

DIARY

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March 6, 1939

My dear Mr. President:

I should like to bring to your attention the inclosed article by Ray Clapper, which appeared on March 4th.

Sincerely yours,

The President,
The White House.

Six Years of F. D.

Washington News

MAR 4 1939

by Raymond Clapper

PERSONAL memo on Roosevelt.

It's been a long, hard fight, these six years since Roosevelt stood on the east steps of the Capitol, on a bleak day, and took over guidance of a nation that had suffered a complete nervous breakdown. I sat in the press section that day, dictating a running description of that first inaugural. Just a few moments earlier I had finished writing the advance lead on the inaugural message.



Mr. Clapper

During the six years intervening I have seen the New Deal unfold in its early glory of great promise. I have reported its long struggle with powerfully hostile forces, seen and unseen, economic and human. I have seen it severely set back by the sudden recession in the fall of 1937. More recently I have seen its morale disintegrate until now even many Democrats themselves prize repudiation at the next election and are anticipating a Republican President in 1941.

THRU all of this time I have seen Roosevelt, sometimes up, sometimes down, now striking with the daring of genius, and again blundering into appalling errors which needlessly undermined the great work he was trying to do, playing cruelly into the hands of his enemies.

Roosevelt is the fifth President whose activities I have reported. None has been perfect, certainly not Roosevelt. Yet to me he stands as a giant of our time, for the mark of a great man is not an absence of weaknesses but an abundance of strength. And with it was great gift to the country in these times—his buoyant, good-humored confidence that on March 4, 1933, turned national despair into national courage overnight. For that gift alone the nation should be eternally grateful.

I am convinced that Roosevelt's own resilient, inspiring personality has to an incalculable degree sustained the morale of the American people, and that it has much to do now with the fact that altho unemployment and the agricultural problem still present discouraging problems, the

American people are not likely but save their tails up over the dashboard. Imagine, if you can, what would be the mood of the American people today with a sour-puss hand-wringing defeatist in the White House.

ROOSEVELT is so close to winning that it would be a most appalling national tragedy if he should fall now. Measures which he has established to improve our democracy would be endangered, perhaps wiped out, on the ground that no reform is worth keeping if the country cannot prosper under it—and there's sense in that attitude.

But he doesn't need to fall. In and out of the Government the best-informed persons are certain that conditions contain all of the makings of real recovery. All that is needed is a push from Roosevelt, action that will give to the capitalist and managerial group the same confidence that a large remainder of the population has—or certainly did have—in what he is trying to do.

That is the surest way to save the essential reforms that have been introduced. During a remarkably brief period, Roosevelt's drive has given us Federal protection for collective bargaining, stock market and securities regulation, minimum-wage and maximum-hour protection, social security legislation, and development of hydro-electric power which is working an economic revolution in a backward section of the country.

Now is the time to digest these reforms, to adjust their functioning, and above all to bring back into the American team the private entrepreneur group which in the long run is the most potent economic weapon in a private-capitalist system. Roosevelt will prove his own worst enemy if he fails to take this last step toward consolidating his monumental work.

ONCE described Roosevelt as a living symbol of democracy who is trying to subdue the wild beasts of society to some more rational scheme of things, who wants to bring about in his time a world which shall venture some few paces on into the vines of hope which science and man's ingenuity have opened to us.

He has the stuff to make the grade, more of it than anybody I have seen in the White House, and I hope he makes it.

TREASURY DEPARTMENT

3

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 6, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending March 4, 1939.

Haas

Developments of the week

Nothing has occurred during the week to change the business outlook, which remains generally favorable on the basis of domestic conditions. Although the spring step-up in production in leading industries has not been sufficiently pronounced to achieve normal seasonal gains, nevertheless the current trend of activity is upward. Some evidences have appeared which suggest that the seasonally-adjusted weekly indexes may be about at bottom. In the important Pittsburgh district, seasonally adjusted business activity last week reached a new high for the year.

Commodity and security prices have made further gains. The SLS index of sensitive commodity prices this week reached a new 1939 high. British stock prices have shown outstanding strength, and in the New York market railroad stocks have led a renewed upturn.

Less encouraging developments include a sharp reduction in steel orders last week, due partly to the holiday, and a decline in department store sales. Exports in January dropped to the lowest actual level since August 1936.

The current business trend

Some evidence has appeared which suggests that we may now be at the bottom of the current business dip.

- (1) Although the New York Times index for the week ended February 25 declined to 88.0, from 88.8 the previous week, preliminary data show increases in the adjusted figures for automobile production and steel production for the week following.

- (2) The recent declining tendency in the index of cotton mill activity may be corrected by this week's spurt in textile sales.
- (3) Lumber production has begun to recover from the recent declining trend, and an almost uninterrupted excess of new orders over production during the past three months suggests that the gains may be extended.
- (4) The recent recovery in commodity prices, supported by a firming trend in the security markets, will tend to stimulate new orders and activity throughout industry.
- (5) A new high level for the year was reached last week by business activity in the Pittsburgh district, according to a seasonally adjusted index calculated by the University of Pittsburgh Bureau of Business Research.

The steel situation

Steel output gained more than seasonally this week, a rise of 2.1 points carrying the average rate to 55.8 per cent of capacity. (See Chart 1.) New steel orders last week, however, were affected by the Washington's Birthday holiday, and figures reported by the U. S. Steel Corporation dropped to 38 per cent of capacity, as compared with 59 per cent the previous week. This brings the average for recent weeks more nearly in line with the current level of steel operations.

Looming as one of the major factors in steel demand this year is an increasing volume of buying by the railroads, which had been largely out of the market since the spring of 1937. A survey of the 1939 budgets of important railroad companies recently made by the Wall Street Journal shows that 15 roads which have so far submitted figures have purchased or budgeted steel rail orders nearly equal to the total tonnage placed by 141 Class 1 railroads last year. The aggregate intended rail purchases show an increase of 153 per cent over the tonnage bought by the same roads last year.

Some railroad equipment concerns have become more active than at any time in two years, due to recent expansion of railroad repair programs. If railroad traffic continues to improve, and net earnings continue their upward trend, the long-deferred rehabilitation of the railroads may provide a powerful impetus to the steel industry in 1939.

A further stimulus to steel demand will be provided by the construction industry, for which an optimistic 1939 outlook has been confirmed by recent statistics. Heavy construction awards as reported by the Engineering News Record turned upward sharply at the end of February (See Chart 2), resuming the rise which had been interrupted for a time after the early January peak. This should be reflected shortly in increased structural steel orders, which declined seasonally during January, as shown in the lower section of Chart 2. Weekly data indicate that orders for structural steel during February declined somewhat further.

Residential building, which takes a substantial quantity of steel, continues to show an optimistic outlook. In the first 22 days of February, according to the F. W. Dodge Corporation, residential building contracts rose more than 18 per cent over the same period in January, which compares with a normal seasonal gain of about 10 per cent.

Rents rising

Rents for single-family dwellings have been gradually rising during the past four months, following a substantial decline during the first three quarters of 1938. This will tend further to encourage home construction, unless offset by increased construction costs. Additional encouragement is seen in the announcement made this week by the Bowery Savings Bank of New York that it will shortly make FHA mortgage loans at the reduced rate of 4½ per cent, a policy which may be followed by other lending agencies in that area.

FHA mortgages selected for appraisal during February, after allowance for holidays and the short month, were nearly at the record level of last summer and fall. In view of the apparent two months' lag between mortgages selected for appraisal and F. W. Dodge residential awards, an approximate estimate of the F. W. Dodge figures for March and April may be made from the FHA mortgage data, as shown in Chart 3. The solid line on the chart represents the F. W. Dodge residential awards, with tentative estimates for March and April derived from the FHA data. The dotted line represents estimates, not adjusted for seasonal trends, made from these data.

A noteworthy feature of the recent improvement in building contract awards is a gain in privately owned construction, indicating an encouraging tendency toward increased private spending. The F. W. Dodge figures show that privately owned construction awards in January were 39 per cent higher than in January 1938, while publicly owned awards were up only 26 per cent.

Corporation profits

Industrial profits have apparently lagged somewhat behind the recovery in industrial output, judging from quarterly earnings data for 120 industrial corporations compiled by the Standard Statistics Company. As shown in Chart 4, such a lag seems usual in times of rapidly improving business, since similar lags appeared at the time of the business upturn in early 1933 and again during the latter part of 1934.

Comparing earnings during the fourth quarter alone with those for the same quarters of earlier years, the Standard Statistics estimate (subject to revision) indicates some decline from that of 1937, while industrial production was sharply higher.

The National City Bank of New York reports total net earnings in 1938 for 940 leading manufacturing corporations at \$672 millions, or 44 per cent of the \$1,545 millions earned by the same companies in 1937. A tabulation we have made for 384 industrial corporations reporting net incomes (excluding deficits to make the figures comparable with our estimates of statutory net income) shows total 1938 earnings equal to 54.4 per cent of the 1937 earnings. Similar tabulations for 29 railroad and other transportation companies showed net incomes 90.7 per cent of those in 1937, and tabulations for 119 public utilities showed earnings 88.2 per cent of those in 1937.

Weighting the earnings of these three groups according to the proportion each formed of the Treasury figure for statutory net income in 1935, gives average earnings of net income corporations in 1938 equal to 57.0 of the 1937 earnings. This compares with a forecast of 52.7 per cent used in the 1939 budget estimate of income tax revenues.

Price rise continues

The prospect that a turning point has been reached in the trend of commodity prices received some further confirmation this week in a continued improvement in the various sensitive price indexes. A slight upturn was also registered in the BLS all-commodities index, raising it to the mid-January level after a period of levelling out. The BLS index of 30 sensitive commodities reached a new high for the year, and the Dow-Jones futures index made further gains.

Secretary Morgenthau - 5

A further rise in stock prices here and abroad during the week contributed toward improving sentiment. In the New York market, strength in railroad securities was a feature of the week, while other groups showed moderate improvement. The extent of the gains in railroad net earnings, as revealed in recent earnings statements, has been a surprise to many. The trend of British stock prices continues sharply upward. Business activity in Great Britain continues to improve, and national confidence has been strengthened, according to opinions in the press, by a growing feeling that the "offensive" position has shifted from the dictatorships to the democracies.

An increased demand for cotton textiles this week boosted print cloth sales to about 150 per cent of current production and raised prices on print cloths and certain other textile products. Our weekly new orders index for textiles, which increased 7.4 points last week to a new high for the year, made a further gain of 5.0 points this week. Recent plans for mill curtailment may be modified as a result of the increase in sales. The upturn in textile orders this week was not sufficient to offset the decline in steel orders in our combined new orders index, which turned down somewhat from the 1939 high reached last week.

TOTAL STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS
Expressed in Percent of Capacity

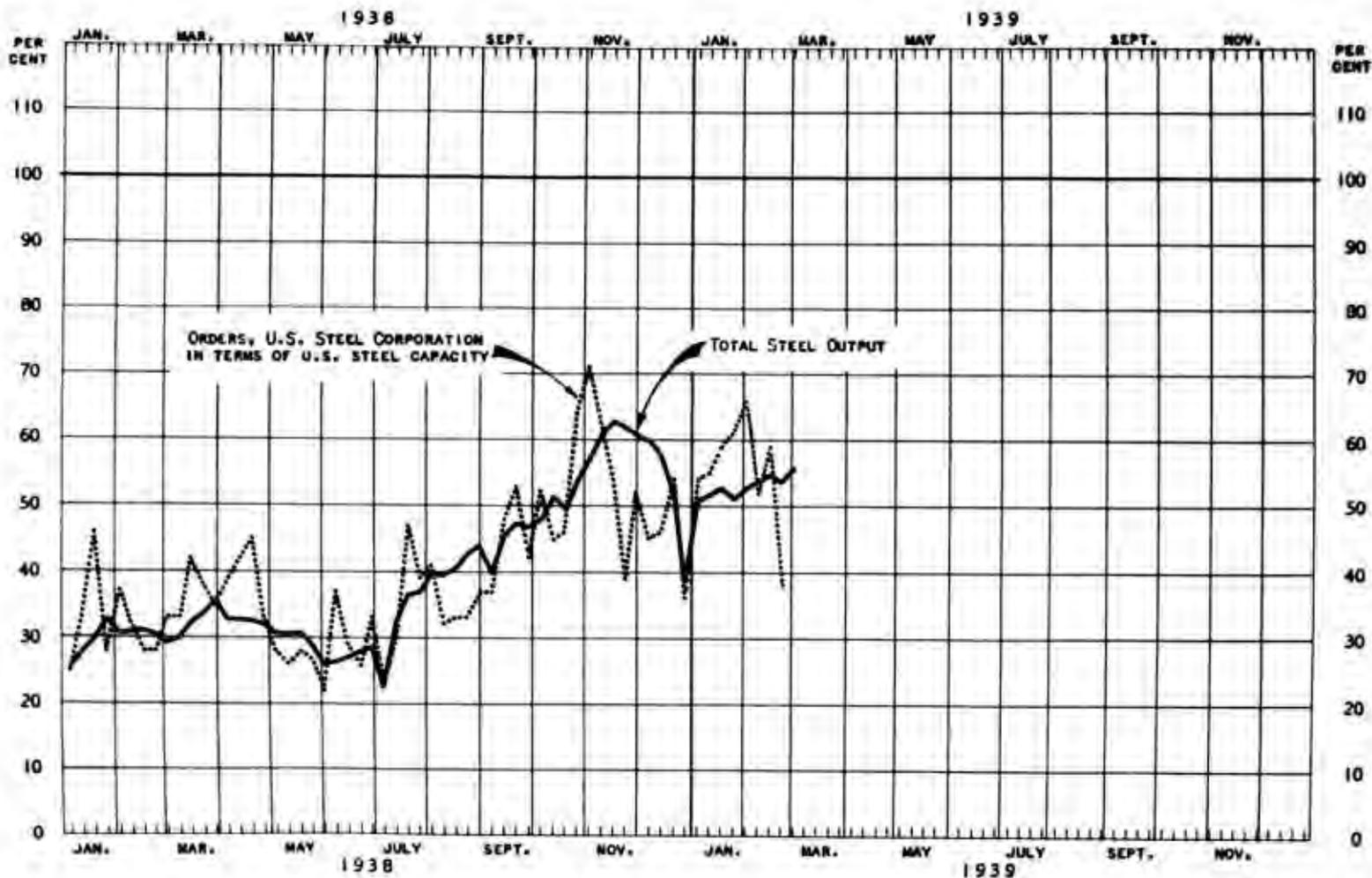
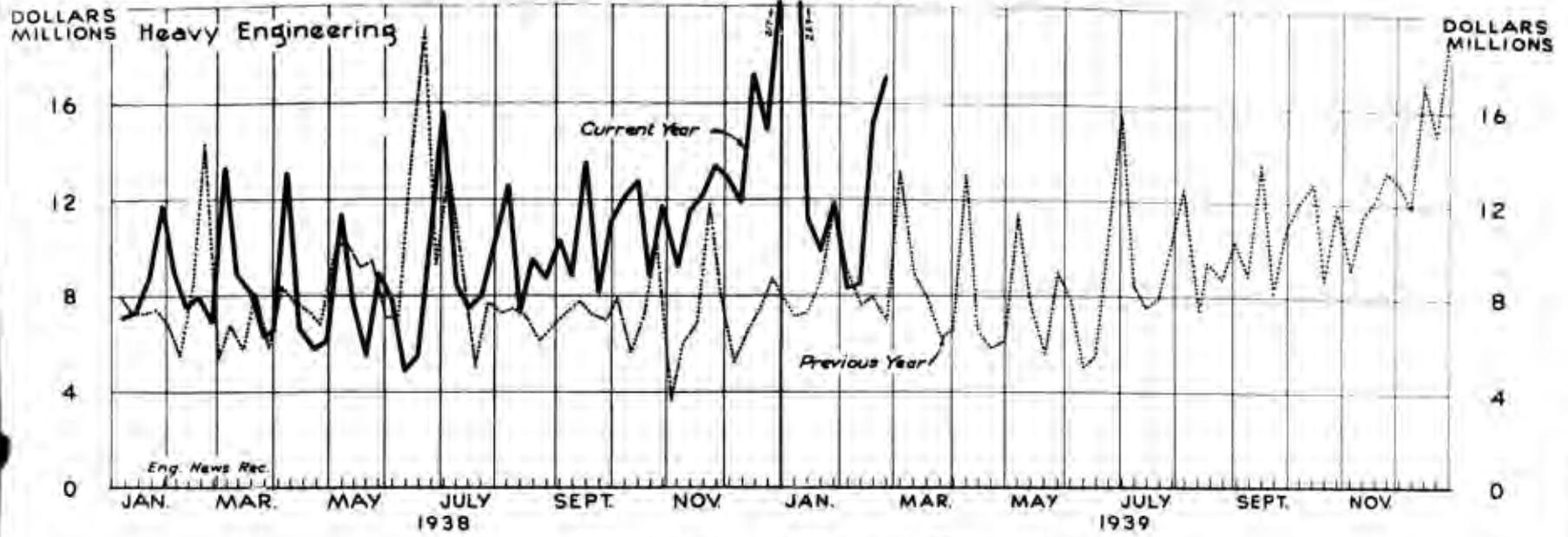


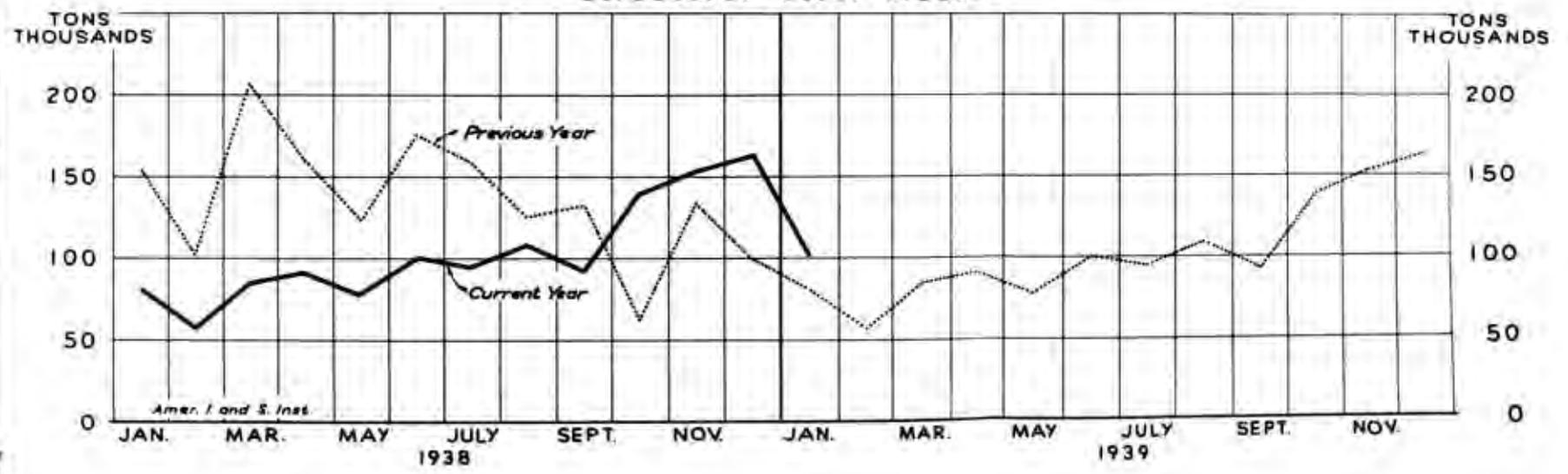
Chart 1
CONFIDENTIAL

HEAVY CONSTRUCTION CONTRACTS AND STRUCTURAL STEEL ORDERS

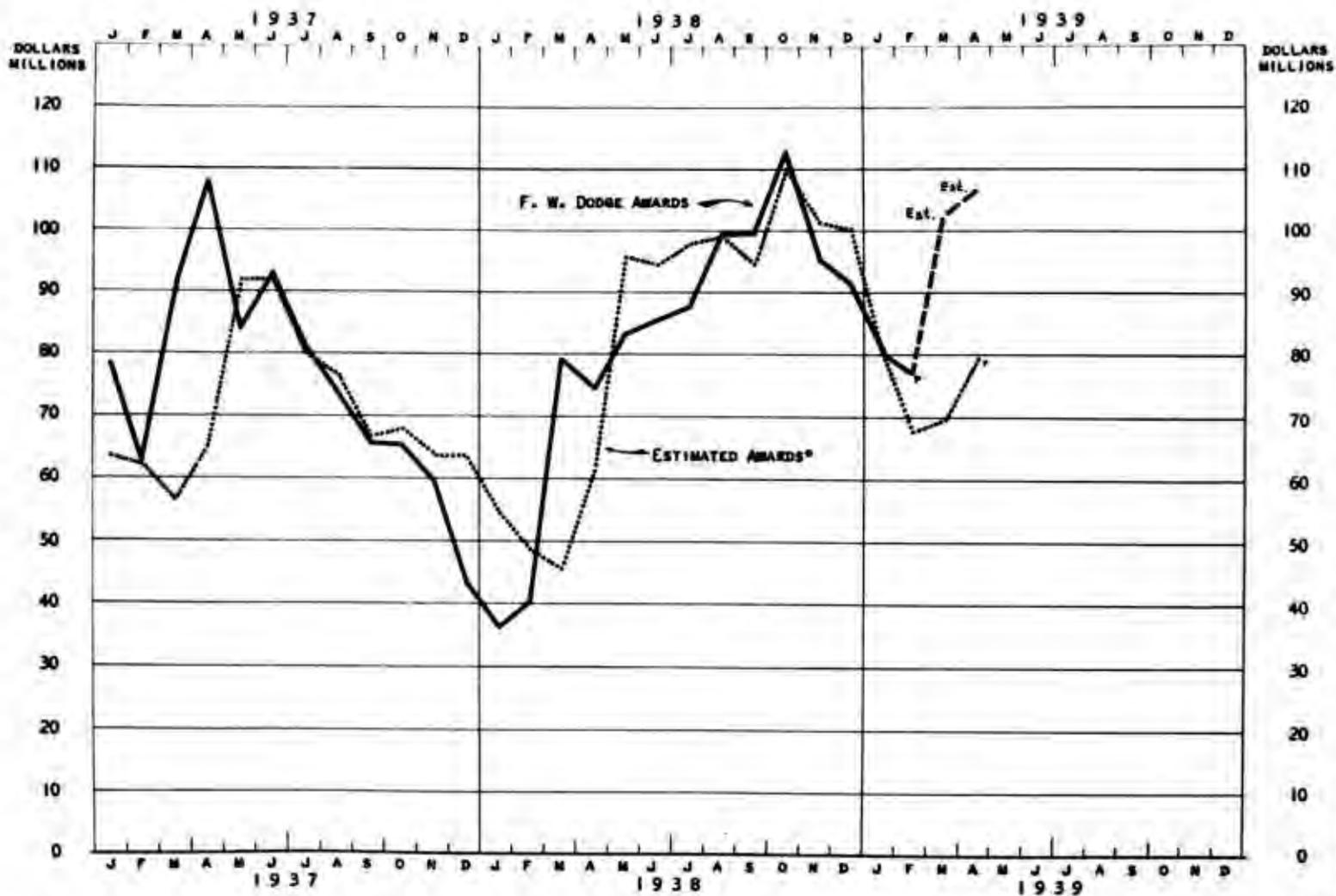
Construction



Structural Steel Orders



RESIDENTIAL CONTRACT AWARDS

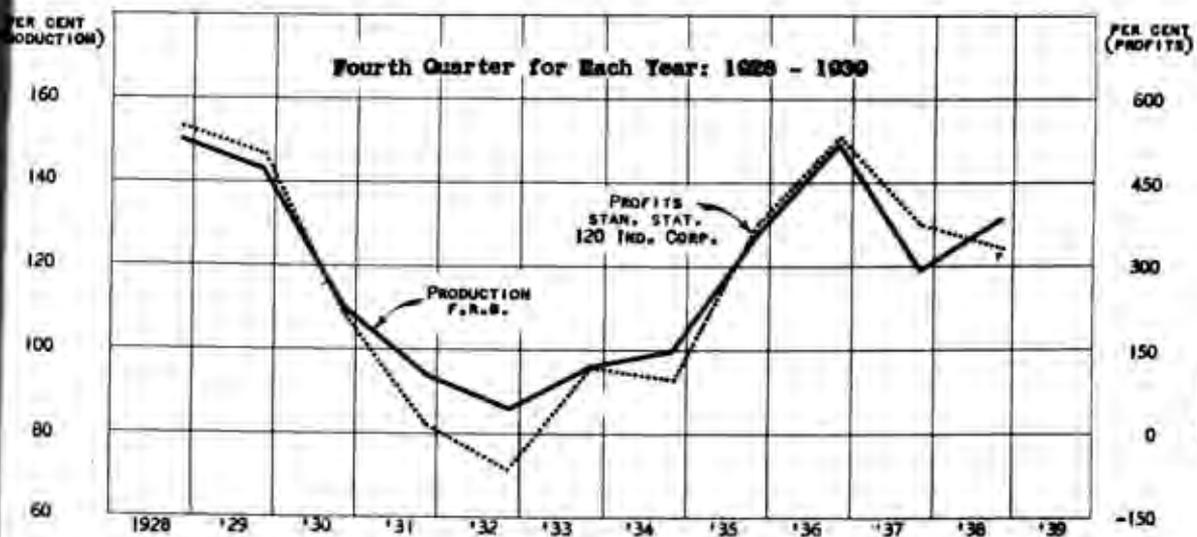
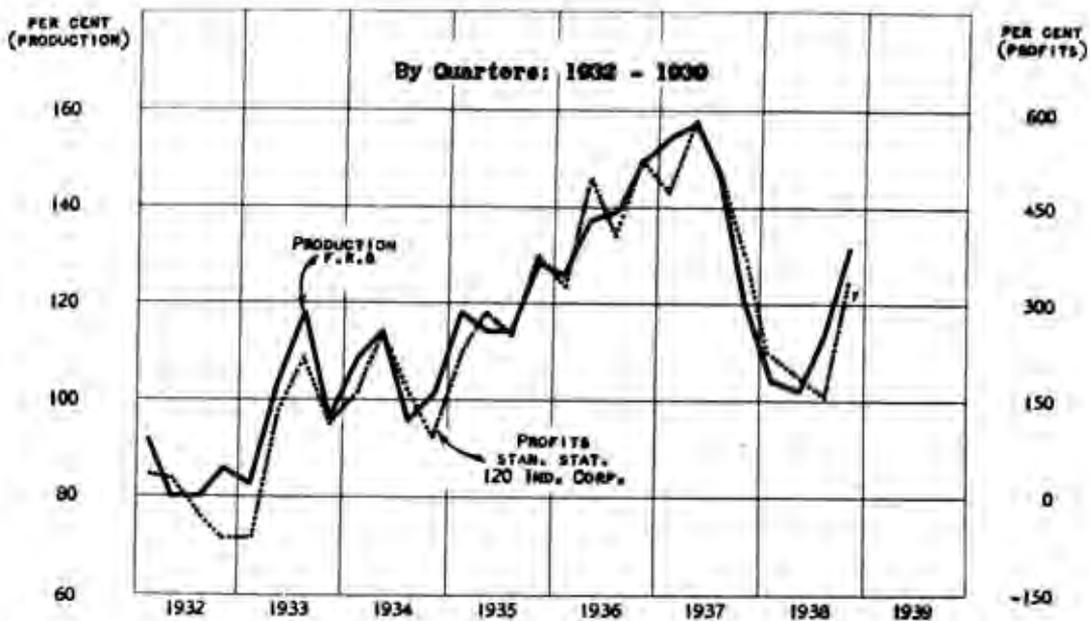


*ESTIMATED FROM FHA MORTGAGES SELECTED FOR APPRAISAL TWO MONTHS PREVIOUS

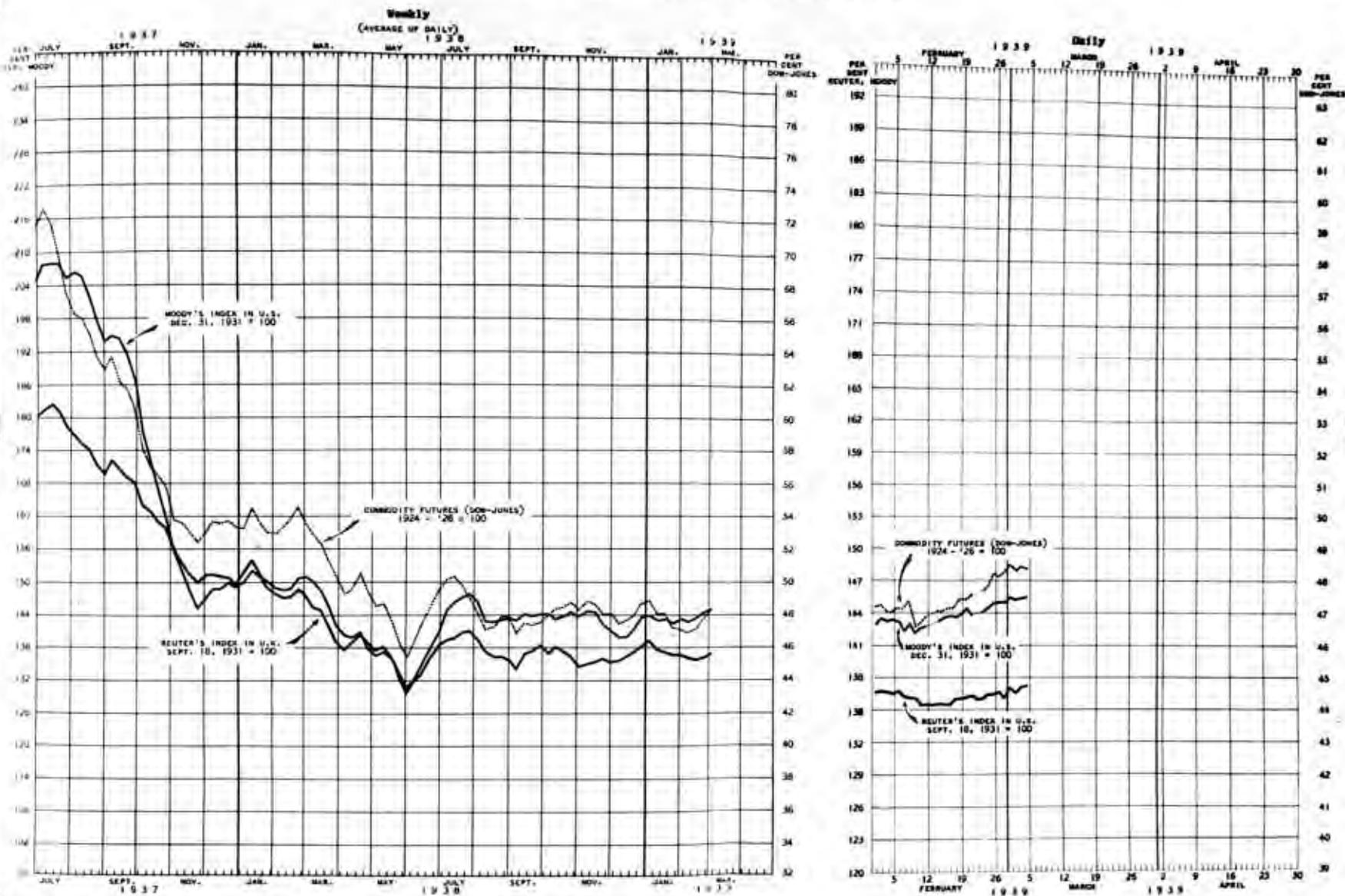
Office of the Secretary of the Treasury
Division of Research and Statistics

Chart 3
CONFIDENTIAL

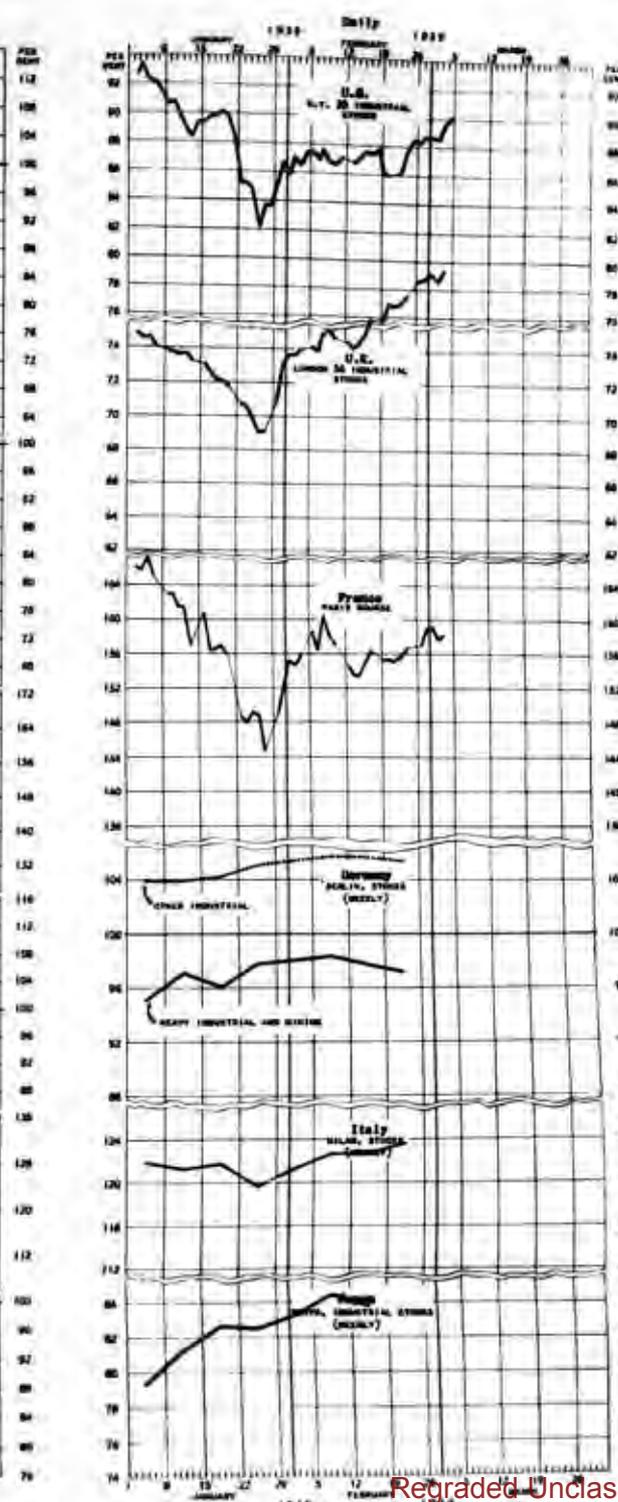
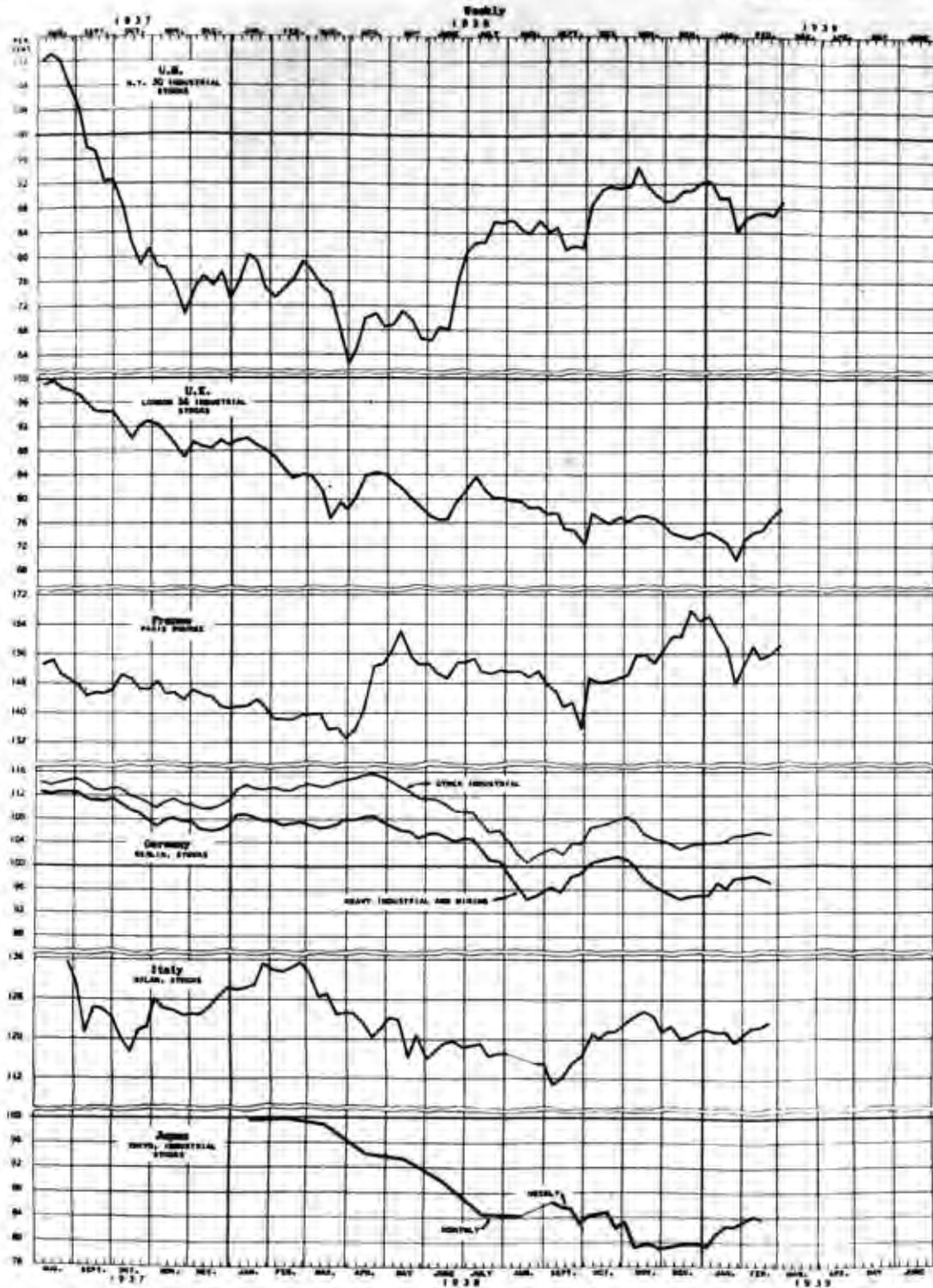
INDUSTRIAL PRODUCTION AND CORPORATION PROFITS
1933 = 100, UNADJUSTED



COMMODITY PRICE INDEXES IN U.S. AND U.S.



