HMJr: Hello.

R. E.

Wood: Hello.

HMJr: General Wood.

W: Yes.

HMJr: Henry Morgenthau, Jr.

w: Yes.

HMJr: How are you?

W: Fine, thank you.

HMJr: General, I wonder if General Westervelt could come in Monday and spend a day or two with me and talk things over - what we're trying to do on this price business.

W: George left for the Coast, I mean the Pacific Coast...

HMJr: Yes.

W: But he'll be back in a week.

HMJr: Uh huh.

W: I can have him come just as soon as he gets back.

BMJr: Well...

W: Would that be too late?

HMJr: Unfortunately I expect to go away on the twentyfifth - south.

W: Well, he could come wherever you wanted him to.

HMJr: But I mean, he's got obligations to keep him on the Coast until then?

W: Well, it would keep him there until the twenty-fourth...

HMJr: Oh.

We couldn't get back to Washington on the twentyfifth.

HWJr: Twenty-fifth - does he fly?

W: Well, he does; I don't think he likes to.

HMJr: Uh huh. But he could be here on the twenty-fifth?

W: Yes, I think he could, if he'll fly.

HMJr: Well, I was going - I'm leaving the night of the twenty-fifth if my present plans hold true. So even if I had a day with him it would be something.

W: Well, I'll tell you what I'll do. I'll wire him ...

HMJr: Yes.

W: ...on the - I'll wire him out in Los Angeles.

HMJr: Yes.

W: And ask him if he could fly back on the twentyfourth so he could get to Washington and see you on the twenty-fifth.

RMJr: That's right.

W: I'll wire him. And then as soon as I get his reply we'll wire you tomorrow.

HMJr: All right. And ...

W: Will that be all right?

HMJr: That's all right.

W: All right.

Now - you'll let me know. Now, that's number one.

Now number two. If I was going to sit down and try
to do the same - this is, of course, confidential the same kind of job on cement that we did on tires...

W: Yes.

HMJr: Who would be the fellow that would be a good fellow to sit on my side of the table?

T: (Laughs)

gujr: Who?

W: I say, that's a tougher problem.

HMJr: Well, you can - will you think that over?

W: I'll think it over and let you know.

HMJr: I want - I want somebody that can do the job.

You see, our trouble is there that we buy everything for consumption but we only occasionally buy - we don't sell cement.

HMJr: Yes.

W: So the only time we ever buy cement/when we put up a building.

HMJr: Well, but you might know of somebody that - you might have...

W: I'll inquire, Mr. Morgenthau, and I'll let you know.

HMJr: Will you?

Yes.

HMJr: All right. Now, how's your business in the last week or ten days?

W: Damn poor.

HMJr: I see.

W: I don't like the looks of this thing at all.

HMJr: You don't?

I've been hopeful she'll make a turn but so far it looks awful bad.

HMJr: Uh huh.

W: There's one encouraging - the only encouraging thing is that this housing bill appears to be taking hold.

muJr: Yes, it does.

And our building departments are the only three departments we've got that show an increase.

MMJr: The building?

W: Paint, plumbing and roofing and mill work.

HMJr: I see.

Those three are showing an increase and everything else is skidding.

HMJr: I - is skidding?

W: Yes.

Majr: Uh huh.

I mean, confidentially, I - of course we won't publish our figures until the end of the month - we ran through January and February around 2 per cent decrease.

HMJr: Yes.

We're hitting now, the first two weeks in March, a fifteen per cent decrease.

MMr: Not so good, huh?

And, while some of that covered Easter - I mean, as late a position as Easter...

HMJr: Yes.

": It's still bad. I would say even allowing for that it's ten per cent.

I see. Well, I don't want to live with my head in the sand, anyway.

No. (Laughs) None of us do.

MUr: All right.

All right.

But don't - but think about a fellow that might sit on my side of the table on the cement even though somebody - even if he wasn't with Sears - somebody we could put - say, well.....

W: If I had a man of my own of course he's at your service.

HMJr: Yes.

W: Because we're absolutely independent.

HMJr: Yes.

W: I mean, nobody has any strings on us.

HMJr: Yes.

W: And he'd be working for you just as much as he'd be working for us when we buy goods.

HMJr: Yes.

W: But unfortunately I haven't got, in that line, anybody of the caliber of Walker.

HMJr: I see.

W: Didn't you find Walker a very able fellow?

HMJr: Oh, he's tops!

W: And he's a fine man too.

HMJr: Yes. I was simply delighted.

W: He's a very able man and a very fine man.

HMJr: I was most appreciative of having him.

W: He was delighted with you I might say.

HMJr: Well, it was mutual.

W: All right.

HMJr: Thank you.

W: Good luck.

Hello. HMJr:

Dr. Burgess. T.O.:

Hello. HMJr:

W. R.

Oh, hello, sir. Burgess:

Hello, Randolph. HMJr:

Well, they've held very well after the close. B:

They have? HMJr:

There're some bonds around but they're not being B:

pushed very much.

I see. Any gossip, I mean, about our operations? HMJr:

B: No. I saw the press and they said, "Did you buy some cheap bonds?" And I said, "Well, there were some cheap bonds to buy," but I said the market

behaved very well.

HMJr: Uh huh.

B: And took care of itself very nicely.

HMJr: Well, I think it's all to the good.

B: Well, I think so, yes. I think it was a good thing to do, Henry. I was a little skeptical at first as to whether it might not go through without it but I think it was wise to do.

HMJr: Well ..

B: You were right as usual.

HMJr: Well, I won't say that until about this time tomorrow

night.

B: (Laughs) Well, I think we've got quite a question

tomorrow.

HMJr: Yes.

B: I think we ought to do - do probably something the same thing but I'm not quite sure at what price it

ought to be.

HMJr: Well, I'd like to see the market open and then after you've got a feel of it I wish you'd call me.

Yes. All right. I've got to speak to the Stock Exchange Institute at a quarter of nine but I'll be back here at a quarter of ten.

HMJr: Good. Then as soon as you get a feel of the market give me a ring.

B: All right.

HMJr: Thank you, Randolph.

First rate.

HMJr: Goodnight.

H.M.Jr: Hello

0: Governor Ransom

H.M.Jr: Hello

R: All right, sir.

H.M.Jr: Well I just got through talking to Burgess.....

R: Yes.

H.M.Jr:and he says that we were right as usual.

R: It worked.

H.M.Jr: You've heard the story.

R: Yes.

H.M.Jr: Twelve and a quarter or twelve and a half million.....

R: Yes.

H.M.Jr:and there were other buyers in the market besides ourselves after we showed our confidence.

R: That's right.

H.M.Jr: And he said Devine had six million and he sold five of them.

R: Yes.

H.M.Jr: And the mar--- Ah - Burgess feels very happy about it to-night.

(Hearty laughter) Well it worked.

H.M.Jr: It worked and he's a good sport - he says it worked.

R: Yes.

H.M.Jr: Now, of course, tomorrow is another day.

That's right. I've talked, in the meantime, to George Harrison, John Sinclair and Marriner Eccles so that I have talked to five men who would constitute the Executive Committee. They were all advised about it and all in agreement with it.

H.M.Jr: Good.

Of course, George has mental reservations - the state of Siam may be involved and a few other things but.....

H.M.Jr: Well the damn thing worked anyhow.

R: That's the principal thing - it worked.

g.M.Jr: Yes.

R: And it shows that it will work.

H.".Jr: That's right.

E: So let's watch tomorrow with interest.

R: All right, sir. I'm glad it worked just that way.

H.M.Jr: I am too.

h: Progves the case.

H.M.Jr: (Laughs) That's right.

All right, thank you for calling me.

H.M.Jr: Good-bye.

My dear Mr. President:

For your confidential information, I beg to inform you that we have sold today another \$2,500,000 worth of gold to Sweden which makes a total of \$7,500,000 they are keeping on deposit with us.

Faithfully yours,

The President, The White House.

CABLE

From: Sveriges Riksbank Stockholm, Sweden

To: Federal Reserve Bank of N. Y.

Date: March 15, 1938

#20.

We wish to buy gold for \$2,500,000 to the debit of our account please make necessary arrangements please cable result.

March 16, 1938

Employment figures:

Week ending March 12 - - - 2,243,865

Increase over week ending
March 5 - - - - - - 77,160

H.M.Jr: Hello

0: Go ahead.

Burgess: Hello

H.M.Jr: Hello

B: Oh hello Henry.

H.M.Jr: Good morning.

B: - Well this is opening quiet.....

H.M.Jr: Yes.

B:and - ah - prices about the same as lest night.

magno

H,M.Jr: Fine.

B: The dealers say there's a little better tone.

H.M.Jr: Fine.

E: There's some buying around. We haven't done a thing so far. We haven't even got bids in.

H.M.Jr: Ah-ha.

B: We're waiting, just as you said last night, to see what - ah - what happened.

H.M.Jr: Ah-ha.

B: So my suggestion is we stay out as we can but if it shows any weakness to go in again.

H.M.Jr: Ah-ha.

B: Is that your idea?

H.M.Jr: Ah - I'd say that would be all right.

B: All right sir. Now it may be that your switches - we get some bond switches - we can take some bonds off as they come along but we're going to do a job if it shows any real weakness.

H.M.Jr: Did you do any - did you switch yesterday's?

B: Well we did it against our bill maturities.

H.M.Jr: Ah-ha - ah-ha - I see.

B: We didn't sell anything else. Didn't sell anything - had open bill maturities.

H.M.Jr: Ah-ha.

B: And we've got big enough bill maturities so we can do it that way.

H.M.Jr: Right - right - well let's watch it. Maybe that was a quick fast storm.

B: If - if it takes care of itself why so much the better.

H.M.Jr: The foreign exchange situation is much better.

B: Yes - yes the news looks better there. The London market is better.

H.M.Jr: Yes, so if they - it may blow over without capsizing us.

That may be. We'll probably get another reaction in before the day is over but we'll see.

H.M.Jr: O.K.

No BANK HOLDING COMPANY LEGISLATION

March 17, 1938. 11:00 a.m.

Present:

Mr. Taylor Mr. Upham Mr. Gaston Mr. Foley Mr. Diggs Mr. Ransom Mr. Jones Mr. Crowley

H.J.Jr:

All counted and present, Jesse?

Jones:

All present.

well, I've got a letter; haven't had time to sign it. Better sign it. (Signs letter)

H.h.Jr.

Yes.

Jones:

Do you want to read it or want somebody else to?

n.d. Jr:

Have they all read it?

Jones:

No.

a. . . r:

Shall I read it aloud?

Junest

I maven't read it myself.

Hammyr:

Well, you just hold up your hand if it doesn't sound familier.

Vones:

All right.

H. Jr:

"At the last meeting of the interdepartmental committee neld in your office March 14th to consider recommendations to the President regarding bank legislation, and particularly to suggest a brief statement dealing with bank holding companies to be included in his message to Congress, you asked that the committee have further meetings and endeavor to arrive at, first, a suggested statement for the President's message, second, a definition of what constitutes a bank holding company, and, third, what governmental agency should be charged with the enforcement of any Bank Act affecting holding companies.

"We have had two meetings and a free discussion of the

problems to be considered."

Free discussion?

Jones: Free discussion. Full and free.

Ransom: Very free.

H.M.Jr:

Jones: And nobody was timid.

H.M.Jr: And nobody got a black eye.

Jones: Nobody was timid and nobody got a black eye.

Taylor: Determined that Ronald Ransom - what was it that you said you were?

Tried to get my status established, but didn't succeed in doing it.

"I attach the suggested statement for the President to include in his message to Congress. This represents the views of Governor Ransom of the Federal Reserve Board, Acting Comptroller of the Currency Marshall Diggs, Leo Crowley, Chairman of the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation.

"It is the unanimous opinion that the operations of bank holding companies should not be allowed to expand. This being true is an admission that the principle of bank holding companies is not in the best interests of the country and that something should be done about them. It is with this thought that the last paragraph of the statement is included.

"Should the President determine to use it and the Congress act upon his recommendation, the question of branch banking will naturally enter into the discussion.

"The committee feels that other factors than a specific percentage of share ownership will enter into a proper definition of control. At all events it requires more time for study than we have had and should properly be developed in the Congressional Committee hearings.

"As to the supervising authority, Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, has stated that the present Glass-McAdoo-Steagall Bill represents approximately his views, but thinks that the President or Congress should decide.

"Governor Rensom and the Comptroller see no reason for transferring this authority which now rests with the Federal Reserve Board and the Comptroller, although they feel that if a change is made it should be the responsibility of one agency.

"The directors and executive force of the Reconstruction Finance Corporation are of the opinion that this control is so involved with the question of bank supervision that the two should be considered together and ultimately rest with the Federal Deposit Insurance Corporation."

well, I'd say that this was a much better - that you came much nearer to agreeing than I had any idea ...

Jones: And down to there have * stated it about the way

Yes, sir. You said we would be privileged to comment on it as we went along, and I would suggest that I'd like to withhold comment until we put into the record this suggested statement, about which I would like to say something.

Jones: Now, here's the suggested draft.

L.Jr: Has everybody seen that?

Mones: No, sir. I made a - have you got a copy of it?

Mell, I've got a copy that Taylor gave to me this morning.

Jand: I made one or two little changes, just a word or two.
I don't think you'll catch it on reading it.

Harris You want to read it and I'll watch it.

Jones: See what the changes are. I would like to know myself. I don't remember.

"The establishment and maintenance of a sound banking system which would serve the public interest has been

a constant objective of this Administration. In furtherance of this objective Congress should again consider bank legislation, particularly the holding company problem, and determine in what manner existing laws dealing with these companies should be strengthened"

H.M.Jr: It says here "In furtherance of this objective Congress should again give consideration to the bank holding company problem and determine"

Jones: I just thought "and in furtherance of this objective Congress should again consider bank legislation, particularly the holding company problem, and determine in what manner existing laws dealing with these companies should be strengthened and what limitations should be" - that's a little change.

H. .. Ir: well, I don't - just talking for myself, I don't like it as well, because the way it is now it directs Congress's attention to the bank holding company, and you bring in the question of bank legislation.

Jones: Will you read it the way it is there; I've forgotten.

H.W.Jr: I mean that's the whole thing. "In furtherance of this objective, Congress should again give consideration to the bank holding company problem and determine in what manner existing laws dealing with these companies should be strengthened and what limitations should be imposed upon their development."

Jones: That's all right.

And further, Mr. Secretary, this is a bill on monopolies, so it wouldn't come naturally to say bank legislation unless

...Jr: No, I much prefer this.

Jones: "11 right.

"I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies and prevent holding companies from acquiring control of any more banks, directly or indirectly, or banks controlled by holding companies

from establishing any more branches, and that would make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from - and I made an addition: "or sell securities to - a bank in which it holds stocks." I thought they might get around the borrowing

H.M.Jr: "To borrow from"

Jones: "... or sell securities to"

Taylor: "Sell its securities to ... " - huh?

Jones: What?

Taylor: "Sell its securities to."

Crowley: The idea is they can't sell any securities.

Jones: Can't feed securities. I think that's just as dangerous as the

H.W.Jr: Offhand, I'd say that was a good addition, but I haven't been sitting in on all this.

Jones: How does that strike you (Ransom)?

Again, I have a comment on the entire provision that I'd like to make at the time

Jones: "Believing this to be a sound principle of government,
I suggest that any bank legislation make provision for
the gradual separation of banks from holding company
control or ownership."

Upham: "Holding company control or ownership."

Jones: I just - I put in a word there.

Foley: Yes, "control or ownership."

Jones: That's what we're shooting at - control. How do we have it there?

Upham: "Ownership"

Crowley: You want "control" in there too. Got to have "control," because ...

H. M. Jr: Put "control or"

Jones: ".... ownership, allowing a reasonable time for this accomplishment, time enough for it to be done in an orderly manner, and without causing inconvenience to communities served by holding company banks, or unnecessary loss to stockholders."

H.V.Jr: Well now, the Treasury has a paragraph - a lest paragraph. Squeezed it down a little bit. I'll read that. Nothing new in it except they've squeezed it down.

"Believing it to be a sound principle of government, I recommend that this bank legislation make provision for the gradual separation of banks from holding company ownership, allowing a reasonable time for this accomplishment, time enough for it to be done in an orderly manner."

They simply felt that there were simply too many "ifs, ands, and buts" in there. Want to take a look at that?

Jones: That's all right.

Ransom: May I see it?

H.M.Jr: Bure. Add the words "control or." But they simply boiled it down.

Taylor: In other words, "an orderly manner" would take care of what ...

H.J.Jr: See?

Jones: Yes, we've said the same thing. It's all right.

Ransom: Of course - "Believing it to be a sound principle of government" - but I should think it could be taken that if it wasn't a sound principle of government it wouldn't be recommended.

Foley: That's in both. That's in yours too.

Diggs: We discussed that yesterday.

Jones:

I think you've got to - I would think he would put that in if we left it out.

Ransom:

Yes, that's

Jones:

See?

Ransom:

That's going to be the approach, yes.

I merely wanted to say this, Mr. Secretary, that in this particular instance I have had to act on my own and not speaking for the Board. I am not entirely clear in my own mind whether the members of this committee, and their alternates, when they meet with you, are supposed to express Board sentiments or their own. In this particular instance, I have checked what I've been doing with all the Board members who have been available, but unfortunately we have not had a quorum at any one time since this matter came up. And while I do not know that anything that I might say on the subject would be not in agreement with the thoughts of any other members of the Board, I would like to make it parfectly clear that I am speaking for myself, and that at such time as Board action is appropriate, I would seek to obtain it.

H. J. Jr:

Well, may I ask just one question.

asnsom:

Yes.

H.M. Jr:

As you go along in these meetings, you keep the Board members who are here advised of what you're doing?

Ransom:

Correct.

H.W.Jr:

And as far as we know, when you come here and agree, those who are advised are in agreement with you.

Ransom:

Yes, I would not - if there were any difference of opinion known to me, I would express it. Now, unfortunately for me, the one man who I think is best informed of all of us on this subject, Mr. McKee, has been out of town, and I have not therefore had the benefit of Mr. McKee's advice, although I have talked to him once over the long distance telephone. But that is not very satisfactory in as technical a discussion as this.

H.M.Jr:

Well, the only thing I'd like to ask, to protect ourselves - let's say we all agree on this statement. Well then, I don't want to find ... And I say to the President, "We are in agreement." I don't want to find a week from now that the Federal Reserve Board meets and passes a resolution condemning that statement.

densom:

All I can say is that I would be surprised if they did so, though I am not put in the position of representing them, as I understand it, but having to speak for myself. Now, if it came to the point that Mr. Jones has suggested, and which perhaps would seem a logical outcome of these discussions, namely, a committee nearing by Congress for a thorough exploration of the whole problem, and the Board should be called on for an expression of opinion, individually or collectively, I would enticipate that in the fundamental statement we are entirely in agreement.

I have one or two reservations myself regarding the proposed statement for the President's message. Mr. Jones has already pointed out one of them - the implication in the last paragraph. Speaking for myself alone, I would like to see it in the message, for two reasons.

H. Jr:

What's that?

done out

The question of what

Junes:

The last paragraph.

Rengom:

H. Jr:

May I ask - what you're talking - the point you're talking to is what you call the death sentence.

Rensons

The death sentence. It seems to me to be, as Mr. Jones has it worded here, rather indeterminate. A death sentence raises a great many questions of administration, control, and supervision which I think are important. Now, I think it also raises, Mr. Secretary, the very important question of branch banking. I don't think that particular question can

be intelligently avoided when we approach this subject. But I have this feeling: that in submitting the recommendation to the President, that, at least, should be pointed out to him.

H.A.Jr: Well, it's in Mr. Jones' letter.

Manson: Yes. Well, I'm fully in accord.

#.Jr: well, it's very pointedly brought to the President's attention.

wansom: Yes.

Jones: "Should the President determine to use it and the Congress act upon his recommendation, the question of branch banking will naturally enter into the discussion."

Rensom: I just want to say that I am fully in agreement with the fact that it will inevitably enter into it.

H.M.Jr: What I was going to do was like this: "My dear Mr. President: After a number of meetings of your interdepartmental committee on banking, I have the pleasure of forwarding to you a report on the bank holding situation. You will find attached herewith a copy of Mr. Jones' letter on this subject and also a suggested message for you to send to Congress. I am pleased to inform you that the recommended message has the unanimous approval of the members of this committee. We await your pleasure in regard to this matter."

I mean - what?

Jones: That sounds all right to me. You've (Ransom) got the reservation that you do not speak for the Board.

Annsom: Yes, I have to make that reservation.

H. I know, but going into

Hensom: If I'm speaking as a member of this committee, I'm definitely committed.

Mell, listen, I'm satisfied, and that shadation - it will never arise, as far as I'm concerned, and - and it's like what we did yesterday, we act first, then we get your authority afterwards.

Jones: Ronald, let me see, in my letter I said "the views of Governor Ransom of the Federal Reserve Board." I don't say that you're acting for the Board.

I don't say who is on "your committee."

I don't say who is on "your committee" or anything else. I just say "members of the committee." As a matter of fact, this committee has no legal status, as far as I know, anyway, has it?

rotey: No.

Taylor: Very questionable.

I was careful to say also here for Mr. Diggs, "Acting Comptroller of the Currency Marshall Diggs." Now, when I get over here I remember that we had discussed this question of where the control should be when Jefty was here, so I said in that that "Governor Ransom and the Comptroller see no reason for ..." because he had expressed himself at the last meeting, and I had in mind particularly that he wasn't here today and he was here the other time.

iay I finish please, Mr. Secretary. There were just two points in the statement that I wanted to call your attention to.

Heart: Go ahead.

one is that I think it contains a gap in that it does not specifically refer to existing law on the subject. I discussed that at some length with the committee yesterday and I am still of the same opinion, and I still think that the statement that the President makes would be a better statement if it referred to the fact that legislation had been enacted during the present administration on the subject, whether you specifically referred to the Banking Act of '33 or '35 or not. I think that is a serious gap.

I am also somewhat puzzled about where we would come out in the prohibition against - the provision that

would make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from a controlled bank in which it holds stock." The principle there I think I understand. The practical operation I will have to question and leave to these gentlemen, many of whom have had greater experience in this field than I have. It seems to me you will be putting some very drastic limitations on some transactions which might be perfectly proper.

Now, I am not at all insistent. I am merely pointing that out because I think that if the President commits nimself to that and legislation should take that direction, we might find some extremely difficult administrative problems involved in it. The only change that I would have made in that would be to change it in this respect, and say "and that will make it illegal for a holding company, or any corporation or enterprise controlled by it to borrow from a controlled bank."

Crowley: Well, Ronald, as I see this thing, we're not getting into the detail of legislation on this thing. - Wait until he gets through.

H.J.Jr: Just one second. (Receives clippings from Mrs. Betts)
The market is up about a point. Government bonds are up a fraction.

Junes: Good.

H.m.or: Commodities are up a little bit. Huh? Looks as though the worst is over.

All right, go shead.

Well, as I see the thing, you can't discuss in detail what's going into legislation in a message. I think in principle that this carries out every view that I have on the thing and if he's going to deliver a message he can't send one up there of milk and honey; he's got to put some kick in the thing. And if you're going to get any reform at all, the only way you're going to get a reform is by going perhaps even farther than you might hope to finally win. But if you come out here and agree right off the bat that you're for just freezing, then they'll start to trade with you, and when you get through all you've got left is the number of your bill.

and as far as your dealing with the subsidiaries and the affiliates, I think, Ronald, a lot of our trouble - and as you get in and study this thing, you find so many banks and bank holding companies that have affiliates that the bank holding company is really a small part of their business, when you find all the other things they have. And if anything is going to bring down a trouble on our heads eventually in this bank holding company thing, it is going to be their depositing their funds in their parent bank and switching assets back and forth and loaning to their affiliates, so that when something happens they've got all their banks in jeopardy, as we know has happened in the past.

now, I think that is all a matter of detail that has to be discussed later. But in the principle of the thing, I don't see how the President could say less than he is saying here and have his message effective.

it be somewhat clarified to avoid possible misunderstanding in the future. Now, if you gentlemen who nave nameded this problem don't think that is a problem, why, I'll defer to your judgment in this matter.

Problem at all, and it is only setting forth a policy. Now, just because he says that they shall not borrow that doesn't necessarily mean that the legislation will be so rigid that it would cause unnecessary naruship. And he doesn't say - in the elimination of them, he doesn't say it will be three years or four years. He says a program will be set up for their gradual elimination. And I don't see where branch banking comes into this thing at all, unless we inject branch banking. I certainly don't think there is any tendency on the Hill to deal with a not subject like that.

These boys thought that it would come up, and we just wanted to mention that to the President. He doesn't -

he's not going to be retarded by it. But you can't keep any subject confined to just the line that you want to go on when you get on the Hill.

And I think this, Ronala, that on the question that you raised, it will, of course - Congress can always give more time to correct it. You may find the present situation like that of bank officers in banks, con't you see, where Congress had to extend the time in which they could pay those debts. So the house isn't going to be pulled down by any legislation. But I think that whatever he recommends should have just as much teeth in it as he could put in it.

Annsom: Let me just remind you that yesterday you took some of the teeth out that I had put in. I think that was all right.

Jones: What was that about, the years!35 and 136?

Menson: About the device - may I look at this copy? Is this the final draft?

Jones: No. Which is the final draft?

Graton: There isn't any. Some words to come out of Mr. Jones' draft, and then some words to be inserted in the other. I have one in which those changes have been made. I just noted in the margin your comments.

draft that we had before us yesterday, and I made some textual changes in it, and I will submit that to all of you for your consideration.

One thing that I would like definitely - the rest of this seems relatively unimportant - I would like, if we can, where we - to say "In furtherance of this objective Cong ess should again give consideration to the bank holding company problem and determine in what manner existing legislation enacted during this administration should be strengthened and what limitations" and so forth. My reason again there is that this administration has been in office five years, has enacted some very important bank holding company legislation, and I would not like the President's message on the subject to give the impression to the public or to Congress that legislation already enacted was wholly inefficient, that it missed the target, or that nothing had been done about it at all. And for

that reason and that reason alone I would like to see somewhere inserted in this statement a reference to legislation which had been enacted during this administration on the subject.

Jones: May I see that?

crowley: Well, we can work that out by simply saying that existing legislation, being adequate

numson: I wouldn't say that, because I'm not sure that it is.

Drowle,: You mean it isn't adequate to handle the problem.

danson: - wouldn't like to see the President say that the existing legislation was inadequate.

Growley: He says that when he says there is some reform he wants to make.

You may need additional legislation without referring to existing legislation as inadequate.

Crowley: If you ask for additional legislation, why do you ask for it?

Ransom: To strengthen existing legislation.

Crowley: Isn't that because it was inadequate?

Wensom: Just a difference of words. To me the words seem important.

The rest of the textual changes I suggested there in the light of what Mr. Crowley says about administration.

Jones: Did we have bank legislation before affecting bank holding companies?

mansom: Previous to this administration, not to my knowledge.

Jones: I think you have to know.

Manson: No.

Isn't the point - when was the Federal Reserve given the authority to regulate bank holding companies when they had over 50 percent? asnsou: 1933.

#.A.Jr: Well, wasn't that in this administration? That answers Mr. Jones' question. And the point that you're making is that that legislation wasn't adequate.

The point I'm making is that that legislation needs to be strengthened.

H. Jr: But it was in 133.

The situation has changed somewhat, too, Mr. Secretary.

light changing conditions, change in legislation.

Jones: No serious objection.

d.i.Jr: I don't think it is terribly important, one way or the other. If they feel strongly - what word do you use? "Supplement" existing bank legislation?

I think it ought to say "In furtherance of this objective Congress should again give consideration to the bank holding company problem and determine in what manner existing legislation enacted during this administration should be strengthened and what limitations should be imposed upon the development of such holding companies." That is really our objective, as I see it. I don't think there is any disagreement on that. As to objective I think this committee is of one mind, Mr. Secretary.

Well, I could go with you down to "should be strengthened" - period. "What limitations should be imposed
upon ..." - I think that that comes out, because you're
not going to place limitations - I mean you're going to
do away with them. You say "legislation enacted during
this administration should be strengthened" - period.
See, you're not going to put limitations, you're going
to do away with them.

Jones: That's right.

i.i.Jr: Could you take that, Ronald? Down here - "legislation should be strengthened" - period; then cut off the rest.

dansom: That's all right, surely.

H.M.Jr: Then go on with the rest of the story. This is just a preamble.

I think, as a matter of fact, Mr. Secretary, that change ought to be made in the draft Mr. Jones submitted, because if we're going to say what limitations should be imposed on their development and then impose an indefinite death sentence

Diggs: That's your draft, sir.

