed in duplicate on form TG-23.

**Sec. 41. Records and reports.**—Every person delivering gold in accordance with this article, who is required to be licensed to hold gold, shall keep an exact record of all gold mined, acquired, and all deliveries of gold made by such person as provided in section 26 hereof and shall file with the mint which issued the license the reports required under section 27 hereof. The mints shall not purchase gold under the provisions of this article from any person who has failed to comply with these regulations or the terms of his license.

**Sec. 42. Purchase price.**—The mints shall pay for all gold purchased by them in accordance with this article \$35.00 (less one fourth of 1 percent) per troy ounce of fine gold, but shall retain from such purchase price an amount equal to all mint charges. This price may be changed by the Secretary of the Treasury without notice other than by notice of such change mailed or telegraphed to the mints.

#### ARTICLE VII. SALE OF GOLD BY MINTS

**Sec. 43.** Each mint is authorized to sell gold to persons licensed by it to acquire such gold for use in industry, profession, or art: *Provided, however,* That no mint may sell gold to any person in an amount which, in the opinion of such mint, exceeds the amount actually required by such licensee for a period of 3 months. Prior to the sale of any gold under this article, the mint shall require the purchaser to execute and file in duplicate an affidavit on form TG-24, or, if such purchaser is in the business of furnishing gold for use in industries, professions, and arts, on form TG-25. The mints are authorized to refuse to sell gold in amounts less than 25 ounces, and shall not sell gold under the provisions of this article to any person who has failed to comply with these regulations or the terms of his license.

**Sec. 44. Sale price.**—The mints shall charge for all gold sold under this article \$35.00 (plus one fourth of 1 percent) per troy ounce of fine gold. This price may be changed by the Secretary of the Treasury without notice other than by notice of such change mailed or telegraphed to the mints.

#### ARTICLE VIII. TRANSITORY PROVISIONS

**Sec. 45.** Licenses issued by the United States mints and assay offices on Form TGL-4 and TGL-4A, shall until March 15, 1934, be deemed licenses under section 23 hereof. Such licenses on Form TGL-4 will authorize the licensee until March 15, 1934, to acquire—

(1) gold held under License TGL-4 or TGL-4A or under License TGL-12, TGL-13, or TGL-14 issued pursuant to these regulations;

(2) unmelted scrap gold from persons who acquired and hold such gold lawfully; or

(3) gold bullion from the mint which issued his licenses; and to hold, transport, melt and treat, gold now lawfully held or so acquired in amounts authorized by the license. Such licenses on Form TGL-4A will authorize the licensee until March 15, 1934, to acquire unmelted scrap gold—

(1) held under License TGL-4A or under License TGL-12, issued pursuant to these regulations; or

(2) from persons who acquired and hold unmelted scrap gold lawfully;

and to hold and transport unmelted scrap gold now lawfully held or so acquired in amounts authorized by the license.

**Sec. 46.** Licenses to hold gold in custody, issued by direction of the Secretary of the Treasury on forms TGL-1 and TGL-2 up to and including March 15, 1934, shall be deemed licenses to hold such gold in custody subject to the conditions prescribed therein, unless sooner terminated by the terms thereof.

HENRY MORGENTHAU, Jr.,  
*Secretary of the Treasury.*

Approved:

FRANKLIN D. ROOSEVELT,  
THE WHITE HOUSE.

Articles I, II, III, IV, V, and VIII approved January 30, 1934.  
Articles VI and VII approved January 31, 1934.



GOLD RESERVE ACT OF 1934

AN ACT To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the short title of this Act shall be the "Gold Reserve Act of 1934."

SEC. 2. (a) Upon the approval of this Act all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 18 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(b) Section 18 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates:"

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: *Provided, however,* That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption to the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such bank shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows:

"The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no case less than 5 per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the 40 per centum reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of the notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 15 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be released, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding

Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safe-keeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advice from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

SEC. 5. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the conditions under which gold may be acquired and held, transported, melted or

treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

Sec. 4. Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

Sec. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided*, however, that coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the Act of January 29, 1874 (U.S.C., title 31, sec. 387). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

Sec. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold: *Provided*, however, that gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further*, that the reserve for United States notes and for Treasury notes of 1890, and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates, or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this Act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States mint or assay office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

Sec. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held

by the United States (including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by transfers of gold bullion from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

Sec. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

"Sec. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

Sec. 9. Section 3696 of the Revised Statutes (U.S.C., title 31, sec. 733) is amended to read as follows:

"Sec. 3696. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided*, however, that the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

Sec. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such funds shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of \$2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President,

whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.

SEC. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this Act.

SEC. 12. Paragraph (b) (2), of section 43, title III, of the Act approved May 12, 1933 (Public Numbered 10, Seventy-third Congress), is amended by adding two new sentences at the end thereof, reading as follows:

"Nor shall the weight of the gold dollar be fixed in any event at more than 90 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency."

Paragraph (2) of subsection (b) of section 43, title III, of an act entitled "An act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended by adding at the end of said paragraph (2) the following:

"The President, in addition to the authority to provide for the unlimited coinage of silver at the ratio so fixed, under such terms and conditions as he may prescribe, is further authorized to cause to be issued and delivered to the tenderer of silver for coinage, silver certificates in lieu of the standard silver dollars to which the tenderer would be entitled and in an amount in dollars equal to the number of coined standard silver dollars that the tenderer of such silver for coinage would receive in standard silver dollars.

"The President is further authorized to issue silver certificates in such denominations as he may prescribe against any silver bullion, silver, or standard silver dollars in the Treasury not then held for redemption of any outstanding silver certificates, and to coin standard silver dollars or subsidiary currency for the redemption of such silver certificates.

"The President is authorized, in his discretion, to prescribe different terms and conditions and to make different charges, or to collect different seigniorage, for the coinage of silver of foreign production than for the coinage of silver produced in the United States or its dependencies. The silver certificates herein referred to shall be issued, delivered, and circulated substantially in conformity with the law now governing existing silver certificates, except as may herein be expressly provided to the contrary, and shall have and possess all of the privileges and the legal tender characteristics of existing silver certificates now in the Treasury of the United States, or in circulation.

"The President is authorized, in addition to other powers, to reduce the weight of the standard silver dollar in the same percentage that he reduces the weight of the gold dollar.

"The President is further authorized to reduce and fix the weight of subsidiary coins so as to maintain the parity of such coins with the standard silver dollar and with the gold dollar."

SEC. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made or issued by the President of the United States or the Secretary of the Treasury, under the Act of March 9, 1933, or under section 43 or section 45 of title III of the Act of May 12, 1933, are hereby approved, ratified, and confirmed.

SEC. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752; Supp. VII, title 31, sec. 752), a new paragraph as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan."

(2) By inserting in section 8 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills".

(3) By striking out the figures "\$7,500,000,000" where they appear in section 18 (U.S.C., title 31, sec. 750) and inserting in lieu thereof the figures "\$10,000,000,000."

(4) By adding thereto two new sections, as follows:

"SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

"SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the

date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S.C., title 31, sec. 767; Supp. VII, title 31, secs. 767-767a) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

SEC. 15. As used in this Act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this Act to equivalents as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value; that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

SEC. 16. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 17. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed.

Approved, January 30, 1934.

TREASURY DEPARTMENT  
WASHINGTON

Memorandum for the Press.

January 30, 1934.

The President today approved the Gold Reserve Act of 1934 and at the same time approved provisional regulations of the Secretary of the Treasury under the Act. These regulations provide substantially as follows:

1. Gold in any form may be acquired, transported, melted or treated, imported, exported or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by and subject to the conditions prescribed in these Regulations or licenses issued pursuant to them.
2. Violation of the Regulations will subject the holder of gold to its forfeiture and to a penalty equal to twice the value of the gold.
3. Gold may be transported by carriers only for persons licensed to hold and transport it or permitted by the Regulations to hold and transport it.
4. Gold situated outside the United States may be dealt in freely.
5. Similarly, gold situated in the possessions of the United States, but not including United States gold coin, may be dealt in freely by persons not domiciled in the United States.

6. Fabricated gold may be acquired, exported or imported without a license, but in the case of export an affidavit is required that the shipment is not being made for the purpose of disposing of fabricated gold primarily for the value of the gold content. Travelers leaving the United States may carry with them fabricated gold articles for personal use not exceeding fifteen ounces, without filing an affidavit or obtaining an export license.

7. Metals containing not more than five troy ounces of fine gold per short ton are not subject to license.

8. Unmelted scrap gold in amounts of not more than five troy ounces per fine gold may be held or transported without a license.

9. Gold in its natural state as mined, may be acquired, held and transported without a license.

10. Gold coins recognized as of special value to collectors are exempt from license regulations, but may be exported only under license issued by the Director of the Mint.

11. Persons acquiring gold for use in industry, profession or art in which they are regularly engaged may hold up to a three months' supply, but not more than twenty-five ounces of fine gold without a special license.

12. The Mints will issue special licenses for buying, holding, transporting, treating, importing and exporting gold for use in industries, professions, or arts to dealers and refiners and to persons requiring a stock of more than twenty-five ounces at a time. Licenses so issued shall be for no greater quantities than the estimated requirement of the licensee for a period of three months. Such licenses will

not entitle the licensee to hold gold coin. License holders are required to keep exact records of acquisitions and deliveries of gold and make quarterly reports on them to the Mints.

13. Federal Reserve banks are authorized to acquire from the United States Mints through redemption of gold certificates such amounts of gold bullion "as in the judgment of the Secretary of the Treasury are necessary to settle international balances, or to maintain the equal purchasing power of every kind of currency of the United States". The Federal Reserve banks are also authorized to acquire gold abroad, or to acquire in the United States gold that is not being held unlawfully. Gold so acquired may be held, transported, imported, exported, or earmarked, or held in custody for foreign or domestic account for the purposes of settling international balances or maintaining the equal purchasing power of every kind of currency in the United States. It is provided, however, that if the gold is not used for any of these purposes within six months of the date of its acquisition it must be delivered over to the Treasurer of the United States for credits in equivalent amounts of dollars, unless the Secretary of the Treasury shall have granted an extension.

14. No person is permitted to acquire gold from a Federal Reserve bank, except to the extent that the license issued to him specifically provides.

15. Gold which is refined from gold-bearing ore imported into the United States may be exported under licenses to be issued by the Assay Office at New York, or the Mint at San Francisco. The gold-bearing ore must be declared on its entry and careful records must be kept. This continues the Regulations heretofore enforced under the Executive Order.



16. Gold may be imported for re-export if it remains in customs custody while it is within the customs limits of the United States. If it is to be transported within the United States a special license is required.

17. Licenses heretofore issued by the United States Mints and Assay Offices, and also by the Secretary of the Treasury, under previous orders are validated until March 15, 1934.

TREASURY DEPARTMENT,  
Office of the Secretary,  
January 31, 1934.

AMENDMENT TO PROVISIONAL REGULATIONS

issued under the  
GOLD RESERVE ACT OF 1934

Section 1. The first paragraph of Section 2 of the Provisional Regulations, issued January 30, 1934 under the Gold Reserve Act of 1934, is amended to read as follows:

"Articles 2, 3, 4, and 5 of these regulations refer particularly to section 3 of the Act; and articles 6 and 7 refer particularly to sections 8 and 9, respectively, thereof."

Sec. 2. Article VI of said Provisional Regulations is deleted and there is inserted in such Regulations in lieu thereof the following three Articles:

"ARTICLE VI. PURCHASE OF GOLD BY MINTS

"Section 35. The mints, subject to the conditions specified in these regulations, and the general regulations governing the mints, are authorized to purchase:

(a) Gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof, and which shall not have entered into monetary or industrial use;

(b) Unmelted scrap gold;

(c) Gold imported into the United States after January 30, 1934; and

(d) Such other gold as may be authorized from time to time by rulings of the Secretary of the Treasury;

Provided, however, that no gold shall be purchased by any mint or assay office under the provisions of this article which, in the opinion of the mint, has been held at any time in noncompliance with the act of March 9, 1933, any Executive orders or orders of the Secretary of the Treasury issued thereunder, or in noncompliance with any regulations proscribed under such orders or licenses issued pursuant thereto or which, in the opinion of the mint, has been acquired and held, transported, melted or treated or held in custody in violation of the Act or of regulations issued thereunder, including these regulations.

"Sec. 36. Deposits.—Gold in the form of unsalted scrap gold, coins, bars, kings, and buttons will be received in amounts of not less than one troy ounce of fine gold. Gold in the form of retort sponge, lumps, nuggets, grains, and dust, in their native state free from earth and stone, or nearly so, will be received in amounts of not less than two troy ounces of fine gold. Deposits of gold shall not contain less than 200 parts of gold in 1,000 by assay. In the case of gold forwarded to a mint by mail or express, a letter of transmittal shall be sent with each package. When there is a material discrepancy between the actual and invoice weights of a deposit, further action in regard to it will be deferred pending communication with the depositor.

"Sec. 37. Rejection of gold by mint.—Deposits of gold which do not conform to the requirements of sections 35 or 36, or which otherwise are unsuitable for mint treatment, shall be rejected and returned to the person delivering the same at his risk and expense. Any deposit of gold which has been held at any time in noncompliance with the Act of March 9, 1933, any Executive Orders or Orders of the Secretary of the Treasury issued thereunder, or in noncompliance with any regulations proscribed under such orders or licenses issued pursuant thereto, or in noncompliance with the Act and any regulations issued thereunder, including these regulations, or any licenses issued pursuant thereto or hereto may be held subject to the penalties provided in Section 12 hereof, or Sections 2 or 3 of said Act of March 9, 1933.

"Sec. 38. Gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof.—(1) The mints shall not purchase any gold under clause (a) of section 35 unless the deposit of such gold is accompanied by a properly executed affidavit as follows:

"An affidavit on form TG-19 shall be filed with each delivery of gold by persons who have recovered such gold by mining or panning in the United States or any place subject to the jurisdiction thereof: Provided, however, That such persons delivering gold in the form of nuggets or dust having an aggregate weight of not more than 5 ounces, which they have recovered from mining or panning in the United States or any place subject to the jurisdiction thereof, may accompany such delivery with full and complete information on form TG-19 without the requirement of an oath.

"An affidavit on form TG-20 shall be filed with each delivery of gold by persons who have recovered such gold from gold-bearing materials in the regular course of their business of operating a custom mill, smelter, or refinery.

"An affidavit on form TC-21 together with a statement also under oath giving (a) the names of the persons from whom gold was purchased; (b) amount and description of each lot of gold purchased; (c) the location of the mine or placer deposit from which each lot was taken; and (d) the period within which such gold was taken from the mine or placer deposit, shall be filed with each such delivery of gold by persons who have purchased such gold directly from the persons who have mined or panned such gold.

In addition such persons shall show that the gold was acquired, held, milled and treated, and transported by them in accordance with a license issued pursuant to section 23 hereof, or that such acquisition, holding, milling and treating, and transportation is permitted under article II without necessity of holding a license.

"Sec. 29. Unmilled scrap gold. — No deposit of unmilled scrap gold shall be accepted unless accompanied by a properly executed affidavit on form TC-22. In addition the depositors of such gold shall establish to the satisfaction of the mint that the gold was acquired, held, and transported by them in accordance with a license issued pursuant to these regulations.

"Sec. 40. Imported gold. — The mints are authorized to purchase only such gold imported into the United States as has been in customs custody throughout the period in which it shall have been situated within the customs limits of the continental United States, and then only subject to the following provisions:

"(1) Notation upon entry.— Upon formal entry into the United States of any gold intended for sale to a mint under this article, the importer shall declare to the collector of customs at the port of entry where the gold is formally entered that the gold is entered for such sale. The collector shall make a notation of this declaration upon the entry and forward a copy to the mint designated by the importer.

"(2) Upon the deposit of the gold with the mint designated by the importer, the importer shall file an affidavit executed in duplicate on form TC-25.

"Sec. 41. Records and reports.—Every person delivering gold in accordance with this article, who is required to be licensed to hold gold, shall keep an exact record of all gold mined, acquired, and all deliveries of gold made by such person as provided in section 26 hereof and shall file with the mint which issued the license the reports required under section 27 hereof. The mints shall not purchase gold under the provisions of this article from any person who has failed to comply with these regulations or the terms of his license.

"Sec. 42. Purchase price.—The mints shall pay for all gold purchased by them in accordance with this article \$35.00 (less one fourth of 1 percent) per troy ounce of fine gold, but shall retain from such purchase price an amount equal to all mint charges. This price may be changed by the Secretary of the Treasury without notice other than by notice of such change mailed or telegraphed to the mints.

"ARTICLE VII. SALE OF GOLD BY MINTS

"Section 43. Each mint is authorized to sell gold to persons licensed by it to acquire such gold for use in industry, profession, or art: Provided, however, That no mint may sell gold to any person in an amount which, in the opinion of such mint, exceeds the amount actually required by such licensee for a period of 3 months. Prior

to the sale of any gold under this article, the mint shall require the purchaser to execute and file in duplicate an affidavit on form TQ-24, or, if such purchaser is in the business of furnishing gold for use in industries, professions, and arts, on form TQ-25. The mints are authorized to refuse to sell gold in amounts less than 25 ounces, and shall not sell gold under the provisions of this article to any person who has failed to comply with these regulations or the terms of his license.

"Sec. 44. Sale price.—The mints shall charge for all gold sold under this article \$35.00 (plus one fourth of 1 percent) per troy ounce of fine gold. This price may be changed by the Secretary of the Treasury without notice other than by notice of such change mailed or telegraphed to the mints.

"ARTICLE VIII. TRANSITORY PROVISIONS

"Section 45. Licenses issued by the United States mints and assay offices on form TGL-4 and TGL-4A, shall until March 15, 1934, be deemed licenses under section 23 hereof. Such licenses on form TGL-4 will authorize the licensee until March 15, 1934, to acquire--

- (1) gold held under License TGL-4 or TGL-4A or under License TGL-12, TGL-13, or TGL-14 issued pursuant to these regulations;
- (2) unmelted scrap gold from persons who acquired and hold such gold lawfully; or
- (3) gold bullion from the mint which issued his license;

and to hold, transport, melt and treat, gold now lawfully held or so acquired in amounts authorized by the license. Such licenses on Form TGL-4A will authorize the licensee until March 15, 1934, to acquire and hold unmelted scrap gold:

- (1) held under License TGL-4A or under License TGL-12, issued pursuant to these regulations; or
- (2) from persons who acquired and hold unmelted scrap gold lawfully.

and to hold and transport unmelted scrap gold now lawfully held or so acquired in amounts authorized by the license.

"Sec. 46. Licenses to hold gold in custody, issued by direction of the Secretary of the Treasury on forms TGL-1 and TGL-2 up to and including March 15, 1934, shall be deemed licenses to hold such gold in custody subject to the conditions prescribed therein, unless sooner terminated by the terms thereof."

Section 3. The foregoing amendments to the Provisional Regulations issued January 30, 1934 under the Gold Reserve Act of 1934, deemed necessary and proper by the Secretary of the Treasury to carry out the purposes of the Gold Reserve Act of 1934, approved January 30, 1934, are issued by the Secretary of the Treasury, with the approval of the President, under authority of said Act.

HENRY WORGENTHAU, JR.  
Secretary of the Treasury

APPROVED:

FRANKLIN D. ROOSEVELT  
THE WHITE HOUSE

January 31, 1934.

## A PROCLAMATION

WHEREAS, by virtue of Section 1 of the Act of Congress approved March 14, 1900 (31 Stat. L.45), the present weight of the gold dollar is fixed at twenty-five and eight tenths grains of gold nine tenths fine; and

WHEREAS, by Section 43, Title III of the Act Approved May 12, 1933 (Public No. 10, 73d Congress), as amended by Section 12 of the Gold Reserve Act of 1934, it is provided in part as follows:

"Whenever the President finds, upon investigation, that (1) the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government or governments in relation to the present standard value of gold, or (2) action under this section is necessary in order to regulate and maintain the parity of currency issues of the United States, or (3) an economic emergency requires an expansion of credit, or (4) an expansion of credit is necessary to secure by international agreement a stabilization at proper levels of the currencies of various governments, the President is authorized, in his discretion -

"(a) To direct the Secretary of the Treasury to enter into Agreements with the several Federal Reserve Banks and with the Federal Reserve Board whereby the Federal Reserve Board will, and it is hereby authorized to, notwithstanding any provisions of law or rules and regulations to the contrary, permit such reserve banks to agree that they will, (1) conduct, pursuant to existing law, throughout specified periods, open market operations in obligations of the United States Government or corporations in which the United States is the majority stockholder, and (2) purchase directly and hold in portfolio for an agreed period or periods of time Treasury bills or other obligations of the United States Government in an aggregate sum of \$3,000,000,000 in addition to those they may then hold, unless prior to the termination of such period or periods the Secretary shall consent to their sale. No suspension of reserve requirements of the Federal Reserve banks, under the terms of section 11(c) of the Federal Reserve Act, necessitated by reason of operations under this section, shall require the imposition of the graduated tax upon any deficiency in reserves as provided in said section 11(c). Nor shall it require any automatic increase in the rates of interest or discount charged by any Federal Reserve bank, as otherwise specified in that section. The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal Reserve banks to take such action as may be necessary, in the judgment of the Board and of the Secretary of the Treasury, to prevent undue credit expansion.

"(b) If the Secretary, when directed by the President, is unable to secure the assent of the several Federal Reserve banks and the Federal Reserve Board to the agreements authorized in this section, or if operations under the above provisions prove to be inadequate to meet the purposes of this section, or if for any other reason additional measures are required in the judgment of the President to meet such purposes, then the President is authorized -

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"(2) By proclamation to fix the weight of the gold dollar in grains nine tenths fine and also to fix the weight of the silver dollar in grains nine tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon, and such gold dollar, the weight of which is so fixed, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity, but in no event shall the weight of the gold dollar be fixed so as to reduce its present weight by more than 50 per centum. Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency"; and

WHEREAS, I find, upon investigation, that the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currencies of other governments in relation to the present standard value of gold, and that an economic emergency requires an expansion of credit; and

WHEREAS, in my judgment, measures additional to those provided by subsection (a) of said Section 43 are required to meet the purposes of such Section; and

WHEREAS, I find, from my investigation, that, in order to stabilize domestic prices and to protect the foreign commerce against the adverse effect of depreciated foreign currencies, it is necessary to fix the weight of the gold dollar at 15 5/21 grains nine tenths fine,

NOW, THEREFORE, be it known that I, FRANKLIN D. ROOSEVELT, President of the United States, by virtue of the authority vested in me by Section 43, Title III of said Act of May 12, 1933, as amended, and by virtue of all other authority vested in me, do hereby proclaim, order, direct, declare and fix the weight of the gold dollar to be 15 5/21 grains nine tenths fine, from and after the date and hour of this proclamation. The weight of the silver dollar is not altered or affected in any manner by reason of this proclamation.

This proclamation shall remain in force and effect until and unless repealed or modified by act of Congress or by subsequent proclamation; and notice is hereby given that I reserve the right by virtue of the authority vested in me to alter or modify this proclamation as the interest of the United States may seem to require.

IN WITNESS WHEREOF I have hereunto set my hand and have caused the seal of the United States to be affixed.

DONE in the City of Washington at 3:10 o'clock in the afternoon, Eastern Standard Time, this (Seal) 31st day of January, in the year of our Lord one thousand nine hundred and thirty-four, and of the Independence of the United States the one hundred and fifty-eighth.

FRANKLIN D. ROOSEVELT

By the President:

Cordell Hull  
Secretary of State.



January 31, 1934.

STATEMENT FOR THE PRESS  
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1. Acting under the powers granted by Title 3 of the act approved May 12, 1933, (Thomas Amendment to the Farm Relief Act) the President today issued a proclamation fixing the weight of the gold dollar at  $15\frac{5}{31}$  grains nine-tenths fine. This is 59.06 plus per cent of the former weight of  $25\frac{8}{10}$  grains, nine-tenths fine, as fixed by Section 1 of the Act of Congress of March 4, 1900. The new gold content of the dollar became effective immediately on the signing of the proclamation by the President.

Under the Gold Reserve Act of 1934, signed by the President Tuesday, January 30th, title to the entire stock of monetary gold in the United States, including the gold coin and gold bullion heretofore held by the Federal Reserve Banks and the claim upon gold in the Treasury represented by gold certificates, is vested in the United States Government and the "profit" from the reduction of the gold content of the dollar, made effective by today's proclamation, accrues to the United States Treasury. Of this "profit" two billion dollars, under the terms of the Gold Reserve Act and of today's proclamation, constitutes a stabilization fund under the direction of the Secretary of the Treasury. The balance will be covered into the general fund of the Treasury.

Settlement for the gold coin, bullion and certificates taken over from the Federal Reserve Banks on Tuesday upon the approval of the act was made in the form of credits set up on the Treasury's books. This credit due the Federal Reserve Banks is to be paid in the new form of gold certificates now in course of production by the Bureau of Engraving and Printing. These certificates bear on their face the wording:

"This is to certify that there is on deposit in the Treasury of the United States of America \_\_\_\_\_ dollars in gold, payable to bearer on demand as authorized by law."

They also will carry the standard legal tender clause, which is as follows:

"This certificate is a legal tender in the amount thereof in payment of all debts and dues public and private."

The new gold certificates will be of the same size as other currency in circulation and the only difference, other than the changes in wording noted above, is that the backs of the new certificates will as used to be done, be printed in yellow ink. The certificates will be in denominations up to \$100,000.

In his proclamation of today the President gives notice that he reserves the right, by virtue of the authority vested in him, to alter or modify the present proclamation as the interest of the United States may seem to require. The authority by later proclamations to accomplish other revaluations of the dollar in terms of gold is contained in the gold reserve Act signed on Tuesday.

2. The Secretary of the Treasury, with the approval of the President, issued a public announcement that beginning February 1, 1934, he will buy through the Federal Reserve Bank of New York as fiscal agent, for the account of the United States, any and all gold delivered to any United States Mint or the Assay Offices in New York or Seattle, at the rate of \$35.00 per fine troy ounce, less the usual Mint charges and less one-fourth of one per cent for handling charges. Purchases, however, are subject to compliance with the regulations issued under the Gold Reserve Act of 1934.

3. The Secretary of the Treasury today promulgated new regulations with respect to the purchase and sale of gold by the Mints. Under these regulations the Mints are authorized to purchase gold recovered from natural deposits in the United States or any place subject to its jurisdiction; unmelted scrap gold, gold imported into the United States after January 30, 1934, and such other gold as may be authorized from time to time by rulings of the Secretary of the Treasury. No gold, however, may be purchased which has been held in noncompliance with previous acts or orders, or noncompliance with the Gold Reserve Act of 1934, or these Regulations. Affidavits as to the source from which the gold was obtained are required, except in the case of nuggets or dust of less than five ounces, where a statement under oath will suffice. In the case of imported gold, the Mints may purchase only that which has been in customs custody after its arrival in the Continental United States.

The price to be paid for gold purchased by the Mints is to be \$35.00 per troy ounce of fine gold, less 1/4 of 1 per cent and less Mint charges. This price may be changed by the Secretary of the Treasury at any time without notice.

The Mints are authorized to sell gold to persons licensed to acquire it for use in the industries, professions, or arts, but not to sell more than is required for a three months' supply for the purchaser. The price at which gold is to be sold by the Mints will be \$35.00 per troy ounce, plus 1/4 of 1 per cent. This price also may be changed by the Secretary of the Treasury without notice.

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Washington, D.C.

Chronology of Action With Respect to Gold from March 6, 1933  
to January 31, 1934.

1. On March 6, 1933, the President of the United States issued a proclamation declaring a banking holiday from March 6 to March 9, both dates inclusive, and directing that during the holiday no banking institution should "pay out, export, earmark, or permit the withdrawal or transfer in any manner or by any device whatsoever, of any gold or silver coin or bullion or currency or take any other action which might facilitate the hoarding thereof". This action of the President was based upon the authority of section 5 (b) of the Act of October 6, 1917 (40 Stat. L. 411) as amended.

2. On March 9, 1933, a message sent by the President to the Congress transmitted for enactment the Emergency Banking Act. It was enacted into law the same day. Title I of that Act approved and confirmed the action taken by the President March 6, and amended the Act of October 6, 1917. In addition Section 11 of the Federal Reserve Act was amended by adding a new subsection (n), authorizing the Secretary of the Treasury to "require any or all individuals, partnerships, associations and corporations to pay and deliver to the Treasurer of the United States any or all gold coin, gold bullion, and gold certificates" owned by them. An equivalent amount of any other form of coin or currency coined or issued under the laws of the United States was authorized to be given in exchange for surrendered gold. Failure to comply with any requirement of the Secretary of the Treasury made under this subsection was made subject to a penalty equal to twice the value of the gold or gold certificates in respect of which such failure occurred.

3. On March 9, after the passage of the Emergency Banking Act, the President issued a proclamation continuing in full force and effect the banking holiday "until further proclamation by the President".

4. On March 10 the President issued an executive order prohibiting, until further order, any individual, partnership, association or corporation from exporting or otherwise removing or permitting to be withdrawn from the United States or any place subject to the jurisdiction thereof any gold coin, gold bullion, or gold certificates, except in accordance with regulations prescribed by or under license issued by the Secretary of the Treasury. It was made clear that permission given to banking institutions to perform banking functions did not include any authorization to pay out any gold coin, gold bullion or gold certificates, except as authorized by the Secretary of the Treasury, nor to engage in any transaction in foreign exchange except such as might be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for the fulfillment of contracts entered into prior to March 6, 1933.

5. On April 5 the President issued an executive order forbidding the hoarding of gold coin, gold bullion and gold certificates. All persons were required to deliver on or before May 1, 1933 to a Federal reserve bank or branch or agency thereof or to a member bank all gold coin, gold bullion, and gold certificates, with certain exceptions, including reasonable amounts for use in industry and the arts, and rare coins and a maximum of \$100. per person in gold coin and gold certificates. For willful violation a penalty was fixed of \$10,000 fine and/or imprisonment for not more than ten years.

6. On April 20, the President issued an executive order relating to foreign exchange and the export of gold coin or bullion or currency. It prohibited the earmarking for foreign account and the export of gold coin, gold

bullion or gold certificates, but authorized the Secretary of the Treasury to issue licenses permitting such export under certain conditions. Penalty of \$10,000 fine and/or ten years imprisonment was fixed.

7. On April 29, the Secretary of the Treasury issued regulations relating to the executive order of April 5 with respect to gold hoarding and to the gold export embargo of April 20.

8. On May 12, the President approved an act of Congress dealing primarily with agricultural purchasing power and farm indebtedness, one title of which dealt with currency and monetary matters. The Act authorized the President

A. To direct the Secretary of the Treasury to enter into agreements with the Federal Reserve Board and banks under which the banks would conduct open market operations in United States securities, and purchase directly from the Treasury and hold in portfolio Treasury bills or other Government obligations in an aggregate amount of \$3,000,000,000 in addition to those they might then hold.

B. To direct the Secretary of the Treasury to cease to be issued United States notes, the aggregate amount of which outstanding at any one time should not be more than \$3,000,000,000.

C. To accept silver in payment of the debts of foreign governments, up to \$200,000,000, and to cause it to be coined into silver dollars, against which silver certificates might be issued.

D. By proclamation to fix the weight of the gold dollar so as to reduce its weight by not more than fifty per cent and to fix the weight of the silver dollar at a definite fixed ratio in relation to the gold dollar and to provide for the unlimited coinage of such gold and silver at the ratio so fixed. The President was also authorized to fix the weight of the gold dollar in accordance with any international agreement which might be arranged.

9. On June 5 a joint resolution, authorizing the issuance of United States Government obligations payable in legal tender money rather than in gold and declaring that all debts, public and private, whether they contain the so-called gold clause or not, can be satisfied by payment in legal tender money, was approved.

10. On July 3, the President sent a message to the London Economic Conference. In it he spoke of "efforts to plan national currencies with the objective of giving to these currencies a continuing purchasing power which does not greatly vary in terms of the commodities and need of modern civilization." He stated that "the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt paying power as the dollar which we hope to attain in the near future."

11. On August 28, the President issued an executive order, revoking the executive orders of April 5 and April 20, referred to above, and containing new regulations with respect to the hoarding, export and earmarking of gold coin, bullion, or currency and to transactions in foreign exchange. Returns of gold holdings were required and acquisition, holding, and export regulated.

12. On August 29, the President issued an executive order relating to the sale and export of gold recovered from natural deposits. Such gold might be received by the Secretary of the Treasury on consignment for sale to persons licensed to acquire gold for use in the arts, industries, and professions; or by export to foreign purchasers.

13. On October 22, in a radio address, the President reiterated that the definite policy of the Government "has been to restore commodity price levels". He stated that when the price level had been restored, "we shall seek to establish and maintain a dollar which will not change its purchasing and debt paying power during the succeeding generation." Stating that "it becomes increasingly important to develop and apply the further measures which may be

necessary from time to time to control the gold value of our own dollar at home", and that "the United States must take firmly in its own hands the control of the gold value of our dollar", the President announced the establishment of a government market for gold in the United States. He stated that he was authorizing the Reconstruction Finance Corporation to buy gold newly mined in the United States at prices to be determined from time to time after consultation with the Secretary of the Treasury and the President. "Whenever necessary to the end in view," the President added, "we shall also buy or sell gold in the world market." He continued, "Government credit will be maintained and a sound currency will accompany a rise in the American commodity price level."

14. On October 26, the President issued an executive order revoking the executive order of August 29 and amending that of August 28, referred to above. The order of October 26 related to gold recovered from natural deposits, and authorized the RFC to acquire gold which had been received on consignment by a United States mint or assay office, and to hold, earmark for foreign account, export or otherwise dispose of such gold.

15. On October 25, the RFC announced that it would receive subscriptions for its 90-day debentures, payable in newly mined gold recovered from natural deposits in the United States and territory subject to its jurisdiction, at the rate of \$31.36 per fine ounce.

16. On October 27, the RFC issued a circular describing the notes which it would exchange for newly mined gold.

17. On November 1, in a radio speech, the chairman of the RFC announced that the corporation had authorized the Federal Reserve Bank of New York to dispose of the notes of the corporation and take in payment foreign gold imported after November 1, 1933.

18. On December 26, the Secretary of the Treasury issued an order supplementing the President's order of August 28. The Secretary's order required every person to deliver all gold coin, gold bullion and gold certificates

owned by such person; with certain stated exceptions. This order uncalled the previous permission for the individual retention of \$100 in gold, and so applied to small holders as well as to the relatively few large holders who had not complied with the law.

19. On January 30, 1934, the Gold Reserve Act was approved. It fixed the upper limit of dollar devaluation at 60 per cent of the old weight. It transferred title in all Federal reserve gold to the Government, and created a stabilization fund of \$2,000,000,000, out of the so-called "profit" of any subsequent devaluation.

20. On January 31 the President issued a proclamation fixing the weight of the gold dollar at 15 5/21 grains nine tenths fine. At this weight, the price of gold is \$35.00 per ounce.

21. On January 31 the Treasury Department issued regulations under the Gold Reserve Act.

These regulations authorized the mints to issue licenses authorizing the acquisition and holding, transportation, melting and treating, importing, exporting, and holding for domestic account of gold which the mint is satisfied is required for legitimate and customary use in industry, profession or art.

The Federal reserve banks may acquire from the United States by redemption of gold certificates such amounts of gold bullion as in the judgment of the Secretary of the Treasury are necessary to settle international balances or to maintain the equal purchasing power of every kind of currency in the United States. They may acquire gold abroad or gold in the United States not held in noncompliance with executive orders or orders of the Secretary of the Treasury.

The mints are authorized to buy and sell gold under stipulated conditions.

MEMORANDUM FOR THE PRESS  
For Immediate Release

February 1, 1934.

Amplifying his statement issued yesterday, (Wednesday, January 31) with respect to the purchase of imported gold by the Federal Reserve Bank as fiscal agent of the United States and his regulations of the same date, with respect to purchases of imported gold by the Mints, the Secretary of the Treasury today made public the following announcement:

"Beginning Thursday, February 1, 1934, and until further notice, I will buy imported fine gold bars through the Federal Reserve Bank of New York as fiscal Agent of the United States; and other gold, foreign or domestic, through any United States Mint or the United States Assay Offices at New York or Seattle, both at the following rate and upon the following terms and conditions deemed by me most advantageous to the public interest:

"Purchases will be made at the rate of \$35.00 per fine troy ounce, less the usual mint charges and less one-quarter of one per cent for handling charges, all subject to compliance with the Regulations issued under the Gold Reserve Act of 1934."

It was explained that the phrase "fine gold bars" means gold bars of a fineness of .899 or finer, such as are ordinarily used in the settlement of international balances, carrying a recognized stamp indicating the weight and degree of fineness. The mints will purchase imported gold in other condition, such as unrefined gold and gold in other forms than in stamped bars, along with the domestic gold specified in Section 35 of the regulations issued yesterday.

Regulations as to hoarded gold are unchanged.

Feb. 10

Ex-Ambassadors Edge and Sackett were in to see me on January 17, 1934. They asked me to permit them to bring their liquor in free. One asked for 900 bottles and the other 400. I told them I was sorry, but I could not; however, if they gave me a signed statement, that I would take their word as to just how much liquor there was in the shipment without unpacking it, but that they would have to pay the tax just the same as every other citizen must.

I called up Secretary Ickes and told him that we would ask him for another \$175,000 in order to complete the Post Office annex building in N.Y.C. (This was on January 18) The Post Office Department advised us that they were badly in need of additional space and the completion of the annex, and we were, therefore, going to present our plans to the Public Works Administration this afternoon. I asked him whether he thought this was a good way to do it, and he said "Yes".

Feb. 25

For the first time this morning I invited Gibbons and Robert to attend our 9:30 conference along with Herman Oliphant, Gaston, Eccles, Mc Reynolds, Tom Smith and Mrs. Klotz. Peoples dropped in at 11 o'clock to tell me about the contract of the N.Y. Post Office Annex. The lowest bid this time was \$104,000 under the previous bid. I told him to go ahead and let it. Then had a conference with Bill Myers, Eccles, Haas and Scott Hovey in preparation for their exchanging bonds guaranteed as to interest and principal instead of paying by cash as they have heretofore. Told them that we would take up at a later date the question of their re-paying the Treasury and R.F.C. \$250,000,000 that they owe these two agencies.

George Haas of N.Y. dropped in for a couple of minutes. Then saw Rogers of Yale, Goldenweiser, Chief Economist for the Federal Reserve and Stark. Told them that we have issued during the past ten days and will issue during the next ten days something like \$750,000,000 on gold certificates to the Federal Reserve in payment for the gold coming from abroad and for the gold purchased by the R.F.C. and the Treasury prior to February 1, 1934. This means that the Reserves of the Federal Reserve will amount to about 1½ billion dollars. I asked these three men to make a study of the possible results. None of the three seemed to be clear as to what would happen other than dropping in the rates for short term bills. I asked them whether this great

increase in excess reserves meant inflation. They said not necessarily, that it was simply laying the ground work for inflation but that the banks would have to lend the money out in order to inflate, and for the moment there did not seem to be any good reason for them making loans.

Lunched with the President . Told him that I felt a little bit uneasy. Told him that my advice to him was that until Congress adjourned that all talking and writing by the heads of departments and independent agencies should stop. I felt that people like Ickes speaking in Chicago and telling the people that they dare not criticize Roosevelt or the administration, was very dangerous. The President agreed with me wholeheartedly and said he would see that this would be carried out. He turned to me and said, don't you think what Wallace recently wrote about tariff, etc. was all right and I agreed with him, altho I had not read Wallace's article.

The President felt that the stockmarket would go down as people began to liquidate in order to get ready for the new stock exchange bill once it went into effect. The President made a very interesting statement. He said, I believe that all speculators who were in and out of the market daily not only the stock exchange, but all other exchanges should gradually be eliminated.

I told him that I was unable to get the necessary information on trade conditions between the United States and other foreign countries. I also told him that I ought to be able to press a button and immediately find out how our trade stood with any country. He said that is up to Dan Roper. I agreed with him and told him that I was going to get in touch with Dan Roper and see if I could not get that kind of service from the Department of Commerce.

I told the President that I would like to send Rogers to Japan and China as I felt that Japan was the most important focal point in world politics today and that we had very little information about trade conditions. The President agreed and felt that it would also be worthwhile for Rogers to go to China as he felt that the information we were getting from China was largely inspired by Japan and British interests. I told him that Great Britain would soon have to make up her mind whether she wanted to side with Japan or with Russia. The President said, do you want Rogers to go secretly or openly and I said, openly, and he agreed.



At 2:30 Wood Axton of the Axton Fischer Tobacco Co. was brought in to see me by Senator Barkley of Kentucky. He wanted to make personal contact as we expect to re-open his case owing to the fact that the Internal Revenue Bureau had allowed him to sell five long cigarettes which, when they are cut up, make 20 cigarettes.

Leo Crowley came to see me. He is having a terrible time with Jefty O'Connor, especially over appointments. He told me that the 12 newspaper men came in to see him and served notice on him that they would not take any publicity from Hayes, the man Jefty O'Connor brought on from San Francisco to handle his publicity. Crowley says that he is going to work out a way to get rid of him. I told him that my advice to him would be to go ahead and do business and forget about O'Connor. He said he felt it was his duty to let him know that a number of the National Banks were in bad shape, particularly in Chicago; that he was very much worried about it. I asked him about receivers of banks and told him that Oliphant had pointed out to me that I had veto power on receivers whom O'Connor appointed. Crowley said that when their bill went through that he would take over all banks in receivership and I, therefore, told him that I would wait and do nothing. Crowley said that he would not bother me and take things up with Herman Oliphant and have Oliphant transmit them to me. I told him that I wanted to see him myself the first month that he was here as I felt largely responsible for his nomination and wanted to give him every help to get him started properly.

February 27.

At the Council Meeting today the President said that he will veto the soldier legislation which is now pending before Congress. He said if they pass any more bonus legislation it will be up to the Treasury to tell Congress that if they pass a two billion dollar bill it will be up to Congress to provide new taxes with which to pay this appropriation.

F.D.R. asked the group for the next two months to stop talking and writing. I was particularly interested in this as I had made the suggestion to him on Monday.

Harry Hopkins made a very interesting report on how he was going to use the \$950,000,000. I brought the President's attention to the fact that we still had no labor statistics

Cont'd on  
p. 25

## TO ESTABLISH THE FEDERAL MONETARY AUTHORITY

THURSDAY, MARCH 1, 1934

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE OF THE COMMITTEE  
ON BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met at 9:30 a. m., Hon. T. Alan Goldsborough (chairman) presiding.

Mr. GOLDSBOROUGH. The committee will be in order. The Secretary of the Treasury is here this morning, and we will be glad to hear him.

Mr. Secretary, the subcommittee is considering H.R. 7175, a bill to establish the Federal Monetary Authority to control the currency of the United States.

The committee thought we would like to have your views on this bill, and authorized me to invite you to come. We will be very happy to hear any statement you desire to make, without interruptions, and then members of the subcommittee would like to ask you some questions.

### STATEMENT OF HON. HENRY MONGENTHAU, JR., SECRETARY OF THE TREASURY

Secretary MORGENTHAU. Mr. Chairman, I will talk very informally, if I may.

I think that this study which your committee is making is very worth while and very important.

The country has just come through one of the most difficult financial crises we have ever had, and through various Executive orders of the President and through acts of Congress, we are just beginning to see a little daylight. What the future monetary policy of this country will be I do not think anybody is wise enough to tell at this time, because we have not had sufficient experience.

It has been only a few weeks since we changed the price of gold to \$35 an ounce, and we have gone upon the open market in New York to take any gold that is offered to us at that price.

As you gentlemen know, we have a \$2,000,000,000 fund to stabilize American currency, but it is just impossible to tell what the future will be, as to how best to handle this.

I believe we need more experience and more time to tell us what is the best way to handle the monetary problem of this country, before we get into as definite and as fixed a permanent policy as is outlined in this bill.

I hope Congress will give us at least the balance of this year to work out the present program as it has been laid out, before it is changed. I think, possibly, if we have another 9 months or a year, then we will know a little bit more about it.

But I want to say again I think the work this committee is doing in the study of this problem is very important, and undoubtedly will prove to be very useful.

Mr. BUSBY. Mr. Secretary, this bill contains several provisions that are important, but to my mind the important departure from existing conditions is contained in section 3, which provides for a set-up that may ultimately be determined by the Federal monetary authority.

It is my conception that that monetary authority is to represent the Government and the people over and above, not only the general bank structure, but the Federal Reserve set-up which, at times, according to some people, does not appear to function in the interest of the people, and is not always controlled by those who have the welfare of the masses and business in general at heart.

On that statement, I will ask you whether or not you feel that the Government has ever met its responsibility to furnish a dependable medium of exchange for business.

Secretary MORGENTHAU. I do not think I quite understand your question.

Mr. BUSBY. I speak primarily of this, that our media of exchange, especially what we call bank money, has been left to the banking set-up; that is, nine tenths of the media of exchange of this country is furnished by the bank set-up, check money, checking accounts, and credits, that do nine tenths of the transactions that business performs in carrying on. You understand what I mean?

Secretary MORGENTHAU. I understand what you mean.

Mr. BUSBY. The banks never agreed to furnish nine tenths of the media of exchange, did they, with the Government?

Secretary MORGENTHAU. I am afraid I do not follow you.

Mr. BUSBY. I will try to make it plainer. We have a little germ of currency, and it is in the form of coinage issued by the Government, a circulating legal-tender media, we will say, that averages \$5,000,000,000.

Then, on an average, we have \$50,000,000,000 of bank money or deposits, and the bank money does nine tenths of the business transactions of the country. Do you agree with that or not?

Secretary MORGENTHAU. As a statement of fact, the statement is correct.

Mr. BUSBY. What I am coming to is in connection with the Government's responsibility in this scheme of things to furnish the business of the country a dependable media with which to transact business to carry on, whether or not up to this present time, leaving the responsibility to the banks, instead of assuming it itself—whether or not the Government has performed its function in this whole scheme of things.

Secretary MORGENTHAU. I cannot answer that question.

Mr. BUSBY. All right. I will come a little more to the point. Bank credit is often credit by loans of the bank to the individual against some tangible property, is it not?

Secretary MORGENTHAU. Yes.

Mr. BUSBY. And that bank credit is usually in the form of checks to transact business?

Secretary MORGENTHAU. Yes.

Mr. BUSBY. And those checks transact about nine tenths of the business of the country as against one tenth transacted by the currency.

Secretary MORGENTHAU. Yes.

Mr. BUSBY. That is the same proportion. The banks never have agreed with the Government to furnish the nine tenths of the media of exchange, but it is a byproduct of that transaction in which they try to make a profit for their stockholders. Do you agree with that or not?

Secretary MORGENTHAU. If you do not mind, if you will tell me what you are trying to get at, I will try to answer you.

Mr. BUSBY. That is as plain as I know how to put it.

Secretary MORGENTHAU. I do not know what you want me to say.

Mr. BUSBY. I want to develop this thought, that the Government never has come across with its responsibility to the people, because, it has never controlled the media of exchange machines. It has left it to a banking set-up that entered the field for the purpose of making a profit for the stockholders in the banks, and the banks only create checking accounts as an incident or byproduct of their transactions, to try to make money for the investors in bank stocks.

That being true, in times of rising prices, the banks are willing to issue bank money, which is just as effective in rising price times as coin and issued currency, and thereby boost prices to a point where a recession sooner or later sets in. At any point at which that recession sets in, if we find later that that was too high, because the banks make their loans against tangible properties, with falling price levels, banks cannot function and furnish the media of exchange on which the welfare of the country is absolutely dependent.

Since banks cannot function and furnish it, I am getting to the point that it is the duty of the Government to its people to function and furnish the media of exchange so as to prevent financial collapse, and that is part of the proposed set-up in this bill.

Secretary MORGENTHAU. As I said earlier, as far as I am concerned, I am living on a day-to-day basis. Fortunately, since I have been in the Treasury Department conditions have been getting a little bit better each week.

Now, what I was trying to say is this. I do not know of anybody who is smart enough to tell us where we will be 6 months or a year from now. But after all, the Government has taken the complete leadership in this matter through their monetary policy, and through the loans of the Reconstruction Finance Corporation, and with the \$900,000,000 they have taken in preferred stock, and therefore the Government is in an entirely new position. It has never been in that position before.

The Government is doing the leading, and is not being led, for the first time. Whether this thing will continue to be as successful—and I hope so—nobody knows.

What we need is more experience. We have only been on this new monetary plan a few months.

Treasury that the bill finally adopted would have the same revenue as it is estimated the pending bill will yield.