INDICES OF FOREIGN AND DOMESTIC SECURITY PRICES
August 1938 = 100



TREASURY DEPARTMENT

14

INTER OFFICE COMMUNICATION

DATE: March 6, 1939

TO Secretary Morgenthau
FROM A. Lochhead

Telephoned Mr. Burgess of the National City Bank in New York this morning and explained to him that I was bringing his attention to a situation in which their branches in China were being criticised, and was doing so in an informal manner and it was not to be construed as any formal demand being made upon the National City Bank by the Treasury Department.

I then drew his attention to the mention made to the National City Bank in Cable #294 from London, dated March 3, Cable of March 2 from H. H. Kung to Mr. K. P. Chen, and Cable of March 2 from T. V. Seong to Mr. Nicholson.

Mr. Burgess stated that it was his understanding that their short position in Chinese currency, amounting to \$5,000,000, was simply a hedge against their working capital in China and had not been altered for some time. He thought that any sales of Chinese currency made by the National City Bank in China must have been for account of customers and did not represent transactions for the National City Bank's own account. Told Mr. Burgess that in my opinion the important thing for the National City Bank to do was to clear themselves of any criticism by the Chinese Government, and if their transactions were such as he stated, this should be possible. Mr. Burgess promised to take this question up with the proper parties and advise the results, and what steps they were taking, in due course.

GROUP MEETING

March 6, 1939
9:30 A. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. McReynolds
Mr. Gibbons
Mr. Bell
Mr. Haas
Mr. Duffield
Mr. Lochhead
Mr. Foley
Mr. White

H.M.Jr: Mack?

McReynolds: Nothing.

Bell: I haven't anything either, Mr. Secretary.

Lochhead: Everything is calm on the surface of the exchange although Belgium can't form a cabinet. They were on the purchasing side.

H.M.Jr: One thing I would like to do: I would like to put this attorney, Johnson, in as first Deputy in Customs as of the 15th of March, and put the present first Deputy back in the field.

Gibbons: Mr. Byron?

H.M.Jr: Yes. And before he goes in, Johnson wants to talk to McReynolds and Foley about the legal administrative set up.

Foley: That is permanent, Mr. Secretary?

H.M.Jr: That is permanent.

Foley: We will have to select somebody to be Chief Counsel for Customs?

H.M.Jr: That is right.

Gibbons: Effective the 15th of March?

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H.M.Jr: Yes. And Heath thinks the situation serious enough - American trade relations with Germany, that Cairns should go over there for a week and look into it. He can't go himself because the Germans dislike him too much, but he said he thinks that Cairns could go over very well and spend one or two weeks over there. You might take it under consideration.

Foley: Yes, sir.

H.M.Jr: He also told me this - I don't know whether he mentioned the man by name, but he told me this man that is buying oil from Mexico, sells it to Germany at an advance in price over the world market of at least 25 per cent and then buys in Germany, with that money, oil pipe which he delivers at Houston, Texas, at a price below our market.

Foley: Well, he can't use marks except for German goods.

H.M.Jr: He is using oil instead of money - Mexican oil and lays the oil pipe down at Houston below our market. I think the man's name is Davis and that is the way he works.

Gaston: The same with cotton.

H.M.Jr: And copper.

Foley: Cotton and copper.

H.M.Jr: Cotton and copper, and now it is Mexican oil.

Lochhead: I don't think he is taking money from the companies; I think he is taking stock in them.

Foley: Well, I hadn't heard about the stock in the companies but that would be the next step, wouldn't it?

H.M.Jr: I would like to have another memorandum on that thing, when I have lunch with the President today.

Foley: I have it here.

White: I would suggest for your consideration, having one of our men accompany him, if you think it is

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- feasible, who has been working on that stuff. It requires an economist as well as a lawyer.
- H.M.Jr: You might talk to Heath about it. Have you got the letter from the President?
- Foley: Yes. There are two proposed replies.
(Discussion concerning replies between the Secretary and Mr. Foley inaudible to the reporter)
- H.M.Jr: I would leave off that paragraph about Rubler.
- Foley: And here is the letter from Treadway.
- H.M.Jr: And where is my answer?
- Foley: Well, if you think the President would go ahead I would sign this letter; and if you think he won't, then I would sign this one, which gives a full explanation and justification, which probably wouldn't stand up.
- H.M.Jr: Wouldn't stand up?
- Foley: No.
- H.M.Jr: Then don't send it.
- Foley: I think we have to have the Attorney General's opinion so far as this barter arrangement is concerned.
- H.M.Jr: I have taken an oath of office to uphold the laws of the United States, but it is now four months since you fellows found this thing and if I can't get the Attorney General's approval, I will just have to go ahead and do it.
- Foley: Well we know that, informally, the A. G. has agreed.
- H.M.Jr: That would be all right with the State Department, but with me it is a matter of carrying out the laws of the United States. With the State Department it is a matter of foreign affairs and I am between the two, and if they can't give it to me I am just going to go ahead.

Gibbons: Is that the Matthew Woll -

Foley: We are talking about an article that appeared in the Boston Transcript.

Gibbons: That Woll thing. They are wanting to get in the papers about it every day. The New York Times had a piece on it the other day.

Foley: Treadway. He means business. He said, "If you don't give me the facts I am going to introduce a privileged resolution requiring you to put up the facts".

H.M.Jr: I haven't a leg to stand on.

Gibbons: Really ought to discuss it with the President.

H.M.Jr: You fellows in Washington always get at least three warnings before the axe drops on you. Matthew Woll gave me one and Treadway gave me another one, the second one, and that is enough. I mean, these things never come out of the blue sky.

Gibbons: I have told Matthew Woll, off the record, that you were not at fault; that if he did anything it would be very unjust to you; that you have done everything you could and he knows that, but he has a crowd back of him up in New York that are just holding on to this thing.

Gaaton: In connection with the newspaper stories, I would like to take a look at the letters before we send them, if you don't mind.

H.M.Jr: Now this letter here -

Foley: I will take that back to re-write it.

H.M.Jr: Get it to Herbert. I want it before ten o'clock.

Foley: All right.

H.M.Jr: Listen, I am going to tell the President - I called up Sumner Welles Saturday night, I think it was, and I told Sumner, I said, "Now, Sumner, I can't postpone this matter any longer. You said 'Wait until Rubler is through'. He is through and I

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think we have just got to lift the embargo", and Sumner said he would talk to Mr. Hull the first thing in the morning.

If the State Department doesn't like it, it is just too bad. You might also give me, to take along, the Treadway thing. Maybe I will sign it right there and then in front of the President and simply get him to initial it.

Foley: All right.

H.M.Jr: Do you think I am unduly exercised, Herbert?

Gaston: No I don't.

Foley: It is a political question of the moment right now, because of the feeling in this country, and the thing can take on abnormal proportions.

H.M.Jr: (Telephone conversation with Mr. Sumner Welles:) Hello, Sumner, how are you? I just want to remind you that I am having lunch with the President today, and this thing of the Treasury getting out a decision on the German dumping. I do hope you can give me an answer or Mr. Hull can before one o'clock. O.K? Because they tell me that you - you see they ran this thing in the Boston Transcript and the Press have been getting more and more curious why the Treasury hasn't done something. Now, did you get that draft of a letter? I sent it to you for a suggestion. And you saw my little note about leaving off the last paragraph? Fine. Any time. Thank you. Goodbye.

Incidentally, if you would see this fellow, the contractor for the Poughkeepsie Post Office, I would consider it a favor.

Hanes: Sure. That is for ten o'clock tomorrow.

H.M.Jr: And postponed until -

McReynolds: 11:00 o'clock Wednesday.

H.M.Jr: But in thinking the matter over, I would consider it a favor if you handle it and keep it away from me.

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- Hanes: I shall be glad to.
- H.M.Jr: Thank you very much. The last paragraph of Aranha's note to me where he mentioned 50 million dollars, I suggest leaving that whole paragraph off, and Welles concurred.
- Lochhead: I brought that question up because the Export-Import bank was very careful to leave out the amount of 50 million dollars in their letter in regard to further financing. And, incidentally, yesterday, the Star carried an article - editorial - they just marked down what the transactions were -
- White: That would alter our answer somewhat. I think it will slightly alter our reply.
- H.M.Jr: Welles got this at 11:30 yesterday, so the record will be clear. The other thing I would talk to Johnson about, is to send somebody up to New York again. There has been nobody there to find out what proportion of the trade is on a barter basis.
- White: It is a pretty long job.
- H.M.Jr: Well, I would do it -
- White: If you want we can get some additional clerks and get it done in a week instead of three.
- H.M.Jr: I want it done in a week.
- White: Because they have to go through over two thousand -
- H.M.Jr: I can't understand, gentlemen, why we sit here with 78 thousand employees, and if I press the button and say "what proportion of the German trade is on a barter basis" it hasn't been done since last August. I can't understand that.
- White: Oh, it is a lot of extra work. There are hundreds of thousands of returns they have to examine. They have to examine each return. They wouldn't do it in their routine work, which means we have got to do a special job. The last time we had to do it we had to send three men up there for a month almost.

- H.M.Jr: I still say it seems to me that some Department in Washington, if not the Treasury, some Department in Washington for the benefit of business men and the Government ought to be able to tell that handily; "What proportion of the trade with Germany is on a cotton, oil, pipe basis". I can't understand why that isn't current.
- Gibbons: Those statistics under the law, are supposed to be compiled by the Department of Commerce, and they are about six months behind.
- H.M.Jr: Do they break it down on a barter basis?
- White: No.
- H.M.Jr: Does the State Department do that?
- White: No, we did that ourselves.
- H.M.Jr: I still don't see why some place there isn't a central nerve center that thinks along those lines. Not only Germany but any other country. How do we know some country in South America or some other part of the world, hasn't suddenly developed that technique.
- White: It is the Department of Commerce business.
- H.M.Jr: We sat here for two years and let the Germans do it before it was brought to my attention.
- Gibbons: There is a lot of stuff broken down that Commerce doesn't do.
- H.M.Jr: Will somebody be thinking about it? I wonder if there can't be a place set up which will permit somebody to look after that interest - somebody to look after what proportion of American commerce goes in American bottoms. For instance, are we getting it or are they cutting rates and all that stuff. Now, I don't know. Does the Maritime Commission do that, do you think?
- Hanes: I don't know; I suppose they do.
- White: Customs does some - not completely. I take it you are not interested in having the Treasury do it. There is an interdepartmental committee that has just been formed for the purpose of re-examining

all statistics with relation to trade. The Treasury has a representative on it now, and it can be brought before that committee unless you have in mind the Treasury doing it.

- Lochhead: The President of the U. S. Shipping Lines made a speech about a month ago up in New York, in which he spoke of those proportions. He had figures at that time because he said another percentage (inaudible). Apparently he has the figures because he came out with the figures.
- H.M.Jr: Aranha has a group of figures which are very interesting, where he shows we buy X millions of dollars of goods from Japan and which practically equals the same kind of goods that Japan buys from Brazil. In other words, we could buy them directly from Brazil but we buy them from Japan, and Japan gets the raw materials from Brazil to manufacture their goods that they sell to us.
- Bell: Why isn't it a matter that should come before the Central Statistical Board?
- White: Not in lieu of this committee -
- H.M.Jr: Well, anyway, I wish somebody would think about it. You see what I am getting at?
- Hanes: Yes.
- H.M.Jr: It is ridiculous.
- Haas: Commerce should do it but they haven't any money.
- H.M.Jr: Oh, nuts. This thing involves - we are spending 9 billion dollars yet we haven't got enough money to let the American business man - importer know where we stand.
- Haas: That would be their answer.
- H.M.Jr: Anyway, I hope somebody in the Treasury does something about it.
- White: There are some things here which I culled from recent material. (Handing documents to the Secretary).

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H.M.Jr: I am going to count on Herbert getting this stuff. Let it all clear through him before I go to the White House.

Gaston: Right.

H.M.Jr: Ed?

Foley: We have the testimony before the House Committee which we will correct and get back today.

H.M.Jr: That goes back to Herbert Gaston.

Foley: That is right. We haven't given it to Herbert yet. We will give it to him this morning.

I have an invitation to speak at the Yale law school on "Career Service for Lawyers in the Government" on the 23rd of March.

H.M.Jr: Is there such a thing?

Foley: I don't know. That is up to Mack's committee.

McReynolds: I had invitations to make speeches on that subject during March, but I refused.

H.M.Jr: What do you think he should do?

McReynolds: I see no objection to Ed doing it. I refused to, merely on account of the committee.

H.M.Jr: It is entirely up to you.

Foley: All right.

H.M.Jr: Anything else?

Foley: No.

White: Which all reminds me I have an invitation, which I nearly forgot, to Bryn Mawr graduate school for a speech. Is that all right?

H.M.Jr: Why not. Don't tell me. I don't want you to say, "Remember, Mr. Morgenthau, we told you we were going up there", but that is all right. You fellows go ahead if you feel like it, by all means, make the talks.

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Gibbons: I have nothing other than this Boston transcript matter. I sent it to Ed. It came in to me last Thursday.

H.M.Jr: Anything else?

Gibbons: Nothing else. I am glad you finally moved on the Johnson matter. Mack and I had a memorandum -

H.M.Jr: Well, you fellows -

Foley: He knows about that, Mr. Secretary.

H.M.Jr: You fellows make me laugh; I gave a direct order on this thing to do it.

Gibbons: The last I heard of it Mack said you wanted to talk to me.

McReynolds: I talked to you about three weeks ago.

Gibbons: And I have been waiting.

McReynolds: I would not think of reminding you of the times I have tried to talk to you about it. You said "Put it off".

H.M.Jr: I did? Did you talk to me about Johnson in the last three weeks.

McReynolds: I have tried to raise the question. I have a whole basket full of things.

H.M.Jr: Oh, but you did not say "Johnson was in the basket". Come on now, Mack.

McReynolds: Well, Johnson was in the basket.

Gibbons: Well, I have been waiting, as I say. I have got this memorandum.

H.M.Jr: I waited for you fellows so long that I sent for Johnson yesterday and I told him about it and called up Mack and said to tell Steve Gibbons about it and if it is all right with him to go ahead. I saw Johnson yesterday. I was impatient waiting.

Gibbons: Well, I am glad it is done, but I did not want to bring it up here any morning because I had this

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memorandum.

- H.M.Jr: Well, if McReynolds has brought it to my attention in the last month I will give his baby a five dollar gold piece.
- Foley: It is all right to talk to him about it, Mr. Secretary? He knows about it.
- H.M.Jr: It was done yesterday.
- Gibbons: He has been waiting to hear the word; he asked me a couple of times if we discussed it.
- Bell: There is a lot of alibing going on around here this morning.
- McReynolds: Well, as long as it is done now I am willing to take all the blame for the delay.
- H.M.Jr: All right.
- Gaston: Even though you do not deserve it.
- McReynolds: I would not say that even.
- H.M.Jr: George?
- Haas: I haven't anything. (handing documents to the Secretary) I will have the other statement about twelve-thirty.
- Duffield: I have two reports on the Barkley bill.
- H.M.Jr: Well, I don't know a thing about the Barkley bill and it is entirely in Mr. Hanes' hands. If he wants to talk to me about it he can take it out of his basket, but the next move is up to Hanes. Is that all right with you?
- Hanes: Yes, I want to talk to you. I think we ought to have a meeting some time and we ought to hear about it.
- H.M.Jr: Well, you and I are meeting at twelve-thirty.
- Hanes: There was a hornet's nest about all over the weekend.
- H.M.Jr: If at any time after ten-thirty - I don't want to postpone the tax discussion.

Hanes: I think it can wait until this afternoon.

H.M.Jr: If you want an appointment - I really want to do this this morning.

Hanes: All right, this afternoon or tomorrow morning will be all right with me.

H.M.Jr: Incidentally, Woodring told me a couple of times that we could sell a lot of Panama railroad securities to the public.

Duffield: About two million dollars.

H.M.Jr: Could you give me a memorandum on that, sending a copy to Bell, and along in that connection, Dan, will you look over the picture - Panama, T.V.A. - how many of these things there are that we have authority to sell in case we were pushed to raise money.

Duffield: You have authority under existing law -

H.M.Jr: I mean there is two million there and T.V.A. unlimited authority.

Bell: Nothing on Panama.

Duffield: I wasn't talking about legal authority.

Bell: It is possible if you got the authority -

Foley: Well, you will have to have legal authority.

Duffield: Yes.

H.M.Jr: What can I do legally is what I mean.

Foley: Under each one of these special acts that are outside of the 45 million.

H.M.Jr: Yes, and what are the possibilities.

Foley: We will do the legal side and Dan will have to do the other side because they have the figures on what is outstanding.

H.M.Jr: What authority have I - I know I have the one billion I can spend; I have 3 billion currency and how many other things?

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Gastoni: One billion four of silver certificates.

H.M.Jr: I mean how many other things are there?

Foley: Those are the things that are going to bring about the increase in the borrowing margin, if you want to put the pressure on them.

H.M.Jr: I know that.

Hanes: Just wait long enough.

Bell: There have been bills introduced to authorize new projects such as a canal through Nicaragua and Mexico and so forth. The Treasury report on those things has called attention to the President's budget message regarding projects of that character and the financing of them. I raise the question at this time as to whether the Treasury should report that way.

H.M.Jr: I just can't take it now.

Bell: I will ask Eddie to bring it up.

H.M.Jr: This thing I am asking about - the authority. Could I have it by Wednesday morning?

Foley: Yes; our part.

H.M.Jr: Everybody's part?

Duffield: Yes.

H.M.Jr: Give you two days. Anything Herbert?

Gastoni: No.

Hanes: No.

H.M.Jr: Nothing else.

(Meeting concluded)

March 6, 1939

Bill Douglas called me at 10:30 and said that if we were going to make an adverse report on the so-called Barkley Bill that he, Douglas, wanted five minutes from me to hear his side of the story because it is something which has been very close to his heart for three years.

March 8, 1939

Lunched with the President.

Gave him a group of papers on the question of German dumping, including a copy of my letter to Treadway.

I explained to the President how this German dumping worked and, much to my surprise, he did not seem to understand about it. I said that the American importer would sell 100 bales of cotton to Germany at 25% above the world price and would then use the German marks received from this sale to buy merchandise and bring it into the American market at less than our domestic prices. The President said that he would now ask the Attorney General to give us an opinion.

The President said that Eleanor Roosevelt talked to him last night. (I gather that she went to work on him and he evidently suspected my fine Italian hand, because he proceeded to give me a lecture.) He said that in 1936 and 1937 business fell off sharply due to curtailment of expenditure; that the Administration -- looking squarely at me -- agreed last Fall that we would increase expenditures and in that way bring about recovery.

I then got him on the tax program and told him that Hanes and I were anxious to see him. I gave him my little talk about wanting to make 1940 a prosperous year on account of the effect it would have all over the world and what we were proposing to do was to reduce certain taxes by \$200,000,000, but increase them by like amount through the corporate tax. The President seemed pleased that our suggestions did not include losing any revenue. He gave me a long lecture that business thought they had us on the run and if they got adjustments in the taxes they would want adjustments in other fields.

I told him that I was confining myself solely to Treasury matters. I told him that I thought business conditions were such that we could, within a month, have a boom. He said, "Well, if you have a

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boom now, will it last through until 1940?" I said, "I can't answer that, but I know it is there for the asking and the doing, and if you try to postpone it until next Fall it may not be there and I would make the most of this opportunity." I said, "Look what Paul Reynaud has done in France in three months. I thought they were over the precipice, but he has got things going in a remarkable way."

I must have asked him at least three times to see Hanes and myself and I finally got an appointment for Wednesday morning. He was ready to see me Tuesday morning, but I said I had to testify.

I then came back to my suggestion about every Tuesday afternoon having a meeting on recovery. Said he could not do it this Tuesday; he was going to do labor. He would do it Wednesday. I suggested he do cotton. Told him that Wallace and I had gotten together on the cotton export subsidy plan. "Fine."

He said, "But let's just a few of us get together at two o'clock Wednesday and," he said, "who can we have besides Wallace and yourself?" and I said, "We want Hull." "Well," he said, with a sort of peculiar look in his eye, "I think he will be too sick to come. I think we will have somebody else." He said, "Who else?" I said Hopkins. He said, "That's a good idea."

He asked me about this Power program that we worked up to refinance these various power projects. I told him that the agencies objected to the Federal Power Commission going over their books, but they were perfectly willing to have the Treasury do it. He then gave me a ten minute story on how the Army engineers did not consult the Power Commission or TVA on a certain project that went through TVA territory.

I said, "Mr. President I have a sign on my desk 'Does it contribute to recovery'. I would like to give you one." I said, "The way I feel, for the next few weeks there is so much to do to get recovery on the way that I don't want to fool around with these Power projects

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for the time being." He said yes.

I told him that Harrison and Doughton would like to see him with Hanes and myself. I subsequently remembered it was my suggestion, but I did not take the trouble to correct it.

I was with the President a full hour and a half. He drew a plan for me of the battle the two fleets had during the maneuvers. I found him very attentive and in a very friendly mood. I think at the beginning he thought I was going to be very aggressive, but by assuring him that I wished to confine myself strictly to the Treasury doing its bit for recovery reassured him. Of course how he will react on Wednesday to our program is another matter.

In the course of the conversation I said, "Mr. President, you may be surprised. I am going to tell you I want to see a boom in the stock market." He said, "That's all right." "Because rising prices in stocks does influence the executives of business and we have just got to get a boom," and to my surprise he agreed.

To summarize: what did I accomplish? I got over that Hanes and I were ready to talk about taxes. That we wanted to get the tax hearings started next week. That I wanted him to take the leadership. (2) I got over to him that I wanted him, once a week, to consider one subject and keep reconsidering that subject each week until it was solved. On the program, Wednesday we start on cotton. (3) I furthermore got over to him that I was going to concentrate only on those matters which, in my opinion, would be helpful to recovery. That I would not bother with anything else. He agreed to that.

I told him that I was going Friday afternoon to Chicago to see about Henry going there for a year and he said "That's a fine organization out there."

RE: STABILIZATION AND DEVALUATION
POWERS

March 6, 1939.
3:20 p.m.

(A conversation with Mr. Kannee on the
White House phone)

H.M.Jr:

If you'd write a memo - the President said he'd like to see Senator Wagner in regard to this extension of the Stabilization Fund, and the - underline it - right of the President to continue to devalue the dollar. And he said - I spoke to him - he said he'd like to see Wagner right away to talk to him about it. - Righto. - Well, no, I think tomorrow... - Well, I think that if you mention it to him - I think you'll find that he will want to see Wagner, because this legislation affects him personally. - Thank you so much.

3-6-39

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Message from Bell

Today's report on exchanges

Long bonds 42,000,000.

Short bonds 30,000,000.

Notes 1,000,000.

73,000,000.

about as usual for the first day.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, March 6, 1939.
3-4-39

Press Service
No. 16-62

Secretary of the Treasury Morgenthau today announced the March 15 financing offering, through the Federal Reserve banks, to the holders of 2-1/8 percent Treasury Notes of Series A-1939, maturing June 15, 1939, the privilege of exchanging such notes either for 1-1/8 percent Treasury Notes of Series B-1943, 2-1/2 percent Treasury Bonds of 1950-52, or 2-3/4 percent Treasury Bonds of 1960-65. The maturing notes will be received at par and accrued interest, and in exchange therefor 1-1/8 percent Treasury Notes of Series B-1943 will be issued at 101 and accrued interest; 2-1/2 percent Treasury Bonds of 1950-52 will be issued at 102-1/2; and the 2-3/4 percent Treasury Bonds of 1960-65 will be issued at 102-3/8 and accrued interest. All interest adjustments will be made as of March 15, 1939. Cash subscriptions will not be received.

Treasury Notes of Series A-1939, maturing June 15, 1939, are now outstanding in the amount of \$1,293,714,200. The present offering will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States.

The 1-1/8 percent Treasury Notes of Series B-1943, now offered in exchange, will be an addition to and will form a part of the series issued pursuant to Department Circular No. 600, dated December 5, 1938. They are identical in all respects with such notes, with which they will be freely interchangeable. The notes are dated December 15, 1938, and bear interest from that date. They will mature December 15, 1943, and will not be subject to call for redemption before maturity.

The 2-1/2 percent Treasury Bonds of 1950-52 now offered in exchange will be an addition to and will form a part of the series issued pursuant to Department Circular No. 593, dated September 8, 1938. The bonds are dated September 15, 1938,

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and except that those now issued on exchange will bear interest from March 15, 1939, they are identical in all respects with the bonds previously issued, with which they will be freely interchangeable. They will mature September 15, 1952, but may be redeemed at the option of the United States on and after September 15, 1950.

The 2-3/4 percent Treasury Bonds of 1960-65 now offered in exchange will be an addition to and will form a part of the series issued pursuant to Department Circular No. 598, dated December 5, 1938. They are identical in all respects with such bonds with which they will be freely interchangeable. The bonds are dated December 15, 1938, and bear interest from that date. They will mature December 15, 1965, but may be redeemed at the option of the United States on and after December 15, 1960.

Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington, and should be accompanied by a like face amount of Treasury Notes of Series A-1939, maturing June 15, 1939, with final coupon due June 15, 1939 attached, and by cash payment of the net amount necessary to adjust premium and accrued interest (about \$7.53 for each \$1,000 face amount of 1-1/8 percent Treasury Notes of Series B-1943, about \$19.75 for each \$1,000 face amount of 2-1/2 percent Treasury Bonds of 1950-52, and about \$25.30 for each \$1,000 face amount of 2-3/4 percent Treasury Bonds of 1960-65). The right is reserved to close the books as to any or all subscriptions at any time without notice, and subject to the reservations set forth in the official circulars all subscriptions will be allotted in full.

The terms of the bonds and notes to be issued on exchange, and details of the adjustment payments are set forth in full in the official circulars issued today. The texts of the official circulars follow:

UNITED STATES OF AMERICA

1-1/8 PERCENT TREASURY NOTES OF SERIES B-1943

Dated and bearing interest from December 15, 1938

Due December 15, 1943

Interest payable June 15 and December 15

ADDITIONAL ISSUE

1939
Department Circular No. 605

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, March 6, 1939.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at 101 and accrued interest from December 15, 1938, from the people of the United States for 1-1/8 percent notes of the United States, designated Treasury Notes of Series B-1943, in payment of the face amount of which only Treasury Notes of Series A-1939, maturing June 15, 1939, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series A-1939 tendered and accepted.

II. DESCRIPTION OF NOTES

1. The notes now offered will be an addition to and will form a part of the series of 1-1/8 percent Treasury Notes of Series B-1943 issued pursuant to Department Circular No. 600, dated December 5, 1938, will be freely interchangeable therewith, are identical in all respects therewith, and are described in the following quotation from Department Circular No. 600:

"1. The notes will be dated December 15, 1938, and will bear interest from that date at the rate of 1-1/8 percent per annum, payable semi-annually on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1943, and will not be subject to call for redemption prior to maturity.

"2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

"3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

"4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

"5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form."

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at 101 and accrued interest for notes allotted hereunder must be made or completed on or before March 15, 1939, or on later allotment. Payment of the face amount may be made only in Treasury Notes of Series A-1939, maturing June 15, 1939, which will be accepted at par. A premium of \$10.00 per \$1,000 and

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accrued interest from December 15, 1938 to March 15, 1939 (\$2.78159 per \$1,000) on the notes to be issued, will be charged, and accrued interest from December 15, 1938 to March 15, 1939 (\$5.25412 per \$1,000) on the notes surrendered will be credited, and the difference (\$7.52747 per \$1,000) will be due from subscribers. Treasury Notes of Series A-1939, with coupon dated June 15, 1939, attached, and the appropriate cash payment, should accompany subscriptions.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

2-1/2 PERCENT TREASURY BONDS OF 1950-52

Dated September 15, 1938, with interest from March 15, 1939 Due September 15, 1952

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER SEPTEMBER 15, 1950

Interest payable March 15 and September 15

ADDITIONAL ISSUE

1939
Department Circular No. 604

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, March 6, 1939.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at 102-1/2, from the people of the United States for 2-1/2 percent bonds of the United States, designated Treasury Bonds of 1950-52, in payment of the face amount of which only Treasury Notes of Series A-1939, maturing June 15, 1939, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series A-1939 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds now offered will be an addition to and will form a part of the series of 2-1/2 percent Treasury Bonds of 1950-52 issued pursuant to Department Circular No. 593, dated September 8, 1938, will be freely interchangeable therewith, are identical in all respects therewith (except that interest on the bonds issued under this circular will accrue from March 15, 1939), and are described in the following quotation from Department Circular No. 593:

"1. The bonds will be dated September 15, 1938, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable semi-annually on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1952, but may be redeemed at the option of the United States on and after September 15, 1950, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as

the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

"2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

"3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

"4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

"5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds."

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced

allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at 102-1/2 for bonds allotted hereunder must be made or completed on or before March 15, 1939, or on later allotment. Payment of the face amount may be made only in Treasury Notes of Series A-1939, maturing June 15, 1939, which will be accepted at par. A premium of \$25.00 per \$1,000 will be charged, and accrued interest from December 15, 1938 to March 15, 1939 (\$5.28412 per \$1,000) on the notes surrendered will be credited, and the difference (\$19.74588 per \$1,000) will be due from subscribers. Treasury Notes of Series A-1939, with coupon dated June 15, 1939, attached, and the appropriate cash payment, should accompany subscriptions.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

2-3/4 PERCENT TREASURY BONDS OF 1960-65

Dated and bearing interest from December 15, 1938 Due December 15, 1965

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND
AFTER DECEMBER 15, 1960

Interest payable June 15 and December 15

ADDITIONAL ISSUE

1939
Department Circular No. 603
Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, March 6, 1939

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions at 102-3/8 and accrued interest from December 15, 1938, from the people of the United States for 2-3/4 percent bonds of the United States, designated Treasury Bonds of 1960-65, in payment of the face amount of which only Treasury Notes of Series A-1939, maturing June 15, 1939, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series A-1939 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds now offered will be an addition to and will form a part of the series of 2-3/4 percent Treasury Bonds of 1960-65 issued pursuant to Department Circular No. 598, dated December 5, 1938, will be freely interchangeable therewith, are identical in all respects therewith, and are described in the following quotation from Department Circular No. 598:

"1. The bonds will be dated December 15, 1938, and will bear interest from that date at the rate of 2-3/4 percent per annum, payable semiannually on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1965, but may be redeemed at the option of the United States on and after December 15, 1960, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial

redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

"2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

"3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

"4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

"5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds."

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of

said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at 102-3/8 and accrued interest for bonds allotted hereunder must be made or completed on or before March 15, 1939, or on later allotment. Payment of the face amount may be made only in Treasury Notes of Series A-1939, maturing June 15, 1939, which will be accepted at par. A premium of 23.75 per \$1,000, and accrued interest from December 15, 1938 to March 15, 1939 (\$6.79945 per \$1,000) on the bonds to be issued, will be charged, and accrued interest from December 15, 1938 to March 15, 1939 (\$5.25412 per \$1,000) on the notes surrendered will be credited, and the difference (25.29533 per \$1,000) will be due from subscribers. Treasury Notes of Series A-1939, with coupon dated June 15, 1939, attached, and the appropriate cash payment, should accompany subscriptions.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 6, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Exchange subscriptions received in the New York bank at the close today totaled about \$40,000,000. \$24,000,000 was for long bonds, \$15,700,000 for the short bonds, and \$400,000 for the notes. Indications are that there will be fairly heavy subscriptions for the long bonds tomorrow by some of the banks.