Jones: This my original draft?

plags: No, that's the section

Junes: My draft with this change.

H.M. Jr: That's right.

Jones: "The establishment and maintenance of a sound banking system which would serve the public interest has been a constant objective of this administration. In furtherance of this objective, Congress should again give consideration to the bank holding company problem."

I.d.Jr: That's the same; up to here it's just the same.

Crowley: Well now, don't you say there "In furtherance of this objective Congress should again give consideration" - isn't that admitting they did it once?

The point about that is, Leo, that it seems to me important that this particular administration should put itself on record as having already dealt with it by existing legislation.

Crowley: Well, we do that - "again."

Tansom: It doesn't specifically refer to the bank legislation passed through this administration. "Again" would imply there that there was existing legislation.

H.M.Jr: "Existing legislation" - that's all he's putting in.

Ransom: "Again give consideration to the bank holding company problem and determine in what manner existing legislation enacted during this administration should be

strengthened."

Jones: I'm for that, if they didn't have legislation dealing with holding companies before.

Ransom: Well, Mr. Upham says not, and it is my understanding there was not.

Upnam: There was none before that.

Jones: All right. With that assumption - "what manner existing legislation enacted during this administration should be strengthened" - and cut that there.

H.d.Jr: Just have to add this (writing in revision).

dansom: "Enacted during this administration should be strengthened."

il. I.Jr: "To determine in what manner existing"

Junes: "Existing laws" instead of "existing legislation."

"Laws dealing with these companies" - strike out "legislation" - "enacted during this administration."

Gaston: I don't see why you should point exclusively to that legislation. You could say "determine in what manner existing laws, including legislation dealing with these companies enacted during this administration."

Jones: That's all right.

i. .Jr: Fix it up, Herbert. You've earned your salary today.

H....Jr: While he's writing that, may I take a look at my market for a minute. We had a bad one yesterday.

(Secretary goes out)

"In furtherance of this objective, Congress should again give consideration to the bank holding company problem, and determine in what manner existing laws, including legislation dealing with these companies enacted during this administration, should be strengthened, and what limitations should be imposed upon their development."

Jones: That last is to come out.

Gaston: Yes, I think that's enough.

Managa: Little inconsistent otherwise.

distant You're quite right.

"I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies and prevent holding companies...

Junea: Now wait just a minute, Ronald's got a

That's not important; just a textual change.

June: 40 shesd.

control of any more banks, directly or indirectly, or banks controlled by holding companies from establishing any more branches, and that will make it illegal for a holding company or any corporation or enterprise in which it is financially interested to borrow from or sell securities to a bank in which it holds stock." Mr. Ransom's suggestion there was that we make it "an enterprise which it controls to borrow from or sell securities to a bank which it controls."

Leo says we're not getting into any trouble on it, and he's had more experience than I've had, so it's all right with me.

Johns: we're talking about a bank holding company, see?
Another corporation that wasn't a bank holding company would not be precluded by that from selling them a security or borrowing from the bank.

whatever we're going to do, that then we'll try and reach a mind on what we're going to do with these fellows on controlling these loans, as to how far you want to go on the thing. But what I'm getting at is, I don't think in a message that you can work it out in detail so they will understand everything that we don't understand ourselves now; because I don't think

that you or Marshall or Jesse or any of us can say definitely how far you want to go on that thing in detail. Can you?

Renson: No, I wouldn't undertake now to say that.

drolley: So this covers the thing. No use trying to go into detail. He's in as deep water as we are, as I see it.

Nome of the state of the state

Branch banking, too. It's all the same. You open up - you're not going to exclude anything from these nearings when they get to having them.

Now, nave we got a completed copy?

Promisey: Of course, personally, I think there's been a lot of shadow-boxing here.

Anson: Yes, I rather suspect so. Carrying out instructions.

(Secretary returns)

H.M.Jr: Well, everything's all right. Boy! That was a bad day yesterday, wasn't it?

That was bad.

Jones: Now, the way we are in agreement

H.I.Jr: I'll send you people a photostet of a complete copy of what I send the President, see?

Mr. Secretary, the first meeting I attended here, it seemed to me our big problem at that time, which isn't going to be solved here, was the Bank of America and Trans-America. That was the big problem.

...Jr: That's right.

My feeling has been that the Trans-America can dispose of all of its stock, distribute it, and will do so on very short notice, if such a bill is passed; so we've not accomplished anything really, because the other

nolding companies are very minor and are not giving any trouble. And I'm just wondering whether we're getting at what seems to be disturbing every one.

Trubbari.

I might inject something of an answer to that that might throw some light on it, because you haven't been in on our other conferences. What you (Diggs) say is the reason that I objected to any very broad statements of great economic questions being involved in this problem, because I was afraid that as soon as you got rid of your existing holding company problem you still had these large aggregations of controlled banks under existing branch banking systems. But I think that's avoided, Marshall, by the wording of this, which doesn't commit the President to any statement that there is a broad economic question involved. This really, after all, reduces to an effort to further control existing agencies. Now, if those agencies disappear of their own accord, it doesn't seem to me we'd have that problem. Might have another problem, even more difficult to solve. But that would have to come in due course. Now, does that in part answer your question?

Brita.

But we haven't got to the one thing that disturbed us here at the first meeting. We still have that.

E.M.Jr:

Well, isn't the question of Bank of America one largely of bank examination?

15554

Yes, to some extent, probably. In other words, as long as it was controlled by Trans-America and the borrowing back and forth there - I think that's one thing which this does eliminate. But once he distributes his Trans-America stock, they can still continue to carry that.on.

J. Jr:

He can continue to do what?

11668:

To borrow, which is what we try to eliminate.

H. J. Jr.

Who can borrow what?

Digga:

Trans-America could borrow from the Bank of America, if they distribute their stock and are not an affiliate or a holding company.

....Jr: That's where I say, then, you come in.

lggs: Then we come in from the examination standpoint.

And if it's a good risk, all right. If it isn't, you say "No." I mean it seems to me that that is your responsibility.

Miggai That's right.

H. ..Jr: If it's a good risk for the Bank of America to loan the Trans-America, all right. If it isn't, it is up to your examiners to shut down on them.

sics: Right.

I.A.Jr: That seems to me to meet the situation.

Magaz whether it's a good loan or not, from then on out.

A. .Jr: Yes, if it's a good loan. And then, in addition to that, there is another investigation going on, which you may or may not be familiar with, and that's the question of S.E.C., and they're going into Trans-America from the standpoint of listing. So I think that investigation, plus very careful bank examination, ought to meet the situation, once Trans-America divests itself of its stockholding in banks.

And the other thing, to answer your question, is this. Ifter all, this is an expression on the pert of the President as to his attitude towards bank holding companies, and it gives these fellows ample warning to get their house in order. So - I mean I don't think any of these things can be done overnight, and I think in this case it would be dangerous to do it overnight. But it's putting these fellows - the President putting them on notice: "Now look here, this is something that this administration doesn't like. Now, you fellows get ready." I think it's going far enough and fast enough, personally.

Well, I think it's going far enough.

fast as he might think he could, because when he distributes his stock he's got to do something with his holding companies that hold his other affiliates. What I think will happen with Giannini - he'll come to Washington, meet with the Federal Reserve, Comptroller's office, and F.D.I.J., and work out a program that likely will give that thing a gradual house-cleaning.

Well, where are we going to be with the Northwestern and First National? I mean let's assume that we - Congress enacts a law saying that they must be eliminated in five years or ten years. Will they take five years to do it, or will they immediately sell the stock and will it be deflationary in the Northwest?

H.I.Jr: Jones thinks that, on reconsideration, he'd like to see that last sentence left in there: "and without causing inconvenience to communities served by holding company banks," etc.

Jones: I think that's a thing the President ought to say.

Crowley: Would you say "loss" or "undue hardship"?

Jones: I don't care. Doesn't make any difference.

Make no suggestion on it, Mr. Secretary, but I did nave a mental reservation whether the President wanted to suggest that there was going to be a loss to stock-nolders at a period when it is so very difficult to get capitalization into banks anyway, and I myself would have been reluctant to suggest the use by the President of the words "loss to stockholders" at a time when they are super-sensitive about It anyway.

James: But, Ronald, these fellows are going to holler. You can't keep the other fellow from hollering. Says, "This is going to be a loss." He bests them to the graw here.

Powley: My snort experience in legislation - if you give them a message that's got a good shot

Jones: "And without causing inconvenience" - that answers them when you say, "What you fellows going to do without a bank?" And then "or loss to stockholders...."

d. W.Jr: I think you better leave that part off. Kind of puts

ideas in your head.

Jones: "Without causing inconvenience to communities served by holding company banks."

H. .. Jr: And leave off the "loss to stockholders."

Uphom: Yes, we've agreed to that.

H. .. Jr: I'd leave that off. But the community part I'd like.

James: I'm compromising with you.

H. Jr: All Fight on to t?

Jones: O.K.

M. Jr: Now, Gaston, if you'd assume this responsibility of getting everything together, and then, say, maybe by four o'clock have my letter of transmittal and everything ready, and then have a photostat of everything I send to the President, so I can send it to each of you.

Now, just this one thing. I had a press conference this morning and told the boys we were going to meet. They said, "What you going to do?" I said, "I don't know what we're going to do until we meet." See If you (Gaston) agree. "Going to send something over to the President?" I said, "If we agree, we will." So I don't see any harm in saying - not today, but some time tomorrow or Saturday, to give the President a chance - "Yes, we did agree, and sent something over to nim." But give him a couple days' head start.

Jones: I don't see a bit.

i. .Jr: So, Herbert, I'd simply say, if the boys ask, in order to give the President a chance - say that we're making progress.

Giston: Yes, yes.

Jones: And everything is referred to the Secretary.

H.M.Jr: And then, if I sent it over tonight, why, maybe by Monday we'll admit we sent it over and that gives him a couple days' head start on it.

Gaston: The President a week ago last Tuesday said that he expected to have a report from you in two weeks, and why couldn't we tell the boys, "Well, the President said in two weeks. That was a week ago Tuesday. We hope to get something in time."

H.M.Jr: As a matter of fact, we'll have this on his desk tomorrow morning for his press conference. If he wants to handle it, he can handle it at his press conference. I don't want to - just simply say that we're making progress, so as not to put him on the spot.

Well, I'm tickled to death. May I thank everybody.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

Secretary Morgenthau

Wayne C. Taylor

Attached as A is the revised draft of the proposed message on bank holding companies which Mr. Jesse Jones will submit this afternoon. This represents a combination of the FRB and RFC proposals; the first paragraph being Ransom's and the second and third paragraphs, with slight modifications, Jesse's. This is satisfactory to FRB, RFC and the Comptroller of the Currency provided the President is made aware of the fact that the last paragraph inevitably will raise the branch banking question.

Attached as B is a revision of A as we (Messrs. Oliphant, Upham and I) think it should be. The only change is in the last paragraph which is somewhat strengthened in our draft.

wet.

Enclosures - 2

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The establishment and maintenance of a sound banking system which would serve the public interest has been a constant objective of this Administration. In furtherance of this objective Congress should again give consideration to the bank holding company problem and determine in what manner existing laws dealing with these companies should be strengthened and what limitations should be imposed upon their development.

I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies and prevent holding companies from acquiring control of any more banks, directly or indirectly, or banks controlled by holding companies from establishing any more branches, and that will make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from a bank in which it holds stock.

Believing this to be a sound principle of government, I suggest that any bank legislation make provision for the gradual separation of banks from holding company ownership, allowing a reasonable time for this accomplishment, time enough for it to be done in an orderly manner, and without causing inconvenience to communities served by holding company banks, or unnecessary loss to stockholders.

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MEMORANDUM

March 17, 1988

To: The Secretary of the Treasury

From: Ronald Ransom

Subject: Bank Holding Companies

CONFIDENTIAL

Mr. Taylor suggested in the meeting on yesterday that it might be helpful to give you copies of some material prepared for me in connection with the discussion of the above subject. I attach the following:

- 1. Suggested improvement of bank holding company statutes (L-552). Mr. Jones, at the meeting in his office on March 10th, asked the agencies to answer three questions. This memorandum was prepared to answer the questions, which were on (1) objectives to be sought; (2) administration; (5) definition of a bank holding company.
- 2. Outline of bank holding company bill (L-549). This contains ten proposals which it would seem desirable to incorporate in any legislation on this subject, and was prepared prior to the introduction of S.3575. This present draft contains a few revisions and is dated March 9, 1958.
- 5. The Glass-McAdoo Bill S. 3575 (L-550). This snalyzes the more important provisions of the bill, particularly as they relate to duplication of supervision of member banks, conflicting provisions for supervision of holding companies and overlapping requirements applicable to affiliates.
- A. Provisions of law on supervision of bank holding companies. This refers to existing statutes. It was prepared in answer to a question asked by Mr. Upham on the question of present responsibilities of the Reserve Board and the Comptroller's Office over holding companies. Mr. Wingfield reached an agreement with Mr. Kelly on this memorandum.

- Tabulation showing present authority of various supervisory agencies to examine banks.
- 6. Tabulation showing present supervisory powers over holding company affiliates and affiliates of member banks. This also points out duplication of supervisory powers which would be created by S. 5575.
- 7. Memorandum submitted by me at the meeting in Mr. Jones' office on March 16th in answer to inquiry as to suggestions for incorporation in message to Congress.
- 3. Memorandum showing a few textual changes which I will suggest at the meeting on March 17th in the memorandum on the statements for the message which will be submitted by Mr. Jones after the meeting in his office on the 16th, and attached thereto a "clean copy" of the statement as it would appear with these textual changes.
- 9. Extract from the Federal Reserve Bulletin of February, 1938, containing article on Group Banking in the United States. This careful study of the subject merits consideration in connection with the entire problem.
- Copy of Regulation P, Board of Governors of the Federal Reserve System, Holding Company-Voting Permits.

We have prepared a map of the United States showing location of holding compenies and subsidiary banks and branches of such banks as of December 51, 1956. We will be glad to submit this map to you if you should care to see it or supply a photostatic copy if you wish it.

Fred James

THE SECRETARY OF THE TREASURY WASHINGTON

March 17, 1938,

The President,

The White House.

Dear Mr. President:

I have the pleasure to report to you that after a number of meetings of your Committee on Banking agreement has been reached on recommendations as to the bank holding company situation.

You will find enclosed herewith a letter to me from Chairman Jones of the Reconstruction Finance Corporation, who has acted as Chairman of a sub-committee which has been meeting on the situation daily for the last week, and also the text of a proposed message to the Congress.

I am pleased to be able to tell you that the proposed message has the unanimous approval of the members of the committee which has considered the problem.

We await your further pleasure.

Sincerely,

Secretary of the Treasury.

molosures.

The establishment and maintenance of a sound banking system which would serve the public interest has been a constant objective of this Administration.

In furtherance of this objective Congress should again give consideration to the bank holding company problem, and determine in what manner existing laws, including legislation dealing with these companies enacted during this Administration, should be strengthened.

I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies and prevent holding companies from acquiring control of any more banks, directly or indirectly, or banks controlled by holding companies from establishing any more branches, and that will make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

Believing it to be a sound principle of government, I recommend that this bank legislation make provision for the gradual separation of banks from holding company control or ownership, allowing a reasonable time for this accomplishment, time enough for it to be done in an orderly manner and without causing inconvenience to communities served by holding company banks.

RECONSTRUCTION FINANCE CORPORATION

WASHINGTON

MARKE H JOHER

March 17, 1938

Dear Mr. Secretary:

At the last meeting of the interdepartmental committee held in your office March 14th to consider recommendations to the President regarding bank legislation, and particularly to suggest a brief statement dealing with bank holding companies to be included in his message to Congress, you asked that the committee have further meetings and endeavor to arrive at, first, a suggested statement for the President's message, second, a definition of what constitutes a bank holding company and, third, what governmental agency should be charged with the enforcement of any Bank Act effecting holding companies.

We have had two meetings and a free discussion of the problems to be considered.

I attach the suggested statement for the President to include in his message to Congress. This represents the views of Governor Ransom of the Federal Reserve Board, Acting Comptroller of the Currency Marshall Diggs, Lee Crowley, Chairman of the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation.

It is the unenimous opinion that the operations of bank holding companies should not be allowed to expend. This being true is an admission that the principle of bank holding companies is not in the best interests of the country and that something should be done about them. It is with this thought that the last paragraph of the statement is included.

Should the President determine to use it and the Congress act upon his recommendation, the question of branch banking will naturally enter into the discussions.

The committee feels that other factors than a specific percentage of share ownership will enter into a proper definition of control. At all events it requires more time for study than on have had and should properly be developed in the Congressional Committee hearings.

As to the supervising suthority, Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, has stated that the present Glass-McAdoo-Steagall Bill represents approximately his views, but thinks that the President or Congress should decide.

Governor Ransom and the Comptroller see no reason for transferring this authority which now rests with the Federal Reserve Board and the Comptroller, although they feel that if a change is made it should be the responsibility of one agency.

The directors and executive force of the Reconstruction Finance Corporation are of the opinion that this control is so involved with the question of bank supervision that the two should be considered together and ultimately rest with the Federal Deposit Insurance Corporation.

Sincerely yours,

Chalman

Secretary of the Treasury Washington, D. C.

March 17, 1938

MEMORANDUM FOR COL. MeINTYRE:

I am sending you herewith a memorandum to the President from Bell and myself. We are ready to discuss its contents at the President's pleasure.

It is most urgent that Magill and I see the President about the tax bill. I would appreciate your arranging an appointment at the President's earliest convenience.



THE WHITE HOUSE

March 8, 1938.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you speak to me about this?

F. D. R.



TREASURY DEPARTMENT

WASHINGTON

TWO FAMILY FOR THE PRESIDENT:

At a conference had with you by the Acting Director of the Bureau of the Pudget on Monday, March 7th, last, with respect to your policy on flood control, you suggested that serious thought be given to the proposition of having Congress emact a billiondollar flood control program; the work to be done by the Army Engineers; the funds to be raised by the Treasury through the sale of Government bonds in the regular manner; such funds to be loaned to those States desiring the prosecution of flood control projects, repayable over a period of fifty years, without interest, such re-

By your memorandum of March 8, 1938, you referred to the Secretary of the Treasury a memorandum of the same date addressed to you jointly by the Secretary of the Interior and Honorable Frederic A. Delano, upon the subject of a public works revolving fund.

With respect to the subject first above mentioned the following facts and observations are submitted: Disregarding the flood control of the main stem of the Mississippi River, which is really in a class by itself, there are now on the books flood control projects, authorized by the Omnibus Flood Control Act, as amended,

NATIONAL RESOURCES COMMITTEE NORTH INTERIOR BUILDING WASHINGTON

CHIPTIENTIAL

March 8, 1958.

MAD MANDUM for The President:

. Abel wolmen, who was with Dootor Parren of the Public Health portion at a recent conference with you in regard to pollution, has reported the very interesting suggestion you have made in regard to a public morks revolving fund which might be used as a loan fund advanced to the States and other local governmental units under contracts for reparament to the Federal Government over a term of fifty years. This, it stocars to me, is an exceedingly interesting suggestion and in no way inconsistent with views which the Resources Committee has expressed in dealers with flood-control, reclamation and other important Federal projects including, of course, water power development, pollution abatement and road construction. As I write, there are no members of the Advisory Committee available to discuss this project, but in order promptly to report on the message relayed to me by Mr. Wolman, I assure you that I see nothing in this plan which would violate the principles which we have worked upon and advocated. I will take the matter up with my colleagues immediately with a view to preparing a confidential memorandum for you on this subject, if you desire it.

I am also informed that Mr. Wolman spoke to you of the memorandum his Committee had prepared in regard to the New England Compacts and the proposed McCormack amendments to the Flood-control Act of 1936. As Mr. Wolman told you, a report covering some six closely knitted pages has been submitted on this subject, but it has not been studied by the Advisory Committee nor transmitted to the general Committee. While we regard the opinions of the Water Committee on the question of the New England Compacts and the McCormack Amendment as entirely sound, I would like to have the pretty carefully considered by the Advisory Committee, and perhaps the full Committee, before transmitting them to you. Of course, if you desire the Wolman memorandum, even though not cleared by our Committee, I will send it over at once. Undoubtedly the suggestions that you have made in regard to loans to State and local governments in carrying out public works. Projects could be applied perfectly well to the New England problem.

Respectfully submitted,

MAR 8 1938

Prederic A. pelano, Chairman, Advisory Committee.

APPROVED:

Hand Z. Pale

estimated to cost the Federal Government, for construction, a total of \$344,000,000, and to cost local interests, for lands, essements, rights-of-way, and damages, a total of \$107,000,000, or a grand total of \$451,000,000. In addition, Congress has authorized and directed the making of examinations and surveys of some 335 additional streams and localities with a view to the adoption of projects for the control of floods. How many of such projects will actually be adopted and what their total cost will be cannot, of course, be even approximated at this time. Other such exeminations and surveys will undoubtedly be provided for in the future. We think it safe to predict, therefore, that the ultimate cost of a nation-wide plan for flood control will certainly amount to a billion dollars, and probably more. Thile we have not had time to go into the natter thoroughly from every angle. your suggested plan for financing national flood control would seem to us to have a great deal of merit and one worthy of detailed colaborative study by the Treasury Department, the Bureau of the Budget, the National Resources Committee, and interested Departments, particularly, War and Agriculture. The following phases of the matter are of particular interest:

(1) We are now committed to an annual expenditure of about \$70,000,000, with the great probability that this sum must be materially increased if the demands of local interests are acceded to and if the existing policy of local cooperation is discarded. Hence, the payment bunual interest on one billion dollars of Government bonds would

that the Treasury would have to pay an average interest rate of 5 per cent over a period of fifty years on a \$1,000,000,000 bend issue, we would pay out in interest over that period, if the bonds are retired at the rate of \$20,000,000 a year, the sum of \$765,000,000. It is seen, therefore, that the total cost of flood control would be \$1,765,000,000, of which the States would pay \$1,000,000,000, or about 57 per cent, and the Federal Government \$765,000,000, or about 43 per cent. On the present basis of \$451,000,000 of projects now authorized, of which the Federal Government pays \$344,000,000 and the States \$107,000,000, the ratio is Federal Government acout 76 per cent, and the States about 24 per cent. This is based upon a continuation of local cooperation; otherwise the Government cost would, of course, be 100 per cent.

(2) The country at the present time is apparently flood control conscious and with every recurring flood demands upon the Government for relief will become more insistent and far-reaching. The adoption of a scheme of financing, such as you suggest, would at once indicate whether the pressure comes from those who will eventually pay the bills or from politicians. It would also, without doubt, we believe, result in the presecution only of projects of real merit, in which the cost of construction bears a proper relation to the benefits to be derived. Pork-

It is proper to point out that there would necessarily be some lelay in cetting under way a program such as the one under consideration and that in the interim the Government would have to continue the program

now in effect. Assuming that Congress would enact the required legislation early in the calendar year 1939, (serious doubt being entertained
that action would be taken during the present session, with the 1938
elections coming on), it would then be necessary for the legislatures
of the various States to enact enabling legislation and for compacts to
be entered into between States with respect to projects interstate in
character and such compacts would probably have to be sanctioned by the
Congress.

There are two angles to this matter which are of particular concern to us, to-wit: (a) the handling of the funds loaned to the States, and (b) their repayment to the Treasury. As to (a), while loans should be allocated to States, the funds should remain in the Federal Treasury and be drawn upon to meet the costs of prosecuting the projects for flood control, an account being kept for each State and periodic statements furnished to it. Otherwise there might be a danger that the funds would in some instances, be diverted. And with respect to (b), there should be some assurance to the Federal Government that the loans and to the States would be repaid and that such repayments would be made in the ennual installments contemplated by the plan. Just how this may be accomplished would have to be worked out and provided for in the logislation to be enacted by the Congress.

Adverting now to the suggestion that a revolving fund be created for the handling of public works, we wish to register our opcosition to such a plan. Revolving funds violate the principles of the budgeting and are highly objectionable in many ways and for many control and would, of course, displace the plan for financing this class of public works which we have discussed in the forepart of this memorandum. If it be your desire to make loans to States and local governments for mublic works authorized not only by Federal law but by State and municipal law, it is our definite recommendation that the authority of the Reconstruction Finance Corporation be broadened so as to enable it to make such loans in the manner set forth in the accompanying draft of an Act prepared by Jesse Jones of that Corporation. This would be more business like and we believe the loans would be better administered. Moreover, we believe that Congress would be less likely to make grants to the States out of funds of the Reconstruction Finance Corporation than it would out of a revolving fund.

Secretary of the Treasury

Acting Director of the

AN ACT

to mention 5d of the Reconstruction Finance Corporation Act as amended.

In it mented by the Senate and the House of Representatives of the United

Interest in Congress assembled. That the Reconstruction Finance Corporation Act

approved Senary 22, 1932, as amended (U.S.C. Title 15, ch. 14) is further

and by striking out all of Section 5d and inserting in lieu thereof the

telloring!

*sec. Bd. For the purpose of maintaining and promoting the economic stability of the country or encouraging the employment of labor, when credit at prevailing rates for the character of loan applied for is not otherwise available, the Corporation is authorized and empowered to make loans to or purchase the obligations of any business enterprise. Such loans or purchases shall, in the opinion of the Board of Directors, be so secured as reasonably to assure repayment or retirement; may be made or effected either directly or in cooperation with banks or either landing institutions through the purchase of participations; shall have make maturities as the Corporation may determine, notwithstanding any other previous of law limiting the maturity of saligations taken by its shall be made only when, in the spinion of the Board of Directors of the Corporation, the between is solvent; and shall be subject to much terms, conditions and restrictions as the Corporation may determine.

The power to make loans and purchase obligations given herein shall terminate it accordance with the provisions of Section 1 of the Act approved January 25, 1837 (Public No. 5 - 75th Congress); but no provision of law terminating any of the functions of the Corporation shall be construed to prohibit disbursement of funds on loans, purchase of obligations, commitments or agreements to make such

leans or purchases made prior to the close of business on June 30, 1939, or such

The Reconstruction Finance Corporation is authorized and expowered to mbs leans to, or contracts with States, municipalities, and political subdivisions of States, with public agencies and instrumentalities of one or mre States, municipalities, and political subdivisions of States, and with public corporations, boards and commissions, to mid in financing projects withorized under Federal, State, or municipal law, such loans or contracts to be made through the purchase of their accurities, or otherwise, and for such purpose the Reconstruction Finance Corporation is authorized to bid for such securities; Provided that loans hereunder shall be made only to applicants was of whose obligations will be in default at the time of disbursement by this Corporation pursuant to the provisions of this act; Provided further, that mething herein contained shall be construed to prohibit the Reconstruction Finance Corporation in carrying out the provisions of this paragraph from parameters accurities having a maturity of more than ten years.

March 17, 1938. 2:31 P.M.

O: Go ahead.

Burgess: Hello

H.M.Jr: Hello

B: Oh Hello Henry.

H.V.Jr: Yes.

B: Well - ah - this mark. behaved reasonably well.

H.M.Jr: Good.

B: It's been pretty orderly without - without many blocks that are pushing; a few more sellers than buyers.....

H.M.Jr: Yes.

B:and the quotations have receded a little....

H.W.Jr: Yes.

B: ...but we haven't seen any evidence of - of forced selling.

H.W.Jr: I see.

B: About half an hour ago it looked a little bit weaker and we went out and picked up one block.....

H.M.Jr: Yes.

B:of a couple of million.

H.M.Jr: Yes.

B: And I've got Meddy (Madison) looking around to see if there is anything else pressing.

B.M.Jr: Right.

B: And anything pressing we'll pick up.

H.M.Jr: O.K. - that's satisfactory.

B: Ah - but the quotations are 3-4 - in one or two cases five off but its very orderly.

H.M.Jr: All right, Randolph.

B: We'll probably pick up - ah - oh some more before the day is over.

H.M.Jr: 0.K.

B: But it isn't as bad as it was yesterday.

H.M.Jr: All right.

B: Very good.

H.M.Jr: Thank you.

FFICE CORRESPONDENCE

DATE March 17, 1988.

CONFIDENTIAL FILES

SUBJECT. TELEPHONE CONVERSATION WITH BANK OF FRANCE.

L. W. Knoke

I called Mr. Cariguel at moontime today and told him briefly of market conditions here and of our operations. He was anxious to know who had been the principal sellers of france in this market recently and I told him that business had been too small to bring out any big selling or buying, for that matter, in france here. I added that I did not remember having seen the name Lasard recently. Cariguel thought that firm had of late been much quieter.