Mr. BUSBY. I might call attention to the fact that that is practically the principle we have had for 300 years, just issuing credits against small amounts of metal, and in the eighteenth century that question of the issuance of credits, not against metal, but against tangible properties, was up, and we set up bank money which we use instead of currency.

Secretary MORGENTHAU. But, for the first time, I think, in a great many years the administration is doing the leading, setting the pace, and making the policies.

Mr. BUSBY. Since you are in the very important position which you occupy and are effectively carrying on this policy, I again suggest that in the issuance of Government bonds, we will say, ultimately to the amount of \$10,000,000,000 and taking these funds out of the banks, which the banks did not feel authorized to put out, and thereby becoming a basis of a media of exchange, the Government has taken the responsibility.

But there must be an end, of course, to this activity in connection with the Government's responsibility, and the most important question, I believe, that is before the Treasury and the administration today, is to develop action on the part of the banks, so the banks will create checking accounts which become the media of exchange, by the time the Government has quit selling bonds.

As long as the Government takes these funds out of the banks in exchange for bonds and scatters it to the four corners of the country, of course, we will have a media of exchange.

The banks have displaced their holdings of private deposits with public funds, and by the Government carrying on as it has been, in placing these funds at the rate of a billion dollars a month in the hands of the people, we have a media of exchange.

But if the Government has to take other action, and it will, in time, because it has to have a market for bonds just like a private individual, I doubt if they can sell 37 or 38 billion dollars worth without their falling into depreciation, and since bank deposits are not there, and the private individuals are not there to take them over, if by that time the banks of this country have not developed an aptitude for making loans on checking accounts you have no media of exchange in effect, and to my mind that is the most serious thing you have confronting you.

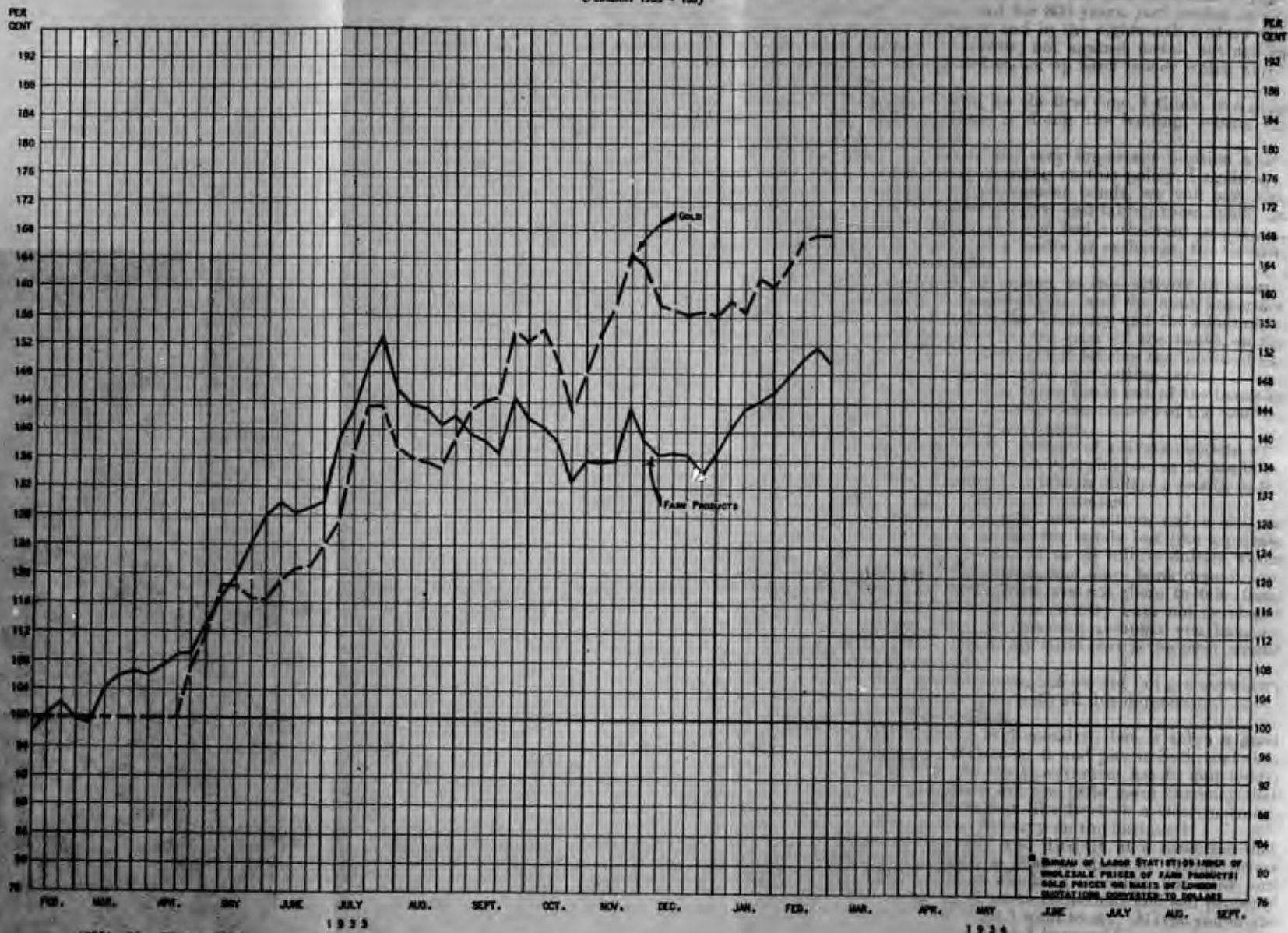
We started by asking you questions, but we did not get anywhere, and I find I am making a statement, with all due deference.

But I think that is your problem.

Anybody can borrow money and spend it, but it takes a good man to borrow it and pay interest on it and pay it back, and that is where our trouble gets in. If the Government has to quit today, and the banks have not loosened up, the little germ currency that has been in operation will disappear like frost on a clear morning, and then where is your machine to carry on the business?

Now, this bill points primarily and directly at a condition that exists in banking circles, which is that in times of falling prices the banks cannot make loans on checking accounts, but must join the fight for deflation, and try to make collections and sell property on an unwilling market. That is all I want to say. Maybe you might want to make some comment on what I have said.

PRICES OF FARM PRODUCTS AND OF GOLD\*  
(February 1933 = 100)



47064-34 (Face p. 238.)

1934

and going to the 100,000,000. I thought the Treasury  
should be the one that we will not have a recession

Oct. 16, 1935

9-5-34  
18

MEMORANDUM FOR MRS. KLOTZ:

Secretary Morgenthau, Mr. Helvering and Prof. Magill appeared before the Committee and Secretary gave attached testimony. A few days later the Committee sat in Executive session followed, on March 12-15, by public hearings. The public hearings only were printed.

nmc

Secretary MORGENTHAU. I have listened with great interest to all that you have said.

Mr. BUSBY. That was not the purpose in having you come up here this morning. I hoped that the situation might be reversed.

Mr. HANCOCK. Mr. Secretary, I take it from what you say that the monetary policy of the Government today is more or less of an experiment, and that it is not your recommendation that the Congress take any action that would change the present policy for the time being. Is that correct?

Secretary MORGENTHAU. That is right.

Mr. CROSS. Mr. Secretary, of course the banks cannot function until the people who borrow and get the money can take the money with the probability of returning it and making some profit. In other words, the prices of commodities and other things have got to be at such a figure as to at least indicate a probable profit before the banks can loan.

Do you think we can get to that as we are going? Do you think it will come back to where the business man, or the factory owner or the producer, can make a profit unless we can somehow get more money? In other words, bring down the price of the dollar, cheapen the purchasing power of the dollar?

Secretary MORGENTHAU. Mr. Cross, as I say, all I can go on is what happened so far, and what is happening each day.

I just brought up this morning one chart, which I think is rather interesting, and that goes back to last February.

Mr. GOLDSBOROUGH. We will insert that chart in the record.

(The chart referred to is as follows:)

Secretary MORGENTHAU. Using February 1932 as a basis of 100, we find the world price of gold based on London quotations and converted to dollars is up approximately to 168, that is, 68 percent, and the prices of farm products are up approximately 52 percent. But if you will notice that chart you will see that the world price of gold and the prices of farm products have gone along pretty well together. That is going back to last February.

Mr. CROSS. I notice that at one time the gold price shot way up.

Secretary MORGENTHAU. That is the world price converted to dollars.

Mr. CROSS. Do you think that the higher the price of gold is, then the higher the price of commodities will be?

Secretary MORGENTHAU. That is the way it seems to be working out. The world price of gold and our own prices of farm commodities during the last year have seemed to have gone along right together.

I am saying that to show that at least what we are trying to do, and what the President referred to over the radio on October 22, about raising our domestic prices, seems to be working out pretty well.

I think the thing that all of us have to do these days is to keep our minds absolutely open and meet conditions as they come along. Things are moving so fast that I cannot tell about it from day to day, and that is why I say my mind is always open, and also that is why I think the study this committee is making is very well worth while.

Mr. Cross. We appreciate fully the responsibility resting on you. It is easy for us who have not that tremendous responsibility to suggest and to talk about those things which we feel like we would do under the conditions existing. But I realize what your responsibility is.

Secretary MORGENTHAU. I am open to suggestions every day, and I am tickled to death to get them. But all I can show is just the record, and the record of what has happened on price levels, I think is pretty good.

Mr. Cross. This is really the same system that the world has been functioning under for centuries. Of course, we have had some changes in the banking structure and the credit structure, but we nevertheless are holding on to gold, and gold has been devalued, and monetary units have been devalued a number of times in the past by other countries, and we still stay in the condition we are now, and then we have these tremendous crashes and everything is wrecked, and the mediums are practically ruined.

I have read quite a good deal on this subject, especially recently. I have read Dr. Warren's book on prices, and I agree with him that if we could get to a currency that would be in line with the wholesale commodity price level, that could be so handled and would function so that it would keep the general price level and its purchasing power in harmony with that.

When you go that, of course—if you can do that—the question of a basic redemption metal passes out of the picture.

I think this bill goes somewhat along the line of Dr. Warren's theories. He says in his book that gold is very undependable, and that even silver is more in line with things than gold, and that the two together would be much better than one, and, of course, that the wholesale commodity price level would be the ideal currency.

What do you think about that?

Secretary MORGENTHAU. I am familiar with Dr. Warren's ideas, and have worked with him for a good many years.

Mr. GOLDSBOROUGH. He was your teacher at Cornell University, was he not?

Secretary MORGENTHAU. Yes. I have discussed this with Dr. Warren, and I just come back to what I said before, that I would like to see tried a little bit longer what we are doing, because it seems to me to work pretty well right now.

I do not say that if our prices suddenly took a nosedive and things did not continue to get better a little bit each week, that I might not be here tomorrow morning begging for some kind of legislation. But my feeling is that it does seem to be working pretty well, and we seem to be reaching the objective that the President referred to in his radio talk on the 22d of October, and as long as it is working so well I would like to try it a little longer without changing it.

The previous administration tried a good many things that did not work, and as long as we have something that is working, I say give it a chance.

Mr. Cross. In other words, you are feeling your way along.

Secretary MORGENTHAU. Absolutely. I have said before, and I say it again that at the Treasury we are absolutely on a 24-hour basis.

Mr. SCRUGHAM. Mr. Secretary, has the silver-purchase proclamation of the President brought any great amount of silver into the Treasury, and has it had any noticeable effect on the general situation.

Secretary MORGENTHAU. As you have noticed, two things have happened. There has been a tremendous increase in the output of silver in January over that in December. I think there were 2,000,000 ounces mined in January, and our proposition is to take that newly mined silver, and the estimate was we would have over 2,000,000 ounces a month.

Silver, has increased, I think, even more, if my memory serves me right, since last February than gold has, in percentages. That is, the price of silver has gone up more than the price of gold has.

The London agreement which the United States entered into, known, I believe, as the "Pittman agreement" on silver, was ratified yesterday by China. India has ratified it and we have ratified it.

If all of the countries that were represented in London ratify the Pittman agreement, it cannot help but have a beneficial effect on the price of silver.

I believe they dealt in more silver yesterday on the New York Silver Exchange than ever before. I think it is the biggest day they ever had. I think the amounts were something like eighteen or nineteen thousand ounces. That was simply done on the strength of one other country ratifying the agreement, and they seem to interpret it as a bullish outlook.

I personally hope that they will ratify the Pittman agreement that they have entered into, and we have only got until the 1st of April.

That pretty well takes care of the excess supply of the world's silver, and we hope that between now and the 1st of April the various other countries will ratify it. The one about which there seemed to be the greatest question was China, and now that China has ratified it, I should think all of the other countries would ratify it.

Mr. SCRUGHAM. Has it had any noticeable effect upon the general financial situation or has the effect been almost confined to the price of silver? In other words, has it increased the purchasing power of foreign countries using silver as money to any noticeable degree?

Secretary MORGENTHAU. I cannot honestly say that, due to the price of silver alone, it has had any effect.

Mr. SCRUGHAM. At least you have no statistics or data covering that phase of it?

Secretary MORGENTHAU. We studied silver in relation to commodities and in relation to exchange, and we have not been able to set silver off by itself and say that, due to the increased price of silver, so-and-so has happened.

Mr. SCRUGHAM. There has been but a very small relative amount affected; 2,000,000 ounces a month is practically nothing in the whole set-up.

Secretary MORGENTHAU. We are constantly studying silver and getting all the information we can, but we have been able to say that silver alone has had this or that effect on world commodities or on American commodities.

Mr. SCRUGHAM. It is probably due to the very small amount involved.



Secretary MORGENTHAU. There is not much involved.  
Mr. SCRUGHAM. At this time, at least.

Secretary MORGENTHAU. Yes.

Mr. STOKES. Mr. Secretary, I suppose you probably know that England has had a pretty successful year during the past year; business has been picking up, and the prices of commodities have risen. But they have done it, so I understand, principally on account of the fact that they have balanced their budget. They have restored confidence among investors and business men on that account.

I have no doubt that this prosperity we are hoping for, and which is undoubtedly coming back, will be permanent if this country can balance its budget.

What efforts are you making in that respect?

Secretary MORGENTHAU. If I may take a moment to digress a little bit.

Mr. STOKES. Surely.

Secretary MORGENTHAU. England's price level as to their commodities within England did not begin to go up until we put up the price of gold here, and the British price level has followed the world gold price. As a matter of fact, the British price level was gently sinking until we started to raise the price of gold in this country, and their price level rose after we put the price of gold up.

I do not happen to be conscious of the fact that they have done anything particularly on their budget. As a matter of fact, it seems to me there is no question about the fact that the British internal price level has followed the raising of the world price of gold, and that seems to be the determining factor.

As to the budget of the United States, my position is this. Mr. Douglas is the Director of the Budget, and he works with the President on fixing the Budget. My only function has been, at the direction of the President, if some of these independent agencies have a tendency to go above the Budget at various times, to work with them. The President has directed me to work with all of them to see that they keep their expenditures within the Budget. But the fixing of the Budget, and the allocation of the funds, are with the Director of the Budget, and with the President, not with the Secretary of the Treasury.

Mr. WOLCOTT. Mr. Secretary, we have given a great deal of thought in this committee to the necessity for stabilizing commodity prices. We have felt that in this bill we would attempt at least to make permanent what you had adopted as a general policy in the Treasury Department.

I think, as a Republican, that you have been reasonably successful up to the present time, and we want to help all we can.

However, there is one phase of this matter that is bothering me at least. There seems to be a great deal of agitation for the remonetization of silver. Are you prepared now to give us an opinion as to what effect the further remonetization of silver might have on commodity prices, and especially on farm prices?

Secretary MORGENTHAU. All I can say, and what I said in a letter I wrote to Congressman Dies, is that we are constantly studying the price of silver, and that so far, from the information we have gotten,

we cannot definitely fix the price of commodities or exchange directly in relation to silver; I mean we have not been able to find that the raising of the price of silver has had any individual effect on anything. The whole thing seems to be sewed together.

The price of silver has gone up relatively faster than the price of gold, so it is almost impossible to tell what effect the price of silver has had in relation to the price of commodities.

We are constantly studying it, and we are asking all the time for information; if anybody has anything to suggest on silver we are more than glad to get that information.

Mr. WOLCOTT. What has concerned a great many of us is that there is, or seems to be, a certain amount of uncertainty in this whole program that possibly might be overcome by immediately stabilizing the currency.

I understand the President's policy to be that he does not think it is proper at the present time to say that gold, for example, shall henceforth and even forever more be at a certain particular price. That, as I understand it, is why he asked for a 10-percent leeway.

I wonder if, possibly, our discussions on the remonetization of silver are helping any, or are they adding to that uncertainty. That was the purpose of my question.

Secretary MORGENTHAU. I think all of these discussions that you are having on money are helpful, because it not only educates us in the Treasury, but it educates the public, and I think that it is a subject which has to be constantly explored, and I do not think anybody has the last word on it.

We are just going along, and I think the work you are doing here in studying these monetary questions is most helpful.

Mr. WOLCOTT. Would you say that the rise in commodity prices has been due directly to the devaluation of gold, or is that dependent upon other things as well?

Secretary MORGENTHAU. I will put it this way: I think the price of gold has had a very important influence on the increased price of commodities. I do not think it is the only influence, but I think it is a very important factor.

Mr. GOLDSBOROUGH. Mr. Secretary, the purpose, I think, of the proponents of this proposed legislation is to get the control of the public media of exchange into the hands of a body which will, under all circumstances, be an independent body, and be one which is no more subject to the accidents of politics than the Supreme Court of the United States.

In going over the abstract of the testimony which I think has been made for you, you have seen that trend running through the discussions, I am satisfied.

Now, take my own case. If I thought that monetary legislation was to remain the condition it is now in permanently, I would be appalled at the possibilities during an administration which, we will say, might be perfectly honest and high-minded, but which would be subject to the banker influence.

Now, I may be entirely mistaken, but I believe that to be the opinion of almost every Member of the Senate and every Member of the House. That is what I think, that that is the deliberate and final judgment of almost every Member of the American Congress.

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Now, I may be entirely mistaken, but I believe that to be the opinion of almost every Member of the Senate and every Member of the House. That is what I think, that that is the deliberate and final judgment of almost every Member of the American Congress.

We also realize, Mr. Secretary, that the only time we can achieve remedial legislation is during a period of national stress. It seems to us—I do not know that I have any right to speak for anybody except myself, except that the discussion led me to use the term "we"—so I will just say I.

I have not any doubt whatever that we are going into a period of great national prosperity, which will last for many years. I also believe that unless we are able to pass permanent monetary legislation at this time, which can be relied upon to be remedial, and permanently so, through any sort of a political set-up, that we will not be able to achieve it until the next depression, if then. That will be the first opportunity to achieve it.

So I hope that through the discussion of this legislation the Congress will be able to set up a Monetary Authority which is independent of influence as the Supreme Court of the United States, that will not be subject to private pressure, and which within a few years will reach the point where it will be impossible to discuss financial questions with this Authority except in open forum, just as they are discussed before a court. That is the picture we have, and that is why we are here.

Certainly this subcommittee, this committee, and in my judgment the Congress and the country, have absolute confidence in this administration, that everything is being done that is humanly possible in the interest of the general public, and that that is all the administration has in view.

But individuals are not immortal, and there never has been any such thing as a benevolent despot, in my judgment, and my very deliberate judgment.

Now, then, in spite of all the legislation which has been passed, we are still in exactly the same situation, insofar as our currency is concerned, in this respect. As Mr. Busby has suggested, we still have about nine tenths of our currency credit money, bank credit money.

In normal times, we have about 55 billion dollars on deposit in all banks; now we have about 32 billion dollars, a difference of 23 billion dollars in bank deposits, which is the people's currency, the currency the people have to use.

As Mr. Busby has just suggested to me, that is not taking into consideration the velocity of circulation. The velocity of circulation in 1929 brought us to a point where we had one dollar in real money to \$300 in bank bookkeeping, and when the 300 to 1 ratio toppled, as it had to do ultimately, the country got into the situation it is in now, and which it is slowly emerging from. I was wondering whether, or not, you have any objections to Congress setting up a monetary authority which would be independent in the manner suggested, and which could come to Congress from time to time and make suggestions, legislative suggestions, which would assist the country so far as public moneys are concerned, and which would be increasingly of interest to the public. Does what I have said appeal to you?

Secretary MORGENTHAU. Yes; it appeals to me very much. Are you asking me a question?

Mr. GOLDSBOROUGH. I was asking whether that statement of purpose appealed to you.

Secretary MORGENTHAU. I will have to go back to what I said before: I think that we will have to study what our future monetary situation is going to be. As I said before, I think that this work you have been doing is most important. However, answering the direct question, I do not feel that we are ready for this kind of legislation that is proposed in this bill at this time.

Mr. GOLDSBOROUGH. Do you object to stating your specific reasons for that, if you have any?

Secretary MORGENTHAU. It is simply because we do not know enough about it. We want the benefit of at least a year's experience with the present program we are on.

Mr. GOLDSBOROUGH. Now, Mr. Secretary, of course we are all bearing in mind that, insofar as direct monetary measures are concerned, under the present legislation the only thing that we can do directly is to affect foreign exchange. You have no authority to affect directly the internal price level. Is that correct?

Secretary MORGENTHAU. There is a good deal of authority under the Thomas amendment.

Mr. GOLDSBOROUGH. Do you think so?

Secretary MORGENTHAU. It seems to me that there are a good many things there that can be done.

Mr. GOLDSBOROUGH. Would you mind giving an illustration of that?

Secretary MORGENTHAU. I do not know that I have that—

Mr. GOLDSBOROUGH (interposing). I do not want to ask a question that you have not had an occasion to be prepared to answer.

Secretary MORGENTHAU. I did not know that would be requested, but I can prepare a list of the things that could be done. There are numerous measures that might be adopted under the Thomas amendment.

Mr. BUSBY. The President could issue \$3,000,000,000 of paper money under that if he saw fit to do it. He could do that under the Thomas amendment. Now, suppose he does put \$3,000,000,000 out; that would increase the bank deposits from \$32,000,000,000 to \$35,000,000,000, and that in itself would not have any appreciable effect.

Secretary MORGENTHAU. No.

Mr. BUSBY. It would not have any effect at all.

Secretary MORGENTHAU. So far as the domestic price level is concerned, I do not think you or anybody can do more than the administration has done through the various steps that have been taken to affect the domestic price level. Using agriculture as an example, the administration has done a great deal for agriculture in this—

Mr. BUSBY (interposing). I hope you do not feel that I am criticizing what has been done. I do not mean that at all. Of course, those were basic agricultural products which were immediately affected by foreign exchange.

Secretary MORGENTHAU. If you will take the index of the Bureau of Labor statistics on 784 articles, I think you will see I am right in saying that since the President came in they are up about 15 points (23 percent).

Mr. BUSBY. You are correct in that; but that was not because of any direct monetary action.

Secretary MORGENTHAU. You can see what Mr. Wallace has done for cotton through reducing the acreage. That is another direct effect.

Mr. BUSBY. Lending 10 cents per pound on cotton is what brought cotton up. I live in Mississippi and know all about that.

Secretary MORGENTHAU. I know you do.

Mr. BUSBY. It was about 8½ cents, and when it was announced that the Government would lend 10 cents per pound on cotton the buyers had to pay the price, because the farmers could get all the loans they wanted on the cotton without selling.

Secretary MORGENTHAU. Then, let us put it this way: The various things that the administration has done for cotton has raised the price, and there are other things that can be done if necessary in order to continue to raise internal prices.

Mr. SCRUGHAM. The agricultural industry as a whole has received great assistance from the administration, and it has raised agricultural commodity prices enormously. On the other hand, the mining industry has had no such relief. It has had no such rise in prices. If you will take, for example, almost any of the nonferrous metals, such as copper, lead, zinc, coal, going down the entire list, you will see that there has been no such rise in prices. Now is there any method in contemplation by which to apply such increase in prices to the products of the mining industry, or in what might be termed the nonferrous metal production?

Secretary MORGENTHAU. I do not know.

Mr. BUSBY. I would like to refer to this chart. The dollar has depreciated in terms of foreign exchange about 41 percent, has it not?

Secretary MORGENTHAU. Yes.

Mr. BUSBY. And the commodity-price level has only appreciated by about 15 percent.

Secretary MORGENTHAU. Yes.

Mr. BUSBY. The price of gold is the direct cause of the depreciation of the dollar in foreign exchange.

Secretary MORGENTHAU. Yes.

Mr. BUSBY. Do you attribute the reduction of commodity prices to a change in the world gold price?

Secretary MORGENTHAU. As I said previously, I think that is one of the important factors.

Mr. BUSBY. It might be suggested that the world gold price, insofar as it affects exports, would tremendously increase the possibility of foreign buyers coming here, buying our exchange, and trading that for the goods.

Of course, whatever benefits came in by reason of the foreign sale of goods would spread to other commodities, which would help a little, but very little; since the internal trade runs around 70 million dollars or 80 million dollars, and our foreign exports are less than 1 million dollars. So there would be no reason to think that much profit would come from that. Do you not think that what raised the commodity-price level was the activity of the Government in going out and selling bonds, and increasing bank deposits, scattering them around among the people, and thereby increasing the purchasing

power among the masses of the people? I am not carrying this into a different field, because this is a domestic proposition. Do you not think that has tended to consumption, and has, therefore, tended to a rise in the commodity-price level of this country?

Secretary MORGENTHAU. As I said before, there are a great number of things that have contributed to this. I do not think that any one measure the Government has taken could have accomplished the increase in the price level alone. It was a combination that did it.

Mr. BUSBY. I think there are two things that have affected the situation: One is the changing of the world gold price in terms of the dollar, which has fixed the price of the dollar in the world market. The other thing is the use of the Government's credit as a response to bond sales. That has raised the internal commodity price level. Nothing else has done it. I know Professor Warren very well, and used to have visits from him before he became secluded. He regards gold as I understand you do, Mr. Secretary, as being all-efficient.

Secretary MORGENTHAU. Pardon me—I do not say that.

Mr. BUSBY. I am attributing that to him.

Secretary MORGENTHAU. I said it was one of the contributing factors.

Mr. BUSBY. As one of the leading contributing factors, to use your own expression. I have never discussed these other phases with him, because they are all recent. To my mind, that is conclusively the reason for the rise in the commodity price level. It was not gold. As for cotton, that is because the Government came in and made a direct bid of 10 cents a pound, which raised the price.

Secretary MORGENTHAU. What took it from 10 cents to 12 cents?

Mr. BUSBY. The other manipulations, the foreign selling, because two thirds of our cotton goes into the foreign market, and the cheapening of gold, had some effect.

Mr. CROSS. Do you not think it would be bad to say that the taking of large areas of cotton lands out of production has had some effect?

Mr. BUSBY. Yes; I think it has. That is the reason I said "other manipulations" had some effect.

Mr. GOLDSBOROUGH. Mr. Secretary, we are very grateful to you for coming down today.

Mr. GOLDSBOROUGH. In our continuation of the consideration of H.R. 7157, we will now hear Governor Black, of the Federal Reserve Board.

#### STATEMENT OF HON. EUGENE R. BLACK, GOVERNOR FEDERAL RESERVE BOARD

Mr. GOLDSBOROUGH. Governor Black, the subcommittee is very anxious to have your views in reference to the provisions of H.R. 7157. We will be glad if you will proceed in your own way, and then afterwards the members of the subcommittee will probably want to ask you some questions.

GOVERNOR BLACK. Mr. Chairman, I have not had a chance to study this bill. I can give you some suggestions that occur to me, and if I want to say something further I will do so. I regret I have not had a chance to study it.

Mr. GOLDSBOROUGH. The committee will be glad to hear you now and later on also, if you desire.

Governor BLACK. I will be very glad to give you such suggestions as occur to me.

In the first place, Mr. Chairman, we are in a revolution, and this is rather a revolutionary measure. I am not commenting on whether it is fully justified or not. As I understand the bill, a Federal Monetary Authority is authorized, and that Federal Monetary Authority really takes the place of Congress, of the Treasury, and of the Federal Reserve System.

Mr. GOLDSBOROUGH. If you have that apprehension—

Governor BLACK. Supposing I say I think it is in this bill.

Mr. GOLDSBOROUGH. You may proceed.

Governor BLACK. I may be wrong, because I have not had a chance to study it, but really it leads me to that thought, that it takes the place of those bodies, and the administration, both as to monetary policy, and as to the currency, as to credit, and as to the gold situation.

It is my own opinion that authority over those four questions should not be placed in any one body. I cannot conceive how it can possibly be correct.

To start with, you picture a group that would be as exalted as the Supreme Court of the United States.

Mr. GOLDSBOROUGH. It must be, to be of any permanent service to the public.

Governor BLACK. I doubt very much if you can get such a group that will handle questions of credit and questions of money and questions of the currency. They would have to be men very largely separated from everything else that was going on in the world, if they could be such an exalted authority, and you are putting very great power in their hands, and unless you had such an authority with such an exalted status, it would be a very dangerous power.

I am not saying you cannot find men of that character that would be separated from all sorts of connections or pulls or associations; it may be possible.

Mr. BUSBY. Do you not think the investigation now provided for in this bill every 5 years would do a lot to keep them straight in that way?

Governor BLACK. As to that, Mr. Busby, I hope they would stay straight anyway. I think we have men in America who would stay straight. But I mean men who have the wisdom and foresight and faith and vision to carry out authority of this kind.

Let us see what you propose to do. In the first place, you give them the power to issue all circulating currency. You have that power now vested in the Treasury, in national banks, and in the Reserve banks.

Mr. GOLDSBOROUGH. Most of it is in the Reserve banks at the present time.

Governor BLACK. Sixty percent of it is in the Reserve bank.

Just in passing, what does the bill propose to do? With reference to the currency, there is the mechanical cost of about 6 million; that is, for retiring the present currency and supplanting it with the currency of this commission. So the first thing you do is to invest 6 or 7 million dollars in taking out the old currency and destroying the old dies and old plates and printing new currency. I would not

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STATEMENT OF SECRETARY OF THE TREASURY TO  
THE COMMITTEE ON FINANCE OF THE SENATE

The Treasury Department appreciates the opportunity granted by the Committee on Finance to present its views with respect to the revenue bill now pending before the Committee. I shall attempt to state at this time the general attitude of the Treasury, leaving the discussion of the specific provisions of the bill for later consideration.

In his Budget Message, the President stated that he expected the budget estimates of receipts to be increased by an additional \$150,000,000 to be obtained from the revision of the income tax, estate tax, and miscellaneous tax laws. The President did not at that time recommend the imposition of any specific new taxes, or the elimination of any taxes now in force. The budget estimate is, however, framed on the basis that any revenue revision should provide for the amount of receipts estimated to be obtained from the existing tax laws, plus at least \$150,000,000 additional. It is estimated by the Committee on Ways and Means that the revenue bill now pending before this Committee will produce approximately \$258,000,000 additional revenue in a full year of operation (including \$85,000,000 to be obtained from changes in the administration of the depreciation allowances). It should be noted, however, that most of this additional revenue will not be collected until 1935; and that revenue estimates in respect to technical changes are difficult to make, since they depend upon a number of uncertain factors, the most important of which is future business profits. It is therefore the best judgment of the Treasury that the bill finally adopted should provide for at least as much revenue as it is estimated the pending bill will yield.

The bill was prepared as the result of the work of a Subcommittee of the Committee on Ways and Means of the House, which was appointed to investigate methods of preventing the evasion and avoidance of the internal revenue laws, to consider the improvement of such laws, and to study possible new sources of revenue. The Subcommittee presented a Preliminary Report to the Committee on Ways and Means on December 4, 1933. At the request of the Committee, the Treasury set forth its views with respect to the proposed amendments in a Statement made on December 15, 1933. The Treasury expressed its hearty agreement with the objective of the Subcommittee as stated in its Preliminary Report, namely, to prevent avoidance of the income tax laws, and thereby to increase the revenue therefrom; but indicated that, on the basis of administrative experience, it would be desirable to modify some of the specific recommendations. The Treasury also recommended some further changes in the law, which, in the opinion of the Department, would improve its administration and prevent evasion. At the request of the Committee, representatives of the Treasury participated in the subsequent discussions of the various recommendations in executive session. The bill was thereafter drawn to embody the changes agreed upon by the Committee.

The bill does not alter the general framework of the federal tax system. The only new taxes are taxes imposed upon the first domestic processing of copra and sesame oils; and upon the production and refining of crude petroleum. It is proposed to repeal the check tax as of January 1, 1935 instead of July 1, 1935; and to repeal entirely the taxes on fruit juices. In other respects, the existing taxes are left in effect, with amendments designed to assist in their better enforcement.

The income tax rate structure is considerably simplified, and the yield increased by heavier impositions upon dividend and partially tax-exempt income, with some reduction in the taxes applicable to salaried incomes in the lower brackets.

Viewing the proposed changes as a whole, I believe that the bill will yield the additional revenue which the President desires, primarily by the elimination of the serious loopholes which our experience has shown to exist in the present income tax law. No taxpayer can legitimately complain of these changes, since they result in a more equitable distribution of the tax burden over those persons who are best able to sustain it. The Treasury Department therefore approves the pending bill as a whole, with the exception of some minor matters, which the Department will be glad to discuss with the Committee at its convenience.



Oct. 16, 1935

MEMORANDUM FOR MRS. KLOTZ:

The Senate Judiciary Committee tells me that no regular hearings were held. Individuals did appear upon request, however, included among them HM Jr. Their testimony was not printed so there is no record of his remarks in printed hearings.

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March 8, 1934.

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STATEMENT OF THE SECRETARY OF THE TREASURY BEFORE THE  
JUDICIARY COMMITTEE OF THE HOUSE OF REPRESENTATIVES  
ON THE SUBJECT OF TAX EXEMPT SECURITIES.

The Treasury Department favors as a permanent policy the elimination of the exemptions from Federal income tax now accorded to the interest on Federal, state, and municipal securities, in so far as future issues of such securities are concerned.

I consider it very important that when the exemption is eliminated it should be eliminated not only in respect to future issues of Federal securities, but in respect to future issues of state and municipal securities as well. The enactment of legislation requiring Federal obligations to be issued in the future on a fully taxable basis, in competition with wholly tax-exempt securities originating elsewhere, would be likely to react unfavorably on the market for Federal securities, to increase the cost of the Government's borrowing, and to complicate our financing operations.

I am advised that a constitutional amendment would be required to enable the Federal Government to tax the interest on state and municipal securities. In my judgment, such an amendment should be drawn on a reciprocal basis; the states should be permitted to tax the income from Federal securities, and the Federal Government to tax the income from state and municipal securities. I favor such an amendment.

## TREASURY DEPARTMENT

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Washington

FOR RELEASE, MORNING PAPERS,  
Thursday, March 8, 1934.

Press Service  
No. 1 - 44

The Treasury is today offering for subscription at par, through the Federal reserve banks, four-year 3 per cent Treasury notes of Series C-1938, in exchange for Treasury certificates of indebtedness of Series TM-1934, maturing March 15, 1934. The amount of the offering is limited to the amount of Treasury certificates of indebtedness of Series TM-1934, maturing March 15, 1934, tendered and accepted.

The notes will be dated March 15, 1934, and will bear interest from that date at the rate of 3 per cent per annum, payable semi-annually. They will mature March 15, 1938, and will not be subject to call for redemption prior to maturity.

These notes will be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States or by any local taxing authority.

Applications will be received at the Federal reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally will handle applications for subscribers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies.

Payment for notes allotted must be made on or before March 15, 1934, or on later allotment, and may be made only in 3/4 per cent Treasury certificates of indebtedness of Series TM-1934, maturing March 15, 1934, which will be accepted at par.

The Treasury notes will be issued in bearer form only, in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000, with eight interest coupons attached, payable semi-annually on September 15 and March 15 in each year.

About \$460,000,000 of Treasury certificates of indebtedness of Series TM-1934 become due on March 15, 1934.

The text of the official circular follows:

TREASURY NOTES - SERIES C-1938

(Treasury Department Circular No. 507, March 8, 1934)

The Secretary of the Treasury offers for subscription, at par, through the Federal reserve banks, under the authority of the act approved September 24, 1917, as amended, Treasury notes of Series C-1938, in exchange for Treasury certificates of indebtedness of Series TM-1934, maturing March 15, 1934. The amount of the offering is limited to the amount of Treasury certificates of indebtedness of Series TM-1934, maturing March 15, 1934, tendered and accepted.

DESCRIPTION OF NOTES

The notes will be dated March 15, 1934, and will bear interest from that date at the rate of three per cent per annum, payable semi-annually, on September 15 and March 15 in each year. They will mature March 15, 1938, and will not be subject to call for redemption prior to maturity.

Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The notes will not be issued in registered form.

The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of

the United States, or by any local taxing authority.

The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

#### APPLICATION AND ALLOTMENT

Applications will be received at the Federal reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally will handle applications for subscribers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies.

The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, and to allot less than the amount of notes applied for and to close the books as to any or all subscriptions at any time without notice; and his action in these respects shall be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

#### PAYMENT

Payment for notes allotted must be made on or before March 15, 1934, or on later allotment, and may be made only in 3/4 per cent Treasury certificates of indebtedness of Series TM-1934, maturing March 15, 1934, which will be accepted at par.

GENERAL PROVISIONS

As fiscal agents of the United States, Federal reserve banks are authorized and requested to receive subscriptions and to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal reserve banks of the respective districts. After allotment and upon payment Federal reserve banks may issue interim receipts pending delivery of the definitive notes.

TREASURY DEPARTMENT  
WASHINGTON

FOR IMMEDIATE RELEASE,  
Saturday, March 10, 1934.

Press Service  
No. 1 - 47

Secretary of the Treasury Morgenthau announced today that the subscription books for the current offering of Treasury notes will close at the close of business today, March 10, 1934. This offering consists of four-year 3 per cent Treasury notes of Series C-1938, maturing March 15, 1938, and the amount of the offering is limited to the amount of Treasury certificates of indebtedness of Series TM-1934, maturing March 15, 1934, tendered and accepted.

Substantially all of the maturing certificates, amounting to \$460,000,000, have been tendered and allotted in full.

Announcement of the exact amount of subscriptions and their division among the several Federal reserve districts will be made later.

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TREASURY DEPARTMENT  
WASHINGTON

FOR IMMEDIATE RELEASE,  
Thursday, March 15, 1934.

Press Service  
No. 1 - 48

Secretary of the Treasury Morgenthau announced today that subscriptions totaling \$455,175,500 were received for the current offering of four-year 3 per cent Treasury notes of Series C-1938, maturing March 15, 1938. These notes were offered in exchange for Treasury certificates of indebtedness of Series TM-1934, maturing March 15, 1934, and the amount of the offering was limited to the amount of maturing certificates tendered and accepted.

Subscriptions and allotments were divided among the several Federal reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received and Allotted</u>
Boston	\$ 14,276,500
New York	335,475,500
Philadelphia	3,940,500
Cleveland	9,354,500
Richmond	2,447,000
Atlanta	3,341,000
Chicago	53,193,000
St. Louis	7,967,500
Minneapolis	4,592,500
Kansas City	9,100,500
Dallas	2,842,500
San Francisco	7,127,000
Treasury	<u>1,517,500</u>
Total	\$455,175,500



and it seems that there is a committee working on this and he told them to hurry up and get out some figures.

April 2.

Magill told me that Harrison wanted to know whether the administration wished to recommend increased taxes to take care of the increased expenditures caused by Congress over riding the President's veto. It seemed to be such an important question that we ought to get the President's advice. I called up Louis Howe and asked him how to go about it and he said, send the President a message direct thru Naval Communications and be sure to do it that way and not thru McIntyre at Miami. He said McIntyre was making a fuss because not everybody has gone thru him, but said Louis Howe, I will soon put a stop to that. I thought this rather an amusing episode of the inner workings of the White House. I sent the President the following message:

SHOULD TREASURY SUPPORT MOVEMENT IN SENATE FOR INCREASES IN SURTAXES ON INCOMES AND IN ESTATE TAX RATES PARTICULARLY IN VIEW OF PASSAGE OF INDEPENDENT OFFICES BILL STOP PENDING REVENUE BILL INCREASES INCOME TAX RATES TO YIELD TOTAL OF TWENTY MILLION ADDITIONAL BUT REDUCES RATES ON ORDINARY INCOMES MARRIED PERSONS BELOW SIXTY THOUSAND DOLLARS STOP SENATOR KING HAS HAD TREASURY PREPARE SUBSTITUTE SET OF RATES TO RAISE FIFTY MILLION ADDITIONAL FROM INCOMES OVER TWENTY FIVE THOUSAND WITH TOP SURTAX OF SIXTY FIVE PERCENT AS AGAINST FIFTY FIVE IN PRESENT LAW STOP SHALL WE GET BEHIND THEM STOP ALSO HOW ABOUT INHERITANCE TAX IN ADDITION TO PRESENT ESTATE TAX STEEPLY GRADUATED ON LARGE INHERITANCES STOP REVENUE BILL AS WHOLE WILL YIELD ABOUT ONE HUNDRED FIFTY MILLION ADDITIONAL IN NEXT FISCAL YEAR STOP SHOULD WE URGE NECESSITY OF INCREASES IN RATES OR OF NEW TAXES IN VIEW OF NEW DRAIN ON TREASURY FROM INDEPENDENT OFFICES ACT STOP WOULD GREATLY APPRECIATE ANSWER BY RADIO STOP BEST REGARDS

to which he replied as follows:

ASK SENATOR HARRISON IF HE CAN WAIT UNTIL I RETURN TO WASHINGTON NEXT WEEK.

CANNOT MAKE A FINAL DECISION ON TOTAL TAXES BECAUSE THE FINAL SITUATION IS NOT YET CLEAR TO ME.

I MAKE THE FOLLOWING SUGGESTIONS: AS TO EXCESS EXPENDITURES CAUSED BY INDEPENDENT OFFICES BILL YOU MIGHT TELL SENATOR HARRISON THIS EXCESS AND ANY ADDITIONAL EXCESS APPROPRIATIONS MUST, OF COURSE, EITHER BE COVERED BY NEW TAXES OR ELSE TAKEN OUT OF PROPOSED RELIEF FUNDS AS TO METHODS OF NEW TAXES. YOU CONTINUE PREVIOUS POLICY OF LEAVING CHOICE TO COMMITTEE AND COMMENTING ONLY ON ESTIMATES OF RECEIPTS FROM ANY GIVEN TAX

On receiving the reply I got in touch immediately with Senator Harrison who said he would like to come down and discuss it with me. Harrison, Lew Douglas, Magill and I then discussed the whole question, Harrison feeling, notwithstanding the fact that the President suggested that nothing be done until he returns, that the thing to do was to push the bill thru at once. I asked Magill to dictate a memorandum of what took place at the conference and the following is Magill's memorandum:

"Senator Harrison and Mr. Douglas attended the conference with us this morning on the subject of the pending revenue bill, - particularly whether new taxes should be imposed or whether the rates of the income tax and estate tax should be increased on account of the passage of the Independent Offices Bill over the President's veto.

Senator Harrison was given a copy of your radio message to the President of yesterday (April 2) and the President's reply. The Senator expressed himself to the effect that he thought the reply covered the situation very well. So far as increasing the income tax rates is concerned, Senator Harrison opposed any such change at this time. He stated that the movement for higher surtaxes was being led by Senators LaFollette and Couzens in particular, who have not supported the Administration in a real fight such as the fight over the Independent Offices Bill. In the opinion of Senator Harrison, high surtax rates such as Senator LaFollette will propose, would have a very bad effect on business, particularly at this time. He believes that the surtax rates are already too high, and as soon as possible should be reduced. Senator Harrison also does not want to get into an argument over Senator King's proposed increases in rates, since such a fight would divide the Administration forces and would greatly delay the adoption of the revenue bill. Senator Harrison stated that he had the situation in hand and would be able to avoid the proposals for increased surtax rates without great difficulty.

As to the estate tax rates Senator Harrison believed that it would be wise to increase them somewhat in the brackets above \$1,000,000. There is a great deal of sentiment in the Senate for higher estate tax rates and he says that the President told him in conference that the President was sympathetic to the idea. The increase in the estate tax would not yield much additional revenue, but is a desirable change to make at this time.

"Senator Harrison thought it was undesirable to postpone consideration on the bill, since the situation in the Senate is such that the bill can probably be passed this week. If he postponed the bill, the newspapers would carry stories speculating on the likelihood of recommendations by the President of new taxes. These stories would have a bad effect on business and on the Senate itself so that the ultimate passage of the bill would probably be greatly delayed.

We then went over the estimates of revenue from the bill and the additional expenditures caused by the Independent Offices Bill. Senator Harrison pointed out that the bill now before the Senate is estimated to yield in a full year \$180,000,000 more than the President requested in his Budget Message. Senator Harrison further believes that the estimates by the Treasury of the revenue from liquor taxes are too low by a considerable margin. The Independent Offices Bill will cost approximately \$60,000,000 for veterans, and approximately \$94,000,000 on account of the wage increases for Federal employees. Consequently, leaving the liquor taxes out of consideration, the revenue bill will yield more than enough to take care of the increased expenditures on account of the Independent Offices Bill. I told Senator Harrison that I believed these estimates were high.

Senator Harrison stated that it was his intent to take up the sugar bill next after the revenue bill, and that he had arranged for its passage. After the sugar bill, will come the tariff bill, which will cause something of a fight which he expects to be able to pass. He stated that he had at first expected to bring up the bill for paying the bonus with seignorage on silver on the floor of the Senate and kill it by a good-size vote. He found, however, that there was considerable sentiment for the bill, and, consequently, arranged with Vice President Garner to leave it on the table for awhile and then to have it referred to the Finance Committee. He intends to hold it in Committee until the end of the session. The other silver bills will go to the Committee on Banking and Currency.

After this conference I sent the President another message which is as follows:

"Senator Harrison believes inadvisable to postpone consideration tax bill stop Senator Harrison estimates Senate Revenue Bill will raise three hundred thirty million dollars over present law which is one hundred eighty million more than you asked for in budget message stop We believe this estimate is

high stop Independent Offices Bill will require approximately one hundred fifty six million dollars additional of which ninety four million is for increased wages and sixty two million for veterans stop Consequently additional expenditures appear to be cared for by pending Revenue Bill stop Senator Harrison says situation in Senate is satisfactory for passage of Revenue Bill this week stop Douglas and Magill were present at my conference with Harrison stop met with Senator Robinson Monday afternoon and believe I have convinced him that any action on silver should be postponed until after your return stop Delighted that you are prolonging your vacation".

I sent copies of these over to Louis Howe at the White House and the Vice President was there at the same time. The Vice President's reaction was the same as Harrison's, namely, that we should go ahead and try to push the bill thru. About 1:30 Louis Howe called me up and said he had been thinking the matter over and he felt that I ought to send a supplementary message to the President pointing out to him just what the legislative procedure would be. Louis dictated the following message to me over the telephone which I, in turn, radioed the President:

"Want to be sure that I made clear that if Revenue Bill is passed by Senate as Harrison suggests we can make no additions to it except to restore House amendments in conference stop Disposition of Senate leaders is to get it out of the way but want to be sure you fully understand situation".

Wednesday morning I got another answer from the President which reads as follows:

"I CONCUR IN THE OPINION, THAT TO GET THE REVENUE BILL OUT OF THE WAY, IS THE BEST POLICY. HOWEVER, MAKE IT CLEAR TO ALL CONCERNED, THAT IT IS A CHOICE OF EITHER GETTING ADDITIONAL MONEY BY A NEW BILL, OR HAVING LESS MONEY FOR RELIEF PURPOSES, IF CONTINUED ADDITIONS ARE MADE OVER THE ESTIMATED APPROPRIATIONS".

I let Magill take a copy of this message up to show Pat Harrison and also sent a copy of it to Louis Howe. This concludes to date the correspondence between myself and the President in regard to the method of handling the Revenue Bill. I think that the President's telegrams are very interesting in view of the guessing that everybody is doing in regard to how he feels about Congress having overridden his veto.

April 4.

On April 1st, Sunday night, Elinor and I had George Harrison, Tom Smith for dinner and after dinner Dr. Burgess joined us. We discussed our financing. The discussion revolved around the following points: First, should we try to borrow any additional money? Second, for how many years? Third, the rate of interest? I held out for not borrowing any additional money as we have a two billion dollar balance. Burgess thought that we should pay  $3\frac{1}{4}\%$  for ten years. Smith felt that we could get it for  $3\frac{1}{8}\%$  and so did Harrison. Before we adjourned, I pretty much made up my mind that I would offer an issue in exchange for the billion dollar Call Libertys and for the 244,000,000 coming due on May 2nd, realizing that not all of the Call Libertys would be turned in and that we might have to pay out about \$200,000,000 in cash so that the issue would amount to a net amount of One Billion Dollars. It was also pointed out that if our figures on expenditures were too low that we could go into the market again on May 15th if absolutely necessary. Otherwise we could go to June 15th which would be very worthwhile.