<u>New Offerings.</u>	<u>Late Trad.Quot.</u>	<u>Change from Saturday</u>
2-1/2s of 1950-52	103.30	up 4/32nds
2-3/4s of 1960-65	103.28	off 5/32nds
1-1/8s of 12/15/43	102.6	up 14/32nds

RE PROPOSED TRUST INDENTURE BILL

March 8, 1939.
3:00 p.m.

Present: Mr. Hanes
Mr. Delano
Mr. Upham
Mr. Foley
Mr. Tietjens
Mr. Duffield.

H.M.Jr: All right, Mr. Hanes.

Hanes: Well, as you know, we have been asked for a report by Senator Wagner, Chairman of the Committee on Banking and Currency, on this so-called Barkley Bill.

H.M.Jr: Uh huh.

Hanes: And we had a meeting of the banking group, I think it was on Thursday or Friday of last week, at which time I stated my preferences in the matter. And there is some difference of opinion in your banking group as to the advisability of our taking any position, or such position as I proposed myself. Therefore, I said to that group that I wanted them to have their day in court and have the opportunity of explaining to you their reasons for disagreeing with me, if they are in disagreement. I don't think we are very far apart. I think Mr. Delano, whose department is directly concerned in this - I think not so much the Treasury as it is the Comptroller of the Currency - and I are seeing eye to eye alike in this thing, and we would prefer - if we were going to make any report at all on this Bill, we would prefer a report which I would like to read.

H.M.Jr: May I interrupt you? Will somebody take three minutes and tell me what the Bill is?

Hanes: Mr. Tietjens, I think, is the best qualified one.

H.M.Jr: Will you please tell me?

Tietjens: I think before I.....

Foley: The Bill was introduced last year, Mr. Secretary, and it was reported favorably by the Banking and Currency Committee. It didn't pass because it didn't get on the calendar until the very end of the session, and it died in the last minute rush, never was brought up on the floor.

Bill Douglas, when he was not a Commissioner but was on the staff over there, conducted an investment trust study, and the recommendations resulting from that study are embodied in this Bill. This Bill affects corporate trustees where the issue is more than a million dollars. Now, the details of the Bill, I think Norman is better able to develop.

Hanes: I think there is one correction there, Ed. It was not an outgrowth of the investment trust study, but rather the outgrowth of the corporate trustee study.

Foley: The corporate trustee study, the one Bill conducted himself. He is very interested.

Hanes: That's right.

Tietjens: This Bill provides that the issuer of securities which are to be secured under a trust indenture file an application with the S.E.C. to qualify that trust indenture before any securities are sold under it. Now, most of the securities that are affected by this Bill are already subject to registration by the S.E.C., so that most of the material that is required to be filed in connection with the trust indenture itself will already be filed or will be put on file afterwards with the S.E.C.

It simply requires that this trust indenture be filed with the S.E.C. for qualification. Now, in order to qualify itself under this Act, the trust indenture is required to contain certain provisions. One of those provisions is that the trustee shall not be exculpated for any neglect or any default on his part under the trust indenture. And the Bill also requires that the trustee be qualified, or it requires as a matter of fact that the trustee be a corporation - one of the trustees - under a trust indenture, and that he have a capital and surplus up to a certain amount, a hundred thousand dollars; that he be subject at least to State regulations or Federal regulations, as the law affecting that particular trustee provides.

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And it provides also that the trust indenture shall require the trustee to file lists of bondholders with other security holders, so that if there is a default the security holders may then act together to protect their interests rather than relying primarily upon the trustee to take necessary action.

It requires that the trust indenture shall contain a provision whereby the obligor, that is, the issuer of the securities, file a report with the trustee and with the security holders themselves, setting forth what he has done under the trust indenture during the particular year for which the report is filed.

Now, after the S.E.C. has examined that trust indenture and has determined that it is qualified, the S.E.C.'s duties are at an end so far as that trust indenture is concerned, except that the trustee is required to file a report with the S.E.C. once a year. The S.E.C. then can investigate if it thinks that the trustee has made any misstatements in that report.

The Act also requires that the trustee, in order to be qualified, doesn't have any tie-up or any community of interest with the issuer of the obligations or with underwriters who might be interested in the obligations; that is, it is designed to separate whatever interest there is, because they think that's a little better for protecting the interest of the security holders.

I think that's about.....

R.H.Jr: Well now, where do some of the people differ with that?

Henes: I think he stated the primary objection at the outset when he said that almost, or practically so to all intents and purposes - certainly so far as the utilities are concerned; we'll take that as an outstanding example - the S.E.C. now has the power to do just what this Bill provides. And it is rather - I think the people who object to the Bill object to it on the grounds of just one more piece of machinery placed in the way of blocking the flow of capital to productive enterprise. I think that's probably their biggest objection, isn't it, Ed?

Foley: As I understand it, Johnny, after the Bill was introduced last year efforts were made by the S.E.C. to reconcile the differences on the part of the American Bankers Association and the Investment Bankers Association, and now those two agencies are willing to say that they can live and work under the Bill, although they are not - they don't endorse it; but they don't condemn it as an unworkable piece of legislation.

And as I understand - I didn't attend the meeting, and I haven't attended the meetings, because I've been tied up on other things that were more directly related to the Treasury -

H.M. Jr: You're a gold expert, and I hope silver.

Foley: - The only - I've never talked to Bill Douglas about this at all - the only connection I had with it was about a week ago when Leo Crowley called me up and he said that he had been talking with Eicher and with Bill Douglas and he wanted to help Bill Douglas as much as possible, and there was going to be a luncheon the next day at the Washington Hotel and would I come or have some representative of the Legal Division that was working on it attend. So I said, "Sure," and I called Cy then and told Cy about it and Cy and Norman went to that meeting, where the thing was further explored.

Now I think the only difference is the interest that the Treasury has in this legislation. I understand from Norman that as a result of the meeting Mr. Hanes and Mr. Delano want to report that the Treasury is against the Bill. I feel that we are not concerned enough to step into the S.E.C. field in that way.

Last year the Comptroller's office was asked for a report and no report was made. I think either we ought to make no report or we ought to say that we are not vitally affected.

H.M. Jr: Well, if I may - I thought where we came in this time was that part of this Bill was making it mandatory for the Comptroller to turn over national bank examiners' reports to the S.E.C.

Hanes: There was such a provision. I don't think it was mandatory.

- Foley: It is just writing into the law, Mr. Secretary, what we know to be the law at the present time, and the question is, do we leave it in or do we say that we don't think it is necessary and we prefer to have it out? I don't think it makes a difference one way or the other, and I'm satisfied to go either way.
- Hanes: We had a meeting with Eicher and Bill Douglas on Saturday morning, at which time we stated our convictions about the type of legislation, in view of the whole picture of the economic system for the moment, and we said that we would prefer the Bill with that particular item left out; that in case the Bill passed, we wanted that item left out. And Bill turned to Eicher and said, "Strike it out. So far as we are concerned, we don't need it."
- Foley: O. K. with me. Doesn't make any difference.
- Delano: Mr. Secretary, on that, it might be misconstrued as attempting to write something into the law we thought we already had.
- Hanes: I think we could gain a lot of time, gentlemen, because we haven't any controversy about the Bill whatsoever - I don't think that my position - it certainly is not one of opposition to the motive of the Bill or the provisions of the Bill - if I could read you the letter here which expresses my conviction as to the proper place for the Treasury to be and one that is thoroughly tenable and one for which we could not be criticized by anybody looking at the situation in a perfectly fair-minded way. I will read this letter for you to let you see just exactly how I feel about it, and I think - this is Preston's letter - I think we are both.....
- H.M.Jr: It's for him to sign?
- Delano: I'd like to say, Mr. Secretary, that I did receive a request from Senator Wagner asking me about the position of the Comptroller of the Currency on this Bill. But this letter is drafted for the signature of the Secretary of the Treasury. We were asked in our office for our opinion and we replied saying that we were working with the Treasury on a report on the Bill and that whatever opinions we had to express would be included in the Treasury report.

H.M.Jr: Now, who asked you to do this?

Delano: Wagner.

H.M.Jr: Wagner asked you.

Foley: He asked the Secretary too.

Delano: He asked you and he asked me, and I replied and said we were working with the Treasury on the thing and whatever sentiments we had to express would be expressed by the Treasury, and that I assumed that inasmuch as that was the case he would not require any individual report from my office. I have no answer to that, and I am just assuming that's going to be the case. The only thing we have done here is make a suggestion as to what we think. This embodies Mr. Hanea' and my own ideas.

H.M.Jr: And that's what Mr. Hanea wants to read to me.

Delano: And it is just a suggestion ^{to} as/the Treasury attitude.

H.M.Jr: This is for my signature?

Delano: In case you approve.

H.M.Jr: O. K., let's have it.

Hanea: "My dear Senator:

"In response to your request the Treasury Department has given thoughtful consideration to the new legislation proposed in S. 477. The opinion herein expressed is based on the Confidential Committee Print of February 21, 1939.

"It is recognized that the purpose of this legislation is to correct certain abuses which have existed in the past in the field of corporate financing, particularly as it relates to corporate trust indentures and the responsibilities of trustees. With this purpose the Treasury Department is heartily in accord.

"It is further recognized that this legislation, as finally expressed in the Confidential Committee Print of February 21, 1939, is the result of long and careful study, and is only presented after full discussion with all interested parties. The Treasury Department believes that a workable and practical bill has been thus evolved.

"There are, however, considerations of broad national policy which pointedly raise a question as to the desirability of enacting into statute any proposals of this nature at this particular time. The objections are general and not specific. They relate to the effect of such measures upon national economic recovery. In the language of the President of the United States, "We have now passed the period of internal conflict in the launching of our program of social reform. Our full energies may now be released to invigorate the processes of recovery in order to preserve our reforms, and to give every man and woman who wants to work a real job at a living wage."

"This Department feels very strongly that every effort should now be put forth to sustain and encourage private business. Save where the need is beyond controversy, it is the opinion of the Treasury that any legislation which may be construed as embarrassing to the capital markets or as deterrent to private initiative should be held in abeyance until a larger measure of economic recovery is realized.

Very sincerely yours,"

That's my philosophy and that's.....

H.W.Jr:

No, and I'll tell you why, if I may.

Number one, I've just been with the President for an hour and a half and he asked me where we stood on this power bill that we were working on with five different groups. And I said, "Well, Mr. President, as far as I am concerned, I want to tell you one thing. What I am trying to do in the Treasury, and the people here, is very much confine ourselves to what is actually in the Treasury. This power thing is outside the Treasury. I don't think it will make a bit of difference in the next couple of weeks whether we do it or we don't do it, and unless you definitely request me to do it, I'm going to drop it, because I just haven't got time. But the things I'm going to work on for you in the next couple of weeks are strictly Treasury matters."

Now, if I hadn't heard anything about this thing and Senator Wagner would have written me this thing, I would have simply answered: "My dear Senator:

Inasmuch as this is a matter wholly coming within the jurisdiction of the S.E.C., I would appreciate it if you would not insist that I make any recommendations."

Hanes: That would suit me first rate! Make no recommendation one way or the other.

H.M.Jr: For or against this Bill.

Hanes: That's fine.

H.M.Jr: "Inasmuch as this does not come under the jurisdiction of the Treasury or any bureau in the Treasury" - or whatever you - that's what you call yourself - or department - I don't know what it is.

Foley: Bureau.

H.M.Jr: - "... does not come under the office of the Secretary of the Treasury or any bureau, but is a matter pertaining to an independent agency responsible to the President, I would appreciate if you would not....."

Delano: Fine.

H.M.Jr: ".....insist on my commenting on this Bill."

Hanes: That would suit me first rate.

H.M.Jr: What I would do is draw up such a draft, and as a matter of courtesy I would send it over by hand to Bill Douglas and say this is what I propose to send, and has he any suggestions to make?

Hanes: That would suit me first rate.

H.M.Jr: Such a draft, and has he any suggestions? Is this, in view of.....

Foley: He (Duffield) has almost that letter there.

Duffield: No, I don't.

H.M.Jr: I'd like to say (1) it doesn't come within the Treasury; (2) it pertains to an independent agency responsible to the President, and therefore I hope he will not insist that I comment on this Bill.

Is that all right with you (Hanes)?

Hanes: Oh, that's fine with me. I'd be delighted to do that. It's not any of our business. If we are asked to make a report on the Bill, I think we've either got to make no report or tell how we feel. That's the only way I approached it. That's the way I feel right there.

F.H.Jr: Well.....

Hanes: If we've got to make any report.

F.H.Jr: Without going into a long study, I'm perfectly willing on my own responsibility to write such a letter to Senator Wagner, putting it on that basis. After all, he can write me a letter about F.H.A. or Home Owners Loan, so forth and so on, and I can take the same position.

Hanes: The only place where it concerns us, so far as I can see, is this provision where they put in there a clause which might have been construed as mandatory upon the Secretary of the Treasury to do something which we have already got the power to do. Now, I imagine that's the reason they asked us for our report. I don't see why else. Did they, Ed? Why did they ask us?

Foley: I think they're asking the banking agencies generally.

Delano: They want a general comment, I think, on the effect of this Bill.

Foley: It isn't a mandatory provision, Mr. Secretary; it merely states a policy we recognize already. We don't need the power. I'm talking about turning the records over, Mr. Secretary.

F.H.Jr: No, I talked to Hanes about this feature of it Saturday and I - unless the Comptroller differs with me, I definitely don't want it; I want to leave it the way it is.

Hanes: We've agreed to that already.

Delano: We were the protagonists of that. We wanted to leave it just as it is.

Foley: My point is that it's the way it is whether the provision is in there or whether it is out, Mr. Secretary; it doesn't make any difference.

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H.M.Jr: Well, no, it does make a difference. If that was in, then I'd want to write Senator Wagner a letter and ask him to strike it out.

Delano: That's the way I feel about it.

H.M.Jr: I don't want to make it mandatory.

Upham: It's in the Bill, but he says the S.E.C. has agreed to take it out.

Foley: So it won't be necessary for us to make any mention of it. It is in the Bill now, but as I understand it, Bill Douglas and Eicher agreed with you to take it out and they are going to make the suggestion rather than we make it.

Hanes: We don't have to mention that.

Foley: I just wanted to the Secretary to understand it, because he said if it was in there he wanted to say to take it out.

H.M.Jr: Well now, are you entirely satisfied?

Hanes: Oh God, I'm a hundred per cent satisfied.

H.M.Jr: Are you (Delano) entirely satisfied?

Delano: Yes, entirely.

H.M.Jr: Who isn't? I mean.....

Foley: I'm entirely satisfied.

H.M.Jr: Well, if you (Duffield) will prepare such a letter, let Mr. Hanes see it, and I'll look at it; do it just as fast as you can. Then I'll ask you to take it over and let Mr. Douglas look at it, and bring it back. And let Mr. Delano see it.

How's that? Everybody moderately happy?

Foley: O. K.

Hanes: Very happy.

March 6, 1939

Honorable Robert F. Wagner, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D.C.

My dear Senator:

In response to your request the Treasury Department has given thoughtful consideration to the new legislation proposed in S. 477. The opinion herein expressed is based on the Confidential Committee Print of February 21, 1939.

It is recognized that the purpose of this legislation is to correct certain abuses which have existed in the past in the field of corporate financing, particularly as it relates to corporate trust indentures and the responsibilities of trustees. With this purpose the Treasury Department is heartily in accord.

It is further recognized that this legislation, as finally expressed in the Confidential Committee Print of February 21, 1939, is the result of long and careful study, and is only presented after full discussion with all interested parties. The Treasury Department believes that a workable and practical bill has been thus evolved.

There are, however, considerations of broad national policy which pointedly raise a question as to the desirability of enacting into statute any proposals of this nature at this particular time. The objections are general and not specific. They relate to the effect of such measures upon national economic recovery. In the language of the President of the United States, "We have now passed the period of internal conflict in the launching of our program of social reform. Our full energies may now be released to invigorate the processes of recovery in order to preserve our reforms, and to give every man and woman who wants to work a real job at a living wage."

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This Department feels very strongly that every effort should now be put forth to sustain and encourage private business. Save where the need is beyond controversy, it is the opinion of the Treasury that any legislation which may be construed as embarrassing to the capital markets or as deterrent to private initiative should be held in abeyance until a larger measure of economic recovery is realized.

Very sincerely yours,

March 8, 1939.
9:11 a.m.

HMJr: Hello.

Operator: Dr. Magill. Go ahead.

HMJr: Hello.

Ross
Magill: Hello.

HMJr: Ross?

M: Good morning, Henry.

HMJr: How are you?

M: Pretty good.

HMJr: I'm sitting here with two friends of yours, Gaston and McReynolds.

M: Yeah.

HMJr: Now, Ross, you've been following in the papers Pat's letter to me and my reply, et cetera --

M: Yeah.

HMJr: You've seen that, haven't you?

M: Yes, sir.

HMJr: And I again went over very carefully that little book you left me.

M: Yeah.

HMJr: That Shoup wrote, and I am talking to you now in the -- in the strictest confidence. I've had no communication with or from the President since I've made my statement.

M: Yeah.

HMJr: Any more than he communicated with me when he made his.

M: Yeah.

HMJr: And I'm thinking of the best way of trying to sell this thing to him, you see?

M: Yeah.

HMJr: And you know he never likes to have his hand forced.

M: Yeah.

HMJr: By the Hill, and the suggestion that I was going to make -- at least I'm thinking of making -- is that, if I could get your permission, would be to transmit a copy of your -- of Shoup's report, to Harrison and Doughton as the opening gun.

M: Yeah.

HMJr: Now the reason why I think I could sell it to the President is, because in it -- in the first place, it was given to me on September 7; in the second place, you say that I asked you to do it over six months ago.

M: Yeah.

HMJr: So it shows that this thing, we might say, originated with the Treasury and not on the Hill, and on that basis I think it might -- I might be able to sell it to the President.

M: Yeah.

HMJr: See?

M: Yeah. Well, I -- I -- my feeling would be this. I haven't the slightest objection to your making use of that anyway that you want to, Henry.

HMJr: Fine.

M: I -- my only caution about it would be this, that of course the -- there has been water flow over the dam since then.

HMJr: Oh, yes.

M: It -- six months old or whatever --

HMJr: Oh, yes.

M: And I presume that we ourselves would want to change it in some details. As the general picture, I think it's all right.

HMJr: Well, after all, the thing is shown on a basis of how to balance the budget and how to get another billion, -- two or three billion dollars worth of revenue.

- M: That's right.
- HMJR: And it shows how to get it.
- M: Yeah.
- HMJR: Now, it also shows what you think -- where the taxes could be approved.
- M: Yeah.
- HMJR: Now I simply -- if -- if I transmitted this on the Hill I would simply say, in order -- I wouldn't use the vernacular, but as a -- as the first -- study which I would like to give you is -- is the one which Dr. Magill and Dr. Shoup made for me and gave me just before they left.
- M: Yeah.
- HMJR: And this is the -- the benefit of two years' work on their part.
- M: Well I -- that's quite all right. I --
- HMJR: Personally, I don't see that there's anything -- as a matter of fact, I suppose you can't help but feel a little bit like I do -- that this is, -- the thing that they're talking now is the thing that you and I would liked to have told the President when we saw him in Hyde Park and he wouldn't let us.
- M: Well that's the part, I may say, that makes me kind of sick about the whole business, and that is that doggone it, this thing should have started in 1937, and it certainly should have been going on in 1938.
- HMJR: Well, now--
- M: But that's -- we can't help that now.
- HMJR: No, but if I'd send this up it shows that you were on the job and were thinking along these lines -- well, over -- almost a year ago.
- M: Yeah.
- HMJR: And it's like a little piece in the front of the Wall Street Journal, they quote what I say on the drive of private spending that we need which my November '37 speech -- they say that the -- the Gods grind slowly and they're just getting around to it now. Huh?

- M: As I said to you in the letter, I -- I'm just as sold on your 1937 fall speech as I was when you gave it.
- HMJr: Well I am too.
- M: You were right then and you still are.
- HMJr: Well, fortunately for me -- I mean, a number of the boys like Kirtner and Alsop came, oh, two months ago, Herman Oliphant gave them a song and dance that I'd changed. They came and asked me whether I'd changed and where I stood, and I said "Well, I stood just where I stood in November '37".
- M: Good.
- HMJr: I hadn't changed a bit.
- M: Well, I see no -- I don't see any -- there's no objection on my part, as I say, in your using that any way you want to. We gave it to you for the good of the cause -- go on and use it.
- HMJr: Well --
- M: All I would -- I think -- I would appreciate your calling attention to the fact, as I -- no doubt you will -- that you asked us to prepare the report, oh, a year or so ago.
- HMJr: Well it says -- right in the report -- in the letter of transmittal, it says that.
- M: Well, that's all right then.
- HMJr: Yeah, I'll -- I'll read you -- just a second. In the letter -- just a moment, please. (Pause) I was thinking of you. I had talked to my wife and I said, "Here's all this stuff which Ross wanted to do, and wasn't permitted to do, and now it looks as though we can do it." I don't know whether we can or not. I'm going to -- I'm going to make the fight of my life on it anyway.
- M: Well I hope you can.
- HMJr: Here's the first paragraph. You say -- it's written September 7th -- "You requested us about six months ago to prepare for your personal use a memorandum" -- and so forth and so on.
- M: Yeah.

HMJr: See?

M: Yeah.

HMJr: And --

M: That's all right. I -- I don't see why you can't go ahead. I presume that -- I presume that it gradually in one way or another -- the thing will get out to the public but I don't know that that does any great harm.

HMJr: Oh, you mean if we send it up there?

M: Yeah.

HMJr: Oh, you'd give it out the same day.

M: (Laughter) I should think so.

HMJr: Well, I want it to.

M: Yeah, I think that's all right.

HMJr: In fact, I'll have copies mimeographed to assist him.

M: How do -- what do Gaston and McReynolds feel about it?

HMJr: Well, I don't know; I can't tell. Wait a minute. I didn't -- I didn't prepare them for this. They've been listening. Let me ask Mac.

(Pause)

HMJr: Well, Mac says that if the President clears it, O.K. Mac hasn't read the report.

M: Yeah.

HMJr: And he hasn't -- he hasn't been up very long, and it's Monday morning.

M: (Laughter) Yeah. All right.

HMJr: Now wait a minute. Let me ask Gaston.

(Pause)

HMJr: He -- you see, I -- you told me not to show it to anybody and the only person who has seen it is Hanes, and these fellows don't know what's in it.

M: Yeah. Well, that's -- that's all right. We can't -- we can't ask for more than that, huh?

HMJr: Well, I -- I'm quite sure it's all right.

M: Yeah.

HMJr: But --

M: Well, all I -- my whole feeling about these things is this, as you know, that -- that -- I'm particularly honest -- an extremely complicated subject like this, the more public information you can get the better.

HMJr: Yeah.

M: Now we've, needless to say, -- believe very sincerely what we said there.

HMJr: Yeah.

M: As far as the fundamentals of it are concerned, we still believe it. We might make a few changes in detail owing to changes which have occurred since.

HMJr: Well, if they want to call you down to testify on it, that's all right too, isn't it?

M: I -- I will be glad to come.

HMJr: Right. Well, you tell Shoup what I have in mind, and now before I do it I'll let you know.

M: All right, sir.

HMJr: Thank you.

M: And send me a mimeographed copy.

HMJr: O. K.

M: All right, Henry. Good bye.

HMJr: Good bye.

March 8, 1939.
9:40 a.m.

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HMJr: Hello.

Operator: Mr. Welles.

HMJr: Hello.

Sumner
Welles: Hello. Good morning, Henry.

HMJr: How are you?

W: Fine.

HMJr: Sumner, I just want to remind you that I'm having lunch with the President today and this thing of -- the Treasury getting out a decision --

W: Yeah.

HMJr: On the Germans Monday, I do hope that you can give me an answer, or Mr. Hull can, before one o'clock.

W: Well, I have it uppermost in mind, Henry. He's already left for the Hill.

HMJr: Oh.

W: He has to testify before the Finance Committee on this excise tax on vegetable oil question, but I think he'll be back in time for me to have a chance to talk with him and get word to you before you go to lunch.

HMJr: O. K.

W: I certainly will do my utmost.

HMJr: Because they tell me -- you see, they ran this thing in the Boston Transcript.

W: Yeah.

HMJr: And the press have been getting more and more curious why the Treasury hasn't done something.

W: Yes. Well, I'll try my utmost to get word to you before lunch.

HMJr: Right.

W: Or if I can't reach him, I'll have to get it to you after lunch.

HMJr: Now, did you get that draft of the letter?

W: Yes, indeed. I think with the exception, possibly of one or two very minor suggestions I'd like to make to you, it's in very good shape, but before I give you definite word, I want to talk to Aranha.

HMJr: Well, I sent it to you for suggestions.

W: Yes.

HMJr: And you saw my little note about the --

W: Yes, indeed. Oh, I agree with you on that entirely.

HMJr: Leaving off the last paragraph.

W: Yeah, I agree on that absolutely.

HMJr: Fine.

W: What would be the best time for me to reach you? About twelve-thirty?

HMJr: Anytime.

W: All right.

HMJr: Thank you.

W: Thanks.

March 8, 1939.
10:39 a.m.

HMJr: Hello.

Operator: Matteson.

HMJr: Hello.

W. B.
Matteson: Good morning, Mr. Secretary.

HMJr: How is the market reacting to our offering?

M: Very well.

HMJr: Yeah.

M: Very well. As was expected the --the longer bonds went off a little; the fifty fifty-twos went up one or two thirty-seconds.

HMJr: I see.

M: They had an adjustment in the notes, which you might expect, because they would do their own financing on those.

HMJr: Yes.

M: And they've gone up about six thirty-seconds which really makes all of them in line with the quotation on the rights, which is -- which are about a hundred and one nineteen at the moment.

HMJr: A hundred and one nineteen?

M: Yeah.

HMJr: I see.

M: There's some pulling and hauling around, but not an awful lot of it.

HMJr: I see.

M: And it seems to be taking -- taking very well.

HMJr: Good.

M: I haven't heard any -- any particular comments about preference being given to the -- to the longer bonds. They just said, "Well, the Secretary wants us to take more of the longer bonds," and of course that is what you expected.

HMJr: Yeah. Well, I -- I wanted to give that hint.

M: Yes. Well, that was -- and the hint has been -- the hint has been taken and as far as I can see not an undue amount of attention paid to it.

HMJr: (Laughter) But that's the way the interpreted the eights, huh?

M: Yes.

HMJr: I understand.

M: That was -- that was a -- quite a prompt reaction.

HMJr: Well, that's all right.

M: I congratulate you on your courage.

HMJr: Why?

M: To put a premium on -- outstanding issues.

HMJr: No, no.

M: I think it's a fine thing.

HMJr: Well, I think this, that having done it, the thing to do it was to only open up old issues and not have part old and part new.

M: Oh, yes.

HMJr: Huh?

M: Oh, yes. I think so.

HMJr: That would have been a mistake.

M: And we've got an awful -- an awful mess of -- of issues here. Fifteen of notes, twenty-five of bonds, plus the guarantees, and you take the -- the technical handling of the market itself -- it makes it more and more difficult for a dealer to put in decent bids when they've got so many to bid on. That's the technical side of it, but it does have some effect.

HMJr: Well, this ought to help a little bit.

M: I think it will, sir, and I think it's fine.

HMJr: Thank you.

M: Yeah.

HMJr: Good bye.

March 8, 1939.
3:08 p.m.

HMJr: Hello.
Allan Sproul: Hello.
HMJr: Hello, Allan Sproul.
S: Yes, Mr. Secretary.
HMJr: I thought I'd announce tonight we're going to close the books on Wednesday night.
S: Yeah.
HMJr: Is that all right with you?
S: All right with me.
HMJr: Right.
S: Do you have any reports yet on how they are coming in?
HMJr: No, but I'm just going by the prices.
S: Yeah. Well they've shaken down -- I'm here in Washington at an open market meeting.
HMJr: Yeah, well, I got the prices here at two o'clock.
S: Yeah.
HMJr: Two and a half fifty fifty-two a hundred and three twenty-eight; the sixty sixty-five were a hundred and three twenty-five; and the notes were a hundred and two four.
S: Yeah. They've shaken down into just about the right relationship, I think.
HMJr: Well, I don't see any sense in keeping it open any longer, do you?
S: Well, I think there might be some value in keeping it open another day and that's -- an exchange offering of this sort was at two and an eighth sells pretty widely.
HMJr: Well, we're giving them three days.
S: That's true. I -- I don't see anything wrong with it. Have you -- in the past, Henry, there's been a certain amount of flexibility if someone couldn't get them out of a box, but if you're --

HMJr: Well, it's just too bad.

S: Yeah.

HMJr: Three days -- I can't take a chance on the European thing beyond that hour.

S: Yeah. Well, I don't see anything wrong with it.

HMJr: O. K.

S: All right, sir.

HMJr: I see -- is it -- I see they offered a Mr. Sproul in California a job.

S: So they tell me. I didn't see it, but I've been told about it here. They want to make the poor fellow a banker.

HMJr: Yeah. All right. Listen, have you fellows decided what you're going to do with your eighty million?

S: No, we haven't. They've -- this is the beginning of the committee's year and they've just been organizing.

HMJr: I see.

S: So they'll probably decide tomorrow morning because there's another meeting going to go on this afternoon of the -- the president's conference and the open market committee will meet again tomorrow morning.

HMJr: Well, after they've made up their minds, tell me.

S: Yeah.

HMJr: O. K.

S: All right.

HMJr: Thank you so much.

S: Good bye.

HMJr: Good bye. Hello --

S: Yeah.

HMJr: Matteson tells me you got a good reception in the street.

S: Yes, he told me that -- that the reception was quite

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good; that there were a few kickers, but they are chronic kickers.

HMJr: But they said Morgenthau wanted to go into the long bonds.

S: Well, that's what you expected and that's what you wanted.

HMJr: Sure, they're good mind readers.

S: (Laughter)

HMJr: All right.

S: All right.

March 6, 1939.
3:23 p.m.

Operator: Go ahead.

HMJr: Hello.
W. B.

Matteson: Mr. Secretary?

HMJr: Yes.

M: I thought you might like a report on what is happening. You've seen the quotations, no doubt.

HMJr: Yeah.

M: No change in them recently. They've settled down to about what we might have expected.

HMJr: Yeah.

M: The rights are twelve fifteen and the bonds such and such. The -- I was surprised to see the notes quite so high.

HMJr: Yeah.

M: But that's been aggravated by the people selling their rights and buying the notes, plus some -- some additional buying of those.

HMJr: I see. I was surprised to see the notes go up that --

M: Yes, I -- I didn't look for them to go over a hundred and two anyway, but that's -- that is what's liable to happen in that tin market.

HMJr: Well, we're going to close it Wednesday night.

M: Oh, my God.

HMJr: Why, what's the matter?

M: I thought you'd give us until Thursday.

HMJr: Oh well, listen.

M: You know, these are -- these are very widely scattered.

HMJr: I know. I'll give you until Thursday, but will Muesolini give me until Thursday?

M: I don't -- I don't know him well enough to ask him.

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HMJr: Well, I don't either. (Laughter) So --

M: I hope you'll --

HMJr: No, no, no, Wednesday night you fellows have got to get busy.

M: That's final.

HMJr: Yes, sir. I mean, I can --

M: I'd like to squeeze out another day, Mr. Secretary.

HMJr: It can't be done. If you do any squeezing we'll make it Tuesday night.

M: (Laughter) Well, I guess I'll -- then I'll say Wednesday is fine.

HMJr: Well, I compromise with you on Wednesday.

M: (Laughter) You -- yes.

HMJr: All right.

M: Well, I'll have to say it's all right, I'm afraid.

HMJr: All right.

M: We better send out a circular tonight, I guess.

HMJr: Yeah, Danny's working on it now.

M: Yeah. All right, sir.

HMJr: Thank you.

M: Good bye.

March 6, 1939.
3:41 p.m.

HMJr: Hello.

Operator: Secretary Wallace.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Henry
Wallace: Yes, Henry?

HMJr: Henry, I had lunch with the President, and I brought up my Tuesday afternoon idea. -- Hello?

W: Tuesday afternoon?

HMJr: Well, every Tuesday afternoon he was to devote --

W: Oh, yes, yes, I remember, yes.

HMJr: And then he got on a question he had of export business -- really export subsidy, see?

W: Yeah.

HMJr: So I said, "Well, why don't you make the first meeting with Wallace on cotton?" I said, "That affects a large proportion." And I said, "He and I are together. We don't know where the State Department is, why don't you see it?" So he says, "Fine, I can't do it Tuesday because I got Labor, but I'll do it Wednesday at two o'clock." See?

W: Yeah.

HMJr: And I wanted to get that to you and then Johnny Hanes is standing here. He said you people were going over to State and he didn't know whether that would make any difference or not, but I'm just passing it on. I -- I hope you are pleased that I got this appointment.

W: Why I think it's very fine.

HMJr: And I --

W: Is he rather -- do you think he's rather for our approach.

HMJr: I -- well, he gave me this whole lecture on how we should use -- that concern that makes a hundred million electric

light bulbs. We'll get them to make ten percent extra and we'll sell those to the world market at cost. So he made that statement first, you see?

W: Yeah.

HMJr: I said, "Well, if you'll do that then I think you'll be interested in what Wallace and I have in mind about cotton."

W: Yeah.

HMJr: So he said, "How about cotton goods?" So I said, "Well, Wallace has that in mind also."

W: Uh-huh.

HMJr: So he seems in a very receptive mind and -- and I said, "I think we ought to meet -- continue to meet until that thing is settled", and I said, "That certainly would give recovery a big boost if that could be settled."

W: Now, I've arranged, Henry, to meet with some of the congressional leaders Wednesday morning.

HMJr: Yeah.

W: All -- all people from the -- all Democrats, and all from the south.

HMJr: Fine.

W: And I think it's just as well to go ahead with that, don't you?

HMJr: Yes, I -- and I hope you don't mind my -- but it was such an ideal time --

W: Oh, of course -- I'm glad you did it.

HMJr: When the President was talking on that subject to bring it up.

W: Yes.

HMJr: So, I'll see you -- not before Tuesday and Wednesday. Now, do you want -- do you want Hanes to go on over just the same? To State?

W: I think we better go on over and talk to Cordell in advance, don't you?

HMJr: Fine. It can't do a bit of harm.

W: I think it's a good thing to do.

HMJr: Right. Well, I wanted to let you know what I said and how it came about, and so forth and so on. I don't think I did any harm and I may have helped a little bit.

W: Who's going to be called in Wednesday at two o'clock, do you know?

HMJr: Well, he said, you, and myself, and Hopkins, and he said somebody from the State Department.

W: That's all then?

HMJr: That's all.

W: It wouldn't be a big meeting then?

HMJr: He said he only -- he didn't want but four.

W: I see.

HMJr: He didn't want a big meeting. He said he wanted a preliminary meeting.