Referring to conditions in France, he thought that everything hinged on the success or otherwise of efforts to form a national government. It was his personal belief that France would have one in due course as everybody agreed that that was the most essential job to be done. The difficulty wo far had been to get different parties to come along and agree on a program as well as on a leader, both socialists and radicals typing for the job. Naturally, Blum was anxious to retain the premiership but it was a great question whether he would command the confidence of the whole country.

The franc had not been under pressure today; as a matter of fact, he had gained £840,000 in preventing it from going higher. However, at the moment of talking, he said, it had turned a little and it began to look as though he might have to support it somewhat before the day was over. He did not think this movement would carry very far. At any rate, they were not disposed to let it, for the time

FEDERAL RESERVE BANK OF NEW YORK

FFICE CORRESPONDENCE

DATE March 17, 1988.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

BANK OF FRANCE.

L. W. Knoke

being, if they could help it.

I asked whether he was satisfied with the way we were executing his orders and he replied he was completely so.

LWK: KMC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 17, 1938, noon.

NO.: 419

RUSH.

FROM COCHRAN.

The French control for the day gained about a few million francs on balance, mainly due to favorable trading in London yesterday evening where sterling was weak and to a less extent to some sales of francs on the market in New York. The control early this morning sold some more francs, but at eleven o'clock by the time I left the Bank of France, the trend had turned. With the rate moving from 159.75 to around 161.50 the control had yielded in sterling this morning's intake. At the Bank of France officials are not aware that the present government is considering any new monetary or financial plans.

I visited Couve de Murville at the Ministry of Finance at eleven this morning. This contact told me that the 'Ministry of Finance had not been studying for the government any plan for gold stocks revaluation or any other important item in a comprehensive program for monetary and financial affairs. The present government has no such program, according to Couve de Murville. It is not expected that any new financial proposals will be made, but the statement to be made before Parliament this afternoon may set forth the need for urgent voting of 3,200,000,000 france of supplementary

credits for national defense purposes.
Wilson.

END SECTION ONE.

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MAR IT IS

TREATURE OF THE PROPERTY OF T

PARAPHRASE OF SECTION TWO, TELEGRAM NO. 419 OF WARCH 19, 314

At the time I visited at the Ministry of Finance, the results of the meeting of the Council of Ministers this morning had not yet become known.

On my two visits this morning I gained the very definite impression that technical men in the Bank of France
and career men in the Finance Ministry say that a national
defense loan cannot be raised by the present government.

It is their belief that the recent intermittent strength
of the franc has been mainly due to rumors and hopes that
very shortly the Blum Government would be forced to resign.

The present direction of the Ministry of Finance has made bankers, and par brokers, particularly bitter. They do not trust Blum's judgment in this field, and believe that in choosing George Boris as his chief of cabinet he has made a most unfortunate move. George Boris was formerly associated with the Belgian promoter Loewenstein. Most bankers look on him as a highly inteeligent journalist little removed from blackmailing. Mendes-France, the present Undersecretary in the Finance Ministry, has written a book on the Poincaré franc, and is only Fixpars a 31-year eld student.

END MESSAGE.

WILSON .

PLAI N

London

Dated March 17, 1938

Rec'd 2:23 p.m.

Secretary of State,

Washington.

225, March 17, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The following excerpts from today's FINANCIAL NEWS reflect the attitude of the City described in my No. 222 of March 16, 8 p.m.

In every market there was something very much like panic. There was very little real discrimination between market and market. Those groups which might reasonably be affected to benefit from a war soure suffered with the statich would obviously lose. The decline was universal. The market seemed to be suddenly terrified by the international situation -- which is certainly terrible enough -- and investors dashed for liquidity. The second stage -- the speculative buying of commodities and armament shares -- has not yet taken place. For the present the market seems satisfied to limit its commitments to nothing, and to hold cash. For this extraordinary behavior the international situation is directly responsible. Those who had hoped that the removal of Mr. Eden from the Foreign Office

Office would lead to a 'lull' in foreign affairs have been sadly disappointed. The tide to war is flowing more strongly then ever. Austria is now a part of the German Reich and the German and Italian Governments are nearing victory in Spain, although even a push to the sea, cutting off Catalonia from Spain would not necessarily end the war. This tide has been flowing for the last five years and now the market is beginning to take notice of it and adjust industrial and fixed-interest yields accordingly. Yesterday's losses however are too large to be accounted for in such a rational way. In them there was a deal of pure parie, and for that reason we do not expect that these losses will be maintained. There is indeed another posaddition which appears to be distressing the investor and the anger of slump. For the first time Mr. Oh bestain has publicly admitted that he was dissatisfied about the progress of industry; he admitted that some industries were don . ; badly, an admission which three months ago he could never have been compelled to make. Moreover Mr. Chamberlain prophesied that the depression would get werse, He attributed it to the international position an extraordinary explanation, for if it were true, then the industrial recovery would never have taken place at

3- No. 225, March 17, from London.

all."

Security markets improved somewhat today due mainly to bear covering on the view that yesterday's declines out ran immediate advisable (repeat advisable) adverse developments. However the atmosphere is not good; I have never seen British opinion show so little cohesion in the face of decisive issues.

The franc touched 161-3/8 but for most of the day the range was between 159 1/2 and 160 and covered operations continued to make it fairly stronger bid. This resulted in the dollars being somewhat offered. However the movement of nervous money to New York has by no means abouted. Dealers report the "feeling" that the Belgian authorities are now giving gold with reluctance.

KENNEDY

SMS:IIP

HMJr: Hello, Cochran. I can't make out much - just what Mr. Blum did do today.

Cochran: Well, it's a little difficult. Just now they're still having a debate in the Chamber.

HMJr: I see.

C: Blum appeared and read a long declaration; it was very general in terms, gave little indication of financial and monetary policies.

HMJr: Yes.

6: He asked that discussion of foreign policy be deferred until next Tuesday and then financial and monetary matters discussed after that date.

HMJr: I see.

C; When he finished the long statement - prepared statement - then he gave another hour talk, principally upon the dangers of war and appealing for a National Union Government.

HMJr: Oh, really?

C: He said the Communists ought to be included.

HMJr: I see.

C: And the impression was that he wanted himself to head that Government.

HMJr: I see.

C: Of National Union. When he finished the speech was received very coldly by everyone except his immediate party, or the Socialists, and the Communists.

HMJr: Yes.

The Radical Socialists, who have been working with them in this Popular Front here up to the present...

MJr: Yes.

C: ..did no applause whatever - only three members out of the whole party. And then after that there was a recess and there was some appealing by Blum to Flandin. You see, Flandin is one of the leaders of this minority for the Rights.

HMJr: Yes.

C: ..to get him to come in to a National Union under Blum.

HMJr: Yes.

Flandin refused. He appealed to Reynaud and Reynaud seemed to be favorable but his own party is opposed to his going in. Then after the meeting resumed - between six and seven o'clock this evening - Reynaud spoke and was boosed by his own party.

HMJr: I see.

C: And so it looks more and more difficult for Blum to head any sort of a national government. At the same time he's trying to hold on.

HMJr: I see.

C: And I talked with one of our men at seven-forty, who was over at the Chamber and he talked from the press box. He said there had been several speakers after Flandin but nothing definite - they were talking on intervention in Spain and so on. And they expect to get a vote some time this evening.

IMJr: I see.

C: And it would be a vote of confidence.

MJr: Yes.

C: But it would not be on policy but simply on the technical point as to whether they should postpone debate until next Tuesday.

MMJr: All right.

C: That's the way it stands now.

HMJr: All right.

And on the Bourse - on the Exchange Warket - our friend had gained a hundred and forty thousand pounds up until this speech was made public, that is, the formal parts.

HMJr: Yes.

C: Then the market turned and he lost all of that and a little more by six o'clock.

HMJr: I see.

C: I mean the market was disappointed because they had hoped for this speech to show that a national government was on the way.

HMJr: Uh huh.

c: And the market, that is, the French securities were off during the Bourse because this thing didn't come out until after trading hours.

HMJr: I see.

The statement of the Bank of France showed that million francs loaned by the Treasury.

MJr: Yes.

So everything is very uncertain tonight; if they don't get something better than they've had this evening there might be more pressure tomorrow.

IMJr: Uh huh.

C: You see? And if Blum should withdraw ...

MJr: Yes.

C: the two men most spokenof still are Daladier and Herriot.

HWJr: All right.

And then there's some talk of even getting Marshall Pitcairn eventually to head a government of the French.

MJr: I see.

C: That I don't know.

HMJr: I see. Well, thank you.

Just on the fall of the government or on the vote, you'll get that over the ticker or the news - ?

HMJr:

C: Yes.

HMJr: Yes.

C: But if there's anything else - so far there's been nothing on financial policy except just the statement that they're going to ask for an extra three billion two hundred million for national defense.

HMJr: Yes.

C: That's the only thing so far.

HMJr: All right. Goodnight.

C: Goodnight, sir.

REB

CRAY
Paris
Dated March 17, 1938
Rec'd 4:07 p. m.

Secretary of State, Washington.

425, March 17, 7 p. m. (SECTION ONE)

The session at the Chamber of Deputies this afternoon was one of the most curious and interesting I have ever attended. The governmental declaration read by Blum was as expected of a general character and without particular interest except for the statement that military expenditures will be increased. At the close of this declaration Blum asked that we debate on interpellations on foreign policy be nostwored until next Tuesday and that the other interpellations be postponed until a later date stating that he would make this a question of confidence.

Flum then went into a detailed explanation of the efforts he had made both last January and a few days ago to form a National Union Government. He spoke in the most solemn manner of the dangers threatening REB

2-#425, From Paris, Mar. 17,7p.m.

threatening France, of the fact that French disunion increased the chances of war and he made a moving appeal for the formation of a National Union Government which would be, he said, an essential factor in preventing a war.

WILSON

HPD

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 425 of March 17, 1938, from Paris

From Blum I got the impression that he was indicating he was ready to resign in order to make way for a Government of National Union which might be headed by some one else, provided he were met half way by the Center and Right. However, there was on the part of not only the Center and Right but even the major part of the Radical Socialists, complete silence and even open hostility. Blum insisted in making his appeal that if the country was to have real unity, assurance must be given to the working classes that they would not be exploited by a Union Government. He stated that without the Communists the French unity would not be achieved. The opposition evidently merely interpreted this as a partisan declaration, and there was most marked hostility to Blum personally. At one time Blum made reference to the necessity in case his appeal for union was not heeded of appealing to the people to get the necessary strength for a majority government. I have spoken with some people who interpret this as a threat to dissolve Parliament and call for new elections, but in my own opinion, I do not believe this 18 80.

In the opinion of one observer, despite the words about the gravity of the situation and the threat of war, not more than a handful of Deputies were interested in anything else than jockeying for advantage politically.

As I was leaving an ambassador said to me that they would go on playing politics until the Maginot Line was attacked by the Germans.

After Blum's demand for the postponement of the interpellations there will be a brief debate and then a vote. It is probable that the Government cannot last more than a few days, assuming that it obtains a vote of confidence on the technical question.

END MESSAGE.

WILSON.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: March 17, 6 p.m.

FROM COCHRAN

No. 421

Ministerial declaration made before Chamber this afternoon gave little indication of financial and monetary policies, the discussion whereof Blum suggested for next week.

I talked with the Bank of France at 5:30. During a day of thin and nervous trading, the Control had gained 140,000 pounds, but market turned when above declaration became known mainly because the statement offered less hope of an early collapse of the Government than had been anticipated by the market. The above gain had been wiped out and some more sterling was being lost at the hour I talked with the Bank of France. Rentes and French shares were better during Bourse on hope for national government and on slight easing of apprehensions over international situation. Statement of Bank of France as of March 10th showed one billion france drawn by Treasury.

WILSON

W. R. Burgess: Hello, Henry.

HMJr: Yes.

B: Well, I think this market's behaved pretty well right through the close, and...

HMJr: Good.

B: in fact it was a little stronger at the close than it had been when I talked with you last.

HMJr: Fine.

B: A thirty-second or two. On the day it's down from one to about three thirty-seconds.

MJr: Is that so?

B: The active market is about the same as the close.

HMJr: Yes.

We bought all together just three million. That was all we could find that was really pressing on the market.

MJr: Good. Well, I'm perfectly satisfied.

B: Well, I think it gave a good account of itself.

HMJr: I'm perfectly satisfied.

B: Now, do you want half of these, or all of these or none of them?

HMJr: We'll take half.

B: All right. We'll divide it up in halves then.

HMJr: We'll take half.

B: All right. That's good.

MJr: We'll take a chip.

B: Yes. Yes.

HMJr:	All right, I'm perfectly satisfied.
R.	Well, that's good, I'm glad of that.

HMJr: Goodnight.

B: .. Very good, Henry. Goodnight.

HMJr: Hello.

T.O.: Governor Ransom.

HMJr: Hello.

T.O.: Go ahead.

Ransom: I just got the report from Burgess on the market for the day and I just wondered if you had any.

HMJr: I told Burgess a little while ago I was entirely

satisfied.

R: Yes. Well, that's all right, then.

HMJr: That's all - I mean...

R: That's fine.

HMJr: Yes.

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING 1734 NEW YORK AVENUE NW. WASHINGTON, D. C.

HARRY L. HOPKINS

330

March 17, 1938

Mrs. Henrietta S. Klotz Assistant to the Secretary U. S. Treasury Department Washington, D. C.

Dear Mrs. Klotz:

I am attaching a brief memorandum which may be of interest to the Secretary.

Sincerely yours,

Emerson Ross, Director Division of Research, Statistics, & Records

Hose

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING 1734 NEW YORK AVENUE NW. WASHINGTON, D. C.

HARRY L HOPKINE

March 17, 1938

MEMORANDOM

TO: Mr. Morgenthau, Secretary of the Treasury

FROM: Emerson Ross, Director Division of Research, Statistics and Records

WPA employment has gone up rapidly during the past two weeks. By March 12, one half of the additional 500,000 workers to be added had been put to work. Figures for recent weeks are as follows:

Wask Ending	Number
March 12	2,244,000
March 5	2,167,000
February 26	2,076,000
February 19	2,009,000

No important changes have occurred during the past week in the relief situation with the exception of the WPA beginning to estch up with the unmet need.

The preliminary industrial production figure of the Federal Reserve Board confirms the evidence of the Bureau of Labor Statistics employment figure in showing that production and employment conditions in February were approximately the same as in January. The seasonally adjusted index dropped one point, from 80 to 79. The unadjusted index remained the same as in January, at 79.

The preliminary results of an interesting study concerning the continuity of WPA employment have just become available. These results indicate the high rate of turnover existing among WPA employees. The number who have remained continuously on the program is surprisingly small despite the fact that unemployment was at high levels during ingly small despite the fact that unemployment was at high levels during the whole period of WPA operations and consequently job opportunities the whole period of WPA operations and consequently job opportunities were available for only a fraction of the unemployed. For the twenty-were available for only a fraction of the unemployed. For the twenty-were available for which figures are now available only 16 percent of the MPA employees who were on the program at any time had been employed continuously from March 1936 (the peak month) through November 1937.

Of the persons employed at the peak in March 1936, only 24 percent were employed continuously through November 1937.

March 17, 1938

Excerpt from Herman Oliphant's weekly report of March 17, 1938, to the Secretary.

Reorganization - Genessee Valley Gas Company. We are waiting for the SEC plan of reorganization which has been promised to us.

March 17, 1938

My dear Mr. President:

For your information I am sending you herewith our report on United States trade with China and Japan for the month of February. Faithfully yours,

The President, The White House. My dear Mr. Secretary:

For your information, I am sending you herewith our report on United States trade with China and Japan for the month of February.

Sincerely yours,

The Honorable
The Secretary of State.

Dear Mr. Secretary:

For your information, I am sending you herewith our report on United States trade with China and Japan for the month of February.

Sincerely yours,

The Honorable
The Secretary of War.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

At

335

DATE March 17, 1938

70

Secretary Morgenthau

PROM

Mr. Haas

Subject:

Current trade with Japan and China

A. United States trade with Japan during February 1938. 1/

1. United States exports to Japan during the month of February were 8 percent less than during January 1938 and 22 percent less than during February 1937.

	1938	1937
February	\$19,266,000	\$24,847,000
January	20,981,000	22,364,000
	1937	1936
December	\$16,140,000	\$16,433,000
November	18,133,000	24,100,000
October	20,129,000	26,668,000
September	16,842,000	21,328,000
August	24,643,000	10,764,000

2. Exports of raw cotton to Japan were 4 percent less than in January 1938, and 50 percent less than in February 1937. Exports exclusive of raw cotton were 21 percent less than the average for the past six months.

United States exports of cotton to Japan

February 1938	\$ 5,565,000
	5,817,000
January 1938	1,908,000
December 1937	797,000
November 1937	1,571,000
October 1937	11,079,000
February 1937	11,019,000

3. Exports of iron and steel scrap were \$1,668,000 in February 1938 as compared with \$534,000 in January 1938. They were, however, only 30 percent of the average maintained from May to August 1937.

^{1/} Previous reports cover weekly figures only. This report is for the whole month of February.

United States exports of iron and steel scrap to Japan

February 1938	\$1,668,000
January 1938	534,000
December 1937	479,000
November 1937	633,000
October 1937	1,148,000
September 1937	1,402,000
Monthly average,	77 27 97 115
May to August 1937	5,600,000

- 4. Shipments of aircraft and parts, shown separately for the first time in February 1938, amounted to \$244,000.
- 5. The following items show large increases in our exports to Japan during the month of February 1938, as compared with our exports of these items during the month of January 1938. The smounts for February 1937 are shown for comparison.

	February 1938	January 1938	February 1937
Scrap iron and steel	\$1,668,000	\$ 534,000	\$1,391,000
Vehicles, parts and accessories	1,612,000	1,185,000	1,688,000
fertilizer and fertil- izer materials Tobacco and manufactures	362,000 290,000	24,000 N11	\$1,000 449,000
hides and skins, raw (except furs)	226,000	22,000	159,000

The following items show decreases in our exports to Japan during the month of February 1938 as compared with the month of January 1938. The amounts for February 1937 are shown for comparison.

The state of the s			
	February 1938	January 1938	February 1937
Raw cotton Petroleum and products Industrial machinery Copper and manufactures Ferro-alloys	\$5,565,000 3,004,000 2,609,000 1,367,000 24,000	\$5,817,000 5,066,000 2,853,000 1,883,000 192,000	1,417,000

6. Of the total \$19,266,000 of exports to Japan during February 1938, the following items account for almost all:

Raw cotton Petroleum and products Iron and steel and manufactures Industrial machinery	\$ 5,565,000 3,004,000 2,827,000 2,609,000	
Copper and manufactures Automobiles, parts and accessories Paper base stocks Fertilizer and fertilizer materials	1,367,000 1,337,000 422,000 362,000	
Tobacco and manufactures Aircraft and parts Hides and skins, raw (except furs)	290,000 244,000 226,000	
Total All other	\$18,253,000 1,013,000	95%
Grand total	\$19,266,000	

7. United States imports from Japan decreased 23 percent during February 1938 as compared with our imports during January 1938 and decreased 53 percent as compared with February 1937.

United States imports from Japan

	1938	1937
February January	\$ 8,723,000	\$18,384,000 17,683,000
COELCIA V	1937	1936
December November October September August	\$11,674,000 17,190,000 15,420,000 15,988,000 16,297,000	\$16,427,000 15,340,000 15,930,000 16,012,000 16,948,000

g. The imports of raw silk from Japan showed the principal decrease; imports other than raw silk decreased about \$1,900,000, but individual items maintained about their same relative position.

Perilla oil

Menthol

Tea

Fish and fish products

Wood and manufactures

Earthenware and stoneware

Pyrethrum flowers

	Raw silk	other than raw sill	k Total
February 1938 January 1938 December 1937	\$5,225,000 5,947,000 5,909,000	\$3,498,000 5,395,000 5,765,000	\$ 8,723,000 11,342,000 11,674,000
9. Of th during the mon almost all:	e total of \$5, th of February	723,000 of our import, the following item	ts from Japan s account for
Silk, unmanufac Cotton manufac Edible vegetab Silk manufactu	tures le products ot	ther than tea	\$5,225,000 550,000 213,000 198,000
Hats and hat m			196,000

Total imports

Total
All other
Grand total

B. United States trade with China during the month of February 1938.

1. United States exports to China and Manchuria for the month of February 1938 decreased 24 percent from January 1938 but increased 16 percent over February 1937. Exports to North China and Manchuria increased 15 percent while exports to Shanghai, South China and Hong Kong decreased 37 percent.

United States exports to

North China and Manchuria	Shanghai, South China and Hong Kong	Total
February 1938 \$2,417,000 January 1938 2,101,000 December 1937 2,748,000	\$3,690,000 5,892,000 5,199,000	\$6,107,000 7,993,000 7,947,000
Whole month of February 1937		\$5,262,000

149,000 141,000

132,000 117,000

103,000

94,000

92,000

\$7,399,000

\$8,723,000

1,324,000

2. Leading export items to China

a. To North China and Manchuria:

	February 1938	January 1938
Iron and steel and manufactures Cotton, unmanufactured Vehicles, parts and accessories Petroleum and products	\$ 649,000 545,000 287,000 275,000	\$1,074,000 130,000 285,000 270,000
Copper and manufactures Industrial machinery Wood and paper	232,000 117,000 103,000	68,000 104,000 15,000
Total	\$2,208,000 914 209,000 9%	\$1,946,000 93% 155,000 7%
Grand total	\$2,417,000	\$2,101,000

b. To Shanghai, South China and Hong Kong

	February 1938	January 1938
Automobiles, aircraft, parts and accessories Tobacco and manufactures Firearms and ammunition Printed matter	\$ 955,000 430,000 354,000 240,000	\$1,777,000 269,000 546,000 9,000
Iron and steel and manufactures Petroleum and products Ginseng Edible vegetable products Cotton, unmanufactured	188,000 185,000 145,000 142,000 111,000	225,000 424,000 207,000 N11
Total All other	\$2,813,000 76% 877,000 24%	\$3,457,000 59% 2,435,000 41%
Grand total	\$3,690,000	\$5,892,000

^{3.} United States imports from China and Manchuria declined about 18 percent in the month of February 1938, as compared with January 1938. Imports from North China declined about 9 percent and imports from Shanghai, South China and Hong Kong declined 21 percent.

^{1/} Not shown separately in January 1938.

United States imports from

	North China and Manchuria	Shanghai, South China and Hong Kong	Total
February 1938 January 1938 December 1937	\$ 978,000 1,069,000 1,200,000	\$2,685,000 3,401,000 4,395,000	\$3,663,000 4,470,000 5,595,000
Whole month of	February 1937		\$11,804,000

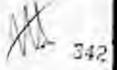
4. Leading imports from China

s. From North China and Manchuria:

.5	February 1938	January 1938
Textile materials and manufactures Bristles Perilla oil Sausage casings Furs and manufactures	\$347,000 218,000 182,000 85,000 56,000	\$ 289,000 221,000 80,000 25,000 34,000
Total All other	\$88,000	91% \$ 649,000 61% 9% 420,000 39%
Grand total	\$978,000	\$1,069,000

b. From Shanghai, South China and Hong Kong

	February 1938	January 1938	
Tung(wood) oil Tin, ore, bars, etc. Bristles Flax, hemp and ramie and manufactures	\$ 689,000 622,000 234,000 231,000	\$ 886,000 311,000 285,000 470,000	
Edible vegetable products Hats and hat materials Cotton manufactures Chemicals and related products	159,000 105,000 101,000 76,000	327,000 145,000 131,000 79,000	
Total	\$2,217,000	83% \$2,634,000 17% 767,000	77% 23%
Grand total	\$2,685,000	\$3,401,000	



CHINA'S FOREIGN EXCHANGE SITUATION

A. CHINA HAS VIRTUALLY NO FOREIGN EXCHANGE LEFT AND ONLY 150 WILLION CUNCES OF SILVER AVAILABLE FOR SALE AT THIS TIME.

1. Addording to reports available to us, China's dollar, starling and other foreign balances are virtually all gone. In fact, she has over-sold her exchange position by about 20 million.

. She now has available for immediate use only the 150 million mances of silver in London, plus an unknown -- but probably religible -- quantity of foreign currency assets she was reported to be a had a month ago.

(Chine doubtless has several hundred million more cunces or silver in no rds and in circulation in areas still under Thinese government control, but very little of it will be available for export or for metallic reserves in the near future).

. CHIMA'S FOREIGN EXCHANGE SITUATION IS SECOMING ACUTE.

The recent decision on the part of the Japanese to require all foreign exchange in North Chinese areas to be turned over to the new Central Reserve Bank of China, which is under Japanese antrol, has aggravated the situation. It will reduce the supply of foreign exchange available to the Chinese government and will increase the demand for foreign exchange.

7. The Chinese government in the past week has placed addiinal restrictions on exchange transactions in an effort to retect the year rate, and to increase the supply of foreign exchange available to the Chinese government.

It is not likely, however, that even with increased restrictions the Chinese government will be able to prevent the develop-

Depreciation of the yuan, whether of the official rate or of the "bootleg" rate, will not seriously handicap the Chinese Evernment in its efforts to prosecute the war. What China leads is more foreign exchange, not in order to maintain present levels of exchange rates, but in order to pay for needed imports of war material.

Unless Chins obtains foreign exchange quickly she will we to curtail her purchases of war material from foreign cuntries (except from Russia, who may be extending her credit).

C, WHAT ECONOMIC ASSISTANCE CAN WE GIVE CHINA NOW?

- 1. We could purchase the silver China now has in London. The purchase can be made in one of the following ways:
 - (a) We can accelerate purchases of Chinese silver from twice a month as at present to once a week.
 - (b) We can pay for the silver we purchase upon delivery aboard steamers in England instead of on arrival in New York as at present.
 - (c) We can make a loan against deposits of silver with a bank in England for the account of the Federal Reserve Bank of New York (as fiscal agent of the United States Treasury).
 - (d) We can purchase yuan (up to 95 percent of the value of silver in London) using the silver in London as collateral. The yuan purchases can then be liquidated according as silver in London is purchased, melted and refined in this country.

Of the four alternatives indicated above, the last would be of most assistance to China because it would make most foreign exchange available to her at once. The risk involved in the last method of purchase would be the risk of keeping silver on debosit in London until we could ship it here (probably four months).

- 2. Unless China obtains foreign exchange through one of the above indicated methods she may find herself in such straits as to cause her to dump the silver on the London market in the knowledge that we would probably have to purchase her dumped silver immediately (in order to support the silver market).
- j. By purchasing the remainder of Chinese silver assets now in London, depreciation of the yuan is at best postponed possibly a few months unless in the interim she can develop more effective control over exchange transactions than she now has.

When the additional foreign exchange she may obtain from the sale of her silver will be used up, China will have to reduce its purchases of foreign goods, and either permit the yuan to depreciate or develop strict and effective exchange control and peg the yuan at a desired rate. The likelihood that the Chinese Government will be able to develop strict enough control over exchange transactions to avoid substantial black exchange markets from existing is small.

Iflawn Comment on flan Teal Honglas + Jones make same continent Send to Pres at Warm Springs Pres ask for Regraded Unclassified March 17, 1938

CONFERENCE SUGGESTIONS

vasce

Basis of Conference.

- Confronted with a situation which requires immediate correction.
- Should not spend time in analyzing causes or in making further investigations.
- Every legitimate interest should cooperate in a constructive program for better transportation system which will endure.
- Not the time or place for argument as to relative treatment of labor and investors.

REORGANIZATION OF CAPITAL STRUCTURES

Financial Reorganization Alone Is Not the Remedy,

- Railroad industry not static must continually make improvements to render service.
- Credit of railroads must be maintained to finance improvements.
- Reorganization upon minimum basis without correction of general situation would again result in building up debt and recurrence of trouble.

Financial Reorganizations Only Part of General Program.

- Some carriers require reductions in capital structures and fixed charges.
- Investors recognize this as evidenced by proposals in pending cases.
- Chicago and North Western proposed reduction in fixed charges from \$15,500,000. to \$5,600,000.
- New Haven reduction from about \$15,000,000. to less than \$8,000,000.
- Many carriers do not require reductions in capital structures, such as Chesapeake and Ohio and numerous others.

DUPLICATE AND UNNECESSARY FACILITIES CANNOT BE SUPPORTED

Theory of Highly Competitive Facilities Proved Unsound.

Demonstrated that public will not pay rates sufficient to support highly competitive systems.

One of two alternatives.

Government must either subsidize to compensate excess
cost occasioned by competition - not expedient.

or, must be elimination of wasteful transportation so that remaining railroad facilities may be self-supporting. Can Be Accomplished Only By Some Sacrifice on the Part of all Interests.