Next morning, Monday, I met with Governor Black, the Governors from Chicago, Philadelphia and Boston, Coolidge, Lanston, Bell, Broughton, Tom Smith and Stark. The discussion lasted until after 2 o'clock. Two of the Governors wanted me to borrow Two and a half Billion Dollars, feeling that this was an opportune time. I told them that I had absolutely no need for the money and by taking it now I would simply be gambling that this was an opportune time. We had the same discussion as the night before and I gave them ample time to talk themselves out. I then finally made the decision that we would sell a 12 year bond callable in 10 years at  $3\frac{1}{4}\%$  and that this would be simply an exchange operation for the Call Libertys and for the issue coming due on May 2nd.

I hope that the President will be satisfied because on the day that he left I telephoned him and told him that I hoped to borrow the money at 3% and he said jokingly, try and get it for  $2\frac{7}{8}\%$ . I said, are you willing to leave this matter in my hands and he said, he would. Therefore, this decision as to the size and the rate and the number of years was made entirely on my own responsibility without further consultation with the President. I hope he will be satisfied.

Tuesday, April 3rd, at about 5:30, Governor Black came in quite upset. He had just come from a visit with Senator Glass. The President's message on the proposed 12 Intermediate Credit Banks to be organized under the Federal Reserve proposed that the Treasury purchase the \$140,000,000 of stock in the Federal Deposit Insurance Company out of the Treasury's \$800,000,000 gold profit. Senator Glass' bill

proposes that the Federal Reserve make these loans to industry direct and does not provide any extra money with which to do it. Black wanted to know whether I would be willing to go over to see Glass with him and whether I would be willing to say that the Treasury would contribute \$140,000,000 to the Federal Reserve without getting back anything. I did some awfully quick thinking and I came to the decision that I could not agree to this proposition for two reasons: First, that I was part and parcel of the President's message where he laid down what the Treasury could do; and second, that if we permitted congress to take part of our \$800,000,000 gold profit without seeming to get something in exchange for it like the \$140,000,000 of Federal Deposit Insurance, we would be opening the doorway for congress to spend all of our \$800,000,000 which is just what we do not want at this time.

I went over with Black to see Glass and I explained my position to him as outlined above and then Glass explained his position to me which was new and a very interesting one. His reason for not wishing the Treasury to subscribe to any more stock in the Federal Deposit Insurance was twofold. He said that over a period of years the Federal Reserve had paid into the Treasury some \$175,000,000 in the form of Franchise Taxes so that he felt that when the Treasury subscribed to the original \$140,000,000 of Federal Deposit Insurance, all that we were doing was returning to the Federal Reserve part of the \$175,000,000 which they had paid into the Treasury and for that reason he had not objected to it, but says ---- Senator Glass the President, Woodin and I had all been flatly opposed to the government guaranteeing bank deposits and this legislation was forced thru and the President had to accept it. Now, says Senator Glass, if the Treasury should own 100% of all the stock in the Federal Deposit Insurance they will be in the business of guaranteeing bank deposits much deeper and I do not want them to get into this guaranteeing of bank deposits any more than they are now as I am opposed to the whole theory and therefore I am opposed to the Treasury buying any more stock in the Federal Deposit Insurance. After he had made his position plain to me and I had explained my position, I said, it seems to me that we have reached an impasse and there is no use of our carrying on this discussion any further. Senator Glass said before I left that he questioned whether any legislation for supplying credit to industry could be passed before the President got back so that we could take this matter up with him. Senator Glass also said that he had seen the President just before he left and that F.D.R. had told him that he would go along with the Glass plan rather than with the Black plan. I had no answer to this statement as I had no way of knowing what the

with me 37

TREASURY DEPARTMENT  
WASHINGTON

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For release to MORNING NEWSPAPERS  
Wednesday, April 4, 1934.

Press Service  
No. 1 - 54

The Treasury is today offering for subscription a series of 10-12 year 3-1/4 per cent Treasury bonds in exchange for Fourth Liberty Loan bonds which have been called for redemption on April 15, 1934, and for Treasury notes of Series A-1934, maturing May 2, 1934.

The offer is confined to exchange subscriptions; cash subscriptions will not be received. The issue will be limited to the amount of called Fourth Liberty Loan bonds and Treasury notes of Series A-1934 tendered in payment and accepted. Of the called Fourth Liberty Loan bonds bearing 4-1/4 per cent interest the amount outstanding is about \$1,000,000,000 and the amount of Series A-1934 3 per cent Treasury notes outstanding is \$244,234,600.

The bonds offered today are to be dated and to bear interest from April 16, 1934, and to mature April 15, 1946, but are to be redeemable at the option of the United States on and after April 15, 1944.

Subscriptions are invited at par. Fourth Liberty Loan bonds called for redemption April 15, 1934, will be accepted at par with no adjustment of interest. Treasury notes of Series A-1934 (with the final coupon attached) will be accepted at par, with an adjustment of accrued interest to April 16, 1934, the date of the new bonds, to be paid on that date, or on delivery of the new bonds.

Bearer bonds with interest coupons attached and bonds registered as to principal and interest will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The first coupon attached to the bonds will cover interest for the fractional half-year from April 16 to October 15, 1934; thereafter interest will be payable semiannually on April 15 and October 15.

As more specifically stated in the circular, the bonds will be exempt, both as to principal and interest, from all taxation except surtaxes, estate and inheritance taxes and excess-profits and war-profits taxes; the interest on bonds up to \$5,000 of principal amount under one ownership will be exempt from all taxes.

Applications will be received at the Federal reserve banks and branches, and at the Treasury Department, Washington, D. C. Banking institutions generally will handle applications for customers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies.

Although reservations are made concerning the basis for allotting subscriptions, it is the present intention of the Treasury to allot all subscriptions in full.

On October 12, 1933, about \$1,875,000,000, or 30 per cent, of the outstanding Fourth Liberty Loan bonds were called for redemption on April 15, 1934, the bonds called being those bearing serial numbers ending with the digit 9, 0 or 1. Such serial numbers in the case of permanent coupon bonds were preceded by the distinguishing letters J, K or A, respectively, corresponding to the final digits. At the time of the call a new issue of Treasury bonds of 1943-45 was offered for subscription and made available for exchange for the called bonds. About \$872,000,000 of the called bonds were exchanged for the new Treasury bonds before closing on December 2. The remaining called bonds will be due for payment on April 15.

Holders of these outstanding called Fourth Liberty Loan bonds may now exchange them for the new Treasury bonds, but prompt action on the part of holders is essential. If called bonds have already been surrendered for redemption they will be accepted for exchange upon request in proper form, but applications must be made through the same channels used when the called bonds were presented for redemption. Uncalled Fourth Liberty Loan bonds may not be exchanged for the issue of Treasury bonds now offered.



Holders of Treasury notes of Series A-1934, maturing May 2, 1934, who desire to take advantage of this exchange offering, also should act promptly.

The text of the official circular offering 3-1/4 per cent Treasury bonds of 1944-46 follows:

Treasury Department Circular No. 508, April 4, 1934.  
 (Public Debt Service)

The Secretary of the Treasury invites subscriptions, from the people of the United States, at par, for three and one-quarter per cent Treasury bonds of 1944-46, of an issue of bonds of the United States authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, in payment of which only Fourth Liberty Loan 4-1/4 per cent bonds of 1933-38 (hereinafter referred to as Fourth 4-1/4's) called for redemption on April 15, 1934, and Treasury notes of Series A-1934, maturing May 2, 1934, may be tendered. The amount of the issue will be limited to the amount of such called Fourth 4-1/4's and Treasury notes of Series A-1934, tendered and accepted. Fourth 4-1/4's not called for redemption on April 15, 1934, may not be tendered under this circular.

#### DESCRIPTION OF BONDS

The bonds will be dated April 16, 1934, and will bear interest from that date at the rate of three and one-quarter per cent per annum, payable on October 15, 1934, on a semiannual basis, and thereafter semiannually on April 15 and October 15 in each year until the principal amount becomes payable. They will mature April 15, 1946, but may be redeemed at the option of the United States on and after April 15, 1944, in whole or in part, at par and accrued interest, on any interest day or days, on four months' notice of redemption given in such manner as the Secretary of the Treasury shall proscribe. In case of

partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

Bearer bonds with interest coupons attached and bonds registered as to principal and interest will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds and for the transfer of registered bonds under rules and regulations prescribed by the Secretary of the Treasury.

The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by said act approved September 24, 1917, as amended, the principal of which does not exceed \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The bonds will be acceptable to secure deposits of public moneys, and will bear the circulation privilege only to the extent provided in the act approved July 22, 1932, as amended. They will not be entitled to any privilege of conversion.

The bonds will be subject to the general regulations of the Treasury Department, now or hereafter issued, governing United States bonds.

### APPLICATION AND ALLOTMENT

Applications will be received at the Federal reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally will handle applications for subscribers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies.

Subject to the reservations contained in the next succeeding paragraph, all subscriptions will be allotted in full.

The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, and to allot less than the amount of bonds applied for and to close the books as to any or all subscriptions or classes of subscriptions at any time without notice; the Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, to make classified allotments or to make allotments upon a graduated scale or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in these respects shall be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

### PAYMENT

Payment for any bonds allotted may be made only in called Fourth 4-1/4's, which will be accepted at par, with no adjustment of interest, or in Treasury notes of Series A-1934 (with coupon dated May 2, 1934, attached), which will be accepted at par with an adjustment of accrued interest as of April 16, 1934, and should be made when the subscription is tendered, except that Fourth 4-1/4's which have previously been surrendered for redemption on April 15, 1934, in accordance with the provisions of Department Circular No. 501, will be

accepted as payment upon request in proper form of the owners thereof, such subscriptions to be presented through the same channels as were the called bonds when surrendered for redemption. If any subscription is rejected, in whole or in part, any called Fourth 4-1/4's which may have been tendered and not accepted will be held for redemption and any Treasury notes of Series A-1934 which may have been tendered and not accepted will be returned to the subscriber.

SURRENDER OF CALLED FOURTH 4-1/4'S ON EXCHANGE SUBSCRIPTIONS

Surrender of coupon bonds. - Called Fourth 4-1/4's in coupon form tendered in exchange for Treasury bonds issued hereunder, should be presented and surrendered to a Federal reserve bank or to the Treasurer of the United States and should accompany the application (unless such called Fourth 4-1/4's have already been presented for redemption on April 15, 1934, in accordance with the provisions of Department Circular No. 501). The bonds must be delivered at the expense and risk of the holder. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal reserve banks and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents. Incorporated banks and trust companies are not agents of the United States under this circular. Coupons dated October 15, 1934, and all coupons bearing dates subsequent thereto, must be attached to coupon bonds when presented.

Surrender of registered bonds. - Called Fourth 4-1/4's in registered form tendered in exchange for Treasury bonds issued hereunder, should be assigned by the registered payee or assigns thereof to "The Secretary of the Treasury for exchange for Treasury bonds of 1944-46", in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange,

and thereafter should be presented and surrendered with the application to a Federal reserve bank, or to the Treasury Department, Division of Loans and Currency, Washington (unless such called Fourth 4-1/4's have already been presented for redemption on April 15, 1934, in accordance with the provisions of Department Circular No. 501). The bonds must be delivered at the expense and risk of the holder.

#### GENERAL PROVISIONS

As fiscal agents of the United States, Federal reserve banks are authorized and requested to receive subscriptions and to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal reserve banks of the respective districts. After allotment and upon payment Federal reserve banks may issue interim receipts pending delivery of the definitive bonds.

Any further information which may be desired as to the issue of Treasury bonds under the provisions of this circular may be obtained upon application to a Federal reserve bank or branch, or to the Treasury Department, Washington. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering and the exchanges hereunder.

TREASURY DEPARTMENT  
WASHINGTON

FOR RELEASE TO  
MORNING NEWSPAPERS  
MONDAY, APRIL 9, 1934.

Press Service  
No. 1 - 56

192  
32

Exchange subscriptions amounting to about \$650,000,000 had been received up to the close of business on Saturday for the new series of 3 1/4 per cent 10-12 year bonds to be issued on April 16, Secretary of the Treasury Morgenthau announced today.

Securities which may be exchanged for the new bonds are Fourth Liberty Loan bonds which have been called for redemption April 15 and Treasury Notes of Series A-1934, maturing May 2. The new bonds may be obtained in exchange for these two securities only. There will be no cash sale.

"While applications for exchange have been coming in with gratifying promptness," said Secretary Morgenthau, "it is possible that some holders of the securities eligible for exchange, particularly holders of the called Fourth Liberties, may not realize fully the advantages of making the exchange. It is probable also that some holders of the Fourth Liberties have not noticed that their bonds have been called for redemption on April 15 and that payment of interest on them will cease on that date. It is important to them that they should not overlook the advantages of conversion.

"In view of the attractiveness to investors of the exchange offering, both securities are being quoted at substantial premiums. These premiums will of course vanish when the opportunity to make the exchange terminates within the next few days. The Treasury is concerned that none of the holders of these securities shall suffer a loss because of lack of information."

The Treasury notes eligible for exchange are the entire series A-1934 of 3 per cent Treasury notes maturing May 2, amounting to \$244,234,600. The Fourth Liberty Loan bonds called for redemption amount to about one billion dollars out of a total of approximately \$5,367,000,000 outstanding. They consist of all Fourth Liberty Loan bonds whose serial numbers end with the digit 9, 0 or 1.

## TREASURY DEPARTMENT

WASHINGTON

FOR RELEASE, MORNING NEWSPAPERS,  
TUESDAY, APRIL 10, 1934.

Press Service  
No. 1 - 52.

Secretary of the Treasury Morgenthau announced today that the subscription books for the current offering of 3-1/4 per cent Treasury bonds of 1944-46 will close Thursday, April 12, 1934. The new bonds may be obtained only in exchange for Fourth Liberty Loan Bonds called for redemption on April 15, 1934, and Treasury notes of Series A-1934, maturing May 2, 1934. The Fourth Liberty Loan bonds called for redemption on April 15, and now exchangeable for the new Treasury bonds, bear serial numbers ending in the digit 9, 0, or 1.

Subscriptions placed in the mail before 12:00 o'clock, midnight, Thursday, April 12, as shown by post office cancellation, will be considered as having been entered before the close of the subscription books.

Subscriptions amounting to about \$625,000,000 had been received up to the close of business on Monday, April 9.

4/9/34 *Speeches*

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Last Wednesday, April 4, the United States Treasury announced that all Fourth Liberty Loan Bonds whose serial number ended in 0 1 or 9 would be called in and we are offering you a new bond in exchange. Be sure and examine all of your Liberty Loan Bonds and if you have any of the Fourth Liberty Loan, look in the upper right hand corner where the serial number is located and if the last number in the upper right hand corner is either 0 1 or 9, your Bond has been called. You have until midnight Thursday, April 12, to either take your bond to your nearest bank or else mail it to your nearest bank. That is the last day that you can turn your bond in. The new bond that we are offering you in exchange for your old bond is selling now at a substantial premium and we want you to have the advantage of exchanging your old bond for this new bond. After April 15 your old bond will not bear any more interest.

*Talk made for Jof Novietone  
and Paramount on 4/9/34  
by the Secretary in his office.*



PARTIAL REDEMPTION BEFORE MATURITY OF FOURTH LIBERTY LOAN BONDS  
SECOND CALL

1934  
Department Circular No. 509

Treasury Department,  
Office of the Secretary,  
Washington, April 13, 1934.

Public Debt Service

To Holders of Fourth Liberty Loan 4-1/4 per cent Bonds of 1933-38, and Others Concerned:

I. NOTICE OF SECOND CALL FOR PARTIAL REDEMPTION BEFORE MATURITY OF FOURTH LIBERTY LOAN 4-1/4 PER CENT BONDS OF 1933-38 (FOURTH 4-1/4'S). (1)

1. All outstanding Fourth Liberty Loan 4-1/4 per cent bonds of 1933-38 (hereinafter referred to as Fourth 4-1/4's) bearing serial numbers the final digit of which is 8, or 2 (such serial numbers in the case of permanent coupon bonds being prefixed by the corresponding distinguishing letter H, or B, respectively), are hereby called for redemption on October 15, 1934, on which date interest on such bonds called for redemption will cease.

2. This second call for partial redemption is made pursuant to the provision for redemption contained in the bonds and in Treasury Department Circular No. 121, dated September 28, 1918, under which the bonds were originally issued, the bonds to be redeemed having been determined by lot in the manner prescribed by the Secretary of the Treasury.

3. Outstanding Fourth 4-1/4's bearing serial numbers (and prefix letters) other than those designated are not included in or affected by this second call for partial redemption.

(1) Fourth 4-1/4's (temporary coupon, permanent coupon, and registered) are numbered serially beginning with No. 1 for each denomination; in the case of permanent coupon bonds each serial number is prefixed by a distinguishing letter, the letters A to K (omitting I) being used, which letters, in order, rotate with and correspond to the final digits from 1 to 0, respectively.

Fourth 4-1/4's called for redemption on April 15, 1934, bear serial numbers ending in 9, 0, or 1, (in the case of permanent coupon bonds preceded by the distinguishing letter J, K, or A, respectively); Fourth 4-1/4's included in the second call for partial redemption on October 15, 1934, bear serial numbers ending in 8, or 2, (in the case of permanent coupon bonds preceded by the distinguishing letter H, or B, respectively); uncalled Fourth 4-1/4's bear serial numbers ending in 3, 4, 5, 6, or 7, (in the case of permanent coupon bonds preceded by the distinguishing letter C, D, E, F, or G, respectively).

## II. TRANSACTIONS IN CALLED AND UNCALLED BONDS

1. Pursuant to the first call for partial redemption on April 15, 1934, (See Department Circular No. 501, dated October 12, 1933), all Fourth 4-1/4's outstanding October 12, 1933, were divided into two separate and distinct classes: called bonds, and uncalled bonds. Hereafter such Fourth 4-1/4's called for redemption on April 15, 1934, shall be designated first called bonds. Pursuant to the second call for partial redemption, and effective at the close of business on this date, all outstanding Fourth 4-1/4's included in the second call for partial redemption on October 15, 1934, will be included in the class of called bonds and shall be designated second called bonds. The Treasury Department and the Federal Reserve Banks as Fiscal Agents of the United States, will observe this division of Fourth 4-1/4's into three classes, first called, second called, and uncalled bonds, and hereafter in all transactions affecting second called and uncalled Fourth 4-1/4's, including exchanges of denominations, exchanges of coupon bonds for registered bonds, exchanges of registered bonds for coupon bonds, and transfers of registered bonds: (1) only bonds bearing distinguishing serial numbers or letters falling within the class second called bonds will be issued upon exchange or transfer of second called bonds, and (2) only bonds bearing distinguishing serial numbers or letters falling within the class uncalled bonds will be issued upon exchange or transfer of uncalled bonds. Exchanges or transfers as between second called and uncalled bonds will not be permitted. Denominational exchanges of coupon bonds within the class "called for redemption on October 15, 1934" (second called bonds) will terminate on that date. Transfers and exchanges of registered bonds falling within the class "called for redemption on October 15, 1934" (second called bonds), will terminate on September 15, 1934, the date of the closing of the transfer books.

2. In accordance with the provisions of Treasury Department Circular No. 121, dated September 28, 1918, the provisions of Treasury Department Circular No. 300, dated July 31, 1923, prescribing regulations with respect to United States bonds and notes, which were modified by Department Circular No. 501, dated October 12, 1933, are hereby further modified accordingly with respect to transactions in Fourth 4-1/4's.

## III. PAYMENT OR EXCHANGE

1. Payment of called bonds on October 15, 1934. - Holders of any outstanding Fourth 4-1/4's included in the second call for partial redemption on October 15, 1934, will be entitled to have their bonds redeemed and paid at par on October 15, 1934, with interest in full to that date. After October 15, 1934, interest will not accrue on any bonds included in this second call for partial redemption on that date. (SEE SECTIONS IV AND V OF THIS CIRCULAR FOR INSTRUCTIONS FOR PRESENTATION OF BONDS FOR REDEMPTION ON OCTOBER 15, 1934, UNDER THIS SECOND CALL.)

2. Optional exchange offering. - Holders of any outstanding Fourth 4-1/4's included in the second call for partial redemption on October 15, 1934, may, in advance of October 15, 1934, be offered the privilege of exchanging all or part of their called bonds for other interest-bearing obligations of the United States. Holders who desire to avail themselves of an exchange privilege, if and when announced, should watch for an announcement thereof.

and should request their bank or trust company to notify them when information regarding any exchange offering is received. (IN CASE OF AN OPTIONAL EXCHANGE OFFERING, INSTRUCTIONS THEN GIVEN IN THE PUBLIC ANNOUNCEMENT SHOULD BE FOLLOWED IN PRESENTING CALLED BONDS FOR EXCHANGE.)

#### IV. RULES AND REGULATIONS GOVERNING REDEMPTION

Pursuant to the second call for partial redemption, as set forth in Section I of this circular, the following rules and regulations are hereby prescribed to govern the surrender of Fourth 4-1/4's called for redemption on October 15, 1934:

1. Presentation and surrender of coupon bonds. - Any Fourth 4-1/4's in coupon form, which are included in the second call for partial redemption, should be presented and surrendered to any Federal Reserve Bank or Branch, or to the Treasurer of the United States, Washington, D. C., for redemption on October 15, 1934. The bonds must be delivered at the expense and risk of holders (See paragraph 8 of this section) and should be accompanied by appropriate written advice (See Form P.D. 1381 Attached hereto). Checks in payment of principal will be mailed to the address given in the form of advice accompanying the bonds surrendered.

2. Coupons dated October 15, 1934, which become payable on that date, should be detached from any Fourth 4-1/4's included in the second call for partial redemption before such bonds are presented for redemption on October 15, 1934, and such coupons should be collected in regular course when due. All coupons pertaining to such bonds bearing dates subsequent to October 15, 1934, must be attached to any such bonds when presented for redemption, provided, however, if any such coupons are missing from bonds so presented for redemption the bonds nevertheless will be redeemed, but the full face amount of any such missing coupons will be deducted from the payment to be made on account of such redemption, and any amounts so deducted will be held in the Treasury to provide for adjustments or refunds on account of such missing coupons as may subsequently be presented.

3. The final coupon attached to temporary coupon bonds became due on October 15, 1920. The holders of any such temporary bonds which are included in the second call for partial redemption on October 15, 1934, will receive all past due interest from October 15, 1920, when the bonds are redeemed pursuant to such call. Any coupons now attached to any such temporary bonds should be detached and collected in regular course.

4. Presentation and surrender of registered bonds. - Any Fourth 4-1/4's in registered form, which are included in the second call for partial redemption, must be assigned by the registered payees or assigns thereof, or by their duly constituted representatives, in accordance with the general regulations of the Treasury Department governing assignments, in the form indicated in the next paragraph hereof, and should thereafter be presented and surrendered to any Federal reserve bank or branch, or to the Division of Loans and Currency, Treasury Department, Washington, D. C., for redemption on October 15, 1934. The bonds must be delivered at the expense and risk of holders (See paragraph 8 of this section) and should be accompanied by appropriate written advice (See Form P.D. 1382 attached hereto). In all cases checks in payment of principal will be

mailed to the address given in the form of advice accompanying the bonds surrendered.

5. If the registered holder of record, or an assignee holding under proper assignment from the registered holder of record, or a duly constituted representative of such registered holder or assignee, desires that payment of the principal be made to him, the bonds should be assigned to "The Secretary of the Treasury for redemption". In case it is desired to have payment of the registered bonds made to someone other than the registered holder of record, without intermediate assignment, the bonds may be assigned to "The Secretary of the Treasury for redemption for account of \_\_\_\_\_" and in such case the name and address of the payee for whose account the redemption is to be made must be inserted. Assignments in this form must be completed before acknowledgment and not left in blank.

6. Assignment in blank, or other assignment having similar effect, will be recognized, but in that event payment will be made to the person surrendering the bond for redemption, since under such assignment the bonds become in effect payable to bearer. Assignments in blank or assignments having similar effect should be avoided, if possible, in order not to lose the protection afforded by registration.

7. Final interest due on October 15, 1934, on any Fourth 4-1/4's in registered form, which are included in the second call for partial redemption and presented for redemption on October 15, 1934, will be paid by checks issued in regular course in the same manner as if such bonds had not been called for redemption.

8. Transportation of bonds. - Bonds presented for redemption under this circular must be delivered to a Federal reserve bank or branch, or to the Treasury Department, Washington, D. C., at the expense and risk of the holder. Coupon bonds should be forwarded by registered mail insured, or by express prepaid. Registered bonds bearing restricted assignments may be forwarded by registered mail, but registered bonds bearing unrestricted assignments should be forwarded by registered mail insured or by express. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal reserve banks and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents. Incorporated banks and trust companies are not agents of the United States under this circular.

#### V. TIME OF PRESENTATION OF FOURTH 4-1/4'S FOR REDEMPTION

1. In order to facilitate the redemption of Fourth 4-1/4's included in the second call for partial redemption on October 15, 1934, any such bonds may be presented and surrendered in the manner herein prescribed in advance of that date but not before September 15, 1934. Such early presentation by holders, on and after September 15, 1934, and well in advance of

October 15, 1934, will insure prompt payment of principal when due. This is particularly important with respect to registered bonds, for payment cannot be made until registration shall have been discharged at the Treasury Department.

2. It will expedite redemption if bonds included in the second call for partial redemption are presented to Federal Reserve Bank or Branches, and not direct to the Treasury Department.

3. As hereinbefore provided: (1) coupons due October 15, 1934, should be detached from any permanent coupon bonds included in this second call for partial redemption when such bonds are presented for redemption on that date, such coupons to be collected when due; and (2) final interest due on any registered bonds included in this second call for partial redemption will be paid by check issued in regular course. Accordingly, early presentation of bonds will not affect the payment of final interest due on October 15, 1934.

#### VI. FURTHER INFORMATION

Any further information which may be desired regarding the partial redemption of Fourth 4-1/4's under this circular may be obtained from any Federal Reserve Bank or Branch, or from the Treasury Department, Washington, D. C., where copies of the Treasury Department's regulations governing assignments may also be obtained. The Secretary of the Treasury may at any time, or from time to time, provide supplemental or amendatory rules and regulations governing the matters covered by this circular.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

IMPORTANT NOTE. - FOURTH 4-1/4'S CALLED FOR REDEMPTION ON OCTOBER 15, 1934, SHOULD BE PRESENTED WELL IN ADVANCE OF THAT DATE BUT NOT BEFORE SEPTEMBER 15, 1934, AND THE INSTRUCTIONS GIVEN IN THIS CIRCULAR SHOULD BE FOLLOWED. IF AN EXCHANGE OPPORTUNITY IS AFFORDED, AND FOURTH 4-1/4'S ARE TO BE PRESENTED FOR EXCHANGE, THE INSTRUCTIONS GIVEN IN SUBSEQUENT ANNOUNCEMENT SHOULD BE FOLLOWED. Information concerning the partial redemption of Fourth 4-1/4's on October 15, 1934, and information concerning an optional exchange if and when offered, may be obtained from the officers of banks and trust companies generally. As those banks and trust companies may offer their facilities in the matter of arranging redemption or exchange, it is suggested that holders of Fourth 4-1/4's consult their own bank or trust company.

**FOR COUPON BONDS**  
(For registered bonds use Form PD 1382)

Treasury Department  
Public Debt Service  
Form PD 1381

FORM OF ADVICE TO ACCOMPANY CALLED FOURTH LIBERTY LOAN 4-1/4 PERCENT BONDS  
(FOURTH 4-1/4's) IN COUPON FORM PRESENTED FOR REDEMPTION ON OCTOBER 15, 1934

To the Federal Reserve Bank of \_\_\_\_\_,  
or  
Treasurer of the United States, Washington, D. C.:

Pursuant to the provisions of Treasury Department Circular No. 509, dated April 13, 1934, the undersigned presents and surrenders herewith for redemption

on October 15, 1934, \$ \_\_\_\_\_, face amount of Fourth Liberty Loan bonds in coupon form, with coupon due April 15, 1935, and all subsequent coupons attached, as follows:

Number of bonds	Denomina- tion	Serial numbers of bonds	Face amount
-----	\$50	-----	\$-----
-----	100	-----	-----
-----	500	-----	-----
-----	1,000	-----	-----
-----	5,000	-----	-----
-----	10,000	-----	-----
-----	100,000	-----	-----
Total -----			\$-----

and requests that remittance covering payment therefor be forwarded to the undersigned at the address indicated below.

Signature -----

Name (please print)-----

Address in full -----  
-----

Date -----

**FOR REGISTERED BONDS**  
(For coupon bonds use Form PD 1381)

Treasury Department  
Public Debt Service  
Form PD 1382

FORM OF ADVICE TO ACCOMPANY CALLED FOURTH LIBERTY LOAN 4-1/4 PERCENT BONDS  
(FOURTH 4-1/4'S) IN REGISTERED FORM PRESENTED FOR REDEMPTION ON  
OCTOBER 15, 1934.

To the Federal Reserve Bank of -----,  
or  
Treasury Department, Division of Loans and Currency, Washington, D. C.:

Pursuant to the provisions of Treasury Department Circular No. 509, dated  
April 13, 1934, the undersigned presents and surrenders herewith for redemption  
on October 15, 1934, \$-----, face amount of Fourth Liberty  
Loan bonds in registered form, inscribed in the name of

-----  
and duly assigned to "The Secretary of the Treasury for redemption", as follows:

Number of bonds	Denomina- tion	Serial numbers of bonds	Face Amount
-----	\$50	-----	\$-----
-----	100	-----	-----
-----	500	-----	-----
-----	1,000	-----	-----
-----	5,000	-----	-----
-----	10,000	-----	-----
-----	50,000	-----	-----
-----	100,000	-----	-----
Total -----			\$-----

and requests that remittance covering payment therefor be forwarded to the under-  
signed at the address indicated below.

Signature -----

Name (Please print) -----

Address in full -----  
-----

Date: -----

Washington

FOR RELEASE TO MORNING NEWSPAPERS,  
Saturday, April 21, 1934.

Press Service  
No. 1 - 63

Secretary of the Treasury Morgenthau announced today that subscriptions totaling \$1,049,441,300 have been received for the 3-1/4 per cent Treasury bonds of 1944-46, all of which have been allotted in full. Of this total \$815,115,500 represents subscriptions in payment for which Fourth Liberty Loan bonds called for redemption April 15, 1934, were tendered, and \$234,325,800 represents subscriptions in payment for which Treasury notes of Series A-1934 were tendered. The subscription books for this issue were closed on April 12.

The Federal reserve banks hold a few subscriptions not included in the above total because the bonds to be exchanged have not yet been cleared. These cases will slightly increase the amount of the final allotment.

Subscriptions and allotments were divided among the several Federal reserve banks and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Fourth Liberty Loan Bonds Tendered</u>	<u>Treasury Notes Tendered</u>	<u>Total Allotted</u>
Boston	\$ 22,099,950	\$ 3,292,900	\$ 25,392,850
New York	483,549,600	200,253,100	683,802,700
Philadelphia	28,854,100	348,700	29,202,800
Cleveland	35,503,600	3,794,000	39,297,600
Richmond	13,060,800	4,416,100	17,476,900
Atlanta	12,560,400	517,000	13,077,400
Chicago	128,374,100	5,877,500	134,251,600
St. Louis	22,784,600	1,974,400	24,759,000
Minneapolis	9,618,950	317,800	9,936,750
Kansas City	21,163,800	1,602,400	22,766,200
Dallas	10,282,800	609,200	10,892,000
San Francisco	17,219,550	1,314,200	18,533,750
Treasury	10,043,250	10,008,500	20,051,750
Total	\$815,115,500	\$234,325,800	\$1,049,441,300



President had or had not said to Senator Glass. I was awfully glad that I saw Senator Glass because it enabled me to get his viewpoint on the question of the government guaranteeing bank deposits. I left and Black stayed behind to continue his discussion with Glass.

April 18.

Sunday, April 8th I sent the President the following radio:

DELIVER TO PRESIDENT ROOSEVELT. OUR PRESENT OFFER OF EXCHANGE FOR CALLED FOURTH LIBERTIES OF BILLION DOLLARS AND ISSUE DUE MAY SECOND OF TWO HUNDRED FORTY FOUR MILLION GOING NICELY. HOPE TO CLOSE OFFER EITHER ELEVEN APRIL OR TWELVE APRIL. BY ELEVEN APRIL HAVE TO DECIDE HOW MANY MORE FOURTH LIBERTIES TO CALL. IDEAS ARE TO CALL FROM A MINIMUM OF ONE BILLION TO A MAXIMUM OF FOUR BILLION I AM SEEKING BEST ADVICE AVAILABLE I WOULD LIKE TO KNOW IF YOU ARE WILLING TO LEAVE IT UP TO ME TO DECIDE NOT ONLY HOW MANY TO CALL BUT ALSO TERM OF NEW EXCHANGE OFFER PLEASE WIRE INSTRUCTIONS. APPRECIATE YOUR FISH STORIES AND AM DELIGHTED WEATHER IS CLEARING

a couple of days after sending this radio I realized that we would postpone making up our minds until Friday the 13th and that we would not have to make an offering at the same time that we issued the new call for the Fourth Liberties. However, I did not feel that it was worthwhile letting him know these facts. On Tuesday, April 10th, I received the following reply to my radio:

FOLLOWING FROM PRESIDENT ROOSEVELT - IN MAKING CALL FOR FOURTH LIBERTIES SUGGEST NOT LESS THAN TWO BILLION GO AHEAD ON YOUR DISCRETION HOPE YOU CAN MAKE EXCHANGE TERM A LITTLE BETTER THAN THREE AND A QUARTER AND NOT LESS THAN TEN OR TWELVE YEARS SEE YOU FRIDAY ALL WELL.

On Tuesday, April 10th, Harrison & Burgess came down from New York and we met with Myers and had a long session with him about his financing and the following memorandum prepared by Mr. Eccles outlines the decisions reached at this conference:

Memo attached herewith.

MEMORANDUM OF MEETING CALLED TUESDAY, APRIL 10th, 1934AT 10:30 A.M. TO CONSIDER FINANCIAL REQUIREMENTS OF  
FEDERAL FARM MORTGAGE CORPORATION AND HOME OWNERS' LOAN CORPORATION

The following were present:

The Secretary  
Mr. Coolidge  
Mr. Smith  
Governor Harrison

Dr. Burgess  
Governor Myers  
Mr. Haas  
Mr. Eccles

The following decisions were reached:

1. That the present coupon rate and terms of the Federal Farm Mortgage Corporation bonds should be continued at least until the end of April, and before making any change another conference would be held to consider the matter.
2. That the \$285,000,000 now borrowed by the Federal Farm Mortgage Corporation from the Reconstruction Finance Corporation and the Treasury should not be paid until such time as the market for long-term Government bonds is sufficiently favorable to absorb a substantial block of Federal Farm Mortgage Corporation bonds on a favorable basis without adversely affecting the market for long-term Governments.
3. That no public offering of the Federal Farm Mortgage Corporation bonds would be made at this time, as the Corporation has access to ample funds to meet its cash requirements for some time without calling upon the Treasury until the latter part of May and at that time it would be determined whether all or a portion of the Government securities, amounting to \$115,000,000, held by the various agencies of the Farm Credit Administration should be sold and the proceeds invested in bonds of the Federal Farm Credit Corporation, thus providing the Corporation with funds, or whether a public offering would be made of a sufficient block of Federal Farm Credit Corporation bonds to supply the Corporation with funds for a period of time.
4. That the present method employed in marketing debentures of the Intermediate Credit Banks should be further considered and studied by Governor Harrison and Dr. Burgess for the purpose of determining what improvement, if any, could be made in the present method.
5. That the rate and terms of the Home Owners' Loan Corporation bonds, to be issued immediately after the passage of the Bill now pending in Congress, would be taken up again and discussed with representatives of the Home Owners' Loan Corporation before making final decision.

(6) Based upon estimates submitted by the Home Owners' Loan Corporation, they had ample funds to carry their operation until the first of August, and from then until the end of the year it appeared they would require at least \$150,000,000 cash, these funds to be provided by making one public offering of sufficient bonds to take care of the above requirements, or the Treasury purchasing bonds periodically as funds are required, depending upon the condition of the market at the time the funds are required.

4/11/34

We then adjourned to my office where Harrison, Burgess, Coolidge, Tom Smith and I talked for a couple of hours including lunch time. I learned for the first time that I could call in some more Libertys without simultaneously making a new offer. This was news to me and lifted a tremendous burden off my shoulders as it would have been almost impossible to have made a good decision as to what kind of an offer we should make. I felt that on Tuesday the 10th I accomplished a lot as I got clear in my mind not only what to do for Farm Credit and Home Loan but also for the Treasury for the next two months.

On Wednesday, April 11th, Warren called and urged me to increase the price of gold. I told him very emphatically that it was useless to do anything of such a nature while Congress was in session as the financial world would not respond to that kind of stimulus as long as there was so much uncertainty hanging over the markets. Warren suggested that before we increased the price of gold that we ought to use half of our Stabilization Fund for the purchase of government securities and in that way increase the price of government bonds, decrease their return another billion of gold certificates add that much more to the excess reserves. Our answer to this proposition was the same, namely, we wanted to do nothing until Congress adjourned.

On Thursday, April 12th, Dan Roper had lunch with me. He impresses me as being a wise old politician but that seems to be his only asset. He certainly does not have much of the New Deal spirit in him and I believe he is tied in pretty closely with the big financial lawyers in New York.

At 2 o'clock I saw Him Hoey of N.Y. who was very much worried about irregularities of the bookkeeping in his organization. I called up Irey and McReynolds and told them to see what they could do to assist Hoey in making a proper check.

On Friday, the 13th, the French Ambassador called and brought with him Jean Appert, their new finance attache. I told the French Ambassador that his newspapers were under the impression that the U.S. Treasury was antagonistic to the French and I wanted to assure him that this was not so and that we felt very friendly to France and it was to our interests that the French Government should be successful in their present program. This seemed to please the French Ambassador greatly.

Saturday, the 14th, lunched with the President who was in

excellent spirits

The following was dictated on May 1st.

At 2:30 the President met the leaders of the House and went over his legislative program with them. At Cabinet, the previous day, I gave the President a list of the bills which the Treasury was interested in:

Silver Bills  
Federal Deposit Insurance  
Frazier-Lemke  
Monetary Authority Bill  
Municipal Bankruptcy  
Lobbying Bill  
Securities Act  
Stock Exchange  
Revenue Bill

at the conference he took up these bills one by one. First, the Coconut Oil Bill - they discussed this for 45 minutes. President said the Norris Amendment to this bill is an act of bad faith on the part of Congress and he will have to veto it. President suggests as a face saver have resolution introduced to send committee to the Philippines and in that manner delay the tax on Coconut Oil for one year. President said; let us get rid of the Philippines - that is the most important thing. Lets be frank about it. Conference agreed to hold bill on table until they can agree on a policy.

Revenue Bill - President said, get/after corporate holding companies is awfully popular, believe me.

Federal Deposit Insurance - President said to Henry Stegall, what is the matter with you. Have you sold out to the rich people. The reason for this remark was because Stegall is insisting that they increase the guarantee of bank deposits from \$2500 to \$10,000.

Crime Bills are being held up by Congressman Hatton W. Sumners. President said, the trouble is with Sumners that he used to be a district attorney of the county and he still thinks that the local district attorney can take care of all crime and does not want any Federal interference.

They discussed the McLeod Bill.

Monetary Authority Bill - President said, thumbs down.

Lobbying Bill - considerable joking about it because it was said it would make it impossible for congressmen to come down and see any heads of departments about anything. They passed by this bill with a laugh because they do not want their prerogatives interfered with.

They next discussed the Stock Exchange Bill and Cong. Rayburn told the President that they were making good progress.

Commodity Exchange - opinion was that this might be put off for another year.

Municipal Bankruptcy Bill was discussed

Wagner Bill - no chance to pass in present form. Opinion was that the Boards provided under this bill should be Presidential appointments.

Eastman Labor Boards were discussed and it was suggested to try to get this thru with as little controversy as possible.

Tariff - no comment

Bonus Bill - Pat Harrison said he was sleeping nicely in the Committee

(All of the above comments are a combination of the meeting with the Congressman and Senators)

Silver - Dies Bill - Key Pittman and Ed Smith said it would pass the Senate.

At Cabinet on the 13th, the President handed me the attached slip

THE WHITE HOUSE  
WASHINGTON

We have worked out a suggestion on Silver which I admit is good. When may I present it to you? I am leaving supper with you Sunday night. Best news. That is when the long news comes. —  
They met Saturday 3 p.m.

Had supper at the White House Sunday night, the 15th. After supper went with the President to meet with the Senate leaders. Previous account of legislation discussed with the members of the House pretty much covers the discussion of Sunday night. After Sunday night's meeting I felt somewhat discouraged because the President was rather conciliatory with the delegation from the Senate and I was worried on account of his attitude.

Monday, April 16th, lunched with the President.

Tuesday, April 17th, was invited to the White House for lunch to meet with President of Haiti.

Wednesday, April 18th, Congressman Doughton came with Magill. We talked for about an hour. I was apologetic and humble with Doughton first, on account of going before the House Judiciary Committee and having advocated that the income from all Federal and State bonds should be taxable after having appeared before Doughton's Committee a month previous and urging them to do nothing in regard to this. I explained to him that when I had appeared before his committee I had only been in the Treasury a few weeks and as I got into it further I came to the conclusion there was no reason why we should continue the present policy of permitting various units of governmental agencies to issue wholly tax exempt securities. The second bone of contention was that I had appeared before the Senate Committee on Finance and advocated the reduction of taxes on a 10¢ cigarette without first consulting Doughton. I also told him to charge this up to inexperience. Doughton felt particularly sore about this as it is in his district that either Camels or Lucky Strikes are located. Magill told me later on that I had done a very good job on Doughton.

Had Boettiger, Lindley, Gaston and Coolidge for lunch. Explained to Lindley where I thought "TODAY" was in error in saying that the State of N.Y. could borrow so much cheaper than Federal government. Then went on to explain my thought that the biggest fight in Washington was whether uncontrolled inflation should succeed and that the business men were criticising N.R.A. and A.A.A. as methods of recovery were simply driving up into the hands of the inflationists. In the issue of TODAY under the week's news from Washington there is a two page story as a result of my conversation with Lindley. I thought he did a awfully good job and I particularly liked the title to the article:

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Thursday, April 19th, went to the White House at 11:45 to meet with the President and Senator King's delegation on silver. Took Herman Oliphant with me. The meeting was very pleasant but seemed to get nowhere. After the meeting was over the President said to me, how do you think it went, and I said, not at all satisfactorily. He said, why, and I said, because I do not think you got anywhere and he said, I did not intend to. He said, Key Pittman sent word to me, before the meeting, to be very conciliatory and that Borah would also be conciliatory.

At 1 P.M. the President had Douglas and me for lunch and we worked right thru until 3 P.M. on the Budget Message to Congress. The President evidently had not been giving a great deal of thought to it. The greatest difficulty will be to find sufficient money for Harry Hopkins. The President dictated an outline for his message and I am including this in my diary just as he wrote it as I think it will be a rather interesting document when we compare it with the final messages that goes to Congress:

(Message attached on next page)

At 3 P.M. the President met with a group headed by Frank Walker to talk about the Housing situation. Douglas and I stayed on for this. This group got nowhere but what I learned for the first time was that the Home Owners crowd headed by Fahey were lending money at such a fast rate that they will reach their two billion dollar limit by September or October. This is a very critical situation one of the worst in town and the only way to solve it is to divert this flood of applications for refinancing home mortgages away from the governmental agencies and into private channels.

Went to Pearson & Allen's for supper and really had a good time. The crowd of newspaper men that he has out to his home can go a long way towards either playing up a man in Washington or else destroying him. Anybody who tries to laugh them off is making a big mistake.

May 1.

Elliot Roosevelt called to tell me that he was going to associate himself with the Aviation Chamber of Commerce as Vice President and that any troubles that we had with any aviation company like General aviation, that he would be glad to take it up with the industry. Then for no reason whatsoever, he said, what are you doing about reduction of



(2)

First Draft - 4/19 - 3 PM

TO THE CONGRESS OF THE UNITED STATES:

In my budget message to the Congress of January 3rd 1934, I said to you

- "It is evident to me, as I am sure it is evident to you, that powerful forces for recovery exist. It is by laying a foundation of confidence in the present and faith in the future that the upturn which we have so far seen will become cumulative. The cornerstone of this foundation is the good credit of the Government.

"It is, therefore, not strange nor is it academic that this credit has a profound effect upon the confidence so necessary to permit the new recovery to develop into maturity.

"If we maintain the course I have outlined, we can confidently look forward to cumulative beneficial forces represented by increased volume of business, more general profit, greater employment, a diminution of relief expenditures, larger governmental receipts and repayments, and greater human happiness."

1st Dr. - P. 2

The budget which I submitted to the Congress proposed expenditures for the balance of this fiscal year and for the coming fiscal year which, in the light of expected revenues, called for a definite deficiency on June 30, 1935, but, at the same time, held out the <sup>definite objective</sup> hope that annual deficits would terminate during the following fiscal year.

It is true that actual expenditures since January have proceeded at a slower rate than estimated; nevertheless it must be borne in mind that, even though the actual deficit for the year ended June 30, 1934 will be below my estimate, appropriations are still in force and the amounts to be expended during the following fiscal year will be <sup>therefore</sup> greatly increased over and above my estimate for that fiscal year.

I am therefore considering the present financial position of the government as of the eighteen months period, and such consideration comes back to the proposal in my budget message that a total of \$3,166,000,000 be appropriated for a number of items which fall broadly under the head of emergency relief.

It was my thought in January that this sum should be appropriated to me under fairly broad powers because of the fact that no one could then or can now determine the exact

*Jan 1935  
June 30, 1935*

1st Dr. - P. 3

needs under hard and fast appropriation headings.

In my January <sup>1934</sup> estimate I had tentatively set aside only \$200,000,000 out of the \$3,166,000,000 for miscellaneous purposes.

The present Congress has already appropriated the following amounts against this fund of \$3,166,000,000:

Relief	\$950,000,000
Crop Loans	40,000,000
Farm Mortgage ?	40,000,000
R. F. C. ?	500,000,000
Veterans Benefits	22,000,000
Army Air	5,000,000
Supplement. Est.	35,000,000
Indepdnt Offices Bill	<u>228,000,000</u>
	\$1,860,000,000

This leaves a balance available of \$1,310,000,000.

Out of this balance it is necessary first to take certain appropriations as follows:

Home Loan	\$ 15,000,000
Federal Savings & Loan	50,000,000
Federal Land Bank	8,000,000
Emergency Bank Act and Gold Transfer	3,000,000
Cattle Purchase for Relief Work	50,000,000
Federal Land Bank	<u>75,000,000</u>
	\$201,000,000

1st Dr. - P. 4

This leaves available \$1,145,000,000 for the following purposes:

CCC Camps  
Public Works, and  
Relief

It is estimated that the minimum requirements for the CCC Camps will be \$285,000,000 and the amount available therefore for public works and relief will be \$860,000,000.

A very simple check-up of these figures shows that they total \$3,166,000,000, which was included in the budget <sup>message</sup> estimates of January 3, 1934.

Unless the Congress should determine to fly in the face of the government policy of proper budgeting and, without regard to the future, recklessly appropriate money and thereby in my judgment seriously retard the orderly processes of recovery, appropriations must be limited to the figures I have stated above.

There is only one possible exception to this plain fact. The revenue bill now in conference between the two Houses provides additional estimated revenue. The bill, as it passed the House of Representatives, provides an estimated

1st Dr. - P. 5

addition to our revenues of \$170,000,000 for the next fiscal year and the bill, as it passed the Senate, provides for estimated additional revenues of approximately \$120,000,000 more within the fiscal year.

It will, of course, be noted that the amount available for relief and public works purposes is substantially below what I had hoped and expected -- ~~below in my judgment the amount necessary to carry us through the coming year.~~ The principal cause for the reduction in relief estimates is the very large increases in pay to veterans and government employees as carried in the Independent Offices Bill - a total of \$228,000,000 for the two fiscal years, -- with which I am here dealing.