W: All right we'll be -- I'll be ready.

HMJr: But I wanted you to know how it happened.

W: That's fine.

HMJr: All right, I'll be -- I'll be right there to back you up.

W: All to the good.

HMJr: Fine.

W: Good bye.

HMJr: Good bye.

March 8, 1939.
3:46½ p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Jesse
Jones: Helly, Henry.

HMJr: What's this I see in the paper that you're advertising
that you're Jesse James?

J: Well, I thought -- things are a little bit dull, I'd
better advertise.

HMJr: Uh-huh.

J: I couldn't get in the paper any other way.

HMJr: Is that so?

J: So I thought I better just advertise a little.

HMJr: How's the fishing down there?

J: Well, not so good for me. I don't have -- I don't have
much luck fishing.

HMJr: Oh, my.

J: But the weather is beautiful, Henry.

HMJr: Well that's something.

J: It's fine, and that's what I came for is the weather.

HMJr: Right. How's Mrs. Jones?

J: She's fine.

HMJr: Give her my regards.

J: Thank you. What's the news with you?

HMJr: Well, our issue was accepted very well today, and much
to my surprise the five-year notes went up fourteen
thirty-seconds.

J: Is that so?

HMJr: And the fifty fifty-twos went up five thirty-seconds, and the long ones went off five thirty-seconds.

J: Uh-huh.

HMJr: But there's plenty of gravy there.

J: Yeah.

HMJr: And we're going to close it Wednesday night.

J: Well, you feel pretty good about that.

HMJr: I think so. It's -- after all, a billion three is still a billion three even in this country.

J: It's still quite a lot of dough, isn't it huh?

HMJr: And otherwise things -- I had quite a long luncheon with the President and I found him in a very good frame of mind.

J: That's good.

HMJr: I wish he could see a few business men that we have been seeing recently who are more -- how shall I say -- in a cooperative frame of mind.

J: Yeah.

HMJr: I don't think he's seen some of those fellows.

J: Uh-huh.

HMJr: But I found him in a very good frame of mind.

J: Well, that's fine. I sent you a little letter on -- I don't know whether you've got it yet or not -- on Aranha.

HMJr: No, I -- I haven't got anything from you.

J: Well I sent it to you. I guess it's over there maybe now. I sent it over today by messenger from -- I sent it up from here yesterday.

HMJr: Listen, Aranha offered me the use of an island down there. Did he offer it to you?

J: No, he hasn't yet.

HMJr: Well, I just wanted to know how I stood with him, that's all.

J: Well, if he -- he hasn't -- well you stand better than I do.

HMJr: Well, maybe there's something the matter with the island.

J: Well, maybe there is. Maybe there is.

HMJr: Well, I've got nothing; I feel pretty good. Johnny Hanes is here. He feels all right.

J: Well, that's fine. Well, I was just talking to the office and thought I'd say a word to you.

HMJr: Well, do that again soon.

J: All right. Good bye.

HMJr: Good bye.

March 8, 1939.
3:51 p.m.

HMJr: Hello.

Operator: Mr. Welles. Go ahead.

HMJr: Hello.

Sumner
Welles: Hello.

HMJr: Hello, Sumner.

W: Hello, Henry.

HMJr: Yeah.

W: Could I drop over to see you at ten tomorrow morning,
or are you busy?

HMJr: I'm testifying at ten o'clock on the stabilization fund.

W: Well, are you tied up -- are you going there straight
from your house or could I drop in earlier than that?

HMJr: You can drop in much earlier. How about --

W: How about nine twenty -- would that suit you?

HMJr: Nine twenty would be fine.

W: Right. I'll drop over at that time and I'll bring with
me then the two drafts. And with regard to your letter,
there is one slight change that he's asked.

HMJr: That's fine. Will you show it to me tomorrow?

W: What?

HMJr: You'll show it to me tomorrow.

W: I'll bring it over with me at that time.

HMJr: And--

W: With regard to his own letter, he wants to revise it so
as to omit any of the references to the Bank of Brazil
that we incorporated in that memorandum.

HMJr: Well, whatever -- as long as he leaves the fifty million
off it's O.K. with me.

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W: That's out.

HMJr: All right.

W: All right. Mr. Hull spoke to you before lunch, didn't he?

HMJr: No he didn't. I had no call from him.

W: Good God! He promised me positively that he would call you at twenty minutes before one.

HMJr: I've had no call.

W: Well, I'll speak to him immediately about it.

HMJr: Yeah.

W: Are you going to be there for the next few minutes?

HMJr: Yeah, I have a press conference at four, but he --

W: I'll speak to him immediately.

HMJr: I -- I've had no call from him.

W: I'm perfectly astonished. I left him and he said he was calling you then.

HMJr: No.

W: Well, I'll speak to him again right away.

HMJr: Thank you.

W: Good bye.

March 6, 1939.
4:59 p.m.

HMJr: Hello.

Operator: Mr. Emmerich.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Herbert
Emmerich: Hello.

HMJr: Herbert Emmerich?

E: Yes, Mr. Secretary.

HMJr: How are you?

E: Fine, and you?

HMJr: I'm fine. Now, is Mr. -- what's his name, of the
Housing thing --

E: Woodberry?

HMJr: Yes, is he going to be there Saturday?

E: Yes, he'll be here.

HMJr: Good. Now what do you want to do with me Saturday?

E: Well I guess you haven't gotten my letter.

HMJr: No.

E: Well, I suggested you get off at Engelwood which is
nearer here than -- than downtown.

HMJr: Yeah. Well I'm coming on the B. & O.

E: Oh, you are?

HMJr: Yes.

E: Well, if you prefer the B. & O., fifty fifty south
Chicago is a little closer.

HMJr: Well, is Engle -- I -- I -- would you rather I came on
the Pennsy?

E: It's a little closer here.

HMJr: Well, I could do that.

E: I think you'll find it a little more convenient.

HMJr: Well, I'll come on the Pennsylvania.

E: And I've reserved a room for you over at the hotel here.

HMJr: Good.

E: The Hotel Shoreland.

HMJr: Good.

E: I'll pick you up at the station when you get here in the morning.

HMJr: Fine.

E: And then I thought I'd like you to see our building while we're in action.

HMJr: Right.

E: And Saturday morning we close at noon.

HMJr: I see.

E: And if you care to have some of the men in the building here go to lunch with us --

HMJr: Yes.

E: You could ask them more about the work.

HMJr: Good.

E: Now, I haven't made any other definite plans.

HMJr: I see.

E: I -- I think that if you're -- as long as you're out here some of the people at the University would like to meet you, but I didn't want to load you up with a lot of schedules.

HMJr: Well, Mrs. Klotz --

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E: I think Mr. Hutchins and Mr. Merriam and some of the other men would like to meet you.

HMJr: Well, I --

E: Either dinner Saturday night or whenever they can.

HMJr: Well, the only thing that I have is Jake Viner sent me a telegram and he wants me to have dinner with him Saturday.

E: Yes, I -- I'm probably to blame for that because I saw him the other day and mentioned that you'd be here.

HMJr: Well, that's all right. Well, now, what I want to do is, I want to get as much as I can to help make up my mind whether -- about my son, you see?

E: I understand.

HMJr: That's the purpose.

E: Surely.

HMJr: Now, if the president of Chicago has got time to see me, I'd love to see him.

E: Yeah.

HMJr: If they keep it informal.

E: Yes, of course.

HMJr: Well, what would you suggest?

E: Well, I think that if you -- are you planning to stay here until Sunday afternoon?

HMJr: Yes.

E: That ought to give us plenty of time with Woodberry to canvass the situation here and take as much time Saturday at lunch as necessary with our -- the rest of our men to get you acquainted with the work.

HMJr: Fine.

E: But I think President Hutchins is tied up on Sunday. Saturday evening is probably the only time he could have.

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HMJr: Well, I'd be more than delighted to see him Saturday evening if he's free.

E: Yes.

HMJr: And then maybe you could suggest to Viner if he wants me for lunch Sunday, I'd be glad to come for lunch there.

E: I see. I'll be glad to tell him that.

HMJr: How would that be?

E: That would be very nice indeed, and Hutchins won't be back until tomorrow so I can confirm it with him and let you know.

HMJr: And you get in touch with Jake and tell him if he's -- if he wants me Sunday for lunch I can go there Sunday for lunch.

E: Fine.

HMJr: See?

E: Well, that will give us Sunday morning if you want.

HMJr: Yes, I would like Sunday morning, and then if I want to rest Saturday afternoon I can take a couple of hours and go to the hotel and rest.

E: Sure.

HMJr: I'm not -- I don't -- outside of the University, I'd just as leave -- I don't want to advertise I'm out there.

E: I'll try my best to keep it.

HMJr: Yeah. Well, just in the University.

E: All right, sir.

HMJr: And thanks for all the trouble, and then we'll leave it that way, and if I come does it mean tuxedo Saturday night? You could let me know.

E: No, it won't.

HMJr: It won't? Good. All right, now I -- well, I'll leave the matter in your hands.

- 5 -

E: Very good, and I'll pick you up at the station on Saturday morning at the Pennsylvania.

HMJr: After you know what I'm going to do Saturday night, you might send me an airmail letter and I'll get it.

E: All right, I'll do that.

HMJr: Thank you so much.

E: All right, sir. I'm looking forward to seeing you.

HMJr: Thank you.

E: Good bye.

HMJr: Good bye.

Treasury Department
Division of Monetary Research

Date March 6, 1939. 1938

To: Secretary Morgenthau

Though I appreciate that this opinion is contrary to that of your staff, I am convinced of the soundness of this position and feel I should again call it to your attention.

MR. WHITE
Branch 2058 - Room 208

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 6, 1939

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Treasury Finance

I. The Situation

1. We are afraid that there will be increasing pressure and criticism directed against the Treasury policy of not using its cash assets to reduce the outstanding debt now.

2. The cash assets in the hands of the Treasury total over \$6 billion:

	(In millions)
Stabilization Fund	\$2,000
Silver certificates that could be issued	1,400
Cash in special depositories	870
Cash in Federal Reserve banks	1,250
Gold in the General Fund	700
Total	\$6,220

3. An analysis of the reasons used to justify the maintenance of this large reserve of cash leads us to the conclusion that the Treasury, in attempting to hold so large a cash reserve, is vulnerable to the criticism that it is wasting public funds.

II. What should be done about it

1. We urge that a conference of best experts on the subject be called in to canvass the whole situation.

2. We urge that Treasury operations should be re-examined with reference to:

(a) ~~Treasury operations should be re-examined with reference to~~ the possibility of investing more of the cash assets in government securities.

Secretary Morgenthau - 2

(b) The possibility of readjusting the proportion of bills to total outstanding government obligations for the purpose of reducing the interest cost of the public debt, and reducing interest rates both public and private.

(c) The possibility of lending at extremely low interest rates some of the Stabilization Fund and some of the unissued silver certificates to farmers, small business men, and prospective home builders, etc. for the purpose of stimulating investment. (If you are interested, we have some suggestions as to how this might be done.)

III. The following reasons have been advanced in favor of the maintenance of these large cash holdings:

1. To reduce them would add to the excess reserves and thereby increase the danger of inflation.
2. If the silver certificates were employed it would arouse alarms of inflation.
3. The large cash reserve serves as an emergency fund in the event the financial market turns bad at a time when a large financing is scheduled.
4. Reduction of the volume of government bonds would drive up the price of bonds to a level which could not be maintained and thereby contribute to undesirable fluctuations in the government bond market.

An analysis of each of these reasons convinces us that they are an inadequate justification for foregoing a saving of at least \$50 million a year on interest account.

March 6, 1939

To: The Secretary
From: Mr. Kanes

Mr. Messersmith, Assistant Secretary of State, just called me to say that Wayne Taylor had been the Treasury representative on a committee formed by the State Department, at the suggestion of the President, to include representatives of War, Navy, Treasury, Justice, and State Departments for the purpose of devising ways and means of combating espionage difficulties in the country. He said the President had asked Mr. Welles to start this committee going again and that they were looking for a representative from Treasury this afternoon at four o'clock. I told Mr. Messersmith that we would have a representative there to take Wayne Taylor's place on that committee. I suggest Archie Lochhead, and if this meets with your approval, he will attend the meeting at four o'clock this afternoon.

JWH:ce

REB

GRAY

London

Dated March 6, 1939

Rec'd 4:32 p. m.

Secretary of State,
Washington.

300, March 6, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Asked in the House of Commons this afternoon whether we would give an assurance that before entering into negotiations as to a loan to General Franco the Prime Minister would lay down as a condition the recognition by the new Spanish Government of the legitimate (?) of the national minorities in Spain, Basques, Galicians and Catalans, Chamberlain replied "no such negotiations are at present in prospect and the question therefore does not arise".

This answer, of course, has no bearing on any credits or loans the city may care to advance. (Paragraph two, my 255, February 20, 6 p.m.).

The volume of trading has been larger in the foreign exchange market today and the British fund has obtained a fair amount of dollars. The flow of funds from London to

Paris

REB

2-#300, From London, Mar.6,7p.m.

Paris continues unabated. Developments in Belgium are being closely watched in the city and the 11% discount on three months' belgas is indicative of the market's appreciation of the fact that Belgium is faced with fundamental economic and financial problems as well as internal political controversies. (Paragraph two, No. 244, February 17, 6 p. m., and subsequent telegrams).

For the first time in many days the amount of married gold bars at fixing was large, 92 out of 193. The British Fund obtained a small amount of the fixing gold.

KENNEDY

HFI

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 6, 1939, 5 p.m.

NO.: 411

FROM COCHRAN.

Today at noon I visited at the Bank of France. The French stabilization fund had acquired 80,000 pounds on the market and \$1,050,000 direct from Guaranty by that hour. Today the Chase Bank had the order for buying dollars. On Saturday the French stabilization fund's holdings in gold passed 19 billion francs. Thus my Bank friends are well pleased with the progress their country has continued to make in the monetary field. My friends are especially happy that they did not have to yield to suggestions coming from governmental circles last November and December that the franc be brought to 170. Last week Bolton was here from London, and he confirmed the view of my friends that if the franc had been tied to the dollar then, the resultant odious reflection on sterling would have had a disastrous effect on the pound.

Confidentially I have been given to understand that Reynaud, Minister of Finance, had offers recently of a foreign loan from Mannheimer of Mendelssohn, and gave serious consideration to submitting a bill to Parliament which

- 2 -

which would permit him to raise new money outside the country. However, Bank of France officials dissuaded him from taking this step, arguing that such a loan would be merely giving French capital abroad a better proposition than if it subscribes to domestic French loans. They said that unless there is a war no new funds should be sought abroad. They added that rumors of the interest of the Treasury in getting a loan from Mannheimer were already weakening the credit standing of the Government, and bringing open criticism upon officials in the Treasury for their allegedly close association with that individual.

This evening I had a telephone conversation with Manager Baudewyns of the Belgian National Bank at Brussels. He had called me while I was away on my trip to the northern countries. The purpose of his call had been to ask whether we could guarantee on the date of shipment from Europe the price we would pay for gold upon delivery in New York to the Federal Reserve Bank. When I talked with him I explained our regulations, and it seemed to satisfy him. On Saturday he said the National Bank of Belgium had lost \$600,000 gold, and ^{losses} ~~they~~ would be about three times greater for today. Therefore he said there was no extremely heavy pressure, and the Belgian Government is absolutely not contemplating a change in monetary policy at present.

Tonight they would reach a decision, he said, as to

whether

- 3 -

whether an effort would be made to set up another government or whether there should be dissolution of Parliament. Baudewyns said that the Reichsbank President, Funk, together with Puhl would attend the week-end meeting of the BIS at Basel.

Some gossip on Paris Bourse today of monetary inflation in the United States presumably due to statements of Senator Thomas quoted in AGENCE ECONOMIQUE.

END OF MESSAGE.

BULLITT.

EA:LWW

JR

SPECIAL GRAY

Paris

Dated March 7, 1939

Rec'd 12:20 p.m.

Secretary of State,
Washington.

416, March 7, 3 p.m.

FROM COCHRAN.

Weaker tendency in dollar which developed yesterday increased today. Guaranty has buying order for French control and by 3 p.m., has acquired \$3,500,000. Guaranty has also sold two and a half million dollars to the British control today. Lazards big seller of dollars. Pressure on belga lightened somewhat with decision to dissolve Parliament. Paris security market registered no significant changes following Reynaud's speech of last night on repatriation of capital, reduction of interest rates, et cetera.

BULLITT

CSB

Pages 96-97 replaced
with 3/7/38

March 7, 1939.
3:47 p.m.

HMJr: Hello,

Edward G.
Kemp: Hello, Mr. Secretary.

HMJr: How are you?

K: Very well, sir.

HMJr: Mr. Kemp I wanted the Attorney General, and not being able to get him I'm going to ask you to help me out.

K: Right.

HMJr: You have a Mr. Oliver, Assistant United States District Attorney, in New York, in charge of our customs cases.

K: Yes, sir.

HMJr: On Thursday we're sending two of our Treasury people to Paris and to Berlin on these countervailing duties. There's been a question of a Treasury decision pending for quite some time and I believe that the President is now going to release it. I mean they've held it up over there -- the State Department did before your time. Now, we are very anxious that Mr. Oliver accompany our people Thursday to Europe to get some additional evidence, inasmuch as he's going to have to try the case.

K: Uh-huh.

HMJr: If the case comes up, why we figure that if he gets the thing on the ground he'd be better equipped.

K: Yes, sir.

HMJr: The Treasury is ready to pay all the expenses of Mr. Oliver, and if we could get a clearance on that today I'd appreciate it very much.

K: Well, I'll try to do that, Mr. Secretary.

HMJr: And -- Oliver is here, and you can get at him through Ed Foley.

K: Oh. Oh, all right.

HMJr: See?

K: Yes.

HMJr: The boys brought him down here and told him what it's all about, and what I'm going to do -- I signed a letter to the Attorney General. I'll send it over by hand to you.

K: Thank you, if you will.

HMJr: And if there's any question, ask the Attorney General to call me back.

K: Yes.

HMJr: But this is a matter which I lay great importance on, and I think it would be helpful to have a representative of the Attorney General get the evidence, so to speak, on the ground.

K: Yes.

HMJr: See?

K: Yes.

HMJr: And I'll send the letter over to you and if there's any question in Mr. Murphy's mind, have him call me.

K: All right, Mr. Secretary.

HMJr: And you -- thank you.

K: All right.

HMJr: Good bye.

March 7, 1939.
4:51 p.m.

Daniel
Bell: April fifteenth.

HMJr: It's O.K.

B: Yeah, and I told Steve Early because I understood that the President was going to be asked about it at press today at four o'clock, but I told Steve that I thought I ought to talk to the President before he announces it because he ought to know something about it.

HMJr: Yeah.

B: So I don't know whether he was going -- what he was going to say at the press conference at four o'clock.

HMJr: May I say that nothing has pleased me or the Treasury in a long time as much as to have you come back and --

B: Well, thanks a lot. I appreciate getting back too.

HMJr: Well, it makes --

B: But he said that it is quite embarrassing to him up there. He's had quite a time the last two days.

HMJr: Well, I'm not worried --

B: You're not worried about that, but --

HMJr: No, but to have you back again as one of my principal assistants will be grand.

B: Well, that's very nice of you to say, and I appreciate it. I'll be glad to be back.

HMJr: Well --

B: But I think it ought to be announced just as soon as possible now in view of all this churning.

HMJr: O. K.

B: Yeah, fine. Thanks a lot.

Tuesday, March 7, 1939

Dr. Hu Shih, the new Chinese Ambassador, called upon the Secretary today, Mr. Lochhead also being present. Dr. Hu Shih explained that he had been prevented from calling earlier because of the severe heart attack which he had suffered, but wanted to take the first opportunity of letting the Secretary know how much he appreciated the assistance which the Treasury had given to China, especially in arranging the loan of the Export-Import Bank to the Universal Trading Corporation.

He pointed out that the granting of this loan, coming at a time when China's fortunes were at their lowest ebb, had had a tremendous psychological effect on the people of China, the importance of which would be difficult to estimate. The Secretary assured Dr. Hu Shih of his continued interest in China and observed that it was a hopeful sign that the democracies of the world appeared to be on the upward path.

THE COUNSELOR OF THE DEPARTMENT OF STATE
WASHINGTON

March 7, 1939.

Dear Mr. Secretary:

Upon the receipt of your note of March 3rd I communicated with the President who approves the appointment of Mr. Archie Lockhead as a member of the Board of Trustees of the Export-Import Bank in succession to Mr. Wayne C. Taylor. Appointments to the Executive Committee are made without reference to the President and I have no doubt that Mr. Lockhead will be named to that Committee to take Mr. Taylor's place. I have communicated with the President of the Bank and probably he has already notified Mr. Lockhead of the action that has been had.

Yours very sincerely,

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

Tuesday, March 7, 1939

Mr. Snow of the Farm Credit Administration telephoned yesterday and stated that they wished to make an offering of debentures of the Federal Intermediary Credit Bank in the amount of \$20,950,000, maturing in six, eight and one half, and eleven months, respectively. As they have \$7,000,000 in maturities on March 15, this would represent approximately \$13,000,000 new money. The rates at which these debentures are to be issued are .20, .25, and .30% per annum respectively.

After clearing with Secretary Morgenthau and Mr. Bell, advised Mr. Snow the Treasury had no objection to this offer if announced not earlier than Thursday, by which time the Treasury's refunding of March 15 will be completed.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: March 7, 1939

3 PM

TO Secretary Morgenthau

FROM W. H. Hadley

<u>New Offerings</u>	<u>Now Quoted</u>	<u>NEW YORK</u> <u>Total Exchanges (millions)</u>
2-1/2s 1950/52	104.5 up ⁶ / ₃₂	62
2-3/4s 1960/65	104.3 up ⁷ / ₃₂	106
1-1/8s 12/15/43	102.3 off ³ / ₃₂	23
		<u>191</u>

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 7, 1939

4 PM

TO Secretary Morgenthau

FROM W. H. Hadley

<u>New Offerings</u>	<u>Now Quoted</u>	<u>Total Exchanges (millions)</u>
3-1/2s 1950/52	104.5	80
2-3/4s 1960/65	104.3	150
1-1/8s 12/15/43	102.3	23
		<hr/>
		253

March 7, 1938

My dear Mr. President:

I hasten to send you, by hand, a copy of Walter Lippmann's article, "The Necessity for American Recovery".

Lippmann expresses in his column today the same philosophy towards the present world-wide situation that I tried to explain at luncheon with you yesterday. I was particularly thrilled in reading what he had to say as I have had no communication with him on this subject.

May I say in closing that I believe Lippmann "hit the bull's eye" and I concur with his thoughts 100%.

Very sincerely yours,

The President,
The White House.

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Very sincerely yours,

The President,

The White House.

Mr. Lee in Pres.

Dear Hester to
 send you by hand a
 copy of Walter
 Lippmann's article "The
 Necessity for American
 Reform."

It ~~is~~ ^{is} ~~expresses~~ ^{exposes}
 the ~~same~~ ^{same} philosophy
~~of the past~~ ^{of the past} ~~that~~ ^{that} ~~is~~ ^{is} ~~still~~ ^{still}
 towards the present
 situation that I
 tried to explain at
 the time with you
 by day.

I was particularly thrilled

reading what he
 had to say as I
 have had no
 communication with
 him on this subject
 May I say in
 that I
 have Lippmann.
 at the bulls eye
 and ~~I endorse~~
~~and the sentiment~~
~~expressed in~~
 commensurate with
~~the~~ ~~strength~~ ~~of~~
 100%.

TODAY and TOMORROW

By WALTER LIPPMANN

The Necessity for American Recovery

NO DOUBT it is true that over and above the deterrents to economic recovery in the United States, there are the greater deterrents of the international race of armaments, the unending series of diplomatic crises, and the world-wide fear of war. In every important decision that the government has to make, in every important commitment that business men and bankers might consider, there is the proviso: will the decision be right, will the investment be safe, if the world goes to war?

Yet it is equally true, and practically it is much more significant, that a genuine full recovery in the United States is the greatest contribution that can now be made to the prevention of war. Recovery in America is in fact indispensable to the defense of law and order in our world, to the consolidation of that determination, which is now manifest in every country, to defend the peace against aggression and revolution. There has been a radical improvement in the international situation during the past two months. But this improvement can be maintained and advanced only if in the United States the unemployed men, the partially employed machines, and the reserves of idle capital are brought into production.

The American economy represents approximately half of the commercial capacity of the world. For that reason depression and prosperity in the United States have an enormous and probably a decisive influence upon the economic life of all the other nations that depend, much more than we depend, upon normal international trade. There is little doubt, for example, that the severe American slump of 1927 was one of the causes of the lamentable weakness of Great Britain and France during the summer of 1938. Not only did the general economic decline aggravate the economic and social difficulties within France and Great Britain; the fall in primary commodities prices enabled Germany, which is organized not for normal trade but for barter, to obtain at knockdown prices the raw materials for the armament program.

In fact, depression in the outer world, since it creates unobtainable surpluses of raw materials, is a subsidy to a regime like that of the Nazis which operates on forced labor at home and barter abroad. But it is a disaster to the free nations which must sustain their armament programs, and care for their unemployed out of the income from the free exchange of goods.

We may go further and say that the reason why the dangers of war are so much less today than they were in the autumn is that the pacific nations appear to be winning the race of armaments. No doubt the waste of the wealth of mankind; the only thing that can be sold for it is that it is cheaper and less horrible than a war or than surrender to aggression. And since there is no known way of discouraging aggression except to demonstrate that aggression cannot be successful, the armament programs are the least of the possible evils.

But these programs cannot be carried out by free nations unless they are able to put all their resources to work. They simply cannot afford to arm at such gigantic cost and at the same time support millions of unemployed, run their industries on part time, bury their gold in the ground, and freeze up their capital in the banks. And since the American economy is the greatest factor in the economy of the world, it will be decided by what happens here whether the whole world-wide effort is to be sustained long enough to be successful or whether it is to be stopped and ruined by bankruptcy and economic collapse.

If the President would look at this situation in its largest and most statesmanlike aspect he must see, it seems to me, how much is at stake in the present agitation for recovery. It is not only a question of politics at home, nor of the condition of the American budget, nor of this or that measure of the New Deal. These things are important, but much more important is to give to the immensely hopeful movement for an honorable world peace quick and substantial economic assistance.

The moment is right for a decisive show of policy by the President which will bring promptly into action the energy of a great recovery in America. What is needed and what is possible is not a series of little measures accompanied by verbal assurances, but an action as decisive as his embargo on gold in the spring of 1933, which will ease the resumption of private investment. The only thing which will surely bring that about quickly is to offer investors and speculators the inducement of profits large enough to overcome their inertia and their fears.

The stroke of policy most certain to do that would be the repeal of the capital gains tax. No doubt there are theoretical objections to this. But every bold and decisive stroke has some disadvantages. The question is whether, given the total situation here and in the world, a quick resumption of speculation and investment for profit would not produce immediate and general benefits that outweighed all the theoretical disadvantages.

I think it would. It seems to me that we should say to ourselves that the resumption of private investment is absolutely necessary, that none of our other problems can be dealt with unless we can bring about the resumption of private investment. If that is true then we ought to use whatever means are necessary to achieve the end. We should make up our minds that what is at stake is much too important to be jeopardized by half measures. We have not hesitated to subsidize the farmers not to produce; we ought not to hesitate to subsidize by means of drastic tax reform the inducement to the capitalists to invest.

For the prosperity which this willingness to invest boldly can bring to us and to the world is indispensable everywhere at this time to the maintenance of peace and to the restoration of order.

RE DISTRIBUTION OF "DOES IT CONTRIBUTE TO RECOVERY" SIGN March 7, 1939.
9:10 a.m.

Present: Mrs Klotz
Mr. Gaston

H.M.Jr: What I want you to do, and I thought you could get Bryan to help you - I want to merchandise that thing: "Does it contribute to recovery?" See? Now, I mentioned it to the President yesterday and I'd like first thing if you would take one over, a couple of them over to Steve early, see? And whether the President wants to put one on his desk or not - but at least I said I'd send one over.

I want to send one with a letter from me to every member of the Cabinet, every head of every independent agency, see, and to the Democratic leaders in the Senate and the house.

Gaston: Uh-huh.

H.M.Jr: Some thought like this: "In view of the present situation, I have had this enclosed card - 'Does It Contribute to Recovery' - placed on a prominent place on my desk. The thought is that as various proposals are brought to my attention, before examining them I ask myself the question, 'Does it contribute to recovery?' And if you will concur in this thought, possibly you would like to place this sign on your desk." See? something like that, see?

Gaston: Uh-huh.

H.M.Jr: And then the thought that I had was - and I wanted Bryan - was the possibility of getting out a letter to the baby Bond people, and when I write these baby Bond people to put something like this in, and the possibility of maybe putting a sticker in, see?

Gaston: No, I don't like it at all, but I'm thinking about it.

H.M.Jr: All right, you think about it. You think about Bryan.

Gaston: I wouldn't think of putting anything in baby Bond stuff except straight baby Bond promotion.

-2-

H.M.Jr: well, that's all right. Think about it, and I'll talk with you and Bryan this afternoon.

Gaston: Right.

H.M.Jr: and we have the letter where we talk about the - I can talk about that just as well as urging a fellow to buy the Baby Bond.

Gaston: I don't think so.

H.M.Jr: well ...

Gaston: if you're going to talk about that, you might as well talk about passing the reorganization bill or cutting down Federal expenditures - much more appropriate; cutting down Federal expenditures - or talk about the tax bill; or, in other words, get out a newspaper.

H.M.Jr: Well, the original idea of the Baby Bond was to create a rentier class so they could be there to appeal to in times of emergency, and this is a time of emergency.

Gaston: no, I wouldn't put it there.

H.M.Jr: All right. What about sending it to the President and sending it to these people? If you have any question, I'll just write a letter to the President and send one over to him.

Gaston: I'll take it over there. I'll take it over there; I'll be delighted to.

H.M.Jr: To Steve.

Gaston: yes, sure.

H.M.Jr: I mentioned it to the President at lunch. He can throw it in the ash can if he wants to.

Gaston: Sure he can.

H.M.Jr: What?

Gaston: Sure.

-3-

Klotz: You haven't asked for my opinion. May I?

H.M.Jr: Please.

Klotz: I'd send it over to the President, but I wouldn't send it to the other agencies.

H.M.Jr: You wouldn't?

Klotz: My instinctive feeling is not to.

Gaston: I react against it very strongly, the whole thing.

H.M.Jr: Even to the President?

Gaston: I don't mind sending it to him, inasmuch as you gave it to the boys.

Klotz: You spoke to him about it.

H.M.Jr: I took your advice yesterday about Magill's report.

Gaston: Yes.

H.M.Jr: I would like to read Magill's report to see if there is something we could say.

Klotz: I think you've given it to the boys and if any of the other heads of agencies want it, they'll get them.

H.M.Jr: You wouldn't send it to the President?

Klotz: That's just between the two of you. What I don't feel so strongly against.

H.M.Jr: Of course, I having done it, he isn't going to do it now. If I had given it to him first

Gaston: He might. I doubt that he would. No, I think ...

Klotz: What's your point in sending

Gaston: I think if you were running a newspaper or sales agency or anything like that, in private business, I think this would be swell for you to do.

-4-

- Wlotz: Don't give up - I mean just because we don't agree with you.
- H.M.Jr: I know Early isn't going to like it. He isn't going to have the President get on board something where I've got the cream. I mean I know them so well over there. You see, they boxed it in the Times here.
- Wlotz: On the strength of that, I certainly wouldn't send it to the heads of agencies. Anyone who wants it can have that recopied.
- Gaston: I think you got it over anyhow; got it in the newspapers, got it on the front page of the Times. Somebody on the outside - if I wanted to promote this a little, I'd get some friends to get hold of some people on the outside and get them to take it up and push it.
- H.M.Jr: Well, the person to do it is the agency in St. Louis. He's got the most drive.
- Gaston: That connection is too close.
- H.M.Jr: Nobody's going to know that. What's his name?
- Gaston: D'Arcy.
- Wlotz: That I don't object to. I think it's a smart idea. But I wouldn't like to
- H.M.Jr: D'Arcy.
- All right, don't take it over. We'll let it go. I don't think the President will like it. O.K.
- Gaston: I'm afraid not, after it's on the front page of the Times.
- H.M.Jr: All right.

March 7, 1939

I called Harry Hopkins last night to find out how he was feeling, because he had been in bed all day.

I told him that I had gotten along well with the President at lunch.

He told me that the President had read his speech (the President read it after he had returned from his cruise) and that Miss Le Hand had told him that the President liked it.

I told Hopkins that we were going to have a meeting with the President on Wednesday on cotton and that I had suggested that he be there and that he ought to get ready for it. He asked me who else was going, so I told him Wallace.

I then told him that I would like to make a suggestion to him. That I got the feeling that the President thought that all business men were against him and that he, Hopkins, should pick out half a dozen business men who feel mildly disposed and should arrange that they should see the President as soon as possible. He said he would do it.

TODAY and TOMORROW

By WALTER LIPPMANN

The Necessity for American Recovery

NO DOUBT it is true that over and above the deterrents to economic recovery in the United States, there are the greatest deterrents of the international race of armaments, the unending series of diplomatic crises, and the world-wide fear of war. In every important decision that the government has to make, in every important commitment that business men and bankers might consider, there is the proviso: will the decision be right, will the investment be safe, if the world goes to war?

Yet it is equally true, and practically it is much more significant, that a genuine full recovery in the United States is the greatest contribution that can now be made to the prevention of war. Recovery in America is in fact indispensable to the defense of law and order in the outer world, to the consolidation of that determination, which is now manifest in every country, to defend the peace against aggression and revolution. There has been a radical improvement in the international situation during the past two months. But this improvement can be maintained and advanced only if in the United States the unemployed men, the partially employed machines, and the reserves of idle capital are brought into production.

The American economy represents approximately half of the commercial capacity of the world. For that reason depression and prosperity in the United States have an enormous, and probably a decisive, influence upon the economic life of all the other nations that depend, much more than we depend, upon normal international trade. There is little doubt, for example, that the severe American slump of 1937 was one of the causes of the lamentable weakness of Great Britain and France during the summer of 1938. Not only did the general economic decline aggravate the economic and social difficulties within France and Great Britain; the fall in primary commodities prices enabled Germany, which is organized not for normal trade but for barter, to obtain at knockdown prices the raw materials for the armament program.

In fact, depression in the outer world, since it creates unsaleable surpluses of raw materials, is a subsidy to a regime like that of the Nazis which operates on forced labor at home and barter abroad. But it is a disaster to the free nations which must sustain their armament programs, and care for their unemployed out of the income from the free exchange of goods.

We may go further and say that the reason why the dangers of war are so much less today than they were in the autumn is that the pacific nations appear to be winning the race of armaments. No doubt the race of armaments is a hideous waste of the wealth of mankind; the only thing that can be said for it is that it is cheaper and less horrible than a war or than surrender to aggression. And since there is no known way of discouraging aggression except to demonstrate that the aggression cannot be successful, the

armament programs are the least of the possible evils.