Investors through curtailment in capital structures where necessary.

Labor to an extent which is equitable.

Communities by elimination of competitive services where unnecessary duplication.

Government by financing financial reorganizations and physical plant re-arrangements to a moderate degree.

PROGRAM

Concur generally with program outlined by Commissioner Eastman.

Consolidations of independent carriers and elimination of unnecessary duplicate facilities and service.

Coordination of all transportation agencies.

Result would be better and more economical service.

Should provide for equitable treatment of labor.

METHOD OF ACCOMPLISHMENT

power given and descloped experimentally.

Because of its many duties and large personnel questionable whether I.C.C. could not with required promptness.

An expeditious and summary method desirable, as for example:

Create Federal Railroad Authority

Three to five members, properly staffed.

Authority not only to plan, but to act.

Findings to be given weight accorded Court of Record.

Transfer powers of I.C.C. over consolidations and

financial reorganizations to the Board.

Repeal present law regarding consolidations.

Specific powers to:

Approve voluntary consolidations in public interest.

Compel consolidations if in public interest.

Determine equitable basis for treatment of labor.

Bring about financial reorganizations.

Clothe with proper authority to seek government loans.

March 17, 1938

NOT PUBLISHED

- 1 -

White House

INTERSTATE COMMERCE COMMISSION Bureau of Statistics

Railway Tax Accruals, Class I Steam Railways and Their Lessor Companies, Year Ended Dec. 31, 1936.

U. S. Government Taxes

\$94,007,783

Other than U. S. Government Taxes

1/ 227,263,926

\$321,271,709

1/ Excludes \$1,375 British taxes, \$991,024 Canadian taxes, \$23 French taxes, \$124,965 Lexican taxes, and \$2,536 not segregated.

The total railway tax accruals of Class I steam railways only, was \$325,689,094 for the year 1937.

INTERSTATE COMMERCE COMMISSION Bureau of Statistics

United States Government Taxes Charged to Railway Tax Accruals by Class I Steam Railways and Their Lessor Companies, Year Ended Dec. 31, 1936

Kind of tax	Amount	Percent of total
Carriers' excise tax (approved Aug. 29, 1935)	\$47,298,891 32,821,724	50.31 34.92
Excise taxes (Social Security Act of 1935)	8,800,585 4,551,370	9.36 4.95
Taxes on telephone and telegraph mossages Assessments for Federal Coordinator Taxes on gasoline and oils Electrical energy taxes Beer and liquor taxes Taxos on club dues Documentary stamp taxos	240,653 97,321 67,503 8,872 5,935 3,207 a 2/10,264	.26 .10 .07 .01 .01 (1)
Total	21,986 \$9 ³⁵ ,007,783	100.00

d Reverse item.

1/ Loss than 0.01 percent
2/ Includes credit of \$16,017 on account of adjustments of accrunls for prior years.

Railway Tax Accruals by States, Class I Steam Railways and Their Lessor Companies, Year Ended Dec. 31, 1935 (Excluding Switching and Terminal Companies)*

State	Amount	of rond owned 1/
Alabona	\$2,498,420	\$551
Arigona	2,905,912	1,420
Irkansas	2,039,642	481
alifornia	5,596,832	940
olorado	3,558,592	840
connecticut	820,531	844
	150.441	501
Glaware		475
lorida	2,336,000	418
corgin	2,273,243	
daho	2,410,520	891
llinois	15,025,490	1,266
Indiana	7,865,212	1,158
owa	4,095,535	
Kansas	5,100,951	708
Centucky	4,185,617	1,154
Louisiana	3,944,655	1,010
ioine	1,264,522	2,012
aryland	2,238,151	
basachusetts	4,094,124	2,130
Michigan	5,719,052	829
innesota	5,817,006	721
ississippi	3.377.539	450
discouri	5,151,970	814
ion tong	4,113,157	503
eoraska	3,056,779	1,113
levada	1,077,492 746,444	748
Ten Houmpshire	18,550,347	9,644
len Jersey	1,883,205	693
New Mexico	1,885,260	3,486
Ten York	27,115,368 3,972,484	1,068
North Carolina	1.852.5	351
forth Dakota	12,599,941	1,490
Ohio	3,822,910	586
Oklahoma	2,460,267	819
orecon	12,890,077	1,281
Pennsylvania	675, 587	3,633
Rhode Island	2,403,953	766
South Carolina	1,897,549	463
South Dakota		658
Dennessee	2,867,827	395
Texas	5.905.73	1,038
Itali	2,132,301	350
Vermont	5,282,102	1,259
Virginia	3,922,261	794
Washington	7.761,643	2,187
Test Virginia	4,705,252	703
Wisconsin	1,689,329	919
Wyoming	173,379	4,968
District of Columbia	4131413	
Total	227,263,925	1,015

Based on mileage owned by class I steam railways and

their lessor and proprietary companies.
Represents all tax accruals other than those payable to Regraded Unclassified the Federal Government.

CONFIDENTIAL

MEMORANDUM ON DISALLOWANCES:

In a letter submitted to the Chairman of the Reorganization Committee of the Senate in response to a request by him, the Comptroller General stated that the disallowances under direct settlements amounted to \$117,000,000 during the period from 1922 to 1936, inclusive, while the total allowed for the same period was \$4,625,000,000. In examining this report it was noted that in the fiscal year 1934 more than \$56,000,000 was reported as being disallowed, almost half of the total for the entire period. This aroused considerable interest as to what items were involved in this large total during the first year of the Roosevelt Administration. The General Accounting Office was requested to state the items, or at least the principal items, accounting for this huge disallowance. As a result, one of the officials of the Accounting Division of that office personally came to one of the Committee clerks to make the explanation. His explanation was that an average percentage of disallowances had been worked out and, in order to level the disallowances, this percentage had been applied to the total amount allowed in each year, thus, in the year 1934 when the amount allowed was over \$2,000,000,000, the disallowances were naturally the greatest. Of course, the General Accounting Office apparently overlooked the fact that \$2,000,000,000 of this total for 1934 involved the setting up of the stabilization fund which was directed by a specific act of Congress and over which the Comptroller General has no control.

In a further effort to secure more accurate information, the General Accounting Office was asked if they could furnish the actual figures of disallowances for each year. As a result, a second table was submitted informally and in that table the disallowances for the fiscal year 1934 are set down as \$13,731,000 less than one-fourth of the amount previously reported for the same year.

When information such as this is submitted to a Congressional Committee, is it any wonder that the Reorganization Committee desires to improve the present system?

March 17, 1866.

for The Secretary

Fren: Mr. Shoup

This is the full report on the tax section, to accompany the summary statement I handed in day before posterday. $e^{-\sqrt{\kappa}}$

REPORT ON PUNCTIONS AND STRUCTURE OF TAX SECTION OF DIVISION OF RESERVOR AND STATISTICS, TREASURE DEPARTMENT (VITE SOME ATTENTION TO REVINUE-RETINATING SECTION).

A report made at the Request of the Secretary of the Freasury
By Garl Shoop

March 14, 1988.

STREAM OF STORMSTORS

DETAILS OF REPORT

Description of Research Personnel under Assistant Director of Tax Section. Types of Work Bone by the Tax Section.

Qualities Seeded by a Tax Research Staff of the Secretary of the Treasury. Changes in Existing System That Will Tend to Produce the Qualities Noted in Proceeding Section.

Personnel Implications of Changes Suggested in Preceding Section.
Place of the Hevenne-Nationating Section.

Consultation with Other Branches of the Government That Are Studying Taxos.

MINIST OF SPECIALISMS FOR MINISTERS OF TAX SECTION AND REFERENCE. METHOD SECTION OF REVISION OF RESERVED AND STATISTICS. TRANSPORT REPAREMENT.

These suggestions assume no increase in the total salary rell of the section.

- 1. Sive the tex section a \$9,000 director (preferably, too so-directors at \$9,000 mash, to relieve each other periodically) who will report directly to the Unior Secretary or Assistant Secretary in charge of tex matters. . .
 - 2. Divide the work of the section between
- (a) Handling specific requests for information unds by the Under Secretary (or Assistant Secretary) for his our use (time not including replice to correspondence addressed to him) - including research projects that are uniters of hours or days as well as those that require weeks or souther and
- (b) handling (1) requests from all other sources, including correspondence and personal calls; (11) the proparation of the tax sections of the Secretary's Assemble Report; (111) the checking of tax matters in measurable propared by other branches of the processes.
- Assign the handling of the Unior Secretary's requests to the director (or two so-directors); assign the handling of requests from other services to an assistant director at about \$6,500.
- 4. Build up the root of the staff shiefly with fower but more experienced analysts than at present.
- 5. Here extremely corofully in the selection of new personnel. Much of the present difficulty may have arisen from selecting staff numbers under presence of time.

- 6. Here special apportunity for staff numbers to grow in received ability and interest by including that from time to time they write (partly on government time) and publish technical, non-policy studies in tenation in scholarly journals, or in book form; and try to arrange for some formal training of junior members.
- 7. Study the presibility of making the revenue-cottanting section a sub-section in the fex Section.

DEPARTS OF REPORT

This report is chiefly a statement of the general principles that the present writer believes should be kept in mind with respect to the work of the tex section. The three or four days allotted to this tack did not of course allow for any detailed appraisal of the work new being carried on, or for a complete blue-print of reorganization.

The report first describes the personnel of the section in terms of their training and experience. It then describes the general nature of the work that the section carries on. Pollowing this is a description of the particular qualities that seem to be needed by a tax research staff in the Freezeway.

These descriptive parts of the report are followed by (a) suggestions for changes in the system, (b) suggestions for changes in type of personnel (without any recommunications concerning any specific intividual).

Reservation of Research Parsonnel under Assistant Director of

There are in the termition division, in addition to the assistant director, ten economic analysts and research assistants of various grades, plus a secretarial assistant and three nemior stenographers. The latter four will not be covered in this discussion. The annual salaries of the other ten total \$30,800. The assistant director receives \$6,800.

Almost all of these ten have been recruited in the past two years: some within the past three or four menths.

As to provious training, one of the ten case to the section with a thorough background of training in tex research (he came none time before Mr. Insker took sharge). The others had had a moderate secure of training in tex research through a year or too of graduate work. A fourth case with meanly as thorough a training as the first, but in branches of public finance other than taxation. A fifth same with a considerable background of research in the field of government administration, but practically no research in texation. The other five know either nothing at all about texation show they joined the section, or only what they had plotted up from undergraduate occupies or on the S. P. A. project compiling data on 1934 income.

Of the ten, two have doctor's degrees. Some of them, I understand, has taught a source in public finance or taunties. As to published works (beeks,

If the statements in this section are based on information supplied by Mr. Incher, supplemented, in a few instances, by knowledge that the present writer already had acquired. The numbers themselves were not approached for information on this point or any other points in this corresp.

^{2/} Not including one junter economic enalyst the is with the section only temperarily.

erticles in scholarly journals, reports), one of the sloves has made substantial published contributions in termition and two other have contributed minor pieces in this field. Since joining the tex section they have, through Treasury policy, been discoveraged from publishing.

themselves) both in research notheds in general and in taration in particular, at the sems time that they have been working under pressure to accomplish specific research tasks. Naturally, a heavy burden of sloss supervision and constant regriting and even shooking has therefore rested on the assistant director.

It appears that four out of the ten already are, or have possibilities of seen developing into, independent serious empable of submitting memoranda on involved topics, though there is perhaps some question whether all of those four are likely to achieve enough simplicity of etyle, precision of expression, and directness of approach to the problem in hand so that the memoranda sould be given directly to the Under Socretary or whatever isolatent Socretary is in charge of tax uniters. The communic in this paragraph, however, need to be checked excefully before being accepted, since the precent writer is not theroughly acquainted with all the members of the tex section.

Error of Sart home by the fee Section

This part of the report is based on a study of the activities of the tex section during the period January 1 - March 10, 1986.

the work of the ten section may be divided roughly into seven entegeries:

1) Amssoring lotters of inquiry from the general public that are not indicated by any Treasury official as deserving of special attention. Hiss Riegier, in Mr. Hage' office, amssers all of these except these that involve matters too technical to be handled by her; the latter are cared for chiefly by Mr. Spingel and Mr. Atlan in the tax section, who also check on Mice Riegier's replice.

The present practice is simply to send references to published natorial, rather than to supply my data in the reply itself.

3) Answering lotters of inquiry from the general public that are indicated, by some Treasury official or some Congressman, as deserving of attention.

Some of the letters raise embelantial research problems: thue, a member of the Boston City Orangil writes to Mr. Magill for comparative data on termina in the United States and Surepos a request comes through Senator Josh Los for an estimate of yield from a 2 per cent burnever tax.

3) Asserting requests from desgreeness for their out use (not abujly letters from constituents formarded by Congression). Henry of these requests are phone malle. Next of the requests would, I should suppose, require

percent house or even a day or more to encour, and more in a while one populates several days. Thus Representative Rarton mate to know the total sevent of Federal terms paid by, and the Pederal mency expended in, For York State and each of five other states in each of the years 1955 - 1957 inclusive; Representative Smith mate to know her much the Pederal tex revenues would be increased if state and local salaries and Pederal securities were whelly termble.

- 4) Ameroring requests from Treasury officials for fairly prompt information for their sum use not information to be used in replying to letters. Nost of those requests have of source some from Mr. Magill. Some have some directly from the Assistant Sourcearies and the General Coursel. This part of the section's work is probably the most vital, the most exacting, and the most time-communing of the seven entegories of work listed here. A project of this type may take only a few hours, but community it is a matter of two or three days or even more. It is often accompanied by a "deadline" requirement. There is usually no edvance notice. All of these projects, of course, clear through Mr. Same' office, in and out.
- 5) Triting (at the request of freezery officials, so in (4) above) secured on what may be called "long-town projects". The measures will offer take one or more of the center stoff numbers a west or several weeks to propers. They usually have no "deadline" attacked. Note on these to interrupted frequently to purpose more immediate tasks.

- 6) Checking on the date and the policy recommendations in memorale, reports, etc., drawn up by other scotions of the Division, by other divisions of the Division, by other divisions of the Division, by other divisions of the government. Here necessary prepared by the revenue-cotioning division are routed through Mr. Instant for initialing; Statiotics of Instan date compiled in the Internal Revenue Unit are inspected and suggestions countines made for improvement in form of presentation, etc.; Comment bureau material on state and local tex statistics, reciped through the Control Statistical Reart, will come to the Division for suggestional recently the tex contion had to impost a report touching on militant textition, by the Internation Commerce Commission.
- Propering and checking certain sections of the Secretary's Annual Report.

In addition, the scotion builds up and impo current some information files concerning certain terms, certain states, etc., so that the impairton mentioned in (1), (2), (3), and (4) above may be assessed promptly. This is therefore not a separate activity, but a phase of those others.

364

Qualities Seniol by a last Research Staff of the Sentency of the Transport

The kind of tax receased movied by the Secretary is in several respects
different from the kind carried on by others such as a private organization
(e.g. the Sational Industrial Conference Beard), a formiation (e.g. The
frontieth Century Fund), or graduate departments of universities. The
Secretary mode prompt answers to a large number of questions that are
mently of restricted scope and quite technical. The other organizations,
in contract, earry out fover projects, and of greater scope, with lessays
of vocks and menths for completion instead of days or hours, and often,
though not accessarily, with more generalizing and less supting-up of highly
specific technical data such as tax-rate schedules, analyses of individual
companies, ste. The problem of making tax estimates increases the contract,
but this problem is not considered in detail in this report.

1) The Secretary's tex research staff must therefore be versatile, since it will be called upon at short notice to change from one topic - e.g., the analysis of a report published by the Brockings Institution on the undistributed profits tex - to another topic in an antirely different part of the tex field - e.g., the advisability of a cortain notice of componenting the states for loss of property tex revenue resulting from the expension of the Poterni Coronnectic property holdings.

Vorantility in this sense is in large part a matter of the length of time a person has been engaged in text research. It also depends of source upon personal cognetty. Finally, it is enhanced if an adequate file of data, ranging from personal-volume motio down to necessary olippings, is mintained on a vide variety of tex subjects. A Reportment library is helpful, but comes whelly take the place of a file of material that is in the same room as the recourse staff and available to me one clos-

- 2) The Secretary's tex recessed staff must also be thereughly at bose in the technical details of tex law and tex edministration, particularly with respect to existing law and law proposed in pending bills, countitee reports, etc. It must, for instance, be able to look at the income statement published by Corporation X and draw therefrom all possible informates conserving the probable repersuations on that corporation of Title 1-3 of the income tex and Title 1-3 as then proposed, which may not be the same as it was the week before.
- 3) The staff meet not be required or expected to make original contributions to the basic principles of taxation. Perhaps it need not orem be required to make original factual contributions, such as are obtained through extensive field work in interviewing business non, collecting expublished data, etc. In both these respects the staff differs from the other research agencies noted above.
- 4) Reverer, the staff does need to be well acquainted with the contributions of others in these fields of basic principles and factual discreptor. The staff is collect on from time to give recommunitions on problems with far-reaching implications, as for instance then it is requested to respect the best unpu in which to raise half a billion dellars of added revenue. It should therefore not only have a theoremy baselodge of that the authorities in the past here had to any, but also keep absence of significent surrount output in appointly journals, reports, bests, etc.

- 5) The staff mode to be skilled in constances. The readers of the material read under presence, and must receive the most information possible in the smallest number of works.
- 6) The staff must be ecuposed of fast verters. In this respect the task is much like that not by a novempaper reporter, whose material loses all value if it is not available within a serials time.
- 7) The staff must be induced with the idea of service. This statement sensis trite, but it refers to a fundamental attitude. This attitude reflects a disposition never to think of any request as prime facts impossible. It also indicates a willingness, in case it does prove impossible to deliver a finished plose of work, to deliver one partly finished rather than nothing at all, and to trust to the sense of fairness of the top officials to appropriate sty the work is only in partly finished plays. To trust in this namer is always associat designous for the prefessional standing and fature of the one she does the trusting, but it is one of the risks that accompany the attitude of "corvine" as defined here. Finally, this attitude also implies a willingness to hide so far as possible the strain under which one works, unless the situation becomes so intolerable than a general shorter is deemed accounty.
- 2) The staff must be able to forecast, to an appropriate degree, the questions that the Under Socretary (or Assistant Socretary) is likely to ask, particularly when the Servers Act is underpoing revision. Showl remains in this direction will miss it possible to supply information when otherwise, owing to the strict time limits imposed, the staff would either have to work overtime (with resulting damage to later work, probably) or confess to an imbility to meet the request.

Steams in Inleting States Shat Illi Fred in Protess the Smallifer State in Proposition Section

in total salaries for the tex section than at present. The current figure in 137,300 a year including the head of the section, but not including the 55,860 spent for a secretarial assistant and three senior stemographers).

1. (a) Verentility would probably to increased if the staff numbers were fower but more experienced than is now the case. One \$5,200 mm is likely to give greater verentility than two \$2,800 mm corking in continuation. In general, this requirement calls for persons who have but several years of experience in tex research or tex teaching. The section at present come too heavily weighted with specialists rather than verentile persons, and there seems to be an eversupply of specialists in the field of state and local finance.

It is sometimes difficult to get the highest grade of receased person
to undertake the exacting duties, consisting so much both of rugh and
routine, that characterize government work. The solution probably like in
two directions: (1) Spend planty of many to get one or two top non;
(2) spend practically all of the root in getting young men who are, however,
old enough to have had some tex-receased training. Some excellent people
of 25 to 20 years of age the have recently received dector's degrees one
1/ Bot including \$2,000 aslary for one of the junior commonly studynts,
the in, I understand, here only temporarily.

2/ See the section above, "Description of Research Personnel under Assistant Director of Year Section". be induced to enter the service if they are offered salaries appreciably above the level they are likely to care immediately elevelure - a salary of, say, \$5,000 to \$4,000 instead of \$2,000 to \$3,000. This may seem like overpaying them, but it is not, if they are chosen only after an extremely careful investigation. I hold policy of paying high exterior to young men the have no reputation but the are clearly going to have one (and this can probably be protty well accordance by the time they are 25 or 30) in the best resource for an employer such as a governmental research agency.

(b) At the present time a file of data is being built up, and it need only be noted here that increased efforts in this direction are likely to pay for themselves. In fact, it might prove desirable for the section to build up a fairly extensive tax library of its own; the expenditure of a few thousand dellars to this may, plus a few hundred made year, aight repay itself in the saving of time. Then a reply must be composed in a few hours, or by the next day, the fact that the enterial is right at head in the some room, and not, possibly, out being used by others, my make the difference between being on time and being late. The this matter concerns point 6 below (speed of work) as well as the present point (versatility). The collection and emintenance of such a library swald not take the full time of one person, but complete responsibility for it might take up part of the time of one of the junior staff numbers. This person would be expected to be so well asquainted with the contents of the books, periodicals, etc., that he could not us a quistreference "Living inter" for the other staff members-

- A increase in the staff's familiarity with technical details and spitiude for handling these details can be obtained in the same maner as just indicated in (1) above. But it can also be obtained to a large degree by setting acide hours for study and by attending technical courses in local institutions. The material to be learned is of a specific, definite hind; in contrast, the power to be versatile, as that word is used above, some largely in the doing. Provided they are not always under pressure to deliver, a young but energetic and intelligent staff can probably pick up the required-inclinical untertail in a few months.
- 5. Original feetual contributions through field cork e.g. visiting much features to discover the effects of the much tex may at come fature time be an important function of the staff, but, because of processes of other work, it seems to be out of the question at present.
- 4. As indicated above, it is important that the staff meep acquainted with the contributions of others in the fields of basic principles and factual discoveries. This will not be done to the extent it should unless the Secretary and the Union Secretary inform the staff that they are expected to use some part of their office time in this names, and that in passing judgment on delays in according measurable, etc., allows on will be made for this factor.
- 5. It is not critical her consisences in reporting can be obtained.
 The first of course usually goes for back to elementary and secondary school training. Constant reiteration of this requirement my produce arms

results.

- 6. (a) The speed of work to in part a author of the kind of individual.
 It simply somes down to the fact that, so far as possible, slow workers should be replaced with fact workers.
- (b) The speed of work is also a matter of administrative procedure.

 Replice would seem much quicker if there could be a decrease in the number of way stations between the writer of the reply and the one who requested it.

 At present, as I understand it, a reply to Mr. Magill written by one of Mr. Decker's staff must be approved by Mr. Seaker (and it is always revised, more or less, by him), then usually read by Mr. O'Dennell, always read by Miss Michener, perhaps read also by Mr. Hans, and then delivered to Mr. Magill.

 If, in contrast, the staff member she prepared the report could hand it directly to Mr. Magill, a great assemt of time would be saved. This precedure is not feasible of course unless the staff number in question is of high salibre. Revever, even if a junior staff member prepares the memoranium, one shock by a senior staff member absult be adequate.

Natorial that is to be printed and given wide distribution should always be checked by persons other than the mather, but with other material speed is probably secrificed too man by the assume of reuting that now goes on. The staff should, however, contain one person who has a highly developed critical faculty which he is willing to use unsparingly, and to when all but the most "reads" measuraripts can be referred.

In properties memorants the tex-section staff semetimes needs to consult with the memorany section under Mr. White (e.g. if a question of "het mesey" is involved) or with the financial section under Mr. Selteer (e.g. in studying the undistributed profits tax), or with the actuarial section under Mr. Reagh (e.g. in sertain uniters relating to death taxes and social security taxes). Such consultation is facilitated security the present arrangement characterist these sections are under one division. Thether the reserval of the tax section from this division would impose this kind of acoperation is a question deserving more attention, but the present writer's impression is that not enough would be look to countertalance the gains to some from separation.

- (e) The matter of a separate library for the section has been discussed under point 1 above.
- 7. The question of service, like that of speed, is largely one of individual inclination. In general, it appears that young serious are likely to have this attitude in a stronger form than older serious.
- *. The ability to forecast demands probably comes only with considerable experience in Freezeway works the willingness to try to forecast is another phase of the "pervise" problem noted in No. 7 above.

Personal Indications of Second Property in Property Section

For these changes to become effective, the research staff would have to be esspecial of force numbers, then at present, a larger proportion of when would be in the high-renking grades of "torments analyst". By impreseion is that the continu is at present too heavily weighted with loverrenk workers. This alone up the finished replies because more checking and revising is movied, and there are fower people expable of doing the checking and revising.

If the two right men sould be found, one possible arrangement would be as follows (this may be called "Flow I"):

(a) Two co-directors, receiving about \$9,000 a year each, until
head a faz Research Division. Rach so-director would be, in reality,
not a "director" so much as a highly skilled, vereatile research specialist
in terration, with emphasis of source on the commute and business aspects
of the subject. He would be, of would shortly become, an "authority" in
the field (without the degration or addiction to policy formation that that
word sometime commutes). Both of the co-directors would report directly
to, and receive their assignments directly from the Under Secretary or
whatever Assistant Secretary was given charge of terration. The would be
needed, in order to alternate their duties promised as follows:

If is order that the present salary total would not be exceeded.

thile one, the "ex-director in charge", was on active daily call from the Unior Secretary for few or five menths, the other would be on "receive duty", expect partly on lang-term projects requested by the Unior Secretary and partly on general study and research of his own to keep abreast of new discoveries in his field - but in ruch periods he too could be on daily call.

At the end of the four or five menths period the co-directors would reverse positions, the second becoming co-director in charge. The periodic charge would probably be a banefit to everyone concerned, including the Under Secretary.

(b) One noticent director of the division, receiving about \$6,500. He would answer lotters of inquiry from the general yablic; accept personal salls from outsiders that must to discuss tex mattern, propers and shock on sections of the Secretary's Annual Report (though this night be important enough to accign to one of the or-directors), and shock the tex items in the various documents, statements, etc., that are drawn up by other branches of the government. These tasks should some directly to him (not through the or-director) and go from him without shocking by the or-director. There should, however, be a working agreement between him and both or-directors that they would so far as piscable supply him on request with what material they had readily swallable that he mosted for his correspondence, shocking, etc. If no such working arrangement proved practicable, all the nonletont director's must would have to be routed through the or-director in discape -

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^{1/} See No. 4 in section, "Types of Work Demo by the Tex Section".

^{2/} See No. 5 in section, "Types of Work Jone by the Tex Section".

^{3/} See No. 4 in section. "The qualities Reeded by a Research Staff of the Secretary of the Treasury".

a procedure that would be possible, but underlyable in the demands that
it would make on the time of the co-director.

- (a) Buck co-director well have one consects analyst starting at about \$5,600 (e.g. a young post-graduate student of exceptional ability, with a dector's degree).
- (d) The assistant director would need at least one assistant, probably starting at about the \$5,000 level, who also should have a doctor's degree.
- (e) An assistant analyst starting at about the \$2,600 level sould be given the library and "index" duties noted in 1 (b) in the immediately proceeding section, and sould also be on sall from the secondaic analysts in (e) above.

If it is not possible to find the two oc-directors seeded for Plan I, easther arrangement, "Plan II", seems practicable.

This would be the same as Plan I except that in place of two co-directors there would be one director who would have insectiately under him an accistant director starting at about \$6,500. This accistant director (to be distinguished from the assistant director in charge of public requests for information, etc.) would retute activities with the director, such as the two co-directors would retute in Plan I above; but responsibility for the time and extent of retution would rest with the director. In all other respects Plan II would be the same as Plan I (except that the meany moved on the salary of the of the directors could be used to get higher grades of eccessic analyst).

If neither Plan I nor Plan II to practicable, a "Plan III" might be tried as follows:

- (a) A single director of a Tax Research Division, receiving about \$9,000 a year, would not continually much as the "co-director in charge" in Plan I but would probably have to aboulder more administrative and supervisory duties, since the lack of a co-director (or, as in Plan II, another assistant director) would have to be supplied by an increased number of junior staff nembers, under the supervision of the director. The director would report directly to the Under Secretary (or Assistant Secretary in sharge of tax matters).
- (b) One assistant director of the division, with the same salary and duties as in Plan I (answering replies from the public, etc.). It would be even more important than in Plan I that these duties should be cleared directly through him if possible, and not through the director, in view of the other added supervisory work the director would have.
- (e) The director would be assisted by two senior escenario analysts at the \$4,500 level.
- (4) To those two analysts would be assigned the two \$5,500 analysts noted in (a) in Plan I.
 - (a) The maniplant director would have an assistant, so in Flor I.
- (f) An assistant analyst at the \$2,000 level would be employed as in (e) in Flow I.

Place of the ference Settlesting Station

A difficult problem, and one not possible to analyse carefully within the time limits of the present study, in the determination of the proper place of the revenue-estimating section.