While it is true that the best business judgment would use the proposed increased taxes toward a reduction of our total deficit in these eighteen months, nevertheless I think that emergency relief is such a vital factor that the Congress would be justified in appropriating for additional relief purposes such amount as will be raised by the additional taxes finally agreed upon by the two Houses of the Congress.

taxes on tobacco. He said, last night Clay Williams of the Reynolds Tobacco Co. was around to see father and he said if you want to find out anything about the reduction of taxes on tobacco, send for Clay Williams. He repeated this at least three times. Of course, if they put in this reduction in taxes it will mean for the first year you would lose \$75,000,000 in revenue. I told Elliot that we could not afford to lose any such sum. I do wish that the President's family would quit lobbying.

Frank Walker, Hopkins, Coolidge, Eccles, Reefler and I had an hour and a half conference and finally agreed to a program of insuring mortgages for three years up to 80% ~~and~~ on new construction and on existing mortgages for one billion dollars up to 50%. Furthermore, that we would give John Fahey an ultimatum that he could either come along on this basis or else we would set up a new organization to handle this proposal.

May 3.

Saturday and Sunday, the 21st and 22nd of April, I got the idea that we might sell part or all of our forty five million dollars in London and replace it with silver. Sunday night I had Mr. & Mrs. Coolidge, Herman Oliphant and Viner for supper and I gave them my suggestion and after a couple of hours of discussion they thought rather well of it. They felt that the releasing of that amount of gold abroad could only be helpful and there was no harm in buying this silver.

Monday, April 23rd at lunch, I explained my idea to the President about exchanging the gold for the silver and he thought well of it. Monday morning the silver group in the Senate invited a number of people to meet with them and discuss plans for silver, and a group associated with the Committee of the Nation announced that they were going to give a dinner Monday night at the Willard to Senators and Congressmen interested in silver. Therefore, at lunch with the President I suggested that it seemed to me now was the time to spring our silver list. He agreed. After lunch Douglas came and while the President was speaking, I went into Miss LeHand's room and told Mrs. Klotz that she should get in touch with Irey and tell him to prepare the silver list for sending it to the Senate. After lunch, the President, Douglas and I went over his budget message to Congress. On returning to the office I got together with Irey and found that it would take all night for him to prepare the list. The President had told me to try and drag

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out the news of the silver names for at least three days so we decided that we would send up the first names on Tuesday. I telephoned Colonel Halsey and told him that the verified names would be up by noon. This whole process of sending the names worried me very much because I hated the kind of publicity that went with it. After the first names came out, silver took a terrific drop and I felt that we would have to do something or else the collapse in silver might cause a real panic. At ten minutes past two, I called the President on the telephone and suggested to him that we had better jump in and buy silver and keep it from dropping any further. He said go ahead. He told me that Bernie Baruch was sitting at his side and I was terribly surprised that the President asked me if I had sent up Frank Vanderlip's name and Father Coughlin's. I told him that I had not. He answered me about buying silver in a way that Baruch could not tell what I was getting at but he did say to me, I think that silver is a good buy and Baruch must have heard him say so.

We worked desperately all afternoon to get ourselves in shape so that we could buy silver in London on Wednesday. I went back to the office that night with Mrs. Klotz and we never got a clearance from the Attorney General until 8:15 that evening. I then spoke to Crane of the Federal Reserve and told him to give the Guaranty Trust orders to sell gold in London and buy silver. Wednesday morning after the market had been opened a couple of hours and we bought just under two million ounces in London, somebody brought it to my attention that silver was selling considerably higher in London than in N.Y. I quickly told Crane to stop buying in London and to begin buying in N.Y. Wednesday we sent up our second list to the Senate.

At 11 o'clock Secretary Dern and General and Douglas and I sat down in my office to discuss Philippine gold. Dern and General tried to make out a case that in June 1932 the Philippine Government had asked us to pay them off in gold and that we had refused to do so. This was news to me. When I pinned the General down at first he insisted that it took place in 1933. I thought it was one of the most outrageous performances I had ever witnessed. Whether Dern was cognizant of the fact that the General was trying to willfully mislead us I do not know, but if he had been my subordinate I think I would have fired him.

At noon, Pittman came with a Mr. Trent of the Bureau of Standards and at Pittman's request I had George Peek, Warren and Rex Tugwell there. Trent had some 50 charts which, when boiled down to a simple fact, tried to prove that ~~an~~

that an advance in the price of silver was always followed six to twelve months later by an advance in price in other commodities. Whether this is really so, I do not know.

Wednesday morning I did not know what to do about Jimmy Warburg's letter explaining his purchase of silver, so I went over to see the President and asked him. Herman Oliphant's thought was that he should call up Ray Moley and let Moley tell Warburg that his name would be on the list so that he would be prepared to give out a statement. I told the President of this suggestion and he emphatically said no, and suggested that I call up Warburg myself. On returning to the office I decided that I would not and the way it worked out it was much the best that I had not called Warburg.

Thursday we had a big discussion as to whether we should send the unverified silver names to the Senate or to Banking and Currency and we decided that we would send them to Banking and Currency. About a half hour after they had gone to Banking & Currency I had a call from Halsey who said that Senator Joe Robinson and the Vice President thought that I ought to send the list directly to the Senate and I said I would.

At 11 o'clock I had Hamlet and his Coast Guard gang and Temple Joyce, President of the General Aviation Corp. to discuss with them what we should do with the five Amphibians that Coast Guard had bought a couple of years ago from this company. Lots of conversation and finally Joyce said, let me know what you want and I will take it under consideration. I appealed to him on the basis of what was fair and not what was legally due us.

Next caller was Elliot Thurston who said that Eugene Meyer wanted me to know that he was not anti-administration and was just trying to run a good newspaper.

Friday at 11 o'clock I arranged for a meeting in my office with Senator Johnson, Sec. Hull, Mr. Phillips, Mr. Moore and their Solicitor for the State Department, Homer Cummings and his first assistant, Herman Oliphant, Coolidge and Bell. We asked Senator Johnson what the objectives of his Bill were and he stated very simply that he wished to keep those countries who were in default in their repayments to the U.S. from securing additional loans in this country. He said that he had originally included South America but at the request of the State Dept. he had eliminated South American countries from his Bill. After the meeting, Hull



told me that it was he who asked Johnson to do this. The discussion was very worthwhile and I believe that as a result of it Homer Cummings will soon hand down a decision on the Bill. After Johnson left we had a long discussion about holding up the payments to German Nationals of money due them from alien property custodians. Everybody agreed that we had no legal right to withhold these payments but felt that it was a good wapon to use to get the Germans to come across with some of the payments due us. Again the purpose of the meeting was accomplished in that it will stimulate the Attorney General to come to a decision in regard to this matter.

Friday at Cabinet the President went all around the table and asked various members of the Cabinet what they thought about silver: whether we should compromise with Congress or whether we should try to keep Congress from passing any kind of legislation. Those members of the Cabinet who had an opinion were in favor of compromising as they felt that for the President to veto another important measure would be most embarrassing for the congressmen at election time.

THE WHITE HOUSE  
WASHINGTON

Before you sign  
the Bankhead Cotton  
Bill insist that  
Wallace write you  
endorsing the bill.  
I consider this  
most important  
for your own  
protection  
J.M.J.

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SILVER PURCHASES

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MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

RECOMMENDING

ENACTMENT OF LEGISLATION DECLARING IT TO BE THE POLICY OF THE UNITED STATES TO INCREASE THE AMOUNT OF SILVER IN OUR MONETARY STOCKS WITH THE ULTIMATE OBJECTIVE OF HAVING AND MAINTAINING ONE FOURTH OF THEIR MONETARY VALUE IN SILVER AND THREE FOURTHS IN GOLD

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MAY 10 (calendar day, MAY 22), 1934.—Ordered to lie on the table and to be printed

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*To the Congress of the United States:*

On January 11, 1934, I recommended to the Congress legislation which was promptly enacted under the title, "The Gold Reserve Act of 1934." This act vested in the United States Government the custody and control of our stocks of gold as a reserve for our paper currency and as a medium of settling international balances. It set up a stabilization fund for the control of foreign exchange in the interests of our people, and certain amendments were added to facilitate the acquisition of silver.

As stated in my message to the Congress, this legislation was recommended as a step in improving our financial and monetary system. Its enactment has laid a foundation on which we are organizing a currency system that will be both sound and adequate. It is a long step forward, but only a step.

As a part of the larger objective, some things have been clear. One is that we should move forward as rapidly as conditions permit in broadening the metallic base of our monetary system and in stabilizing the purchasing and debt-paying power of our money on a more equitable level. Another is that we should not neglect the value of an increased use of silver in improving our monetary system. Since 1929 that has been obvious.

Some measures for making a greater use of silver in the public interest are appropriate for independent action by us. On others, international cooperation should be sought.

Of the former class is that of increasing the proportion of silver in the abundant metallic reserves back of our paper currency. This

policy was initiated by the proclamation of December 21, 1933, bringing our current domestic production of silver into the Treasury, as well as placing this Nation among the first to carry out the agreement on silver which we sought and secured at the London Conference. We have since acquired other silver in the interest of stabilization of foreign exchange and the development of a broader metallic base for our currency. We seek to remedy a maladjustment of our currency.

In further aid of this policy, it would be helpful to have legislation broadening the authority for the further acquisition and monetary use of silver.

I, therefore, recommend legislation at the present session declaring it to be the policy of the United States to increase the amount of silver in our monetary stocks with the ultimate objective of having and maintaining one fourth of their monetary value in silver and three fourths in gold.

The Executive Authority should be authorized and directed to make the purchases of silver necessary to attain this ultimate objective.

The authority to purchase present accumulations of silver in this country should be limited to purchases at not in excess of 50 cents per ounce.

The Executive authority should be enabled, should circumstances require, to take over present surpluses of silver in this country not required for industrial uses on payment of just compensation, and to regulate imports, exports, and other dealings in monetary silver.

There should be a tax of at least 50 percent on the profits accruing from dealing in silver.

We can proceed with this program of increasing our store of silver for use as a part of the metallic reserves for our paper currency without seriously disturbing adjustments in world trade. However, because of the great world supply of silver and its use in varying forms by the world's population, concerted action by all nations, or at least a large group of nations, is necessary if a permanent measure of value, including both gold and silver, is eventually to be made a world standard. To arrive at that point, we must seek every possibility for world agreement, although it may turn out that this Nation will ultimately have to take such independent action on this phase of the matter as its interests require.

The success of the London Conference in consummating an international agreement on silver, which has now been ratified by all the governments concerned, makes such further agreement worth seeking. The ebb and flow of values in almost all parts of the world have created many points of pressure for readjustments of internal and international standards. At no time since the efforts of this Nation to secure international agreement on silver began in 1878 have conditions been more favorable for making progress along this line.

Accordingly, I have begun to confer with some of our neighbors in regard to the use of both silver and gold, preferably on a coordinated basis, as a standard of monetary value. Such an agreement would constitute an important step forward toward a monetary unit of value more equitable and stable in its purchasing and debt paying power.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, May 22, 1934.

[PUBLIC—No. 438—73d CONGRESS]

[H. R. 9745]

AN ACT

To authorize the Secretary of the Treasury to purchase silver, issue silver certificates, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Silver Purchase Act of 1934."*

SEC. 2. It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one fourth of the monetary value of such stocks in silver.

SEC. 3. Whenever and so long as the proportion of silver in the stocks of gold and silver of the United States is less than one-fourth of the monetary value of such stocks, the Secretary of the Treasury is authorized and directed to purchase silver, at home or abroad, for present or future delivery with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest: *Provided*, That no purchase of silver shall be made hereunder at a price in excess of the monetary value thereof: *And provided further*, That no purchases of silver situated in the continental United States on May 1, 1934, shall be made hereunder at a price in excess of 50 cents a fine ounce.

SEC. 4. Whenever and so long as the market price of silver exceeds its monetary value or the monetary value of the stocks of silver is greater than 25 per centum of the monetary value of the stocks of gold and silver, the Secretary of the Treasury may, with the approval of the President and subject to the provisions of section 5, sell any silver acquired under the authority of this Act, at home or abroad, for present or future delivery, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest.

SEC. 5. The Secretary of the Treasury is authorized and directed to issue silver certificates in such denominations as he may from time to time prescribe in a face amount not less than the cost of all silver purchased under the authority of section 3, and such certificates shall be placed in actual circulation. There shall be maintained in the Treasury as security for all silver certificates heretofore or hereafter issued and at the time outstanding an amount of silver in bullion and standard silver dollars of a monetary value equal to the face amount of such silver certificates. All silver certificates heretofore or hereafter issued shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, and shall be redeemable on demand at the Treasury of the United States in standard silver dollars; and the Secretary of the Treasury is authorized to coin standard silver dollars for such redemption.

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Sec. 6. Whenever in his judgment such action is necessary to effectuate the policy of this Act, the Secretary of the Treasury is authorized, with the approval of the President, to investigate, regulate, or prohibit, by means of licenses or otherwise, the acquisition, importation, exportation, or transportation of silver and of contracts and other arrangements made with respect thereto; and to require the filing of reports deemed by him reasonably necessary in connection therewith. Whoever willfully violates the provisions of any license, order, rule, or regulation issued pursuant to the authorization contained in this section shall, upon conviction, be fined not more than \$10,000 or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

Sec. 7. Whenever in the judgment of the President such action is necessary to effectuate the policy of this Act, he may by Executive order require the delivery to the United States mints of any or all silver by whomever owned or possessed. The silver so delivered shall be coined into standard silver dollars or otherwise added to the monetary stocks of the United States as the President may determine; and there shall be returned therefor in standard silver dollars, or any other coin or currency of the United States, the monetary value of the silver so delivered less such deductions for seigniorage, brassage, coinage, and other mint charges as the Secretary of the Treasury with the approval of the President shall have determined: *Provided*, That in no case shall the value of the amount returned therefor be less than the fair value at the time of such order of the silver required to be delivered as such value is determined by the market price over a reasonable period terminating at the time of such order. The Secretary of the Treasury shall pay all necessary costs of the transportation of such silver and standard silver dollars, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any silver withheld in violation of any Executive order issued under this section or of any regulations issued pursuant thereto shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and, in addition, any person failing to comply with the provisions of any such Executive order or regulation shall be subject to a penalty equal to twice the monetary value of the silver in respect of which such failure occurred.

Sec. 8. Schedule A of title VIII of the Revenue Act of 1926, as amended (relating to stamp taxes), is amended by adding at the end thereof a new subdivision to read as follows:

"10. SILVER, AND SO FORTH, SALES AND TRANSFERS.—On all transfers of any interest in silver bullion, if the price for which such interest is or is to be transferred exceeds the total of the cost thereof and allowed expenses, 50 per centum of the amount of such excess. On every such transfer there shall be made and delivered by the transferor to the transferee a memorandum to which there shall be affixed lawful stamps in value equal to the tax thereon. Every such memorandum shall show the date thereof, the names and addresses of the transferor and transferee, the interest in silver bullion to which

(1) refers, the price for which such interest is or is to be transferred and the cost thereof and the allowed expenses. Any person liable for payment of tax under this subdivision (or anyone who acts in the matter as agent or broker for any such person) who is a party to any such transfer, or who in pursuance of any such transfer delivers any silver bullion or interest therein, without a memorandum stating truly and completely the information herein required, or who delivers any such memorandum without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000 or be imprisoned not more than six months, or both. Stamps affixed under this subdivision shall be canceled (in lieu of the manner provided in section 804) by such officers and in such manner as regulations under this subdivision shall prescribe. Such officers shall cancel such stamps only if it appears that the proper tax is being paid, and when stamps with respect to any transfer are so canceled, the transferor and not the transferee shall be liable for any additional tax found due or penalty with respect to such transfer. The Commissioner shall abate or refund, in accordance with regulations issued hereunder, such portion of any tax hereunder as he finds to be attributable to profits: (1) realized in the course of the transferor's regular business of furnishing silver bullion for industrial, professional, or artistic use and (a) not resulting from a change in the market price of silver bullion, or (b) offset by contemporaneous losses incurred in transactions in interests in silver bullion determined, in accordance with such regulations, to have been specifically related hedging transactions; or (2) offset by contemporaneous losses attributable to changes in the market price of silver bullion and incurred in transactions in silver foreign exchange determined, in accordance with such regulations, to have been hedged specifically by the interest in silver bullion transferred. The provisions of this subdivision shall extend to all transfers in the United States of any interest in silver bullion, and to all such transfers outside the United States if either party thereto is a resident of the United States or is a citizen of the United States who has been a resident thereof within three months before the date of the transfer or if such silver bullion or interest therein is situated in the United States; and shall extend to transfers to the United States Government (the tax in such cases to be payable by the transferor), but shall not extend to transfers of silver bullion by deposit or delivery at a United States mint under proclamation by the President or in compliance with any Executive order issued pursuant to section 7 of the Silver Purchase Act of 1934. The tax under this subdivision on transfers enumerated in subdivision 4 shall be in addition to the tax under such subdivision. This subdivision shall apply (1) with respect to all transfers of any interest in silver bullion after the enactment of the Silver Purchase Act of 1934, and (2) with respect to all transfers of any interest in silver bullion on or after May 15, 1934, and prior to the enactment of the Silver Purchase Act of 1934, except that in such cases it shall be paid by the transferor in such manner and at such time as the Commissioner, with the approval of the Secretary of the Treasury, may by regulations prescribe, and the requirement of a memorandum of such transfer shall not apply.

"As used in this subdivision—

"The term 'cost' means the cost of the interest in silver bullion to the transferor, except that (a) in case of silver bullion produced from materials containing silver which has not previously entered into industrial, commercial, or monetary use, the cost to a transferor who is the producer shall be deemed to be the market price at the time of production determined in accordance with regulations issued hereunder; (b) in the case of an interest in silver bullion acquired by the transferor otherwise than for valuable consideration, the cost shall be deemed to be the cost thereof to the last previous transferor by whom it was acquired for a valuable consideration; and (c) in the case of any interest in silver bullion acquired by the transferor (after April 15, 1934) in a wash sale, the cost shall be deemed to be the cost to him of the interest transferred by him in such wash sale, but with proper adjustment, in accordance with regulations under this subdivision, when such interests are in silver bullion for delivery at different times.

"The term 'transfer' means a sale, agreement of sale, agreement to sell, memorandum of sale or delivery of, or transfer, whether made by assignment in blank or by any delivery, or by any paper or agreement or memorandum or any other evidence of transfer or sale; or means to make a transfer as so defined.

"The term 'interest in silver bullion' means any title or claim to, or interest in, any silver bullion or contract therefor.

"The term 'allowed expenses' means usual and necessary expenses actually incurred in holding, processing, or transporting the interest in silver bullion as to which an interest is transferred (including storage, insurance, and transportation charges but not including interest, taxes, or charges in the nature of overhead), determined in accordance with regulations issued hereunder.

"The term 'memorandum' means a bill, memorandum, agreement, or other evidence of a transfer.

"The term 'wash sale' means a transaction involving the transfer of an interest in silver bullion and, within thirty days before or after such transfer, the acquisition by the same person of an interest in silver bullion. Only so much of the interest so acquired as does not exceed the interest so transferred, and only so much of the interest so transferred as does not exceed the interest so acquired, shall be deemed to be included in the wash sale.

"The term 'silver bullion' means silver which has been melted, smelted, or refined and is in such state or condition that its value depends primarily upon the silver content and not upon its form."

Sec. 9. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary of the Treasury may deem necessary or proper to carry out the purposes of this Act, or of any order issued hereunder.

Sec. 10. As used in this Act—

The term "person" means an individual, partnership, association, or corporation;

The term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska;

The term "monetary value" means a value calculated on the basis of \$1 for an amount of silver or gold equal to the amount at

the time contained in the standard silver dollar and the gold dollar, respectively;

The term "stocks of silver" means the total amount of silver at the time owned by the United States (whether or not held as security for outstanding currency of the United States) and of silver contained in coins of the United States at the time outstanding;

The term "stocks of gold" means the total amount of gold at the time owned by the United States, whether or not held as a reserve or as security for any outstanding currency of the United States.

Sec. 11. There is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$500,000, which shall be available for expenditure under the direction of the President and in his discretion, for any purpose in connection with the carrying out of this Act; and there are hereby authorized to be appropriated annually such additional sums as may be necessary for such purposes.

Sec. 12. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Sec. 13. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed, but the authority conferred in this Act upon the President and the Secretary of the Treasury is declared to be supplemental to the authority heretofore conferred.

Approved, June 19, 1934, 9 p.m.

Washington

May 17, 1934.

STATEMENT OF SECRETARY MORGENTHAU  
BEFORE HOUSE COMMITTEE ON APPROPRIATIONS.COLLECTING THE INTERNAL REVENUE, 1935 ..... \$10,000,000

The Department is requesting a supplemental appropriation of \$10,000,000 for the Bureau of Internal Revenue for the fiscal year 1935. Of this sum, \$3,200,000 is for the Bureau proper and \$6,800,000 is to cover the expenses of the Alcohol Tax Unit, created under the provisions of the Executive Order of March 10, 1934, to enforce the internal revenue laws relating to industrial alcohol and intoxicating beverages.

Bureau of Internal Revenue Proper ..... \$3,200,000

The amount appropriated for the Bureau of Internal Revenue in the regular bill for 1935 is \$27,450,520, which corresponds with an appropriation of \$30,800,000 for the fiscal year 1934. The pending estimate would increase the appropriation for 1935 to \$30,650,520, on a 90 per cent salary basis, or, in other words, would bring the appropriation for 1935 up to about the 1934 level.

The Department has the following objects in mind in asking for this supplemental appropriation of \$3,200,000 for the Bureau of Internal Revenue proper:

- 1.--To carry into the fiscal year 1935 an intensive drive on the collection of back taxes;
- 2.--To examine income tax returns which are escaping, or have in the past escaped, examination because of insufficient personnel;
- 3.--To administer certain new taxing provisions of the Revenue Acts of 1932 and 1934; and
- 4.--To collect the taxes imposed by the Liquor Taxing Act of 1934.

The special drive on back taxes which was inaugurated late in the calendar year 1933 is producing excellent results. This drive was made possible by the release of \$2,885,000 from funds which had been impounded and placed in reserve at the beginning of the fiscal year. An original estimate of \$110,000,000 for back tax collections was increased by \$20,000,000 in anticipation of this drive. Back tax collections are now coming in at a rate in excess of this increased estimate. The Department desires to continue this drive into the fiscal year 1935.

Many thousand income tax returns have in the past escaped examination in the field because of insufficient personnel. During the fiscal year 1933 revenue agents in the field assigned to the examination of income-tax returns recommended the assessment of additional taxes at the average rate of \$77,000 per agent. Experience shows that approximately 75 per cent of such recommendations are finally collected. The single item of stock losses claimed has yielded rich returns in every district upon the reexamination of income tax returns. In one midwestern district alone the revenue agent in charge reports that he is assured of additional collections in excess of \$1,000,000 on account of this single item. Another item which is being thoroughly reexamined is the depreciation allowance claimed on income-tax returns in prior years. The Bureau is undertaking to determine the correct basis for depreciation allowances in order to forestall the claiming of excess depreciation in the current year and in the future. The additional revenue which will be derived from a more thorough examination of income tax returns in the field will completely justify the relatively small additional expenditure which is involved.



The Revenue Act of 1932 imposed additional duties upon the Bureau in connection with the estate tax, manufacturers' excise taxes, and various stamp taxes. The Revenue Act of 1934 materially adds to these duties. Probably not less than 20,000 additional returns will be filed because of the elimination of consolidated returns. The publicity feature of section 55 of the Act will result in the submission to the Bureau of 5 or 6 million supplementary statements. The requirement of section 148 (d) that the names of all officers and employees of corporations who receive salaries in excess of \$15,000 must be specially reported will add substantially to the Bureau's work. Then, while the levy of certain emergency taxes imposed by the National Recovery Act has been terminated by the repeal of the Eighteenth Amendment, the Bureau's work in connection with the collection of these taxes will continue throughout the fiscal year 1935.

Finally, the Liquor Taxing Act of 1934 naturally imposed greatly increased work on the Bureau, wholly apart from the enforcement of the internal revenue laws against bootlegging, rum running, and other willful violations.

Although the duties of the Bureau of Internal Revenue have been largely increased by recent legislation, it is now operating with a reduced personnel. At the close of the fiscal year 1932, its employees numbered 11,716. Gross tax collections for that fiscal year were \$1,557,729,042. The Bureau's expenditures for the year amounted to \$33,870,904, the average cost of collection being \$2.17 for each \$100 of revenue.

At the close of the fiscal year 1933 the employees of the Bureau numbered 11,524. Gross tax collections in 1933 amounted to

\$1,619,839,224. The expenditures were \$30,031,723, representing a cost of \$1.85 for each \$100 of revenue.

The personnel of the Bureau at the present time numbers 11,505 persons, exclusive of the Alcohol Tax Unit. It is estimated that the revenues for the current fiscal year will be in the neighborhood of \$2,260,000,000. The expenditures will be approximately \$28,100,000, representing a cost of \$1.24 for collecting each \$100 of revenue.

The present estimate of internal-revenue receipts for the fiscal year 1935 is \$2,785,000,000. With the additional appropriation of \$3,200,000 now requested, the Bureau will have for expenditure during the fiscal year 1935 the total sum of \$30,650,520, on a 90 per cent salary basis, exclusive of course of expenditures for the enforcement of the laws relating to intoxicating beverages. Adding \$1,574,000 as the cost of the 5 per cent salary restoration which has now been voted by Congress, the cost of collecting each \$100 of revenue during the fiscal year 1935 will be about \$1.16.

Alcohol Tax Unit ..... \$6,800,000

The amount requested specially for the enforcement of the internal revenue laws relating to intoxicating beverages is \$6,800,000. The Executive Order of March 10, which became effective on May 10, abolished the Bureau of Industrial Alcohol of the Treasury Department and the Alcoholic Beverage Unit, which was the successor of the former Bureau of Prohibition, in the Department of Justice. The order transferred the functions of these agencies, their personnel, and the unexpended balances of their appropriations, to the Bureau of Internal Revenue. To carry out the provisions of this order, a new unit has been created in the Bureau of Internal Revenue, called the Alcohol Tax Unit.

Pending the completion of the Government's plans for carrying on enforcement work, no appropriation was granted to the Alcoholic Beverage Unit of the Department of Justice for the fiscal year 1935. The regular Treasury bill, however, carried the sum of \$4,086,974 for the functions of the Bureau of Industrial Alcohol in carrying on the permissive features of the Prohibition Act relating to industrial alcohol, and in supervising the operations of plants engaged in the legal manufacture of alcoholic beverages. This sum will be transferred to the Bureau of Internal Revenue, and will be available for the expenses of the Alcohol Tax Unit in addition to the sum of \$6,800,000 now requested, making a total of \$10,886,974 for the enforcement in the fiscal year 1935 of the Federal laws relating to the manufacture and sale of alcohol for commercial and industrial purposes, and the manufacture and sale of intoxicating beverages.

The repeal of the Prohibition Amendment transformed a problem of law enforcement into a problem of tax collection. Congress in proposing the Repeal Amendment, and the people of the States in ratifying it, contemplated that the traffic in alcoholic beverages which had grown to immense proportions in defiance of the law forbidding it, could be made to yield large additions to the Government revenues. Repeal, however, did not automatically eliminate the problem of the illicit manufacture and distribution of alcoholic liquors. More than five months have passed since the ratification of the repeal amendment, yet there are reliable indications that there are as many illicit manufacturing plants in operation as there were before repeal. This belief is supported by figures showing the number of illicit plants raided and seized by Government agents before and following repeal.

In the four months of August, September, October and November, 1933, immediately before repeal, prohibition enforcement agents of the Department of Justice, numbering about 800, captured 2,165 illicit stills. Although repeal became effective on December 5, 1933, yet in that month and the three months following, the number of stills seized increased to 2,400 in spite of the fact that the number of enforcement agents had been reduced from 800 to approximately 700 men. The average number of stills seized per agent in this latter period was about 3.4. It is interesting to compare this with the number of stills seized per man in the same four months of 1932-33. The total seized in those four months, with more than 2,000 agents at work, was 6,555. This is an average of 3.27 stills per man, slightly less than the average number seized per man a year later, after repeal. Seizures in recent weeks have continued at an even higher rate; in the four weeks ending May 5 Department of Justice agents, numbering less than 700, seized 788 stills, which would be equivalent to more than 3,000 for a four-month period. In this later four weeks' period other seizures were made by a force of inspectors in the Bureau of Industrial Alcohol in the Treasury Department. This force, numbering slightly less than 700 men, seized 233 stills in the week ending April 28, and 227 in the week ending May 5th. Thus by doubling the number of field agents at work the number of seizures was also doubled.

When the repeal amendment became effective on December 5th, no machinery existed for preventing evasion of liquor taxes. The problem was one of protecting the revenues, but no provision had been made in the Treasury budget for the fiscal year 1934, nor in the new budget for the fiscal year 1935 for enforcement activities in connection with the legalized manufacture and sale of liquor. Prohibition enforcement had been a function of the Department of Justice. In anticipation of and

following repeal, the personnel of the Prohibition Enforcement Unit had been drastically reduced. The Unit had approximately 2,450 field agents on June 30, 1933, but on July 1st this force was cut to 1,300; there was another sharp reduction on August 9, 1933, bringing the force down to 850 field men; and by May 9th, 1934, the force had again been reduced to 662 field men.

When repeal became effective the Department of Justice Enforcement Unit lacked authority to proceed against illegal manufacture and distribution of alcoholic liquor. No force existed in the Treasury Department to do the work. Realization of this situation caused conferences with the Attorney General, which resulted in the field agents of the Department of Justice being deputized by the Treasury Department as Internal Revenue Agents so that enforcement work might continue. This was purely a temporary expedient until definite enforcement plans could be made. Two weeks after repeal, decision was reached that responsibility for enforcement activities to aid in collection of revenue in the wet states rested with the Treasury Department and that steps should be taken at once to build up in the Bureau of Industrial Alcohol a force of regulative inspectors to do this work; whereas responsibility for enforcement in the dry states remained with the Department of Justice. Funds to permit the establishment of this regulative work in the Bureau of Industrial Alcohol and to make necessary increases in the service of inspection of licensed manufacturing plants were obtained through a release by the Bureau of the Budget on January 9, 1934, of the impounded portion of the appropriation for the Bureau of Industrial Alcohol for the fiscal year 1934, amounting to \$1,173,000.

In the absence of any Act of Congress specifying otherwise, the Treasury Department was required by law to recruit its regulative

force through Civil Service channels. The Civil Service Commission was consulted and reported that they had no funds with which to hold an examination for regulative agents, and that if they had, six months would be required before an adequate list could be certified. The Treasury Department was thus faced with the alternative of making no effort to combat the illegal liquor traffic during this period, or of finding other legal means to recruit the necessary force.

I could not accept the responsibility of sitting idly by and permitting the illicit liquor traffic to intrench itself and at the same time permitting millions of dollars of Federal revenues to escape, if there were any way to prevent it. I learned that the Civil Service Commission had available a list of persons whom they could certify as qualified for exactly similar duties to those required of members of the new regulative force. This was the list of men who had passed examinations for the position of prohibition enforcement agent, including more than 1,000 who had formerly been agents of the Prohibition Enforcement Unit in the Department of Justice. I determined to make use of this list in filling the force of regulative inspectors in the Bureau of Industrial Alcohol, but before I did so I caused the list to be carefully checked by a committee of four selected by the Commissioner of Internal Revenue, the Commissioner of Industrial Alcohol, and the head of the Alcoholic Beverage Unit in the Department of Justice, successor to the Prohibition Enforcement Unit. The candidates were graded in three groups, according to the efficiency and capacity they had shown in prohibition enforcement work. Group A included those whose work had been above average; Group B was made up of those whose work had been average in efficiency; Group C was of those below average. All of the 698 appointments so far made from this list have been of Groups A and B, which contained a total of 1,033 names.

As appointments were made from this list, the nominations were examined and approved by the Civil Service Commission, which certified to the civil service standing of each candidate. In each case where suspicion was aroused or a charge from any source was made as to the character or fitness of any of the candidates, an exhaustive personal inquiry was made before appointment. The first appointments were made early in March and the new agents went to the field for organization of their work. Their operations in the period of approximately two months since the first appointments were made has justified the method of selecting them. They have undertaken their work with enthusiasm and have already achieved an excellent record in detecting illicit operations and preventing tax evasion. The number of stills seized by them has grown from 48 in the week ending April 7th to 85 in the week ending April 14, to 148 in the week ending April 21, to 233 for the week ending April 28th and to 227 for the week ending May 5th.

It had become evident that enforcement of law against illegal manufacture and sale of alcoholic liquor was almost wholly a problem of tax enforcement. Accordingly, the President, on March 10th, transmitted an Executive order to the Congress giving to the Bureau of Internal Revenue of the Treasury Department entire responsibility for suppressing the illicit manufacture and traffic in alcoholic liquors, in addition to the duty of collecting revenue from their legal sale. This Order became effective on May 10th. It transferred to the Bureau of Internal Revenue in the Treasury Department the enforcement personnel of the Alcoholic Beverage Unit of the Department of Justice, as well as the Bureau of Industrial Alcohol.

The enlarged force obtained by combining the personnel of the Alcoholic Beverage Unit with the Regulative Section of the Bureau of

Industrial Alcohol in the new Alcohol Tax Unit of the Bureau of Internal Revenue is approximately 1,360 field men. It is apparent that it will be necessary to augment this force by the employment of approximately 500 additional field men.

It has been estimated that the traffic in alcoholic beverages should yield not less than \$320,000,000 in taxes to the Federal Government during the fiscal year 1935. This indicates the importance of aggressive action on the part of the Federal Government in providing for adequate enforcement of the law, for it is certain that the revenue actually obtained from intoxicating beverages will be in direct proportion to the enforcement facilities employed. The expenditure contemplated by the estimate is considered to be the minimum required for the proper protection of the revenues. Any reduction would mean a loss many times as great in the Government's revenues.

Having adopted a policy of legalized sale of alcoholic beverages as an alternative to be preferred to an ineffectual effort to suppress the traffic altogether, the Federal Government has certainly charged itself with the duty of vindicating its new policy as well as the duty of protecting the interests of citizens who must be taxed through other channels to make up deficiencies in revenue from this source. The task of enforcing the laws relating to intoxicating liquors should not be regarded as a hopeless one, since all who pay taxes to the Federal Government must realize that it is only by cooperating in the enforcement of the laws that they can protect themselves from additional and heavier taxation in other directions. The Treasury Department expects public cooperation in the enforcement of the liquor laws to a degree that was not obtained in the enforcement of the Prohibition Amendment.



The task must, however, be undertaken vigorously and without delay before precedents and methods of violation and evasion are established which will be exceedingly difficult to eradicate.

## D

Section — (a) The second sentence of the first paragraph of section 18 of the Federal Farm Loan Act, as amended (U.S.C., title 12, sec. 841), is amended by inserting after the words "United States Government bonds" a comma and the words "and/or cash".

(b) The third paragraph of section 19 of the Federal Farm Loan Act, as amended (U.S.C., title 12, sec. 853), is amended by adding thereto the following additional sentence: "Cash held as security for farm loan bonds issued under this act shall be deposited in such bank or banks or other depositories as the Farm Credit Administration shall approve, subject to the order of the Governor of the Farm Credit Administration, and for the benefit of the holders of such bonds."

(c) The second sentence of the fourth paragraph of section 21 of the Federal Farm Loan Act, as amended (U.S.C., supp. VII, title 12, sec. 874), is amended by inserting after the words "first mortgages on farm lands" a comma and the words "and/or cash".

(d) The tenth paragraph of section 21 of the Federal Farm Loan Act, as amended (U.S.C., supp. VII, sec. 880), is amended by inserting after the words "first mortgages on farm lands" a comma and the words "and/or cash".

(e) The first sentence of subparagraph (a) of the eleventh paragraph of section 21 of the Federal Farm Loan Act, as amended (U.S.C., supp. VII, title 12, sec. 881), is amended by inserting after the words "obligations of the United States Government" a comma and the words "and/or cash"; and the second sentence of said subparagraph is amended to read as follows: "Such collateral shall be held by each farm loan registrar as security for consolidated bonds, separate and apart from the collateral held by him as collective security for the lands previously issued or assumed individually by the Federal land bank of his district."

(f) Subparagraph (c) of the eleventh paragraph of section 21 of the Federal Farm Loan Act, as amended (U.S.C., supp. VII, title 12, sec. 881), is amended by striking therefrom the words "first mortgages and bonds previously pledged as collateral" and substituting in lieu thereof the words "collateral previously pledged".

Section 32 of the Emergency Farm Mortgage Act of 1933 (12 U.S.C. 1046), as amended, is amended by inserting at the end thereof the following:

"Any Federal land bank when duly authorized by the Land Bank Commissioner and the Federal Farm Mortgage Corporation shall have the power to execute any instrument relating to any mortgage taken to secure a loan made or to be made under this section, or relating to any property included in any such mortgage or relating to any property acquired by the Land Bank Commissioner and/or the Federal Farm Mortgage Corporation; and as to all parties claiming or to claim by or through any such instrument executed on behalf of the Land Bank Commissioner and/or the Federal Farm Mortgage Corporation by a Federal land bank, through its duly authorized officers, the execution of such instrument by the Federal land bank shall be conclusively presumed to have been duly authorized by the Land Bank Commissioner and the Federal Farm Mortgage Corporation."

THURSDAY, MAY 17, 1934.

## BUREAU OF INTERNAL REVENUE

STATEMENTS OF HONORABLE HENRY MORGENTHAU, JUNIOR,  
SECRETARY OF THE TREASURY; HON. GUY T. HELVERING,  
COMMISSIONER OF INTERNAL REVENUE; WRIGHT MATTHEWS,  
ASSISTANT TO THE COMMISSIONER OF INTERNAL REVENUE,  
AND WILLIAM H. McREYNOLDS, ADMINISTRATIVE ASSISTANT  
TO THE SECRETARY

## COLLECTION OF INTERNAL REVENUE TAXES

The CHAIRMAN, Mr. Secretary, we have before us a supplemental estimate of \$10,000,000 for the Bureau of Internal Revenue for the fiscal year 1935. We would like to have from you a statement in reference to that item.

or the Federal Farm Mortgage Corporation to supervise directly all of the details in connection with the making and servicing of these loans. For this reason the 12 Federal land banks have been appointed as agents of the Land Bank Commissioner and, subject to his control and supervision, are engaged in making and generally supervising these Commissioner's loans. Under the law, such loans are made upon the security of mortgages on farm property.

Numerous requests are now being received for releases of portions of the mortgaged security from the lien of the mortgages to permit individual sales of portions of the security, or release of the security for road-building operations and similar projects. It has also been found necessary to execute various agreements affecting the security by reason of the necessity for subordination of mortgages to gas or other mineral leases. It will, of course, also be necessary to execute releases and discharges of the mortgages as loans are paid, and to execute deeds and other instruments affecting property acquired by the Commissioner and/or the Corporation.

In order to complete properly the real-estate and conveyancing records of the various counties or other political subdivisions in which the various properties securing these loans are located, it may be necessary for the Commissioner and/or the Corporation formally to authorize the Federal land banks to execute these instruments on behalf of the Corporation and the Commissioner, in the capacity of agent or attorney in fact. This presents some serious legal questions in many States, involving the power of the Corporation to delegate such authority to the Federal land banks and the power of the latter to act in such capacities. It also makes necessary considerable expense in connection with the filing or recording of the various instruments of authorization in the proper offices of the numerous counties or other political subdivisions of the various States.

It is felt that under the suggested amendment any instrument affecting title to the mortgaged property, when properly executed by one of the Federal land banks, might be placed of record and the record title perfected without the necessity of the expense and possible uncertainty which would be entailed by the recording of formal proofs of authorization.

Sincerely yours,

W. I. MYERS, Governor.

A

Sec. — The third sentence of paragraph "Twelfth" of section 12 of the Federal Farm Loan Act, as amended (U.S.C., Supp. VII, title 12, sec. 771), is amended to read as follows: "The Secretary of the Treasury shall pay each Federal land bank, as soon as practicable after October 1, 1933, and after the end of each quarter thereafter, such amounts as the Land Bank Commissioner certifies to the Secretary of the Treasury is equal to the amount by which interest payments on mortgages held by such bank have been reduced, during the preceding quarter, by reason of this paragraph; but in any case in which the Land Bank Commissioner finds that the amount of interest payable by such bank during any quarter has been reduced by reason of the refinancing of bonds, the amount of the reduction so found shall be deducted from the amount payable to such bank under this paragraph."

B

Sec. — In determining the volume of member and nonmember business transacted by any cooperative association, there shall be excluded all business transacted by such association for or on behalf of the United States or any of its agencies.

C

Sec. — Section 25 of the Farm Credit Act of 1933, as amended (U.S.C., Supp. VII, sec. 1131g) is amended by adding at the end thereof the following additional sentence: "Under such rules and regulations as may be prescribed by the Production Credit Commissioner, production credit associations may acquire by purchase or otherwise loans heretofore or hereafter made by regional agricultural credit corporations; and as to any loan so acquired, the provisions of this paragraph with regard to the requirement for the ownership by borrowers of class B stock in production credit associations shall not apply, except in the event of the extension or renewal of such loan, in whole or in part."

Secretary MORGENTHAU. Of this estimate, \$3,200,000 is for the Bureau proper and \$6,500,000 is to cover the expenses of the Alcohol Tax Unit, created under the provisions of the Executive order of March 10, 1934, to enforce the internal revenue laws relating to industrial alcohol and intoxicating beverages.

The amount appropriated for the Bureau of Internal Revenue in the regular bill for 1935 is \$27,450,520, which corresponds with an appropriation of \$30,800,000 for the fiscal year 1934. The pending estimate would increase the appropriation for 1935 to \$30,650,520, on a 90 percent salary basis, or, in other words, would bring the appropriation for 1935 up to about the 1934 level.

The Department has the following objects in mind in asking for this supplemental appropriation of \$3,200,000 for the Bureau of Internal Revenue proper:

1. To carry into the fiscal year 1935 an intensive drive on the collection of back taxes;
2. To examine income tax returns which are escaping, or have in the past escaped, examination because of insufficient personnel.
3. To administer certain new taxing provisions of the Revenue Acts of 1932 and 1934; and
4. To collect the taxes imposed by the Liquor Taxing Act of 1934.

The special drive on back taxes which was inaugurated late in the calendar year 1933 is producing excellent results. This drive was made possible by the release of \$2,885,000 from funds which had been impounded and placed in reserve at the beginning of the fiscal year. An original estimate of \$110,000,000 for back tax collections was increased by \$20,000,000 in anticipation of this drive. Back tax collections are now coming in at a rate in excess of this increased estimate. The Department desires to continue this drive into the fiscal year 1935.

Many thousand income-tax returns have in the past escaped examination in the field because of insufficient personnel. During the fiscal year 1933 revenue agents in the field assigned to the examination of income-tax returns recommended the assessment of additional taxes at the average rate of \$77,000 per agent. Experience shows that approximately 75 percent of such recommendations are finally collected. The single item of stock losses claimed has yielded rich returns in every district upon the reexamination of income tax returns. In one midwestern district alone the revenue agent in charge reports that he is assured of additional collections in excess of \$1,000,000 on account of this single item. Another item which is being thoroughly reexamined is the depreciation allowance claimed on income-tax returns in prior years. The Bureau is undertaking to determine the correct basis for depreciation allowances in order to forestall the claiming of excess depreciation in the current year and in the future. The additional revenue which will be derived from a more thorough examination of income tax returns in the field will completely justify the relatively small additional expenditure which is involved.

Mr. OLIVER. How much do you estimate is involved in that particular examination?

Mr. MATTHEWS. It is hard to determine that.

Mr. OLIVER. You have referred to the small additional expenditure involved, and I wanted to know the amount you had in mind.

Mr. HELVERING. We estimate that the minimum for the first year will be \$35,000,000, and we hope to run it up to about \$80,000,000.

Secretary MORGENTHAU. The Revenue Act of 1932 imposed additional duties upon the Bureau in connection with the estate tax, manufacturers' excise tax, and various stamp taxes. The Revenue Act of 1934 materially adds to these duties. Probably not less than 20,000 additional returns will be filed because of the elimination of consolidated returns. The publicity feature of section 55 of the act will result in the submission to the Bureau of 5 or 6 million supplementary statements. The requirement of section 148 (d) that the names of all officers and employees of corporations who receive salaries in excess of \$15,000 must be specially reported will add substantially to the Bureau's work. Then, while the levy of certain emergency taxes imposed by the National Recovery Act has been terminated by the repeal of the eighteenth amendment, the Bureau's work in connection with the collection of these taxes will continue throughout the fiscal year 1935.

Finally, the Liquor Taxing Act of 1934 naturally imposed greatly increased work on the Bureau, wholly apart from the enforcement of the internal-revenue laws against bootlegging, rum running, and other willful violations.

**COST PER HUNDRED DOLLARS FOR COLLECTING THE REVENUE—ESTIMATED REVENUE RECEIPTS AND NUMBER OF EMPLOYEES, FISCAL YEARS 1932 TO 1935**

Although the duties of the Bureau of Internal Revenue have been largely increased by recent legislation, it is now operating with a reduced personnel. At the close of the fiscal year 1932, its employees numbered 11,716. Gross tax collections for that fiscal year were \$1,557,729,042. The Bureau's expenditures for the year amounted to \$33,870,904, the average cost of collection being \$2.17 for each \$100 of revenue.

At the close of the fiscal year 1933 the employees of the Bureau numbered 11,524. Gross tax collections in 1933 amounted to \$1,619,839,224. The expenditures were \$30,031,723, representing a cost of \$1.85 for each \$100 of revenue.

The personnel of the Bureau at the present time numbers 11,505 persons, exclusive of the Alcohol Tax Unit. It is estimated that the revenues for the current fiscal year will be in the neighborhood of \$2,260,000,000. The expenditures will be approximately \$28,100,000, representing a cost of \$1.42 for collecting each \$100 of revenue.

The CHAIRMAN. That is as against \$1.85 in the preceding year.

Secretary MORGENTHAU. Yes.

Mr. McREYNOLDS. And \$2.17 in the year before.

The CHAIRMAN. You made that calculation, adding what you are requesting in this bill?

Mr. McREYNOLDS. That is in the next paragraph of this statement.

Mr. TABER. But you do not tell how many employees you will have if this amount is allowed you, in the next paragraph.

Secretary MORGENTHAU. The present estimate of internal-revenue receipts for the fiscal year 1935 is \$2,785,000,000. With the additional appropriation of \$3,200,000 now requested, the Bureau will have for expenditure during the fiscal year 1935 the total sum of \$30,650,520,

on a 90-percent salary basis, exclusive, of course, of expenditures for the enforcement of the laws relating to intoxicating beverages. Adding \$1,374,000 as the cost of the 5-percent salary restoration which has now been voted by Congress, the cost of collecting each \$100 of revenue during the fiscal year 1935 will be about \$1.16.

Mr. TABER. How many employees will this additional \$3,200,000 mean?

Secretary MORGENTHAU. Twelve thousand one hundred and seventy-three for the Bureau proper, as compared with 11,505 at the present time.

Mr. TABER. Then it will increase the number about 700?

Secretary MORGENTHAU. It will be 12,173, as against 11,505.

Mr. OLIVER. At what rates of pay?

Secretary MORGENTHAU. At the same rates; we have no right to change the rates.

Mr. OLIVER. I understand that; but you put them in different grades, and I wanted to know what the rates are.

Mr. HELVERING. They will be under the Classification Act, in grades of \$1,440, \$1,620, and so on.

Mr. OLIVER. Have you not a statement showing the number of clerks there will be in the different grades?

Mr. HELVERING. Yes.

Mr. OLIVER. I think it would be well to put that in the record.

**DISTRIBUTION OF ESTIMATE FOR SALARIES AND EXPENSES, BUREAU OF INTERNAL REVENUE PROPER**

Mr. TABER. Is this \$3,200,000 all for salaries, or is the estimate broken down in some other way?

Mr. HELVERING. About 80 percent will be for salaries; there will be some incidental expenses.

Mr. TABER. On that basis, if you divide the \$3,200,000 by 700 you get \$4,571. If you take out 15 percent from that you get an average salary of perhaps thirty-eight or thirty-nine hundred dollars. That is the way it figures out.

The CHAIRMAN. Have you not prepared a break-down of that?

Mr. HELVERING. The total amount is \$3,200,000. For salaries in the Department, the amount is \$645,000. For field salaries the amount is \$1,950,000; for travel expenses incident to field examinations, \$518,000; for rents, \$53,000, and for equipment, \$32,000.

**DISTRIBUTION OF PERSONNEL IN WASHINGTON AND IN THE FIELD TO BE PAID FROM SUPPLEMENTAL ESTIMATE FOR FISCAL YEAR 1935**

The CHAIRMAN. Have you not got a break-down showing the number of employees in each grade?

Mr. HELVERING. Yes, sir.