But these programs cannot be carried out by free nations unless they are able to put all their resources to work. They simply cannot afford to arm at such gigantic cost and at the same time support millions of unemployed, run their industries part time, bury their gold in the ground, and freeze up their capital in the banks. And since the American economy is the greatest factor in the economy of the world, it will be decided by what happens here whether the whole world-wide effort is to be sustained long enough to be successful or whether it is to be stopped and ruined by bankruptcy and economic collapse.

If the President would look at this situation in its largest and most statesmanlike aspect he must see, it seems to me, how much is at stake in the present agitation for recovery. It is not only a question of politics at home, nor of the condition of the American budget, nor of this or that measure of the New Deal. These things are important, but much more important is to give to the immensely hopeful movement for an honorable world peace quick and substantial economic assistance.

The moment is right for a decisive show of policy by the President which will bring promptly into action the energy of a great recovery in America. What is needed and what is possible is not a series of little measures accompanied by verbal assurances, but an action, as decisive as his embargo on gold in the spring of 1933, which will cause the resumption of private investment. The only thing which will surely bring that about quickly is to offer investors and speculators the inducement of profits large enough to overcome their inertia and their fears.

The stroke of policy most certain to do that would be the repeal of the capital gains tax. No doubt there are theoretical objections to this. But every bold and decisive stroke has some disadvantages. The question is whether, given the total situation here and in the world, a quick resumption of speculation and investment for profit would not produce immediate and general benefits that outweighed all the theoretical disadvantages.

I think it would. It seems to me that we should say to ourselves that the resumption of private investment is absolutely necessary, that none of our other problems can be dealt with unless we can bring about the resumption of private investment. If that is true then we ought to use whatever means are necessary to achieve the end. We should make up our minds that what is at stake is much too important to be jeopardized by half measures. We have not hesitated to subsidize the farmers not to produce; we ought not to hesitate to subsidize by means of drastic tax reform the inducement to the capitalists to invest.

For the prosperity which this willingness to invest boldly can bring to us and to the world is indispensable everywhere at this time to the maintenance of peace and to the restoration of order.

JR

GRAY

Rio de Janeiro

Dated March 7, 1939

Rec'd 12:30 p.m.

Secretary of State,
Washington.

60, March 7, 2 p.m.

The Bank of Brazil has announced that in view of the quota having been exceeded it will not accept payment in compensation marks for shipments of oranges to Germany until further notice. Please inform Department of Commerce.

SCOTTEN

CSB

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, March 7, 1939.
3/6/39.

Press Service
No. 16-64

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 1-1/8 percent Treasury Notes of Series B-1943, 2-1/2 percent Treasury Bonds of 1950-52 and 2-3/4 percent Treasury Bonds of 1960-65 will close at the close of business Wednesday, March 8, 1939. This offering is open only to the holders of Treasury Notes of Series A-1939, maturing June 15, 1939.

Subscriptions for any of the three issues addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Wednesday, March 8, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

—oOo—

IMPORTANT

STRICTLY CONFIDENTIAL

AIDE MÉMOIRE

A concrete scheme has now been worked out as regards a Chinese currency stabilisation fund. Mr. Cyril Rogers of the Bank of England is consulting the Chinese Government and the documents should by now have been put into proper legal shape. They will consist of:-

(1) An agreement between the Hong Kong and Shanghai Bank, the Chartered Bank of India, Australia and China, the Bank of China and the Bank of Communications;

(2) An agreement between the United Kingdom Treasury and the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China;

(3) Undertakings to be given by the Chinese Government.

The inter-bank agreement will provide that the Bank of China and the Bank of Communications shall jointly subscribe five million pounds, the Hong Kong and Shanghai Bank three million pounds, and the Chartered Bank of India, Australia and China two million pounds to a stabilisation fund of ten million pounds to be used for exchange operations to prevent undue fluctuations in the sterling value of the Chinese dollar. The fund will be managed by a committee in Hong Kong composed of two members representing the Chinese Government banks, one representing the Hong Kong and Shanghai Bank, one the Chartered Bank of India, Australia and China and one nominated by the Chinese Government in agreement with

the/

-2-

the United Kingdom Treasury and with the approval of the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China. It is intended that Mr. Cyril Rogers should be the Chinese Government nominee. The Chinese Government banks undertake to pay interest in sterling every six months to the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China (the rate of interest is at present under discussion). The agreement is to remain in force for twelve months and may be renewed for further periods of six months provided the Chinese Government banks in agreement with the Chinese Government or the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China in agreement with the United Kingdom Treasury may at any time determine the agreement before due date. When the fund is wound up all assets are to be divided among the Banks in proportion to their original subscriptions.

The Treasury agreement provides that when the fund is wound up the Treasury will reimburse to the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China any loss incurred by them and that the Treasury will guarantee payment of interest to the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China. The banks agree to supply full information to Mr. Rogers and to use their best endeavours to ensure the prudent and disinterested management of the fund. These two agreements would come into force as soon as the Treasury have received authority from Parliament. It will not be possible for legislation to be passed until just before

Water/

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later at the earliest (and if it cannot be passed before later it is not likely to be passed until the beginning of May owing to the Easter holidays.)

The Chinese Government would undertake that during the life of the fund their economic and monetary policy will be designed to maintain the stability of the dollar in terms of sterling; that the Chinese Government and its agencies will buy and sell foreign exchange through one of the banks represented on the above-mentioned Committee; and that any foreign exchange acquired in excess of immediate commitments will be paid over to the fund so long as its sterling assets are less than ten million pounds. Further, the Chinese Government would undertake to purchase British banking shares with any Chinese dollar assets at the rate of the day on which the fund is wound up unless some other arrangement is agreed between His Majesty's Government and the Chinese Government.

An announcement of the foregoing arrangement with the Chinese Government will be made in the United Kingdom Parliament at 3.45 p.m. (Greenwich mean time) on the 8th March.

BRITISH EMBASSY,

WASHINGTON, D. C.,

March 7th, 1939.

RECEIVED
MAR 10 1939
THE FOREIGN DEPARTMENT
U.S. DEPARTMENT OF STATE

March 8, 1939

The President handed this back to me. We are to get a different kind of statement for him, showing when we will reach the \$30,000,000,000 limit.

PUBLIC DEBT LIMITATIONS

(In Millions of Dollars)

	<u>TOTAL LIMITATION</u>	<u>BOND LIMITATION</u>
Total amount of public debt obligations which can be issued under the Second Liberty Bond Act, as amended, and which can be outstanding at any one time	\$ 45,000	\$ 30,000
Total gross public debt outstanding on February 28, 1939	\$39,859	\$26,677
Reserve for accrual increase in U. S. Savings Bonds	493	493
	<u>40,352</u>	<u>27,170</u>
Less obligations not issued under Second Liberty Bond Act, as amended:		
Pre-war debt	\$ 196	\$ 196
Matured debt on which interest has ceased	17	17
Debt bearing no interest	<u>421</u>	<u>-</u>
	634	213
	<u>39,718</u>	<u>26,957</u>
Balance on limitation February 28, 1939	\$ 5,282	\$ 3,043
Estimated debt issues March 1 - June 30, 1939	900	1,500
Estimated debt issues July 1, 1939 to June 30, 1940	<u>3,000</u>	<u>4,000</u>
	<u>3,900</u>	<u>1/ 5,500</u>
Estimated balance available under limitation on June 30, 1940	<u>\$ 1,382</u>	
Estimated deficiency June 30, 1940		<u>\$ 2,457</u>

1/ Includes refunding operations.

NOTE: Above amount of gross debt includes United States Savings Bonds at their maturity value of \$2,135,000,000, the current redemption value of which is \$1,643,000,000.

ACCOUNTS AND DEPOSITS

MARCH 8, 1939.

March 8, 1939

Meeting at the White House at
11 a.m. on taxes.

(First part dictated by Mr. Hanes; second part, by HM, Jr.)

Mr. Hanes: At a meeting with the President at the White House, Mr. Morgenthau was present and Mr. Hanes.

We submitted to the President the broad outline of general policy to be pursued in the recommendations on the tax revision, of which the most important are outlined as follows:

Proposals relating to Corporation Taxation

- (1) Repeal the capital stock and excess profits taxes
- (2) Repeal the limitation on the deduction of net capital losses from other income
- (3) Allow a 3-year carryover of net losses (including in net losses the net capital losses)
- (4) Repeal the remainder of the present corporation income tax (to be replaced by new rate schedule as in (5))
- (5) Impose the following schedule of corporation income tax rates (including changes (2) and (3) above)

Under \$10,000	-	17 percent
\$10,000-\$25,000	-	17 percent
\$25,000-50,000	-	20 percent
\$50,000 and over	-	22 percent

Proposals relating to Individual Income Tax:

- (6) Limit the top bracket surtax rates to 60 percent

-2-

- (7) Allow a 3-year carryover of business net losses to offset against business income of later years

The President was not receptive to the idea of a reduction of the surtax rates from 75% to 60%. However, he was in a receptive mood regarding the proposed shifting of taxes within the corporate structure. He asked, however, that we bring back at the meeting tomorrow a further breakdown on items (1), (2) and (3) taken alone and figuring their effect upon the corporations in the following categories:

Under \$10,000
 From \$10,000 to \$25,000
 From \$25,000 to \$50,000
 From \$50,000 to \$250,000
 From \$250,000 to \$1,000,000
 From \$1,000,000 up.

He asked further that we supply him with data on the effect of taking items (4) and (5) on these same corporations without taking the items (1), (2) and (3). In other words, the President is interested in getting a complete breakdown of the dollar effect of the shift in tax burdens upon all corporations listed in the six brackets above. He is chiefly interested in learning the effect upon the 153,000 corporations having income under \$10,000, representing about 75% of the total corporations paying income tax in 1938.

The President referred to our program as the Mellon plan of taxation.

* * * * *

HM, Jr.: When we came in to see the President, I said, "How would you like to proceed?" and he said, "I want to get this thing straight as to sequence. Where did this whole thing start and," he said, "where do you stand, particularly with the people on the Hill?"

I said, "Well, the sequence, Mr. President, is you started it with your remark at Key West 'no

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new taxes' and I was glad to follow suit, although in your Budget Message you had indicated from \$400,000,000 to \$450,000,000 new taxes, and this was followed up by Hopkins' speech. "Well," he said, "what is the sequence? Have you any commitments on the Hill?" So both Hanes and I said we had positively no commitments and had made no recommendations and that we have not discussed any details of any tax proposals and that outside of the Treasury nobody had seen these recommendations.

And he kept going over and over again. He said, "This is a matter of politics." He said, "The people on the Hill want to put us in the hole." He said, "They will take your recommendations and say that does not go far enough and will go much farther and say 'Look what we did.'" We then told him about the letter which Harrison and Doughton had written us and said that after all in this letter they did ask us to make suggestions and I agreed to send the President a copy of that statement.

(Note: The Secretary at this point called Mr. Kieley and gave him a photostat of the letter to be delivered to Miss Le Hand for the President.)

The President said, "I think that sign you have up on your desk 'Does it contribute to recovery' is very stupid," and he showed considerable displeasure when he said it. He did not say it with a smile. I said, "I am sorry. I disagree with you."

All through the first part of our meeting the President displayed a most unpleasant attitude.

He then proceeded to give Hanes and me ^{long} a lecture that while he would concede that this would be helpful for the rest of this year and possibly into 1940, as a result of what he called a complete turn-about position on the part of the Treasury as to where we were two years ago, that this would put a man in as President who, as he called it, would be controlled by a man on horseback, the way Mussolini and Hitler are. This lecture went on and on, he saying that this was going backwards and that this simply would mean that we would

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have a Fascist President. When he got through I said, "I disagree with you; I felt that if we had recovery in 1940 that that would enhance our chances greatly of having the next President a liberal President and that furthermore the situation was a very tight one in the world and that recovery in the United States was terrifically important at this time in deciding the fate of what kind of Governments we would have in the rest of the world." He said he did not agree with me. He did not think the domestic situation played such an important part in the world one and he also disagreed that a prosperous 1940 would give us a liberal President after 1940. He said, "You come to me on my farm in Hyde Park in 1941 and say there has been a catastrophe and somebody like General Moseley has called out the troops and you will call on me to come to the aid of the country and," he said, "I will tell you this thing has been brought about by this sort of thing you are talking to me about today."

As we went along I got the feeling that he was getting less antagonistic to what Hanes and I were talking about. I feel that, after all, we are asking him to make a complete turn-around or "somersault" as he called it, and we could not expect him to do it the first session. He kept saying, "Can't you give me some checks and counter-checks to this program?" Then we got on to the question of death duties and that seemed to interest him.

In going over the various items he didn't strike any of them out, but he said, "Now, for instance, Barney Baruch has been saying right along that you have got to reduce the top taxes and that if you do that people will take chances," and I told him under present circumstances I agree and so he said to me, "Well, you are willing to pay usury in order to get recovery?" and I said, "Yes, sir."

At the end, Hanes pointed out that after all in the Mellon era they only paid 25% and we have gone up to 90% including normal tax and when we go back to 60% we are not returning to the Mellon era.

One suggestion that I made at the very end that seemed to appeal to him was that we confine this

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tax bill to just a few suggestions and try to get the thing out in a week in the House and a week in the Senate, rather than have it drag out for two or three months because I said we can do this thing in a week; we can get the effect, and I said "I suggest you get agreement from Doughton and Harrison that they will limit it to certain things before we start." That seemed to appeal to him very much.

Both Hanes and I were terrifically serious, but we didn't backtrack one inch. And I came away with a feel that considering what we were asking of him to O. K., that for the first session we made excellent progress.

The last thing he said to us on going out was "For God's sake, don't be innocent," and he said, "Don't mention what we have talked here to a living soul. Let me do all the talking when I see Harrison and Doughton." Then he said, "Harrison is not sincere, because on the one hand he talks about balancing the budget and the next thing he wants an educational bill which will cost hundreds of millions of dollars."

**REVENUE EFFECTS OF TAX ADJUSTMENTS PROPOSED
TO REDUCE DEFERRED EFFECTS ON BUSINESS ^{1/}**

Full year based on 1979
calendar year business
levels
(in millions of dollars)

<u>Proposals relating to Corporation Function:</u>	<u>LOSS</u>	<u>YIELD</u>
(1) Repeal the capital stock and excess profits taxes	122.4	
(2) Repeal the limitation on the deduction of net capital losses from other income . . .	68.1	
(3) Allow a 3-year carryover of net losses (including in net losses the net capital losses)	43.5	
(4) Repeal the remainder of the present corporation income tax (to be replaced by new rate schedule as in (5))	891.3 ^{2/}	
(5) Impose the following schedule of corporation income tax rates (including changes (2) and (3) above)		1,139.7
Under \$10,000 - 17 percent		
\$10,000-25,000 - 18 percent		
\$25,000-50,000 - 20 percent		
\$50,000 and over- 22 percent		
	<hr/> 1,125.3	<hr/> 1,139.7
 <u>Proposals relating to Individual Income Tax:</u>		
(6) Limit the top bracket surtax rates to 60 percent	11.5	
(7) Allow a 3-year carryover of business net losses to offset against business income of later years	5.0	
	<hr/> 1,141.8	<hr/> 1,139.7

^{1/} These estimates are preliminary and tentative.

^{2/} Amount only approximate, since (1), (2) and (3) are not computed in combination.

March 7, 1979
RB/agh

**REVENUE EFFECTS OF TAX ADJUSTMENTS PROPOSED
TO REDUCE DETERRENT EFFECTS ON BUSINESS 1/**

Full year based on 1939
calendar year business
levels
(In millions of dollars)

<u>Proposals relating to Corporation Taxation:</u>	<u>LOSS</u>	<u>YIELD</u>
(1) Repeal the capital stock and excess profits taxes	122.4	
(2) Repeal the limitation on the deduction of net capital losses from other income	68.1	
(3) Allow a 3-year carryover of net losses (including in net losses the net capital losses)	43.5	
(4) Repeal the remainder of the present corporation income tax (to be replaced by new rate schedule as in (5))	891.3 ^{2/}	
(5) Impose the following schedule of corporation income tax rates (including changes (2) and (3) above)		1,139.7
Under \$10,000 - 17 percent		
\$10,000-25,000 - 18 percent		
\$25,000-50,000 - 20 percent		
\$50,000 and over- 22 percent		
	1,125.3	1,139.7

Proposals relating to Individual Income Tax:

(6) Limit the top bracket surtax rates to 60 percent	11.5	
(7) Allow a 3-year carryover of business net losses to offset against business income of later years	5.0	
	1,141.8	1,139.7

V These estimates are preliminary and tentative.
V Amount only approximate, since (1), (2) and (3) are not computed in combination.

March 7, 1939.

March 8, 1959

Distribution of 1956 Corporation Income Tax Returns
by net income* classes

Returns with net income

Net income class	: Number : of : returns	: Percent : of : total	: Number of : returns : cumulative	: Percent : of : total
1 Under \$10,000	155,645	75.6	155,645	75.6
2 \$10,000 - 25,000	21,688	10.7	175,331	86.5
3 \$25,000 - 50,000	10,959	5.4	186,290	91.7
4 Over \$50,000 - 250,000	16,871	8.5	203,161	100.0
5 " 250,000 - 1,000,000				
6 Total	203,161	100.0		

(*) Unlike former years, net income includes dividends received on stock of domestic corporations subject to taxation under Title I of the effective revenue acts and interest received under certain Government obligations which is subject to excess-profits tax.

Estimated Revenue Effects of Proposed Changes in Corporation Taxes
(full year based on estimated calendar year 1939 business levels)

These estimates are preliminary and tentative approximations. The proposed changes are:

- (1) Repeal the capital stock and excess profits taxes;
- (2) Repeal the \$2,000 limitation on the deduction of net capital losses from other income;
- (3) Allow a 3-year carryover of net losses (including in net losses the net capital losses);
- (4) Repeal the remainder of the present corporation income tax (to be replaced by new rate schedule as in (5));
- (5) Impose the following schedule of corporation income tax rates (including changes (2) and (3) above):

Under \$10,000	- 15 percent
\$10,000 - 25,000	- 18 percent
25,000 - 50,000	- 20 percent
50,000 and over	- 22 percent

(Money amounts in millions of dollars)

Net income classes:	Estimated tax liabilities of corporations under existing law			Increase (+) or decrease (-) in tax liabilities, full five-point program		Decrease (-) in tax liabilities, proposals (1), (2) and (3) only		Increase (+) in tax liabilities, proposals (4) and (5) only	
	Total	Income tax	Capital stock and excess profits taxes	Amount	Percent	Amount	Percent	Amount	Percent
Under \$10,000	51.6	36.6	15.0	- 13.3	- 25.8	- 19.0	- 36.8	+ 6.1	+ 11.8
10,000-25,000	47.2	39.4	7.8	- 6.3	- 13.3	- 12.3	- 26.1	+ 6.9	+ 14.6
25,000-50,000	60.3	52.8	7.5	- 12.1	- 20.1	- 13.6	- 22.6	+ 1.8	+ 3.0
50,000-250,000	196.0	173.4	22.6	- 13.5	- 6.9	- 42.3	- 21.6	+32.2	+ 16.4
250,000-1,000,000	209.5	187.7	21.8	+ 1.8	+ .9	- 45.0	- 21.5	+51.5	+ 24.6
1,000,000 and over	567.6	521.4	46.2	+ 79.9	+ 14.1	- 79.7	- 14.0	+167.2	+ 29.5
Total, net income corporations	1,132.2	1,011.3	120.9	+ 36.5	+ 3.2	-211.9	- 18.7	+265.7	+ 23.5
All other	- 6.9	- 41.8^{1/2}	34.9^{2/2}	- 34.9	-	- 22.1^{3/2}	-	-	-
Total	1,125.3	969.5	155.8	+ 1.6	+ .1	-234.0	- 20.8	+265.7	+ 23.6

Bureau of Economic Warfare, Division of Research and Statistics.

March 9, 1939.

¹ Excludes tax credit for income tax paid to foreign countries and U. S. possessions.
² Estimated amount paid by net deficit corporations.
³ Effect of \$34.9 millions loss of capital stock tax of deficit corporations and of \$12.8 millions loss in individual income tax.
 The combination of proposals (4) and (5) provides for the continuance of the capital stock and excess profits taxes, and for an income tax at the proposed rates applied on the tax base of existing law.

March 8, 1939.
10:19 a.m.

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HMJr: Hello.
Sumner
Welles: Hello, good morning, Henry.
HMJr: Hello, Sumner.
W: Henry, you've given me a very bad night. I'm really terribly concerned about this situation.
HMJr: Uh-huh.
W: And I wondered, in order to save you time and trouble, if you would let me have a talk with Johnny Hanes this morning and see if there is some possible solution to this situation.
HMJr: Well, Hanes is right in my room now. May I ask him?
W: Yes indeed.
HMJr: He and I are going to see the President at eleven.
W: At eleven.
HMJr: Just a moment please.
(Pause)
HMJr: Well, Hanes says he's always glad to see you, but inasmuch as I've been handling it, he doesn't want to get in on this thing at the last minute.
W: Well, you told me yesterday you were seeing the President today. That was the reason I didn't want to bother you personally.
HMJr: Well --
W: What time would you have free -- I mean, if you have got it free.
HMJr: Well, I've got -- I've got -- the only time I have free is now, and --
W: Well, can I come over then, or will you be tied up with this tax discussion?
HMJr: No, no. If you are here at ten thirty we'll stop.

- 2 -

W: I'll come right around, Henry.

HMJr: O. K.

W: Thanks.

March 8, 1939.
5:25 p.m.

Operator: Go ahead.

HMJr: Hello.
Bill
Douglas: Hello, Henry.

HMJr: Yes.

D: Bill Douglas.

HMJr: Can I sell you a little piece of recovery?

D: I -- I'd love it. Say listen, word came in from my San Francisco boys this afternoon that Giannini is planning to sue us; that is, the members of the S.E.C. for libel.

HMJr: Yeah.

D: And I was just checking up -- I thought you'd like to know that you might have company -- that's number one.

HMJr: Company? Why, is he going to sue me?

D: Well, I -- I had heard something about that sometime ago but I guess he -- he has apparently given that up.

HMJr: Uh-huh.

D: Number two is this, that I'm just trying to refresh my recollection. All I can ever remember calling him was a crook. Nothing worse than that, did I?

HMJr: Well, I can't remember/calling him anything here, if that's what you want me to say. (Laughter) What?

D: Well, I was -- I thought you might just be interested; I was joking.

HMJr: Oh! Well, I would say that amongst your worries that that would be the least.

D: Sure.

HMJr: But just remember this, Bill, that anything that I can do along those lines, I'm more than willing to do and do it cheerfully.

D: Yeah. Thanks very much.

- 2 -

HMJr: So you tell the boys over there that anything that we can do to help, either officially or me personally, I stand ready.

D: Thanks very much, Henry.

HMJr: And, everybody here will be glad to help.

D: I appreciate it very much.

HMJr: Yeah.

D: Good bye.

HMJr: Good bye.

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3-8-39

FORUM - article on Fixation
and Recovery

(STRICTLY CONFIDENTIAL)

To be returned by March 15

ROUND TABLE NO 2

3/8/39 11

Taxation and Recovery

In his Farewell Address Washington said, "Toward the payment of debts there must be revenue To have revenue there must be taxes No taxes can be devised which are not more or less inconvenient or unpleasant " No better description could be written of America's tax problem today. During the depression government expenditure has increased much more rapidly than revenue, and the time has come to think about paying the bill.

In approaching the tax question, FORTUNE's Round Table is impressed with its overwhelming complexity. There is disagreement between those who believe that low taxes are essential to secure prosperity and those who insist that high taxes are necessary to redistribute purchasing power. Innumerable questions arise as to the myriad forms of taxes imposed by the federal government, our states, and our municipalities. Countless technical issues exist as to the definition of taxable income and other questions. Moreover, the tax system is

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constantly changing. Since 1932 eleven revenue bills have been introduced into Congress, each authorizing some new form of levy. Spurred by unprecedented relief needs, states and cities impose new sales taxes and excises, and competing tax jurisdictions struggle for the same sources of revenue.

No group of laymen or even of experts could hope to find a quick solution for all of these manifold problems. Although several of our members are taxation authorities, the Round Table for the most part consists of men from business, farm, and labor groups who are interested in taxes as a problem not only for themselves but for the country as a whole. We realize that we must pay taxes, but we want taxes to be levied in a way which will contribute most to long-term recovery. The task of making any suggestions as to taxes is so vast that we can merely advance certain tentative observations. Meanwhile our first and foremost suggestion is that Congress authorize the appointment of a national tax commission, drawn from among the ablest men in public and private life, to take evidence from the most diverse and competent sources, and to make recommendations as to the adoption of tax principles and methods of administration which should remove much of the present complexity and uncertainty.

What we have in mind in proposing such an inquiry is the Royal Commission headed by Lord Colwyn appointed in 1924 by a Labor government in Britain. For three years this Commission,

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which contained representatives of the most diverse points of view, studied the British national debt and incidence of taxation. It held forty-eight sittings and received evidence from sixty-eight witnesses, representing among others the Trade Union Congress, the cooperatives, government officials, and economists, both British and foreign. We believe that a similar inquiry organized by the federal government could recommend to Congress a comprehensive tax system which could provide the revenue necessary for America's social and fiscal needs but without injuring the production of wealth upon which the gratification of these needs ultimately depends.

Meanwhile we feel justified in advancing a certain number of principles, and making a number of suggestions the immediate adoption of which in our opinion would have a beneficial economic and political effect

1 Taxation is an obligation of citizenship which should fall upon the wealthy to a greater extent than on the poor. As a result of taxes government is able to meet essential social needs and help create that equality of opportunity for the most humble which is the goal of every democracy. Even though large taxpayers may receive less obvious benefit from their taxes than do the poor, they do gain security for themselves and their property. Business could not operate except for the police protection, judicial system, highways, mail service, public health facilities and national

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defense provided by government. The assumption by government of responsibility for the unemployed relieves private enterprise of a burden which it could not carry alone. If properly directed and controlled public expenditure undoubtedly increases the capacity of business to make profits and business should pay taxes in return.

2 The amount of federal revenue must be increased.

It is not our function to express an opinion as to whether the federal budget should be balanced immediately or over a cyclical period although all of us believe that sooner or later the budget must be brought into balance. We wish to point out, however, that in the fiscal year 1939 the federal government will expend more than 9 billion dollars. Even with recovery we doubt whether it will be possible to reduce such expenditures to the level of 5 billion which represented the revenue collected in 1938, the largest in our history. Demands are being made almost daily for new expenditure. Appropriations for national defense are increasing. The President has proposed to liberalize the provisions of the Social Security Act. Large public health programs are being contemplated. It is possible that more generous grants to agriculture will be made. A few of us believe that the federal budget can be brought into at least a cyclical balance merely as a result of the increased tax yield which will be automatically produced with a rise in the national income. But while undoubtedly

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some increase in yield will occur under existing rates, most of us believe that certain tax increases are also needed if we are to have a sound fiscal policy."

By Professor Slichter: It is doubtful whether federal expenditures will diminish below \$8.5 billion as recovery proceeds. But if the budget is to be balanced over the period of the business cycle, there should be a surplus at the peak of the cycle. If a surplus of \$1.5 billion is regarded as desirable for this peak total revenue of \$10 billion would be necessary. With a national income of \$69.0 billion in 1937, the present taxes produced about \$6.2 billion. An increase from \$69 to \$80 billions in the national income would therefore have to produce an increase in tax yields of \$3.8 billion, or 61 per cent, in order to yield \$10 billion revenue. Thus the national government would have to take \$3.8 out of the \$11 billion increase in national income or 34.6 per cent. Today, however, the federal government is not raising more than 60 per cent as much as it should raise in order to achieve a cyclical balance in the neighborhood of \$8 to 8½ billion. If we cannot reduce the figure at which we balance the budget over the cycle, we must plan before the peak of recovery to raise about \$4½ billion more per year for the federal government. This must be done in ways which will not interfere with recovery of business itself. When that is the problem

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that confronts us, there is little wonder that businessmen are cautious in making commitments and that the policy of priming the pump causes businessmen to hold back rather than to go ahead. To meet this situation government expenditure should be reduced as well as taxes increased."

Whether by augmented tax yield or increased tax rates, a bigger government revenue has become a necessity -- such is our unanimous belief. This doctrine may be ^{more} popular particularly at a time when appropriation bills are being debated, but it is high time in our opinion that the country should face reality.

3. If we are to maintain the capitalist system, taxes should be imposed so as to place the least hindrance upon economic progress. Government expenditure of all types today takes about a fifth of the entire national income, part of it being covered by deficit financing. Any form of taxation adequate to meet this vast sum is bound to exercise a profound effect upon the functioning of our economy. In formulating a tax system the greatest care should be taken not to penalize business expansion upon which the solution of our unemployment problem depends. If a tax system discourages risk-taking on the part of individual or corporate wealth in the creation of new enterprises the system may prove more harmful to the worker than to the wealthy. In imposing taxes upon income, attention should be paid not only to the size of the income

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but to the economic function it should perform. Although there is disagreement amongst us as to whether given taxes do discourage risk-taking and new investment the Round Table is unanimous in the belief that the nature of a tax system, even more than its burden, may adversely affect the growth of enterprise. Although admittedly a tax burden may become so heavy as to suffocate private enterprise, a tax burden is nevertheless relative. If it can be shown that government expenditure increases national income to a greater extent than the tax payments, an increase in taxes can be borne. It nonetheless remains true that although government expenditure may temporarily increase national income, taxes may be levied in such a way or the burden may be so heavy, that business is discouraged from increasing production and the object of governmental policy is thereby defeated.

4 Taxation should be primarily for revenue

Within recent years the employment of taxation as a means of social reform has been advocated in a number of quarters. The use of the tax power to punish giant corporations or destroy huge fortunes has been proposed. Although some members of the Round Table are of the view that the American economic and social system is in need of far-reaching reforms, we doubt whether regulatory or punitive taxation is the proper means of bringing about such reforms. The effect of such taxation is unpredictable; it is not a selective agency for it punishes

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saints and sinners indiscriminately. Once the use of taxation as an instrument of reform becomes accepted, business will suspect some covert purpose behind every revenue proposal and an element of lack of confidence will persist. If it is desirable to make social reforms, direct methods should be found. In our opinion the purpose of taxation should be to raise the largest amount of revenue while doing the least injustice to any class of citizens and encouraging the fullest degree of private employment.

Before endeavoring to apply these principles we shall briefly review the existing federal tax system.

I Taxes: past and present

When Congress enacted the Income Tax Law of 1913 the normal rate was 1 per cent and the maximum surtax 6 per cent. In 1916 only 17 per cent of the federal revenue was derived from income taxes, most of the remainder coming from customs, and from liquor and tobacco excises. As a result of the World War Congress sharply increased taxes and imposed new levies. In 1919 the normal individual rate jumped to 12 per cent on incomes above \$4,000. And the maximum surtax rate to 65 per cent. By 1921 nearly three-fourths of the federal revenue was derived from income and excess profits taxes.

With the conclusion of the War, extraordinary expenditures fell off, and Congress adopted a policy of radical tax reduction. Under the 1926 Revenue Act rates reached their

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low point, falling to $1\frac{1}{2}$ per cent in the case of net incomes of \$4,000 or less and to 20 per cent in the case of maximum surtaxes. The net burden on corporations was greatly diminished by the abolition of the excess profits tax in 1921 and the capital stock tax in 1926.

The marked industrial and financial activity of the post-War period saw numerous developments of social importance, such as the radio, the airplane, mechanical refrigeration, and the talkies. Admitting that tax reduction went too far during this period, we doubt whether the venture capital necessary for these and other developments would have been forthcoming had our present tax system been in existence.

With the advent of the depression, the corporation and personal income taxes, which during the boom period produced more than half the federal revenue, dwindled. Despite large rate increases in the Revenue Act of 1932, the yield from these taxes fell to the lowest point in any year since 1917. Congress consequently turned to new sources to make up the difference. Large sums are now received from consumption and payroll taxes, as well as from income levies. Total federal revenue from all sources reached a high point of 5,033 million dollars in the fiscal year 1938, which is 50 per cent more than was collected in 1929.

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**Principal Sources of Federal Revenue, Fiscal Year
Ending June 30, 1938**

	Millions of dollars	Per cent
Income taxes:		
Personal \$1,139		
Corporate 1,146	2,285*	43.6
Payroll taxes	743	12.3
Tobacco	568	9.4
Spirits and liquor	568	9.4
Estate and gift taxes	417	6.9
Customs	359	5.9
Capital stock	139	2.3
Consumption and excises	567	9.4

* Other items included in this total

Today the personal income tax is the largest single source of tax revenue. Based on the progressive principle, the normal rate is 4 per cent on non-exempt income. A surtax of 4 per cent begins with net taxable incomes over \$4,000, and gradually rises until the maximum of 75 per cent is reached. The forty-one people in the million dollar income class in 1935 had an average income of \$1,294,000 and paid an average tax of \$1,019,000, leaving to each an average residue of \$282,000.

Before 1935 the highest rate of tax on corporation income averaged about 13 3/4 per cent. In that year, however, Congress imposed a tax on undistributed profits, which varied with the

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percentage of undistributed income. If the amount undistributed was not over 10 per cent of net income a corporation was liable to a 7 per cent tax of the undistributed amount. This rate rose progressively so that when all earnings were retained the corporation was subject to a total tax of 32½ per cent of its net income. The undistributed tax was drastically modified in the Revenue Act of 1936. Today corporations with incomes of less than \$25,000 pay an income tax ranging from 12½ per cent to 15 per cent. Larger corporations are liable to a tax of 15 per cent minus 2½ per cent of any amount they distribute in dividends. The present corporation tax provisions expire December 31, 1939. Before that date, Congress will presumably enact a new corporation tax law.

Corporations are also obliged to pay a tax of \$3 for each thousand dollars of declared value of capital stock. To prevent a corporation from placing too low a value on its capital stock, a 5 per cent excess profits tax is imposed on all income in excess of 10 per cent of the declared value and 12 per cent on income in excess of 15 per cent of the declared value.

The federal government also imposes taxes on estates. Although property up to the value of \$40,000 is exempt, the tax begins at 2 per cent on non-exempt estates of \$10,000, reaching a maximum of 70 per cent on estates above \$50,000,000. To discourage the avoidance of the tax through gifts Congress now imposes gift tax amounting to three-fourths of the rates imposed on estates.

Finally large sums are derived from levies on tobacco, liquor, and gasoline, from customs, and from payroll taxes which by 1945 will reach 6 per cent, and from numerous other excises.

II. Taxes and Corporate Risk-Taking

The members of the Round Table find that their attitude toward taxation is somewhat affected by their views as to the role of government expenditure and the importance of saving. One group is apprehensive of the unprecedented increase in government expenditure, particularly when unaccompanied by any effort to balance the budget. This group believes that unless a halt is soon called upon present fiscal practices, the credit of the government and the structure of private enterprise will be undermined. Consequently it favors drastic reduction in government expenditure. It further believes that if government will create the proper conditions, enterprise will succeed in finding innumerable outlets for new investments which will create purchasing power and give new employment. It is sure that under capitalism great wealth has an important function to perform in providing risk capital for investments in pioneering ventures.