Under the present system this section is independent of the tax section. Each is in charge of an assistant director who reports directly to Mr. Each.

A dissiventage of this arrengement is the chance it gives for lack of coordination. The Under Secretary may, for instance, want to know the commiss aspects of a proposed treatment of capital gains, including the revenue aspects. The sections may differ in the relative argument they attack to the work, and house in promptness of reply; they may not understand the request in exactly the same may; and still other differences making for a lack of harmony may arise.

On the other hand, the revenue-estimating section must analyse current business trends and forecast business conditions, not only (a) to supply the Under Secretary with revenue estimates in response to special requests, but also (b) to supply the Sureau of the Sudget periodically with estimates for surrent and enough fiscal years, and (c) to inform the Secretary cosh weak or oftener of business conditions and trends, for his general was.

About all that can be said in the present report to that the element for lack of coordination, discussed above, are important enough to demail further study of this problem nece.

Smallation with Other America of the Streament That Are Stateton Taxon

poster important topic for further study is the relation of the postery's tex research unit to other research units in the deverment. Orester personal contact between numbers of the various units, such as those in the Bureau of Internal Revenue, the Department of Agriculture, and the postel Security Fourd, would be helpful. Hereover, the Secretary's unit can obtain valuable information by discussions with non-research units in the Frenchery such as the various administrative sections in the Bureau of Internal Revenue. Prognant and informal contact is probably on the shele a better approach them any infrequent, formal contact, but it night be desirable to provide some sort of formal mechanism for bringing together the Government's tex research specialists at more or less regular intervals.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 17, 1938

TO

The Secretary

FROM Mr. Taylor

(Memorandum of Day's Activities)

I had a call from Herbert Feis today about the proposed message to Congress on the Hungarian debt offer. You will remember that Feis left these papers with me early in the week, at the time that the French situation was being discussed. Subsequently the President has indicated that one of the messages which he contemplates sending to Congress in the near future relates to the Hungarian debt offer. Dan Bell and I have gone over the proposed message and with the exception of minor points we see no objection to agreeing with the draft proposed by the State Department. We would like to discuss the matter with you tomorrow morning, as it will be desirable to clear this message before the President leaves for Warm Springs.

After the Banking meeting this morning, I called Jesse Jones to tell him that I thought that the proposed message was in very good shape and to tell him that in the near future we would want to discuss the broadened legislation which he will need, including certain types of capital to industry. He said that he wanted to go down to the Hill to take the pulse of various members before deciding exactly how he should proceed. I believe this is the way in which he usually operates. I then mentioned to him the possibility of acquiring stock in various enterprises through underwriting or otherwise, end found, as I expected, that he had no enthusiasm for this proposal.

I do not think that we have heard the last of the Home Loan Bank situation, and can only again emphasize the fact that it is necessary for the Administration to make up its mind on this subject, which, in my opinion, will become more and more involved as time goes on, and it is with this in view that I caused the questions which I gave you today to be prepared.

I also had a call today from Maxey of the U. S. Housing who discussed briefly some of the problems of their financing. We have taken care of them up to June, but I think that we should discuss this situation again inside of a month, let us say after you return from the South.

March 42, 1938

At Cabinet on Friday, March 18th, the President rulsed the question as to what could be done for the political refugees in Austria. He said, "After all, merica had been a place of refuge for so may fine Germans in the period of 1848 and why couldn't we offer them again place of refuge at this time." He suggested that we combine the quotas of Germany and Austria and let the sustrian refugees come in under the combined quota.

Miss Perkins said that this could not be done legally. The President asked the Cabinet if they thought they could increase the quota by getting an act through Congress. The consensus of opinion was that they could not get such an act through Congress. Miss Perkins said that possibly the International Labor Bureau at Geneva could handle this situation. The President said that he thought this was a good idea. He said he thought if different countries were appealed to that, depending upon their size, they would take from 100 to 1,000 families each and, in this way, we could find homes for 10,000 or 15,000 families.

Sunday night I discussed this idea confidential with Irving Lehman and he thought very well of it and, I think, my wife suggested Hamilton Fish armstrong as the American representative.

at lunch Monday, March alst, I brought this whole question to the President's attention again and asked him if something could not be done at once. He said that I should get together with Summer Welles and have something ready for him within 24 hours or anytime be fore he left for Warm aprings. I got Welles over here at 3 o'clock and we went over the whole proposition and he thought extremely well of it and his whole attitude was simply fine. I asked him whether he could have something ready by 11:30 Tuesday, March 22d. He said he would work all evening, if necessary, to get it ready.

He came here on Tuesday and I was most pleasantly surprised to find that he had two finished documents on this subject. I asked him if he had shown these to Mr. Hull and he said he had and they met with his approval. The documents he said he subject admirably and I had no suggestions to make.

I called Miss LeHand and asked for an appointment to see the President. She called back in two minutes and we had an appointment for I2:45. The President read the document through and was enthusiastic about it. He said, "I have only one suggestion to make. The words 'religious' and 'racial' should be changed to 'political'. I think it would be better. We all agreed.

Summer Welles told the President that he thought if he made an appeal for money for these political refugees he would get an excellent response on the North and South American Continents. It was agreed that at the same time that the President made his appeal that it would be announced that the United States Government recognized that Austria was part of Germany. This would be necessary in order to combine the two immigration quotas.

Welles then said, on further consideration Mr. Hull also wanted at this time a further announcement in regard to customs duties as it would affect the combined Austria and Germany.

Wallace memorandum to President, March 15 Wallace memorandum to President, March 16 Bell memorandum to President, March 17 Douglas memorandum to President, March 18

new souft of bill on loans to industry" son mas. 22

Wallace memo to FDR 3/15



DEPARTMENT OF AGRICULTURE WASHINGTON

OFFICE OF LAND USE COORDINATION

March 15, 1938.

MEMORANDUM FOR THE SECRETARY.

Subject: Department of Agriculture participation in comprehensive flood-control program.

- (1) The Flood Control Act of 1936 provides that "...Federal investigations of watersheds and measures for run-off and waterflow retardation and soil erosion prevention on watersheds small be.... prosecuted by the Department of Agriculture." Thus the Department is responsible first for "investigations of watersheds." and second for control "measures ... on watersheds."
- (2) Investigations are now being vigorously prosecuted on many watersheds. In the near future we should be ready with specific plans to undertake comprehensive upstream engineering and land-use "measures" in some of the most critical areas.
- (3) A number of preliminary examinations of watersheds were started when funds became available last August. These examinations are to determine the general location and extent of flood-producing areas and whether upstream engineering works are justified. Preliminary examinations have already been completed on some 20 watersheds scattered throughout the country, including the basins of such major streams as the Trinity (Texas), St. Croix (Minnesota), Lehigh (Pennsylvania), Pee Dee (North Carolina), Upper Arkansas (Colorado), and Merced (California). About 50 or more such investigations will be completed by July 1.
- (4) If the preliminary examinations show that flood control measures would be feasible, then detailed surveys of certain portions of these watersheds will be made. Such surveys will outline the specific upstream measures required and will indicate the benefits to be attained from the contemplated flood-control program. Specific watershed projects will be recommended to the Congress, together with astimates of their cost, as required by the Flood Control Act.

- (5) Several detailed surveys will be under way by the first of June. Probably the first will be for the watersheds of the Los Angeles. San Gabriel, and Santa Ana Rivers in southern California. Another will be for the Yazoo Basin. Other detailed surveys contemplated for the immediate future include parts of such important watersheds as the Susquehanna, Allegheny and Pec Dec.
- (6) By participating in the development of the plane, the three major flood-control "action" agencies of the Department (Forest Service, Bureau of Agricultural Economics, and Scil Conservation Service) will be thoroughly familiar with each project and will be ready to function promptly in carrying out a control program whether as a relief measure, under special funds made available for the work, or under regular appropriations made pursuant to the Flood Control Act. All upstream activities are being closely integrated with the downstream program of the Corps of Engineers, so that the work of the two agencies can result in the maximum good at the least possible cost and without overlapping or duplication.
- (7) In summary: By July 1, 1938, the Department of Agriculture will be prepared to undertake comprehensive flood-control work, on a carefully planned basis, on a number of critical watersheds, if special funds are made available. If the procedure set forth in the Flood Control Act is followed necessitating special reports to the Congress on each watershed actual control work will most likely not get under way until a year later. In either case, the Department is developing a sound base for upstream flood control and specific plans will be prepared on a widening front until plans have been prepared for all major watersheds of the country.

March 16 -Wallace memo to Pres



DEPARTMENT OF AGRICULTURE THE WHITE HOUSE

MAR 17 8 50 AM '38

March I 5, 1938

The President.

The White House.

Dear Mr. President:

When you told me last Wednesday about the possibility of making loans to States in order to start extensive flood control operations. I asked our people how soon we could be ready to go forward with the upstream engineering and landuse phases of such a program. The enclosed memorandum shows that, on the basis of detailed surveys and plans now being prepared, we could undertake comprehensive control work on a number of the most critical watersheds by July of this year.

This represents a full year's gain over what will be possible if we follow the procedure of making detailed reports to Congress on each watershed, as called for in the Omnibus Flood Control Act, and then awaiting specific authorisations for the work proposed in such reports.

I think the basic planning work now under way guarantees that all work started will be the most essential in a field where certainly very much needs to be done.

After this brief memorandum has served your immediate purpose you may wish to pass it on to the Water Resources Committee.

Sincerely yours,

Hawallace

Secretary.

(Enclosure)

3/17 - Bell memo to FDR

BUREAU OF THE BUDGET

WASHINGTON

MAR 1 7 1938

MEMORANDUM FOR THE PRESIDENT:

A few days ago you asked me to give you a memorandum setting forth the fiscal situation respecting flood control.

The Omnibus Flood Control Act of 1936, as amended, authorized flood control projects estimated to cost the United States, for construction, a total of approximately \$344,000,000. Work has been started on certain of these projects whose total estimated construction costs amount to \$160,160,117. The amount appropriated or allotted to June 30, 1937, (all emergency funds) was \$6.570,372; unexpended balance available July 1, 1937, \$1,069.852; allotments, fiscal year 1938, \$51,986,773, of which \$29,608,515 were appropriated (or regular) funds and \$22,378,258 were emergency relief funds (allotments to January 31, 1938); total available for obligation in fiscal year 1938, \$53,056,625; total obligations to January 31, 1938, \$17,908,354; total expended to January 31, 1938, \$10,466,851. (See Section "A" of tabulation hereto attached.)

Plood control projects not authorized by law, but for which emergency relief funds have been allotted to the Army Engineers by the Works Progress Administration: Estimated construction cost, \$3,689,850; allotted to June 30, 1937, \$1,947,449; amount unexpended July 1, 1937, \$609,228; allotted fiscal year 1938, to January 31, 1938, \$1,742,458; total available for allotment in fiscal year 1938, \$2,351,686; obligated to January 31, 1938, \$1,518,523; expended to January 31, 1938, \$1,454,642. (See Section "B" of tabulation hereto attached.)

Mississippi River, and tributaries: The Act of May 15, 1928, as amended by the Act of June 15, 1936, provided for flood control of the Mississippi River and tributaries, at a total estimated cost of \$597.000.000. There has been appropriated or allotted to June 30, 1937, a total of \$288.153.424; unexpended balance available July 1, 1937, \$8,921.945; allotted for fiscal year \$45,000.000, of which \$30.000.000 were appropriated (or regular) funds and \$15,000.000 were emergency relief funds; total available for obligation in fiscal year 1938, \$46.300.788; obligated to January 31. 1938, \$17.265.615; expended to January 31, 1938, \$17.265.615; expended to January 31, 1938, \$14,458.521. (See Section "C" of tabulation hereto attached.)

It should be noted that the word "tributaries", as used in connection with flood control of the "Mississippi River and tributaries", means outlets of the Mississippi and so much of its tributaries as may be affected by the backwaters of its main stem.

Totalizing the foregoing gives the following:

flood control projects: Authorized by law	
Emergency Relief Projects 3 689 850	\$944,689,850
Total astimated construction cost of	and the second second
projects now under way	760,849,967
Total appropriated or allotted to June 30, 1937	206 671 DIE
Total unexpended balance July 1, 1937	10,601,023
Total allotments, fiscal year 1938;	
Regular funds \$ 59.608.515	
Total funds available for obligation. 39.120,716	98,729,231
fiscal year 1938	101,709,099
Total obligated fiscal year 1938 to	11.31.35
January 31, 1938	36,692,492
Total expended fiscal year 1938 to	2.1.3.1.2.
January 31, 1938	26,380,014

In addition to the appropriations and allotments for the prosecution of flood control projects by the Army Engineers during the fiscal year 1938, as set forth above, the Works Progress Administration and. to a lesser extent, other Federal agencies have done and are now doing much work along the lines of flood control. Sometimes this is incidental to other work and in the case of some projects it is the main objective. Practically all of this work is on projects which have not been adopted by Congress as part of its flood control program. However, many of the projects have been included in the program for flood control recommended by the National Resources Committee. Such projects fall within the general classification "conservation work" under which over 7,000 projects have been approved. Of these about 5,000 have been for irrigation and water conservation and some 400 for erosion control and land utilization. Through January 31, 1938, actual expenditures under the various Emergency Relief Appropriation Acts on these two types of projects had been about \$400,000,000. While It would require a detailed analysis of each project to determine the amount expended for flood control, it is evident that such expenditures represent many millions of dollars.

AUM Fill

Enclosure.

FLOOD CONTROL PROJECTS

TOO WOTCH ALLOTABLES VERY MADE IN 1956

	750	7705	THE WOLCH ALLEGED WERE IN 1936							-31
Project	(1) Intel Estimated Construction gost	Total Appropriated or allotted to Jume 50, 1937	Unsupersided Salange to Available	-	(4) Allotten Fishal year	1930	(b) Total Runds available for obligation	Obligated to	Depended to	=
	Course of the Parish Barbar	Dema 20, 195	37 July 1, 1937	Sec	pler Funds Bis	ergency Funds	Figural Year 1936	Junuary 31, 1958	January 31, 1938	
Flood Control, General - Authorized by Flood Control Acts of June 82, 1936 and August 25, 1937										
Corrections Diver Reservoirs. Corrections Diver Poservoirs. Landle Store, Vt unthern New York and Fostern	10,260,500		1 3	t	207,000 1 398,000 26,330	260,000 123,300 50,000	\$21,500 76,550	1 98,124 196,815 3,505	9 56,770 161,909 5,517	
Voney Transa. (2) An ust, On Der Mirar, N. O Ten dampton, D. D.;	. 685,000	584,29	2		1,601,000 21,500 12,500	1,300,701 MALORI 17,500	2,983,701 387,000 90,000	1,2%, 1/3 191, May 19,730	1,018,003 6,647 16,007	
Column Park Lermon	3,057,000	160,000	x 15,995		00,000 10,000	50,000 56,500	154,935 136,560 10,000	11/1,946 6,117 9,556	96,865 2,723 6,680	
reffold, w. Ve.	1,164,146 2,058,298 2,050,050	226, mm 37, 97			1,750 1,750 1,750 250,000	1,819,975 1,829,882 1,1,000	6,000 1,081,175 1,685,530 371,080	3,589 3/2,373 133,137 1/ ₆ ,176	1,650 263,695 61,719 12,167	
Themsalm Bounty, Miss. That it Lowis, Ill. (Mest Eide Levee). Perry Gounty Districts I and 2, No Tion, Wesleyl and Prairie du Font, Ill. Palucide Leves and Brainer District.	1,153,000	9	1		45,000 375,000 336,400 207,000	47,000 56,000 29,000	130,000 1402,000 191,000 236,000	250,036 298,036 7,676	21,535 17,697 7,112	
Ill	220,000	3	5		166,53h 165,000 26,600	52,050 lab,000 -5,200	249,394 205,000 32,000	61,915 911 2,258	7,034 799 2,171	
ony Inland Laves and Drainage District.		1.5	-		65,150	0,750	71,000	471	591	
Pouth Chinay Love and Desired Pistrict III unforced Brainage District 3, 111 Samy Slough, Ill	15,500 100,000	2	5	-	37,770 11,030 9h,con	0.950 35,570 15,000	13,500 23,500 107,930	16F	1095 70 53	
Progory Brainage District, No	82,000 82,000	1	12		76,000 25,930	5,500 5,000 15,670	144,400 124,400 46,000	1,009 570	1,1835	
polin Labarah Laves and Drainage	36/1,200		*		86,086	(11,71),	188,200	1,756	1,596	43
District, Illamous and Dreimage	20.00		7	7	96,784	No.516	11/5,500	1,082	917 h5e	9
District, Illamous and Dreinage		-3	3	1	16,250	6,250	70,900	5/4	505	
Ristrict, Ill. Topolm, Fans. Reagow, Ment. Persyth, Honn.	1,600,000 25,600 80,000 26,600		-		95,150 600,000 12,900 10,000 11,100 11,500	1,00,000 12,900 40,000 13,500	1,000,000 25,000 60,000 25,001 25,001	1,991 3,006 1,951	15,103 620 1,666 751	
Helic Fourchs, D. Dak. Reservoir System for protection of Pittaburgh, Pa(2) Middlesboro, By(2)	15,236,941	- 1	- 8.	1	3,750,000 923,000 947,500	256,500 52,000 83,500	275,0% 200,500	619,082 11,067 9,135	539,981 0,985 0,135	
prevoort Larmes, Ind. Indianapolis, Ind. (Pell Greek Section). Summis, Indianapolis, Indianapolis, Orlo River Levess and Flandwalls;	540,000 840,000		\$	1	7,500 11,500 56,600	291,140	7,500 11,500 3,7,780	5,551 6,005 10,462	5,551 6,006 9,012	
Prenerille, Itel Padomah, Ey- marrisburg, Ill. Metropolis, Ill.	9,409,450 845,000 985,000	1			12,290 31,300 32,510 30,010	130,160 130,740 69,830 70,340	102,150 171,010 182,770 100,550	0,625 6,097 2,506 3,312	7,467 5,6%, 1,6%, 5,203	9
Tell City, Ind. delected, Ill. cannelbon, Ind. Breddport, Ill. gerein, B. Ve.	1,105,000		0		26,010 26,010 26,010 117,1/0	70,240 70,250 70,350 472,060	96,250 98,250 98,250 99,000	3,030 1,516 3,020 11,370 14,664	3,050 1,618 2,550 9,913	
mantington, W. Va.	2,625,000 1,900,000		0	1	179,570 296,000 109,310 98,500	721,130 1,011,000 205,690 190,600	900,000 1,310,000 318,000 279,100 316,600	10,277 0,204	11,514 10,775 12,670 7,201 11,668	C.
Relieville, Ohio	9,860,000 950,000 191,000	1	Ė		121,910 117,060 1/4,000	194,590 132,140 50,000	191,000 191,000	15,846 14,973 162,003	9,96 9,54 12,111	*
(balow Plum Dayou)	1,501,500 135,000		1	- 1	50,300	30,000	30,300	2,00	543	d Unclassified

Project	Total Satisated Appropri		(3) Prespended Balance		tmonts (5) Year 1938	(b) fotal Funda available for	392 (7) Finnel Year 1930 (8)	
	Construction Cost	or allotted to June 50, 1937	July 1, 1937	Segular Punds	Emergency Funds	obligation	deligneed	Expended
Suffalo River, Piss	\$ 35,000	1 1000			Total Louis	Piscal Year 1938	Jamary 31, 1958	Jamary 31, 193
	850,000		9 -	1	1 15,000	1 15,000		137.47
Charles and Hyan. Miles	50,000	-		186,500	396,000	58P,500		4 -
	247,000	•	-	31,290	18,710	50,000		
ipponvilie-Obion Divor. Tenn.	750,000	-	-	216,000	29,000	50,000	71	2
				545,000		247,000	70/1	20/4
BU HAVET PEPARH, TA.	300,000	-		261,000	122,000	667,000	11,126	
atchitoohus, La	150,000	-	-	107,000	39,000	500,000	66,277	10,690
olumbia River Basin, Oreg	315,000	-		24Z,000	43,000	150,000	140,1406	0,044
and ation Owner Dearth, Oregersessessesses	1,198,011		2		75,000	315,000	1912/010	-
endleton, Oreg	220,000	2	-	1,139,883	403,158	2,543,041	207,658	1977
LLINEUMELED HITEF, West,	220,000	12.1	-	190,000	30,000	220,000	100 mm	132,615
NO DOUBLE IN THE PARTY THE THE PARTY WAS A PERSON.	5,000,000	-	-	13/1,000	86,000	220,000	105,751	15,115
CANTER WIAMA, Mubit	214,390		-	200,000	26,000	226,000	70,543	1,5,000
GATE WIAML MERHADOS PARTIES	214,775		~	136,740	75,82	214,390	111,841	69,523
lilaberta Miver, Oreg.	1 501 000		-	130,605	76,000	421, 750	204,836	9,5/4
on Angeles County Drainege Arcs (3)	1,394,000	-		987,060		211,775	10,269	12,195
ante Ana River, Celif. (Fredo Dem)	24,580,000	19		5,221,000	275,940	796,000	1,6,890	13,729
torth fieth nest and	1,900,000			250,000	0,075,700	13,292,700	7,059,945	1,1,09,917
orth Little Book, Ark	350,000				-2 444	250,000	194,214	
ittle Rock, Ark	110,500		-	315,000	35,000	350,000	13,105	129,309
orth Little Book to Alliette Ast			3.	80,500	22,000	110,500	4,979	12,378
(above Plum Bayou)	1,020,000			Walter St.			484272	4,676
ouports, Arkensessessessessessessessessessessessesse	267,000	-	-	1400,000	100,006	500,000	55,140	an 20 c
LIIA CO Creek, Ark,	785,100		-	252,000	99,000	267,000		33,840
ola, Kana			-	3/10,000	60,000	400,000	13,11,8	12,601
ingge Perry, Ark	29,300	-		23,500	6,000		21,030	20,554
sulkner county, Ark	100,000		-	117,000	13,000	29,300	14,075	3,610
nor Condensity Arketsettersettersetters	137,000	-		106,000		100,000	6,750	6,039
sar Dardanelle, Ark	1/1,000	1.00	-	105,000	122,000	22/1,00/1	1,1/42	731
oplar Bluff to Knoble, Arketter	640,000		-		126,000	231,000	1:24	731
mehas Dam, R. Mex	16,280,000	5,780,000	1,053,917	63,000	93,000	151,000	E,00	1,42
ore Supply Dam, Dilm.	5,000,000	241-141-1		4,000,000	1,000,000	6,053,917	4,913,953	2,260,109
rest Salt Plains Reservoir, Okla	2,500,000			799,430	155,000	954,430	187,927	162,662
		200		153,570		153,570	10,649	6,998
urveys, War Department.	-			Fire neer			100000	-3.50
Troys, Department of Agriculture	4			500,000	-	500,000	941,692	162,191
ffire, Chief of Engineers	-	-	17	500,000		500,000 (4)	(4)	(4)
agging in interest of Flood Control	2	-	-	231,325	10,000	261,325	110,159	70,565
24 . 2			-	173,900	140,000	215,900	77,698	71,916
Total - Blood Control, General	\$160,160,117	\$6,570,370	11,069,852	A60 FOR CAR.	400 000 000			15,720
ergency Relief Appropriation Projects;	4-2-4-2-4-2-1	4-12/-12/-	By Jose Jude	129,600,515	122,379,258	\$53,056,625	117,908,35%	110,466,851
The state of the s								
Saverhill, Mass	1 1,758,450	\$1,019,951	4 25h,h60		5 mm non	A market	4 124 145	2 24 344
Lowell, Mass	805,900	521,000	315,857		1 738,500	992,960	1 936,962	1 559,863
Springfield and West Springfield, Mass.	577,500	273,100	33,147	-	264,950	600,815	509,039	103,375
Hartford, Connessessessessessessessessessessessesses	540,000	133,000		17	300,000	537.1/17	66,758	55,647
	345,000	433700	5,761		415,000	140,704	5,764	5,797
Total E.R.A. Projects	1 3,689,850	\$1,947,46	\$ 609,228		1,742,458	1 2,351,686	\$ 1,516,525	1 1,454,442
esissippi River and Tributaries -							7.5	A SCORE
thorised by Acts of May 15, 1928 and								
une 15, 1936	997,000,000	288, 155, 101	8,921,963	50,000,000 -	15,000,000+	46,500,780	17,265,615	al ten en
	Land of the second	THE PERSON NAMED IN		77 07 7 20 7 20 7 20 7			100/03/2000 PM	11,158,521
AND TOTAL	\$760,000,967	\$296,671,25	\$10,601,023	459,608,515	\$9,120,716	\$101,709,099	\$36,690,100	\$86,300,014

⁽¹⁾ Portion of comprehensive project, including the following units: Arkport Dam, whitney Puint Dam, Avoca, Lisle, Oxford, Puinted Post, and Hormell.

⁽²⁾ Portion of comprehensive project, someisting of flowests and Crocked Crock Receivers, and Johnston Channel improvements.

⁽³⁾ Portion of sumprehensive project of the a total estimated onet of \$70,000,000.

⁽b) Transferred to Department of Agriculture.

Appropria tions for floor your 1956.

Douglas memo to FDR 3/18

Regraded Unclassific

SECURITIES AND EXCHANGE COMMISSION WASHINGTON

DITES OF THE CHAIRMAN

March 18, 1958

MEMORANDUM TO:

THE PRESIDENT

FROM

WILLIAM O. DOUGLAS, CHAIRMAN

RE:

Flood Control Program

The flood control program which you mentioned to me seems to me to be sound from the long term as well as the emergency viewpoint.

A Flood Control Authority could be created to issue up to one billion dollars of 50-year amortizable bonds, these bonds to be guaranteed by the federal government as to interest and principal. Such bonds could probably be sold in the present market at around 3% and possibly slightly better. The bonds would run 60 years and would have a straight smortization of 2% per amum. There would be a 2% sinking fund to buy the bonds in the open market if they sold below par or to call the bonds at par if they are selling above par. The beneficiary state would guarantee to provide the annual interest (which we assume to be 3%) and the annual amortisation money (which we assume to be 2%) as well as 5/8% to 1/2% of additional interest for amortisation, (this to be an insurance premium going into a special reserve against the centingency of some state defaulting, as well as to cover the small expenses of the Authority). Thus, a state, in whose territory flood control expenditures are made to the extent of, say, fifty million dollars will have to pay an annual total of 6% thereof or \$2,750,000 per sunum. The bonds should be callable in full or in part, in addition to their call for sinking purposes, if any one state decides to pay up in full or in part the outlays made in its behalf by the federal government. Some states might do this, as they might be able to raise money, on account of the tex exempt feature of their bonds, under proper market conditions cheaper than the federal government. The calling of bonds for such purposes might be either at par or par plus 1%.

From the emergency relief angle, I think your suggestion has great merit. Probably as much as 65% of the

8/18/58

total expenditures for flood control work goes directly or pretty nearly directly into industrial labor. If schedules are set up with average direct wages along WPA lines to be no higher than \$60 and indirect wages (in the industries supplying material, etc.) are assumed to average about \$105 per month, it will cost the government about \$1,500 per year to give direct or indirect employment to one full time workman. This compares with an average expenditure of about \$950 per man year in the average of the WPA projects where the proportion of the better paid indirect labor and of non-labor expenditures is smaller. It may be that if the work is so set up that people employed in flood control get from three to four days work a week, it may be possible to give employment for a year to one and one-half part time workmen for an expenditure of \$1,500, or to put it the other way around, to employ one man per year at an expense of about \$1,000.

At the same time, the program would create real national wealth.

March 18, 1938. 9:50 A. M.

Chairman Douglas. Operator:

Hello. H.M.Jr:

Morning Mr. Secretary. Douglas:

How are you? H.M.Jr:

Douglast Fine.

Ah, Douglas, I got your report on that H.M.Jr:

That's pretty crude. Douglas:

What? H.M.Jr:

That's a pretty crude Douglas:

Ah, well H.M.Jr:

.... job, but it's a, it's a starter. Douglas:

I understand. Well, Oliphant took a look at it last night and he said at first blush it looked H.M.Jr: pretty good.

Yeah - well what I mean by pretty crude is that there - it has to be fixed up and safeguards and Douglas: what nots put in, running through the thing and I've just been so busy I haven't had a chance to do it myself, and - ah - I thought that - ah, ah, ah - in your hands it would - ah - your staff would, ah, put a lot of analysis on it and we could polish it up later. I'm heuing one of my boys - ah, ah - go through it for the same objective.

Thank you. Now let me ask you - ah, ah - are you going to let Jones see this - Jesse? H.M.Jr:

Well - I don't know. Now, sh, I was about to, ah - I had completed the, sh, the sh, errand, so to speak, that I was running for the boss. Douglas:

H.M.Jr: Yeah.