The CHAIRMAN. We will put that statement in the record.

(The statement above referred to follows).

Statement showing estimated personnel of the Internal Revenue Bureau in Washington to be paid from supplemental appropriation for "collecting the internal revenue" during fiscal year 1935, arranged according to bureau units, classification service titles, grades, classes within grades, and average salaries

Service title, grade, and class	Income-tax unit			Miscellaneous-tax unit			Accounts-and-collections unit			Office of the general counsel			Technical staff			Total		
	Number	Amount	Average	Number	Amount	Average	Number	Amount	Average	Number	Amount	Average	Number	Amount	Average	Number	Amount	Average
<b>PROFESSIONAL SERVICE</b>																		
Grade 6—\$5,000-\$6,000 (average, \$6,000):																		
Principal attorney.....				1	\$5,000	\$5,000					8	\$15,600	\$1,950			7	\$20,600	\$2,900
Grade 5—\$4,000-\$5,000 (average, \$5,000):																		
Senior attorney.....											11	\$1,000	\$4,636			11	\$1,000	\$4,636
Grade 4—\$3,000-\$4,000 (average, \$4,200):																		
Attorney.....				1	4,200	4,200					14	\$3,200	3,600			14	\$3,200	3,600
Capital stock tax examiner.....											1					1		
Total.....				1	4,200	4,200					14	\$3,200	3,600			15	\$7,400	3,267
Grade 3—\$2,200-\$3,000 (average, \$3,500):																		
Associate attorney.....											12	\$8,400	3,200			12	\$8,400	3,200
Associate estate tax examiner.....				4	13,700	3,425										4	13,700	3,425
Associate capital stock tax examiner.....				1	3,500	3,500										1	3,500	3,500
Associate engineer.....				1	\$3,200	\$3,200										1	3,200	3,200
Total.....				1	3,200	3,200					12	\$8,400	3,200			16	\$12,800	3,267
Grade 2—\$2,000-\$3,000 (average, \$2,900):																		
Assistant attorney.....											5	\$3,000	2,600			5	\$3,000	2,600
Assistant capital stock tax examiner.....				2	5,400	2,700										2	5,400	2,700
Total.....				2	5,400	2,700					5	\$3,000	2,600			7	\$8,400	2,666
Grade 1—\$2,000-\$2,000 (average, \$2,300):																		
Junior attorney.....											12	\$4,000	2,000			12	\$4,000	2,000
<b>CLERICAL, ADMINISTRATIVE AND FISCAL SERVICE</b>																		
Grade 12—\$5,000-\$6,000 (average, \$6,000):																		
Technical adviser.....															12	\$67,300	\$5,600	
Grade 11—\$4,000-\$5,000 (average, \$5,000):																		
Head accountant and auditor.....				1	5,000	5,000					1	4,000	4,000			2	9,000	4,500
Assistant technical adviser.....															8	\$6,800	\$4,000	
Total.....				1	5,000	5,000					1	4,000	4,000			10	\$15,800	\$4,640

Grade 11—\$3,800-\$4,600 (average, \$4,200): Assistant chief accountant and auditor.....	3	11,400	3,800	1	3,800	3,800										4	15,200	3,800		
Grade 9—\$2,200-\$3,000 (average, \$3,500): Accountant and auditor.....				6	16,100	3,017										6	16,100	3,017		
Grade 8—\$2,000-\$3,000 (average, \$3,300): Administrative assistant.....				3	9,100	3,033										3	9,100	3,033		
Grade 7—\$2,000-\$3,200 (average, \$2,900): Junior administrative assistant.....				2	5,800	2,900										2	5,800	2,900		
Assistant accountant and auditor.....	19	49,800	2,621	8	23,200	2,900						1	2,800	2,800	26	75,800	2,760			
Total.....	19	49,800	2,621	10	30,000	2,900						1	2,800	2,800	30	81,400	2,713			
Grade 6—\$2,200-\$2,900 (average, \$2,600): Principal accounting and auditing assistant.....				4	10,400	2,600										4	10,400	2,600		
Grade 5—\$2,000-\$2,500 (average, \$2,300): Senior clerk.....				2	4,600	2,300					1	2,000	2,000			3	6,600	2,200		
Senior clerk-stenographer.....													2	5,800	2,900	2	6,600	2,200		
Total.....				2	4,600	2,300					1	2,000	2,000			3	6,600	2,200		
Grade 4—\$1,800-\$2,100 (average, \$1,950): Clerk.....				9	17,700	1,967					1	1,800	1,800			10	19,500	1,950		
Grade 3—\$1,620-\$1,980 (average, \$1,800): Assistant clerk.....				5	10,620	2,124										5	10,620	2,124		
Assistant clerk-stenographer.....				8	7,140	892										4	7,140	892		
Senior stenographer.....				1	1,620	1,620					31	\$2,260	1,680			31	\$2,260	1,680		
Senior operator, office device.....																2	3,240	1,620		
Total.....				14	19,380	1,782					31	\$2,260	1,680			43	24,260	1,764		
Grade 2—\$1,440-\$1,800 (average, \$1,620): Junior clerk.....				13	21,600	1,662					4	5,760	1,440			17	27,360	1,600		
Junior clerk-typist.....				11	17,460	1,587					1	1,620	1,620			11	17,460	1,587		
Junior stenographer.....				3	4,320	1,440										3	4,320	1,440		
Junior clerk-stenographer.....	9	12,960	1,440												9	12,960	1,440			
Senior typist.....				5	4,580	916										4	6,360	1,590		
Total.....	9	12,960	1,440	27	43,380	1,607					4	7,380	1,845			36	71,100	1,644		
Grade 1—\$1,200-\$1,520 (average, \$1,480): Under-clerk.....	30	37,800	1,260	2	2,700	1,350										32	40,500	1,266		
<b>CUSTODIAL SERVICE</b>																				
Grade 1—\$1,200-\$1,500 (average, \$1,350): Messenger.....				3	3,780	1,260										3	3,780	1,260		
Grand total.....	62	115,180	1,857	67	198,840	2,263				99	281,240	2,841			25	114,940	4,504	279	717,560	2,580
Average total.....				118,150							7,800					281,240			717,560	

Statement showing personnel of the field forces of the Internal Revenue Service to be paid from supplemental appropriation "Collecting the internal revenue" in the fiscal year 1935

(Arranged according to the various branches of the field service and by salary rates)

Salary rate	Collectors' offices		Internal revenue agents' divisions		Intelligence agents and clerks		Estate-tax agents		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
\$5,000					4	\$22,400			4	\$22,400
\$4,000	2	\$8,000	2	\$8,000					4	\$16,000
\$3,500			1	3,500					1	3,500
\$3,000			11	\$33,000	5	\$15,000			16	\$48,000
\$2,500			1	2,500					1	2,500
\$2,000	2	7,000	4	8,000	8	16,000			14	\$31,000
\$1,800			1	1,800					1	1,800
\$1,600	77	\$123,200	11	\$17,600	10	\$16,000	20	\$32,000	118	\$188,800
\$1,500			3	4,500					3	4,500
\$1,400			4	5,600					4	5,600
\$1,300	3	3,900	1	1,300	36	46,800			40	\$52,000
\$1,200			4	4,800					4	4,800
\$1,100	4	4,400	1	1,100					5	5,500
\$1,000	8	8,000	208	\$208,000					216	\$216,000
\$900	5	4,500							5	4,500
\$800	7	5,600							7	5,600
\$700	281	\$196,700	1	700					282	\$197,400
\$600	103	\$61,800	5	\$3,000	7	\$4,200			115	\$69,000
\$500	31	\$15,500	86	\$42,800	8	\$4,000			125	\$62,300
\$400	3	1,200							3	1,200
Total	499	\$1,002,080	344	\$322,500	75	\$118,100	20	\$32,000	938	\$1,474,680

Mr. TABER. That total indicates that the average salary of these men who will go on, on a 90-percent basis, is \$3,707. Is that about correct?

Mr. HELVERING. The amount for salaries will be the total amount less \$518,000, \$53,000, and \$32,000.

Mr. TABER. You said the amount for field employees would be \$1,950,000, and for the bureau employees it would be \$645,000. The sum of those two amounts is \$2,595,000, and the increase in the number of employees is exactly 700, or perhaps 701. I have used the figure 700. That makes the average salary of each one \$3,707. Is that correct?

Mr. HELVERING. The estimate includes \$2,595,730 for salaries, on a 90-percent basis. The number of additional employees estimated for is 1,216. The average salary, on a 100-percent basis, will be about \$2,300.

Mr. OLIVER. Does that include their per diem?

Mr. HELVERING. This is for salaries only.

#### EXPENSE OF INDIVIDUALS CHARGED WITH FRAUD IN FILING OF TAX RETURNS

Mr. BOLTON. Mr. Chairman, before we pass the subject of the collection of back taxes I would like to make a short statement.

I want to suggest, Mr. Secretary—and this condition is particularly true in my district—in connection with the drive to collect back taxes, where the statute of limitation has run out but the old tax returns are opened up on a charge of fraud, the man who is charged with fraud is put to considerable expense for his legal counsel.

I think if the Department cannot prove fraud against the man charged with fraud, it should stand the expense that that man is put to by having those charges made against him. I make that merely as a suggestion.

Mr. HELVERING. We have found in our survey that a great many taxpayers all over the country put in what they claim are allowable deductions. I think when they claim them they have been advised by some people, perhaps, that the deduction they have claimed is a legitimate deduction, so-called "wash sales", for instance, where a man sells to his wife and takes a loss, but in fact loses no control of the stock. The rules and regulations do not permit that. So we are asking them to pay back taxes.

Mr. BOLTON. But that is not what I am talking about. I am talking about a case where a man is charged with fraud and where the fraud is not proven, and he is put to considerable expense because of the employment of legal counsel. I think when the Government is not able to prove that the fraud does exist, the Government should pay the expense to which that man charged with fraud has been put. It seems only fair to me to do that.

Mr. ANNOLD. On the same theory, in the case of a lawsuit, would you make every man who loses a lawsuit pay the other fellow's costs?

Mr. BOLTON. No; but where the statute of limitations has run out, and then the Government charges the taxpayer with fraud, that is a serious thing to the taxpayer. He naturally wants to clear his name. He is put to a lot of expense, and the Government is not able to prove anything against him. It seems to me the Government should pay the expense to which that man is put.

Mr. HELVERING. There is no disposition on the part of the Bureau of Internal Revenue to make that happen.

Mr. BOLTON. I do not mean to say there is any disposition to make this happen, but I think it might be a check on some of the local officers to be more careful in the charges which they bring.

I merely make that as a suggestion, because it has happened in my district in several instances.

Mr. ARNES. I think about the only way to remedy that would be to pass a law providing that the Government is liable in a case where the accused is charged with fraud and where the fraud can not be proven.

Mr. BOLTON. I suggested that to the Ways and Means Committee as a provision that might be put in the last tax bill, but they thought it was a matter which should be handled by regulations in the department.

#### NUMBER AND AVERAGE SALARY OF ADDITIONAL EMPLOYEES ESTIMATED FOR IN SUPPLEMENTAL ESTIMATE FOR 1935

Secretary MORGENTHAU. Mr. Chairman, Mr. Matthews calls attention to the fact that out of this \$3,200,000 there will be 1216 additional employees of this number we already have employed 500 from funds released by the Director of the Budget for the fiscal year 1934. Without the supplemental appropriation it would be necessary to let off these 500 employees at the end of the fiscal year 1934.

Mr. ANNOLD. That matter was all developed in the hearings on the Treasury-Post Office Department appropriation bill, to the effect

that all these employees would have to go off, but this money will retain on the pay roll 500 of these employees who would otherwise have to go off.

Mr. TABER. Then you have 1,216 instead of 700.

Secretary MORGENTHAU. Yes. There will be 1,216 additional employees on the 1st of July if Congress gives the bureau this money.

Mr. TABER. There will be that many more than there would otherwise be?

Secretary MORGENTHAU. Yes.

Mr. OLIVER. And the salary ranges appear in the table you have submitted?

Secretary MORGENTHAU. Yes. The average salary is \$2,322, on a 100 percent basis.

The CHAIRMAN. The 1,216 employees you just mentioned include the 500 that would otherwise lose their positions on the 1st of July?

Secretary MORGENTHAU. That is right.

Mr. OLIVER. These employees will not necessarily be permanent employees, will they? When this drive is over, you will probably drop a number of them?

Secretary MORGENTHAU. That is right.

The CHAIRMAN. How much of the additional appropriation will be necessary to continue the salaries of the 500 and the salaries of the 700?

Secretary MORGENTHAU. I do not think you can separate them, because 500 will go off on the 1st of July.

The CHAIRMAN. But if you get the appropriation you will keep them?

Secretary MORGENTHAU. Yes.

The CHAIRMAN. How much of that appropriation will it take to keep them? I want to know how much the additional appropriation for the additional employees is.

Secretary MORGENTHAU. It would be about seven-twelfths of the total estimate, I would say.

The CHAIRMAN. I thought perhaps some of the old ones occupied high positions.

Mr. HELVERING. All of them were put in at the lowest salaries in their grades.

The CHAIRMAN. About how long have they been there? They have just been there a year, or something like that?

Mr. HELVERING. No; we did not get the money until September; after we got the money we commenced to put them on, as soon as we could find the proper persons.

#### ESTIMATES INCREASED IN COLLECTION OF BACK TAXES DUE TO INCREASE IN FORCE

Secretary MORGENTHAU. We estimate that for every one of the internal-revenue agents we put on the Government collects about \$57,000 a year, so it is a pretty good investment. That is what the average has been; that is to say, each agent will collect about \$57,000 a year.

Mr. AYRES. On back taxes?

Secretary MORGENTHAU. Yes; and that is a pretty good investment with more than \$50,000 clear to the Government for every agent that we put on.

Mr. OLIVER. How will that compare with returns you have received in the past?

Secretary MORGENTHAU. We have gone above that on back taxes. Mr. Helvering and I have taken a great personal interest in this. We have divided it up by States. Every month each collector gets a letter from us saying what his percentage is and the percentage of the other 63 collectors. It has been very fruitful; I think we are getting better results under Mr. Helvering than ever before.

The CHAIRMAN. Have you any approximate estimate of what additional taxes you will collect by reason of employing these additional persons?

Mr. HELVERING. In the original estimate of taxes collected in the regular course, the back taxes were estimated at \$110,000,000. When we secured the release of impounded funds for 1934 we increased that estimate by \$20,000,000, and at the rate we are running now it will be at least \$20,000,000 above the increased estimate. We are hoping to make it \$150,000,000 for the year.

Mr. AYRES. Instead of \$110,000,000?

Mr. HELVERING. Yes.

Secretary MORGENTHAU. We are quite confident that it will go to \$150,000,000. We have set it up on a \$200,000,000 basis, but I think it will go at least to \$150,000,000.

Mr. ARNOLD. Are you putting any spur on these field men that makes their activities detrimental to the taxpayer?

Secretary MORGENTHAU. We are not putting any spur on the field men; only on the collectors.

Mr. ARNOLD. Sometimes if they are given a stake that they have to meet they become very oppressive to the taxpayers. I think that is a bad policy.

Secretary MORGENTHAU. Everything that Mr. Helvering and I have done is to make the tax collector realize that he is on the pay roll of the taxpayers and should be courteous, just, and fair.

Mr. TABER. When this bureau was up before the subcommittee on the Treasury-Post Office appropriation bill asking for funds for this particular purpose, on page 151 of the hearings, this colloquy occurred:

Mr. TABER. Do you expect with the forces you have provided for in the 1935 estimates to be able to do the work of the Internal Revenue Bureau within the funds that you asking for today?

Mr. MATTHEWS. That, Mr. Congressman, is extremely difficult to answer.

Mr. TABER. If you cannot answer it, I do not know how we can.

Mr. ARNOLD. Of course, there is the 5-percent increase in salaries to be taken into consideration.

Mr. TABER. Surely.

Mr. MATTHEWS. We estimate we are going to need from 150 to 250 additional stamp deputy collectors. We do not know what additional administrative duties are going to be conferred upon us by Congress in the enactment of new tax legislation. That may call for additional personnel.

Now, Mr. Morgenthau, on page 564 of the same hearing, this colloquy occurred:

Mr. TABER. Have you made enough of a study of your Department to be able to say to us whether, or not, in your opinion, the estimates which you have asked for, will be sufficient to carry the Treasury Department through the fiscal year 1935?

Secretary MORGENTHAU. I am satisfied with these figures which are being presented to you by the bureau heads.

Mr. TABER. And you do not think you will have to come before us asking for a deficiency.

Secretary MORGENTHAU. Unless something absolutely unforeseen turns up, I mean, I have nothing in mind now which would create a deficiency.

Skipping a little bit now of matter which does not appear to be pertinent, you said this:

No bureau head has filed a statement with me to the effect that he cannot live within his appropriation.

Mr. McRATONAS. There is only one factor that might conceivably require additional funds. The estimates for supplies and material have been held fairly closely, because nobody knows what the next year's level of prices is going to be.

I might say that does not apply to the next item you are asking for. Now, what do you think about that situation?

Secretary MORGENTHAU. The answer to that, from my standpoint, is a very simple one. The Bureau of Internal Revenue has satisfied me that it will be very profitable to have these extra men. When I first came up here, I do not think I had been in the Treasury more than three weeks.

Mr. TABER. That is the reason I used the language I did in asking the questions, because I did not want to take advantage of your situation.

Secretary MORGENTHAU. Thank you, sir. We are confident that by getting an additional \$3,000,000 we can collect many times that amount in additional taxes.

The CHAIRMAN. You could live within the appropriation that you estimated for and continue to discharge the duty that you were then discharging?

Secretary MORGENTHAU. Yes.

The CHAIRMAN. But, after investigation and research, you have found lots of tax-dodgers, and if you can get the new force, you can collect \$75,000,000. You now bring up an additional estimate to Congress, and say, "If you give us that additional force, we will collect \$75,000,000 more." If you do not do that, you say that you can live within the appropriation you estimated.

Secretary MORGENTHAU. Yes.

Mr. BACON. Then, of course, Congress passed a revenue bill since the passage of that original act.

The CHAIRMAN. Yes; imposing additional duties.

Mr. BOLTON. Are these new taxes coming from taxpayers, or from new sources? In other words, will most of them come from people who have paid income taxes?

Secretary MORGENTHAU. They came from both classes, Mr. Bolton.

Mr. HELVERING. I can give you an illustration: There were two income tax collections, resulting in \$1,200,000, representing old returns. One collection was from a Japanese steamship company, for the year 1917, which was just a matter of having the proper examination made and the tax collected. That amounted to \$371,000. Another was the case of a Canadian citizen involving a collection of \$729,000, which I was finishing just before I came here. Those are just two cases.

The CHAIRMAN. If we have to make refunds when we overassess them, they should pay deficits when we underassess them.

Secretary MORGENTHAU. We do not have to have additional money, so far as this goes, if we do not perform the additional duties. Without that, we could live within our budget, but I think it would not be very good business.

## ALCOHOL TAX UNIT

## EXPENSES OF ENFORCING LAWS RELATING TO INTOXICATING BEVERAGES

The CHAIRMAN. The next item is for the Alcohol Tax Unit, \$6,800,000.

Secretary MORGENTHAU. The amount requested specially for the enforcement of the internal revenue laws relating to intoxicating beverages is \$6,800,000. The Executive order of March 10, which became effective on May 10, abolished the Bureau of Industrial Alcohol of the Treasury Department and the Alcoholic Beverage Unit, which was the successor of the former Bureau of Prohibition in the Department of Justice. The order transferred the functions of these agencies, their personnel, and the unexpended balances of their appropriations, to the Bureau of Internal Revenue. To carry out the provisions of this order, a new unit has been created in the Bureau of Internal Revenue, called the Alcohol Tax Unit.

Pending the completion of the Government's plans for carrying on enforcement work, no appropriation was granted to the Alcoholic Beverage Unit of the Department of Justice for the fiscal year 1935. The regular Treasury bill, however, carried the sum of \$4,086,974 for the functions of the Bureau of Industrial Alcohol in carrying on the permissive features of the Prohibition Act relating to industrial alcohol, and in supervising the operations of plants engaged in the legal manufacture of alcoholic beverages. This sum will be transferred to the Bureau of Internal Revenue, and will be available for the expense of the Alcohol Tax Unit in addition to the sum of \$6,800,000 now requested, making a total of \$10,886,974 for the enforcement in the fiscal year 1935 of the Federal laws relating to the manufacture and sale of alcohol for commercial and industrial purposes, and the manufacture and sale of intoxicating beverages.

## SEIZURES OF ILLICIT STILLS

The repeal of the prohibition amendment transformed a problem of law enforcement into a problem of tax collection. Congress in proposing the repeal amendment, and the people of the States in ratifying it, contemplated that the traffic in alcoholic beverages, which had grown to immense proportions in defiance of the law forbidding it, could be made to yield large additions to the Government revenues. Repeal, however, did not automatically eliminate the illicit manufacture and distribution of alcoholic liquors. More than 5 months have passed since the ratification of the repeal amendment, yet there are reliable indications that there are as many illicit manufacturing plants in operation as there were before repeal. This belief is supported by figures showing the number of illicit plants raided and seized by Government agents before and following repeal.

In the 4 months of August, September, October, and November, 1933, immediately before repeal, enforcement agents of the Department of Justice, numbering about 800, captured 2,165 illicit stills. Although repeal became effective on December 5, 1933, yet in that month and the 3 months following, the number of stills seized increased to 2,400 in spite of the fact that the number of enforcement agents had been reduced from 800 to approximately 700 men. The average number of stills seized per agent in this latter period was



about 3.4. It is interesting to compare this with the number of stills seized per man in the same four months of 1932-33. The total seized in those 4 months, with more than 2,000 agents at work, was 6,555. This is an average of 3.27 stills per man, slightly less than average number seized per man a year later, after repeal. Seizures in recent weeks have continued at an even higher rate; in the 4 weeks ending May 5, Department of Justice agents, numbering less than 700, seized 788 stills, which would be equivalent to more than 3,000 for a 4-month period. In this later 4-week period other seizures were made by a force of inspectors in the Bureau of Industrial Alcohol in the Treasury Department. This force, numbering slightly less than 700 men, seized 233 stills in the week ending April 28, and 227 in the week ending May 5. Thus, by doubling the number of field agents at work the number of seizures was also doubled.

TRANSFER OF PERSONNEL FROM BUREAU OF INDUSTRIAL ALCOHOL AND SELECTION OF ADDITIONAL PERSONNEL FOR ALCOHOL TAX UNIT

When the repeal amendment became effective on December 5, no machinery existed for preventing evasion of liquor taxes. The problem was one of protecting the revenues, but no provision had been made in the Treasury budget for the fiscal year 1934, nor in the new budget for the fiscal year 1935, for enforcement activities in connection with the legalized manufacture and sale of liquor. Prohibition enforcement had been a function of the Department of Justice. In anticipation of and following repeal, the personnel of the Prohibition Enforcement Unit had been drastically reduced. The unit had approximately 2,450 field agents on June 30, 1933, but on July 1 this force was cut to 1,300; there was another sharp reduction on August 9, 1933, bringing the force down to 850 field men; and by May 9, the force had been further reduced to 662.

When repeal became effective the Department of Justice Enforcement Unit lacked authority to proceed against the illegal manufacture and distribution of alcoholic liquor. No force existed in the Treasury Department to do the work. Conferences with the Attorney General resulted in the field agents of the Department of Justice being deputized by the Treasury Department as Internal Revenue agents so that enforcement work might continue. This was purely a temporary expedient until definite enforcement plans could be made. Two weeks after repeal, decision was reached that responsibility for enforcement activities to aid in collection of revenue in the wet States rested with the Treasury Department and that steps should be taken at once to build up in the Bureau of Industrial Alcohol a force of field agents to do this work. Responsibility for enforcement in the dry States remained with the Department of Justice. Funds to permit the establishment of this enforcement work in the Bureau of Industrial Alcohol and to make necessary increases in the service of inspection of licensed manufacturing plants were obtained through a release by the Bureau of the Budget on January 9, 1934, of the impounded portion of the appropriation for the Bureau of Industrial Alcohol for the fiscal year 1934, amounting to \$1,173,000.

In the absence of any act of Congress specifying otherwise, the Treasury Department was required by law to recruit its regulative force through Civil Service channels. The Civil Service Commission was consulted and reported that they had no funds with which to

hold an examination for regulative agents, and that if they had, 6 months would be required before an adequate list could be certified. The Treasury Department was thus faced with the alternative of making no effort to combat the illegal liquor traffic during this period, or of finding other legal means to recruit the necessary force.

I could not accept the responsibility of sitting by and permitting the illicit liquor traffic to intrench itself and at the same time permitting millions of dollars of Federal revenues to escape, if there were any way to prevent it. I learned that the Civil Service Commission had available a list of persons whom they could certify as qualified for duties exactly similar to those required of members of the new regulative force. This was the list of men who had passed examinations for the position of prohibition agent, including more than 1,000 who had formerly been agents of the Prohibition Enforcement Unit in the Department of Justice. I determined to make use of this list in filling the force of regulative inspectors in the Bureau of Industrial Alcohol, but before I did so I caused the list to be carefully checked by a committee of four selected by the Commissioner of Internal Revenue, the Commissioner of Industrial Alcohol, and the head of the Alcoholic Beverage Unit in the Department of Justice, successor to the Bureau of Prohibition. The candidates were graded into three groups, according to the efficiency and capacity they had shown in prohibition enforcement work. Group A included those whose work had been above average; group B was made up of those whose work had been average in efficiency; group C was of those below average. All of the 698 appointments which were made from this list were from groups A and B, which contained a total of 1,033 names.

As appointments were made, the nominations were approved by the Civil Service Commission, which certified to the civil service standing of each candidate. In each case where suspicion was aroused or a charge from any source was made as to the character or fitness of any of the candidates, there was an exhaustive personal inquiry before appointment. The first appointments were made early in March and the new agents went to the field for organization of their work. Their operations in the period of approximately 2 months since the first appointments were made has justified the method of selecting them. They have undertaken their work with enthusiasm and have already achieved an excellent record in detecting illicit operations and preventing tax evasion. The number of stills seized by them has grown from 48 in the week ending April 7 to 85 in the week ending April 14, to 148 in the week ending April 21, to 233 for the week ending April 28, and to 227 for the week ending May 5.

Mr. OLIVER: Does that include your extra force, as well as the force you took over from the Department of Justice?

Secretary MORGENTHAU: No, sir. That was before the men were taken over from the Department of Justice. This relates to our force alone.

Mr. AYRES: What is your force?

Secretary MORGENTHAU: The force of approximately 700 regulative inspectors appointed under the Bureau of Industrial Alcohol beginning late in March.

Mr. McREYNOLDS: That was the number on May 10. From the first of April, when we started, the fixed force of the Bureau of Industrial Alcohol was gradually increased through the reinstatement of former prohibition agents.

Secretary MORGENTHAU. In a period of 4 weeks, the Department of Justice agents seized 788 stills, while our men in just one week, ending May 5, seized 227 stills. They were two different forces at that time.

Mr. McREYNOLDS. They are now consolidated into one force, that consolidation was effected May 10.

Secretary MORGENTHAU. In the 4 weeks period prior to May 5 the Department of Justice agents seized slightly under 800 stills.

Mr. OLIVER. What was the number of men in the force of the Department of Justice at that time?

Secretary MORGENTHAU. Approximately 700.

Mr. OLIVER. What number were you employing for the same purpose?

Secretary MORGENTHAU. Just under 700, but our men had been going only about 2 months.

It had become evident that enforcement of law against illegal manufacture and sale of alcoholic liquor was almost wholly a problem of tax enforcement. Accordingly, the President, on March 10, transmitted an Executive order to the Congress giving to the Bureau of Internal Revenue of the Treasury Department entire responsibility for suppressing the illicit manufacture and traffic in alcoholic liquors, in addition to the duty of collecting revenue from their legal sale. This order became effective on May 10. It transferred to the Bureau of Internal Revenue in the Treasury Department the enforcement personnel of the Alcoholic Beverage Unit of the Department of Justice, as well as the Bureau of Industrial Alcohol.

The CHAIRMAN. This includes dry States as well as wet States.

Secretary MORGENTHAU. Yes. Since May 10 we have been responsible for the work in all of the 48 States.

The enlarged force obtained by combining the personnel of the Alcoholic Beverage Unit with the regulative section of the Bureau of Industrial Alcohol in the new Alcohol Tax Unit of the Bureau of Internal Revenue is approximately 1,360 field men. Our estimate contemplates that it will be necessary to augment this force by the employment of approximately 500 additional field men.

#### ESTIMATED TAX YIELD FROM INTOXICATING BEVERAGES

It has been estimated that the traffic in alcoholic beverages should yield not less than \$320,000,000 in taxes to the Federal Government during the fiscal year 1935. This indicates the importance of aggressive action on the part of the Federal Government in providing for adequate enforcement of the law, for it is certain that the revenue actually obtained from intoxicating beverages will be in direct proportion to the enforcement facilities employed. The expenditure contemplated by the estimate is considered to be the minimum required for the proper protection of the revenues. Any reduction would mean a loss many times as great in the Government's revenues.

Having adopted a policy of legalized sale of alcoholic beverages as an alternative to be preferred to an ineffectual effort to suppress the traffic altogether, the Federal Government has certainly charged itself with the duty of vindicating its new policy as well as the duty of protecting the interest of citizens who must be taxed through other channels to make up deficiencies in revenue from this source. The task of enforcing the laws relating to intoxicating liquors should not

be regarded as a hopeless one, since all who pay taxes to the Federal Government must realize that it is only by cooperating in the enforcement of the laws that they can protect themselves from additional and heavier taxation in other directions. The Treasury Department expects public cooperation in the enforcement of the liquor laws to a degree that was not obtained in the enforcement of the prohibition amendment. The task must, however, be undertaken vigorously and without delay before precedents and methods of violation and evasion are established which will be exceedingly difficult to eradicate.

Mr. BACON. What is your total force to which this money will be allotted?

Secretary MORGENTHAU. About 2,000.

Mr. BACON. Do you think that will be enough?

Secretary MORGENTHAU. We have gone over this thing very carefully. We have not come up here asking for \$6,800,000 with the idea that it would be cut to \$4,000,000, but this has been very carefully worked out.

Mr. BACON. Do you consider this the irreducible minimum?

Secretary MORGENTHAU. I absolutely do. I feel that this is the way to hit it and to hit it hard.

Mr. BACON. This is exactly my idea. It should be done at the very beginning.

Secretary MORGENTHAU. If Congress will give us this money, I am willing to take the responsibility, with my associates, to hit it and hit it hard.

Mr. AYRES. It would likewise be a very good investment.

Secretary MORGENTHAU. Yes; with \$320,000,000 at stake.

#### RECEIPTS AS RESULT OF SEIZURE OF LIQUORS, STILLS, ETC.

Mr. OLIVER. I would like to have a statement inserted in the record showing the tax collections realized from the seizure of those stills which you have referred to since, we will say, January of this year.

Secretary MORGENTHAU. Do you mean the amount of mash, liquor, and trucks, with the number of arrests?

Mr. OLIVER. I mean how much in cash has come to you as a result of the seizure of those stills.

Secretary MORGENTHAU. We can give you that.

Mr. OLIVER. Do you collect a license tax for the unlawful manufacture of liquors from parties whom you arrest?

Secretary MORGENTHAU. We make an assessment of the tax due. We are seizing about \$500,000 worth of property per week.

Mr. OLIVER. Do you destroy most of that?

Secretary MORGENTHAU. The liquor is generally destroyed. Any automobiles seized are turned over for use by court order.

Mr. ARNOLD. Do you destroy seized liquors or do you sell them?

Secretary MORGENTHAU. They are usually destroyed.

Mr. HELVERING. There has been very little of that sold. If the value is over \$500 there must be an order of court for its disposal.

The CHAIRMAN. When you get your testimony, you can figure up what you estimate you will receive, with this extra force of employees, from the seizures of stills, collections of licenses or any other taxes, giving the value of the property sold, and so forth.

Secretary MORGENTHAU. We will furnish a statement about that.

(The statement referred to is as follows:)

There are no figures available as to the actual amount of taxes realized on account of the seizure of illicit stills since January 1, 1934. Reports covering the 4,047 stills seized since that date have not yet been reviewed and acted upon by the Assessment Section. However, on the basis of a comparatively small number of reports of regulative inspectors reviewed up to the let of May 1934, assessments were made in the total amount of \$42,824.41.

It is difficult to estimate the amount of taxes that will be realized from the seizure of stills. The real financial benefit to the Government is not from the collection of taxes on the operations of an unlawful still, but from the elimination of the production of unlawful liquor, with a resulting increased market for lawful liquors upon which a tax is collected.

Each agent in the field during the past 4 months has seized, on the average, one still per month, the daily production capacity of which was approximately 130 gallons. Assuming that the stills seized by these officers would have continued to operate at capacity if they had not been seized, it would appear that each field officer was responsible for keeping off the market approximately 3,900 gallons of illicit liquor per month, upon which the tax would be approximately \$7,900. There is no possible way, however, to estimate the quantities of liquors which would have been actually produced by the stills seized. It must be presumed that none of these stills would be operated continuously at capacity, for the volume of operations would be governed by the market demand for illicit liquor. These estimates must accordingly remain somewhat speculative.

There have been no auction sales of seized liquor in the Treasury Department since January 1, 1934. It is understood, however, that the Department of Justice has in recent months disposed of certain stocks of smuggled liquor seized under the customs laws, and that approximately \$750,000 has been realized from such sales.

APPROPRIATIONS MADE FOR ENFORCEMENT OF LAWS RELATING TO ALCOHOL AND ALCOHOLIC BEVERAGES

Mr. OLIVER. Referring to the estimate you have submitted for 1935 for the purpose of enforcing the revenue laws, how does the amount that you ask for compare with the amount that had been previously appropriated to the Department of Justice for the enforcement of the law?

Secretary MORGENTHAU. May I furnish a statement covering that for the record?

(The statement referred to is as follows:)

Appropriations for enforcement of laws relating to alcohol and alcoholic beverages, fiscal years 1920 to 1935, inclusive

Fiscal year	Bureau of Internal Revenue	Bureau of Prohibition, Treasury Department	Bureau of Prohibition, Department of Justice	Bureau of Industrial Alcohol	Total
1920	\$1,000,000				\$1,000,000
1921	2,350,000				2,350,000
1922	5,700,000				5,700,000
1923	5,000,000				5,000,000
1924	7,700,000				7,700,000
1925	10,000,779				10,000,779
1926	9,670,560				9,670,560
1927	11,963,008				11,963,008
1928		\$11,000,000			11,000,000
1929		11,378,700			11,378,700
1930		13,808,394			13,808,394
1931			\$9,064,500	\$4,098,740	13,163,240
1932			11,000,500	4,614,420	15,614,920
1933			10,250,000	4,325,000	14,575,000
1934			5,440,000	4,050,000	9,490,000
1935	\$4,000,000			\$4,000,000	8,000,000

<sup>1</sup> Estimate pending.

<sup>2</sup> Transferred to Bureau of Internal Revenue under Executive Order of Mar. 10, 1934.

Mr. OLIVER. I thought you could give it approximately. It seems to me that the duties are somewhat different. When we were handling this appropriation for the Department of Justice, the estimates submitted to our committee for 1935 were far below what you estimate here for 1935, or what you have submitted for 1935. It was the sense of our committee, from the rather limited examination we made—because it was our thought that it should be turned over to the Treasury Department—that there was no necessity for any material increase in the amount for the Department of Justice. For that reason I am somewhat surprised to find your estimates run so high. However, if it is your ploy to announce, as it seems to be, that the Federal Government will charge itself with the duty of inaugurating this new policy, as well as protecting the interest of the public and of the citizens who must pay the taxes—and in many districts they have been willing to undertake this work—my thought was that there should be an educational program put on with a view to impressing upon the States the importance of lending proper cooperation, even if they had not under the old law. If you send out that kind of statement, that you assume that it is your duty to do it altogether, you will not get cooperation from State and county officials. Of course, they are just as much interested now in the enforcement of the revenue laws as you are, because that is the only way by which they can protect the people whom they license. It occurs to me that you can very easily overdo this and assume a burden that you will always have to carry. Now, if you do not undertake to select a class of men who will solicit intelligent and sympathetic cooperation on the part of the State, county, and municipal authorities—if you fail to do that now, you will do just what it is so easy for the Government to do, and, that is, assume the obligation of carrying all of the burden and leaving Uncle Sam to do all the work.

Secretary MORGENTHAU. I agree with you entirely. It is not our idea that we are going to do a job that the States should do for themselves; but with only 28 States wet and the balance dry, and with many of the dry States having no enforcement laws whatsoever, it seems to me that the best lesson we can give the States in the collection of taxes is to show them the number of illicit stills seized in each of the States and the amount of taxes they are losing.

STATEMENT SHOWING SEIZURES MADE

We are planning to do something that has not been done before, that is, to give out each week a statement by States, showing the number of stills seized in each State, and the number of people arrested, with the amount of mash and the quantities of liquor seized. I am under the impression that if, week after week, we report to the States that have inadequate laws the amount of revenue they are losing, the State authorities will pretty soon hear from the law-abiding citizens. The law-abiding citizens will say this, "Let us go in and collect those taxes."

Mr. OLIVER. Do you have a statement of that kind you can insert in the record?

Secretary MORGENTHAU. Yes. We will be glad to insert it in the record.

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Mr. BACON: You are getting good cooperation in your law enforcement work in wet States?

Secretary MORGENTHAU: Yes. But there is a lot of educational work to do.

(The statement referred to is as follows:)

Seizures by regulative inspectors, Bureau of Industrial Alcohol, Mar. 15 to May 12, 1934

District	Stills seized	Total still capacity	Spirits seized	Mash seized	Autos seized	Trucks seized	Value of property seized	Arrests
No. 1 (Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island)	15	4,392	1,591	13,950	12	2	\$16,161.75	28
No. 2 (New York)	82	30,060	8,480	349,270	5	4	250,219.50	99
No. 3 (Pennsylvania, New Jersey, Delaware)	39	56,000	34,263	600,858	7	3	\$81,451.75	71
No. 4 (Maryland, Virginia, West Virginia, North Carolina, South Carolina, District of Columbia)	185	31,918	6,071	283,254	22	3	4,088.00	138
No. 5 (Georgia, Florida, Alabama, Mississippi, Louisiana, Texas)	385	53,725	6,789	289,969	42	10	9,095.00	276
No. 6 (Michigan, Ohio, Kentucky, Tennessee)	214	27,771	6,577	163,809	27	1	11,630.00	268
No. 7 (Wisconsin, Illinois, Indiana)	96	25,420	4,446	300,253	12	2	31,099.00	115
No. 8 (North Dakota, South Dakota, Minnesota, Nebraska, Iowa)	96	4,175	2,313	23,763	21	1	9,950.00	108
No. 9 (Kansas, Oklahoma, Missouri, Arkansas)	83	9,661	3,302	37,333	16	3	3,541.00	104
No. 10 (Wyoming, Utah, Colorado, Arizona, New Mexico)	31	3,500	535	16,520	3		290.00	54
No. 11 (California, Nevada)	8	925	1,445	9,755	2	2	2,374.00	16
No. 12 (Oregon, Washington, Montana, Idaho)	35	3,371	963	5,595	9	0	4,325.00	49
Grand total	1,223	259,098	66,134	2,174,329	176	30	\$66,334.00	1,479

Seizures by agents Alcoholic Beverage Unit, Department of Justice, Jan. 1 to May 1, 1934

District	Month	Stills seized	Average still capacity	Spirits seized	Autos seized	Arrests
Boston	January	9	490	1,092	10	35
	February	3	133	4,222	11	39
	March	13	670	10,046	9	41
	April	7	125	403	9	22
Total		32	322	15,765	39	128
New York	January	37	1,620	36,285	7	44
	February	24	1,000	8,091	5	79
	March	23	1,100	12,148	16	72
	April	26	850	6,436	9	47
Total		110	1,142	67,522	37	248
Philadelphia	January	17	63	893	7	38
	February	5	731	967		14
	March	16	699	1,270		16
	April	11	1,644	2,697		26
Total		49	2667	6,827		94
Washington, D.C.	January	26	175	5,208	18	82
	February	17	292	710	11	35
	March	29	161	5,154	19	90
	April	42	303	2,996	20	166
Total		114	931	14,168	68	269

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Seizures by agents Alcoholic Beverage Unit, Department of Justice, Jan. 1 to May 1, 1934—Continued

District	Month	Stills seized	Average still capacity	Spirits seized	Autos seized	Arrests
Pittsburgh	January	12	260	902	12	30
	February	4	35	10,004	11	23
	March	3	40	66	4	23
	April	22	96	1,271	9	16
Total		41	431	12,243	36	92
Charlotte, N.C.	January	21	195	482	8	27
	February	20	157	928	7	34
	March	34	148	916	5	42
	April	73	134	1,267	15	40
Total		148	534	3,693	25	143
Birmingham, Ala.	January	147	264	4,598	22	258
	February	147	278	4,028	28	262
	March	149	399	4,979	24	299
	April	128	394	4,517	23	193
Total		571	1365	17,122	107	962
Jacksonville, Fla.	January	35	171	793	11	48
	February	23	252	1,675	22	35
	March	48	225	1,494	10	67
	April	75	198	1,820	8	34
Total		181	711	5,782	51	173
New Orleans, La.	January	29	93	1,691	18	80
	February	19	142	939	22	64
	March	21	55	1,216	22	81
	April	43	82	1,888	14	92
Total		112	372	5,734	76	317
Dallas, Tex.	January	11	122	288	11	18
	February	26	190	1,810	10	16
	March	27	115	1,144	18	136
	April	29	188	819	22	117
Total		93	515	4,061	61	287
San Antonio, Tex.	January	47	70	948	4	32
	February	21	57	612	8	45
	March	29	68	1,646	10	53
	April	29	96	1,148	12	45
Total		126	291	4,354	34	205
St. Louis, Mo.	January	19	106	4,740	3	26
	February	15	151	826	8	16
	March	29	123	396	2	23
	April	13	190	434	2	22
Total		67	470	6,396	15	87
Cincinnati, Ohio	January	55	72	1,930	11	110
	February	44	90	1,383	3	87
	March	52	92	1,102	7	82
	April	53	91	2,146	13	101
Total		204	345	6,561	34	280
Detroit, Mich.	January	37	212	2,896	4	61
	February	26	331	4,625	9	42
	March	35	289	4,468	15	41
	April	91	159	2,956	9	58
Total		189	1001	14,945	37	202
Chicago, Ill.	January	28	1,540	14,047	8	35
	February	28	1,832	5,430	3	42
	March	35	1,183	2,936	0	59
	April	29	369	1,697	8	42
Total		120	4,924	24,110	20	198

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Seizures by agents Alcoholic Beverage Unit, Department of Justice, Jan. 1 to May 1, 1934—Continued

District	Month	Stills seized	Average still capacity	Spirits seized	Autos seized	Arrests
St. Paul, Minn.	January	25	88	1,036	8	65
	February	14	83	1,185	5	34
	March	9	90	730	3	21
	April	11	950	537	4	44
Total		59	152	3,527	18	174
Kansas City, Mo.	January	35	107	5,558	8	65
	February	16	117	1,163	4	29
	March	40	91	2,324	10	107
	April	26	101	2,034	10	92
Total		117	119	14,181	32	303
Oklahoma City, Okla.	January	62	131	2,074	9	81
	February	36	98	1,513	9	69
	March	44	56	813	12	60
	April	41	108	4,309	3	84
Total		185	97	8,709	33	274
Salt Lake City, Utah	January	13	800	973	4	22
	February	5	49	173	1	13
	March	1		40	2	8
	April	19	121	592	1	31
Total		37	257	1,778	8	74
Butte, Mont.	January	27	52	453	3	34
	February	30	80	2,355	8	46
	March	14	60	333	1	35
	April	23	62	670	2	31
Total		94	63	3,811	12	144
Portland, Oreg.	January	19	1,388	1,953	11	42
	February	15	419	794	6	34
	March	10	179	407	6	16
	April	8	1,296	1,627	6	34
Total		50	820	4,781	29	106
San Francisco, Calif.	January	5	400	2,708	3	14
	February	9	450	2,069	5	9
	March	11	71	643	1	22
	April	6	1,000	3,026	4	16
Total		31	480	8,446	13	61
Los Angeles, Calif.	January	18	188	1,340	10	22
	February	10	16	2,526	7	32
	March	10	66	2,766	6	23
	April	12	130	1,404	8	34
Total		50	113	9,036	31	121
Grand total		2,824	312	258,104	844	6,025

DISTRIBUTION OF AVAILABLE APPROPRIATION AND SUPPLEMENTAL ESTIMATE FOR ALCOHOLIC TAX UNIT

The CHAIRMAN. Your present appropriation is \$4,086,974. When you were here before, your organization was not fully completed, and you could not give us a complete breakdown of that appropriation, because you had not completed your plan. Now you are asking \$6,800,000, making a total of \$10,886,974, and we want you to put in the record a complete breakdown of that entire amount, showing the number of your employees, the classes they are in, and salaries drawn.

ADDITIONAL APPROPRIATIONS FOR EMERGENCY PURPOSES 379

We want a breakdown of the entire amount so we will have in one place a statement of your complete plan. Secretary MORGENTHAU. We will supply that. (The statement referred to is as follows:)

Statement showing by classifications of expense estimated expenditures to be made from administrative funds totaling \$10,886,974 to be available for Alcohol Tax Unit, Bureau of Internal Revenue, fiscal year 1935

	Obligations, 1935	
	Number of employees	Annual basic salaries
PERSONAL SERVICES, DEPARTMENTAL		
Professional and scientific service:		
Grade 6. Senior scientist (head, technical division)	1	\$4,000
Attorney (assistant head of law division)	1	5,000
Grade 5. Attorney	2	10,200
Scientist (medical officer)	1	5,000
Scientist (chemist in charge)	1	4,800
Scientist (assistant chemist in charge)	1	4,800
Scientist (chemist)	1	4,800
Grade 4. Scientist (chemist)	5	24,000
Attorney	1	3,800
Grade 3. Associate attorney	2	6,700
Associate scientist (chemist)	2	6,600
Grade 1. Junior scientist (chemist)	1	2,100
Clerical, administrative, and fiscal service:		
Grade 15. Special assistant officer (deputy commissioner)	1	8,000
Grade 14. Executive officer (assistant deputy commissioner)	2	13,000
Grade 12. Administrative officer (head of section)	1	4,000
Grade 11. Administrative officer (head of section)	1	4,200
Grade 9. Senior administrative assistant (head of section)	2	9,600
Grade 8. Administrative assistant (head of section)	1	3,300
Grade 7. Junior administrative assistant (secretary to deputy commissioner)	2	2,800
Junior administrative assistant (head of section)	1	2,800
Grade 6. Principal clerk	24	56,100
Grade 5. Senior clerk	25	53,200
Senior clerk-stenographer (secretary to assistant deputy commissioner)	1	3,100
Senior clerk-stenographer (secretary to head, technical division)	1	2,100
Grade 4. Clerk	32	69,670
Clerk-stenographer	2	5,900
Office draftsman	1	1,850
Stenographic	3	4,400
Grade 3. Assistant clerk	14	23,000
Senior stenographer	25	43,200
Assistant clerk-stenographer	3	5,340
Grade 2. Junior clerk	3	4,500
Junior clerk-typist	28	46,740
Junior operator, office device	6	8,900
Junior stenographer	1	7,380
Senior typist	1	1,620
Grade 1. Underclerk	6	7,920
Custodial service: Grade 1. Messenger	7	9,900
Total permanent, departmental	218	468,760
Deduct lapses		5,000
Net permanent, departmental		463,760
PERSONAL SERVICES, FIELD		
Professional and scientific service:		
Grade 5. Attorney	2	8,000
Grade 4. Attorney	3	8,400
Chemist	9	24,200
Grade 3. Attorney	6	15,000
Chemist	10	32,800
Grade 2. Attorney	1	2,000
Chemist	11	30,200
Grade 1. Underclerk	4	8,700
Clerical, administrative, and fiscal service:		
Grade 13. Supervisor	5	20,000
Grade 12. Supervisor	7	35,200
Assistant supervisor	7	33,600
Zone supervisor	3	15,400
Chief, plant control	1	4,000

Statement showing by classifications of expense estimated expenditures to be made from administrative funds totaling \$10,886,974 to be available for Alcohol Tax Unit, Bureau of Internal Revenue, fiscal year 1935—Continued

	Obligations, 1935	
	Number of employees	Annual basic salaries
<b>PERSONAL SERVICES, FIELD—continued</b>		
Clerical, administrative, and fiscal service—Continued.		
Grade 11. Assistant supervisor.....	10	\$22,400
Field inspector.....	5	30,000
Inspector.....	5	23,000
Grade 10. Assistant supervisor.....	2	7,500
Inspector in charge.....	27	102,000
Investigator.....	20	76,000
Grade 9. Field inspector.....	35	128,000
Inspector.....	1	2,500
Clerk.....	20	118,700
Chief clerk.....	1	3,200
Assistant supervisor.....	1	3,200
Grade 8. Chief clerk.....	2	5,400
Clerk.....	2	6,700
Inspector.....	2	6,300
Grade 7. Chief clerk.....	20	108,700
Clerk.....	3	4,900
Inspector.....	0	26,100
Grade 6. Storekeeper-gauger.....	2,121	4,317,300
Clerk.....	6	15,000
Inspector.....	14	34,600
Grade 5. Storekeeper-gauger.....	178	1,005,000
Clerk.....	58	147,700
Laboratorian.....	1	2,000
Grade 4. Clerk.....	83	180,150
Grade 3. Clerk.....	107	285,750
Senior stenographer-typist.....	1	1,740
Grade 2. Clerk.....	110	165,770
Operator office device.....	6	9,000
Laboratory assistant.....	1	1,400
Grade 1. Clerk.....	63	90,730
Telephone operator.....	8	10,310
Custodial service.....	5	6,840
Grade 5. Mechanic.....	2	3,000
Grade 3. Unskilled laborer.....	1	1,440
Messenger.....	1	12,240
Grade 2. Messenger.....	7	7,560
Total permanent, field.....	2,785	9,181,790
Deduct lapse.....		75,000
Not permanent positions, field.....		9,106,790
Temporary employees.....		20,000
All personal services, field.....		9,126,790
Total departmental and field.....		9,568,520
Deduct legislative reductions in compensation (10 percent).....		938,555
Personal services (net).....		8,630,000
<b>OTHER OBLIGATIONS</b>		
Supplies and materials.....		125,000
Excess of Government automobiles.....		25,000
Communication services.....		94,000
Travel expense.....		1,218,875
Transportation of things (service).....		22,000
Heat, light, power, and electricity.....		2,000
Rents.....		105,115
Repairs and alterations.....		65,000
Special and miscellaneous current expenses.....		207,541
Equipment.....		95,700
Total other obligations.....		2,207,999
Total estimate of appropriation.....		10,886,974

## ESTIMATED INCREASE IN TAX COLLECTIONS AS RESULT OF INCREASED PERSONNEL

The CHAIRMAN. You told us awhile ago that for each agent you had out collecting taxes, you collected \$77,000.