A second group in the Round Table does not believe that government expenditures can be reduced. There is such a vast need for public housing, old age pensions, unemployment relief, public health facilities, public work conservation projects, agricultural assistance, national defense, and other essential projects that government expenditure in its opinion will have to increase. Consequently government must find additional revenue, not only by augmenting the national income

but by increasing certain tax rates. Some members of this group go further and declare that as a result of the disappearance of the territorial frontier and a slowing up in the rate of population increase, opportunities for sound private investment have greatly declined. In their opinion governments should impose heavy taxes upon people of great wealth and corporations with large reserves in order to divert funds from savings to the consumption stream and maintain a proper equilibrium in the economy.

But despite these fundamental differences, both groups are convinced of the need of increasing revenue, and in a way which does not militate against expanding production. We are in agreement that America's greatest problem today is unemployment. Until men find productive jobs our national income cannot really increase nor can we hope to raise our standard of living. Full employment depends partly upon consumer demand but it depends also upon investment. Dollars must go to work before men can do so. Somebody must be willing to meet a payroll before men can be given jobs, and the process should generate purchasing power. If capitalism is to persist, investors and business itself must take chances on the future. They must see some prospect for profit; they must have an incentive to invest. The effect of taxation upon such incentives we shall first discuss in connection with corporation taxes.

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Today the American corporation is subject to a large number of federal taxes. These fall on corporation incomes, undistributed profits, capital stock, excess profits, and pay-rolls. In addition a corporation is subject to certain penalty taxes. Moreover corporate profits are taxed twice if paid out in dividends. The corporation pays the tax on the profits as part of corporate income, and the stockholder pays a tax on such profits in the form of dividends. In contrast bond interest is taxed only once.

The Round Table favors the taxation of corporations as a means of obtaining revenue and of repaying the government for the services it renders business. Nevertheless the numerous forms of corporation taxes, and many other features of these laws, serve in our opinion to discourage enterprise and employment. This is true in respect to the double taxation of dividends, a system which makes a corporation cautious about issuing new stocks, inclining it against equity financing in favor of bond issues. It is also true in respect to definitions of taxable income. Inspired by a desire to obtain as much revenue as possible such definitions frequently produce a taxable net income which is only remotely related to the real income of an enterprise for the business cycle in which it operates. Today, for example, corporation profits are calculated on an annual basis. A corporation which suffers a loss in one year cannot carry it over and deduct it against income in the following year.

Such a system works against a new enterprise which is usually in the red for the first several years. As soon as it shows an annual profit, it is liable to income tax even though heavily in debt. If enterprise were allowed to carry over losses for several years risk-taking would become more attractive.

Moreover, the capital stock and excess profits taxes are burdensome to young and developing enterprises. These taxes yield comparatively little revenue; and some of us believe they are not only inequitable but carelessly administered. Young enterprise and business generally would be helped by the repeal of these two taxes.

The taxation of profits on an annual basis also discriminates against enterprises whose earnings inevitably fluctuate. For example, a department store which makes an average profit of \$100,000 over a five-year period pays a tax for the period as a whole of \$95,000 provided it pays no dividend. But a textile factory, which makes \$100,000 during the first two years but loses \$100,000 annually during the rest of the period, pays \$38,000 taxes although its net loss for the five years is \$100,000. Obviously, such a tax induces caution on the part of cyclical industries, and results in an unfair distribution of the tax burden. In their case our present tax laws operate as a form of periodic capital levy. To avoid such results, Britain allows a carry-over of losses for a period of six years, a principle which the Wisconsin tax law also accepts.

The Round Table believes that the federal law should be changed so as to recognize the carry over of business losses, including capital losses, for several years. In addition it believes that the possibility of adopting the principle of average income rather than of annual income in the case of many industries should be studied. For most consumer goods industries which enjoy a stable market the annual determination of taxable income is equitable, but capital goods industries whose profits depend upon a five or ten year cycle should be taxed upon the basis of the average income for the period.

The development of new enterprise is also handicapped by the prohibition of consolidated returns. Formerly the losses of a pioneering subsidiary could be offset against the profits of the older and more stable subsidiaries. In an effort to obtain more revenue and penalize inter-corporate relationships, Congress in 1934, ignoring the advice of the Treasury, prohibited consolidated returns. Today, if five subsidiaries show losses totalling \$100,000, the parent corporation nonetheless is obliged to pay a tax on its own profits of \$25,000, although the unit as a whole is in the red. Some corporations avoid such a situation by consolidating enterprises, a practice which in itself maybe questionable. As a rule however we believe the prohibition of the consolidated returns again operates against risk-taking. Consequently, we believe that for closely related enterprises under a common parent company the prohibition on

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consolidated returns should be repealed, and that the objection to complicated corporate structures should be met by other means.*

* By Professor Buehler. "I am willing to reinstate the consolidated return for a time to observe its effect under present conditions, as it may deter taking of desirable risks. Yet I would like more evidence that it should be reinstated for it did permit some tax avoidance by holding companies.

We believe that the Treasury could encourage business activity if it adopted more generous deductions for depreciation purposes and liberalized some of its accounting practices. Sweden, under a socialist government, has a "free depreciation" system under which the tax authorities accept the rate of depreciation placed upon its property by enterprise, in order to establish a rational connection between taxation and sound accounting principles. In our opinion government should not discourage management when it wishes to accelerate provision for depreciation in order to make new investment. Consequently our tax laws and regulations might make more generous deductions for such purposes. Many instances are cited moreover where the tax authorities do not accept commercial principles of accounting in estimating net income. Thus insurance premiums earned

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in a given year cannot be reduced by the amount which experience would indicate would have to be refunded because of cancellation of policies. Fees and subscription payments collected in advance for a period of years must be regarded as income for the year actually collected, although under commercial accounting part of them could be deferred. Likewise the taxpayer is required to report as income the accrual of interest which sound business practice regards as uncollectable. Whenever such instances occur, business enterprise suffers a degree of injury and harbors a sense of injustice. We believe that such practices should be carefully reviewed and while taking the proper safeguards against tax avoidance, the Treasury should adopt sound commercial principles of accounting in the assessment of taxes.

Now a corporation income tax is a levy on profits. Although such a tax in some instances may be passed on to the consumer,

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generally speaking the more the tax is increased the less is the return on capital. The first FORTUNE Round Table reached the conclusion that long-term recovery is being held back, partly because the prospects of profit are much less than during the pre-depression. It seems clear from this analysis that one reason is the nature of the present corporation income tax law. No doubt American business should content itself with a lower rate of profit in the future than in the past. Nevertheless when tax legislation enforces a too drastic and rapid reduction in profits, enterprise may be slowed up, particularly in periods of great economic instability. What business needs is an incentive to develop so as to provide new employment. We are unanimous as to the following:

1. Adoption of the carry-over of losses, and the study of the principle of averaging income
2. Adoption of the consolidated return in so far as closely related enterprise under common parent companies is concerned.
3. Experiment with more reasonable allowances for depreciation.
4. Elimination of any unfair methods of tax accounting.
5. Repeal of capital stock and excess profits taxes.
6. Greater effort to enforce sections 102 and 401 of the Revenue Act to prevent the improper accumulation of surpluses so as to avoid personal surtaxes.

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In addition some of us favor a moderate reduction in the rate of the corporation tax, say from 19 to 16 per cent and the repeal of the remaining vestiges of the undistributed profits taxes. Other members believe that the existing rates of both taxes would not be injurious to enterprise, if the double taxation of dividends were abolished, if the capital stock and excess profits taxes were repealed, and if the carry-over of losses were allowed. The sum total of these various taxes and the artificial definition of taxable income operate as a psychological if not a material deterrent to progress. Although differing as to detail we are unanimous in expressing the view that the system of taxing corporations should be changed.*

* By Mr. Spalding. Although I agree in general with these conclusions, I believe we should decide to what extent the corporate income tax is an excise tax on the privilege of doing business and to what extent it is a withholding at the source of a tax on the stockholder's pro rate share of the profits. To the extent that it is the former, the rate of a federal tax should at the most not exceed 5 per cent. To the extent that it is the latter, credit should be allowed the individual stockholder for the tax already paid by the corporation.

III. The Undistributed Profits Tax

Now we come to the undistributed profits tax, the principle of which several members of the Round Table believe

* Dennison, Fichter and Laidler

to be sound. Three arguments in favor of a heavy tax on distributed profits are advanced. First, such a tax would prevent the accumulation of large corporate surpluses as a means of evading high individual surtaxes by wealthy stockholders. Secondly, such a tax would discourage speculative or unwise investments by corporate directors and oblige new financing to be carried on through the investment market where it would be tested by the competitive needs of various enterprises. If directors were obliged to pay out profits to stockholders, the latter could decide whether to reinvest their funds in expansion or spend their money in other ways. Finally, it is contended that the undistributed profits tax is one means of solving the problem of over saving. Proponents of their view insist that the age dominated by geographic pioneering and the opening of millions of square miles of rich virgin land has come to an end. Consequently they believe we have reached a phase in our economy in which the fraction of the national income which private capital can use is less than it has been, while the fraction which can be effectively used for public

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capital expenditures is greater. In their opinion private investment, that is, the building of plant and equipment, depends upon present and prospective consumption. An undistributed profits tax either forces profits into the consumption stream represented by the smaller stockholders, or into the coffers of government where it is spent on public work or relief. While agreeing that small growing concerns should be exempted, most proponents of some form of undistributed profits tax believe that the larger and well established corporations, taken as a whole, already have surplus accounts large enough to meet their needs, and that any increases can be taxed without economic injury. Although these members of the Round Table admit freely that a proper technique has yet to be worked out, they insist that the principles are important and sooner or later must be accepted.

Most of us cannot accept these arguments in favor of the undistributed profits tax. We remain unconvinced that corporation reserves are generally used by wealthy stockholders to avoid high surtaxes. If so the remedy lies in a greater effort at enforcement of Sections 102 and 401 of the 1938 Revenue Act which not only place a heavy penalty tax on corporations which improperly accumulate a surplus for tax evasion purposes, imposing the burden of proof on the taxpayer, but also levy heavy taxes on personal holding companies.

Likewise the majority cannot accept the view that the financing of expansion by corporate reserves is unsound. Innumerable instances may be given of the creation of new enterprises by such means which could not possibly have been financed on the investment market. Historically much of the expansion and new employment in America has been financed out of reserves.

On this point the famous Colwyn Commission declares: "When a company saves by retaining part of its profit, the operation is smooth and simple. In the case of a progressive business the flow of capital is just in the place where it is required; it is at the growing-point of industry, enabling new needs and opportunities to be met without delay as and when they arise. This is true of the new enterprising business, which may as yet be making only small profits, as well as of the established company whose ability to save large sums for development year by year has given proof of efficiency and power of continued expansion. There are cases of course where reserves are accumulated out of caution rather than enterprise, and are invested, e.g., in the preference shares of outside concerns, but generally speaking it is true that the Income Tax, when it falls upon company reserves entrenches upon a form of saving which is of special value to the community."

All but the most extreme proponents of the undistributed profits tax admit that the smaller corporation in this country would be damaged if they were subject to such a tax,

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and that such corporations should be encouraged to expand out of accumulated savings. The 1938 Revenue Act accepted such reasoning to the extent of exempting from the tax corporations having incomes of less than \$25,000 a year. It is extremely difficult however to draw the line between what constitutes a large and a small corporation. A number of corporations having incomes in excess of \$25,000 find it impossible to float securities on the market.

Few of us moreover regard the theory of over-saving as having been established. Even if the theory were sound, it would not follow that a tax penalizing corporation investment would be justified. The greater the danger of over-saving the further investment should be encouraged. It may be socially desirable to encourage the growth of small corporations; but the predominant view of the Round Table is that any tax system which penalizes larger corporations desiring to expand and provide new employment is as injurious to the worker as to capital.

In this connection it is interesting to observe that Sweden abandoned its experiment with the undistributed profits tax a number of years ago. It has now gone to the opposite extreme, in the Depreciation Fund Investment law of 1937. Under this law corporations may secure exemption from taxation on income set aside as special "depreciation investment funds." In each year the amount set aside for buildings cannot exceed

10 per cent of net income and 2 per cent of joint capital; while the amount set aside for equipment and stocks may not exceed 20 per cent of net income and a per cent of capital. Corporations are encouraged to accumulate such funds to be expended at the down-turn of the business cycle so as to assist in reducing the fluctuations of industry and trade. The government, however, decides when expenditures from these funds can be made. If the funds are invested within six years they are definitely exempt from taxation. Otherwise the income is taxed at the end of the six year period. The adoption of this tax in America should be studied.

IV. Incentive Taxation

In discussing the question of stimulating enterprise, the committee has parenthetically considered so-called "incentive taxation." A sub-committee of the Senate Finance Committee has recently held hearings on the subject with particular reference to the encouragement of profit sharing. In one sense every form of taxation involves an incentive or a discouragement. All taxes, like all subsidies, have some effect on economic transactions, and are necessarily either incentive in one way or another. Recently, however, the term "incentive taxation" has been used in a narrower and more specific sense. Thus, some people wish to use taxation as a means of controlling specific managerial decisions or business policies. To encourage

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the adoption of profit-sharing it is proposed to grant a credit on social security taxes. To encourage plant expansion others would permit the deduction of half the amounts expended on new buildings or machinery up to 15 per cent of the total taxable income. To reward an employer for increasing his payrolls others would allow income tax reductions amounting to a certain percentage of the sums expended on employment in excess of a normal period.

In general, the Round Table regards these proposals with considerable scepticism. They involve serious administrative difficulties and invite the extension of government control over industry. They necessarily mean that taxation for revenue is increasingly subordinated to taxation for a variety of purposes for which direct measures may be more appropriate. Government would decide what specific business policies would be encouraged by incentive taxation, and government might make mistakes or change its mind. The undistributed profits tax was enacted as an incentive to distribute dividends. But the business community regarded it as a punitive tax. Some of us fear that taxation credits designed to increase plant expansion might injure cyclical industries, lead to unsound investments, and distort the competitive process. The granting of special tax deductions or exemptions inevitably means the shifting of the tax burden. In 1932 the von Papen government in Germany endeavored to hasten recovery by paying a premium in the form

of tax-certificates to employers who increased the number of their workers. But the experiment failed, which however may have been due to other than the tax exemption features. Several members of the Round Table would favor a cautious experiment

 * Hedges, Dennison, Myrdal, Parker, Sachs, and Slichter.

with one or two forms of incentive taxation. Thus, the railroads might be exempted from income tax liability on their outstanding bonds purchased at less par value during a stated number of years. With such incentive the roads might repurchase their depreciated securities and thus rehabilitate their finances. Moreover the Swedish example might be attempted here of giving a tax incentive to employers who wished to accumulate reserves, possibly held in the U.S. Treasury, to be expended when a depression recurs.

Generally speaking, however, the Round Table believes that the best way of giving an incentive to business enterprise and new investment is to devise a stable, equitable, and generally applicable tax system along the lines we have suggested.

V. "Soaking the Rich"

If the present corporation tax laws needlessly discourage new investment, equal criticism is directed against some features of our personal income tax legislation. Although

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our income tax burden is relatively light on individuals with incomes below \$50,000. the taxes imposed above this figure are higher than in any other important country in the world. Incomes in excess of \$50,000 must pay a total tax of 35 per cent which rises to 62 per cent on incomes in excess of \$100,000. 74 per cent in excess of \$500,000. 77 per cent in excess of \$1,000,000 and 79 per cent in excess of \$5,000,000. In contrast the maximum British surtax rate is 69.5 per cent. The British rate on small incomes is many times the American rate; but the tax paid by very large incomes in Britain is considerably less than in the United States.

As far as revenue is concerned, the importance of these surtaxes may be exaggerated. If government confiscated every cent of taxable income above \$100,000 it would procure, using 1936 figures, a revenue of less than one billion dollars, which is just one ninth of federal expenditures in the fiscal year 1939. In the process it would destroy much of the entrepreneurial ability of the country, while it would extinguish funds which in the past have been a source of new investment.

In case people of great wealth hoard their savings, the effect of government taxation usually is to divert funds from hoarding to consumption, and thus create purchasing power necessary to production. Nevertheless, it cannot be assumed that wealthy people permanently resort to hoarding, and sound government policy should give such people an incentive to invest.

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In the long run, purchasing power is derived only from productive employment, and productive employment depends in part on savings risked. Unless we are prepared to nationalize the economy the incentive to private investment must not be destroyed.

Even though present surtaxes do not entirely use up the available quantity of private savings, nevertheless such surtaxes do inevitably affect the character of investment. Government now takes such a large part of incomes above \$100,000 a year that the recipients of such income are induced to abstain from chance-taking. Confronted by a choice between two enterprises -- one where the risk is great but the profit large if successful and the other where the risk and profit are both less -- the investor is likely to play safe, because he must pocket 100 per cent of the losses but turn over to the government the larger part of the gain. The practical effect is to cause investors to await an unmistakable consumer demand for products yet to be developed when the very process of investment might itself stimulate such demand.

While we do not defend irresponsible speculation, we wish to point out that industrial progress under capitalism has been largely due to pioneering investment. Once the soundness of a new enterprise is established venture capital may move into new fields leaving more timid capital to take over the newly established enterprises. Opportunities for relatively timid capital represented by the savings of people of moderate means depend largely upon the initiative of venture capital. This capital should come from people of wealth since new developments involve great risk which only they can afford to assume. It is probably true that as large sums have been lost in pioneering investment as have been made. We realize that business incentive may be dominated as much by the creative impulse as by a desire for large profit. Nonetheless a tax system which takes a large part of the gains while assuming none of the risks is likely to discourage not only profit but creative impulse as well.

Believing that people of great wealth should be encouraged to invest in venturesome enterprises the predominant sentiment in the Round Table is that tax rates upon incomes above \$100,000 should be lowered, fixing the maximum rate say at 50 per cent instead of 79 per cent. The reduced tax would give the wealthy investor less than half the profit on a risky enterprise which is not unreasonable if the chances of losing are great. This suggestion is not

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Inspired by a desire to protect wealth as such, but to encourage it to perform a function of value to the country as a whole, particularly the unemployed. The predominant sentiment of the Round Table also believes in making the reduction in maximum surtaxes dependent upon the abolition of tax-exempt securities. While a positive inducement should be given to great wealth to embark upon venturesome enterprises, the incentive to cautious investment given by tax exemption should at the same time be terminated. It is desirable for people of wealth to pay an income tax in accordance with the progressive principle, but no tax is quite so regressive as one which discourages investment in new enterprises, because such a tax really is paid by workers who cannot find private employment.

A number of members of the Round Table dissent from the predominant view.* They do not know of any authentic

* Dannison, Laidler, and Fichter

reports of how much risky investment in real capital outlay in the past has come from these higher incomes. Today there may be a scarcity of ventures but plenty of "venture" capital available; on the other hand, large corporations may already be financing new ventures out of their funds. Particularly in the absence of consumer demand the members doubt whether

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people would embark upon risky investment, even if the surtaxes were reduced. The existence of large fortunes in a democracy is of questionable utility, despite the light of the present surtaxes, a surplus remains enabling the wealthy to enjoy a luxurious existence. Those who take this view favor no action in reducing the surtaxes until after the question has been carefully studied and until there is conclusive evidence as to the effect of high surtaxes on investment.*

* By Professor Buehler: I am of the opinion that evidence as to the effect of such surtaxes is too meager to form any definite conclusions, but I am willing to support the reduction of such taxes, if tax-exemption is also abolished, in order to determine if the effects are beneficial.

By Mr. Spalding: While I cannot see either justice or wisdom in a tax rate as high as 79 per cent superimposed upon state and local taxes, I do not think there is sufficient evidence to justify the conclusion respecting investment in enterprises of greater or lesser risk.

We believe that the question of improving the administration of our estate taxes should be studied. The danger is that an estate tax may be so high that the heirs are forced to liquidate a going business, throwing men out of employment. Moreover, if the imposition of such taxes is so

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drastic as to imperil the financial security of a going concern, the jobs of employees are jeopardized. The owner of a concern may guard against the sudden liability for an estate tax by taking out insurance; but some lives are not insurable, and insurance itself increases the costs of production and deprives concerns of funds which might otherwise be used in expanding production and employment. Today some aging entrepreneurs maintain a considerable portion of their capital in liquid securities so that funds may be on hand to meet the estate tax after death. The use of capital this way reduces the sums otherwise available for non-liquid investment such as in the construction of houses or office buildings and increases the demand for the securities of standard corporations, again handicapping small enterprise in need of capital. Sometimes a solution is sought under the provisions of law which authorize payment of the estate tax in installment over ten years/^{with} interest. This works out satisfactorily when the estate does not shrink in value. Nevertheless we believe this problem of administering estate taxes so as not to interfere with enterprise needs to be further examined. One suggestion is that the government should be given non-management ownership of the share represented by the tax for an extended period of time.

 * By Mr. Stumpf I am opposed to this suggestion as it increases government control over business.

IV. Capital Gains and Tax Exempts

Any tendency of people of means to refrain from pioneering investment, upon the resumption of which new employment depends, is further encouraged by two other features of our tax system. The first is the recent methods of taxing capital gains; the second is the existence of tax-exempt securities. Capital gains are usually the result of the sale of securities or real estate by ordinary investors or owners. Business enterprise and new employment are both served when a capitalist who has developed a successful business sells out to more cautious capital and embarks on new ventures. The extent to which this process has been hampered by a tax on capital gains is a matter of controversy. During the "boom" period capital gains realized after two years were segregated from ordinary income and taxed at the moderate rate of 12 per cent; and, in effect, capital losses could be deducted from ordinary income. Even this comparatively low rate of tax was criticized at the time on the ground that it deterred many holders of stock from disposing of their holdings, thus exaggerating the boom. Whether or not this criticism was justified, the revenue derived from capital gains provided a far greater proportion of revenue during the pre-depression period than it has since. This decline, however, may be due to a change in the economic situation as much as in the method of taxing such gains.

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Now a capital gain usually represents the realization in a single year's income of a gradual increase in value which may have accrued over a long number of years. The Revenue Act of 1934 endeavored to recognize this principle by devising a complicated time scale and increasing the tax on capital gain in accordance with the length of time the realized assets had been held. On the other hand, it now limited the deduction of capital losses only to the extent of the capital gains in the same year plus an allowance of \$2,000. As a result of the complications inherent in the time-scale device, and the limited capital net loss deductions, the velocity of business transactions and the incentive to invest in new and more risky ventures were alleged to have been checked.

From the standpoint of enterprise the situation was considerably improved in the 1938 Revenue Act. In effect, a ceiling of 20 per cent was placed on the rate of income tax which may be imposed on capital gains realized on assets held for a period of from eighteen to twenty-four months, and of 15 per cent on gains realized on assets held for a longer period. Moreover, the act abolished the \$2,000 net capital loss limitation, allowed an individual to deduct his long-term capital losses from regular income subject to a certain ceiling, and allowed a carry-over of losses for one year in so far as such losses on assets held less than eighteen months were concerned.

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Several members of the Round Table* believe that

* Mr. Parker and Mr. Spalding

the changes made in the 1938 act definitely stimulated investment and that no further amendments in the present system of taxing capital gains and losses should be made until after more data is available as to the working of the act in relation to the flow of capital.

The predominant view of the Round Table is that the 1938 Act went too far in one direction but not in another. The provisions allowing the deduction of capital losses from ordinary income, rather than from capital gains alone, seems over-generous. On the other hand, the rather rigid time limits imposed on the carry-over of losses by the 1938 Act handicaps an investor wishing to take into account the duration of the business cycle. We cannot subscribe to the view that capital gains should not be taxed at all. If they were untaxed as in England, some individuals might be clever enough to escape payment of income tax altogether by converting regular income into capital gains. We would not however go to the opposite extreme of subjecting capital gains to the higher surtax rates out of fear of discouraging the flow of risk capital. Most of the Round Table would completely segregate capital gains and losses from ordinary income, tax

gains at a moderate rate, decreasing with the length of time the asset is held, and allow the carry over of losses from the short to the long-term period. Some of us would abolish the distinction between the two periods entirely and take all gains at a moderate flat rate. The less complicated is the system of taxing such gains, the more risk-taking is likely to be encouraged. * ~~At present the rather rigid time limits~~

* By Mr. Nicely: The much discussed question of the income aspect of capital gains, outside of ordinary business income, could be set at rest and a fair levy imposed for the sake of the revenue by a totally different approach. I suggest that a transaction resulting in a gain of this type be made the subject of a flat excise tax, payable promptly at, say, 10 per cent or 15 per cent of the gain. This has the advantage of complete segregation from the complicated rate apparatus of the income tax; the levy falls on the tax payee when he is in funds; the Treasury receives the tax in full at an earlier date; the income tax returns would afford a more accurate picture of the true income available and would furnish statistics on which rates might be more intelligently prescribed; the investor would be able definitely to estimate the tax burden of his transaction. Presumably losses would be ignored unless a generous Treasury elected to permit them to be deducted from general income as a matter of decency rather than of good tax practice.

Tax Exempt Securities: When large incomes are encouraged to take refuge in tax exempt securities another blow to venture capital is given. Today it is more profitable for a wealthy man liable to heavy surtaxes to accept a small rate of interest from a tax exempt security, involving virtually no risk, than to invest in taxable enterprises holding out the hope of a far greater return. This advantage, however, does not extend to people of small means. For example, to a married man with a net income of \$5,000 a 3 per cent tax-exempt security will yield the equivalent of only 3.12 per cent taxed security. But to a man with an income of \$500,000 a year, a 3 per cent municipal bond upon which he pays no taxes is equal in value to a security yielding 10.7 per cent liable to the surtax. Why should a wealthy man take a risk on investments holding out the dubious hope of an 11 per cent yield when he can find an equivalent net return in tax-exempt securities which involve no risk at all?

At present there are nearly twenty billion dollars worth of local tax-exempt securities outstanding. The greater part of these securities are still held by institutions who do not profit from tax-exemption but who do insist on security. Nonetheless, investments in tax-exempts on the part of the wealthy seem to increase whenever heavy surtax rates are imposed. Following the reduction of surtaxes in 1925, the percentage of tax-exempt interest in the case of the millionaire incomes

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previously mentioned dropped from 8.41 per cent to 2.98 per cent, but following the reimposition of high surtaxes in 1932, the percentage of income from this source rose to more than 10 per cent in 1933 and 18.43 per cent in 1934. It fell to 6.4 per cent in 1935. It is possible that this changed proportion is due to the fact that tax-exempt income remains constant during a depression since governments continue to pay interest, although income from stocks declines. Nevertheless we are of the opinion that when the higher surtaxes are raised, there is an inevitable tendency of those subject to such taxes to increase their holdings of tax-exempt securities.

We all believe that these tax exemptions should be discontinued even though the federal government does not gain a cent of revenue as a result. Coupled with high surtaxes the present policy of tax-exemption is a positive discouragement to risk-taking on the part of those most able to afford it. The states and municipalities complain that termination of tax-exemption would increase their cost of borrowing. We do not regard this complaint as important. In the last analysis the same taxpayer foots the bills for the federal, state, and municipal governments. He should look with favor upon a tax system which promotes rather than hinders the development of new enterprise and employment.

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Although the Round Table is unanimous as to the desirability of ending tax exempt securities for the future, differences arise as to the best means of bringing this about. We cannot enter upon a discussion of whether Congress has the constitutional authority to tax state securities. Nevertheless, a majority of us believe that Congress should pass a law ending the exemption of all such securities issued in the future, leaving to the Supreme Court the task of deciding whether such a statute would be valid.* Under the most

* By Mr. Parker: I believe also that the interest derived from Federal, state and local bonds should be subject to surtaxes.

favorable circumstances, years are required to secure the ratification of any constitutional amendment, and in view of the increasing competition between the federal government and states over sources of revenue it is doubtful whether three-fourths of the state legislatures in any foreseeable period would approve an amendment authorizing Congress to tax their securities unless Congress gave something to the states in return. Consequently most of the Round Table believes that Congress should immediately test its powers by acting to end an abuse which Republican and Democratic Presidents have equally denounced *

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* By Mr. Hill: In addition to such a law, Congress should also propose a constitutional amendment expressly granting it power to tax state securities.

Several of our colleagues do not go along with us here. They express the view that should the Supreme Court

* Messrs. Spalding and Vance

decide that Congress by ordinary statute could tax future state securities it would follow that Congress had the power to tax existing securities. The doctrine of reciprocal immunity is of long standing and is closely analogous in its economic effect to a "rule of property." Investors, whether individual or institutional, have bought tax-exempt securities to the amount of about twenty billion dollars, in reliance upon tax immunity. It would be unwise for Congress to give the Court an opportunity to reserve a long settled doctrine affecting the value of such a vast quantity of outstanding securities. They believe that a constitutional amendment should limit the termination of tax exemption to securities issued in future. Such an amendment could safeguard the capital value of outstanding bonds, while subjecting the income from such bonds to the personal progressive income tax.

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The majority of us do not fear that simply because Congress may have the power to tax tax-exempt securities, whether outstanding or to be issued, it follows that Congress would exercise this power retroactively. Congress and the president could make it clear that they have no such intention; and even though any commitment on their part would not bind future administrations, it would have great moral weight.*

* By Mr. Buehler: I favor a constitutional amendment ending tax exemption, under which the federal government would agree to discontinue the federal gasoline tax in favor of the states. Some such compromise is necessary before the states will consent to increase the federal tax power at their expense.

Congress has shown no disposition to tax hitherto exempted federal securities, and should be trusted not to tax outstanding state securities

V. Chiseling the poor

In recommending the modification of corporation taxes, a moderate reduction in the larger surtaxes on individual income, and further changes in the present methods of taxing capital gains, the predominant opinion of the Round Table may be accused of being unduly solicitous of great wealth.

We hope that any such impression will be offset by our recommendation favoring not only abolition of tax-exempt securities, but also an increase on the income and estate taxes on the middle brackets subsequently discussed. Moreover, we find support for the reasoning underlying the conclusions so far reached in a report on "Taxation under Capitalism" issued by the Fabian Research Bureau, which represents the best socialist thought in England. This report states, "If today there is not enough purchasing power to buy the products of the factories, the remedy does not lie in saving less, but quite elsewhere . . . The results of the failure to invest afresh, or of a failure to keep old capital efficient and up-to-date are not easy to exaggerate. To anyone not obsessed with the entirely erroneous doctrine . . . of spending . . . it is clear that the ability to offer more employment and higher wages depends upon the existence of factories which are up-to-date and properly equipped, and this in turn depends upon the adequacy of the supply of new savings." The report states that further increases in the income tax might deprive

the country of a considerable amount of enterprise and ability as well as valuable savings. "Nor is 'Good Riddance' the appropriate comment in spite of the existing unemployment at home, for if we really do lose enterprising and able men, unemployment must increase still further." A further study published under the same auspices proposes certain increases in the surtaxes of the middle class, but leaves untouched the surtaxes on very large incomes except to lower by 3.25 per cent the tax on incomes between \$75,000 and \$100,000. Socialist thought both in Sweden and Britain respect the principles of capitalism to a far greater extent than does existing tax legislation in the United States.*

* By Mr. Dennison: It might be argued that risky capital funds are in much less generous supply in Sweden or Britain than in the United States.

It is possible that if the features in our tax system penalizing enterprise remain unchanged, future investment will be made more and more by government and by people of medium-sized incomes who invest money largely in government bonds or in savings banks and life insurance companies which cannot invest in common stocks. There is some danger therefore that unless government frankly enters the field of productive investment and nationalizes the economy, venture capital needed

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to stimulate new enterprise will disappear, and that our economy will remain in a condition of stagnation under which unemployment will continue to exist. We wish to reiterate that excessive taxation upon the rich levied in the name of social justice may have the effect of continuing unemployment. If so, such taxes are paid for not by the rich but by the poor.*

* By Mr. Spalding: Is it not the sum total of all taxes, federal, state, and local, which must be paid by business enterprise before there is anything to distribute to stockholders and entrepreneurs that is the deterrent to investment of "venture capital" rather than the top surtax rates and "tax exempts" which we have been discussing?

If the American tax system unduly penalizes new enterprise, it falls far too heavily upon the low-income groups. The taxes upon these groups are not directly imposed or consciously paid. The pennies of the poor are extracted with a minimum amount of pain because their taxes are usually hidden. The earliest form of consumption tax was the tariff. Its purpose was to increase domestic prices for the benefit of certain producers. Within recent years the processing tax has been employed for purposes somewhat similar to the tariff; and the most important remaining processing tax imposed on sugar refining increases the cost of sugar to the American public about \$300,000,000 a year.

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The increasing number of consumption taxes and excises levied by the federal, state, and local governments have been inspired primarily by a desire for revenue. Such taxes possess several tempting advantages. Inasmuch as they fall largely on necessities, their yield is comparatively stable, in comparison with taxes on income. Often these taxes are hidden in the purchase price or diffused in such small amounts that the taxpayer is far less aware of them than of a direct tax. In buying a package of cigarettes for a dime, the individual thinks he is getting a bargain. In fact he is getting four cents worth of cigarettes, while the U.S. gets six cents in tax. A smoker who consumes a package of cigarettes daily pays a federal tax amounting to about \$22 a year. Moreover, a consumption levy obliges people in the lower-income group to make some contribution to government, whereas under a system of direct taxation these people might altogether escape because of the belief that the cost of collecting a direct tax from marginal incomes would exceed the return.

In our opinion these specious advantages of the consumption levy are far outweighed by disadvantages which are two-fold. In the first place, most consumption levies are relatively regressive; they fall more heavily on the poor than on the rich; they are more likely to be derived from consumption than from saving. It is estimated (BY WHOM) that low-income families in America are obliged to expend about

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fifteen cents out of every dollar of income in hidden taxes. When a poor family pays such taxes it is deprived of what most of us would regard as necessities. In paying the same tax, however, the wealthy family merely does without some luxuries, or pays the tax out of savings. Consumption taxes therefore are contrary to American ideas of democracy and social justice. The goal of tax justice should be to exempt a minimum of subsistences from any burden.

We regard as even more important the fact that consumption levies, particularly upon lower-income groups, absorb sums which otherwise might be expended upon the products of factories or farms. It may be true that as a result of such taxes the government expends sums which the lower-income groups would otherwise spend directly. But the result is to increase public spending at the expense of the system of private enterprise. Even if the government returns with one hand to the poor what it takes away with the other, part of the taxed sums are consumed in overhead. Every needy citizen would prefer to spend a dollar on himself than give it to the tax collector even though part of it eventually returns. Business may prefer consumption taxes to increased income levies; since it can shift the former taxes. But such taxes reduces the purchasing power of the consumer, so that business in effect suffers from the tax after all. From the standpoint of the smooth functioning of our economy, taxes should be taken from

sums which would otherwise be hoarded, saved or expended on non-essentials, rather than from sums which supply the most humble members of society with their daily bread.* We believe

* By Mr. Laidler: And also unsound investments.

that a case can be made out for the tobacco and liquor taxes since they rest upon non-essentials, and are paid primarily by the middle classes. Indeed liquor taxes might be increased with the improvement of our anti-bootlegging machinery. The gasoline tax might be justified on the ground that the taxpayer receives an equivalent benefit in the form of good roads, but there is a question whether the federal government should not surrender this tax to the states.