He asked me to see you and Marriner and Jesse. Douglast

H.M.Jr; I see.

pouglas:

I have now seen, ah, ah, the three of you and I was just going to report back on that. Now, I didn't, ah - I hesitated to, to send it to Jesse, ah, for the reason that, ah, as I talked to him - this is strictly confidentially - I feld considerable resistance to it.

H.M.Jr: I see.

Douglas: Ahh

H.M.Jr: Yeah.

Douglas: Therefore, I didn't think it would be very productive.

H.M.Jr: Supposing we do this then. Ah, when we're through, and understand it, and adjusted, let's just S. E. C. and the Treasury get together first.

Douglas: All right.

H.W.Jr: How would that be?

Douglas: That'd be swell.

H.M.Jr: See?

Douglas: Fine.

H.M.Jr: Then we can decide after that - would that be all right.

Douglast That'd be swell.

H.M.Jr: But I didn't want to, ah, talk to anybody inesmuch as it's your work, without first talking to you.

Douglas: Well now, you can just, ah, you can just cut me out of it completely because this is, ah - I, I out of it completely because this is, ah - I, I was, ah, just reviewing - going over with the President as a part of the Administration, the, the problem that lies ahead of us, and passing on problem that lies ahead of us, and passing on such ideas as, ah, as occurred to me. There's no such ideas as, ah, as occurred to me. There's no such ideas as, ah, as occurred to me. There's no such ideas as, ah, as occurred to me. There's no such ideas as, ah, as occurred to me. There's no such ideas as, ah, as occurred to me. There's no such ideas as, ah, as occurred to me. There's no such ideas as, ah, as occurred to me.

H.H.Jr: Well, I understand

Louglas: It's not my "baby" in that sense.

H.M.Jr: Well, but anyway, as long as you feel that way it's, it's - we'll sit down with you first before we discuss it with anybody else.

bouglas: Well we - I'd be very happy - you just call on me day or night and I - we'll give you all the time and, and, ah, what not that needs to - needs for polishing this thing out.

H.H.Jr: Fine. Now one other thing. Ah, if it would be agreeable to you, I'd like my Mr. Upham to contact, in your shop, whoever is doing the investigation of, ah, Trans-America.

Douglas: Yeah. The man for him to see is, ah, David Schenker.

H.M.Jr: Well, would you send him a little note

Douglas: I'll do it.

H.I.Jr: that he should open up and let Upham have whatever he could, because Upham is contacting the Comptroller's office for me.

Douglas:

Douglas: Yep.

H.M.Jr: See?

Douglas: Yep.

H.J.Jr: And, ah, these cross transactions

Douglas: Yeah.

H.M.Jr: and if we could get available, sh, what you're doing there, then I'd have the whole picture.

Douglas: Fine, That's U - p - h - a - m?

H.d.Jr: U - p - h - a - m.

Doug Yep. O. K.

H.M.Jr: Thank you

Douglas: I'll handle that.

H.M.Jr: Thank you.

Douglas: Good bye.

H. I.Jr: Hello.

Operator: He'll be right on, Mr. Secretary.

Cordell Hull: Hello.

H.M.Jr: Hello.

H. Hello Henry.

H.M.Jr: Hello Cordell.

II. How are you feeling?

H.M.Jr: I'm feeling pretty well. I called

H. Are you out of town?

H.J.Jr: What?

H. Oh, I thought you was out of town.

H.M.Jr: No, I'm right here.

H. Yeah.

H.M.Jr: I called up to extend you my congratulations on your speech.

H. Oh, thank you. Thank you. I had a pretty hard time but I

H.M.Jr: Well, I'd say you did a, ah, ah, magnificent job.

H. I - ah - felt that the time had come for summing up

H.M.Jr: Uh.

H. so that there can't be any misunderstanding.

H.M.Jr: Yeah.

H. . about where we stand, at least.

H. W. Jr: Yeah. Well

H. I, I thank you very much, Henry.

H.M.Jr: And, the other thing which - we're sending back the memorandum that was sent over to us on the Hungarian Debt and simply saying it's, it's all right.

H. Well you ta - uh, I'll - we were trying to feed this out to you for whatever it was worth.

H.M.Jr: Well this.....

H. My impression then to let you take it on to the President.

H.M.Jr: Well, whatever way you want, ah

H. That is what was intended.

H.M.Jr: I see.

H. I told Feis.

H.M.Jr: Oh you want us to transmit it to the President?

H. Yeah. That's what I told Feis.

H.M.Jr: Well, I - he didn't, ah, he didn't, I don't think he told that to Taylor.

H. He didn't?

H.M.Jr: I don't think so.

H. Well, just - you go right ahead with it.

H.M.Jr: Because Taylor was under the impression that he was to send it back to the State Department.

H. Oh no, we never had any notion of that. I

H.M.Jr: Now - Tayl-- uh, ah, but, no - that was the way we got it, but I, I'm - hello

H. Yeah.

H.M.Jr: I, I'm more than pleased to do it the way you suggest.

H. Yes, that's the, that's the logical way; that's been my line of ideas you know, all the time.

H.M.Jr: Fine. Well, we'll do it that way.

H. All right, Henry.

H.M.Jr: Goodbye.

AL IL I PROGRAM

March 18, 1938. 10:30 a.m.

Present:

Mr. Haas

Mr. Blaisdell

Interest two or three things, Mr. Secretary. First, I didn't want you to think that we had forgotten steel completely. And so I set down the other night and just wrote down what I called the beginnings of a program, and in spite of the fact that this isn't a very clean document I'm going to show it to you, and I want to make just one point strongly. "J.L.L." means John Lewis, of course.

(Secretary reads memorandum entitled "Beginnings of a Program for Steer

H. .Jr: Incidentally, as Acting Attorney General Mr. Robert Jackson has written me a most enthusiastic letter supporting me in doing this, see, and it would be the first task assigned to Mr. Thurman Arnold, and he'll be here. They're not dumb over there. They realize this is a chance - I mean Robert Jackson realizes this is a chance to win a case. Christ! they haven't won is a chance to win a case. Christ! they haven't won one since they've been here on - I mean on this thing. In with this support, this gives them just a natural, and Bob Jackson is just crazy about it; wrote me a very strong letter.

Fire Isuell: "oru is not so good from Mr. Hull.

d...Jr: Kell, I didn't

blaisdell: Doesn't make a great deal of difference.

H. .Jr: Doesn't make a - we got enough weapons. And if we have to get it, I'll go to the President. Incidentally, to get it, I'll go to the President on the you say - reduce can't the President - I don't know what you say - reduce the tariff automatically on some of it? Does it have to be a trade agreement?

That's the cost thing, which Fox says might give the opposite of what we want, figuring the way they figure cost under that statute.

H. .. Jr: It doesn't matter.

stes: It doesn't mean much anyway.

...Jr: This is what I went. This is good as a start.

Eliscell: It's just a stort.

Well, this is what I want to say. I think the cement thing will be in such shape by Monday that we can go. I hope to get away, unless something ... President leaves on the 22hd; I hope to go away on the 25th for two weeks. Before I go, I'll have that cement thing cell started. I doubt whether the racket boys will nave anything before I leave, but they certainly will by the time I come back. See? This thing - once we get the cement thing... and then this thing could be studied, but - I mean you'd have plenty of - in other words, it won't be one of these day and night things we've been doing. After you're through cement, you can take two weeks' work on steel. But refore I even talk to Lewis, I want to talk to the President, and I con't want to talk to the President about steel until he comes back, see?

went to make, and that is that the railroad business ..

mell, I'm in on that, and

La indell: ... is hot.

d. Jr: and don't worry.

one of your elements, one of your tools possibly.

That's all right. But he's asked for a report by Thursday. That report will have to go down to Yarm Thursday. That report will have to go down to Yarm of time. It's a very good idea, it's a pecch of the of time. It's a very good idea, it's a pecch of the idea, but - I mean I sat in at both those railroad idea, but - I mean I sat in at both those railroad idea, and I'm not sorried the 'il get the jump meetings, and I'm not sorried the 'il get the jump meetings, and I'm not sorried the 'il get the jump meetings, and I'm not sorried the ill get the jump on us, because the Ustne most terrible mass I've ever on us, because the tone. It's almost increalible what a listened to, bar none. It's almost increalible what a ness that is. But that's a very good idea.

and the President knows all about steel rails, because ne used to ride up to Albany with a vice president - New York Central would give them a private war, but they'd always put a vice president on to talk to them. And the President - I don't know - would see these -

what's a very heavy rail? -

Bibisdell: 110, 120,

....Jr:

- ... on the siding. "What you got those big rails for? Why don't you use a 75-pound rail on the siding instead of 110?" And he finally wangled it out that something like this: that the Steel directors of the New York Central, who are on the New York Central board, sold them 110-pound rails for sidings, whereas, let's say, a 75-pound rail would have done just as well. "Then," he says, "you talk to me about not being able to make things meet."

So this would get a very sympathetic response. I've got the advantage - I've been longer with him than anybody else in this town. I came up through Albany. I know what he's interested in, and this would hit him just right, see? He'll love that. But don't forget plaster.

So my thought is this. This is fine, but until I won't be back, unless things crack wide open, until
the tenth of April, so you can be working on steel
while I'm gone. But I do hope that the boys will
have something - I'm not very hopeful - by Monday one thing on a racket that we can say, "All right,
that's the thing." Barton has asked to see me. I
can't see Barton. I've got too much and I'm too tired.
So Barton will have to wait.

Now, I'm not worrying about - I'm not worrying about the tariff end of the thing.

Blaisdell: Well, that was the second one, so that's clear.

Now, the third thing is a matter that Mr. Hinrichs talked to me about yesterday. He is a little bit worried. He is worried that we're going to go on a punitive expedition against cement, and that we are not considering a whole problem of whether we're going to cooperate with industry or whether we're going to punish industry.

Now, personally, I'm not very much worried about that. I think as long as we stick to sound lines of policy ... H. Jrt

Oh, I'm not worried. In the first place, the cement thing went over because - as a matter of fact, the President has been laying for six months to do something about monopolies. Well, when he hears about this - this is a natural for him. And he's been here for five years and we haven't home any monopolies in the manufacturing - nothing.

Now, the normal thing is - what we'll do is, we'll simply transfer the authority to Procurement to buy all the cement for the Government. Then they'll come in with a tie bid. Then we'll have to send for the industry and sit down with them. Now, there is nothing punitive about that. You see, I've been all through this thing again and again with the President. And for your strict personal information, to get the breaground, the reason I made all those remarks is the Department of Justice has never backed us up, see? They've never backed us up on this question of the bids, and the, sit there and they've been waiting for a grandstand play. But they have never backed us up in what we've done in Procurement. Every time we cant yomething - "On, it takes too many lawyers," so forth and so on.

but this thing fits into the President's whole philosophy on monopoly, and the chances are nine out of ten that the Department of Justice will grab this thing and run with this ball, which is all right. Thing and run with this ball, which is all right. The in the big public works program that we have, and in the big public works program that we have, we're going to get cament cheaper. Now, I'm not worried, but - I mean this fits into his whole program.

And Jackson's been groping and groping to find something to do this thing with, and it's just - I don't know now you feel about NRA, but NRA froze those things and give them the excuses and from that date down to now, Mr. - what's the lawyer for NRA? - ...

Lisuell: Alenberg.

de des

Richberg - I mean he's trying to continue that whole thing. Now, everybody in the Treasury is opposed to it, the new crowd in Justice are opposed to it, the it, the new crowd in Justice are opposed to it, the President is opposed to that sort of thing - giving these industries a chance to freeze their prices. Bun? Bisiscell: That's the whole thing.

....Jr: What?

plaisdell: I sat on the consumer end over there, so

i...Jr: I mean you work the way I want you to. I want you to point these things out. But looking at the thing in - the answer to Mr. Hinrichs is that, looking at the thing - What's the President's policy? This fits one nundred percent into what the President is trying to drive at. Check?

was just bring his point of view to you, and we felt that you had already

R.L.Jr: Yes, that's all right.

Heas: He feels nappier that we've told you about it.

fig. Inst's all right, but he just - he's got a little piece of the picture. And I don't want to be personal, but he's talking like Roper's advisory council. You know....

blaisuell: That's all right, I understand perfectly. Now, this letter just came to me.

H.J.Jr: That's all right,

There was one other point, Tom, they mentioned, which I'm sure the Secretary has very well in mind, but just for his information you might tell him about the broader attack.

Plaisdell: You go shead, George.

This is the thing. I'm just repeating. He, Hinrichs, wanted - ne said, "It doesn't do any good to go at one commodity; you have to go at a large group." And I commodity; you have to go at a large group." And I told him that was your original idea and you're working on it, and this is the way you're proceeding on that. On it, and this is the way you're proceeding on that. And I told him too that Walker had worked out this And I told him too that Walker had worked but this committee proposition, that you asked me to look up committee proposition, that you asked me to look up the British thing, you started that whole thing, so I was sure you have that well in mind.

Well - and I have a man in mind whom I invited to come.
Did you ever work with Westerfeld?

plaisaell: Yes, I worked with him in AAA.

d. .. Jr: How did you like him?

plaisuell: Personally I was very, very fond of him.

d. . . Jr: Wny do you say "personally"?

because I have one hesitation on him as a negotiator.
As a technical man in the materials field, he knows
the thing from A to Z scientifically. Now, whether
he has the bargaining point of view or not, I don't
know.

II. Jr: I see.

mislewell: So on that I just haven't any judgment.

1. .Jr: Excuse me. (Looks at ticker clippings)

Just got another weak spot in the hond market.

blisdell: I was just saying, on that I don't have any judgment.

...Jr: as to the bargaining power.

olimiell: As to his ability as a bargainer.

Well, let's put it this way - as to his brain.

A. Isaell: No question there at all.

1. ..Jr: Able?

Daisdell: Very.

La Ladell: Very.

...Jr: Has he any social sense?

-Lisdell: Very high.

....Jr: Very nigh. Humanitarian?

- isdell: Very.

...Jr: Huh?

Blaisdell: Very.

Very. How about as to work with others under great d. ... Jr:

pressure?

Blaisdell: Pretty good.

Pretty good. Does he fly off the handle? H.M.Jr:

Occasionally. Wayne knows him pretty well. Maisaell:

Well. Wayne thinks he's swell. H. d. Jr:

And wayne worked more closely with him than thin. blaiscell:

And Henry Wallace is crazy about him. He's crazy H. Jr: about nim.

But is he a man of ideals?

Very high ideals. Highest. 3. isuell:

And how about his capacity for work? I mean is he ... d. ...dr:

Well, ne is a man 65. Elsisdell:

d Jr: Just 60.

Just retiring. -risdell:

d. . Jr: 60.

I think he probably is D.K. pusisdell:

I mean is he 60 as far as his attitude towards work d.a.Jr:

is concerned?

I would say he probably works all hours. Elaisdell:

I see. Well, he sounds like ... The only question you i. 4. Jr:

got is whether he's a negotiator.

Blaisdell: Yes, I just don't know.

Well, you can't tell. I say if he worked for Sears n ... Jr:

he ought to be a pretty good negotiator.

Walker mentioned - said he was a diplomat - been 30101 some kind of attache militaire.

Sounds pretty good. Jr.

I just don't know, so I withhold any judgment. This just came from Sears, and one of the things that I've been playing with for some months is lumber. And one of the things that I couldn't explain in the whole isdell: lumber picture was the rise of prices that took place there in the first half of '37, which was very, very sharp, and I studied all the figures there were and it alan't make any sense at all. Well, I got this after several tries through Mr. Walker. (Hands to Secretary) You didn't see this, George.

(After reading paper) In other words, we added to it, A . . . W [*: nun?

and laughl: Apparently. Now, that's his judgment, or course, and as I say, I've been trying to get somebody in the industry who snew the situation, who would have the judgment, and I thought that you'd be interested in seeing that.

...Jr: Very.

Now, the last thing that I've got in mind is again a La Lagell: personal question.

H. ..Je: Yes.

Because in one sense I'm in a little of an embarrassing position, the reason being that part of my job over at National Resources is a confidential report every parisdell: Saturday to the Advisory Committee; that's Ruml, Henry Dennison, Charles Merriam, and Mr. Delano.

i. .Jr: Yes.

Isdell: And I told them I was doing this gind of work and they said, "That's swell." But then the question is, now said, "That's swell." But then the question is, now much do I say to them about what I'm doing? And so much do I say to them about what I'm doing? far I've just stelled and told them we're working on prices.

Could you stall another week? E. Jr:

ntrisuell: I think so.

d. ... Jr: Until we get this to the President Monday. I'd stall another week.

staismeil: Sure.

i...Jr: If there's any trouble, let me know. I'll call Mr. Delano myself.

is isuell: Well, I just wanted you to know.

....Jr: Who's Chairman?

Di isuell: Mr. Delano.

H. .. Jr: why don't I tell Mr. Delano now much I appreciate your services?

5 iscell: Well, that's

d. .Jr: would that nelp at this time?

Mothing of that sort necessary. It is purely a matter of the confidential nature of the work that I'm doing here, plus the confidential nature of the work that I'm doing there, and trying to keep two confidential things separate.

H. ..Jr: I'd stall another week. How big a staff have you got over there?

#1 isuell: I neven't got any staff.

a.s.Jr: who is there besides yourself?

whisueli: I mean on my job all I've got is a secretary.

n. .. Jr: I see.

his secretary. He's got a small staff. But I've got his secretary. He's got a small staff. But I've got no staff at all. So that what I do is to try to keep my self informed of what's going on in a dozen different my self informed of what's how I happen to know about this places, and that's how I happen to know about this railroad situation.

d. .Jr: All right. That's a swell idea.

Blaisdell: Working on Mr. Delano there.

H.W.Jr: Well, if you don't mind, I'd stall one more Saturday, and then maybe by next Saturday you can tell him the whole story, see?

Blaisdell: Right.

H.M.Jr: Because I hope, if the President likes the idea, to get Westerfeld to take this thing and create this board and set up regional boards, and set up the whole business.

mare (18,1938)

Confidential

Beginnings of a Program for Steel

413

- 1. JLL should negotiate his contract on the basis of no increased labor costs in the steel industry but with the maintenance of wage rates. In view of the character of the industry and the modernization of plant now going on this is easily possible.
- Any loans made to railroads in the course of the railroad program should be used as the basis for bringing down the cost of steel rails.
- 3. The Maritime Commission, the Army, and Navy purchases of steel should be used as a basis for similar negotiations.
- 4. Development of data necessary for action by the Department of Justice in an anti-trust suit.
- 5. Possibilities of tariff reduction in United Kingdom agreement.
- a. White House conference with JLL.
 - b. White House conference with steel executives.
 - c. Simultaneous operations under reciprocal trade agreement, railroad loans, government purchases and Department of Justice and/or Federal Trade.
- This is true as long as purchasers regard the price of steel as going the lower. Hence it is desirable that any out made be sharp and sizeable. It is possible to take the approach that a cut in the price of steel at this time would be a patriotic action based on the public price policy instead of a purely private price policy although it probably would result in increasing business for steel manufacturers as a result of more contact general buying.

March 18, 1938.

MEMORANDUM:

The State Department drafted a proposed Presidential
message to the Congress relating to the Hungarian proposal for
a new debt arrangement and submitted the same to the Treasury.
Messrs. Taylor, Bell and Bernstein went over the proposed
message and at a conference with Mr. Livesey of the State Department suggested certain changes, and also prepared a covering
letter from the Secretary of the Treasury to the President.
Wr. Livesey was to submit the changed message and the proposed
letter to the Secretary of State for his approval. Thereafter
Mr. Taylor was advised that the changed message and proposed
letter would not be submitted to Secretary Hull, but that
Mr. Feis would take full responsibility for the same meeting
with the approval of the State Department, and Mr. Feis was to
give the Treasury a memorandum to that effect.



H. M. Jr: Hello.

Operator: Nathan Straus.

H.M.Jr: Hello.

Onerator: Go ahead.

Nathan Straus: Good morning Henry.

H.M.Jr: Hello Nathan. I just want to congratulate you on making your first commitment.

5. Thanks. It's awfully nice of you.

H. W.Jr: I was delighted.

S. That's swell. Henry, the boss seemed very much pleased yesterday.

H. J.Jr: Well that's fine.

S. He said he thought we'd gotten going quickly and he was pleased with the geographical distribution.

H.W.Jr: Well that's fine.

I, I think we're going to get going on it. It ought to run along pretty smoothly; we'll have another bunch soon. And always remember, my boy that I never could have done it if it hadn't been the encouragement and assistance that you gave me in the beginning.

H.M.Jr: Well

S. Well that's a fact.

H.H.Jr: Anyway, ah, I; I'm glad to see it, and all that; right now it all helps, and I, I don't think you could have gotten very much faster than you did.

S. I don't either.

H.M.Jr: No.

S. Unfortunately.

No. Well, that's all I had. H.M.Jr:

Fine. Remember me to your father. I was glad to hear he was down here. S.

H.M.Jr: Right.

Right. S.

H.M.Jr: Goodbye Nathan.

Good luck Henry. . S.

H.M.Jr: Hello.

andolph Burgess: It's about 1 to 4/32 off. We've bought seventeen and a half million today.

H.M.Jr: Seventeen and a half million?

B. Seventeen and a half, yes.

H.M.Jr: Well, I think considering today, that isn't so bad.

B. No I don't think it's bad. Your partners over there at the Board, ah, want to spend a lot of money.

H.W.Jr: Well I - I only talked to them a few minutes at about five o'clock last night.

B. Yeah.

H.M.Jr: And, ah, when I said I was satisfied, ah, I gathered from the inflection of their voices that they seemed surprised.

They didn't seem satisfied. They thought it was terrible to show - show prices a quarter of a point off in some things.

H.M.Jr: Well I, I, I'm, I get - I've had so much that when I'm satisfied, I, I, I don't - I haven't got time to argue about it.

B. (Laughs) That's right, yes.

H.M.Jr: I mean I thought you carried out the thought that I had in mind.

B. Well I thought I was, yes.

H.M.Jr: And when you do that what's the use of picking at you?

B. That's right.

H.M.Jr: Huh?

B. That's right. Well, one has to get along with everybody.

H.M.Jr: Well what's the trouble over at the Board?

B. Oh, they were disappointed that it showed any drop last night, but I don't think they quite visualize what's going on over the world.

H.M.Jr: I don't either.

B. And how you can hold a market absolutely steady in the face of that, it just doesn't sound reasonable to me, but - never mind, we'll get along with them the best we can.

H.M.Jr: No. When I'm not satisfied you know I don't hesitate to say so.

B. I hope that's right. (Laughs) I always thought so.

H.M.Jr: No.

B. Well, then I'm glad you are; we'll try to keep the other fellows satisfied too.

H.M.Jr: 0. K.

B. Very good.

H.M.Jr: All right.

B. Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Merch 19, 1938.

Secretary Morgenthau

Mr. White

Attached is a review which you requested of the book "How Sweden Overcame the Depression", by Arthur Montgomery. The review was prepared by Mr. Adler, of this Division.

The review is a brief summary of the author's views.

Our own evaluation of what the Swedish Government did to bring about recovery and what we can learn from the Swedish experience is the subject of another memorandum now in preparation.

43 GA

Review of "How Sweden Overcame the Depression", by Arthur Controllery. Translated from the Swedish by Mr. L. B. Eyre, Fublished in Stockholm, 1938.

This book is a brief study of economic development in Sweden from 1931 to the end of 1936. It begins with a historical survey of the main trends in the economic evolution of Sweden and then proceeds to analyze the process of recovery in the monetary, financial and industrial apheres. It evaluates the contributions made toward recovery by the Government's nettry policy and by its public works policy. Its conclusions are:

- i. The monetary policy adopted by Sweden, i.e., the devaluation of the krons, and its perging in terms of sterling, was of fundamental importance in Sweden's economic revival.
- P. Next to monetary policy the international economic trend and its effects on the revival and expansion of Sweden's exports was the most important factor.
- I. The Swedish Government's unemployment and public works policy was of only secondary importance in this respect. Nevertheless, it did help reduce the pressure of the crisis.
- The extent and rapidity of recovery was due in a large measure to the favorable competitive industry in the international market.

The author is careful not to claim too much credit for awadish governmental policy and actions. It has been fashionable in many quarters to point to the Swedish Government as a model of monetary and economic wisdom and to attribute the remodel of monetary and economic wisdom and to attribute the remodel of monetary which the Swedish Government experienced to its policy and intions alone, the implication eing that we would do well to study, profit by and imitate its example. The book hardly leads support to this fascile advice.

(Rec duary entry 03 3-26) 3-18-38.

W dear Mr. Presidents

I am enclosing for your consideration a draft of a proposed message from you to the Congress, prepared by the State and Treasury Departments, relating to the Hungarian proposal for a new debt arrangement.

The Secretary of State and I recommend that you submit the matter to the Congress in this manner.

Faithfully yours,

Broger the gr

Secretary of the Treasury.

The President,

The White House.

Beckerere.

3/14/30

also other do ande menomi of 21-7-38 syned by Pelenyi THE SECRETARY OF STATE



in reply refer to

DEPARTMENT OF STATE WASHINGTON

My dear Mr. Taylor:

I have looked over the changes made in the Treasury this morning from the State Department draft of the President's message on the Hungarian debt, which Mr. Hull had initialled. The changes are merely the insertion of the word "original" before "indebtedness" at the beginning of the third paragraph and the deletion of a paragraph describing the debt settlements which Hungary is making with other creditors.

I am sure that Mr. Hull would not expect me to submit these two changes for his personal consideration and that his approval of the draft may be regarded as sufficient without my bothering him with these details.

I have therefore sent you the drafts as rewritten with these changes.

Sincerely yours,

Numbers Trees

The Honorable

Wayne C. Taylor,

Adviser on International Economic Affairs.

Assistant Secretary of the Treasury.

TO THE COMORESS OF THE UNITED STATES:

I transmit herewith, for the consideration of the Congress, a communication from the Minister of Hungary on the relief indebtedness of Hungary to the United States, in which the Hungarian Government tentatively formulates for the consideration of the American Government a possible basis for a new debt arrangement between the two countries to replace completely the Debt Agreement of 1994 and accounts thereunder.

the Government of the United States is not a war debt
but is properly designated as a relief debt, having
been contracted in May, 1920, under the authority of
the Act of March 50, 1920, which authorized the United
States Grain Corporation, with the approval of the
Secretary of the Treasury, to sell or dispose of flour
in its possession for each or on credit at such prices
Regraded Unclassified

and on such terms or conditions as considered necessary to relieve the populations in the countries of Europe or countries contiguous thereto suffering for the want of food. The American Relief Administration sound as the Fiscal Agent of the United States Grain Corporation in dispensing this relief.

The original indebtedness, the principal amount of which was \$1,688,835.61, with interest accrued thereon from May 1920 to December 1923, at the rate of four and one-fourth percent per annum, was funded as of the latter date, by agreement made in April 1924, into bonds of Hungary in the aggregate principal amount of \$1,939,000, maturing serially in the succeeding years for sixty-two years, bearing three percent for the first ten years and thereafter at the rate of three and one-half percent per annum. In approving this debt settlement, the Congress authorised the Secretary of the Treasury to subordinate

the lies of the beads taken under it to the lies of the Hungarian Reconstruction loan, which was about to be issued and cold in numerous countries, including the United States. In May 1934 the Secretary, acting upon this authorization, formally subordinated the American Covernment's lies to the lies of the Reconstruction bond leave.

On December 33, 1931, the Hungarian Covernment proolaised a transfer moratorium suspending payment in foreign ourrencies of all Hungarian foreign obligations, public and private, except the aforesaid Reconstruction Loan of 1924. Payments on the latter lean were subsequently suspended in part. During 1937, the Hungarian Government began liquidating the transfer moratorium by negotiating agreements with the foreign holders of Hungarian obligations for the acceptance of reduced payments in full satisfaction of existing indebtedness. It is in this connection that the Hungarian Ocvernment has now come forward of its oun initiative in an effort to reach an agreement

with the United States Government under which the relief indebtedness can also be discharged in full.

No readjustment of the terms of payment of the Hungarian indebtedness to the United States can be unde
except pursuant to Act of Congress. The Hungarian Covernment is seeking a definitive readjustment of the terms of
payment of this indebtedness on the basis of full payment
over a period of years of the total original amount
borrowed, without interest.