Mr. HELVERING. It was 75 per cent of \$77,000—about \$57,000.

The CHAIRMAN. Now, we want you to put something in the record about this. Please put a statement in your testimony as to what revenue we will make over and above the 10 millions.

Mr. AYRES. Mr. Chairman, the proposal you made a few moments ago to the effect that you wanted a breakdown of the personnel, of the field men, collecting these back taxes, I do not know whether that is thoroughly understood by the Secretary.

Mr. HELVERING. We will be glad to do that.

Mr. AYRES. Please put in a breakdown in connection with the back taxes there.

The CHAIRMAN. Put in a breakdown of back taxes; this was incomplete when we had the other hearing. The breakdown on that \$4,000,000 was not complete, and now you have the complete picture.

Secretary MORGENTHAU. We will be delighted to give that.

The CHAIRMAN. Please give an estimate of what you think will result from this increased enforcement; what taxes you will collect, which you would not otherwise collect.

(See note pp. 1000, 1004, 1035, and 1039.)

Mr. McREYNOLDS. With respect to the Alcohol Tax Unit, we have not had the experience on which to base the estimate of the income that will result from the employment of these people, as we have in the other case. There is of course the value of the liquor we seize, but what we actually get for the liquor seized is only an incident to the value of the seizure. You understand that if the liquor was sold in competition with legal liquor, no taxes would be collected. We can report what amount of taxes would have been collected had this liquor been sold through legal channels and the normal tax paid.

The CHAIRMAN. You have had some experience, only a short time, it is true, but you can give the best judgment on that experience which it is possible to give. You are in a better position to judge of that than we are. You are asking for this \$10,000,000 and, certainly, we are entitled to have the opinion of what it has accomplished, based upon your experience and all of the facts before you.

Mr. AYRES. You estimated the amount you will probably collect in 1935 at \$320,000,000, which is much more than was contemplated. Only about \$250,000,000 was expected to be derived from that source.

Mr. McREYNOLDS. We are collecting now at the rate that would produce approximately \$320,000,000.

## DETERMINING LEGALITY OF LIQUOR SUPPLY OF INDIVIDUALS AUTHORIZED TO SELL LIQUOR

Mr. OLIVER. Are there many violations on the part of those who hold licenses to sell liquor?

Mr. McREYNOLDS. There are relatively few. There is a potential loss, however, unless we are able to keep them under adequate inspection.

Mr. OLIVER. I remember the Department of Justice thought it was important to ask for enabling legislation to aid you in distinguishing between liquor that was lawfully manufactured and that which was unlawfully manufactured. Are you now in position where you feel that by going into an establishment where a party is authorized to sell liquor, you can determine whether or not his stock is made up of liquor which has been lawfully manufactured and whether any part of it is made up of liquor which has been unlawfully manufactured?

Mr. McREYNOLDS. So far as I know, in the present stage, I doubt whether we could determine that absolutely. We are in process of developing our organization and we will ultimately be able to know that.

Mr. OLIVER. You do examine those licensed to sell with a view of determining whether or not they are violating the law and selling liquor which has not been lawfully manufactured.

Mr. HELVERING. Absolutely, whether it is new stuff blended with alcohol, or whether it is old liquor. That can be determined. I would like to make this observation, in addition to the statement of Mr. McReynolds. A few days ago, we seized a very large still in New Jersey, with a 20,000 gallons per day capacity. While the amount of stuff we seized does not measure in any proportion to the value of that still, because, if they had the outfit for 20,000 gallons a day on which no tax was paid, if there was a real outlet for that product and we could handle it through taxing sources, we would get \$40,000 on each day's run; we can estimate on that basis.

Mr. BACON. It is difficult for them to do that without counterfeiting the revenue stamp.

Secretary MORGENTHAU. Yes. When I came to the Treasury, there was no provision along that line.

Mr. OLIVER. Our committee was responsible for urging the Judiciary Committee to pass those laws. We were told that they were essential if your efforts were to be effective.

The CHAIRMAN. I want this developed for the record: The very fact that you put an efficient, energetic competent force into the field to apprehend the illicit distillers, will restrain many people from illicitly making liquor, and those you restrain from doing it, the liquor which they would manufacture will be put in legal channels, after the tax is paid and the Government will get the revenue. That is one thing that commends the appropriation to me.

Mr. BACON. Do you find that you are getting the cooperation of public opinion?

Secretary MORGENTHAU. I have not seen in the newspapers a single criticism of the enforcement program.

#### COLLECTIONS AND TABULATIONS OF INFORMATION IN VIOLATIONS OF LIQUOR LAWS

Mr. OLIVER. May I ask whether you are collecting and tabulating information of this character: When you arrest a party or seize liquor and a case follows in court, and whether you will be able to state to Congress the disposition which has been made of that case or of the liquor.

Secretary MORGENTHAU. Oh, yes.

Mr. OLIVER. That information will be available by States and by counties?

Mr. McREYNOLDS. Yes.

Mr. OLIVER. There are 40 legislatures that meet after January, and the information such as the Secretary indicates is being brought to you of open violations on the part of municipal and county officials ought to be enlightening to some of the prohibition States, and I think that information should be kept in such a form that it can be made public at the proper time, where they at least can have the opportunity of having it available.

The CHAIRMAN. I made the statement in campaign speeches that we were going to get \$500,000,000 from this thing, and I want you to make good.

TUESDAY, MAY 22, 1934.

#### SECRET SERVICE DIVISION

#### STATEMENT OF H. H. MORAN, CHIEF, SECRET SERVICE DIVISION

##### SUPPRESSING COUNTERFEITING AND OTHER CRIMES

The CHAIRMAN. The next item is suppressing counterfeiting and other crimes: For an additional amount for suppressing counterfeiting and other crimes, fiscal year 1935, including the same objects specified under this head in the Treasury Department Appropriation Act, 1935, \$45,000. What do you want this money for, Mr. Moran?

Mr. MORAN. I do not think you will want much from me on a small item like that.

The CHAIRMAN. It may be a small item, but when the small items are put together they make a big item.

Mr. MORAN. We need more men, a good many more men than we have in the service at present.

Mr. TAYLOR. Have you put in a break-down as to what you have in the service at present?

Mr. MORAN. Yes.

The CHAIRMAN. You have an appropriation of \$554,294, carried in the regular appropriation bill.

Mr. MORAN. Yes, sir.

The CHAIRMAN. And you want \$45,000 more?

Mr. MORAN. We want \$45,000; yes.

The CHAIRMAN. Why do you need \$45,000? You say you need more men; what do you need them for?

Mr. MORAN. To enforce the law.

The CHAIRMAN. What law?

Mr. MORAN. Counterfeiting, check forging, and all crimes or offenses committed against the laws relating to the finances of the Government, or any other investigation that the Secretary of the Treasury deems necessary to use the force for, which is authorized by law.

## AMOUNT OF APPROPRIATION AVAILABLE FOR 1934

The CHAIRMAN. What did you have last year for this activity?

Mr. MORAN. Do you mean this year, 1934?

The CHAIRMAN. Yes; 1934.

Mr. MORAN. We had \$534,904.

Mr. TABER. That was after the Budget deduction?

Mr. MORAN. Yes.

The CHAIRMAN. You had that much to expend regardless of any impoundment?

Mr. MORAN. We had \$25,000 allotted to us, which made up that amount.

The CHAIRMAN. You had \$25,000 allotted to you?

Mr. MORAN. Yes, from another appropriation.

The CHAIRMAN. In addition to your appropriation for this year?

Mr. MORAN. Yes. We had to request an allotment from another appropriation to meet the needs of the service.

The CHAIRMAN. What is the condition of that appropriation now?

Mr. MORAN. We are managing to keep a small reserve by the employment of a few men on matters relating to the C.W.A. work, and paid out of that appropriation, out of the appropriation for C.W.A., which we have been authorized to draw upon for certain work.

The CHAIRMAN. How much?

Mr. MORAN. At present, we have not drawn more than about \$12,000 or \$15,000, but that has enabled us to save that much out of the regular appropriation, and in that way set up a reserve.

The CHAIRMAN. What is the reserve?

Mr. MORAN. The reserve just now is approximately \$10,000. I want to say this: That it is essential that we shall set up a small reserve in our work to provide for emergencies.

While that is paramount, we cannot ignore the duties imposed upon us by law in the suppression of counterfeiting.

## NUMBER, SALARY, AND EXPENSES OF ADDITIONAL EMPLOYEES REQUESTED

The CHAIRMAN. That is what we want; what do you want this \$45,000 for?

Mr. MORAN. Additional men in the service to carry on the work. We have not enough men.

The CHAIRMAN. Is there unusual activity in counterfeiting, or anything else requiring these additional men?

Mr. MORAN. I am willing to admit that there is a very great increase in crime, in all its calendars, in counterfeiting money. There has been so much printed and said about the increase in counterfeiting, I am loathe to have that go into the press. It is creating alarm, an unnecessary alarm, because we are trying to keep abreast of the situation. Last year more than 3,000 people were arrested for counterfeiting, forging, and collateral matters. That is an increase of 200 percent in the last 5 years in the number of arrests for those crimes. We have not had a proportionate increase in the force of the service to meet that.

The CHAIRMAN. What proportionate increase have you had?

Mr. MORAN. We have had an increase of probably 15 or 18 men in that time.

REGULATION OF DISTILLERIES<sup>53</sup>  
AND RECTIFIERS

## HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS  
HOUSE OF REPRESENTATIVES

SEVENTY-THIRD CONGRESS

SECOND SESSION

ON

H.R. 9617

MAY 24, 1934



UNITED STATES  
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REGULATION OF DISTILLERIES  
AND RECTIFIERS

HEARINGS

COMMITTEE ON WAYS AND MEANS  
HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

SAMUEL B. HILL, Washington	ALLEN T. TREADWAY, Massachusetts
THOMAS H. CULLEN, New York	ISAAC BACHARACH, New Jersey
CHRISTOPHER D. SULLIVAN, New York	FRANK CROWTHER, New York
MORGAN G. SANDERS, Texas	JAMES A. FREAR, Wisconsin
JOHN W. McCORMACK, Massachusetts	HAROLD KNUTSON, Minnesota
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A. C. SHALLENBERGER, Nebraska	THOMAS C. COCHRAN, Pennsylvania
CHARLES WEST, Ohio	
JOHN W. BOEHNE, Jr., Indiana	
JAMES V. McCLINTIC, Oklahoma	
CLAUDE A. FULLER, Arkansas	

E. W. G. HUFFMAN, Clerk

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WASHINGTON, D. C.

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## REGULATION OF DISTILLERIES AND RECTIFIERS

THURSDAY, MAY 24, 1934

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
Washington, D.C.

The committee met at 2 p.m., in the committee room in the Capitol Building, Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. This meeting was called this afternoon partly to give further consideration to H.R. 9617, introduced by Mr. Dirksen, of Illinois. We have requested representatives of the Treasury Department to come before the committee and make a statement, or give the point of view of the Department on the proposed legislation.

Mr. CULLEN. Mr. Chairman, this bill now before the committee was a part of the bill introduced by Mr. Celler, dealing with the so-called "prohibition law." This bill, being a portion of the original bill, was introduced to cover the situation in Peoria, Ill., relative to a distillery there. It simply authorizes the reduction of the required distance between liquor distilleries and rectifying plants, and the erection of high fences around distilleries.

The committee has expressed the opinion that we ought to hear directly from the Revenue Department in regard to this legislation, and we therefore requested that somebody from that branch of the Department come before the committee and give us some information in regard to the bill, and tell us what the Department thinks about it.

The CHAIRMAN. The Chair will offer at this point for the record a copy of the bill.

(The bill referred to is as follows:)

[H. R. 9617, 73d Cong., 2d sess.]

A BILL To authorize the reduction of the required distance between liquor distilleries and rectifying plants and to authorize higher fences around distilleries

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 3266 of the Revised Statutes (relating to premises on which the distilling of liquor is prohibited) (U.S.C., Supp. VII, title 26, sec. 1170) is amended by inserting after the word "rectifying" a comma and the following: "except that the Secretary of the Treasury is authorized to permit such use for distilling on premises at such lesser distance than six hundred feet as he prescribes, in any case in which he deems that such permission may be granted without danger to the revenue".

Sec. 2. Section 3280 of the Revised Statutes (relating to minimum distance between places where businesses of distilling and rectifying may be carried on, and to conditions precedent to carrying on distilling business) (U.S.C., Supp. VII, title 26, sec. 1183) is amended by striking out the period at the end thereof and inserting in lieu thereof a semicolon and the following: "except that the Secretary of the Treasury is authorized to permit such business of distilling or process of distillation to be carried on at such lesser distance than six hundred feet as he prescribes, in any case in which he deems that such permission may be granted without danger to the revenue".

Sec. 3. Section 3275 of the Revised Statutes (relating to keeping distilleries accessible) (U.S.C., Supp. VII, title 26, sec. 1177) is amended by striking out the period at the end of the first sentence and inserting in lieu thereof a comma and the following: "but the Secretary of the Treasury may authorize the construction and maintenance of a fence or wall of such greater height than five feet as he shall prescribe in any case in which in his opinion such higher fence or wall is necessary to give adequate protection from trespassers."

Mr. EVANS. In order that we may get this matter entirely clear in our minds, as I understand it, under existing law a rectifying plant must be 600 feet away from the distillery.

Mr. CULLEN. That is right.

Mr. EVANS. This large distillery building in Peoria, Ill., which Mr. Cullen refers to, built at a cost of six or seven hundred thousand dollars, is within that distance, and it appears that there is no economic reason that I have heard of why it should be just 600 feet. It might be less, and, with certain precautions, be just as able in every way to respond to the requirements of the administration of the service, or the officers, as if it were 600 feet away.

Mr. CULLEN. That is right.

Mr. EVANS. That is the issue.

Mr. CULLEN. That is it.

Mr. EVANS. And that is all there is in this bill.

Mr. CULLEN. That is all there is to it.

Mr. EVANS. And this was taken from the Celler bill, which covers many other things.

The CHAIRMAN. As the Chair understands it, it is not proposed to amend the law so that this will affect definitely just this one distillery, but it will change the law so that any distillery can come within its provisions.

Mr. EVANS. But we only know of one case in point.

Mr. CULLEN. That is the only case I have heard of.

Mr. EVANS. But it would apply all over the United States.

Mr. HILL. There is one other question, and that is as to the height of the fences. Section 3 in line 17, on page 2, contains the following language, amending the existing law by striking out the period at the end of the first sentence and inserting a comma and this language:

but the Secretary of the Treasury may authorize the construction and maintenance of a fence or wall of such greater height than 5 feet as he shall prescribe in each case in which in his opinion such higher fence or wall is necessary to give adequate protection from trespassers.

So you have two propositions, one as to the distance between the distillery and the rectifying plant, and the other as to the height of the fence.

Mr. EVANS. What is the existing law now as to the fence?

Mr. CULLEN. I have no knowledge of that. What they want to do is to stop fellows from jumping over a 5-foot wall and getting into their distillery and robbing them of their goods.

Mr. TREADWAY. What is the objection to having somebody from this branch of the Treasury Department advise the committee as to whether or not this would interfere with their operations? Is it not proper for them to come and advise us whether there would be any objection to the passage of this bill?

Mr. CULLEN. The representatives of the Treasury Department are here this afternoon.

The CHAIRMAN. At this point the Chair offers for the record a letter from the Secretary of the Treasury on this subject.  
(The letter referred to is as follows:)

TREASURY DEPARTMENT,  
Washington, May 22, 1934.

HON. ROBERT L. DODDINGTON,

Chairman Ways and Means Committee, House of Representatives.

Mr. DEAR MR. CHAIRMAN: I have a copy of your letter of May 17, 1934, requesting a report on the bill (H.R. 9617) to authorize the reduction of the required distance between liquor distilleries and rectifying plants and to authorize higher fences around distilleries.

The provisions of the bill are the same as sections 3, 4, and 6 of H.R. 7745, a bill making certain changes in the administrative provisions of the liquor laws. Those sections were approved by this Department in its report on that bill, dated April 17, 1934.

Sections 1 and 2 of H.R. 9617 would authorize the Secretary of the Treasury in his discretion to permit rectifying houses and distilleries to operate within 600 feet of each other, the minimum distance under Revised Statutes 3266 and 3280, when he deems that the permission will involve no danger to the revenue. Under section 9 of title III of the National Prohibition Act the industrial alcohol plants are exempt from the provisions of Revised Statutes 3266 and 3280, and I see no objection to the granting of the authority provided for in the bill with respect to other distilleries. However, if this is done, a corresponding amendment should be made to Revised Statutes 3244, Third (U.S.C., Supp. VII, title 26, sec. 1830).

Section 3 of the bill would amend Revised Statutes 3275 to authorize the Secretary to permit construction around distilleries of a higher fence or wall than 5 feet when in his opinion such a fence or wall is necessary to give adequate protection from trespassers. Under section 9 of title III of the National Prohibition Act, industrial-alcohol plants are exempt from the restriction of Revised Statutes 3275, but the regulations of the Department require its approval of a solid fence or wall more than 5 feet high. I see no reason why the same principle should not apply with respect to other distilleries.

Very truly yours,

HENRY MORGENTHAU, Jr.,  
Secretary of the Treasury.

The CHAIRMAN. The committee at this time will be glad to hear the representatives of the Treasury Department with reference to this bill, and have them answer such questions as the members of the committee may desire to ask.

STATEMENT OF O. V. EMERY, BUREAU OF INTERNAL REVENUE,  
TREASURY DEPARTMENT

Mr. EMERY. Mr. Chairman, I am in the Bureau of Internal Revenue in the Treasury Department, and was formerly with the Bureau of Industrial Alcohol.

The CHAIRMAN. You may proceed and make such statement as you desire with reference to this bill that is before the committee.

Mr. EMERY. Mr. Chairman, in reference to the distance separating the rectifying house from the distillery, the statute forbade the rectifying house to be located within 600 feet in a direct line from the distillery premises. The distillery premises is the land that is surveyed by a surveyor's measure, and the rectifying house is the building in which the rectifying processes are carried on.

The purpose of the separation, as I have gathered it from long years in the service, was to prevent the secret removal by distilleries of whisky or spirits illegally produced, or produced in the guise of law, where they would sweeten the mash, or where they would make more than their allowance called for, take it to the rectifying house and put

it through the coloring and flavoring process, and thereafter bottling it. Thereafter it required no stamps.

So there was an outlet through the rectifying house for spirits secretly removed, in evasion of the tax. The theory of the 600 feet distance was that it afforded an opportunity for the inspectors, such as the revenue agents, who were out canvassing for tax violations, to conceal themselves and observe this fraudulent and secret removal, and to apprehend the people engaged in the removal.

That apparently was the purpose of the law, which has been on the statute books for a great many years.

It appears that the separation of that distance did not always accomplish the purpose. I well recall, shortly after entering the Revenue Service, I was engaged in recording the operations of distilleries, as shown by the monthly reports, and the computation of their liabilities from the reports, as to the excess materials used.

Under the survey, a distiller is held to a required yield, under section 3264 of the Revised Statutes as amended. It may be he will have a 4½- or 5-gallon yield of proof spirits per bushel, and he is expected to make 80 percent of that. This was the procedure set up by Congress to prevent frauds. If he did not make 80 percent of the required yield, he was held to a 100 percent yield on the excess material used. If he was supposed to use 10 bushels and used 15, he did not get the benefit of the 80 percent, but was held to 100 percent on the excess materials used.

I recorded these reports and the computations made under them, and I observed a remarkable thing, that some distilleries, of which there were a large number in the remote regions of the country, some in the mountains and in the woods, used to make 80 percent of their required yield under their survey to the one-hundredth decimal point.

It was obvious that what happened was, whether they sweetened their mash or not, that they reported 80 percent as the law and the survey required them to do, and got credit for that, and anything beyond and above that probably was secretly removed and sold without paying the tax.

Of course, that could only be done through connivance or collusion of the Government officer assigned to the distillery. In those days a storekeeper-gager received the minimum salary of \$2 a day. Where a distillery was located off in the woods or in the mountains, the officer traveled there, and there was often no place to stay except at the distillery, and if he did not board with the distiller he was just out of luck. Of course the distiller would not have to use very much excess material, or fraudulently remove very much spirits, in order to corrupt the storekeeper-gager.

Mr. FREAR. Has this a direct relation to the bill we have before us?

Mr. EMERY. It has an indirect relation, and I am only leading up to this. At the present time the distilleries are mostly large; there are very few small distilleries.

At that time there were distilleries, hundreds or even thousands of them, with a surveyed capacity of 3¼ or 4 bushels, and it was probable that they could not run successfully under those conditions. Under the law they had to make sufficient spirits to fill the smallest containers, and there were many of them in those days that would not make over 10 gallons of spirits in 3 days.

Today the distilleries are large. Some of them have buildings adjacent to their distilleries, but not on the premises, and sometimes where they are on the premises they may by filing a new notice, have the surveyor run the line of the premises so it would exclude some big building suitable for rectification purposes.

The thought was in the minds of those who recommended the changes in legislation that they could utilize those buildings economically; but also, perhaps the most cogent reason for that is that the storekeeper-gager assigned to the distilleries, and the large ones have quite a number of them, may watch the operations at the rectifying house nearby.

Mr. COOPER. The pending bill seeks to amend section 3266 of the Revised Statutes. Can you tell us when that provision of law was enacted?

Mr. EMERY. No, sir; I cannot, offhand; but section 3244 also has the same provision, and I think it was enacted in the 1860's.

Mr. COOPER. You think that provision was enacted into law at that time?

Mr. EMERY. Yes, sir. It is in three separate sections of the law, two of which are named in the amendment you have before you, and one of which is not, but should be, namely section 3244.

Mr. COOPER. For the moment I am confining my inquiry to section 3266. Can you tell us why that provision was enacted into law requiring a distance of 600 feet between the distillery and the rectifying plant?

Mr. EMERY. Yes; as I have said it was presumably to allow the officers to watch the distillery and see that the distiller did not secretly remove the spirits over that distance. If it were immediately adjacent to the distillery, perhaps with an interior door leading to it, there would be no opportunity for the revenue agents to watch for the removal.

Mr. CROWTHER. Could they not pipe it over there?

Mr. EMERY. There were no such pipes allowed.

Mr. COOPER. Can you give us any information as to why the exact distance of 600 feet was determined upon?

Mr. EMERY. Absolutely not. Apparently it was arbitrarily fixed by Congress.

Mr. FREAR. What is the reason why that can be removed at this time? Has there been any change in conditions?

Mr. EMERY. Yes; the distilleries are larger, and, as I said, many of them have large buildings either on the distillery premises or nearby that they can use advantageously in that way.

Mr. FREAR. If they are all under one roof, can that happen?

Mr. EMERY. No, sir; not very well.

Mr. FREAR. That is the situation that confronts us in the bill.

Mr. EMERY. No; I think not. It says that the Secretary in his discretion shall allow a lesser distance; so it is within his discretion.

Mr. FREAR. That is in a specific case, or all of them?

Mr. EMERY. All distilleries throughout the country; all cases.

Mr. COOPER. The pending bill simply vests in the Secretary of the Treasury the discretion to determine the distance that shall be between distilleries and rectifying plants?

Mr. EMERY. That is right.

Mr. TREADWAY. May I ask the gentleman whether he is here with the entire authority of the Secretary of the Treasury in relation to this bill?

Mr. EMERY. That is rather a curious thing. This morning Mr. Bartholow, in the Secretary's office, called me and asked me if Mr. Mellott was there, and it developed that he was not. He asked me if I would come up and testify, and I said I could not unless I were ordered to do so. Under a very recent order of Mr. Helvering, we are forbidden to testify in any of these cases without express authority from him. I brought a copy of that order with me.

Mr. Bartholow called up Mr. Helvering, and meanwhile they sent us here, and he telephoned us here that Mr. Helvering was willing to have me testify in this matter.

Mr. VINSON. What is your position?

Mr. EMERY. I am an attorney in the Bureau of Internal Revenue.

Mr. TREADWAY. You are familiar with the fact that this bill we are now considering consists of three sections taken from another bill?

Mr. EMERY. Yes, sir; from 7745.

Mr. TREADWAY. That is known as the "Celler bill."

Mr. EMERY. Yes, sir.

Mr. TREADWAY. How does it happen that these three sections have been made into a separate bill, which we have before us today? I suppose that followed the introduction of the Celler bill.

Do you know the reason for that?

Mr. EMERY. No, sir; I do not. The only thing that occurs to me as being possible is that the \$5,000,000 plant to which reference has been made here is already up, and without the amendment they would be prevented from utilizing their property.

Mr. TREADWAY. That is what I was leading up to.

Is the bill before us, containing three sections from the Celler bill, or are any of the departmental officials in any way involved, in your opinion, with the erection of the distillery at Peoria, Ill.?

Mr. EMERY. I am inclined to think this bill probably grew directly out of that.

Mr. TREADWAY. Let us get the sequence of events. You feel that this bill is here because of the erection of that distillery?

Mr. EMERY. Probably so.

Mr. TREADWAY. Have you any information as to whether the parties interested in the distillery at Peoria appeared before any officials of the Department advocating the removal of these three sections and making a separate bill out of it, and endeavoring to pass that in order to protect their interests in the erection of that plant?

Mr. EMERY. No, sir; I have no such information.

Mr. CULLEN. I do not think that the people in the corporation that are interested in this "distillery", as you call it, appeared at the Treasury Department asking that a bill of this character be drawn. But I do believe, from what I understand, that they appeared at the Department at one time or another and explained their situation, and it was virtually suggested that they get legislation to cover their case. Of course, this bill is general in its scope, anyway.

Mr. TREADWAY. I think that is true, but I want this committee absolved from any position or charge of intrigue in endeavoring to pass legislation to fit a particular case that already exists. That is where we are laying ourselves liable, I think, to criticism, and that is

why I am asking this witness what he knows about the origin of this bill.

Mr. CULLEN. Of course, if you found yourself in the same circumstances as these people in this distillery, you would try to correct such a situation, from a business angle.

Mr. TREADWAY. Perhaps that is a fair assumption; but on the other hand, I think, if a man of your business acumen, I would not go into that kind of a proposition with a \$5,000,000 property if I did not know what the law was in reference to the construction of the property.

I cannot see that picture at all unless there was some reason why the people interested in that proposition felt that they could do just what this bill is doing, and come in after the building was up and say: "Here is our great property; unless you pass this legislation we are up against it."

Mr. CULLEN. It is my thought that when they went on constructing their rectifying plant within 600 feet of the distillery they probably were not aware of the fact that this obligation was on them.

Mr. TREADWAY. There are very few business people who would do that sort of thing, and I am trying to see if I can find any connection in the Treasury Department, through this witness, with the fact that here is a special bill, taken from another bill, with a view to hurrying it through Congress.

Mr. VINSON. In regard to knowledge as to the law, as I understand it, the gentleman who is very much interested in the distillery at Peoria was probably a Member of Congress when he first acquired an interest in the distillery; that is, in the new distillery at Peoria.

I am referring to former Congressman Hull. Am I correct in that assumption, according to your information?

Mr. EMERY. Former Congressman Hull, as I understand it—in fact I know he is interested in this distillery, but when his interests became attached to it I am unable to state.

But I will say this. Mr. Hull came to my office one day and I called attention to the fact that the rectifying house was within the prohibited distance.

Mr. VINSON. When was that?

Mr. EMERY. A couple of months ago.

Mr. VINSON. Was that during the course of its construction?

Mr. EMERY. I am inclined to think it was in the course of construction at that time. I have never been out there to the distillery.

Mr. TREADWAY. Did he plead ignorance at that time of what the law was?

Mr. EMERY. He said, "I guess I will have to get you to come out and run my distillery", he being in a jocular mood, from which I inferred that he was ignorant of the 600-foot limitation.

Mr. VINSON. Mr. Hull had been in the distillery business before he came to Congress, had he not?

Mr. EMERY. That is true, but whether he had been in the rectifying business I do not know.

Mr. VINSON. In regard to this distance, in connection with section 3266, I thought I understood you to say if this amendment were enacted, under no circumstances could the Secretary of the Treasury permit a rectifying house to be within 600 feet.

Mr. EMERY. Oh, no. It is expressly provided that in no circumstances may he allow it to be on the distillery premises, because section 3244 R.S. declares that any person convicted under that statute shall be subject to a \$5,000 fine.

Mr. VINSON. This bill, providing for this proposed amendment, on page 1, beginning at line 7, and running through line 11, provides:

except that the Secretary of the Treasury is authorized to permit such use for distilling on premises at such lesser distance than six hundred feet as he prescribes, in any case in which he deems that such permission may be granted without danger to the revenue.

Mr. EMERY. That is right.

Mr. VINSON. It says, "for distilling on premises."

Mr. EVANS. Certainly not on the same premises.

Mr. EMERY. Within 600 feet.

Mr. VINSON. So you say the word "premises" does not refer to distilling premises?

Mr. EMERY. It does refer to distilling premises.

Mr. VINSON. It does?

Mr. EMERY. Yes, sir.

Mr. VINSON. If so, then it gives him the power to permit a rectifying house to be put at a lesser distance than 600 feet.

Mr. EMERY. I should like to see the bill. I do not think it was in H.R. 7745 that way. Ought not that to read "premises used for rectification, or premises at such lesser distance than 600 feet"? It seems to me the wrong word is inserted there.

Mr. VINSON. If this were enacted as written, it would give the Secretary of the Treasury power to permit rectifying houses within less than 600 feet on the premises.

Mr. EMERY. That is all to be compared with the section it is amending. It says that section 3266 is amended—

by inserting after the word "rectifying" a comma, and the following: "except that the Secretary of the Treasury is authorized to permit such use for distilling on premises at such lesser distance than six hundred feet as he prescribes, in any case in which he deems that such permission may be granted without danger to the revenue."

It looks on the face of it as though the word possibly should be "rectification."

Mr. HILL. May I suggest this? If you are speaking about rectifying premises, then this language would indicate that you could have a distillery on rectifying premises within a distance of less than 600 feet.

Mr. EMERY. I am inclined to think this is correct. The statute prohibits a distillery within 600 feet of the rectifying house. The bill as amended allows the Secretary in his discretion to permit a distillery on the premises at a distance less than 600 feet from the rectifying plant. I am inclined to think the bill is all right as it is.

Mr. HILL. I wish you would define for the record what is meant by premises.

Mr. EMERY. Premises as relates to a distillery is the land on which the distillery is constructed, as shown by metes and bounds or by courses and distances. The statutes all the way through refer to the lot or tract of land on which the Government has a lien, under section 3251 R.S., to insure the payment of taxes. The only separation may be where two portions of the distillery premises abut, imme-

diately opposite each other on a highway duly dedicated, in which event the presumption is that the reversionary interest is in the abutting property owner, which is the distiller.

Mr. HILL. The land is then withdrawn and registered in the Treasury Department?

Mr. EMERY. Yes.

Mr. HILL. And that constitutes premises.

Mr. EMERY. That is described in the distiller's notice and shown on a plat of the premises by metes and bounds, and not only that, the Government has a lien on it, and that lien is created under section 3251 R.S., if the distiller does not own the premises, or there is any lien on it, such as a judgment creditor with a judgment lien, or a mortgage. Then the owner, mortgagee, or the judgment creditor must give his consent in writing and describe the premises, and it is recorded in the land records of the locality. That consent subordinates the right of the owner or lienor to the prior rights of the Government in the event of the forfeiture of the land for fraud on the part of the distiller.

Mr. HILL. And under existing law the distance between the premises of the rectifying plant and the premises of the distilling plant must be at least 600 feet?

Mr. EMERY. That is right.

Mr. VINSON. This section, 291 of title 26 of the Internal Revenue Act, which is applicable here, as I understand it, reads as follows:

No person shall use any still, boiler, or other vessel, for the purpose of distilling, in any dwelling house, or in any shed, yard, or inclosure connected with any dwelling house, or on board of any vessel or boat, or in any building, or on any premises where beer, lager beer, ale, porter, or other fermented liquors, vinegar, or other, are manufactured or produced, or where sugars or sirups are refined, or where liquors of any description are retailed, or where any other business is carried on; or within 600 feet in a direct line of any premises authorized to be used for rectifying; and every person who does any of the act prohibited by this section, or aids or assists therein, or causes or procures the same to be done, shall be fined \$1,000 and imprisoned for not less than 6 months nor more than 2 years, in the discretion of the court, for each offense. Saleratus may be manufactured, or meal or flour ground from grain, in any building or on any premises where spirits are distilled; but such meal or flour shall be used only for distillation on the premises. Any boiler used in generating steam or heating water to be used in any distillery, may be located in any other building or on any other premises to be connected with such still or boiling tubs, by suitable pipes or other apparatus, or the steam from such boiler in the distillery may be conveyed to other premises to be used for manufacturing or other purposes.

And thereafter comes the penalty part of it. As I understand it, this section here would follow the word "rectifying." Is that correct?

Mr. EMERY. Yes.

Mr. VINSON. Then it would read—

except that the Secretary of the Treasury is authorized to permit such use for distilling on premises at such lesser distances than 600 feet as he prescribes, in any case in which he deems that such permission may be granted without danger to the revenue.

Mr. EMERY. Yes.

Mr. VINSON. Do I understand you to say that the word "premises" in the bill before us, H.R. 9617, refers to premises that are used for rectification purposes?

Mr. EMERY. It relates to both. It relates to distillery premises, and to a rectifying building that we have no lien on.

Mr. VINSON. I will say I cannot understand it unless premises in this first section would refer to premises upon which a rectifying building stands.

Mr. EMERY. Would it matter?

Mr. VINSON. What I am trying to do is to get it clear. It is as clear as mud now.

Mr. EMERY. There are two kinds of premises, one distillery premises and one rectifying premises, which have different rights and liabilities under the law.

As to the distillery, the land on which the distillery is built constitutes premises covered by the bond. As to the rectifying house we have no such line of restriction on the land; it is the building. Therefore the building may constitute the entire rectifying premises, but the land may include—

Mr. VINSON (interposing). Does "premises" in this amendment refer to distilling premises upon which the distillery is located?

Mr. EMERY. Yes; "to permit such use for distilling on premises" within less than 600 feet in a direct line from the rectifying house.

Mr. WOODRUFF. I wish to refer again to the question raised by Mr. Treadway. I think everyone understands that men investing large amounts of money are usually very careful in making that investment. They usually exercise great care in investing that money legally, and they take every legal precaution possible.

It hardly seems reasonable to me to believe that people interested in the erection of this big distilling plant at Peoria would expend the millions of dollars they are expending there without either knowing that they are well within the law, or having some assurance from somebody, someone in authority, that the thing they propose to do either would meet the approval of the department controlling their activities, or that, if necessary, legislation would be recommended and, no doubt, enacted to make their construction, as in this case, legal.

I would like to ask you this question. To your knowledge has there been at any time any assurance or encouragement given the people who are erecting the plant at Peoria to invest their money to build their plant as they are building it, and to cause them to believe that later the law would be adjusted to meet that situation?

Mr. EMERY. I do not know of any assurances that were given, and it is incredible to me that anybody in the executive departments could give that assurance, where it is well known that it is a legislative matter.

Mr. WOODRUFF. Did not the gentleman who has constructed this building in past years have a distilling interest that obeyed the 600-foot distance?

Mr. EMERY. Mr. Hull, as I understand it, was at one time a distiller; whether he had rectifying houses I do not know. But the chief money here is Walker—Canadian money, as I understand it.

Mr. WOODRUFF. The reason which prompted my question is the fact that the people who are investing their money at Peoria are distillers of many years experience in Canada. That is the Walker Distilling Co., as I understand it, of Canada.

Mr. EMERY. That is my understanding.

Mr. WOODRUFF. They are people of many years of experience in dealing with the law. Of course, it was the Canadian law they were

dealing with. And, on the other hand, with their past experience with the law and the technicalities of the law and the embarrassments of the law, it seems to me they would be unusually careful to see to it that their plant was erected in a way that would meet every requirement of the law. And the fact that they have gone ahead with this construction after the discussion that Mr. Hull had with you would indicate that somewhere, somehow, there had been some sort of encouragement given these people to believe that whatever they were doing would be made legal.

I am not intimating by any means that you have been a party to that, but what I do wish to ask you is this:

The fact that you are here representing the Department indicates that your activities have been connected with this particular line for probably a long period of years; is that correct?

Mr. EMERY. That is true; yes, sir.

Mr. WOODRUFF. If Mr. Hull, for instance, in taking these matters up with the Department, did not consult you, who in the Department would he consult?

Mr. EMERY. Well, there are a number of people whom he might consult. I do not even know who sent him to see me. He came there, and I assume he was sent by some of my superiors, or the head of the office.

Mr. WOODRUFF. What I want to get at is this. As I said, the fact that you are here representing the Department indicates to us that you have the information the committee would need, and it indicates that you are a man of some authority down there. Who, in your judgment, in the Department, would be in a position, provided they were willing, of course, to give to Mr. Hull or to any representative of this distilling company, any encouragement such as I have outlined in my question?

Mr. EMERY. I would not make any guess as to who might have done that. I have no information as to anybody having given information of that kind, and I do not think I would be treating my associates fairly by making a guess at it.

Mr. WOODRUFF. Perhaps that was an unfair question.

Mr. EMERY. It is unfair, and I would not want to answer it.

Mr. WOODRUFF. I do think this committee should be given such information along that line as is possible to get from the Department, because, as Mr. Treadway has outlined, we are asked to do something in this bill which apparently is for the purpose of making legal, certain illegal construction at Peoria. That, apparently, is the sole purpose of this bill being before this committee.

The committee finds itself in rather an embarrassing position in connection with this. An ex-Member of the House, a member of my party, and a man for whom I have very high regard and a feeling of friendship, is connected with this institution, and he has appeared before your Department in connection with the situation that exists there, and we, the members of this committee, do not care to place ourselves in a position where we can be charged with having listened to the blandishments, I will say, of any ex-Member of Congress on a bill of that kind.

The CHAIRMAN. If you can recall, what was the reason expressed by Mr. Hull for seeking information from you? Did he disclose that

he had started the erection of his plant and that later he came into possession of the information that it was not legally started? What was the occasion for his interview with you?

Mr. EMERY. At the time he came he brought with him a gentleman associated with the Walker people in this enterprise; I do not recall the gentleman's name who came with Mr. Hull.

They came to my office and had a plan of the distillery. He pointed out certain features of it. When we came to examine that we discovered that he had what was marked as a "rectifying house" adjoining the distillery, and I reminded him that under the law he could not have any such construction. That is the first time I heard anything about it.

Mr. TREADWAY. Was that the Peoria plant?

Mr. EMERY. Yes; that was the Walker plant.

The CHAIRMAN. Did he then make the statement that that was the first information he had about that law? Did he express surprise that there was a law of that kind?

Mr. EMERY. I do not know that he did in words, but it did impress me that he was surprised.

Mr. WOODRUFF. Another question I would like to ask you is this. Have you any information as to whether or not Mr. Hull took this matter up with Dr. Doran?

Mr. EMERY. No, sir; I do not know who sent Mr. Hull to see me. It might have been the doctor. They had a way of sending inquirers from the various divisions to me because of my long experience and rather intimate knowledge of these subjects. But who sent him to see me, I do not know. Occasionally, men come directly from here to see me.

Mr. WOODRUFF. Can you tell the committee approximately the time it was when Mr. Hull called on you?

Mr. EMERY. No, sir; I cannot. I should say it was probably 3 months ago.

Mr. WOODRUFF. Can you tell the committee how far along the construction of this rectifying plant had progressed?

Mr. EMERY. I cannot say whether they were just architects specifications and plans, or whether the plans had been completed. I am not able to state that, but I am inclined to think that the construction was not completed.

Mr. WOODRUFF. But it was under construction?

Mr. EMERY. It was under construction, yes; without doubt.

Mr. WOODRUFF. Can you tell the committee whether or not that construction has continued since that date?

Mr. EMERY. No, sir; I cannot. I do not handle the plans.

Mr. WOODRUFF. Some photographs shown to the committee the other day, showed the plant at comparative completion.

Mr. EMERY. I am inclined to think probably the construction has gone much further, because once since, Mr. Hull came in; he did not come to my room; I met him by accident in my chief's room and he greeted me cordially. The same gentleman was with him.

After he had laid out the plans and I looked at certain features of them, then, I do not recall when it was, but I should judge that the construction was much further advanced, but how much the plan did not show. There are architect's plans, which you might have in anticipation of any building, or which might be well under way.

Mr. WOODRUFF. Can you tell us what the distance is between the rectifying plant and the distillery?

Mr. EMERY. No; I cannot. But they are right nearby, practically adjoining, I should judge.

Mr. WOODRUFF. Is it your opinion that the activities of such a plant can be controlled as well with the rectifying plant being immediately adjacent to the distilling plant as if they were separated by 600 feet?

Mr. EMERY. That is a matter of opinion, and not having worked in distilleries, I could only say this, that with a distillery of that capacity there would probably be 15 or 20 storekeeper-gages employed. Those men will be people, granting their integrity, who can safeguard the interests of the Government as to secret removal. Of course, that is a matter of opinion.

Mr. WOODRUFF. As a matter of fact, does it not after all depend upon the integrity of the official representatives?

Mr. EMERY. In large measure, that is true. But I will say that at the present time our storekeeper-gagers are on an annual basis, receiving very much better compensation than they did in the ancient days, when \$2 a day was the minimum price that some of these men were paid, and they were not constantly employed at that.

Mr. WOODRUFF. What I am trying to get at is this: Is it not just as possible to violate the law where a rectifying plant is 600 feet from the distillery, when the Government inspectors are amenable to the wishes of the distillers, as it is if the distance between the two plants is very much less? In other words, if the Government officials who are on duty there are willing to close their eyes to a violation of law, it is just as possible to have a violation of law with 600 feet separating the two plants as it is if the distillery and the rectifying house were only 200 feet apart?

Mr. EMERY. That would be entirely possible, and the storekeeper-gagers have the most immediate supervision of that, but a revenue agent might secrete himself and watch to see whether there was anything passing back and forth between the distillery and the rectifying house.

Mr. FREAR. That was the original purpose.

Mr. REED. I would like to get one point cleared up. When you refer to 600 feet between the premises, do you mean there would be that many feet intervening between the points of land, or 600 feet between the buildings?

Mr. EMERY. Between the land constituting the distillery premises and the buildings constituting the rectifying premises. Under section 3244 R.S. the premises of the distillery have a well-understood and well-known meaning. That has been before the courts.

Mr. REED. Let me get it clear. You say 600 feet between premises. When you say "premises" you mean the buildings?

Mr. EMERY. No; I mean between the nearest point of land constituting the distillery premises and the nearest building of the rectifying house.

Mr. REED. Then there must be an intervening space not connecting either one.

Mr. EMERY. Yes, sir.



Mr. McCLINTIC. Can you tell us when the construction commenced on this distillery?

Mr. EMERY. No, sir; I cannot.

Mr. McCLINTIC. Can you tell us how much the plant is supposed to cost when it is completed?

Mr. EMERY. I think, as I recall, Mr. Hull stated, or somebody told me, that the entire plant would involve an investment of something like \$5,000,000, and presumably that included the rectifying as well as the distillery plant.

Mr. McCLINTIC. Can you tell us what progress, if any, had been made on the building the first time Mr. Hull came to see you?

Mr. EMERY. No, sir.

Mr. McCLINTIC. You do not know whether the building construction had been started at that time or not?

Mr. EMERY. Some of it was underway, but about how much there was on each I am unable to say.

Mr. McCLINTIC. Can you give the committee any information as to the rectifying plant, whether or not the construction of it has been started?

Mr. EMERY. None whatever; except that I gathered from Mr. Hull that it was under construction.

Mr. McCLINTIC. Do you know when the cornerstone was laid?

Mr. EMERY. No, sir; I do not; I have never been there.

The CHAIRMAN. Did you understand from Mr. Hull that both the rectifying plant and the distillery were under construction at that time, or just one of them?

Mr. EMERY. My impression was that both were under construction.

Mr. EVANS. Mr. Hull talked to me about this matter, because, I suppose, I was a member of Mr. Cullen's subcommittee to which the Celler bill was referred. He talked to me 2 or 3 weeks ago.

He stated to me that he and his associates proceeded with this construction without the knowledge of this 600 feet restriction, and as soon as he learned about it—I do not know whether he told me how he learned it, but I am rather inclined to think he did—that was the first knowledge he had of it.

He stated he had not been in the rectifying business before when he was in the distilling business. He told me he had talked with someone in the Revenue Department—I think it was a Mr. Oliphant.

Mr. EMERY. Mr. Oliphant is in the Secretary's office. I think he is the head of all the attorneys.

Mr. EVANS. I am not sure, but I think that was the man he stated he talked to.

He stated that the revenue department had advised him, or rather consented or agreed that under the modern conditions there was no real reason for the 600 feet separation, and that they could do the same work for the protection of the revenue with less than as well as 600 feet.

I am convinced from what Mr. Hull said to me that when they started that work they did not know anything about this 600 feet.

Mr. COOPER. Can you give us any information as to whether or not some recommendation on this particular subject was included in the report of the Inter-Departmental Committee that was made with reference to the liquor question?

Mr. EMERY. Yes. That was contained in a suggestion to the Inter-Departmental Committee, and the Inter-Departmental Committee apparently put it up to the Secretary's office, and the Secretary of the Treasury made a favorable recommendation, including this bill, H.R. 7745, which is the Celler bill, on this subject.

Mr. CULLEN. That was endorsed by the Department.

Mr. EMERY. Yes.

Mr. COOPER. Is it your understanding that the recommendation included in the Interdepartmental Committee's report was with the approval of the Department, that a change should be made in the requirement as to this distance?

Mr. EMERY. I have never seen the report of the Interdepartmental Committee. I was not a member of it. It consisted of a number of men representing various bureaus. Dr. Doran, I think, represented our bureau, and there was a representative of each of the other bureaus, including Mr. Lowry, representing the Secretary's office.

The suggestions for changes were before that committee, but what report they made I do not know. I think their report was probably to the President and from there came back to the Secretary of the Treasury.

Mr. COOPER. Do you know what the provision was in the report in reference to this particular subject?