Apart from these cases, however, we favor the repeal, as soon as it is financially possible, of all the various sales and excise taxes imposed by the federal government;* and oppose

* By Mr. Vance: I do not wholly agree with the blanket condemnation of a general sales tax. I think that there are good and bad sales taxes, like good and bad other things. Four years ago, it was necessary for the State of Indiana to increase its tax income from sources other than property tax. Instead of imposing a state tax on income with many exemptions which would restrict the burden to corporations and to a

relatively small group of individuals, the State adopted a gross income tax applicable to all incomes above \$1,000 per annum. The rates are 1 per cent on sources other than wholesale sales and one-fourth of 1 per cent on wholesale sales. The broad base of the tax has made it touch such a large part of the population that it has been free from subsequent legislative abuse. The rates are so low that the tax does not constitute a serious burden on the transaction of business. The revenue has been steady and has permitted the State to reduce its property taxes and through the return of funds to local communities has permitted them to reduce their property taxes. For these reasons this form of tax is popular in Indiana insofar as any tax can be popular.

Of course the Indiana Gross Income Tax is in reality a species of sales tax although it applies to income from sources other than sales. I think it is justified on the grounds that it has helped to equalize the tax burden particularly to the benefit of property. By the same token, I think that some equalization of tax burden to the benefit of income is defensible.

the imposition of a general sales or transactions tax. Although it is not our province to discuss state and local taxation we are convinced that unless a halt is soon called on the use of consumption taxes by our subordinate units of government

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business recovery will become more difficult than ever. Likewise we favor the gradual reduction of duties in accordance with the Hull trade program in order to remove a burden on the consumer.

VI. Taxing the middle brackets

Having expressed the view that certain taxes on the rich should be reduced and that certain levies on the poor should be repealed, it is incumbent on us to show how taxation can elsewhere be increased. Such increases should not only fill the gap left by reductions elsewhere, but increase revenue generally

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In America today there are about 10,000,000 bondholders, 30,000,000 savings bank accounts, and about 22,000,000 auto owners. Yet in 1935 only 5,413,499 people filed federal income tax returns, and less than two and a half million people paid any income tax. As far as taxes are concerned America has a caste system imposing excessive burdens on the wealthy at one extreme and the poor on the other; but the great middle class is hardly aware of the federal tax collector.

Britain collects income taxes from a far larger proportion of its population than we do. The United States exempts a married couple from all taxation below an income of \$2,500 -- usually \$2,750 because of the earned income exemption -- but in Britain the tax exemption applies only to couples having less than \$900. Moreover in Britain the normal rate of tax is 27 per cent although people in the minimum tax categories pay only one third the normal rate. In contrast the United States imposes a normal tax of 4 per cent. Moreover British surtax rates on incomes below \$100,000 are much higher than ours.

Although it means increased taxes on ourselves, we believe the present exemption in the personal income tax should be lowered, if necessary the normal rate of 4 per cent should be raised, and the surtaxes on net incomes between \$5,000 and \$50,000 should be increased. Senator LaFollette has introduced into the Senate a measure which would reduce

the personal exemption of a married person from \$2,500 to \$2,000, and for a single person from \$1,000 to \$800, a proposal which should increase the number of taxpayers by 1,450,000. One of our members (Professor Slichter) proposes to reduce exemptions and increase middle bracket rates as follows, so as to increase revenue about a billion dollars a year, on the basis of the 1936 income.

Income Class	Income reported for 1936 (millions)	Actual income tax collections, 1936	Effective rate in 1936	Proposed effective rate	Proposed tax collections
\$2,000	\$3,011	\$14,010,000			
4,000	3,325	13,988,000	.47	1.5	\$45,000,000
6,000	3,821	32,232,000	.42	4.0	132,000,000
10,000	2,977	79,369,000	.84	6.0	229,000,000
25,000	2,628	175,613,000	2.67	8.0	535,000,000
50,000	1,400	191,339,000	6.68	12.0	215,000,000
			13.68	18.0	252,000,000
Total	\$17,162	\$506,551,000			\$1,500,800,000

We hope Congress will give favorable consideration to these proposals and if need be, apply only half the normal rate to the minimum incomes taxed.*

* Professor Buehler: If the federal excises are abandoned, we must lower the personal income tax exemptions, in order to make up lost revenue and approach eventually a balanced budget. Under such circumstances I believe the exemption for a single person should be about \$700 and for a married person about \$1,400. In my opinion, when tax exemptions are lowered, the normal rate should start at 1 per cent rising

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to about 6 per cent; the distinction between normal and surtaxes being abolished.

In our opinion, the reduction in income tax exemption and an increase in the surtax in the middle ^{+ lower} brackets is necessary, first, for reasons of revenue. If new money is to be raised, taxes must be levied where incomes are found.

According to the Treasury's 1936 statistics of income, 89.21 per cent of the net income reported for that year came from incomes between \$1,000 and \$50,000; but the taxpayers within these ranges paid only 49 per cent of the total income tax. On the other hand incomes between \$50,000 and \$100,000 reported 4.75 per cent of the total income but paid 17.80 per cent of the tax. While we do not believe that these larger incomes are overtaxed in comparison with their ability to pay, it seems clear to us that the lower bracket incomes today are undertaxed, and are best able to stand an increase. Unless income taxes on the middle brackets are increased, the demand for a federal sales tax or other new levies on consumption may become irresistible.

Secondly, we favor such increases for political reasons. It is only by imposing the burden of direct taxation on a considerable proportion of citizens that they will be made to compare the cost of government with the service

which government is now rendering in return. No democracy can allow the burden of direct taxation to fall only on a small minority. Under such a tax system, the majority escapes-- on what is worse -- believes it escapes from sharing in the burden of paying for the expenditures which the majority votes. We believe it is important to reconcile the principle of capacity to pay with the equally important American principle of no taxation without representation.

Several members of the Round Table (Demison, Fichter, Fisher) would make the lowering of the exemptions dependent upon the abolition of consumption levies. Otherwise they fear that the tax burden on people with inadequate purchasing power would merely be increased. While realizing the importance of such considerations, the remainder of the Round Table does not favor making one change dependent on the other. They think that if direct taxes are increased the popular demand for the abolition of consumption levies will inevitably mount; but if we do not increase income taxes at once, there is grave danger that new consumption levies will be imposed.

In suggesting that exemptions be lowered we are aware of the danger that the costs of collecting these new taxes may prove excessive. We believe that once enacted the new provisions must be applied regardless of cost. This is particularly necessary so as not to undermine the present administration of the income tax which is rather well enforced.

Nevertheless the state of Wisconsin succeeds in collecting an income tax from thousand dollar incomes and we believe that the federal government could do the same.*

* By Mr. Laidler: In order to find a more stable means of revenue I favor the studying of the possibility of adopting a tax on the total receipts of business from sales, less the cost of the materials used in production.

For similar reasons we believe that further increases could be made in the lower brackets of our estate tax and that the exemptions could be lowered.* Although America imposes no

* By Mr. Spalding: We should consider the desirability of leaving this field of taxation to the states, or at least retaining the principle of the 80 per cent credit to the states contained in the 1926 law. Second, the progressive rate of the tax should be measured by the individual inheritance rather than by the whole estate, thus favoring the break-up of large fortunes rather than their confiscation. Third, exemptions from those in fact dependent on the decedent for support, should be materially increased, not decreased. Otherwise a tax on the transfer of the corpus comes at a time when beneficiaries previously dependent on the decedent are least able to pay. In addition the procedure for determining

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estate tax liability often imposes on moderate sized estates an expense equal or greater than the tax itself. A tax on inheritance of non-dependents does not have these objections and is socially justified at highly progressive rates."

By Professor Slichter: "Estate and inheritance taxes are forms of levy peculiarly unfitted for the states because in most of the states the deaths of persons possessing large estates come very irregularly. This makes the yield of the tax highly variable and also unpredictable. When a very wealthy person dies, the state gets a windfall. This is conducive to extravagance rather than carefully planned and economical public finance. For the nation as a whole the yield of the estate tax would be fairly steady. It would be desirable in my judgment for the states to give up inheritance and estate taxes entirely in return for the federal government giving up the gasoline tax."

taxes on estates below \$40,000 -- or in effect upon estates which may be much higher on account of life insurance and gift tax exemptions -- Britain taxes estates beginning at \$500. Our rates on large estates, rising to a maximum of 70 per cent are higher than the British rates, but they are much lower on the medium-sized estates. The following table shows the abrupt increase when estates of \$2,000,000 are reached. We do not favor raising rates on estates above a

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million dollars, but believe that the rates on lower estates might be heightened.

Estate Tax

Net estate before exemptions	Federal tax assuming no state taxes paid (hence no credits)	Federal tax assuming state taxes paid (80% credit for these taken)
\$100,000	\$4,200	\$4,200 (1926 Act gives \$100,000 exemption)
200,000	19,800	18,600
500,000	80,400	70,400
1,000,000	211,000	177,800
2,000,000	543,600	444,000
3,000,000	936,200	754,200
5,000,000	1,901,400	1,509,800
10,000,000	4,936,600	3,869,000
20,000,000	11,835,800	8,969,000
50,000,000	32,335,000	24,868,200

VII. The federal-state tax problem

Of the twelve and a half billions collected annually in taxes from Americans less than six billion is collected by the federal government. The remainder is gathered by 175,000 tax jurisdictions divided among state and local governments. Multiple taxation exists and there is much duplication and waste in respect to tax machinery. Both the federal and the state government may impose income and inheritance levies upon the same source of wealth. An effort to remove duplication was made in 1926 when the Revenue Act authorized deduction from the federal estate tax up to 80 per cent for sums paid out in the form of state inheritance levies. Elsewhere, however, duplication abounds. For example, the federal, state, and local governments all maintain separate sets of officials to tax the same gallon of gasoline. As the burden of relief increases, competition between the federal government and the states, and between the states, for the same sources of taxation is becoming intensified. There is little likelihood that the tax burden or government expenditure can be reduced materially or that these expenditures will yield their maximum return until the whole fiscal relationship between the federal government and the states as well as that between the states and local governments is thoroughly revised.

One proposal advanced as a solution of this problem is the establishment of a single administrative agency by which

the federal government would collect taxes for the states desiring its services. This idea was applied a number of years ago in Australia where one state hired the federal government to administer its revenue system. Elsewhere in Australia, however, the federal government agreed that the states might collect the federal income tax. The establishment of a federal tax commission for America has also been proposed with power to make recommendations to the state and federal governments as to tax legislation and to administer certain state taxes if so desired by the state concerned. The Round Table realizes the great importance of this federal-state tax problem, and believes that a solution depends on a consideration of the tax problem as a whole, some aspects of which affect the future of federalism in this country. It may prove true that the saving of expenditure depends primarily upon eliminating outworn or overlapping local government units. We believe that this problem should be one of the first to be investigated by the national tax commission, the appointment of which we have suggested.

END

JR

SPECIAL GRAY

Paris

Dated March 8, 1939

Rec'd 3:08 p.m.

Secretary of State,
Washington.

421, March 8, 3 p.m.

FROM COCHRAN.

Yesterday Guaranty sold six million eight hundred thousand dollars to French control and two and a half million to British control. Morgans has dollar buying order today and weakness continues. By three o'clock Guaranty alone had provided one million fifty thousand dollars for the French control. French stabilization fund has also gained some sterling. Belga fluctuating and National Bank yielding gold to support it. French press comments favorably on Reynaud's announced decision to publish data quarterly on French stabilization fund following British precedent and recent American decision in the premises. Press announces that Funk has appointed Dr. Herman Schmitz to succeed Dr. Paul Reusch as German industrialist Director on BIS Board.

BULLITT

KLP

REB

PLAIN

London

Dated March 8, 1939

Rec'd 3:24 p. m.

Secretary of State,
Washington.

310, March 8, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. The Chancellor of the Exchequer made the following announcement in the House of Commons today:

"The Chinese Government have informed His Majesty's Government that they intend to continue their existing monetary policy and that as part of that policy they desire to establish a stabilisation fund of £10 million sterling in addition to their other reserves. They have invited the two Chinese Government banks to subscribe a total of £5 million to the fund and two British banks --the Hong Kong and Shanghai Bank and the Chartered Bank-- to subscribe the further £5 million between them. The British banks have agreed to subscribe these amounts subject to receiving an undertaking from the British Treasury to reimburse them from any loss that might be incurred when the fund is wound up. The arrangement would be that the fund would operate for 12 months but it could be continued for

REB

2-#310, From London, Mar. 8, 7p.m.

for further periods of six months by agreement; if the necessity arose however the fund could be wound up at any earlier time. His Majesty's Government would welcome the establishment of this stabilisation fund the successful working of which would be of material assistance to British trade and enterprise in China and the Treasury have agreed subject to legislative approval being obtained to give to these banks the guarantee against loss for which they ask. A bill is being prepared and I hope to be able to present it early next week."

In answer to questions Sir John Simon indicated, 1, that the management of the stabilisation fund would be in the hands of a committee and on that committee would be "an element which is responsible to the British Government", 2, that the first charge on any profits accruing to the British banks would be to indemnify them but thereafter their share of any profits would be transferred to the British Exchequer.

It seems obvious that this exchange fund weapon which is being forged by the British Treasury should prove of psychological and actual benefit to the Chinese in the prevailing circumstances; if Japan does not succeed in
achieving

REB

3-#310, From London, Mar. 8, 7p.m.

achieving her purposes in China it should also prove an important instrument in time of peace in fostering British interests.

In preparation for this announcement today's TIMES contains articles which are highly critical of the measures which the Japanese are taking in North China to isolate the concessions and to impose their currency exchange control system.

2. The foreign exchange market was not active today but the dollar was inclined to be bid. The only noteworthy feature was again the high proportion of gold bars married, 133 of the 226 sold at fixing.

KENNEDY

HPD

TO:

3/8'39

The file

Mr. Foley showed this memo to the Secretary today at 12:45 (Dr. White with him), and brought back this original and three of the attachments. The Secretary kept the attachment marked "No. 1".

McGuire

*See returned II, at
500 3/8'39*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 8 1938

TO Secretary Morgenthau
FROM E. H. Foley, Jr., Acting General Counsel

Attached is the following material relative to economic assistance to Latin American Countries:

1. Your letter of June 7, 1938 to the President enclosing draft bill authorizing the Secretary of the Treasury to make certain foreign loans to countries in the Western Hemisphere and for other purposes; together with his memorandum of June 10, 1938 to the effect that it was too late in the Session to try to get anything through like this.
2. A memorandum dated June 27, 1938 sent from Mr. Oliphant to you concerning the President's memorandum of June 10 to you setting forth reasons why the proposed legislation was not resumption of dollar diplomacy.
3. A memorandum dated November 3 from Messrs. Oliphant and White discussing a program of economic assistance to Latin American countries.
4. A proposed letter to the President for your signature discussing a program of economic assistance to Latin American countries enclosing an outline for specific economic assistance to Brazil. (At your request, this letter was submitted to Mr. Taylor for consideration.) Our records do not show that this letter was ever sent.

E.H.F.

Attachments (4)

THE WHITE HOUSE
WASHINGTON

June 10, 1938.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Thank you for yours of June seventh in regard to a bill to make certain foreign loans. In the first place, it is altogether too late in the session to try to get anything like this through, and, in the second place, to us who are in close touch with the South American situation, I fear it would be greatly misunderstood down there and be regarded as a resumption of dollar diplomacy.

F. D. R.

June 7, 1938

My dear Mr. President:

I appreciate fully that any suggestion of new legislation at this date is almost out of the question.

However, I am taking the liberty of sending you herewith a draft of a bill which you may feel is of sufficient importance to ask the leaders of Congress whether they could still get it through at this session.

It is unnecessary to point out to you the constantly increasing financial difficulties in which various South American and Central American countries are finding themselves and the dangers to which that exposes them; and, with this in mind, I feel that if Congress gave you the power as suggested in this bill, your hand would be greatly strengthened.

Sincerely yours,

The President,
The White House.

8.

A BILL

to authorize the Secretary of the Treasury to make certain foreign loans, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever the President, after consultation with the Secretary of State and the Secretary of the Treasury, shall determine and proclaim that, by reason of a violation or threatened violation of the Monroe Doctrine, or by reason of a disturbance or threatened disturbance of the peace of nations of the Western Hemisphere, an emergency exists and that financial assistance to any government in the Western Hemisphere will, in the interests of the United States, aid in the preservation of the Monroe Doctrine and of peace in the Western Hemisphere, the Secretary of the Treasury is authorized, on behalf of the United States, to make loans to any such government at such times and upon such terms and conditions as the Secretary of the Treasury, with the approval of the President, shall deem appropriate; Provided, That the amount loaned to any one such government shall not at any time exceed in the aggregate \$ _____; and Provided further, That such loans shall bear interest at a rate not less than the rate borne by the then last issued obligations of the United States having a substantially similar maturity. For the purpose of making loans under this Act, the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under said Act, as amended, are extended to include loans made hereunder.

It was submitted to the Secretary at 10:30 today (6/21/39). He transmitted it to the President with a letter suggesting the growing importance of the general situation, and the expediency of some legislation. Whether it should be put through at this session.

cc. Long - Administration 8/11/39 - [unclear]

JUN 7 1935

Secretary Morgenthau

Mr. Cliphant

Re: President's memorandum of June 10 concerning bill to make certain foreign loans.

The proposed bill is not dollar diplomacy for the following reasons:

(1) Dollar diplomacy meant the exploitation of weak countries by American banking, commercial and industrial interests for their own benefit and with little regard to the genuine economic, social, or political interests of such countries. The American Government, in order to aid and protect such private investors and develop and expand the field of their activities, took action which was in derogation of the "inherent sovereignty and independent rights" of such countries. The record is replete with evidence that American private interests for their own financial gain would not hesitate to milk such countries dry and to foster revolutions and disorder in order to protect their investments or to enable them to make such investments. The record is also replete with evidence that the intervention of this Government in such situations was not in the interest of the other countries involved, but in order to save the dollars of American investors. The following paragraph from "Dollar Diplomacy" by Hearing and Freeman is of interest in this connection:

"A similar summary of Government co-operation with American finance in Latin America would show variations of the Monroe Doctrine ranging from mere warnings to armed intervention and the establishment of protectorates. It would include the determination of boundaries; the prevention of filibustering inimical to American financial interests and the helping of filibustering advantageous to American financial interests; the administration of Americans of the customs house in Santo Domingo, Haiti, and Nicaragua; the annexation of Porto Rico and the purchase of the Virgin Islands; the financial annexation of Central America and Cuba, where protectorates of one sort or another have been established; armed intervention to protect debt claims or banking interests or oil interests; the destruction of independent government in three republics; the fomenting of revolution in Panama, Honduras, and perhaps Mexico; the building of the Panama Canal; the option on a canal route in Nicaragua, and attempts to obtain a third Canal route; interference with elections; the refusal to recognize governments not subject to the control of American interests and the active support of governments backed by American interests; the acquisition

of naval bases at Guantanamo, Matanzas Bay, the Cienfuegos Islands, Fonseca Bay, and St. Thomas; the establishment of native constabularies under American officers, similar to the British colonial system; diplomatic interference by an economic interpretation of the Monroe Doctrine, for the purpose of blocking Latin-American concessions to European investors; the active soliciting of loan business for New York banking houses; and the carrying on of a ceaseless campaign on behalf of the oil interests against the attempts of Mexico to nationalize its natural resources.*

(2) The proposed bill on the other hand enables this Government, not private interests, to make loans to Latin American countries. By this bill this country will profit not at the expense of Latin American countries, but because Latin American countries with the loans obtained through this bill will be able to rehabilitate themselves economically and will be able to maintain the democratic form of government and social and political institutions native to this hemisphere and will thereby be better able to aid in the preservation of the Monroe Doctrine and of peace in the Western Hemisphere. The making of such loans would strengthen the constituted Latin American governments in repelling subversive social and political influences coming from without the Western Hemisphere, particularly those influences which thrive in an unhealthy economic climate.

(3) No charge has been made that our trade agreements with Latin American countries constitute dollar diplomacy, nor has the charge been made that this country's silver, gold and foreign exchange agreements with Mexico and Brazil constitute dollar diplomacy, even though they were efforts on the part of this government to lend assistance to Mexico and Brazil to enable such governments to deal with certain of their economic problems to the advantage of both parties to the agreement. In its economic aspects the making of the loans provided by the bill would have the same fundamental purpose as the trade agreements, namely, the increase of trade between this country and Latin American countries, for the benefit of both parties to the agreement. Accordingly, the proposed bill is no more dollar diplomacy than trade agreements. Furthermore, the loan device is superior to the trade agreement device as a method for improving relations between this country and Latin American countries, since the loan device can be more readily and effectively used to deal with economic and trade problems arising in this country's relations with any of the Latin American countries. That economic cooperation between this country and Latin American countries does not constitute dollar diplomacy would appear to be suggested by the following statement made by Sumner Welles in an article which he wrote for the April, 1937, issue of "Foreign Affairs":

"At a time (1933-4) when the Cuban people were experiencing the most tragic epic of their history since they achieved their

independence, this government, through a practical policy of economic cooperation, equally beneficial to the trade interests of both countries, rescued Cuba from commercial and financial ruin and from actual starvation;

(4) Indeed the proposed bill would have the effect of stifling dollar diplomacy as it has hitherto existed since it would enable Latin American countries to obtain much-needed credits without exposing themselves to the predatory tactics of those private investors that have been active in this field in the past two generations. The proposed bill is consistent with, and will help effectuate, the President's "good neighbor" policy, since the purpose of the bill is really to help Latin American countries and thereby help this country, rather than to help this country at the expense of Latin American countries.

(Signed) Herman Oliphant

BB ✓

November 3, 1938

Secretary Morgenthau

H. Cliphant and H. D. White

Subject: Economic assistance to Latin American Countries

3

The three major purposes of such assistance would be: (1) To develop immediately more export trade with Latin America and lay a basis for a much larger trade in the future; (2) to strengthen the currencies of Latin American countries and to promote exchange stability between the dollar and those currencies; (3) to encourage the growth of democratic institutions in Latin America and to check the incursion of political and commercial practices inimical to the peace, ideals and economic interests of the United States.

Four types of economic assistance to Latin American countries can be made — either separately or in combination:

1. Gold loan to strengthen the currencies of Latin America and to promote exchange stability between the dollar and those currencies.

A loan of gold can be made via the Stabilization Fund for the purpose of stabilizing the exchange rate between the dollar and the currency in question. That is one of the specific objectives for which the Stabilization Fund was created, one of the objectives of the silver program of this Administration.

A condition of the gold loan should be that the gold be kept on earmark (in the Federal Reserve Bank of New York) for the purpose of supporting currency in the international exchange market and used only after other supplies of foreign exchange have been exhausted in the settlement of legitimate commercial balances. The loan should be at very low rates of interest and for a period long enough to serve the purpose in hand.

A loan of this type can be extended under conditions which while satisfying the objectives of helping to stabilize the currency will involve small risk of substantial loss provided this loan is combined with one or more of the other types of economic assistance.

This loan can be made without additional legislation.

Copy 2 - See memo 11/15/38.

2. An extension of credit or of credit guarantees to develop immediately more export trade with Latin America.

The establishment by the Export-Import Bank of a three-year revolving dollar fund containing a sum adequate for the purpose in hand. These dollar credits should make available funds for the short-term financing of American exports to Latin America of specified items. The items so selected should be those items which are being purchased from those countries which are engaged in trade practices inimical to American trade policies. The list of articles that can be so financed could be drawn up after joint consultation.

The Export-Import Bank activities might take the form of both extensions of credit and of credit guarantees (along the lines of the British Export Credit Corporation).

3. An extension of a long-term loan for productive purposes to lay the basis for larger trade in the future by helping the Latin American countries to develop their resources on a sound basis and to help raise the standard of living of the Latin American people.

In order for loans of this type to successfully achieve our objectives, they must be made subject to the following conditions:

(a) Loans must bear a low rate of interest. One of the important reasons why past private loans to Latin American countries have had such a bad record of default is that the effective rates of interest have been exorbitantly high and the long-run productivity of South American industry has not been adequate to meet such charges. Economic enterprise in Latin America, as developed by private foreign capital, has been directed toward increasing the exports of these countries without adequate attention to their fundamental productive capacities, and long-run interests.

This proposal for long-term loans by the United States Government is designed for a fundamental reorganization of the Latin American economy which will be directed toward long-run objectives, even though the enterprises may earn a rate of profit insufficient in the early years to pay the high rates of interest required for private borrowing.

(b) The second condition would be that a part of the proceeds of the loan (say 25 percent) be spent for the purchase of supplies and equipment in the United States and the balance be spent in the borrowing country. (A portion of the remaining

235

Secretary Morgenthau - 3

dollar funds must sooner or later be spent in the United States.) The purpose of this condition of the loan is to provide the domestic economy with financial resources that will strengthen their internal banking system and lower rates of interest for private borrowing in the Latin American countries. This will encourage the growth of native industry on its own resources and intensify the effect of the American loan.

(c) The third condition is that the loan would be devoted to a domestic rehabilitation program including public works, the creation of new industries, and the modernization and expansion of existing industries. The program selecting the types of industries to be encouraged could be worked out by a joint planning board.

New legislation along the lines indicated last June would be required to authorize these long-term loans.

203 K

11/7/38

Attached was prepared to send to Secretary for presentation to the President on _____, but the Secretary indicated he would like to have Taylor go over it.

Latin America
208 L

My dear Mr. President:

In my letter of October 17, 1938, I expressed the view that one of the two directions in which we can effectuate our foreign policy is to render economic assistance to Latin American countries. In this letter I would like to suggest a plan for assistance to appropriate Latin American countries. (The Brazilian situation presents a good opportunity for launching the program, and a specific proposal is therefore appended.)

Economic assistance to Latin America has, I take it, three major objectives:

- (1) To develop immediately more export trade with Latin America and lay the basis for much larger trade in the future.
- (2) To promote exchange stability between the dollar and the currencies of Latin America.
- (3) To encourage the growth of democratic institutions in Latin America and to check the incursion of political and commercial practices inimical to the peace, ideals and economic interests of the United States.

If we are to have any success in attaining these objectives, I am convinced that we must have a new approach. We must decide once and for all that the economic and political interests of the United States call for the adoption of a program in our good neighbor policy as courageous, as broad, and as fundamental as was the New Deal for the United States. The program submitted below for your consideration is of such a nature. It consists of what might be termed a three prong loan. The decisive consideration in judging the merits of the loan must not be short-run considerations of profit or loss. No effective step can be taken if the problem is to be approached merely on a basis of a banker's estimate of financial risk. I admit the plan is a bold one but I believe the potential gains so far outweigh in political, social and economic importance the risks of monetary loss involved, as to make it merit your careful consideration. The plan is one that will likely win the enthusiastic support of American businessmen, and one that is the best answer to those critics who ask of what use is our vast accumulation of unused gold, silver and capital.

The following proposal is set forth in general terms for all Latin American countries and would, of course, require modification to meet the special situation in each country.

A necessary prerequisite of extending assistance to any country in Latin America should be an understanding that the country in question will abandon as soon as possible clearing agreements and will actively discourage the use of multiple currencies, blocked balances, compensation or barter arrangements in its import trade.

~~FILE COPY~~

Mr. President - 2

Though two of the three parts of the proposal can be made under existing powers, the most important part — the long term loan — does require new legislation.

Part 1. An extension of credit or of credit guarantees to develop immediately more export trade with Latin America.

The establishment by the Export-Import Bank of a three-year revolving dollar fund containing a sum adequate for the purpose in hand. These dollar credits should facilitate American exports to Latin America of specified items which these countries now import from Germany, Italy and Japan.

Part 2. An extension of a long term loan for productive purposes to lay the basis for larger trade in the future by helping the Latin American countries to develop their resources on a sound basis and by helping raise the standard of living of the Latin American people.

In order to successfully achieve our objectives and to avoid "dollar diplomacy", this prong of the loan should be made subject to the following conditions:

- (a) Loans must bear a low rate of interest. One of the important reasons why past private loans to Latin American countries have had such a bad record of default is that the effective rates of interest have in most cases been exorbitantly high in relation to the long-run productivity of South American industry. This part of the proposal is designed to help bring about a fundamental reorganization of the Latin American economy.
- (b) The loan must be devoted to a domestic rehabilitation program including public works, the creation of new industries, and the modernization and expansion of existing industries.
- (c) Any portion of the proceeds expended on foreign goods or services needed for the project must be expended in the United States.
- (d) The government or private native interest must supply an equity for each project equal to 50 percent of the funds advanced from the proceeds of our loan.
- (e) Projects must be owned and controlled by the government or by nationals of the borrowing country.

Part 3. A gold (or, and silver) loan to strengthen the currencies of Latin America and to promote exchange stability between the dollar and those currencies.

A loan of gold can be made via the Stabilization Fund for the purpose of stabilizing the exchange rate between the dollar and the currency in question. That is one of the specific objectives for which the Stabilization Fund was created.

~~FILE COPY~~

This part of the loan can be made under conditions which, while satisfying the objectives of helping to stabilize the currency, will involve small risk of loss.

The proposed loans should be supplemented by measures designed to increase the ability of Latin American countries to meet their obligations that would be involved in adoption of the above proposals. These measures could include stimulation of American tourist travel to Latin America through grants of special rates on American vessels, and by promotion of improved travel routes; by careful surveys of Latin American products with a view of promoting increased consumption in the United States of Latin American products, etc.

There are three chief objections that doubtless will be offered against the plan I am suggesting:

1. It will be claimed that we would be making loans to countries now in default on foreign obligations held by citizens of the United States.

This cannot be avoided if any substantial economic assistance is to be granted. An inescapable handicap facing any attempt to give economic and financial assistance to most Latin American countries is the presence of the burden of defaulted foreign debts. These are so large that if substantial service on them were attempted any economic assistance we might wish to give would be absorbed and dissipated. Were economic assistance granted with a condition of settlement of the loans it would constitute a clear case of imposing a burden upon the American people for the purpose of bailing out foreign bondholders, a burden which would have no compensatory feature for the country involved. Furthermore, if such assistance were made conditional upon prior settlement of the defaulted debts the foreign bondholders would impose terms which would probably vitiate the beneficial effects of any assistance granted by us. Therefore, if we are to grant economic aid it must be with the understanding that the aid is to be independent of any settlement to be made. However, helping to build up the Latin American countries economically will enable them eventually to service debts now totally or partially in default.

2. It will be claimed that such aid constitutes "dollar diplomacy".

I do not feel that claim would be justified for the following reasons:

(a) Dollar diplomacy meant the exploitation of a weak country by private American banking, commercial and industrial interests with the aid of the American Government. The American Government, in order to aid and protect such private investors and develop and expand the field of their activities, frequently took action or threatened to take such action which was in derogation of the "inherent sovereignty and independent rights" of such countries.

~~FILE COPY~~

(b) The plan I am suggesting, on the other hand, would enable not private interests, but the Government itself, to make loans to Latin American countries in order to assist them in rehabilitating themselves economically and to maintain stable governments. Instead of United States citizens maintaining control or actually operating enterprises in the Latin American countries, thus directly engendering the "dollar diplomacy" feeling, the enterprises would be in the hands of the Latin American governments or their own citizens. The making of such loans would strengthen the constituted Latin American Governments in repelling subversive social and political influences coming from without the Western Hemisphere, particularly those influences which thrive in an unhealthy economic climate. They are designed to preserve for the nationals of the borrowing country complete control and ownership of the enterprises in their country.

(c) In its economic aspects the making of such loans by the Government would have the same fundamental purposes as the trade agreements, namely, the increase of trade between this country and Latin American countries for the benefit of both parties to the agreement.

(d) The proposed type of loan would, indeed, have the effect of stifling dollar diplomacy as it has hitherto existed since it would enable Latin American countries to obtain much-needed credits without exposing themselves to unfortunate tactics of those private investors that have been active in this field for the past two generations. The proposed loans are consistent with, and will help effectuate, the President's "good neighbor" policy, since their purpose is really to help Latin American countries and thereby help this country, rather than to help this country at the expense of Latin American countries.

3. It will be claimed that the Latin American governments will surely default on some portion of the loans to us.

Admittedly that is a possibility, but the very low rates of interest, the use to which the loans are to be put, and the fact that it is the United States Government making a loan to help Latin American progress (and not a loan for private profit, foreign exploitation, or to conduct a war) are factors which make the loans unique, and less subject to default. Even were default to take place some time in the future, we would have obtained advantages which would outweigh the possible financial losses.

Sincerely,

The President,

The White House.

~~FILE COPY~~

Proposal for Economic Assistance to Brazil

Brazil presents an excellent opportunity for the initiation of a program of economic assistance to Latin American countries in accordance with the views set forth in the accompanying letter.

1. The President of Brazil stated to Mr. Pierson of the Export-Import Bank on September 17, 1938, that "he hoped we would assist Brazil to finance their public works program". He mentioned that you had offered financial assistance to Brazil when you were there.
2. Brazil is greatly in need of economic assistance.
3. She has recently had some difficulties with Germany over clearing agreements and is probably in a position to drop her cooperation with German trade practices if she secures help from us.
4. Brazil has great productive potentialities that await only capital for development, and has the possibility of becoming as populous a country as the United States.
5. The presence of large German, Italian and Japanese minorities make Brazil especially vulnerable to anti-democratic movements.
6. If we could help Brazil to limit her cotton production and diversify her economy, we would be helping Brazil and ourselves.

The plan as adapted specifically to the Brazilian situation might take the following form.

A necessary prerequisite of extending assistance to Brazil should be an understanding with the Brazilian Government that no clearing agreements will be undertaken with any country and that Brazil will actively discourage the use of multiple currencies, blocked balances, compensation or barter trade in her import trade.

A second condition of any assistance to Brazil shall be an agreement with the United States to join our cotton program to the extent of limiting her cotton crop.

If agreement can be reached on these two conditions, the following measures may constitute the program of economic assistance, provided that appropriate powers can be obtained from Congress to grant the long term loan described below (under 3).

1. Extension by the Stabilization Fund of a \$50 million gold loan to the Government of Brazil.
 - (a) The gold to be kept on earmark with the Federal Reserve Bank of New York.

~~FILE COPY~~

(b) The gold to be withdrawn for purchase of dollars only after Brazil's other foreign exchange assets (including her total gold holdings) are used up in the settlement of legitimate and usual commercial transactions.

(c) The loan to be extended for six months, renewable every three months, and to bear interest at 1/2 of 1 percent above the Federal Reserve Bank of New York's rediscount rate, now 1 percent.