The Hungarian Government calls attention to the similarity between its suggested basis for payment and that accepted by the United States in the Austrian Debt Agreement of May 8, 1930, which provided that a sum very slightly in excess of the original Austrian indebtodness incurred in 1920 should be repaid without interest in forty annuities. The Congress of the United States, after full consideration of the mature of the Austrian indebtedness, voted by a large majority in the House of Representatives and by a unanimous procedure in the Senats, to

been prepared by the Treasury Department and the representatives of the Austrian Covernment. The Hungarian debt is a relief debt like the Austrian one.

The Hungarian Minister also suggests that the terms compare favorably with those in several other debt settlements, and that in announcing the signature of the bebt agreement with Austria in 1930, the Secretary of the Treasury, Mr. Mellon, said:

"The settlement compares favorably with the settlements made by the United States with the Governments of Greece, Italy and Tugoslavia."

It has of course been the consistent policy of the United States to consider each debt in the light of the circumstances of the debtor government, and it is with this in view that the Hungarian communication is transmitted to the Congress.

I believe the proposals of the Hungarian Government should receive the most caroful consideration of the Congress. They represent a noteworthy wish and effort of the Hungarian Covernment to meet its obligations to this Covernment.

Inclosures

Aide Hemeire on Hungary's relief debt to the United States, February 7, 1938.

THE RELTE HOUSE,

EA: FLIDJE

3-26

Degraded Uncleasific

My dear Mr. President:

Mr. Magill opens the public hearings on the tax bill before the Senate Finance Committee on Monday.

He and I are most anxious to have a chance to confer with you before Monday. We will greatly appreciate it if you could see us sometime Saturday as Magill will be on the Hill all day today.

Faithfully yours,

The President,

The White House.

At 11:45 a.m. Mr. Diggs and Mr. Upham were in Mr. orgenthau's office.

The First Wisconsin National Bank of Milwaukee, principal unit in the Wisconsin Bank Shares Corporation had made application to the Comptroller of the Currency for permission to consolidate into the First Wisconsin National Bank another Milwaukee unit of the Wisconsin Bank Shares Corporation, namely, the Badger State Bank and operate it as a branch.

In view of the recent occurrences in connection with additional branches for the Central Bank of Oakland, a unit of the Transamerica Corporation, Mr. Diggs and I were agreed that the Secretary should be consulted before this application were granted.

It was pointed out to the Secretary that the Badger
State Bank had been owned by the Wisconsin Bank Shares
Corporation many months, that it is located within the city
of Milwaukee and that city-wide branches are permitted by
Misconsin law, and that permission to the First Wisconsin
Netional Bank to operate it as a branch would be moving in
a direction away from holding companies and toward branch

banking. Moreover, it meant the absorption of a state bank by a national bank.

Mr. Diggs and Mr. Upham both recommended the granting of the application and Mr. Morgenthau said he saw no objection to it but asked that it be checked with Assistant Secretary Taylor. Mr. Taylor said that he was "enthusiastic" for such action.

Upm

MEMORANDUM OF THE DAY'S ACTIVITIES

March 18, 1938

To: The Secretary

From: Mr. Magill

Bank holding company bill

Senator Herring of Iowa called this morning to sek what is the President's present position regarding the abolition of bank holding companies. He said that he understood that the President had originally wished to abolish such companies; had later approved of the Glass bill to freeze the present situation; and now was returning to his original view. I told him that I had not been in touch with the bank holding company situation. He asked me to find out what I could in the Tressury and let him know. After a talk with Mr. Taylor, I told the Senator that all I know was the President had the subject under advisement at the present time, but I did not know his attitude.

Processing taxes

Mr. Doughton called to inquire whether the Treasury was recommending the processing taxes which he understood Senator Pope was formulating. I told him that Senator Pope had asked us to furnish some
administrative information and that we had done so; but that we had not
been asked to make any recommendations with respect to processing texes.
I told him that I understood that Senator Pope was actively working on
such legislation.

Mr. Doughton inquired whether we had heard enything further from the President regarding the tax bill, and I told him that I had not had any conference with him since the House passed the bill.

Liquor taxee

Mr. Fred Lee, representing the Distillers Institute, called on me to present information in opposition to the proposed increase in the tax on distilled spirits and to inquire what the Treasury's position would be with respect to it. I told him that I had not yet formulated any recommendation on the subject. Lee said that his people thought any recommendation on the subject. Lee said that his people thought that the increase in tax would not produce as much additional revenue even as the Treasury estimated, since liquor revenues are already falling off and the increase in tax would necessarily result in higher liquor off and the increase in tax would also mean an additional prices. He said the increase in tax would also mean an additional investment of about \$7 millions in inventories of liquors in process investment from the distillers to the consumer; and that the distillers of movement from the distillers to the consumer; and that the distillers would be hard put to it to obtain this amount from their bankers.

Do you want me to take any formal position on the subject; or shall I say that it is simply up to the Committee to decide what excise taxes shall be imposed and at what rates?

Run

March 18, 1938

HM, Jr suggested to White and Lochhead today that they begin to think about our stopping all desterilization.

Hello. H.M.Jr:

Mr. Walker at Chicago. Operator:

0. K. H.M.Jr:

Go ahead. Operator:

Hello. Hello Mr. Walker. H.M.Jr:

L. R. Walker: Hello Henry.

Walker? H.M.Jr:

Yes. W.

This is Morgenthau. H.M.Jr:

Yes. Listen Henry, say, General Woods spoke to me this morning about your request on cement -₩. a man to talk to you about cement.

That's right. H.M.Jr:

And, ah, I know just exactly the man that I think you'd like to talk to.

Good. H.M.Jr:

His name is, ah, McQueen. M - c - Q - u - double e - n. W.

Just a minute. M - c H.M.Jr:

.... Q - u - double e - n. W.

Q - u - e - e - n. Yeah, McQueen. Yes. H.M.Jr:

Yeah, McQueen, he lives in Pittsburgh. W.

H.M.Jr:

Now if you would care to, I'd be glad to call him up and explain the situation to him before you see W. him.

All right. What's his business? H.M.Jr:

Why, he has been the, ah, head of the National W. Building Materials Association for a number of years.

Yeah. H.M.Jr:

And that has now been dissolved..... W.

Yeah. H.M.Jr:

.... and he's the counselor for the large cement W. distributor of the country.

Distributor? H.M.Jr:

Yes. W.

Now that wouldn't be in conflict with the, with H.M.Jr: the, with the, with the mills, would it?

Well, of course, he, he - having been in that business for years he, he understands both manufacturer and, and distribution, you see. W.

But I mean would he - would it be to his interest H.M.Jr: to break the, ah, the monopoly?

Oh yes. W.

It would be? H.M.Jr:

Oh yes. W.

It would be. H.M.Jr:

And it's also to his interest to - he knows - you see, there's quite a duplication of costs in W. distribution.

Yeah. H.M.Jr:

And if they had their own way and would do their own distributing and, and - in the cement industry . W.

H.M.Jr: Yeah. W. Being cement manufacturers theyacknowledge there's a twenty-five cent a barrel cost. See?

H.M.Jr: I see.

W. A necessary cost, and he, he, he knows those figures; he can give you a very complete picture of the thing.

H.M.Jr: Well see if you can get him to come here Tuesday.

W. Tuesday?

H.M.Jr: Yeah.

W. All right, I will.

H.M.Jr: Will you send me a wire?

W. Yes sir.

H.M.Jr: How's your business?

W. Oh, things are coming along very nicely, I reckon.

H.M.Jr: Colonel Woods says your department's the only one that's showing a gain.

W. (Laughs) Well, not quite that, but we - we're very fortunate.

All right, sir, I, I'll send you a wire.

H.M.Jr: Thank you, thank you.

W. You bet.

JR

GRAY

Berlin

Dated March 18, 1938

Rec'd 9 a.m.

Secretary of State,

Washington.

133, March 18, 11 a.m.

The following measures with respect to Austria were enacted in laws signed yesterday which go into force immediately.

One. The Reichsmark is made legal tender in Austria beside the schilling at the rate of one mark equal 1.5 schillings.

Two. Reich Minister of Economics is authorized to amend all existing payment restrictions between Germany and Austria or to cancel them wholly or partially.

Three. Reich Minister of Finance is authorized to , declare partially or entirely duty free goods of Austrian origin.

Four. The management of the Austrian National Bank is given over to the Reichsbank and the National Bank will be liquidated by the latter for the account of the Reich. The entire personnel of the Austrian National Bank is likewise taken over.

FIVE.

-2- #133, March 18, 11 a.m., from Berlin.

Five. The German railroads take over the Austrian Federal Railroads both as to capital and operation.

WILSON

FEG:RR .

COPY

Paris March 18, 1938. Rec'd 9:05 a.m.

Secretary of State

Washington.

427, March 18, 9 a.m.

The Government last night received a vote of confidence 369 against 196 on the demand that interpellations on foreign, policy be postponed until next Thesday and that other interpellations be postponed until a later date.

WILSON.

FICE CORRESPONDENCE

DATE Warch 18, 1950.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF ENGLAND.

her. Bolton called me at 1 o'clock. They had had a very bed day today, the further complication in the Polish and Lithmanian situation causing an encreous demand for dollars. They had supported the market on the way down to about 4.95 1/4 where it stood at the time of closing. They had sold \$14,000,000 today for their own account and, in addition, they had given the Belgians, who were "in a pretty bad way as well; another \$5,000,000. That put him right over our 700,000 ounce order and left him short at the moment of 7 or 8 million dollars. He wondered, he said, if we could help him out and give him something to work on tomorrow. I promised that I would get busy right away.

Making it amply clear that I was thinking out loud and anxious to clear my own mind in the matter, I saked Bolton what he thought would happen if Washington, in removing the order, lowered the price to, say \$4.76 or \$4.75, for instance. Did he feel that that step would be advisable if the demend for gold increased further and further? Belton replied in that case the depreciation of sterling would probably preceed with greater speed which, in turn, would add to the state of uncertainty. Since we were in the midst of an emergency, greater uncertainty did not seem desirable. From a technical viewpoint, a change in the gold price of \$4.77, up or down, would make management of the London gold market more difficult as they would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertains factors; the sterling-would then have to contend with three uncertain factors; the sterling-would then have to contend with three uncertains factors; the sterling-would then have to contend with three uncertains factors; the sterling-would then have to contend with three uncertains factors; the sterling-would then have to contend with three uncertains factors.

FEDERAL RESERVE BANK OF NEW YORK

FFICE CORRESPONDENCE

DATE MATCH 18, 1958.

CONFIDENTIAL PILES

MON

SUBJECT: TELEPHONE CONTERNATION

L. W. Knoke

WITH BANK OF FEGLARD.

experience, by now acquired the reputation of being the export point and arbitrageurs were automatically guided by it. The present practice for the British monetary authorities, when fixing the London gold price every morning, was to calculate the equivalent of \$4.77 at the then current sterling rate and, after fixing, the gold price would move in complete relation to the dollar-sterling rate. If Washington changed the \$4.77 price, the fixing in London would hereafter have to be based on such changed price. This might well lead to more pronounced sharp fluctuations which would probably disturb the market even more than it is disturbed now. If a change in Washington's price were the result of changes in the freight rate or the insurance cost, everybody would, of course, understand that and accept the change without comment. But a mysterious, unexpected change in the gold price, not connected with higher or lower freight or insurance rates, would cause comment and more uncertainty.

I asked whether hearding of gold was still in evidence and Bolton was quite emphatic in his insistence that it was. They had sold £500,000, today for instance, to the market at prices much too high to make profitable shipment to New York possible. I inquired as to the total now hearded in London and he thought 120 to 150 million pounds were a fair figure.

With reference to the internal situation in France, Bolton said things were pretty steady. Although the political parties had not as yet come to an agreement, he understood that everybody in Paris felt certain that such an agreement was bound to come somer or later.

Vienna Dated March 18, 1938 Rec'd 1;50 p.m.

Secretary of State, Washington.

114, March 18, 5 p.m.

FOR COMMERCE FROM COMMERCIAL ATTACHE.

March 17, Austrian Bank in liquidation assets including \$46,000,000 gold \$34,000,000 foreign exchange taken by Reichsbank. Effective March 17 exchange rate fixed one mark equals 1.50 schillings. German Minister of Finance authorized admit goods Austrian origin into Germany entirely or partly duty free, eliminate or reduce present restrictions, financial transfers between the two countries. Austrian Federal Railways absorbed by German Railways March 18. Complete absorption Austria proceeding at a rapid rate.

WILEY

MB

PLAIN
London
Dated March 18, 1938
Rec'd 3:05 p.m.

Secretary of State.

Washington.

RUSH.

229, Harch 18, 7 p.m.

FOR THEASURY FROM BUTTERHORTH.

against the dollar. There was an incessant demand for dollars. This flight into the dollar has every appearance of becoming a formidable movement since it is due both to fear of wer in Europe and to a growing appreciation of the potential economic and financial difficulties which face England. There are not a few in the city who today are predicting that the rate willgo to say 4.80 in the not distant future.

The franc moved from 160% with hardly any dealings to 163. Following a report that Blum would resign over the week end it strengthened and most dealings took place one-half either side 161.

The trend in British scourity markets was mixed due to the Polish-Lithuanian news and the fact that today 2- No. 229, March 18, from London.

ends an account. With reference to the second paragraph of my 100, March 10, 7 p.m. and the third paragraph of my 178, March 3, 6 p.m. it is noteworthy that the expansion continues. This week's Bank of England return shows benters deposits higher by 4,766,000 pounds at the unusual figure of 119,046,000 pounds, this despite a drop of almost 4,000,000 pounds in the other securities item of the bank return. The cause of the substantial growth in the market resources was an addition of almost 7,000,000 pounds in Government securities which at 112,206,164 pounds are at their highest level for many weeks. The total of bankers! deposits is more than 25,000,000 pounds in excess of its level of a year ago; moreover despite a drop of 11.7 million in public deposits the total deposit liabilities of the bank which are the real basis of credit are nearly 12,000,000 pounds above their figure of a year ago at 165.8 million.

SMS:

KENNEDY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 18, 1938, 4 p.m.

NO .: 431

STRICTLY CONFIDENTIAL.

This morning I had a talk with Bonnet. Bonnet summarized the political situation as given below:

A National Union Government is wanted by 90% of the Parliament and of the country; however to form one serious difficulties will have to be overcome. There is first the unalterable opposition on the part of the Moderates and the Right to having a Union Government headed by Blum. Blum, they feel, has been the leader of the Popular Front which is now defunct, and he has been too closely assoclated with the extreme Leftists. He is also responsible for the extreme measures of social legislation which have resulted in French economic and financial deterioration. Likewise, Blum is too susceptible to extreme influences in policy on foreign affairs. In addition Blum is Jewish, and anti-Semitic feeling is growing in France without a doubt - a number of impartial sources have confirmed this. The Moderates are in the difficult position of not being able to state publicly that they are opposed to Blum himself. Thus when they declined last week and again yesterday to accept the offer which Blum made for a National Union Government, their refusal to is take this offer has been

based on the ground that Blum had insisted that the Communists be included in such a Government.

As for Communist participation, Bonnet told me that this was a difficult problem in itself. If a Communist Minister such as Cachin were to be included in a National Union Government, the Moderates state they would have no objection. They are afraid, on the other hand, that the Russian tieup of the Communists in France would exert a strong pull toward dangerous foreign policies on the part of any Government in which they were included. They are empecially fearful lest the British would be alarmed by the inclusion of the Communists, and thus the close relation between the French and the British might be weakened. Not only did the last Moscow trial publicly reveal again the foul condition of Russia, but, Bonnet said, information had come to him that Vorochiloff himself might be included in the next group of Soviet military leaders to go on trial. Should this be true, it would be impossible to include the Communists in the Union Government.

Bonnet said that despite these difficulties it would be absolutely necessary to form a National Union Government shortly; he made reference to international dangers, and stated also that the financial state of France is such that present will have to resign in a few days, in his the/Government will have to resign in a few days, in his opinion.

opinion. Ten days ago, he said, Chautemps had staked his Government's existence upon getting full powers from Parliament so that the Government could successfully float an urgently needed national defense loan. Nothing has been done about the financial situation since that time, and matters had been allowed to drift into their present state. Since January the Government had been continuing on reserves which were built up when he, Bonnet, had been Finance Minister; at that time he had said that the Treasury had sufficient funds to meet obligations during the first three months of 1938, which term is now drawing to a close and the Treasury will be without funds or is already in that condition.

During the conversation I asked Bonnet for his opinion as to who would head the Government of National Union. Most people, he said, were thinking of Herriot but because of Herriot's relationship with the Communists he would endounter serious difficulty. There were better prospects for Daladier, Bonnet believed. When I asked Bonnet whether he himself might not be asked to form such a Government he said it was not impossible that this would happen. He believed that he would be able to form such a Government at once if he were asked to do so. He believed that since his failure to form a Government two months ago there had been a change in the situation. The Socialists had

position against increased expenditures by the Government when he was Finance Minister. Bonnet said he thought he could depend on the support of the majority of the Socialists now, as well as the support of his own party, the Radical Socialists, and the support of the Moderates.

I have spoken to others about Bonnet's chances, and they do not seem to be as optimistic as it seems Bonnet is.

I asked Bonnet for his own opinion whether France would come to the aid of Czechoslovakia if the Germans attacked that country. In answer he said that France would certainly do so if Great Britain promised to support France; if they did not give such promise, he felt it would be suicidal for the French to start in/on a war with the Germans and Italians with merely the hope that some aeroplanes would be sent by the Russians. France had to face the facts, he said. France would find enemies on three frontiers in such a war, he said, and to attack the German counterpart of the Maginot line would be all the French could do to help Czechoslovakia. Bonnet said again that if the British did not promise to help France, France could not help Czechoslovakia, this was his personal and confidential belief. He would have to state the opposite publicly now in office. In his opinion most of them agreed with his conviction that under present circumstances a prudent policy for France is the only conceivable policy to follow.

In Bonnet's opinion there was not much danger that
the French Government would intervene in Spain, which would
be a dangerous adventure. The war in Spain is rapidly
coming to an end, and even if the present Government wanted
to send enough men and munitions to save the Spanish
Government, there is not enough time left to do so.

END OF MESSAGE.

WILSON.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 18, 1938, 5 p.m.

NO.: 432

FROM COCHRAN.

Although Blum Government won formal vote last night market does not expect it to survive the first Senate debate on a financial question even if it lasts until such time. Consequently operators today were not inclined to sell france and forward rate improved.

This morning the French control sold a little sterling but by 5 p.m. this evening had bought most of it back. The contact with whom I spoke expects no week-end financial or monetary developments in this country. Next Thursday's statement by the Bank of France (omission) further Treasury withdrawals of 1,600,000,000 francs.

WILSON.

JR

GRAY

Amsterdam (part air)
Dated March 19, 1938
Rec'd 6 a.m., 21st.

Secretary of State,

Washington.

March 19, 1 p.m.

Department's instruction of February 23, 1938, regarding control of figurehead money.

Reliably informed no agreement exists. Control exercised by (one) unusually low interest rates and international position Amsterdam which facilitates purchasing of foreign exchange thus depressing relative florin value, and (two) reported use if necessary by the central bank of the equalization fund.

Central European situation is not viewed with anxiety as to influx of foreign money at the moment. Report by mail follows.

LEE

RR

0441 319

CON . 3 FT

OCIDENATED CHARACTER

Const. or a letter

FS

GRAY

London

Dated March 19, 1938

Rec'd 8:40 a.m.

Secretary of State,

Washington.

230, March 19, noon.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened at 4.95 \$\frac{1}{2}\$ but immediately after gold fixing and upon receipt of a Reuter report indicating Lithuanian-Polish dispute would be peacefully settled, strengthened to 4.95 \$\frac{1}{2}\$. It later weakened somewhat when validity of this report was brought into question but on balance the pressure on the dollar has been negligible today. Likewise, although gold was up at fixing to 149 shillings \$\frac{1}{2}\$ pence, it later came on offer at below fixing prices.

The franc movements were without significance and the volume of dealings not large.

RR:CSB

KENNEDY



PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 19, 1938, noon

NO .: 436

FROM COCHRAN

With Paris banks closed and with French parliamentary debate on foreign affairs scheduled for Tuesday now canceled, franc was slightly weaker in London but trading was dull.

This morning up to half-past eleven, on the London market there had been no intervention by French control. This morning Pennachio of the Bank of Italy returned after having been in Rome for a week. His people he told me had "swallowed hard" after the affair in Austria. They had logically taken the result as having been inevitable. There had been an immediate warming in the Italian attitude towards Great Britain. The Anglo-Italian paying and trade agreements negotiated by d'Agostini and signed yesterday are satisfactory to the Italians. Trade will be increased and commercial credits eased thereby, in their opinion. At the present time a French delegation of commercial and clearing experts is in Rome for somewhat similar negotiations. My friend says they have made an aggressive approach which has been repulsed by the Italians, and consequently Branco-Italian relations have not so far been improved.

I had a visit from Kano, the Japanese director of

the BIS and London manager of the Yokohama Specie Bank.

Kano said he believes that the United States will begin experiencing a boom in certain raw materials and commodities such as was witnessed from 1914 to 1917, the War years.

WILSON.

EA: LAW

pee 3/4/38 R. M. to Sey mi

MISSORANDOM FOR THE PRESIDENTS

Attached hereto are the three esperate meserade which you requesteds (1) A proposed message on tex exemptions; (2) a brief discussion of the banks principles of the undistributed profits tex and the tex on capital gains as embedded in the Rouse Mill; and (3) a brief communicary on the need for a special undistributed profits tex on closely held corporations.

Regarding the three attachments, at the Thite House conference 3/19/38 A. M. - the President told Mr. Magill he would appreciate receiving copies of each. On same day, 2:30 P.M., Mr. Magill carried to the White House (with the above covering memo) an original of each.

(# 2 attrobut 456 without (without (156))

To:

The Secretary

Frant

Mr. Magill

Attached is a draft of a mossage regarding the pending tax bill. The draft was prepared by Mr. Gaston on the basis of memoranda submitted by Mesore. Shoup, Tarleau, Uphen and Zueker.—
The present draft has been cheeked only by Mr. Gaston and myself.
I should like to submit it to Mesors. Taylor, soliphant and Uphen if time permits.

Attechment.

tripuially pubmitted to Secretary 3/7/25
with this attachment.

(Pen took this House)

Discussion of basic principles of the U. d. p. tax disting can church tax as empolice in the House bill (143.36.15)

3/4/28

The poweres bill substitut by the Countities on Mays and mens on March ? is another notable stop in the improvement of the Federal tex system. The impertant principles of tex justice that more made a part of the system by the Rovenne Act of 1936 are here refined in the light of the experience under that Act. At the same time, the tax atrestre is in saveral places simplified. and some of the undesignble emiss tames are reposted. Careful study of the economic effects of the tax system has mide it possible to leasen the dampening effect on business enterprise that must always, to some degree, attach to any tax system. Individual tax rates have not been impressed, nor has the total tax burden on corporate enterprise been made beavier. All this has been achieved without materially decreasing the revenue that would otherwise be obtained under existing conditions. Obviously, the resulting progres not only is a technical achievement of a high order, but also expresses a farsighted policy based on fundamental sanous of termition.

The agest important changes proposed by the bill are in the taxes on corporations and the tax on sepital gains. The Revenue Act of 1956 introduced a new principle in the termiton of corporate income in the form of a surface on that parties of the net profits of a corporation which was not companily distributed in dividends to stock-holders. The purpose of this tax was to corporat an inequity in our tax system which constituted a very serious loophole of escape from

(her Shoup prepared)

the surtemes on individual income which are based on the principle of expecity to pay.

The principle of the undistributed profits tax has been the subject of so much microprocentation that it is appropriate here to state consisely the real question at issue. That question is this: To what extent shall corporate carnings be allowed to escape the individual serter rates that apply to all other forms of income -- to partmership and proprietorship profits, to interest from bonds, to misries, mages, and foost Sholtared behind the corporate wil, the corporation profits may assumulate, free of individual surtax. Sometimes they are ultimately brought to account, when they are finally declared out as dividends or when the stockholder, selling his shares, obtains a capital gain - but meanwhile the Government has had to obtain memor from other sources instead. Sometimes these corporation profits essays entirely, as when the stockholder keeps his shares until his death. The estate tex is no answer to this problem, for the estate tex applies also to the savings from salaries, individual testmoreon, and other incomes. The eaptital stock and excess profits taxes are no enousy, for they do not distinguish between income that is retained and income that is paid out. We are driven back to the intime haz and must find there a way to compensate for this tax-postycommust or ten-corage privilege inherent in the corporate form.

It is not a question of discovering or encouraging besimes as such — it is simply a question of eliminating an unfair tax differential that favore corporate profits over other income, when corporate profits do not pay their fair shape, the missing amounts must be made up by added tense on other neurose. "Solies" to one tempeyer spells "burden" to another. "Incompaging" corporate business means "discouraging" unincorporated business and other forms of income. Franking a tex system is a process of weighing the advantages in one place against the disadvantages in another. It will not do to run may from the problem by simply describing encouragement, relief, and even total escape at some one point and letting the matter root there.

The corporate form does not, however, ast, as a shield against the personal surtax if the corporation is small and the stockholder's instead from other sources is small. Consequently there is logic in the Committee's refinement whereby small corporations — those with instead under \$65,000 — are excepted from any form of the undistributed profits tax. These corporations will be able, under this bill, to retain all or a substantial part of their earnings and pay look tax then under the existing law.

Marcover, it is mover advisable to puck so for in outling off tax enough as to exects an under maker of hardely cases. Some such eases will always be found under any tax law, but in its bill the Committee has amply cased for practically all these instance by unking the burden widesproad and light rather than by putting on called precent and them attempting to aliminate hardelys by a long sories of complicated exceptions. Even so, the Committee has added

For experations having more than \$25,000 income and subject to terration under the general rule in the bill, not only are hard-ship cases minimized, but any complaints that might otherwise attach to the examine repersuasions of the undistributed profits tax are deprived of force. A few hundred elecely-bald corporations with more than \$75,000 met income are subject to somewhat more pressure, but here a number of provisions relieve the pressure in the particularity difficult cases.

The bill as reported by the Committee on Ways and Mesons thus accords with the experience of the Treasury Department in the operation of the existing law. It was discovered that two types of corporations generally have found it expedient to retain and not to distribute a large portion of their not sarnings. One type is the closely hald corporation whose few stockholders find a tex saving in sensing the corporation the retain a large part or all of its profits, subjecting itself to a high surfax, which nevertheless is unterially less than the controlling stockholders would have to pay on the same insense distributed to them as individuals. The other and more management type in the small compentations which belances the cost and difficulty of getting new capital from the outside against the undistributed profits surfax and finds it an economy to pay the text.

This points, it some to me, to a defect in our mediancy for providing espital to relatively small thought profitable business.

Regraded Unclassified

Other than tax remedies should cortainly be sought, but tax relief

It is clear to me that considerations of tax equity justify
the complete commption of the small corporations from the application
of any undistributed profits tax. It is equally clear to me that the
principle should be retained as to larger corporations generally and
that a special rule should apply to those large corporations whose
stock is closely held, permitting the few principal Stockholders to
direct divident policy so as to accomplish reduction of their individual income terms. Such a provision of law is an absolute requisite if we are to apply with reasonable fairness the principle of texetion according to superity to pay, which is an integral part of our

Profits tax, suffered in public discussion by a teniency for the disputants to take an all-or-none stand. The severest critics would
have us believe that no substantial relief is possible short of outright repeal or outting capital gains loose from the personal income
tax structure and subjecting them to a low, flat rate. Actually, the
treatment of capital gains and looses in a very complex problem in
income terminent that must be examined in detail and discussed in detail.
Thus the Semmittee bill gives substantial relief to the tempers and
interestes the liquidity of the capital matter by a series of changes
that (1) affect the breakets greening the amount of gain or lose to

to taken into assesset, (2) fix a maximum tex rate applicable to the gains after they have been reduced by the breaket percentages, (3) allow a corrector of leases of one year to reduce gains of a subsequent year, (2) improve the definition of a capital asset.

The expertal thought that such refinements reflect, compared with the containess of the other suggestions noted above, is evident, in may be some distance yet from the one best treatment of expital gains and leases, but whatever it may prove to be, it will searesly be an simple as those other suggestions would lead us to believe.

the principle and of capital gains and lesses by acting that would happen if the former principle were entirely abandoned and the gains were excepted, or taxed at a low flat rate. The answer is obvious. Everyone would be given a powerful indusement to make his instead once to him in the form of capital gains rather than in other forms. One may would be to invest in the kind of corporations that would pay out little or nothing in each dividends. The stockholder sould then realize this accumulated income at such times as he show by solling for a capital gain, or by indusing the corporation to distribute cornings in the form of non-taxable dividends in stock. With no make the prefits tax to counterpart a sithholding tendency that small be immensurably atmosphenced by the feverities shown to capital gains, the Government would be faced with a serious loss in revenue and with the higher complaints of those taxpayers she did

not have the opportunities to transmite their instance into the expital-gains form. It is simply impossible to see her such a tex system could be justified on the basis of equity. Furthernoon, the unfair encouragement that would be given to handdow and sometimes reckless speculation compared with sober each-dividends and interest-paying investment is an economic consequence of great in-partners.