Mr. EMERY. I assume, from the fact that it was received and a favorable report made by the Secretary's office, that the Interdepartmental Committee must have been favorable to the change.

Mr. COOPER. What change?

Mr. EMERY. The change allowing the Secretary to permit, within his discretion, a lesser distance than 600 feet to separate the rectifying house from the distillery premises.

Mr. COOPER. Then you think that the Interdepartmental Committee and the Department recommended that the change be made in the provision of existing law, similar to that suggested here, that the distance be left within the discretion of the Secretary?

Mr. EMERY. Undoubtedly; I have seen it in reports of hearings here on this very thing.

Mr. VINSON. In the liquor-tax hearings?

Mr. EMERY. It contains this very recommendation.

Mr. COOPER. This is a provision of law enacted by Congress some 70 years ago, was it not?

Mr. EMERY. I do not know the dates. There are three sections that relate to it, and section 3244 was enacted back in the sixties, I think.

Mr. CULLEN. It was in 1871, I think.

Mr. COOPER. Somewhere along there. It is to be presumed, of course, that there was some reason for Congress enacting that provision in the law, providing for a space of 600 feet.

What have you to say with reference to the experience of the Department, as to what would be a proper distance under present conditions?

Mr. EMERY. That is, of course, a matter of opinion. We have the experience of the past as to the 600 feet, but we have none as to the lesser distance. The 600 feet was to enable the revenue agents to watch for secret removals by the distilleries.

If it were nearer, the storekeeper-gagers would have a better opportunity of watching for and seeing any secret removals, provided the buildings were not provided with interior communications.

Mr. COOPER. In your opinion, how much effect does the question of distance have upon the enforcement of law?

Mr. EMERY. I would not like to venture an opinion on that.

Mr. COOPER. You have been in this business for a long time.

Mr. EMERY. Yes; but I have not been doing the police work out in the field as the agents have.

Mr. COOPER. You come here as an expert from the Department, and your opinion ought to be of some value to us on that. I am trying to get the information because I know nothing whatever about the distilling business; I have never been in a distillery in my life, and I am trying to find out something.

Mr. EMERY. We have tried out the 600 feet and it has not accomplished all that was expected of it.

We all know that there were plenty of frauds in the rectification business when the 600 feet distance obtained. We do not know what the result would be with a nearer distance.

We all know, in connection with the case of one revenue agent, that there was a conspiracy to remove these spirits from Arkansas to Missouri, taking barrels from the distillery which was under suspension but was being secretly operated, putting the spirits in the barrels and removing them to Missouri and put them through the rectifying process. That resulted in the killing of a revenue agent, and the young man who ran the rectifying house ran away and went to Mexico. His father forfeited a \$12,000 bond. He worked down there with General Pershing and then went abroad and came back with a commission in the Army, and then asked Congress to refund the \$12,000 that his father had lost. That conspiracy extended all the way from Florida to Missouri, and they were separated, not by 600 feet, but 600 miles.

Mr. COOPER. That is all very interesting, but I do not think it is very helpful to us on this particular point. The provision of the law requires 600 feet?

Mr. EMERY. Yes.

Mr. COOPER. Are you prepared to make some definite recommendation to this committee as to what change should be made in the present distance requirement?

Mr. EMERY. I must assume that the Secretary and the interdepartmental committee knew what they were doing. They recommended that the Secretary have discretion to allow a less distance, and I agree in that view.

Mr. COOPER. You think that would better meet conditions at the present time?

Mr. EMERY. Yes, sir; I agree in that view.

Mr. COOPER. Now, can you give us any special reasons for that conclusion?

Mr. EMERY. One is that with the lesser distance the officers on duty at a distillery can see, or would have a better chance to see what is going on at an adjoining rectifying house than if it were 600 feet away.

Mr. VINSON. On October 27, 1933, the interdepartmental committee made a report to the Secretary of the Treasury. Respecting the particular amendment under discussion, I read from appendix A of this report the following:

SEC. 1177. This section prohibits construction of fences or walls more than 5 feet high around distilleries, etc.

It is recommended that this section be amended with discretion in the Secretary of the Treasury to require the fence in the same manner as recommended as to surveys under section 1168, title 26, United States Code (R.S., sec. 3264, as amended).

This recommendation is made for the reason that at the present time the danger of raids on distilleries is greater than at any previous time, and by section 9, title III of the National Prohibition Act, a similar provision is made as to industrial-alcohol plants.

The Celler bill (H.R. 7745) was introduced in the House on February 7, 1934; and further this thought occurs to me, that we have a little different method than we had 60 or 70 years ago with reference to taxing and stamping rectified spirits and that is, as I recall it, that under the law we passed at this session there must be a distinctive stamp upon rectified spirits which distinguishes them from the distilled spirits.

In the old days, did you have a distinguishing stamp on the rectified spirits?

Mr. EMERY. Not on the bottled goods. They did on the bulk containers. We have always had a stamp on them.

Mr. VINSON. That is a barrel or cask?

Mr. EMERY. Yes, sir; 5 wine gallons or more.

Mr. VINSON. Five gallons on up?

Mr. EMERY. Yes, sir.

Mr. VINSON. But you did not have any stamp on the bottled goods such as you have now?

Mr. EMERY. And none of the others except bottled in bond.

Mr. VINSON. The purpose of the stamp on rectified spirits was to show to the public and those interested that the whole tax of rectification and full tax on the distilled spirits therein contained before rectification had been paid?

Mr. EMERY. The purpose of the law was to indicate that all internal-revenue taxes had been paid and that the quantity purporting to be in the bottle was there, but it related not only to rectified spirits, but to spirits and spirits bottled by rectifiers and importers and distillers except those bottled in bond.

Mr. TREADWAY. I am ignorant on all this, coming from New England. I asked one of the members of the committee what "rectifying" was a few minutes ago.

Mr. CROWTHER. Is blending and rectifying the same thing?

Mr. EMERY. Yes, sir; the blending of two different products, of different kinds, different in age and proof, so that the blended product is not homogenous, is declared by statute to be rectification.

Mr. CROWTHER. It is blending different types of whiskies, two or more?

Mr. EMERY. Yes, sir.

Mr. TREADWAY. A distillery is where the liquor is actually manufactured, is it not?

Mr. EMERY. Yes, sir.

Mr. TREADWAY. The raw liquor?

Mr. EMERY. It may be a finished liquor.

Mr. TREADWAY. What I am getting at is that the distilling is the manufacturing process.

Mr. EMERY. Yes, sir.

Mr. TREADWAY. When we speak about this other building 600 feet away for rectifying purposes, it means that the distiller would take the finished liquor from the distillery and convey it 600 feet to the other building?

Mr. EMERY. That is right.

Mr. TREADWAY. In that building there may be other kinds of whisky or there may be alcohol, or there may be water or there may be anything else that would make a blended liquor?

Mr. EMERY. That is exactly right.

Mr. TREADWAY. Is that correct?

Mr. EMERY. Yes, sir.

Mr. TREADWAY. Is that what a rectifying plant is?

Mr. EMERY. That is right.

Mr. EVANS. I was stating what Mr. Hull had stated to me, because Mr. Hull's position was brought into question. Mr. Hull further stated that the reason why they happened to put their rectifying plant in closer proximity than 600 feet was to get proper railroad switching.

Mr. TREADWAY. When was this conversation?

Mr. EVANS. About three weeks ago.

The CHAIRMAN. Governor Shallenberger.

Mr. SHALLENBERGER. I would like to ask the witness if it is the common practice of distillers to have a rectifying plant adjacent to their distillery, or is this the only one you have got of that sort?

Mr. EMERY. So far as I am advised, it is the only one of that kind.

Mr. SHALLENBERGER. It is the only one in the United States where a distiller has a rectifying plant that way?

Mr. EMERY. Yes, sir.

Mr. SHALLENBERGER. This rule about 600 feet does not apply in the United States to any distiller?

Mr. EMERY. It applies to this one. If it is within 600 feet it is in violation of the law.

Mr. SHALLENBERGER. This 600-foot rule has never been used since no other distiller has a rectifying plant?

Mr. EMERY. There has been no departure from that.

Mr. SHALLENBERGER. Then this law must be for this particular case, and no other, because there is no other in the United States like it.

Mr. EMERY. That is clearly one of the things which prompted the law, but, of course, all other rectifying establishments and all other distilleries would come under it as well.

Mr. SHALLENBERGER. You told me that there was no other distillery like it.

Mr. EMERY. Not to my knowledge.

Mr. COOPER. Will the gentleman yield? Is it not quite probable that no other distillery or rectifying plant is within 600 feet of each other, which the law prohibits?

Mr. EMERY. Before prohibition the law was well known, but when prohibition came along the situation changed.

Mr. SHALLENBERGER. One more question. Are there other distillers who have rectifying plants more than 600 feet removed?

Mr. EMERY. Plenty of them. Practically all distillers have rectifying plants now.

Mr. SHALLENBERGER. How far?

Mr. EMERY. Six hundred feet away.

Mr. SHALLENBERGER. And the rule is that if the distillery wants to have a rectifying plant, it must be more than 600 feet removed?

Mr. EMERY. That is right.

Mr. SHALLENBERGER. I am through.

Mr. TREADWAY. I have been very much interested, as the committee knows, in the present relationship between our former colleague and this Peoria proposition and to find out whether that construction went on, knowing that it was at that time breaking the law. Do you know, sir, when that plant was started?

Mr. EMERY. No, sir; I do not.

Mr. TREADWAY. You testified a few moments ago that you did not know how far advanced it was when Mr. Hull came to see you.

Mr. EMERY. That is correct, sir.

Mr. TREADWAY. It is your understanding that it was in process of construction at that time?

Mr. EMERY. As I gathered from Mr. Hull and my associates at that time it was.

Mr. TREADWAY. Mr. Vinson referred to the interdepartmental report. The Interdepartmental Committee was studying the problem of the control of alcoholic beverages, and in October, 1927, made the report. Included in that report is appendix A, and that committee was composed of Mr. Doran, who was Commissioner of Industrial Alcohol, and Mr. Helvering, Commissioner of Internal Revenue. They included the recommendation which is in this bill, and Mr. Vinson read the explanation that they made of it. It seems as though we ought to be able to find out some way or other whether at that time there was knowledge of the possibility of this law not being lived up to by that particular plant at Peoria. It seems as though Mr. Helvering or Mr. Doran ought to be able to give us that information. That is my own impression. I do not want to be accused of putting this law on the basis of the request from Mr. Hull, no matter how much we think of Mr. Hull.

Mr. CULLEN. Will you yield?

Mr. TREADWAY. Yes, sir.

Mr. CULLEN. In that report it is recommended by the Department.

Mr. TREADWAY. We might as well be frank. I have heard the rumor, and all the rest of you have, that Mr. Hull was told by Mr. Doran, before he got the building up, that the law would be changed. We have heard it said that nobody had authority to speak for the Department. That is the rumor that has floated around here; that there was a conversation between Mr. Hull and Mr. Doran and we might as well be out in the open among ourselves.

Mr. Turney said the other day that nobody had the right to say what we have heard reported was said.

Mr. TURNER. Nobody in the Treasury Department, not even the Secretary himself, could promise anybody else that Congress was going to change the law.

Mr. DICKINSON. They might predict it, if it were a reasonable thing to do.

Mr. EMERY. It is incredible to me that anybody in the Department would make such a statement. I cannot believe it.

The CHAIRMAN. Are you through, Mr. Treadway?

Mr. TREADWAY. I guess so. I would like to know whether the Peoria case was involved in that recommendation of Mr. Doran and Mr. Helvering.

Mr. HILL. Mr. Chairman.

The CHAIRMAN. Mr. Hill.

Mr. HILL. I did not get your name.

Mr. EMERY. Emery.

Mr. HILL. Mr. Emery, do you know who drafted the provisions of this Celler bill?

Mr. EMERY. No, I do not. I think they were probably drafted by your own drafting committee, I should judge, from the appearance of them.

Mr. VINSON. How is that?

Mr. CELLER. From the appearance of them I would judge that they had been drafted by your own drafting committee, on recommendation.

Mr. HILL. I am advised that Mr. O'Brien, legislative counsel, drafted it.

Mr. VINSON. At whose request?

Mr. O'BRIEN. I drafted it at Mr. Celler's request, the one bill, and the present bill was drafted at Mr. McCormack's request.

Mr. VINSON. Is it verbatim?

Mr. O'BRIEN. Yes, sir, with one clerical correction.

Mr. VINSON. So that the Treasury in endorsing the Celler bill, as it does by letter, endorses this bill, which is included in the Celler bill.

Mr. HILL. I understand he particularly endorsed this particular bill, as indicated by what has been read.

Mr. CULLEN. He also endorses the Celler bill, because it is a copy from the Celler bill.

Mr. HILL. Mr. Emery, you are here speaking for the Treasury Department in this hearing?

Mr. EMERY. Mr. Bartholow telephoned Mr. Helvering, and Mr. Helvering authorized me specifically to come up. He did not tell me, but Mr. Bartholow, Assistant to the Secretary, telephoned to Mr. Helvering and Mr. Helvering's office took the matter up as Mr. Mellott was out of town.

Mr. HILL. Mr. Bartholow, to whom you referred, is an Assistant to the Secretary of the Treasury. That is his title?

Mr. EMERY. That is my understanding of it; yes, sir.

Mr. HILL. Did he tell you to represent to the committee that the Treasury Department, the Secretary of the Treasury, was favorable to this legislation?

Mr. EMERY. He did not tell me what I was to say; no, sir. He simply told me to come up and answer questions and represent the Department in that respect.

Mr. HILL. Are you prepared to say at this time that the Treasury Department favors this legislation?

Mr. EMERY. I must assume that the Secretary of the Treasury having written favorably, that it does. I can not get any other conclusion.

Mr. HILL. It is in the record. Now, you mentioned section 3244, which you said ought to be in this bill.

Mr. EMERY. It ought to be, if the bill is to become a law, because it also has an inhibition of 600 feet, which, through an oversight, was not in the original draft. It is the most specific in that respect.

Mr. HILL. The same amendment that was proposed to section 3266 also applied to section 3244?

Mr. EMERY. Yes, sir.

Mr. VINSON. If you will permit, in section 2 of the bill, an amendment to section 3280 of the Revised Statutes deals with the 600-foot distance.

Mr. EMERY. It is contained in three sections, and section 3244 is omitted. If you change two sections, the third one should be changed, as especially that is the one that carries the \$5,000 fine for accepting the tax and forcing the rectifier within 600 feet of the distillery premises.

Mr. HILL. The provision in the bill under consideration, Mr. Emery, as to the fence around the premises of the distilling plant, is the next thing I want to ask you about. There is no fence required around the rectifying plant, is there?

Mr. EMERY. No, sir; no such inhibition.

Mr. HILL. What does the fence enclose as to the distilling plant?

Mr. EMERY. As to the distilling plant it encloses the buildings actually used for distilling purposes. It need not include the whole premises. The purpose of it was so that a distiller could not prevent the visiting officers getting in at any time and detecting fraudulent practices, such as sweetening the mash, and so forth.

Mr. HILL. The fence does not necessarily include all the premises of the distilling plant?

Mr. EMERY. It would not be necessary to accomplish its purpose.

Mr. HILL. Referring to the provisions of the bill before the committee, do they permit a rectifying plant to be built upon the premises of the distilling plant?

Mr. EMERY. No, sir; and it should not be, for the reason that the distiller produces his own spirits and the rectifier simply gets them and puts in the different mixtures, and he takes only tax-paid liquor, and we do not want him to be in a position where he could connive with distillers in that respect.

Mr. HILL. It must be fenced?

Mr. EMERY. It says that he shall not build a fence over 5 feet. It is an inhibition.

Mr. HILL. It is a limitation rather than a mandate?

Mr. EMERY. It is an inhibition. If you do build it you are compelled under existing law to provide a gate, with keys to locks in the possession of the collector who can furnish them to the visiting officers. This law would stand the same, providing, however, that the Secretary might, in his discretion, allow or disallow a higher fence to prevent racketeering on the distiller.

Mr. HILL. Whether or not they build a fence around a distilling plant is one within the discretion of the distilling institution itself?

Mr. EMERY. That is true.

Mr. HILL. But if they should build a fence, under existing law, they should build it not higher than 5 feet?

Mr. EMERY. That is true.

Mr. HILL. Under the proposed amendment to the existing law he might, with permission of the Secretary of the Treasury, build it higher than 5 feet?

Mr. EMERY. Subject to all the other inhibitions in the law, that there be gates and keys shall be furnished.

Mr. CULLEN. For the distiller's protection?

Mr. EMERY. Yes, sir.

Mr. HILL. Suppose we take a particular distilling plant with a rectifying plant in conjunction, and you determine for those two plants a minimum distance between the plants that will apply specifically to that particular plant, then it would not be a general regulation fixing the distance between rectifying plants and distilling plants of other institutions?

Mr. EMERY. It could be general, or the Secretary could take it up piecemeal, as each distiller came in, and as they applied for permission.

Mr. HILL. He can determine in each case what the minimum distance must be between the rectifying plant and the distillery?

Mr. EMERY. Yes, sir; or make his regulations general to apply to all, without their coming in.

Mr. HILL. The reason for the permission for a higher fence, as you intimate, is for the better protection of the distilling plant from brigands?

Mr. EMERY. Racketeers.

Mr. HILL. Or racketeers.

Mr. EMERY. It keeps out all undesirables. During the war, as you know, we had alien enemies and the success of our military efforts depended upon the output of alcohol for making munitions. The industrial distillers and distillers making alcohol came in and said, "Let us build entanglements around our plants, or else they will be blown up and we cannot produce munitions." The department permitted them to do it. Exempted from that inhibition is the industrial alcohol plant, where, of course, the concentrated spirits are made and where the greatest risk is involved, perhaps, because of the concentrated character of the spirits.

Mr. HILL. Do you think it is necessary for the protection of the distilling plants to permit, under such peculiar circumstances as apply to a particular plant, to permit them to have higher than a 5-foot fence?

Mr. EMERY. It would put them in the same position as the industrial-alcohol plant when it would afford them similar protection, and the Government officers would still have the right to require gates, with locks on them, to have the key supplied to the collector.

Mr. HILL. You do not have to depend on looking over the fence to see what is going on inside?

Mr. EMERY. No, sir; or climbing over.

Mr. HILL. You are not dependent upon observation in removing anything from the distiller to the rectifying plant, are you?

Mr. EMERY. No, sir.

Mr. HILL. How do you check up on the rectifying plant?

Mr. EMERY. The rectifier keeps two kinds of records, the (1) numbered 64 of on the spirits which he receives and dumps, and recovers from rectification, and (2) 52 under section 3318 of the Revised Statutes, of the spirits received and sold. When he wants to dump spirits he must file a dump sheet with the supervisor or collector, asking per-

mission to do it, and if he gets that approval, it is then put into a process and after completing the rectification, there is made out a form 237 which goes to the supervisor's office, and that is supposed to be a credit to balance a debit to be entered on his record 64 and on his record 52.

Mr. HILL. You also collect a tax on rectified spirits of 30 cents per proof gallon?

Mr. EMERY. Not on all of them. For instance, a distiller making gin in the original closed process pays a \$2 tax. A rectifier would pay the \$2 tax and 30 cents in addition, and could not do so in competition with the distiller, so Congress relieved him of the 30-cent tax, where he made the gin in the same way as the distiller.

Mr. HILL. We overlooked that in the revenue act?

Mr. EMERY. No, sir; you did not overlook it. You balanced the tax. It is a fair thing, I believe. There is also a provision that where they blend straight whiskies, not less than 4 years in the wood, under the supervision of the Government officer, they are not held liable for the 30-cent tax. There is another exception, namely, manufacturing absolute alcohol.

Mr. HILL. Absolute alcohol is not blended?

Mr. EMERY. This amendment to the law in 1921 provided that a person might make absolute alcohol by removing water from high-proof spirits, and should not be subject to the 30-cent tax.

Mr. HILL. You think that with an amendment of section 3244 similar to that proposed to section 3266 in this bill before the committee, that it would accomplish the purposes of the bill?

Mr. EMERY. Undoubtedly.

Mr. FREAR. May I ask a question?

The CHAIRMAN. Mr. Frear.

Mr. FREAR. Is this concern a Canadian concern or an American concern, or do you know?

Mr. EMERY. They are the Walker interests. They are incorporated in this country now to conduct this kind of an industry, but how much American money and how much Canadian money is in it I cannot say.

Mr. FREAR. The next question I have in mind, following Mr. Hill's question, is this: Are there changes in title and ownership and all that, and do they make any difference as to the conditions relative to taxes and size of fines and things of that sort? Or do they accept the conditions as they existed under the old ownership?

Mr. EMERY. You are speaking of this particular plant?

Mr. FREAR. I am speaking of all plants.

Mr. EMERY. In the case of change of ownership except a mere sale of stock the distiller has to come in and requalify at that time and if there is any question in that case under section 3260 of the revised statutes, the collector may refuse to approve their bond.

Mr. FREAR. It would be the Secretary of the Treasury who would have this power?

Mr. EMERY. In this case the Secretary would have it and could say, "We will not allow you to have a rectifying house within 600 feet or within 30 feet."

Mr. FREAR. Just one further question. If this law is passed, in view of the fact that 600 feet was the distance placed there before,

will there be any additional liability or escape from the payment of taxes that ought to be collected?

Mr. EMERY. No, unless there is fraud. The section remains the same.

Mr. FREAR. What do you mean by fraud?

Mr. EMERY. A fraudulent removal. It is to prevent the possibility of fraudulent removal. The Secretary's report, which was just read in part, sets forth the attitude of the Department, and, of course, I do not go counter to that.

Mr. FREAR. Would fraud be easier to bring about under the changed conditions here than previously?

Mr. EMERY. The Secretary has said not, in his report there.

Mr. FREAR. He says not?

Mr. EMERY. The report which has just been read, as I recall it, said that by reason of the close proximity, that the Government officers could keep a closer surveillance over the activities. At the present time the rectifier does his own gaging. There is probably a time coming when we must require the Government officer to do it. At the time the law was passed in 1915 there was no 30-cent tax.

The CHAIRMAN. Judge Dickinson.

Mr. DICKINSON. I want to inquire about something, but let me first state that my impression—which may be wrong—about this Peoria situation is that prior to prohibition there was a great rectifying plant there at Peoria, perhaps the greatest in the country; and I further had the impression that there was no distillery there. It strikes me that the authorization in this bill seems to be reasonable under present conditions, and 600 feet is not necessary now. I have got this thought about the matter: That they are seeking now to establish a distillery there adjacent or not far removed from where the rectifying plant is, and there is no need now for a 600-foot distance as there previously was, and that the requirement of raising the height of the fence seems reasonable.

Am I right about this rectifying plant being there prior to the war? That there was a great rectifying plant there in which perhaps Mr. Hull was interested, and that they shipped their liquors from abroad, and that now they are seeking to put a distillery there in the same location and adjacent to the same premises?

Mr. EMERY. I can only answer that in part, sir. Peoria has always been a distilling center. There have been a number of huge distillers there, such as Clark Bros., and so forth. Whether or not there were rectifying houses there, I am not able to state. Doubtless there were rectifying houses there. Whether Mr. Hull had anything to do with them or not at that time, I do not know. Today most distillers are getting into the rectifying business because they want to take their old spirits and mix them with a new product to make blends in order to stretch out their good products as far as possible, for the best interests of the trade and the public. They are using old liquor so that practically all the old distillers today are getting into the rectifying business.

Mr. DICKINSON. If it is proper for you to state, and I guess it is, let me ask you this: You say you see no special objection to this change?

Mr. EMERY. That is correct, sir.

Mr. DICKINSON. It seems to me that there is no special mystery about it.

Mr. FREAR. There is no greater opportunity for fraud if this bill is passed than under the old bill?

Mr. EMERY. I do not see that there should be. Apparently the interdepartmental committee and the Secretary were of that view. I cannot run counter to it, under any circumstance, but personally I think they are sound in their judgment.

Mr. FREAR. The reason I asked that was because you gave all the reasons for 600 feet originally dropped in this bill.

Mr. DICKINSON. They had plenty of space in the old days and they do not have it now.

Mr. SHALLENBERGER. May I ask a question?

The CHAIRMAN. Governor Shallenberger.

Mr. SHALLENBERGER. I just came in when Mr. Dickinson was interrogating the witness. Did I understand that these people from Canada had gone to work to erect a distilling plant on what was originally the site of a rectifying plant? Or is the whole project a new plant?

Mr. EMERY. As I gather it, the entire project is new. Over in Canada the distilleries during prohibition produced large quantities of certain American types of spirits. The Walker people were engaged not in making whisky. They came down here and organized a corporation, as I understand, to distill and rectify, with the purpose of taking their new product from their distillery in this country and blending that with the Canadian product and coming out with a reasonably good blend.

Mr. COOPER. Then it is correct that this pending bill has the approval of the Department?

Mr. EMERY. The report which has been read said that. This gentleman here just read it a while ago.

Mr. COOPER. That is correct, is it not?

Mr. EMERY. Yes, sir.

Mr. COOPER. Any further questions?

Mr. SHALLENBERGER. May I ask one question? This so-called "approval" given by the interdepartmental committee, was that before the present Secretary came in? Was that his approval or was it the approval of the previous Secretary of the Treasury?

Mr. EMERY. The date of the report will show that, sir. I am not able to say further. I do not know those dates.

Mr. SHALLENBERGER. Has it been submitted to him? Does it meet with the approval of the present Secretary or not?

Mr. EMERY. The report on 7745 is under Mr. Morgenthau.

Mr. TURNER. We have the report on this same bill.

Mr. EMERY. That is correct. I did know that.

Mr. COOPER. Any further questions? If not, the committee thanks you for your presence and for the information you have given us on this bill.

Mr. EMERY. You are quite welcome, gentlemen.

Mr. COOPER. Without objection, the committee stands in recess until the other members come back from voting.

(At this point there ensued an informal recess.)

(Thereupon the committee adjourned, subject to the call of the chairman.)

# SILVER PURCHASE ACT OF 1934

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## HEARINGS

BEFORE THE

## COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

SEVENTY-THIRD CONGRESS

SECOND SESSION

ON

**H.R. 9745**

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MAY 25 AND 26, 1934

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UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON: 1934

65900

SEC. 13. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed, but the authority conferred in this Act upon the President and the Secretary of the Treasury is declared to be supplemental to the authority heretofore conferred.

**STATEMENT OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY**

The CHAIRMAN. We are honored this morning with the presence of the Secretary of the Treasury.

Mr. Secretary, I understand that you did not come here this morning with a formal prepared statement. If you desire to submit such a formal statement to the committee, to be inserted in the record, we shall be glad to receive it later and make it a part of these hearings.

If you wish at this time to make an informal statement and answer such questions as the members of the committee may desire to ask, we shall be very glad to hear you.

Secretary MORGENTHAU. Mr. Chairman and gentlemen:

I have no prepared statement. This is a very technical bill in its legal aspects.

I am quite sure that the questions the members of the committee will want to ask me will have to be answered by a lawyer. I am not a lawyer.

There is not very much I care to say at this time except that I am in favor of the bill and hope Congress will give it favorable consideration.

In connection with the discussion that took place here in the committee a few moments ago, concerning the tax feature of the bill, I want to say that the administration is very anxious that the tax feature stay in the bill.

If the bill should pass and silver should become part of our monetary system, the legitimate manufacturer who needs silver in his business is exempt from tax. The only other person who might be buying and selling silver would be the speculator. He would be in direct competition in the purchase of silver with the United States Government. Therefore, there is no reason why he should not pay a tax of 50 percent. As a matter of fact, I think 50 percent is a modest tax considering the program the Government will be launching, if this bill pass. So, as I say, I hope that that particular feature will remain in the bill.

The CHAIRMAN. Mr. Secretary, has there been any estimate made as to the probable amount of revenue that may be derived from this 50-percent tax?

Secretary MORGENTHAU. It would have to be a very rough estimate, but I would say that it is perfectly possible the Government might get as much as \$25,000,000.

The CHAIRMAN. Per annum?

Secretary MORGENTHAU. Well, I would not want to say that; but over the period of the purchase of silver.

Mr. VINSON. The Treasury is deriving no revenue from that source at this time?

Secretary MORGENTHAU. No.

Mr. VINSON. Then that will be additional revenue?

Secretary MORGENTHAU. That is correct.

Mr. HILL. You are referring to the tax alone. There would be some seigniorage profits, would there not?

**COMMITTEE ON WAYS AND MEANS**

**HOUSE OF REPRESENTATIVES**

ROBERT L. DOUGHTON, North Carolina, Chairman

SAMUEL B. HILL, Washington	ALLEN T. TREADWAY, Massachusetts
THOMAS H. CULLEN, New York	ISAAC BACHARACH, New Jersey
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JAMES V. McCLINTIC, Oklahoma	
CLAUDE A. FULLER, Arkansas	

E. W. G. HUFFMAN, Clerk



Secretary MORGENTHAU. There will be a tax on those who sold silver after the 15th of May.

Mr. HILL. I say, your \$25,000,000 estimate is based on the tax that this bill provides?

Secretary MORGENTHAU. Yes.

Mr. HILL. But I understand there will probably be some seigniorage that might accrue?

Secretary MORGENTHAU. That is something else. Any seigniorage would accrue to the Government.

Mr. HILL. You have not any estimate of that?

Secretary MORGENTHAU. No.

Mr. HILL. I notice at the end of section 10, on page 11, you have a repetition of the term "silver bullion." It is the same language as you have at the top of page 10. I just call attention to that. Perhaps the author of the bill should have his attention directed to that.

Let me ask you this question. This bill carries a direct appropriation. Ordinarily legislative committees recommend authorizations for appropriation rather than provide direct appropriations. Is there some reason why you want the appropriation specified in this bill rather than have it carry an authorization for an appropriation?

Secretary MORGENTHAU. No; whatever the proper way is, as long as we get the money.

Mr. HILL. I was wondering whether, by reason of the anticipated early adjournment of Congress, the time element might not be a factor in that question.

Secretary MORGENTHAU. I think the idea was that, if we could have everything that had to do with this silver program in one bill, instead of having it divided up, it would be that much easier.

Mr. Chairman, when you get into the technical questions, I would like to ask that Mr. Oliphant answer the questions, if that is agreeable to the committee.

Mr. COOPER. I should like to ask one question for the record, Mr. Chairman.

I understood you to say, Mr. Secretary, that this is an administration measure and has the approval of the administration as it now stands?

Secretary MORGENTHAU. Absolutely.

Mr. SHALLENBERGER. Mr. Secretary, I do not know whether you want to answer this now or not. But could you state what the basic purpose of the bill is? What is the view of the administration on it? What do they expect to accomplish by this bill?

Secretary MORGENTHAU. When you get into that, I would rather have Mr. Oliphant make a statement. This is a rather technical subject.

Mr. TREADWAY. Mr. Secretary, would you be willing to explain in what way, under section 2, this bill changes the policy of the United States? Section 2 says:

It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one-fourth of the monetary value of such stocks in silver.

In what way does this change the monetary policy of the Government?

Secretary MORGENTHAU. The principal way in which it is changed is that this declares it to be the policy of the United States that the Treasury should maintain one-fourth of its monetary stock in silver and three-fourths in gold.

Mr. TREADWAY. In other words, it reduces the gold reserves by one-fourth and substitutes silver therefor, if I may put it that way?

Secretary MORGENTHAU. Not necessarily, no.

Mr. TREADWAY. In what way is there a difference? What does the Administration expect to accomplish by the bill? Why is the administration asking Congress to pass this legislation at this time?

Secretary MORGENTHAU. Mr. Chairman, if it is agreeable to you, may I suggest that Mr. Oliphant make a statement giving an interpretation of the bill as a whole, which would cover the point the gentleman has in mind?

Mr. TREADWAY. That is perfectly satisfactory to me.

The CHAIRMAN. We shall be glad to have Mr. Oliphant make an explanation of the bill at this time.

#### STATEMENT OF HERMAN OLIPHANT, GENERAL COUNSEL TO THE SECRETARY OF THE TREASURY

The CHAIRMAN. Mr. Oliphant, you may make any statement you please and answer Mr. Treadway's last question, if you will, at this time.

Mr. OLIPHANT. The specific change in policy which the enactment of section 2 will make will be to increase the proportion of silver in the monetary stocks of the United States from a present amount of about 10.5 percent to 25 percent.

Mr. TREADWAY. What is meant by monetary stocks?

Mr. OLIPHANT. The total amount of precious metal used for money purposes, one way or another, whether as a circulation medium or as a reserve behind paper currency, any other money or monetary use of a precious metal.

Mr. TREADWAY. What is the present basis of the use of the supply of gold that has been purchased by the Government? What I mean is this. My understanding is that gold is no longer legal tender and is being stored by the Government. Are we to do the same thing with silver? Are you going to buy silver and do with it what you did with gold? Perhaps I am in error as to what you are doing with the gold. It has been called in. It is not a circulating medium. Neither gold nor gold certificates are circulating mediums. What is being done with it?

Mr. OLIPHANT. Under the law as it now stands, gold acquired by the Treasury becomes a part of the general funds of the Treasury.

Mr. TREADWAY. It is stored?

Mr. OLIPHANT. It is part of the general funds of the Treasury; yes, sir.

Mr. TREADWAY. In other words, it is being hoarded?

Mr. OLIPHANT. No; against much of that gold there are outstanding gold certificates.

Mr. TREADWAY. But gold is not a circulating medium any longer.

Mr. OLIPHANT. Gold does not circulate in this country, and under the Gold Reserve Act, may not circulate.

Mr. TREADWAY. By the Gold Reserve Act you mean the recent legislation of Congress?

Mr. OLIPHANT. Yes; the Gold Reserve Act of 1934.

Mr. TREADWAY. And the silver that is to be purchased in this way is to be stored the same as gold?

Mr. OLIPHANT. Under this bill, I am referring now to section 5, there must be issued an amount of silver certificates the face value of which is equal to the cost of the silver purchased.

For example, if, in the course of carrying out the policy declared in section 2, the Treasury should purchase 1,000,000 ounces of silver, we will assume at 64.5 cents an ounce, against the silver there would have to be issued silver certificates to the amount of the cost, or \$645,000. Each time a silver certificate is issued, there must be placed back of that silver certificate a statutory amount of silver.

Mr. COOPER. Now, what is that?

Mr. OLIPHANT. Silver dollars are coined and silver certificates are issued under the law against silver at the rate of \$1.29 per ounce.

Mr. COOPER. You mean \$1.29 in money is issued against an ounce of silver?

Mr. OLIPHANT. That is right.

Mr. COOPER. Mr. Chairman, I do not mean to interrupt the gentleman from Massachusetts, but I would like to offer this suggestion, if I may. We all recognize that this is a very technical bill. It is very difficult, I am sure, for all of us—

Mr. TREADWAY. I am glad that there are others ignorant as well as myself.

Mr. COOPER. It is very difficult for us to understand all of its provisions. I assume, Mr. Oliphant, that you participated in the preparation of the bill?

Mr. OLIPHANT. Yes; I worked on the bill.

Mr. COOPER. Therefore, Mr. Chairman, I think it would be in the interest of all of the members of the committee if we were to allow Mr. Oliphant to take up the bill in his own way, and give us an explanation of it. Then we might make notes of such questions as occur to us, and if they are not explained in Mr. Oliphant's presentation, we can ask questions on those points.

The CHAIRMAN. It is the opinion of the chair that the witness should complete the answer to the point you are speaking of and then he may make such general statement as he wishes.

Mr. TREADWAY. I have only one more question, Mr. Chairman. I thoroughly approve the suggestion made by Mr. Cooper. I should like to ask only this one question before we proceed in the manner he has suggested.

I notice on page 2, line 11, the language:

*And provided further, That no purchases of silver situated in the continental United States on May 1, 1934, shall be made hereunder at a price in excess of 50 cents a fine ounce.*

Will you explain the significance of the language "continental United States"?

The bill gives authority, as I understand, to purchase at home and abroad, but you are limiting the price you will pay in continental United States. Why do you not make the same limitation on what you are going to pay for silver purchased abroad?

March 24, 1934

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

Dear Mr. Morgenthau:

Enclosed you will find a first draft of FORTUNE's short biography of yourself. This is a rough and tentative manuscript and I hope you will note any errors of fact, and suggest any changes in attitude which occur to you. I should like very much to have the following additional information:

Where did you go in Texas when you were recovering from typhoid?

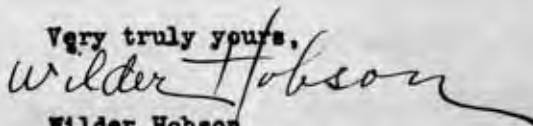
Can you tell me something more about your services during the War?

What happened to the tractors?

What is the general financial picture of the dairy farm?

I am very grateful for the kind cooperation you have given me both in Washington and at Fishkill Farms, and I hope you will make your criticism of the manuscript as complete as your time permits.

Very truly yours,



Wilder Hobson  
Associate Editor

WH:m

*Mr. Morgenthau*

Henry Morgenthau Jr. is just about the most obscure Secretary of the Treasury this country has ever had. The press has been very busy trying to learn where he is going, which may explain why it has paid so little attention to where he came from. The well known man on the street has a notion of Mr. Morgenthau which is somewhat as follows:

He is the son of a Jewish philanthropist.

He has spent most of his life farming.

He is President Roosevelt's favorite farmer.

As Governor of the huge Farm Credit Administration he was President Roosevelt's favorite farmer dealing out millions to other farmers.

As Secretary of the Treasury he is President Roosevelt's favorite farmer and Secretary of the Treasury.

In Washington, of course, Mr. Morgenthau is a good deal less obscure. But even there he is not what you would call a known quantity. In some parts of Washington you will be told that the Farmer in the Treasury is on a par with the fabled Nigger in the Woodpile. Elsewhere you hear that Mr. Morgenthau is a hampering executive, that he knows a financial brain when he meets one, that he is a terrific worker, and that he is certain to leave the Treasury Department a great deal better than he found it. Only one thing is certain:

as Ferrous pointed out last month with reference to most of the New Dealers, Mr. Korgenthau is a rank amateur who has done none of the things which are usually regarded as prerequisites for his job. Today, of course, there are lots of minds elastic enough to endorse the idea of trying new lawyers in our banks and more professors in our cabinets and more farmers in our treasuries. But so far Mr. Korgenthau is a beginner in his post, and it is impossible to give a valid opinion on his value until more results have been shown. Thus far Mr. Korgenthau's value in the Treasury is still a subject of debate. FORTUNE entered the debate last month, and FORTUNE will stay in it so long as Mr. Korgenthau is in office. Meanwhile the time is ripe to look at the Secretary, not as the Secretary, but as a person.

\* \* \*

His grandfather was a cigar maker of Mannheim, Germany. In this article this Lazarus Korgenthau had workshops in Mannheim, Lorsch and Heppenheim, and sometimes he hired as many as 1,000 workers. He made a lot of money, and he made most of it in the export trade to the U.S. He lived very well and liked the theatre, and he and his wife, who had a literary turn of mind, liked the thought of raising eleven children (there were two others who died in childhood). Lazarus Korgenthau had a brother who had gone to California in the gold rush and who stayed to represent the cigar firm on the Pacific Coast. He kept writing exciting letters about the States and he sent the Grand Duke of Baden a fine case tipped with gold and quartz. The Korgenthau children called him the "Gold Dealer" and some of them thought it would be a fine idea to remove to the States. The "Gold Dealer" managed to surround his habit with a lot of glory. In 1862 the land of glory put a high tariff on cigars which spoiled the better part of Lazarus Korgenthau's market. He sent a last load of stogies with which he hoped to beat the tariff, but it arrived in the U.S. a

a day later and was a dead loss. From then on Lazarus Morgenthau's business went to pot and, after brooding for a few years, he decided that Germany was no longer the place for him, and that the "Gold Eagle" had the right idea. He sent his two oldest boys and a girl to the U.S. with instructions to get a home in Brooklyn, which at that time had more social graces than it has today, and he himself followed with his eight other children and \$20,000 he had managed to save from his German decline. But life and business in Brooklyn was not much like life and business in California as described by the "Gold Eagle." Lazarus Morgenthau had a terrible time with the English language, and the business methods of the U.S. oligarchs were very peculiar, and he lost most of his \$20,000. After a year he moved into cheaper quarters in New York, where he began to take in boarders and rented his back parlor as a doctor's office.

The Secretary of the Treasury's father, Henry Morgenthau Sr., was the ninth child of Lazarus. Hereafter, for the sake of convenience, he will be called Morgenthau Sr. He is, of course, much better and more widely known than his son in the Treasury Department. Morgenthau Sr. was Wilson's ambassador to Turkey and in 1903 he was sent to Athens to be chief host and good angel to the 5,000,000 Greeks who fled for their lives from the Turkish massacre at Smyrna. Morgenthau Sr. is one of the leading Jewish philanthropists of New York and he is a kindly gentleman, somewhat rabbinical in looks and temper, with a variety of interests including literature, novels, public welfare and the conservation of money. He was a child when he came to the U.S. He went to Public School No. 14 in Manhattan and to the Free College of the City of New York. He worked his way with odd jobs through the Columbia Law School and in the late seventies he began to practice law with his own firm, Loebman, Morgenthau & Goldsmith. The literary smarts of those days was Ralph Waldo Emerson and Emerson clubs were almost as common as pool rooms. Morgenthau Sr. helped to form one with

his brother Julius, who had been very well educated in Leipzig and later became a stamp dealer in Manhattan. Another member of his club was a cultivated young lady named Josephine Sykes, the daughter of a wholesale clothier of Broadway. Morgenthau Sr. liked her so much that he asked her to join an even more select reading group under Richard Grant White, a Shakespearean scholar. In 1885, after a succession of these literary trysts, Morgenthau Sr. and Miss Sykes were married.

The Secretary of the Treasury was the third of their four children, the others being Alma and Helen and Ruth. He was born in May 1891 in a modest apartment hotel on West 81st Street, New York, in the section known as Central Park West. Central Park West was then a collection of respectable apartment houses and private homes occupied for the most part by dignified Jewish families who were coming up in the world; most of the prominent Jewish families of New York have lived there at one time or another, and they raised some notable stone towers in the era of Coolidge and Hoover. At the time when Mr. Morgenthau was born, his father's law practice was steady but not at all startling. But shortly Morgenthau Sr. began to get interested in real estate. These were the days when the title companies were young and feeling their way. The members of real estate corporations hadn't gotten to important gentlemen with mahogany manners; they were mostly young business and professional men who were willing to take a chance. Morgenthau Sr. knew the old Central Trust Co. crowd and they were thinking of trying the real estate business. They asked him if he wanted to be president of their trial offshoot, Central Realty Bond & Trust Co., and he said he did. He had little success with this company, but he began to buy Bronx real estate on his own account. He expected a boom in the mean borough just north of Manhattan <sup>and</sup> he was right. Today it would be a poor idea to wager that any given part of the Bronx had not once been owned and sold by

Mergenthan Sr. In a dozen years he became the prime real estate operator of the borough. He gave young Joseph P. Day his first large lot sale and he built the Hunt's Point Apartment House, at that time the biggest in the world. He was one of the backers of the George A. Fuller Construction Co. and of the Free Synagogue where the Statorian Rabbi Stephen S. Wise made his reputation. In a spare moment Mergenthan Sr. helped a young man from Brooklyn named Underwood who had a small typewriter business and \$5,000,000 in unlisted Standard Oil stock which the banks would not take as collateral. Mergenthan Sr. took Underwood around to the Central Trust and got him some money, receiving for this favor \$1,000,000 in practically worthless Underwood stock. In ten years it was worth millions.

The Secretary of the Treasury, in short, grew up as a rich man's son. He made no stir of any sort in his early years. He was a tall, slender, darkly good looking boy, often in delicate health, and on this account and because he had very zealous parents he was raised with a great deal of care. He went to a private school in Central Park West where he was a fair student but by no means a scholar, and where his health prevented him from being even a passable athlete. He had no hobby more original than stamp collecting (he still suspects a certain gentleman of having stolen his Buffalo Expositions). He was amiable in a quiet, retiring way and no one would ever have called him a good mixer, but he gradually made <sup>some</sup> four particular friends in Central Park West, all of them sons of well-to-do Jewish families like his own, and they are his <sup>3</sup> four closest friends today. The quartette includes Arthur Hays Sulzberger, managing director of the New York Times and son-in-law of its publisher Adolph Ochs, Vice President Harold E. ~~Harshchild of American Metal Co.~~, and two able New York lawyers, Edward S. Greenbaum (Greenbaum, Wolff & Ernst) and Alfred Jaroski (Sullivan & Crowell).

There is presumably some deep, psychological reason why the grandson



of a drama-loving cigar maker and the son of a literary realtor should develop a yen for farming. It is too obvious a reason to be explored here. The fact remains that Mr. Morgenthau first got the farming idea when he was twelve. The family spent their summers at Lake Placid and Blue Mountain Lake in the Adirondacks, and the mountains were full of young people playing tennis and swimming and canoeing and learning to dance. The quiet Henry Morgenthau spent very little time in this sporting life, but he was fascinated by the local farmlands and presently he asked his father for \$100 to buy a chicken farm. Morgenthau Sr. of course saw nothing more in this than a whim, but he thought it could be put to good use. He was worried because the boy took so little exercise even in the summer. He wanted him at least to do more walking, so he told Henry he could have \$100 on the day when he could beat his father at golf. This ruse resulted in success for both parties; Henry took daily golf lessons, getting a lot of good, healthy walking, and three weeks of these lessons taught him enough golf to beat Morgenthau Sr.

The only significant thing about the chicken farm which Henry bought was the fact that he wanted it. The twig was bent, even though no one realized it at the time. If Morgenthau Sr. had realized it he might have been somewhat alarmed. He knew perfectly well that most of the farmers who spring out of city families are idlers or escapists or hazy theorists or all three put together. And one of the marked traits of the versatile Morgenthau Sr. is his instincts for profits. But young Henry presently showed signs that, whatever he became, he would have his full share of Morgenthau practicality. The next winter Morgenthau Sr. thought he ought to get better acquainted with his son. Henry was thirteen and Morgenthau Sr. felt that a boy of thirteen was knowable and that any real father would take pains to know him. He had a piece of property in Far Hills, New Jersey, and on the property there was nothing but a stable; the local policeman and his wife lived there and acted

as caretakers. That winter the Mergenthau's, parents and children, spent a dozen week-ends together in the Far Hills stable. They talked about everything under the sun and Mergenthau Sr. was a very candid parent. At that time he was speculating heavily and with great success. He was spending a lot of money on himself and his family. But the changes and chances of the market were on his mind and one week-end he told Henry how he felt.

"I want you to be self-reliant in money matters," he said. "I don't want you to assume that you'll inherit a lot of money from me. Very likely you will. But suppose I should lose my money?"

The thirteen-year-old Henry seemed to be considering his possibility, but Mergenthau Sr. couldn't be sure.

"Am I talking over your head?" he asked.

"No," said Henry. "Don't worry about me. I was just <sup>thinking</sup> that it seems to me to have to make Alma and Helen and Ruth run the risk of not having anything when they grow up."

Mergenthau Sr. paid quick tribute to this early wisdom by setting up a trust fund for his three daughters and for Henry.

\* \* \* \*

It is sometimes complained that the New Deal is being dealt by a group of absent-minded professors and their former pupils. It is therefore interesting to note the Secretary of the Treasury, at least, is so little of a schoolman that he holds no degree of any kind from any institution. It may be impossible to make this statement after the coming June. Meanwhile Mr. Morgenthau is probably <sup>one of the very few</sup> the only high Government officer<sup>s</sup> in recent years who has neither been graduated nor honored by the nation's faculties. His thoughts about money have been influenced by the one professor whose shy head has become a symbol of the Administration's collegiate flavor -- Cornell's George F. (Rubber Dollar) Warren. But Mr. Morgenthau's thinking never reaches the Warren extremes, and it can scarcely be said that the Treasury Department is in the hands of a Warren man.

Mr. Morgenthau spent three years at Exeter. He was still reserved and self-effacing to make himself felt in the big, busy, typically American school. He had none of the abilities of the campus giants and he could never see why the giants were so much admired. His nearest approach to a campus reputation was brought about by the huge crates of assorted chocolates which he regularly received from his uncle, Menno Morgenthau, who founded The Mirror Candy Co. When he left Exeter, Morgenthau Sr. thought he should follow him in the real estate business and that a course in architecture would be good background for an up-to-date realtor. So in 1909 Henry went to Cornell to study architecture. But one year at Ithaca convinced him that an indoor life over a drafting board was not in his line. He had no idea what his line really was, but he kept thinking about farms. Returning to New York, he put on a pair of overalls and worked for six months as a timkeeper on one of his father's construction jobs on Lexington Avenue in the twenties. He worked indognito -- the men knew him as Mr. Henry. Then he signed as a day laborer in the Underwood typewriter factory in Hartford (Morgenthau Sr. had become <sup>an</sup> Underwood director). After a few

would be got withheld forever and was sent to Texas to recuperate. He had never seen anything like the huge Texas farms. They struck in his mind when he went back to New York, but he was still undecided about himself and he worked for a while in the Horganthaus real estate office and in a brokerage house. During these unhappy jobs he decided once and for all that he wanted to be a farmer. This was in 1912. He was twenty-one and, despite his vacillations, Horganthaus Sr. had complete trust in him. He gave Henry a sizeable sum of money and free access to the family safe deposit box and sent him back to Ithaca to study agriculture.