I trust that the Semate will bear these considerations in mind in its deliverations on the pending revenue bill. The problem is one of a fair distribution of the tex burden in the public interest. The productivity of the tex structure must be preserved. Relief can not be afforded to one class of texpayers without burdening another class, and if the relief is not equitable an inequitable burden is imposed. Our whole revenue structure will be imperilled if we permit grees exceptions to the principle of expecity to pay. Oross exceptions will be ereated if the principle of the undistributed profits tex is abandoned or a too lemient system of texation of in-

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The undistributed profite tax imposed on alcostly held corporations by Title 13 of the bill submitted by the Tays and Manua Countition has been erromanally called a "punitive" tax. Actually, it is the direct opposite of such a tax. It is a tax on a special privilege enjoyed only by well-to-do tempoyers who have investments in glosslyheld corporations. The privilege is one of escaping insediate texntion at the rate that applies to income from other courses, such as calarios, profits of unincorporated concerns, interest, and rents.

Per example, if a temperor with a surface not income of \$100,000 also has a chare in the year's earnings of a slosely-held corporation, and this share assents to \$10,000, he caves \$5,200 in personal income tex for the year if none of that \$10,000 is paid out in dividends. This is a 52 percent saving. That did the Countities 3111 ask his corporation to pay under fittle 13 in return for this saving? Not more than 20 percent of a part of that \$10,000. Indeed, if the corporation happens to have a total not income of loss than about \$75,000, our hypothetical temperor is not asked to pay anything, directly or indirectly, under fittle 13, for his tax saving.

The 25 percent rate to time a depidedly underste price for that tempeyer to meet. It was made moderate, in view of the normal tax ranging from 16 to 30 percent, which the corporation has to pay.

If the hypothetical temperer has other income, not of \$100,000, but \$50,000, his tex sering because of failure to declare dividuals in still embetantial -- \$3,650, or about 37 percent. Finally, it must be remembered that if at those or lover levels the temperer feels the

Note: prepared by Mr. Shoup. Mrs.Lucas gave the original to the Secretary at noon, March 11,1938

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price for the privilege is too great, he can almye forego the priviloge by hering his corporation declare tamble dividends. This divided memor, lose the tax paid, can by agreement be put back into the comporation at case if it is model for expansion.

Other factors enter the problem. The withheld carnings may be paid out in future years and texted them. They may also be realised in the form of capital gains when the tempeyer calls his stock. But even with such qualifications, the privilege of spoiding personal surtames on correct carnings is a valuable cas, for which the reasonable price imposed by Title 13 may well be asked. To call this price for a privilege a "penalty" is completely to misunderstand the situation.

March 19, 1938

MIMORANDUM FOR THE PRESIDENT:

Attached herote are the three esparate nameranda which you requested: (1) A proposed necesses on tax exemptions; (2) a brief discussion of the basis principles of the undistributed profits tax and the tax on capital gains as embodied in the House bill; and (3) a brief commentary on the need for a special undistributed profits tax on closely held corporations. The undistributed profits tax imposed on closely held corporations by Title 13 of the bill submitted by the Ways and Monne Countition has been erronessely called a "punitive" tax. Actually, it is the direct opposite of such a tax. It is a tax on a special privilege enjoyed only by well-to-do taxpayers she have investments in closelyheld corporations. The privilege is one of occaping invediate taxation at the rate that applies to income from other sources, such as calarios, profits of unincorporated concerns, interest, and rents.

For example, if a tempaper with a surfax not income of \$100,000 also has a share in the year's cornings of a sleeply-hold corporation, and this share amounts to \$10,000, he saves \$6,200 in personal income tax for the year if none of that \$10,000 is paid out in dividends. This is a \$2 percent saving. What did the Committee Bill ask his corporation to pay under fittle 13 in roturn for this saving? Not more than 20 percent of a part of that \$10,000. Indeed, if the corporation happens to have a total not income of loss than about \$75,000, our hypothetical tempaper is not asked to pay anything, directly or indirectly, under fittle 13, for his tax saving.

The 20 percent rate is thus a decidedly molerate price for that temperer to meet. It was made molerate, in view of the normal tax ranging from 16 to 20 percent, which the corporation has to pay.

If the hypothetical temperer has other income, not of \$100,000, but \$50,000, his tax saving because of failure to declare dividuals in still substantial — \$3,660, or about 37 percent. Finally, it must be remembered that if at those or lower levels the temperer feels the

price for the privilege is too great, he can always forego the privilege by having his corporation declare tamble dividends. This divided noney, less the tax paid, can by agreement be put back into the corporation at once if it is model for expansion.

Other factors enter the problem. The withheld carnings may be paid out in future years and texed them. They may also be realized in the form of capital gains when the tempeyer sells his stock. But even with such qualifications, the privilege of avoiding personal surtance on current carnings is a valuable one, for which the reasonable price imposed by fittle 13 may well be acked. To call this price for a privilege a "penalty" is completely to misunderstand the situation.

The revenue bill submitted by the Committee on Mayo and mens on March 2 is another notable step in the improvement of the Poteral tax system. The important principles of tax justice that more made a part of the system by the Revenue Act of 1936 are here refined in the light of the experience under that Act. At the same time, the tex structre is in mercal places simplified, and some of the undesimble emiss tames are repealed. Careful study of the economic effects of the tax system has mile it possible to lessen the desponing effect on business enterprise that must always, to some degree, attach to any tax system. Individual tax rates have not been increased, nor has the total tax burden on corporate enterprise been made heavier. All this has been ashieved without materially decreasing the revenue that would otherwise be obtained under existing conditions. Obviously, the resulting progress not only is a technical achievement of a high order, but also expresses a farsighted policy based on fundamental seasons of terration.

The most important changes proposed by the bill are in the taxes on corporations and the tax on capital gains. The Revenue Act of 1936 introduced a new principle in the taxation of corporate intown in the form of a surface on that portion of the net profits of a corporation which was not currently distributed in dividends to stockhelders. The purpose of this tax was to correct an inequity in our tax system which constituted a very serious loophele of compe from

the surfaces on individual incomes which are based on the principle of capacity to pay.

The principle of the undistributed profits tax has been the subject of so such misrepresentation that it is appropriate here to state comeisely the real question at issue. That question is this: To what extent shall corporate sarnings be allowed to escape the individual surtax rates that apply to all other forms of income -- to partmorship and proprietorship profits, to interest from bonds, to salaries, mass, and fees? Sheltered behind the corporate well, the corporation profits may accumulate, free of individual ourtex. Sometime they are ultimately brought to account, when they are finally declared out as dividends or when the stockholder, selling his shares, obtains a capital gain -- but membile the Coverment has had to obtain money from other nources instead. Sometimes these corporation profits easeps entirely, as when the stockholder keeps his shares until his death. The estate tex is no ensure to this problem, for the setate tax applies also to the savings from salaries, individual busimanner, and other incomes. The expitel stock and excess profits taxes are no enguer, for they do not distinguish between income that is retained and income that in paid out. We are driven best to the intons tax and must find there a way to companie for this tax-postponemat or tex-escape privilege inherent in the corporate form.

It is not a question of discoveraging or entouraging business as such — it is simply a question of eliminating an unfair tex Mice corporate profits do not pay their fair share, the missing mounts must be make up by added tames on other sources. "Solief" to one tempayer spells "burden" to another. "Successfing" corporate business means "discouraging" unincorporated business and other forms of income. Franks a tex system is a process of mighing the advantages in one place against the disadvantages in another. It will not do to run may from the problem by simply demanding encouragement, relief, and even total escape at some one point and letting the matter post there.

The comporate form does not, however, ast, as a shield against the personal surface if the comporation is small and the stockholder's income from other sources is small. Consequently there is logic in the Committee's refinement whereby small corporations — those with income under \$25,000 —— are sampted from any form of the undistributed profits tax. These comporations will be able, under this bill, to retain all or a substantial part of their carnings and pay less tax than under the existing law.

Marcover, it is mover advisable to push so far in critics off tax common as to dreads an under number of hardship cases. Some such cases will always be found under any tax law, but in its bill the Committee has amply cared for practically all these instances by unking the burden widespread and light pather than by putting on added pressure and then attempting to aliminate hardships by a long series of complicated exceptions. Even so, the Committee has added

For experations having more than \$25,000 income and subject to termine under the general rule in the bill, not only are hard-ship eases minimized, but any complaints that might otherwise attach to the seconds repercussions of the undistributed profits tax are deprived of force. A few hundred elacely-hald corporations with more than \$75,000 met income are subject to somewhat more pressure, but here a number of provisions relieve the pressure in the particularity difficult cases.

The bill as reported by the Committee on News and Means thus seconds with the experience of the Treasury Department in the operation of the existing law. It was discovered that two types of corporations generally have found it expedient to retain and not to distribute a large partion of their not carnings. One type is the closely held corporation shoes few stockholders find a tax gaving in causing the corporation to retain a large part or all of its profits, subjecting itself to a high surfax, which neverthiless is materially less than the controlling stockholders would have to pay on the same insense distributed to them as individuals. The other and more ammorate type is the small corporations this belances the cost and difficulty of gotting are capital from the outside against the undistributed profits surfax and finds it an economy to pay the

This points, it seems to me, to a defect in our makinery for providing capital to relatively small thought profitable business. other them tex remedies should enstainly be sought, but tex relief

It is clear to me that considerations of tax equity justify
the complete exemption of the small corporations from the application
of any undistributed profits tax. It is equally clear to me that the
principle should be retained as to larger corporations generally and
that a special rule should apply to those large corporations whose
stock is closely held, permitting the few principal stockholders to
direct dividend policy so as to accomplish reduction of their individual income terms. Such a provision of law is an absolute requisite if we are to apply with reasonable fairness the principle of taxstion according to capacity to pay, which is an integral part of our
system.

profits tax, suffered in public discussion by a tendency for the disputants to take an all-or-none stand. The severest critics would
have us believe that no substantial relief is possible short of outright repeal or outting capital gains loose from the personal income
tax expusture and subjecting them to a low, flat rate. Actually, the
treatment of capital gains and lesses is a very complex problem in
income termines that must be emmined in detail and discussed in detail.
Thus the Committee bill gives substantial relief to the taxpayer and
increases the liquidity of the capital market by a series of changes
that (1) acreet the breekets governing the assent of gain or loss to

to taken into account, (2) fix a maximum for rate applicable to the gains after they have been reduced by the breaket percentages, (3) allow a corry-over of losses of our year to reduce gains of a subsequent year, (4) improve the definition of a southal asset.

The expectal thought that such refinements reflect, compared with the commission of the other suggestions noted above, is evident, to may be some distance yet from the one best treatment of capital gains and leases, but whatever it may prove to be, it will scarcely be as simple as those other suggestions would lead us to believe.

the principle and of capital gains and losses by asking what would happen if the former principle were antiroly abandomed and the gains were exampted, or tamed at a low flat rate. The answer is obvious. Everyone would be given a powerful industrant to make his instance came to him in the form of capital gains rather than in other forms. One may would be to invest in the kind of corporations that would pay out little or nothing in each dividends. The stockholder could then realize this accommissed income at such times as he chose by selling for a capital gain, or by indusing the corporation to distribute cornings in the form of non-tamble dividends in stock. With me make realized profits ten to counterset a withholding tendency that would be immersively strongthesed by the favorition shown to capital gains, the Covernment would be faced with a serious loss in revenue and with the higher complaints of these taxpayers the did

not have the opportunities to transmite their income into the capital-gains form. It is simply impossible to see her such a tex system could be justified on the basis of equity. Furthermore, the unfair encouragement that would be given to handless and sometime reckless speculation sequent with soler cash-dividents and interest-paying investment is an economic consequence of great in-partures.

I trust that the Semate will bear those considerations in mind in its deliberations on the pending revenus bill. The problem is one of a fair distribution of the tax burden in the public interest. The productivity of the tax structure must be preserved. Relief can not be afforded to one class of texpayors without burdening another class, and if the relief is not equitable an inequitable burden is imposed. Our whole revenue structure will be imperilled if we permit gross exceptions to the principle of especity to pay. Gross exceptions will be created if the principle of the undistributed profits tax is abundanced or a too lemient system of texation of in-

Proposed Message on Tax Exemptions

In a series of cases culminating in the Pollock decision more than 40 years ago, the Supreme Court established the doctrine that the interest on state and municipal bonds and the salaries of state and municipal officials are not subject to the general Federal income tax. Similarly, the interest on Federal bonds and the salaries of Federal officials are not subject to state texation.

The Sixteenth Amendment to the Constitution of the United States, finally approved in 1913, was proposed and adopted in order to put to rest any question of the power of the Congress to tax incomes without apportionment among the several States. The Amendment in terms gave the Congress the power "to lay and collect taxes on incomes, from whatever source derived. Literally, this broad language is sufficient to embrace all interest, including interest on state and local bonds; and all salaries, including salaries of state and local officials. Nevertheless, it has been persistently asserted that the exemptions considered to exist prior to the Sixteenth Amendment are still in existence despite the plain language of the Amendment. Consequently, the power there granted has never been fully exercised. The income tax acts themselves exclude from tax the interest on state and municipal bonds. There is no statutory exemption of official

salaries, but court decisions have granted exemptions in some cases out of the great number which have been litigated. On the other hand, various limitations on the exemption have been expressed by the Supreme Court, and several Justices have strongly urged that it should be eliminated entirely.

Such exemptions, whether expressed or implied, tend to defeat the equity of the Pederal and State taxing systems, by establishing a class of recipients of income, which is not subject to the burdens of taxation borne by other citizens similarly situated.

The development of Federal and State taxation in recent years and the increased volume of wholly or partially taxexempt securities have transformed what was once an inequity of relatively slight importance into a most serious defect in both Federal and State systems. In the Federal system, the income tax has been the major single source of revenue for more than twenty years. About two-thirds of the States also make use of the progressive-rate income tax. The progressive sur-tax rates can hardly be made to o wrate fairly or effectively so long as tax-exempt securitie provide a ready means of escape from income taxation.

The subject of tax-exemptions for bond interest has been so thoroughly discussed that it need not be elaborated here. I shall merely use one illustration to show how widespread its effects may be. An investor whose surtax net income is \$50,000 is taxed at 31 percent on the last \$6,000 of this income, under the Pederal tax. In the present state of the investment market, he can get about 3 percent interest if he invests in moderately long-term highest grade bonds of private corporations. Since the income from such bonds is fully taxable, this investor receives, after tax, about 2 percent on his investment. By purchasing a State bond of the highest grade, with the same naturity date, he can obtain a yield of 2.5 percent, against which no Federal income tex is due. This illustration shows that, even for those who are only moderately wealthy, the saving by Federal tax exemption more than counterbalances the low yield of the tax-exempt bond, and therefore tends to make ineffective the progressive tax rates. At higher income levels the tendency is of course even more pronounced. A fair and effective progressive income tax and a huge, perpetual reservoir of tex-exempt bonds cannot exist side by side.

exempt bonds also have serious economic implications. They absorb money, much of which might otherwise be available for many kinds of business investment. These more hazardous types of investment, often so beneficial to society at large in the long run, are thereby curtailed. Those who can best

afford to take those chances - the wealthy investors - are precisely those who instead are most attracted to tax-exempt bonds.

The exemption of governmental salaries likewise tends to defeat the aims of a progressive-rate tax system. This exemption is of particular importance to the States, since many of their income taxes strike more heavily and with a sharper graduation of rates, than the Federal tax, in the lower income brackets where governmental salaries usually fall.

Exemption of salaries has the further disadvantage that it produces an apparently endless stream of litigation in attempts to discover whether a given case falls within the tax-exempt area as defined by the Supreme Court.

I, therefore, recommend to the Congress that effective action be promptly taken, either by statute or by constitutional amendment, to terminate these exemptions for the future.

The legislation or amendment should confer the same powers on the States, with respect to the taxation of Federal bonds and Federal selaries, as is granted to the Federal Government with respect to state and local bonds and salaries.

Beed Fragles rue

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 19, 1958

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Secretary Morgenthau

PROM

Mr. Haas

Subject:

Comparison of the Budget estimate of the corporate net income for calendar year 1937 with the corporate income for that period indicated by the published reports of corporations.

Published corporate earnings for calendar year 1937 indicate that 1937 statutory net income of all corporations subject to income tax will be from \$100 millions to \$200 millions in excess of the \$8,100 millions statutory net income used in making the Eudget estimate.

The National City Bank has tabulated corporate profits of 1,020 industrial companies for the full year 1937 which figures indicate an 8.5 percent increase over 1936. The earnings index of the Standard Statistics Company, which includes rails and utilities in addition to industrials, shows an increase of 2 percent for the comparable period.

A table is attached showing the earnings for the fourth quarter of 1937 of 100 of the 168 corporations which comprise our earnings index. The earnings of these 100 corporations for the fourth quarter of 1937 were 69 percent of their earnings for the fourth quarter of 1936 and 71 percent of their earnings for the third quarter of 1937. A second table shows the earnings of these corporations for the full years 1936 and 1937, together with the corporations for the full years 1936 and 1937, together with the figure mentioned by Mr. Knudsen in a recent Senate hearings. The figure mentioned by Mr. Knudsen in a recent Senate hearings. The indicate an increase of 8.2 percent over 1936.

If all corporations in our sarnings index show approximately the increase indicated by the three records of earnings referred to above, the statutory net income of all corporations subject to the income tax will be about \$8.3 billions as contrasted to \$8.1 billions of the Budget estimate.

Regraded Unclassifie

Earnings of 100 industrial corporations for fourth quarters 1986 and 1987 with third quarter for 1987, as reported in Wall Street Journal through March 9, 1988

		(1)	(2)	(3)	(4)	(5)
		T	: Third	: Fourth	1 Perc	ents
Company	companies:	1987	quarter 1 1957 ands of de	: quarter : 1936	1	(1) + (5)
		A 2 3 4 3	100000	1	- W. 16V.	-271.3
tos, parts and accessories	15	15,709	20,455	30,544	76.80	51.43
Bohn Aluminum & Brass Corp.	44	30	802	578	9.98	5.19
Briggs and Stratton Corp.		118	255	80	46,27	147.50
Foundry		57	180		81.67	16.52
Chrysler Corporation		10,305	12,968		79.46	51.18
Eaton Mg.		427	452		98.84	77.08
Metric Auto Lite Co.		1,025	866	1,503	118.36	68.20
dabriel Co.		-5	-21	-84	-	_
lack Trucks, Inc.		20	324	565	6.17	3.54
Marlin-Rockwell Corp.		582	569	609	102,28	95.57
Midland Steel Products Co.		757	351	860	215,67	88.02
Notor Wheel Corp.		202	459	413	46.01	48.91
		-7	170		_	-
Millins Mfg. Corp. Fackard Notor Car Co.		1,506	2,325	5,490	64.77	43.15
Transue and Williams Steel		2,000	6.400	0.6.25		
Forging Corp.		-5	-5	-15	-	-
Yellow Truck & Coach		697	1,298	1,300	58.70	53.62
micals	10	51,225	30,892	84.478	101.08	90,56
Atlas Powder Co.		170	396		42.95	53.80
Commercial Solvents Corp.		485	240	565	202,08	85.84
Dupont de Nemours & Co.		25,232	22,963	27,227	109.88	92.67
		156	1,247		12.51	11,58
Hercules Powder Co.		69	431		16.01	27.71
Lambert Co.		194	477	426	40.67	45.54
Matheson Alkali Works, Inc	•	1,763	1,224		144.04	128.05
Monsanto Chemical Co.		2,566	3,146		81.56	120.47
Texas Gulf Sulphur Co. United Carbon Co.		488	552		78,44	68.95
Westvaco Chlorine Products Corp.		157	216	207	72.69	75.85
	- 22	16,758	16,429	18,943	102,00	88,47
od Products and Beverages	12	768	879		87.37	85.71
Beechmit Packing Co.		4 534		4.134	50.80	104.35
Coco Cola		4,314	1,202		122.88	132.59
Continental Eaking Corp.		1,477	661		455.56	95.11
Corn Products Refining Co.		2,998			89.27	72.64
First National Stores, Inc	14	652	100		101.04	98.27
Grand Union Co. National Distillers Produc		5,768	3 324		200	102.61

Earnings of 100 industrial corporations for fourth quarters 1986 and 1987 with third quarter for 1987, as reported in Wall Street Journal through March 9, 1988 (continued)

	(1)	(2)	(5)	(4)	(5)
		1 Third	: Fourth	1 Per	cents
1 companies 1	1987	1 1957	1 1986	1	1)1(1) + (3
· reported	7.11001	SINGS OF GO	ollars)	1	1
	50	215	458	23.47	11.55
		48	601		67.22
	1,618	2,326	3,484	78.16	52.94
	204	129			88.70
	228	374	308	60.96	75.25
15	6.862	10.441	10.075	65.72	68,12
					36.66
	195	420	360	46.45	54,17
	1,510	2,195	1,815	68.79	85.20
	67	92	117	72.83	57.26
	632	962	859		75.58
	345	643	633		54.50
	230	498	219	46.13	105.02
		1,846	1,405		88,54
	47	16	-11		
	55	54	55	97.06	100.00
		807	1,695	189.59	90.37
	-91	116	27	-	-
	87	79	125	110,13	69.60
7	3.977	5,669	4,981	70,15	79.84
	1,261		844	116.65	149.41
	- Jack	0.4000			
	42	525			10.96
		972	1,315		52.09
		1,044	808	62.55	B1.52
		2,172	1,657	62.06	81.35
		-95	-10	-	_
	- 2	-50	-2	-	-
4	5 657	9.005	3,648	62,85	155,07
- 4		4.049		60.66	207,96
		976	543	-	
	520	528	191	97.56	167.54
				87.97	185.29
	companies:	of : quarter : 1987 : reported: (Thouse : 1987 : reported: (Thouse : 1987 : reported: (Thouse : 1988 : 204 : 228 : 15	of quarter quarter 1987 1987 1987 1987 1987 1987 1987 1987 1987 1987 1987 1987 1988 198	i of : quarter : quarter : quarter : companies: 1987 : 1957 : 1936 : reported: (Thousands of dollars) 50 215 438 404 48 601 1,618 2,326 3,454 204 129 230 228 874 503 15 6,862 10,441 10,075 1,088 2,833 2,818 195 420 560 1,510 2,195 1,815 67 92 117 632 962 889 345 643 633 230 498 219 1,244 1,846 1,405 47 16 -11 55 54 55 1,530 807 1,693 -91 116 27 87 79 125 7 3,977 5,669 4,981 1,261 1,081 844 41 525 374 685 972 1,315 655 1,044 805 1,548 2,172 1,657 -15 -95 -10 -2 -50 -2 4 5,657 9,005 5,648 2,456 4,049 1,181 -550 976 543	Number Fourth Third Fourth Per of quarter quarter quarter quarter

Earnings of 100 industrial corporations for fourth quarters 1956 and 1957 with third quarter for 1957, as reported in Wall Street Journal through March 9, 1958 (continued)

			(1)		(2)		(8)		(4)	(5)
	: Number		Fourth	1	Third		Fourth	1_ Per		cents
Company	of companie reporte	SI.	1937	:	quarter 1937 ds of dol		1956		(1) + (2	(1) + (3)
teel	10		9,112		51,586		59,117		17.68	28,29
Bethlehem Steel Corp.			4,253		9,250		5,291		45.98	80.38
Castle, A. M. & Co.			72		243		163		29.65	44.17
Eastern Rolling Mill Co.			-43		20		63		3.0	1000
Inland Steel Co.			868		4,455		4,241		19,58	20.47
Jones & Laughlin Steel Corp			-1,396		1,751		2,077			_
Ludlum Steel Co.			-81		302		536		-	-
Superior Steel Corp.			-71		103		257		-	-
B. S. Steel			4,578		30,618		20,924		14.95	21.88
Wheeling Steel Corp.			-764		1,250		2,046			_
Toungstown Sheet & Tube			1,696		5,586		3,719		47.30	45.60
scellaneous	29		35,210	V	30,856	V	37,644	1/	114.11	93,55
Airway Electrical Appliance							-			
, Co.			-158		222		-143			
merican Bank Note			260		253		25		111.59	1,040.00
American Hide & Leather			-226		46		88		200 00	87.38
American Safety Razor			443		255		507		175.78	48.96
American Seating Co.			118		817		241		37.22 4.78	5.08
American Steel Foundries			55		1,150		1,785		4.78	0400
American Writing Paper					-85		В		1.5	
Artloom Corp.			-115		207		257			
Barker Bros.			-48		201 315		313		88.57	89.14
Bayuk Cigara, Inc.			279		64		539		00.07	00.44
Elumenthal, S. and Co.			-397		344		324		106.98	113.58
Bon Ami			568 41		47		48		87.23	85.42
Brillo Mfg. Co.			-45		51		46		-	_
Century Ribbon Wills			570		184		369		201.09	100.27
Consolidated Cigar			58		426		429		8.92	6.96
Container Corp.			688		518		621		134.11	110.79
General Cigar					13,570		17,413		178.65	137.16
General Electric			25,885		433		291		79.45	118.21
General Outdoor Advertising			89		245		144		36.35	61.81
General Railway Signal			557		782		1,050		45.09	82.72
Harbison-Walker Refractorie	8		64		17		437		376.47	14,65
Industrial Rayon Corp.			219		168		505		150.56	45.87
International Silver Co.			860		1,781		1,280		48.29	67.19
Johns-Manville Corp.			175		312		210		56.09	65.55

Earnings of 100 industrial corporations for fourth quarters 1956 and 1957 with third quarter for 1957, as reported in Wall Street Journal through March 9, 1958 (continued)

	-	(1)	(2)	(5)	(4)	(5)
Company	: Number : of :companies : reported			Fourth quarter 1956 lars)	1	cents :):(1) + (5)
scellaneous (continued)						
Radio Corp.		2,426	1,952	5,509	124.28	73.52
Reliance Mfg. Co.		-225	-112	146	_	-
Scott Paper		289	551	242	82.54	119.42
Walworth Co.		1,000	252	264	431.03	578.79
Webster Eisenlohr Bros.		-11	-43	-37	_	-
Westinghouse Air Brake		415	1,847	5,045	22.47	13.63
Westinghouse Electric		3,399	5,395	8,975	63.00	85.51
rand Total	100	124,510	175,281	179,428	71.05	69.59

Peasury Department, Division of Research and Statistics.

March 10, 1938.

Airway Electrical Appliance, Artloom Corporation and American Writing Paper omitted from total.

Quarterly Earnings of 100 Industrial Corporations Classified by Industrial Groups as Recorded in the Wall Street Journal to March 9, 1958 (money figures in \$000)

Industrial classification	: Number : of : cor- : pora- : tions		Fourth quarter 1937		Third marter 1937		Fourth quarter 1958		Ratio of fourth quarter 1957 to third quarter 1957	:	Ratio of fourth quarter 1937 to fourth quarter 1936
o parts and accessories	15		\$ 15,709	\$	20,455		\$ 50,544		76.80%		51.48% 90.56
micals	10		31,225		30,892		04,410	٠,	101.00		
Food products and beverages	12		16,758		16,429	t.	18,943	5	102.00		88.47
Wachinery and machine manufacturers	18		6,962 3,977		10,441		10,073		65.72 70.15		68.12 79.84
Metals and mining	1		5,577		9,008		3,648		62.35		155.07
Oil	4		5,657				39,117		17.68		25.29
Steel	10		9,112		51,586		37,644		114.11		93.58
Miscellaneous	29		35,210		50,856	'	37,044	_	Traire	-	55100
Total	100	Ī	\$124,510	4	175,281		\$179,428	3	71.08%		69.59%

Treasury Department, Division of Research and Statistics March 10, 1958

Earnings of 100 industrial corporations and of General Motors Corporation, calendar years 1957 and 1956

	1 1987 1	1936 :	Increase (+) or decrease (-), 1957 over 1956
	(thousands o	of dollars)	(percent)
100 Industrial Corporations	656,940	536,215	+ 18,8
General Motors Corporation	201,000 1/	238,482	- 15.7
Total	837,940	774,695	+ 8.2

Treasury Department, Division of Research and Statistics. March 17, 1958.

^{1/} Testimony of William Knudsen, President of General Motors, Senate Committee Hearings, January 6, 1938.