He took farm finance under Professor Warren, but the Professor doesn't remember it, and Mr. Horganthaus doesn't remember whether he passed or finished the Professor's course. It was not until several years later that he studied and admired the Warren monetary theories. Again, Henry stayed only one year at Cornell, but this time he had a very different reaction. He came home claiming that he had learned all he could from the Cornell agricultural college and was ready to begin farming. Horganthaus Sr. took the claim seriously; his son seemed to have much more zest and self-confidence than he had ever shown before. Horganthaus Sr. had been an active campaigner for Woodrow Wilson and had been appointed Ambassador to Turkey; he was in cabinet with the Wilson Cabinet and he acted Secretary of Agriculture David Houston that should be done about buying Henry a farm. The Secretary offered the services of one of the Departmental experts named William Schofield, and Horganthaus Sr. paid for a farm inspection trip which took Henry and Mr. Schofield through Texas and out to California and Oregon. Henry wanted to be within striking distance of his family, and Mr. Schofield suggested that there was good soil, free from the saltiness of the seaboard, just west of the Mississippi range in New York State. The land over this country and in June, 1914, Henry bought 1,000 acres just south of the small village of Plispee, New York, and seven miles east of the Hudson River. The Horganthaus safe deposit box yielded up \$ for this property. Henry hired a robust Plisbillian named

Jim Bailey to be boss farmer and settled down with him in a white frame farmhouse to experiment with practically everything which could possibly be grown or raised on the land. At various times they tried potatoes, sheep, hogs, poultry, cattle, apples, and miscellaneous fruits and vegetables.

During the next three years Henry left the farm three times to visit his father in Turkey. His last trip was late in 1915. Mergenthan Sr. met Henry at 2:30 A. M. in the Constantinople railroad station and Henry announced that he wanted to get married. The young lady's name was Elinor Fatma. He hadn't proposed to her because he wanted his father's approval, but he thought his chances were excellent. Mergenthan Sr. approved with the greatest ease. Elinor Fatma had been born on the same block, and with the same doctor in attendance, as Henry; he had known Elinor and the Mergenthans had known the Fatmas for years. Elinor's father was president of the Haritan Woolen Mills in New Jersey and her maternal uncles were the banking Lehman brothers. Elinor herself was a short, dark young woman of great energy and charm. She was two years out of Vassar ('13) where she had been very popular and had started a Little Theatre. Henry had taken her out to see his farm and he gathered that the idea of living on a farm appealed to her.

Mergenthan Sr. and Henry returned to New York together. Their boat docked at 10 A. M. and Mergenthan Sr. was hurried away to a large reception and lunch. Henry went to call on Elinor Fatma and took her for a walk in Central Park. He telephoned his father at the lunch and told him that Elinor had accepted. They were married the following April and Mergenthan Sr. was the best man. Henry gave him a gold pen knife, a necktie and a pair of gloves.

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For the next seventeen years Mr. Mergenthau worked his farm. The only thing which stopped him for any length of time was the War. He was too near-sighted to get into the Army, but the Navy took him for work in which sharp eyesight didn't matter. He got to be a lieutenant, junior grade, and his job was to assist in the efficient handling of trans-Atlantic traffic. He studied the log of every official ship which came into New York Harbor. Later he had a big idea, which was to organize a regiment of tractors which would help to grow vegetables for the A. H. F. on French soil. He broached this idea to Herbert Hoover, who persuaded the French government to buy 1,000 tractors, and arranged for deck space on a munitions ship. In 1918 Mr. Mergenthau went to France with the 1,000 tractors, but when he got there he found that the available garden lands were too small to be cultivated efficiently with tractors, and the scheme petered out.

He had quite different results with his own farm. His critics often imply that his farming was of the fancy or uplift variety, and that he never made any money at it. As a matter of fact, farming agreed with him as much as he thought it would, and he practiced it with efficiency and profit. His Fishkill Farm is today practically a model plant, and he has been chiefly responsible for making it what it is. On Fishkill Farm there are no extra coats of paint, no superfluous buildings or workers, no expensive and useless jobs of sub-ceiling, no tricky feeds or fertilizers. Everything is trim and tested and productive, or else it is abolished. Mr. Mergenthau watches the maintenance accounts like a hawk. The farm, which began in 1914 with 1,000 acres, has been increased to 1,400, which is a big farm for New York State. The original experiments with all kinds of produce were gradually narrowed down until today Fishkill Farm is mainly a dairy farm of more than 1,000 acres and a 250-acre series of apple orchards. The orchards are supervised by boss farmer Jim Bailey under Mr. Mergenthau's direction.

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The dairy farm has been run for a dozen years by a tenant farmer, Arthur Heese, on the share-rent system. Mr. Mergenthan provides the buildings, the herd, the heavier equipment and half the feed. Mr. Heese provides the other half of the feed, the labor and light equipment, and he gets about half of the take. As the farm developed, Mr. Mergenthan found that Cornell still had things to teach him and he often asked the advice of Ithaca. The details of Mr. Mergenthan's share-rent system were suggested by Dean Ladd of the Cornell College of Agriculture, and three or four times a year the Mergenthan apples are inspected by <sup>Arthur J</sup> Albert Heinicke, Cornell's Professor of Pomology. A good deal of the accumulated wisdom of Cornell has descended upon Jim Bailey, who was a simple dirt farmer to begin with, but now listens to crop reports over the radio and is as scientific as it is good for a farmer to be. And any expert will tell you that Cornell and Mr. Mergenthan know where farming stops being scientific and becomes merely high-faluting.

Mr. Mergenthan's apples have shown a profit every year but one, there was a blighting halfstern. Currently the crop runs around 20-25,000 bushels of MacIntoshes, Baldwins, Northern Spies, Rome Beauties, Opalescents, Newton Pippins and others. They are marketed through Youkers and the 1932 crop, the last for which the figures are complete, showed a net selling profit of \$18,821 and a net profit after all expenses of \$5,500. The dairy farm has 150 head of Holstein and Jersey cattle, whose milk is blended to give a high butter fat test (Jerseys give 5 per cent and Holsteins give 3, while 4 plus is desirable). Every day about a dozen forty-quart cans of Grade A milk are sent to Poughkeepsie, where they are sold through the Dairymen's League. In 1933 the dairy farm showed a net profit after all expenses of \$ . Thus, taking about half of the dairy profits, Mr. Mergenthan in recent years has netted about \$ a year from his farm.

In other words, with a fast start from Mergenthan Sr. and a lot of

help from Cornell on the scientific end and from Jim Bailey and Arthur Keesee on the dirt end, Mr. Morgenthau learned his hard buccolic trade and he learned it well. If you wanted a tenant farmer and Mr. Morgenthau was available, you would be lucky. Long before he went to Washington he was one of the most popular speakers at the Dutchess County Grange, and he was admired by thousands of farmers who had never seen his Fickhill Farms. He became known to them in 1922, when he bought The American Agriculturist, a fortnightly farm journal at \$1 a year with head offices in Poughkeepsie and New York. This sheet had a circulation of 100,000, mostly in New York and New England, but it had been getting more and more scientific and less and less readable, and it was fast losing ground to its bigger rival, The Rural New Yorker. Mr. Morgenthau quickly pumped it full of human, readable material. He sold advertising space himself, sitting for hours in the anterooms of such agencies as Campbell, Neald and H. W. <sup>Agres.</sup> In connect-  
 ion with the <sup>H</sup> 4-4 Club, a nation-wide association of farm boys and girls, <sup>he ran</sup> all kinds of prize contests, offering cash prizes and scholarships to Cornell Club members would compete, for instance, in raising quarter acres of potatoes, handling all the details themselves from the seed to the reocording of the crop, with advice from local leaders and Mr. Morgenthau's paper. Mr. Morgenthau also made a strong play for the farm women with articles on bread making and similar subjects. He sponsored the well-known Master Farmer Movement in New York and New Jersey. This was planned to give recognition to outstanding farmer citizens. Anyone could nominate any farmer for the annual \$          award. Candidates were examined on the basis of what they had started with, what they had acquired, the status of their families, education of their children, condition of their homes, and the nature of their relations with their communities and churches. The judges committee included the Governor of New York and the dean of Cornell Agricultural College, and the award was made during Cornell's annual Farm & Home Week. Often as many as 7,000 people went to these celebrations and heard the

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He attacked all sorts of farming evils and ran into several lawsuits. His old friend Edward Greenbaum was his lawyer, and Mr. Greenbaum made it hot for the opposition, even though the process often cost Mr. Morganthau a lot of money. But Mr. Morganthau would say: "So the limit. Otherwise we might as well shut up the magazine." In 1926, for instance, the New York Supreme Court heard the case of a rabbit firm against the American Agriculturist. The rabbit firm had advertised that a \$20 investment in its Belgian hares would yield \$1,000 in no time. Mr. Morganthau's paper had stated that the so-called Belgian hares were ordinary bunnies picked up on the market and would yield nothing but a rapid multiplication of their kind. The rabbit firm brought suit for libel and, when Mr. Greenbaum took the case to the Supreme Court, offered to settle for \$1,000. But Mr. Morganthau refused and Mr. Greenbaum packed a whole floor in an Albany Hotel full of witnesses and won his case to the tune of several thousands in expenses.

Governor of New York pronounced the name of the Master Farmer. Similar awards were made at the same time to <sup>H</sup> Club boys and girls, members of the New York State Grange and the Boy Scouts. It was the great farming jamboree of the year, and Mr. Morganthau and his American Agriculturist played a leading role. When he sold the paper last year he had jumped its circulation from 100,000 to <sup>160</sup> 200,000. He had been a smart publisher and an ingenious patron of New York State agriculture.

... The Morganthaus ... three children on the farm, ... and eleven), and it was ... in a city apartment ... New York. Mr. Morganthau's ... ly and usually. He ... and Mrs. Morganthau ... Mr. Morganthau did a lot of ... air own plumber and carpenter ... A week-end at ... friends and relatives. ... also is the wife of ... Verelina, Theatre Guild ... Cortisier J. Fox, painter and ... lalist. <sup>Ruth</sup> Helen is a part ... retired New York banker. ... from the early days in ... Year Faber & Jostel Club. ... head stationery for ... attention. ... player (longer ...

During the first fourteen years of their married life, Mr. and Mrs. Mergenthan lived in a simple white frame farmhouse which Mr. Mergenthan might have supported out of his farm earnings. He was, of course, independent of these; in addition to general funds and the key to the family treasury, his father had started him off with some Breax property which Mr. Mergenthan sold, buying Underwood stock with the proceeds. As time went by he exhibited his father's flair for solid investment. But he conducted his dealings with Wall Street at long distances. The Mergenthans avoided the city as much as possible. They raised three children on the farm, Henry and Bob and Joan (now seventeen and <sup>14</sup> fifteen and eleven), and it was not until this trio were ready for school and established in a city apartment that their parents made anything like regular visits to New York. Mr. Mergenthan's day's work was the farm, and he thrived on it, physically and mentally. He covered his premises daily, on horseback or in a battered Ford, and Mrs. Mergenthan was often with him. The family often went camping and Mr. Mergenthan did a lot of the camp cooking. A good part of the time he was his own plumber and carpenter. There was all the social life the Mergenthans wanted. A week-end at Fishkill Farms was a treat for any of the Mergenthan friends and relatives. Among the frequent visitors were Mr. Mergenthan's sisters. Alma is the wife of the New York art dealer, \_\_\_\_\_, and ex-wife of Maurice Wertheim, Theatre Guild patron and amateur of the arts. Helen is the wife of Mortimer J. Fox, painter and retired architect, and she is a famous flower specialist. <sup>Ruth</sup> Helen is a past-mistress of pottery and the wife of George V. Hamburg, retired New York banker. Some years ago Mr. Mergenthan and his four close friends from the early days in Central Park West consolidated themselves as the Once A Year Paker & Pretzel Club. Member Sulsberger's New York Times printed the letter-head stationery for this organization and many of its meetings, official and otherwise, have been held at Fishkill Farms. Mr. Mergenthan is a wretched paker player (lawyer Greenbaum is the best), but he has a lot of fun.

In 1938 the Morgenthaus left their small white farmhouse and flew them-

solve to a more spacious residence which is now their extra-Washington home.  
On one of their pleasant farm properties, overlooking a silent lake fringed

by soft orchards and the blue Plinkill Mountains, was a large Victorian maner-  
piece of fancy carpentry and stained glass whose ~~architectural~~ <sup>architectural</sup> ~~has been~~ described

by Mrs. ~~Morgenthau~~ <sup>the girl in black</sup> ~~as "very ornate."~~ <sup>should be</sup> Mr. Morgenthau spent \$20,000 on-  
verting this landmark into a gracious Georgian homestead surrounded by a rose

garden, a plain concrete swimming pool, an ~~elaborate~~ tennis court, and a ~~stable~~  
for six horses ~~stables~~. The house is cheerfully furnished in <sup>with</sup> the early American

style. Mr. Morgenthau's study on the first floor, paneled in ~~red-wood~~ <sup>pink</sup>, contains

books on fertilizers and the novels of Dalrymple-Lyttelton. Mrs. Morgenthau's study,

cream-paneled with beechen rugs, is known as the Kennel because she once wanted

to know where she and her dog were going to be put. The plate-paneled dining

room is decorated with murals in burnt orange by Thomas Ferrar showing 16th cen-

tury scenes in the neighborhood of Plinkill. In one of these murals the Mergen-

thau family of five may be seen picnicking under a tree. The wallpaper in the

boys' <sup>boy's</sup> room (they are now both at Deerfield Academy) repeats the black-figure of

a cavalier and was designed by Henry Jd. who also composes male and, last

Christmas, aimed to be given a book on Spanish architecture and Professor Barron's

treatise on prisons. The younger son Bob is <sup>a good shot + when he was 17 he</sup> ~~distributing~~ ~~as a~~ ~~barman~~ ~~etc.~~

beside ~~gun~~ ~~the~~ ~~good~~ ~~table~~ ~~which~~ ~~he~~ ~~had~~ ~~and~~ ~~photo~~ ~~of~~ ~~a~~ ~~thumb~~ ~~print~~ ~~on~~ ~~his~~  
<sup>with window</sup> <sup>filled by murals</sup>

eldest ~~dear~~ and the daughter Joan is ~~in~~ ~~charge~~ ~~of~~ ~~Morgenthau~~. On the first floor

of the Morgenthau house is a sunny guest room in green and yellow and white. It

was placed on the first floor for the special convenience of the guest who most

fmrz

If Mr. Horganthan had done his farming in Texas or Oregon he would probably not be Secretary of the Treasury today. But Fiehlhill Farm is only thirty-five miles from Hyde Park, the family home of President Roosevelt, and Mr. Horganthan's whole public career has followed on the fact that he and the President became Dutchess County neighbors twenty years ago. Mr. Horganthan doesn't remember exactly when he met Mr. Roosevelt, but it was shortly after 1914 and they liked each other at once. They had the obvious bond of a love for their rural community, and they showed other similarities as time went on. Mrs. Horganthan and Mrs. Roosevelt became fast friends. They were side by side in Dutchess County welfare work and for years they went to Cornell's Farm and Home Week together. Mr. Roosevelt saw that Mr. Horganthan was a healthy, self-reliant fellow who would keep a lot of balls rolling, and when he ran for Governor he asked his friend to be his advance man. This proved to be a big job. Mr. Roosevelt was the first Democrat to sell himself upstate; and it took a 75,000 mile campaign trip to do it. Mr. Horganthan lined up all the speaking places, managed all the publicity and even took a few tickets. Then he rode almost all of the 75,000 miles with Mr. Roosevelt in a Buick. They learned to appreciate each other's own dispositions; Mr. Horganthan compares this ordeal-by-campaign-tour to those camping trips or sea voyages which make or break the stoutest friendships. Later Mr. Horganthan had two State jobs under Governor Roosevelt. He was, in turn, Chairman of the Governor's Agricultural Advisory Commission, which studied the State and recommended farm legislation to Albany, and of the State Conservation Commission, where he rebuilt a worn out bureau. In both jobs Mr. Horganthan had the most expert deputies he could get, including Professor Warren, Dean Todd of Cornell, and the handsome young William I. Myers, Cornell Professor of Farm Finance, who is now Governor of the Farm Credit Administration. Mr. Horganthan enjoyed his State jobs hugely; every day he was so full of ideas that the Governor's secretary made a morning ritual of asking him if he were going to pull any

rabbits out of his hat. One morning Mr. Morgenthau produced two actual rabbits from his federal.

The comment criticism of Mr. Morgenthau is the charge that he is merely a yes-man to the President. Clearly, the Treasury policies are in accord with the mind in the White House. It is undoubtedly true that when the President makes a suggestion, Mr. Morgenthau is very likely to say yes. But the common explanation need not be applied. The fact is that Mr. Roosevelt and Mr. Morgenthau are a mutual admiration society. The President once gave Mr. Morgenthau a picture of both of them, riding side by side in a motor car, and he signed it "The Henry, from one of two of a kind." That sentiment is a key to their relationship. For years they have lived in much the same way, and been interested in much the same things. They both have decidedly rural leanings, and the economic thinking of both has been strongly affected by economists with an agricultural background. They both have terrific energy and the capacity to get things done, relying heavily on the suggestion of experts as to what things shall be done. They are both sophisticated enough to realize that nothing is more treacherous than a pet theory, that no governmental policy is permanently valid, and that emergency calls for experiment. Whether he advanced to be called an experimentalist. Yet both are conservative enough to feel that, if Denmark is rotten, it does not need to be radically rebuilt but can be shored up, reinforced, regulated, finaled. Finally, Mr. Roosevelt and Mr. Morgenthau have worked together for years. If there were any possibility of large disorders, of gross purposes, it would have appeared years ago and Mr. Morgenthau would not be carrying the Treasury Department. Mr. Roosevelt is a great deal closer to his Treasury appointees than are most Presidents. Mr. Morgenthau's "yes" is not complacent — it is practically inevitable.

I like it

Today Mr. Morgenthau is a big, bald, supposedly dressed gentleman whose

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*brown*

*He looks eyes may at you from behind his glasses. The thing that clinched his present job was his performance with the Farm Credit Administration. William I. Myers, its present Governor, designed the F.C.A., which has been called the largest bank in the world, and Mr. Morgenthau got it moving. Without going into the question of where he moves, anyone who knows him will admit that Mr. Morgenthau is one of the greatest movers in Washington. He lives in a moderate-size stone house which he rented, furnished, and walks to work every morning (forty-five minutes). The farm year's, which built up his body and his spirits, made him hungry for exercise, but aside from his morning walk, and an occasional horseback ride, he gets very little time for exercise. But he is robust to the core, feels very fit, and when he isn't too harassed he exudes good nature and has a fine, sudden smile. He is very excited about his job, and is more candid about it, both officially and personally, than any Secretary in recent years. He is, in fact, a very candid man. His mind doesn't work quietly like the President's, but he will instantly admit when he doesn't know or hasn't grasped a thing. He is learning things very rapidly, but he doesn't let them confuse him. His job is to get taxes collected and get securities issued and get a hundred other things done; he depends on his assistants to suggest the possible methods. They set up the questions for him to decide, and he has the self-confidence to make quick decisions. There are 75,000 people in the Treasury Department and he keeps them moving.*

*He keeps moving himself. He eats lunch in his office, telling business all the time, and he gives interviews at any hour when he is awake. He has given them at breakfast, and while he was being fitted for a dress vest. He thinks he catches too much. He has a tin box of Camels in his desk, but he usually fights off temptation and shoves two packages of Doublemint gum in succession. It takes him half an hour; he shoves each piece of gum into the waste basket as the flavor wears off. This is typical of his informality. He smears a lot in conference*

and often puts his feet on his desk. But if his secretary, Mrs. Klotz, comes in the room, he restores his feet to the floor. Mrs. Klotz is a small, dainty, extremely pretty young woman who has been his private secretary for thirteen years. She attends every important Treasury conference and has a great admiration for Mr. Morgenthau which is not at all professional.

7 He is so busy that he has little time for Washington social life. But Mrs. Morgenthau is very popular with the most socially exacting hostesses in Washington, the ladies who don't react to the wives of Cabinet members unless they want to. The Morgenthaus arrange to spend many evenings together at home and on these evenings they will accept no invitations except that of the White House. Every <sup>two</sup> months ~~as~~ they manage to get up to Fishkill Farms for a weekend. ~~A few weeks ago they were there, and Mr. Morgenthau felt so well that he~~  
~~spoke to the ladies to Mrs. Morgenthau in Fishkill.~~

If they want to say when you get up  
 There you are so happy you say  
 at the table O.K. — can also  
 say you say bars on the Cornell  
 Green Club grounds H<sub>2</sub> —



March 24/34

77

This was written by  
Mrs Morgan

The article has so completely the wrong slant on Henry Morgenthau, Jr. his early youth, his philosophy of life, his relationship to his father, his backing by the "Key of the Family Treasury", his work for four years in Albany, his stupendous job of reorganizing the Farm Credit Administration, which was after all built up from scratch, and meant taking over the most discredited Federal organization namely the Federal Farm Board, that it would be far better to scrap it and run nothing. Henry Morgenthau, Jr. does not seek publicity - he would far rather not have these "personalty" articles and let his acts in the Treasury speak for him, but if they are run let us at least be able to recognize the person from the portrait.

I shall try to analyze page by page.

Page 1 - That Henry Morgenthau, Jr. is undoubtedly obscure as a type for Secretary of the Treasury is undoubtedly true - that type has never before been selected. He was little known in the cities, the banking centers etc. before he took over the Farm Credit Administration. However, I doubt if you could go into a farm community in New York State and not have them know Henry Morgenthau, Jr's. work in connection with his paper, as Chairman of the Governor's Agricultural Advisory Committee or as Conservation Commissioner. It might be appropriate here to point out what these organizations did under his leadership.

Passed the most important and far reaching legislation ever put through in New York State - completely reorganized state's rural taxes - started soil survey, etc. on which National program

is modeled. Helped put through twenty year conservation program and administered it most successfully. Was the state official who co-operated most closely with the unemployment situation, so that 70% of the state money went to his department.

It is interesting to note here that his very philosophy which makes him able to get things done often keeps him from getting the credit - It is simply stated thus - If you care enough about seeing a thing go through, work out the plan, get the best people to help you (here again real ability to know who the best people are) then present it to whomever you think has the best chance of putting it through, and forget about yourself. This scheme worked perfectly in New York State. I have heard people claim credit for what I know my husband originated - and I have seen him deliberately give his stuff to a Republican farm leader to put it through if he thought that was the best policy. I have often been interested when people say Franklin D. Roosevelt was not a great leader in New York and people are surprised how able he has been in the Presidency. I think he and Henry Morgenthau, Jr. often used the same tactics in New York State and if you stop to analyze what was put through those first two years it was stupendous. One method often used is to have Democrats suggest legislation to a hostile Republican legislature, to have it turned down and then show what a big guy you are. The other method pursued by my husband in New York was to let the Republicans introduce the bills and get the Democrats to vote with them. Less spectacular - but

agriculture was the beneficiary and that was all he cared about.

When he asked a friend's advice whether he should be Conservation Commissioner and the friend answered " That depends what your ultimate aim in life is" he answered characteristically "I don't know", if by that you mean what job I want to hold there isn't any - but I love to work with Franklin D. Roosevelt - I feel I am continually growing through my association with him. I want to do all I can for the farmer and the man who hasn't had the same opportunity as the city man. This seems a grand opportunity and I think I can do a good job". He has kept that philosophy with such tenacity that it is almost irritating to his friends - "do a job thoroughly don't think where it leads or what people say - when you have licked it and you are satisfied you have done all you can with it, tackle the next job". He sees every job as an administrative piece of work and, therefore, whether it is planting trees or floating bonds you must have people about you on whom you can rely, and a mind flexible enough to take in new ideas, courage and decision enough to say "Yes" or "No" whether it is popular with Congress or anyone else and independence and integrity enough to give up your job if the time comes that you don't think you can do it well.

P. 2 & 3. Filled with things about my grandfather whom I never knew and of whom so little was told when I was a child that he has left no impression whatever on me or my character.

From P. 5 on This is the most unfortunate slant on Henry Morgenthau, Jr's character.

He is made out as a weakling - the son of a very wealthy father who was only able to influence his son through money - the facts are these. Henry Morgenthau, Jr., was an average, sturdy, fun loving youngster, not particularly given to intellectual study. He loved riding, golf, swimming, driving a car, sailing, puttering with a motor boat, rowing and canoeing. For all these things he had a natural aptitude and to this day is more than averagely good at them. He was then and is now in all things absolutely fearless. Henry was an only son with a father who adored him, who made him his constant companion. He adored his father. This undoubtedly had both its good and bad side to this day. Henry Morgenthau, Jr. says in putting through business transactions things his father did and told him come back to him - never to drive such a hard bargain that your customer wouldn't return, never to go on a note, never to become Director of a bank controlled by politicians, never to accept a business favor for which you were not ready to pay in full (how often that has come up in political life). On the other hand his father tried to regulate his life and to dominate his thoughts - he kept him too much with him and away from companions of his own age - then suddenly he was sent to a very big boarding school at 13 years of age - He had been robust, but in one year before he was 14 he grew about 9 inches so that at 14 he had his

present height of 6 feet  $1\frac{1}{2}$  inches. This handicapped him all through school and college - A great big gawk, loving sports and naturally good at them yet in decidedly delicate health, never being allowed to join in organized athletics, and always being so tired that he couldn't quite keep up with his work. I think to-day we would have sense enough to take a boy like that out of school for a year and send him to a ranch until his strength returned, but an ambitious father hates to see his son lose a few years of schooling. Henry was not essentially a student, and to this day he is not fond of abstract knowledge for the sake of knowledge, but if he went to one of our modern progressive schools I predict he would be an outstanding pupil for he has a genius to relating abstract theory to practical facts and making it work.

He often says school and college were a nightmare to him and it wasn't till he actually started making good on the farm, away from parental influence that he himself realized what an active, able mind he had. No doubt he became a farmer, because he loved the land, the out-doors, riding and the companionship of simple, unsophisticated people but what really drove him to farming was that he wanted to be in a business about which his father knew nothing and where he could stand on his own feet and make his own mistakes - on P. 9 - You speak of his many jobs and his vacillations - he had several jobs - he loved them and in each case his employer liked him and wanted to keep him, but always

his father talked of when he would be at the top and always Henry had the feeling "if I only could do my job thoroughly in my own way". If typhoid had not interrupted those summer jobs he might never have gone in for farming.

P 11 - Navy and tractors should be put in their proper place and amplified.

Something about his philosophy and why it applies to the New Deal.

Much has been said about Henry Morgenthau, Jr. being the wealthy son of a wealthy father. It is true his father helped him buy the farm, but from then on contrary to general belief the "Family Treasury" was not open nor did Henry want it to be. For many years the farm lost money and it was a great struggle to stock it, and put up new buildings and keep it going. Then came the paper and that too was a real drain on the Henry Morgenthau, Jr. purse. But Henry had a theory which he wished to live up to - he wanted to make his farm and paper pay because it was not to be a plaything but a business, but he had definitely gone into farm paper publishing with the idea of rendering service and improving farm conditions and not primarily to make money. He and his wife have always enjoyed a comfortable home and they have wanted to give their children the best educational advantages, but above that money means little to them. They dislike the attitude of some people - make a lot of money by any means you can and then show what a great

man you are by doling it out again. What they have given away is always for constructive purposes - to help people to help themselves - that is why Bailey and Hoose share in profits. What then can we expect from this new Treasury head? A hard headed business policy which will not scare away capital, but a policy liberal enough to be sympathetic to the little fellow; and if there is a conflict between the little and big fellow to give the little one the benefit of the doubt. To go after big offenders, whether they are liquor or tax or other offenders and give the little fellow a break. If 12 million people are starving and even the big fellows can't let their capital flow we must reorganize and put safeguards about society so that the million unemployed will have a share of that money heretofore frozen in for the benefit of a few.



(5)

TREASURY DEPARTMENT

Washington

*Specimen*  
*Personal* *may*  
*85*  
*File*  
May 15, 1934.

STATEMENT BY SECRETARY MORGENTHAU

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Organization of Liquor Tax Enforcement.

The repeal of the Prohibition Amendment transformed a problem of law enforcement into a problem of tax collection. Congress in proposing the repeal amendment and the people of the states in ratifying it contemplated that the traffic in alcoholic beverages, which had grown to immense proportions in defiance of law, could be made to yield large additions to the Government revenues. Repeal, however, did not automatically eliminate the problem of the illicit manufacture and distribution of alcoholic liquors. More than five months have passed since the ratification of the repeal amendment, yet there are reliable indications that there are as many illicit manufacturing plants in operation as there were before repeal. This belief is supported by figures showing the number of illicit plants raided and seized by Government agents before and following repeal.

In the four months of August, September, October and November 1933, immediately before repeal, prohibition enforcement agents of the Department of Justice, numbering about 800, captured 2,165 illicit stills. Although repeal became effective on December 5, 1933, yet in that month and the three months following, the number of stills seized increased to 2,400 in spite of the fact that the number of enforcement agents

had been reduced from 800 to approximately 700 men. The average number of stills seized per agent in this latter period was about 3.4. It is interesting to compare this with the number of stills seized per man in the same four months of 1932-33. The total seized in those four months, with more than 2000 agents at work, was 6,555. This is an average of 3.27 stills per man, slightly less than the average number seized per man a year later, after repeal. Seizures in recent weeks have continued at an even higher rate; in the four weeks ending May 5 Department of Justice agents, numbering less than 700, seized 788 stills, which would be equivalent to more than 3,000 for a four-month period. In this later four weeks' period other seizures were made by a force of inspectors in the Bureau of Industrial Alcohol in the Treasury Department. This force, numbering slightly less than 700 men, seized 233 stills in the week ending April 28, and 227 in the week ending May 5th. Thus, doubling the number of field agents at work just about doubled the number of seizures.

When the repeal amendment became effective on December 5th, no machinery existed for preventing evasion of liquor taxes. The problem was one of protecting the revenues, but no provision had been made in the Treasury budget for the fiscal year 1934, nor in the new budget for the fiscal year 1935 for enforcement activities in connection with the legalized manufacture and sale of liquor. Prohibition enforcement had been a function of the Department of Justice. In anticipation of and following repeal, the personnel of the Prohibition Enforcement Unit had been drastically reduced.

The Unit had approximately 2,450 field agents on June 30, 1933, but on July 1st this force was cut to 1,300; there was another sharp reduction on August 9, 1933, bringing the force down to 850 field men, and by May 10, 1934, the force had again been reduced to 662 field men.

When repeal became effective the Department of Justice Enforcement Unit lacked authority to proceed against illegal manufacture and distribution of alcoholic liquor. No force existed in the Treasury Department to do the work. Realization of this situation caused conferences with the Attorney General, which resulted in the field agents of the Department of Justice being deputized by the Treasury Department as Internal Revenue Agents so that enforcement work might continue. This was purely a temporary expedient until definite enforcement plans could be made. Two weeks after repeal the decision was reached that responsibility for enforcement activities to aid in collection of revenue in the wet states rested with the Treasury Department and that steps should be taken at once to build up in the Bureau of Industrial Alcohol a force of regulative inspectors to do this work, whereas the Department of Justice would continue to be responsible for enforcement in the dry states. Funds to permit the establishment of this regulative work and to make necessary increases in the service of inspection of licensed manufacturing plants were obtained through a release by the Bureau of the Budget on January 9, 1934 of the impounded portion of the appropriation for the Bureau of Industrial Alcohol for the fiscal year 1934, amounting to \$1,173,000.

In the absence of any Act of Congress specifying otherwise, the Treasury Department was required by law to recruit its regulative force through Civil Service channels. The Civil Service Commission was consulted and reported that they had no funds with which to hold an examination for regulative agents, and that if they had, six months would be required before an adequate list could be certified. The Treasury Department was thus faced with the alternative of making no effort to combat the illegal liquor traffic during this period, or of finding other legal means to recruit the necessary force. I could not accept the responsibility of sitting idly by and permitting the illicit liquor traffic to intrench itself and at the same time permitting millions of dollars of Federal revenues to escape, if there were any way to prevent it. I learned that the Civil Service Commission had available a list of persons whom they could certify as qualified for exactly similar duties to those required of members of the new regulative force. This was the list of men who had passed examinations for the position of prohibition enforcement agent, including more than 1000 who had formerly been agents of the Prohibition Enforcement Unit in the Department of Justice. With the approval of the Civil Service Commission, I determined to make use of this list in filling the force of regulative inspectors in the Bureau of Industrial Alcohol, but before I did so I caused the list to be carefully rechecked by a committee of four selected by the Commissioner of Internal Revenue, the Commissioner of Industrial Alcohol and the head of the Alcoholic Beverage Unit in the Department of Justice, successor to the Prohibition

Enforcement Unit. The candidates were graded in three groups, according to the efficiency and capacity they had shown in prohibition enforcement work. Group A included those whose work had been above average; Group B was made up of those whose work had been average in efficiency; Group C was of those below average. All of the 698 appointments so far made from this list have been of Groups A and B. As appointments were made from this list, the nominations were examined and approved by the Civil Service Commission, which certified to the Civil Service standing of each candidate. In each case where suspicion was aroused or a charge from any source was made as to the character or fitness of any of the candidates, an exhaustive personal inquiry was made before appointment. The first appointments were made in the latter part of March and the new agents went to the field for organization of their work. Their operations in the period of approximately two months since the first appointments were made has justified the method of selecting them. They have undertaken their work with enthusiasm and have already achieved an excellent record in detecting illicit operations and preventing tax evasion. The number of stills seized by them has grown from 48 in the week ending April 7th to 85 in the week ending April 14, to 148 in the week ending April 21, to 233 for the week ending April 28th and to 227 for the week ending May 5th.

It had become evident that enforcement of law against illegal manufacture and sale of alcoholic liquor was almost wholly a problem of tax enforcement. Accordingly, the President, on March 10th, transmitted an Executive Order to the Congress giving to the Bureau of Internal

Revenue of the Treasury Department entire responsibility for suppressing the illicit manufacture and traffic in alcoholic liquor, in addition to the duty of collecting revenue from their legal sale. This Order became effective on May 10th. It transferred to the Bureau of Internal Revenue in the Treasury Department the enforcement personnel of the Alcoholic Beverage Unit of the Department of Justice.

The enlarged force obtained by combining the personnel of the Alcoholic Beverage Unit with the Regulative Section of the Bureau of Industrial Alcohol in the new Alcohol Tax Unit of the Bureau of Internal Revenue is approximately 1,360 field men. It is apparent that it will be necessary to augment this force by the employment of approximately 500 additional field men, whom it is proposed to obtain from the same list from which the Regulative force of the Bureau of Industrial Alcohol was recruited.

It has been estimated that the traffic in alcoholic beverage liquors should yield in a twelve-months' period not less than \$320,000,000 in Federal revenues. This estimate is cited to indicate the importance of adequate enforcement activities. It is certain that the revenue to be obtained from this source will vary directly with the adequacy and efficiency of the enforcement organization.

TREASURY DEPARTMENT  
Washington

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For release to MORNING PAPERS  
Monday, June 4, 1934.

Press Service  
No. 1 - 87

The Treasury is today offering for subscription at par and accrued interest, through the Federal reserve banks, \$300,000,000 or thereabouts, 12-14 year three percent Treasury bonds of 1946-48, and \$500,000,000, or thereabouts, 5 year 2-1/8 percent Treasury notes of Series A-1939, with the right reserved to the Secretary of the Treasury to increase the offering of Treasury bonds by an amount sufficient to allot in full all subscriptions for which payment is tendered in Treasury certificates of indebtedness of Series TJ-1934, maturing June 15, 1934, or Treasury notes of Series B-1934, maturing August 1, 1934.

The Treasury bonds will be dated June 15, 1934, and will bear interest from that date at the rate of 3 percent per annum, payable semiannually on June 15 and December 15 in each year. They will mature June 15, 1948, but may be redeemed at the option of the United States on and after June 15, 1946.

The Treasury notes will be dated June 15, 1934, and will bear interest from that date at the rate of 2-1/8 percent per annum, payable semiannually on June 15 and December 15 in each year. They will mature June 15, 1939, and will not be subject to call for redemption prior to that date.

As more specifically stated in the official circulars, the Treasury bonds will be exempt, both as to principal and interest, from all taxation except estate or inheritance taxes, surtaxes, excess-profits and war-profits taxes; the interest on bonds (issued under the Second Liberty Bond Act) up to \$5,000 of principal amount under one ownership will be exempt from all taxation; and the notes will be exempt, both as to principal and interest, from all taxation except estate or inheritance taxes.

Bearer bonds with interest coupons attached and bonds registered as to principal and interest will be issued in denominations of \$50, \$100, \$500, \$1,000,

\$5,000, \$10,000 and \$100,000. The notes will be issued in bearer form only, with interest coupons attached, in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Applications will be received at the Federal reserve banks and branches, and at the Treasury Department, Washington. Banking institutions generally will handle applications of customers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies.

Applications, unless made by an incorporated bank or trust company, must be accompanied by payment in full or by payment of 5 percent of the amount of bonds or notes applied for, and if payment for bonds or notes allotted is not completed on the prescribed date, the 5 percent payment shall be forfeited to the United States upon declaration by the Secretary of the Treasury in his discretion.

Subject to the reservations stated in the official circulars, cash subscriptions for either bonds or notes for amounts up to and including \$10,000, will be given preferred allotment, and other cash subscriptions will be allotted on an equal percentage basis. Subscriptions for bonds for which payment is tendered in Treasury certificates of indebtedness of Series TJ-1934, maturing June 15, 1934, or Treasury notes of Series B-1934, maturing August 1, 1934, will be allotted in full. For such payment the certificates of Series TJ-1934 will be accepted at par, and the notes of Series B-1934 will be accepted at par with an adjustment of accrued interest on such notes as of June 15, 1934.

About \$175,000,000 of Treasury certificates of indebtedness of Series TJ-1934 mature on June 15, 1934, and about \$345,000,000 of Treasury notes of Series B-1934 will mature on August 1, 1934, and the holders of these



two issues may exchange them for Treasury bonds under this offering. Interest on the public debt to the amount of about \$117,000,000 is payable on June 15, 1934.

The texts of the official circulars follow:

Treasury Department Circular No. 512, June 4, 1934  
(Public Debt Service)

The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States, for three per cent bonds of the United States, designated Treasury bonds of 1946-48. The amount of the offering is \$300,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which 1/4 per cent Treasury certificates of indebtedness of Series TJ-1934, maturing June 15, 1934, or 2-1/8 per cent Treasury notes of Series B-1934, maturing August 1, 1934, are tendered in payment.

Description of Bonds

The bonds will be dated June 15, 1934, and will bear interest from that date at the rate of three per cent per annum, payable semi-annually, on December 15, 1934, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1948, but may be redeemed at the option of the United States on and after June 15, 1946, in whole or in part, at par and accrued interest, on any interest day or days, on four months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The bonds will be acceptable to secure deposits of public moneys, and will bear the circulation privilege only to the extent provided in the act approved July 22, 1932, as amended. They will not be entitled to any privilege of conversion.

Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds under rules and regulations prescribed by the Secretary of the Treasury.

The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

#### Application and Allotment

Applications will be received at the Federal reserve banks and branches and at the Treasury Department, Washington, and unless made by an incorporated bank or trust company, must be accompanied by payment in full or by payment of 5 per cent of the amount of bonds applied for. Banking institutions generally will handle applications for subscribers, but only the Federal reserve banks and the Treasury

Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, to make classified allotments or to make allotments upon a graduated scale, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Allotment notices will be sent out promptly upon allotment, and the basis of allotment will be publicly announced.

Subject to the reservations contained in the next preceding paragraph, allotments will be made as follows: cash subscriptions for amounts up to and including \$10,000 will be given preferred allotment, all other cash subscriptions will be allotted on an equal percentage basis, and subscriptions for which payment is to be tendered in Treasury certificates of indebtedness of Series TJ-1934 or in Treasury notes of Series B-1934 will be allotted in full.

#### Payment

Payment at par and accrued interest, if any, for bonds allotted must be made or completed on or before June 15, 1934, or on later allotment. In every case where payment is not so completed, the 5 per cent payment with application shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted on cash subscriptions to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal reserve bank of its district. Treasury certificates of indebtedness of Series TJ-1934, maturing June 15, 1934, will be accepted at par in payment for any bonds subscribed for and allotted. Treasury notes of Series

B-1934, maturing August 1, 1934, with coupon dated August 1, 1934, attached will be accepted at par with an adjustment of accrued interest as of June 15, 1934, in payment for any bonds subscribed for and allotted. Payment through surrender of Treasury certificates of indebtedness of Series TJ-1934 or Treasury notes of Series B-1934 should be made when the subscription is tendered.

#### General Provisions

As fiscal agents of the United States, Federal reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal reserve banks.

#### Treasury Department Circular No. 513, June 4, 1934 (Public Debt Service)

The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, through the Federal reserve banks, two and one-eighth per cent notes of the United States, designated Treasury notes of Series A-1939. The amount of the offering is \$500,000,000, or thereabouts.

#### Description of Notes

The notes will be dated June 15, 1934, and will bear interest from that date at the rate of two and one-eighth per cent per annum, payable semiannually, on December 15, 1934, and thereafter on June 15 and December 15 in each year. They will mature June 15, 1939, and will not be subject to call for redemption prior to maturity.

The notes shall be exempt, both as to principal and interest, from all taxation except estate or inheritance taxes now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The notes will not be issued in registered form.

#### Application and Allotment

Applications will be received at the Federal reserve banks and branches and at the Treasury Department, Washington, and unless made by an incorporated bank or trust company, must be accompanied by payment in full or by payment of 5 per cent of the amount of notes applied for. Banking institutions generally will handle applications for subscribers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, to make classified allotments or to make allotments upon a graduated scale, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the

public interest; and his action in any or all of these respects shall be final. Allotment notices will be sent out promptly upon allotment, and the basis of allotment will be publicly announced.

Subject to the reservations contained in the next preceding paragraph, allotments will be made as follows: subscriptions for amounts up to and including \$10,000 will be given preferred allotment, and all other subscriptions will be allotted on an equal percentage basis.

#### Payment

Payment at par and accrued interest, if any, for notes allotted must be made or completed on or before June 15, 1934, or on later allotment. In every case where payment is not so completed, the 5 per cent payment with application shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for notes allotted on cash subscriptions to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal reserve bank of its district.

#### General Provisions

As fiscal agents of the United States, Federal reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal reserve banks.

## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING PAPERS,  
Wednesday, June 6, 1934.

Press Service  
No. 1 - 89

Secretary Morgenthau today announced that the subscription books for the current offering of 2-1/8 per cent Treasury notes of Series A-1939 closed at the close of business Tuesday, June 5, 1934.

The subscription books for the offering of 3 per cent Treasury bonds of 1946-48 also closed at the close of business Tuesday, June 5, for the receipt of cash subscriptions, but will remain open through Friday, June 8, for the receipt of subscriptions for which payment is to be tendered in Treasury certificates of indebtedness of Series TJ-1934, maturing June 15, 1934, or in Treasury notes of Series B-1934, maturing August 1, 1934.

Cash subscriptions for Treasury bonds or for Treasury notes placed in the mail before 12 o'clock, midnight, Tuesday, June 5, as shown by the post office cancellation, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of cash subscriptions and the basis of allotment will probably be made on Friday, June 8.

TREASURY DEPARTMENT  
WashingtonFOR IMMEDIATE RELEASE,  
Friday, June 8, 1934.Press Service  
No. 1 - 90

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the June 15 offering of 3 per cent Treasury bonds of 1946-48 and 2-1/8 per cent Treasury notes of Series A-1939.

Reports received from the Federal reserve banks show that cash subscriptions for the Treasury bonds, which were invited to the amount of \$300,000,000, or thereabouts, aggregate over \$2,511,000,000. Cash subscriptions in amounts up to and including \$10,000 were allotted in full, and those in amounts over \$10,000 were allotted 10 per cent, but not less than \$10,000 on any one subscription. In addition to such allotments on cash subscriptions, all subscriptions for which payment is tendered in Treasury certificates of indebtedness of Series TJ-1934, maturing June 15, 1934, or Treasury notes of Series B-1934, maturing August 1, 1934, are being allotted in full, and the books will remain open through today for the receipt of such subscriptions.

For the offering of Treasury notes, which was for \$500,000,000, or thereabouts, total subscriptions aggregate over \$4,931,000,000. Subscriptions in amounts up to and including \$10,000 were allotted in full and those in amounts over \$10,000 were allotted 9 per cent, but not less than \$10,000 on any one subscription.

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



TREASURY DEPARTMENT  
Washington

89

FOR RELEASE, MORNING PAPERS,  
Tuesday, June 12, 1934.

Press Service  
No. 1 - 93

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the June 15 offering of 3 per cent Treasury bonds of 1946-48 and 2-1/8 per cent Treasury notes of Series A-1939.

Subscriptions and allotments were divided among the several Federal reserve districts and the Treasury as follows:

3 PER CENT TREASURY BONDS OF 1946-48

Federal Reserve District	Total Cash Subscriptions Received	Exchange Subscriptions Received (June Certificates)	Exchange Subscriptions Received (August Notes)	Total Subscriptions Received
Boston .....	\$ 147,178,300	\$ 1,284,000	\$ 5,555,500	\$ 154,017,800
New York .....	1,099,970,950	123,040,500	247,674,400	1,470,685,850
Philadelphia ...	108,315,350	799,500	2,804,000	111,918,850
Cleveland .....	148,941,800	1,113,500	2,043,000	152,098,300
Richmond .....	73,129,950	205,000	1,401,800	74,736,750
Atlanta .....	111,458,750	775,000	821,000	113,054,750
Chicago .....	299,215,950	35,426,000	38,798,100	373,440,050
St. Louis .....	77,459,750	3,676,500	4,291,700	85,427,950
Minneapolis ....	24,797,000	609,000	4,143,600	29,549,600
Kansas City ....	45,273,850	2,950,000	2,772,400	50,996,250
Dallas .....	126,996,250	892,500	1,591,000	128,479,750
San Francisco...	240,552,700	284,000	1,088,600	241,925,300
Treasury .....	12,260,400	923,000	4,106,000	17,289,400
<b>TOTAL.....</b>	<b>\$2,514,551,000</b>	<b>\$171,978,500</b>	<b>\$317,091,100</b>	<b>\$3,003,620,600</b>

3 PER CENT TREASURY BONDS OF 1946-48

<u>Federal Reserve District</u>	<u>Total Subscriptions Allotted</u>
Boston .....	\$ 27,941,800
New York .....	495,250,900
Philadelphia ..	18,171,350
Cleveland .....	26,670,800
Richmond .....	12,955,250
Atlanta .....	16,166,750
Chicago .....	119,281,850
St. Louis .....	22,892,350
Minneapolis ...	10,278,600
Kansas City ...	17,347,900
Dallas .....	22,246,800
San Francisco .	29,289,800
Treasury .....	6,322,400
	<u>*\$824,816,550</u>

\*Includes \$171,978,500 allotted on exchange subscriptions (June certificates) and \$317,091,100 allotted on exchange subscriptions (August notes).

2-1/8 PER CENT TREASURY NOTES OF SERIES A-1939

<u>Federal Reserve District</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>
Boston .....	\$ 262,781,000	\$ 30,139,100
New York .....	2,411,373,400	235,910,300
Philadelphia ..	256,277,100	27,721,500
Cleveland .....	271,261,100	28,434,200
Richmond .....	190,524,200	20,209,400
Atlanta .....	232,441,500	28,918,300
Chicago .....	561,442,500	65,893,000
St. Louis .....	139,727,000	18,029,500
Minneapolis ...	67,570,000	9,170,500
Kansas City ...	96,854,700	14,795,600
Dallas .....	215,679,700	26,381,900
San Francisco .	225,840,400	22,980,400
Treasury .....	8,000	8,000
	<u>\$4,931,780,600</u>	<u>\$528,591,700</u>
TOTAL .....		