2. The creation of a revolving credit of \$50 million by the Export-Import Bank to finance at low rates of interest the exportation of American goods for Brazilian consumption of only those items that Brazil now imports from other areas. The Export-Import Bank to pass on the acceptability of the credit risk but to do so on a more generous basis than would be feasible or likely for the individual exporter.

3. The extension of a \$100 million loan by the Reconstruction Finance Corporation, the money to be advanced in quarterly amounts of \$12 1/2 million per quarter. The interest on the loan to be 3 percent on the unpaid balance but the annual payments are to amount to 6 percent of the total loan, the difference being applied to the reduction on the principal of the debt. The conditions of the loan to be:

(a) Brazil should invest on each project undertaken a sum equal to half of the amount provided for that project by the United States.

(b) The control and equity ownership of the projects must remain in the hands of Brazilian Government or Brazilian Nationals.

(c) Not less than 25 percent of the quarterly sums transferred shall be expended in the United States for American goods or American services, and all imports or foreign services needed for the projects are to be obtained from the United States.

(d) The proceeds of the loan to be used exclusively for the purpose of developing public works and industrial enterprises of a kind which will add to the productivity of the Brazilian people in the not too distant future.

OFFICE CORRESPONDENCE

DATE March 9, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

I called Mr. Bolton at 11:08 a.m. He had had a quick trip to Amsterdam, Brussels and Paris to get some idea as to what was going on, he said. The trip had been a tonic. They were more worried in Amsterdam than anywhere else on the Continent, not having as yet gotten over the scare in January. Jewish money undoubtedly was leaving the country in addition to which substantial dollar payments were still being made for oil properties purchased in South America, which explained the recent weakness of the guilder. In addition the Dutch were rather free in their admission of new dollar securities in Amsterdam and on a whole were showing a great deal of interest in investments in Canada, with Dutch syndicates putting money into various Canadian enterprises.

The Belgians were very optimistic and perfectly happy. The argument between the Flemish and Walloon elements over the language question was carried on primarily by politicians to increase each other's powers in the country. The dissolution of the Chamber probably had cleared up the situation and the Belgians weren't the slightest bit worried about their currency, nor was there any reason to further devalue the balga. One should bear in mind that so far no recourse had been had to any of those monetary powers which were so successfully applied in 1936. Briefly there was, at least for the time being, no reason to worry about the Belgian situation.

In Paris they were in a very optimistic frame of mind. He

OFFICE CORRESPONDENCE

DATE March 9, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.L. W. Knoks

2

crises were anticipated, not even an Italian crisis. There was a general increase in the confidence of the people and, of course, the Treasury's position was much happier. The 40-hour week had disappeared. Production was improving. One could not help but feel surprised at the complete change not only among the people in Paris but also at the Bank of France. The feeling of optimism had reached a point where a stock exchange boom was now being expected. Personally, Bolton thought, there was now actually an excess of optimism.

The British position was also improving. About the middle of January the British Fund had been short of dollars in the neighborhood of \$200,000,000. Since then they had^{had} a steady intake with the result that their whole short dollar position was now reduced to about \$30,000,000. Naturally they were well pleased. They probably would not have to sell gold in New York any longer and thus be able to keep the amount which they now hold with us under earmark as a sort of emergency. Under the circumstances he did not think he would go on shipping to us. Gold privately hoarded in London now amounted, he thought, to about £190,000,000, or between £20 or £30 million down from the peak of last year. If they got through March without any interference from Berlin or Rome, private gold in London would probably be dishoarded on a large scale and ultimately a substantial return of European capital might take place from the United States. At the moment the French were getting capital back from Amsterdam,

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 9, 1939.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnekeBANK OF ENGLAND.

3

Brussels, Zurich and to some extent also from London. On the other hand the Dutch were still exporting to New York and to Canada.

LWK:KW

RECEIVED

MAY 1 1939

FEDERAL RESERVE BANK

OF NEW YORK

FEDERAL RESERVE BANK
OF NEW YORK

CORRESPONDENCE

Date March 9, 1929.

CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE.L. W. Knoke

Mr. Cariguel called at 11:35 a.m. to tell me that he was cabling us today to make the first payment for planes purchased by the French in the amount of \$1,728,000. He was wiring us "Pay to National City Bank for account of United Aircraft Corporation by order of the French Treasury \$1,728,000 value tomorrow on delivery of invoice for that amount countersigned by Mr. Leroy Beaulieu" and supposed that that was all we needed. I suggested adding the words "of the United Aircraft Corporation" after "on delivery" and changing "countersigned" to "approved". Cariguel accepted these suggestions and explained that he would order the payment for tomorrow rather than today so that we might be able to ring him up at the opening of business tomorrow in case the thing required further fixing up. I replied that that seemed a splendid arrangement although I did not think there would be any difficulty.

I asked how things were going with him and he replied that he was optimistic and didn't see any reason why there should be a reversal of the present favorable tendency of the French franc even if the inflow of foreign currency should slow up.

LWK:KW

March 9, 1939

FOR THE SECRETARY:

You asked for a brief memorandum which would answer Secretary Woodring on the issuance of Panama Canal Bonds. Our opinion is that no Bonds can be issued. The attached statement explains the situation.

ESD

March 9, 1939

The Panama Canal Act authorized the Secretary of the Treasury to issue \$375,200,000 of two and three per cent Bonds. Of this amount only \$134,631,980 were issued, leaving a balance unissued of \$240,569,000 as of June 30, 1917.

The Second Liberty Bond Act of September 1917 authorized the Secretary of the Treasury to borrow \$28,000,000,000 and added that "of this sum... \$225,000,000 shall be in lieu of" the unissued Panama Canal Bonds. In other words, the Second Liberty Bond Act absorbed and extinguished the right to issue additional Panama Canal Bonds.

Kunming, China

March 9, 1939.

To Secretary Morgenthau

From J. Lossing Buck

Yunnan-Burma Road

Enclosed is a log of Mr. Hayward's January trip over
the Yunnan-Burma Road. (Appendix 4)

Kunming, China

March 8, 1939.

To Secretary Morgenthau

From J. Lossing Buck

Japan, Burma and China

American friends who have come to Kunming from Burma inform me that there is considerable Japanese propoganda in Burma in the direction of Burmese non-cooperation with China. The Burmese are not in very good relations with the British so they are inclined to support any party, such as Japan, which appears to be in their favor. Strikes among laborers have been instigated by the Japanese. Only last night I heard of newspapers being bought over by Japanese as a propoganda tool. For instance, these papers urge the non-transportation of munitions through Burma on the ground that Burma might be bombed. It is plain therefore that there may be some difficulties for China in Burma, although it is probable that with both British and Chinese influence the Burmese will have to cooperate.

Kunming, China

March 8, 1939.

To Secretary Morgenthau

From J. Lossing Buck

BUSINESS AND FINANCIAL SITUATION, KUNMING, YUNNAN

Business transactions for foreign exchange are practically all at the open market rate of exchange. This apparently holds true for other places as well. Remittance charges for Yuan to Shanghai, or Hongkong are 20 per cent. Hence, there is a demand for bills of large denomination as some people remit by mail to avoid the charge and the limitation of more than \$500 to be carried out by individuals. Importers, therefore, attempt to settle their accounts by buying export products.

Native industries are suffering in Kunming on account of shortage of laborers. Methods of conscription scare laborers away so that native industries cannot keep up their usual production.

Exports and foreign exchange

A foreign exporter informs me that before products can be exported 15 per cent of the foreign exchange to be acquired through the sale must be settled with the Futien Provincial Bank at the official rate for the Province. This rate in terms of foreign currency is lower than that of the Central Government and it acts as a subsidy for exports to care for the high transportation costs. The remainder of the exchange goes to the exporter at open market rates. The export business from Kunming is, however, very small compared with the business done formerly at the coastal ports.

- 2 -

Mr. Lu representing the Foreign Trade Commission has been in Kunming for over a month to negotiate with local authorities on foreign exports and foreign exchange. Mr. Lu stated that the matter of whether or not the Central Government obtained control of foreign exchange for products exported from Yunnan was of little concern to the Central Government, since if the foreign exchange now received by the province were taken over by the Central Government the latter would also have to assume the obligations of the Province. Therefore, Mr. Lu argues, it is a better bargain to permit the Province to obtain the foreign exchange through sales of exports. Mr. Lu has concluded an arrangement for the entire purchase of export products by the local government in order to obtain control of the maximum amount of foreign exchange. This means that all merchants must sell to the local government, but he states it is possible for the merchant exporter to act as agent for the local government in selling abroad. The local merchants are very much concerned over this innovation.

Kunming consumption tax

The local consumption tax has recently been increased upwards and varies according to type of goods from a few per cent to as high as one hundred per cent for luxuries. The consumption tax is both a transit tax and a consumption tax and applies to exports as well as to imports. The Consumption Tax Bureau is badly managed as all goods must be dumped along the narrow street to the railroad station for examination and great delays are caused the exporter and the importer in the examination of the goods, regardless of losses occurred through damage by weather, by passing trucks and carts, and by congestion to traffic. The increase in amount of goods has made the Bureau's activities one great mess.

Kunming prices

Wholesale prices in Kunming according to indices compiled by the Municipality stand at 225 for January, 1939 when August 1937 is taken as the base. This is much higher than for Chungking's index of 174. There are a number of factors involved in this high price among which are the local consumption tax, increased costs of transportation, increased demand in relation to supply, reports of less produce delivered to Chungking as farmers and laborers are either afraid of air raids or of conscription, and apparent juggling of the base period. There is little variation for the various groups of commodities.

Kunming, China

March 8, 1939.

To Secretary Morgenthau

From J. Lossing Buck

Wholesale prices at Chungking

Wholesale prices at Chungking continue to rise and stood at an index of 174 for the last week of January 1939 when January to June 1937 equal 100. The chief advances have been in the categories of clothing, fuel and metals while food still remains below pre-war at 97.5. The index for local products is 124; for products produced in other provinces, 276; and for products imported from abroad, 376. (Appendix 3)

Kunming, China

March 8, 1939.

To Secretary Morgenthau

From J. Lossing Buck

Madame Chiang's leadership of the people to greater personal discipline

Madame Chiang is now publishing weekly articles in the New Life Movement supplement of the Central Daily News with the purpose of stirring the people to greater personal discipline and to greater concern for the welfare of the nation. Three of these articles are enclosed as Appendix I, translated from the Chinese. Special attention is called to the last one, Seven Deadly Sins, in which she frankly recognizes one of the shortcomings of Chinese character.

The Generalissimo and democracy

The recent meeting of the People's Political Council passed resolutions for a democratic government in China. The Generalissimo spoke to the Council on the subject of democratic government on the last day of the conference. A perusal of his speech gives one the impression that he does not quite meet the desires of the conference. (Appendix 2).

Resume of Motor Tour Rangoon/Bhamo/Kunming.

Personnel. A. W. Hayward, one interpreter, one driver, one personal servant.

Load. Personal baggage, 60 lb. case provisions, 2 gallon tins oil, 2 two-gallon tins petrol.

Car. Chevrolet "Master" Sedan, Chassis No. 328, Engine No. R 1795193, 29 h. p. Reg. No. RC 7893. Late 1938 model. Mileage 121.

	<u>Day's Run</u>	<u>Daily Log</u>	<u>Running Time</u>	<u>Miles</u>	<u>Im Gala</u>
1st Day	Rangoon/ Pyinmana	9.0 am Start 10.20 am Pegu 11.20 am Pyuntaza (arr) 11.45 am do (dep) 2.5 pm Toungoo (arr) 3.15 pm do (dep) 5.30 pm Pyinmana	6 hr 55 min	250	12
2nd Day 16/1/39	Pyinmana/ Maymyo	8.0 am Start 10.30 am Meiktila (arr) 10.45 am do (dep) 1.10 pm Mandalay (arr) 3.0 pm do (dep) 4.30 pm Maymyo	6 hr 25 min	233.4	14
3rd Day	Maymyo/	8.30 am Start 11.40 am Hsipaw (arr) 12.25 pm do (dep) 2.0 pm Lashio	4 hr 45 min	132.9	7
4th Day 18/1/39	Lashio/ Muse	1.15 pm Start 3.30 pm Kutkai (arr) 3.45 pm do (dep) 7.30 pm Muse	6 hr 0 min	113	8
5th Day 19/1/39	Muse/ Bhamo	8.0 am Start 9.40 am Namkhem 10.27 am Manwing 10.40 am Pengkham* (arr) 1.55 pm do (dep) 5.35 pm Bhamo * A diversion of 8 miles	6 hr 20 min	100	8
6th Day 20/1/39	Bhamo/ Mangshih	7.30 am Start 9.40 am Keiktik 11.9 am Nanwing 11.45 am Namkhem (arr) 12.15 pm do (dep) 2.10 pm 105th Mile (arr) 2.15 pm do (dep)	10 hr 25min	165	12

	<u>Day's Run</u>	<u>Daily Log</u>	<u>Running Time</u>	<u>Miles</u>	<u>In Gals</u>
6th Day 20/1/39 continued	Bhemo/ Mangshih	4.35 pm Chafang 6.30 pm Mangshih			
7th Day 21/1/39	Mangshih/ Paoshan	7.40 am Start 9.40 Long Ling (arr) am 11.10 am do (dep) 2.10 pm Salween Bridge (arr) 2.30 pm do (dep) 5.45 pm Paoshan	8 hr 15 min	129	10
8th Day 22/1/39	Paoshan. Hsiakwan	7.30 am Start 10.35 am Mekong River Bridge 12. 10 pm Yong Ping 3.40 pm Yongbi 4.45 pm Hsiakwan * plus 25 mins delay for engine over-heating	8 hr 50 min*	158	10
9th Day	Hsiakwan/	7.5 am Start 9.10 am Yunnan Yi (arr) 9.50 am do (dep) 12.42 pm Tchenan 1.45 Tsouhiong (arr) pm 2.5 pm do (dep) 3.55 pm Ypingland 4.40 pm Loufong 6.30 pm Anning 7.30 pm Kunming * plus 30 mins delay for burst tube	10 hr 55 min*	257	21

68 hr 50 min 1538.3 92

Additional mileage at various stopping
places, mostly at Lashio

102.7 5

1641 98

From the foregoing I deduce the following figures for a direct run from Rangoon to Kunming:-

1st Day Rangoon/Pyinmana	6 hrs 55 mins	250 Miles	12 Im Gals
2nd Day Pyinmana/Maymyo	6 hrs 25 mins	233.4 "	14 "
3rd Day Maymyo/Lashio	4 hrs 45 mins	132.9 "	7 "
4th Day Lashio/Mangshih*	9 hrs 30 mins	171 "	11 $\frac{1}{2}$ "
5th Day Mangshih/Paoshan	8 hrs 15 mins	129 "	10 "
6th Day Paoshan/Hsiekwan	8 hrs 50 mins	158 "	10 "
7th Day Hsiekwan/Kunming	10 hrs 55 mins	257 "	16 "
	<u>55 hrs 35 mins</u>	<u>1331.3 miles</u>	<u>80$\frac{1}{2}$ Im Gals</u>

*Made up as follows:-

Lashio/105 Mile	5 hrs 15 mins	105 miles	5 $\frac{1}{2}$ Im Gals
105 Mile/Mangshih	4 " 15 "	66 "	6 " "
	<u>9 hrs 30 mins</u>	<u>171 miles</u>	<u>11$\frac{1}{2}$ Im Gals</u>

APPENDIX I

A translation of the seventh instalment of Madame Chiang's "Resurgence" which is appearing in serial form in the special New Life Supplement of the Central Daily News, Chungking. This article by the Director-General of the Movement was published on February 26.

In surveying the history of so ancient a nation as China, one should take a comprehensive view of the determined factors of our development from the simple life of a primitive people to the complex culture evolved during the last 5,000 years. In seeking, however, a realistic evaluation of the present with the object of hastening our victory so that we may emerge from the present war with a sound basis for national reconstruction, we must make a microscopic study of those evils which are hindering our progress toward the attainment of our goal. That is what I have been doing in previous articles with the hope that the deadwood which has cluttered about us to our national detriment may be pruned and cleared away.

This war has shown in high relief many of our shortcomings. Now is the logical and psychological moment for us to correct them. All other nations of the world have found it necessary and politic to institute immediate reorganization and reforms when the shadow of war has approached; responsible officials are galvanized into action to estimate the possible consequences of incompetency in hostilities and to prepare the necessary house-cleaning measures to meet all emergencies. Now that war is upon her, China should do likewise. She must be swift and lavish in action, slow and miserly in talk, in order to avoid laying herself open to charges of laxity or indifference.

Last week I mentioned that our national economic life had been stagnated by the stupidities of self-seekers. Self-seeking, in my opinion, is the most vicious of several evils, which may, for brevity's sake, be catalogued as the "Seven Deadly Sins." They are: (1) Self-seeking (voletp "Squeeze"); (2) "Face," (3) Cliques, (4) Defeatism (Mu-yu-fa-tze), (5) Inaccuracy (Tsa-pu-tu), (6) Lack of self-discipline, (7) Evasion of responsibility. Long ago they combined to retard our emergence as a first-class world Power, and they now delay our victory in this war. Especially is this true in cases where people have taken advantage of their positions to hide their iniquities under the voluminous cloak of patriotism in order to enrich themselves even at the risk of the continued impoverishment of the people. Profiteering is another form of self-seeking, or "squeeze," and is a speciality which has characterized all wars in every part of the world. That fact, however, does not make the offense less serious, and it should be rigorously condemned.

In the unbuilding of China we have to remember that the success of any undertaking, great or small, depends primarily upon the ability of the participants to abandon thought of personal interests or prejudices, and to view the whole from the objective standpoint of the common good. Until we willingly abide by such a policy, everyone trying to do anything will be pulling in different directions. The result will be that although much activity may be seen, the movement will not be in a forward direction, but will head toward a profitless, meaningless, sideways tug-of-war which will not only dissipate the energy of all concerned, but will be a permanent pernicious drag upon national progress.

Closely allied with self-seeking is "face." This is a curse which affects most of us from the cradle to the grave. More incompetency and ruin have been engendered by "face" in social, official, political, and national phases of our life than one could conceive or care to admit. As an illustration: Let me lose "face," many a misguided man confronted with a problem, even of national consequence, will not "dream" himself to consult his subordinate, although the latter may be an expert, and have the solution at his finger tips. The superior, to assert his position, and hence save his "face," will thus, in his ignorance

often-times make the most monumental and fatuous decisions. On his part the subordinate, who may fully realize the consequences of the error, customarily says nothing, thereby saving his superior's "face," as well as his own job. But the country loses. Even when later developments expose the stupidity of the decisions to other circles, no one else, either within or without the department, would dare call attention to the mistake in case criticism should cause the loss of the "face" of the one responsible. Instead, a conspiracy of excuse-making and camouflage automatically begins to operate to protect the superior. Investigation to correct the error is baffled and defeated, and the damage and loss to the country become more insidious and far-reaching.

Apart from the millions upon millions of dollars which the country loses by such scandalous procedure; apart from the criminal waste of precious time, and apart from the resultant sacrifice of national prestige, welfare and interests, time has proved that this slavish devotion to the preservation of "face" as a cult has direful reactions in other directions. For one thing, it discourages ardent patriotism in young people. It frustrates their idealism, wears down their morale and changes them into spiritless automata able only to perform their tasks mechanically; it transforms creative ability--which under favourable auspices, might have made constructive contributions to the revitalization of our national life in all its phases--into destructive resentment, bitterness, and discontent. Stagnation results; but worse than that hot-beds of disaffection are created, and it is usually from such that rebellion gets its impetus and chief support.

To have seeds of discord such as these sown at any time is bad enough, but to have them germinate now while the nation is engaged in a life and death struggle is pregnant with grave danger, because they are demoralizing to society in general, damaging to the fighting spirit, and disastrous to the character and the future of the disappointed individuals themselves.

In analyzing the reasons for apparent national lethargy in general it is soon realized that "face" is one of the most baneful factors contributing to our tardy progress. Among other things it operates against the full and intelligent utilization of the knowledge and experience of foreign technical and other experts who have, from time to time, been engaged at great expense from many countries, and been employed in many spheres, by our Government. In this respect the old regime permitted the initiation of a system of fanatical "face"-saving which even now, if not suppressed, will impede the aims of our Government, discourage and render idle the experts, rob the country of wealth and power, and irreparably retard industrial expansion. Experience has revealed only too poignantly that some so-called responsible Government officials, as well as students, still feel that loss of "face" is involved in accepting or seeking expert advice. Even worse, they aggravate the situation by wasting time in an effort to disparage the worth of the advice proffered, and to prove the possession by them of knowledge and ability far superior to that of the experts. I know whereof I speak.

The Generalissimo has felt called upon time and again to rebuke the ignorance, and to emphasize to his students the profound importance of following the advice of technical experts in order that the best shall be got out of the modern equipment that has been purchased both for purposes of peace and war.

I have personally had many an occasion to feel ashamed, and to grieve, for my country, but particularly so when I have heard foreign technical advisers ruefully say: "Well, it seems that I am paid to listen to how and why these people know more about the job than I do." People of this type of mind who are, perhaps unwittingly, jeopardizing both the good repute and the progress of our country, and who cannot see either the light

of reason or the shadow of impending catastrophes which their actions create, should ask themselves what is to be done with them; what is to be done about such a condition of affairs? There is an answer which they themselves can supply, and action that they themselves can take. If they fail to do something of their own volition, then the authorities should do it for them. But I may well ask are we to lose a nation to save someone's "face"? I hear the answer, "No!" echoing right around the confines of our land.

An echo should be warning enough in itself to the wise in this significant mutable year of grace 1939. The war we are fighting has done more than unify the nation under the banner of resistance. It has shocked the suffering patriotic people into a realization of the nature of some of our national problems, and it must be understood that the causes and the cure of some of them are not likely to escape the Argus-eyed among the distressed. Neither is there likely to be much further tolerance of the degenerating consequences of "squeeze" and "face," because apart from the immoral stigma that attaches to them they are being more clearly recognized as among the chief obstacles to progress. They are now being put in their right category. They are no longer being regarded as proper perquisites of position and power, but as distinct national dangers. During recent years our advancement in all directions has been notable; but, freed from these and other correctable evils, it is clearly realized that this country of ours could progress by leaps and bounds, and quickly be able in unison, sincerity, and determination to shout, from the ashes of our burned homes and from the tops of our mountains, the word RESURGAM--"I shall rise again."--END.

EDUCATION OF THE MASSES: BY MADAME CHIANG KAI-SHEK

In this translation of the fifth instalment of Madame Chiang's "Resurgam" which is appearing in the special New Life movement Supplement of the Central Daily News, Chungking, the Director-General of the Movement declares that the intellectuals must shoulder the responsibility of guiding the masses towards the goal of an enlightened citizenry.

In the previous article emphasis was laid upon the necessity that exists for the educationalists among the intellectuals to develop in their students a full sense of their responsibility toward the nation and their less fortunate fellow countrymen. This article will indicate how the intellectuals in other walks of life can directly help to educate the masses of our people so that they may become capable of shouldering the national responsibilities now confronting them.

This may appear to be a stupendous problem seeing that eighty per cent of our population is illiterate. Yet consideration will show that the difficulties are more apparent than real. If each of us who has something to contribute to the solution would cheerfully and diligently apply himself to the bearing of his share of the burden, the task would be by no means hopeless, especially if methods are adopted which would make the transition from illiteracy to competency in citizenship as progressive and simple as possible.

The education of our fellow men must have as its object the ultimate conversion of these hitherto undeveloped Western Provinces into an intellectual, an industrial, and an economic base for national resistance and reconstruction. The potential hidden wealth must be won for the material purposes of national survival, while the richness of the popular mind must be cultivated so that intelligent citizenship might contribute not only to victory but to the future intellectual grandeur of our race.

As a foundation for all this we have our ancient culture; as a goal we have free constitutional government, upon the threshold of which we are, fortunately, have our feet firmly set. But to fulfill our destiny, we must win the complete loyalty of the people, for as Dr. Sun Yat-sen has already pointed out, "The hearts of the people are the basis on which to establish a nation."

An incentive to the intellectuals, if one is needed, to implement the policy pronounced by Dr. Sun Yat-sen, should be the recognition of the unstinted assistance which we owe to our compatriots to help them to realize their responsibilities as citizens, to understand national issues, and to attain competency to exercise the franchise which we hope, all will enjoy in time. To proceed successfully we must systematize so that there shall be no waste of effort through overlapping or useless duplication. An organization for work which must be done can be effected by the intellectuals themselves, or they can save time and trouble by working under the aegis of the New Life Movement which is already functioning and which has for its sole object the betterment of the lot of the masses. This Movement is prepared to offer its services and experience as a channel through which this work might be done. It already has under way some of the projects which I shall mention below. But thousands of volunteer workers are necessary to carry out this comprehensive program both behind the fighting lines and in these Western Provinces. It does not matter, however, under what auspices work is carried on since our object is only to teach and train the people quickly and satisfactorily to become modern citizens.

The aims of the intellectuals should, therefore, be to teach the people to read and write and to train them to think; to help them to better their living conditions; to increase their ways of earning a livelihood; to improve their crops and their animal husbandry; to produce more raw materials; to develop village industries and co-operatives, and to manufacture their needs from what they produce.

The means to that end may be by direct teaching--by object lessons; by charts, pictures, pamphlets, posters; by news sheets in simple vernacular; by illustrated lectures; by radio broadcasts. Work could be begun without any costly equipment. All those who are interested could gather groups of their less favoured neighbours at their homes, or at any available place, for reading and writing, as well as for brief talks on citizenship, on patriotism and its obligations, on sanitation, on household remedies for simple ailments, and on the improvement of their environment. Always it is a stinging disgrace to see our beautiful countryside littered with dirt and filth which is aesthetically repulsive and physically nauseating.

Funds to purchase essential equipment to carry on the work could be secured, in all probability, from the general public, or from philanthropists. Each village could be induced, or be helped, to buy a simple, inexpensive radio. Towns could buy two or more to be installed at certain places where the public could assemble to hear the programs of instruction and entertainment.

This form of education and entertainment has long met with much success in India and Russia. Such radios could be procured cheaply by being designed to receive only the special programs broadcasted from the central station. Programs could be prepared covering farm and handicraft information, national news, interpretation of world news and developments, and, always, encouragement of mutual service and patriotic endeavour.

For lantern lectures small, cheap stereopticon sets could be obtained in any number (the New Life Movement already has one hundred of them with suitable programs). These are usually an unfailing source of entertainment and interest. Through the medium of story-tellers the heroic tales of ancient and modern times could be recounted, while theatrical entertainments would prove valuable in instructing and enlivening the usually dreary lives of the people.

Mass education, it must be mentioned, has been carried on in limited areas of our country by various organizations. That, however, is not sufficient, since to make it effective--and immediately so--the work must be carried on by all intellectuals on a voluntary basis, and not merely by a few patriotic citizens and paid staffs.

The gentry everywhere could be mobilized to help, and intelligent people with a will to work for the good of their country should be able to arrange innumerable ways of carrying forward the great national work that is involved in preparing the people to assume the patriotic responsibilities for which they should now begin to fit themselves. The intellectuals must not forget that the existing cultural institutions, useful in themselves, are not enough. They were created for the educated, but nothing similar exists for the illiterate masses.

The devising and the setting in operation of the means to instruct and awaken the masses should prove of tremendous interest to all those intellectuals who have the patriotic impulses which, when mobilized and unleashed, could do much to inspire others to strive and labor for national emancipation, prosperity, and greatness.

Failure on the part of the intellectuals to recognize their responsibilities and to respond whole-heartedly to the urgent crying need of educating our illiterate masses cannot be too vigorously censured, and will undoubtedly bring upon their heads the denunciation of succeeding generations, as well as the withering contempt of the outside world.

The material that the patriotic and enterprising will have to work upon--their industrious fellow men--is the finest ever given to the hands of human beings to shape. "If we work marble, it will perish," wrote Daniel Webster, "if we work upon brass, time will efface it; if we rear temples, they will crumble into dust; but if we work upon immortal minds and instill into them just principles, we are then engraving that upon tablets which no time will efface, but will brighten and brighten to all eternity." Thus will the intellectuals--as guardians of the State, and moulders of true enlightened public opinion--have an unequalled opportunity nobly to discharge a momentous national duty, and make their ineradicable contribution to the determination of China: to translate into reality, RESURGAL--"I shall rise again."--END.

WITH THE COMPLIMENTS OF
CHINA INFORMATION COMMITTEE

CHINA RELEASE NO. 561,
CHUNGKING, FEB. 26, 1959.

I N D E X

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CHINA INFORMATION COMMITTEE

THE GENERALISSIMO TRACES CHINA'S STEPS TOWARDS
DEMOCRATIC CONSTITUTIONALISM

Addressing the nation-wide assemblage of members on the concluding day of the third session of the People's Political Council held in Chungking from February 12-21, Generalissimo Chiang Kai-shek, Chairman of the Council, declared that in the history of Chinese political institutions the Council would assuredly hold a most important position. Its historic mission was to pave the way for a constitutional form of government based on genuine democracy. "When the government and the people are merged into one closely-knit unit, new strength will be added to our war of resistance and great achievements will reward our efforts at reconstruction," declared the Generalissimo. The following is a full translation of his speech:-

Held at the commencement of the second stage of our war of resistance, the third session of the People's Political Council and its proceedings have attracted considerable attention from people both in China and abroad. During these ten days we have deliberated together on important policies of the state with a positive enthusiasm. I am grateful for your endorsement of my earnest expectations of this session which I voiced at the opening meeting. The unity of heart and the spirit of mutual assistance as manifested throughout the conference are harmony itself. It pleased me immensely to witness such a remarkable achievement, which has greatly strengthened my faith in our ultimate victory in war and in the future of our nation.

In the course of the session, responsible officials of the government have won our confidence by their straight-forward and comprehensive reports on various administrative projects. Meanwhile, in tackling all resolutions and recommendations, we have been heedful of the paramount needs of the war now in its second phase, and have accordingly concentrated our thoughts and energies on a number of concrete and constructive measures. The resolutions, while not numerous, were all substantial. Particularly noteworthy were the reports by members of the Council on their actual war experiences, their joys as well as their hardships, and an abundance of sound and practicable views. These undoubtedly will prove of great help to the Government in executing its programmes. With the Government and the people constantly exchanging views and sharing the same difficulties, we are confident in our ability to finish our heavy task of war and reconstruction.

Now the third session of the Council is due to adjourn. Though the Council will soon be in recess, its members will not cease even for a moment their patriotic activities. I feel certain that so long as the Council keeps on popularizing this spirit of positiveness and of mutual help by sincerely supporting the authorities and by busying itself with worthwhile activities, not only the Government will be benefitted thereby but the people will be moved into joining the struggle en masse. In the end our power to conquer the enemy and to clinch the final victory will be doubled and the foundation for post-war reconstruction will be laid.

In the history of Chinese political institutions, the Council will assuredly occupy a position of importance and glory. The historic mission of the Council is to pave the way for a constitutional form of government, and in particular to erect a base on which to build a genuine democracy. I had previously brought up this point at the first session of the Council. Our Tsung-li (Dr. Sun Yat-sen) advocated the San Min Chu I (Three Principles of Nationalism, People's Rights and People's Livelihood) and the final aim of his Min Chuan Chu I (Principle of People's Rights) is democracy. If the people cannot look after their own interests, manage their own public affairs, in other words, if they cannot participate in political activities,

they cannot build up a strong nation. The most powerful and at the same time most stable nations in the world are constructed on the people's will, and unfailingly the interests and views of their governments are identical with those of the people. The objective in Tsung-li's Min Chuan (People's Rights) theories is to create a nation wherein the government is of the people, by the people and for the people. Either in China or in foreign countries, the same ideal prevails.

We are now simultaneously prosecuting the war and carrying on reconstruction. To be successful in both, we cannot rely on military strength alone. Instead, we must mobilize the people's spirit, organize such spiritual forces as have already been awakened, and then turn the combined strength of our people's spirit and determination into a weapon to back up our men and officers at the front, and into a power for the development of our interior provinces. Herein lies the reason why, besides strengthening our military forces, we must mobilize the people's spirit and consolidate their views.

In its decision to convoke the People's Political Council last year, the Emergency National Congress of the Kuomintang (Nationalists' Party) was prompted by the hope that through members of this Council, genuine public opinions would obtain expression so that the Government could be aware of public woes and aspirations, and be guided in its administration by this knowledge. Meanwhile, it was also hoped that we, members of the Council, would truly represent the people by reason of our social positions, prestige and experiences, and do our share in war and reconstruction by offering our talents and abilities to the Government and the people. For only thus can the Government satisfy the people and only thus can the views and actions of the people help strengthen the Government. In other words, the Government and the people share the glory or humiliation that comes with our success or failure. When the Government and the people are merged into one closely-knit unit, a new strength will be added to our war of resistance and greater achievement will reward our efforts at reconstruction. A study of the conditions under which the Council was created would suffice by itself to answer the question whether China will be able to crush her enemy.

True, it is our duty as members of the Council to fight for national independence and freedom, but it also depends on us whether China can, during this difficult time of war, complete the groundwork for a genuine democracy, which may be used as the base for a lasting peace and order in the future. How are we going to discharge our duty in this connection? Taking advantage of this opportunity of my being here as one of you, I wish to explain the nature of the genuine democracy which we want for China, as well as the methods and steps which we must take in its materialization.

Our Tsung-li was well versed in learnings, both Chinese and foreign. He also had a deep knowledge of world tendencies and domestic conditions. Drawing on his 40 years' experience as a revolutionary, he wrote the San Min Chu I, thereby hoping to turn China into a realm of prosperity, power, peace and happiness. Tsung-li's idea was to bring about a democracy which should be more thorough-going and more practical than what had previously practised anywhere in the world. Therefore, in his lectures on Min Chuan (Principle of People's Rights), he criticized the theory of natural rights and started a revolutionary school of thought concerning people's rights. Furthermore, he wanted the Chinese people fully to exercise the direct political rights of election, recall, initiation and referendum. This proved that Tsung-li, with great farsightedness, had surpassed his predecessors. He was more than an idealist. For he was also a practical revolutionist. The higher soared his ideals, the firmer became his steps. He maintained that the people must vow to practise revolutionary principles

and be able to fulfill their duties as revolutionists, before they could be given the rudimentary political rights. He also held the view that the people must be trained first before they could exercise the four rights (of election, recall, initiation and referendum).

The democracy which Tsung-li wished to establish was of the purest kind without the slightest vestige of make-believe or artificiality. Unfortunately, the Chinese people, having inherited all the evil practices handed down throughout the numerous dynasties of autocratic rule, were then at a low ebb both in intelligence and in vitality. The people were used to disorganization and selfishness. Moreover, the country was beset with obstacles. To bridge the chasm between such a historical background and such an ideal realm, it is necessary to begin by strenuous work in the face of great difficulties. Certainly, the goal could not be attained at a single stroke. Consequently, Tsung-li laid down military rule, political tutelage and constitutionalism as three essential stages through which China's revolution must undergo before its successful conclusion.

Since its founding, the National Government, in accordance with Tsung-li's bequeathed teachings, proceeded first to unify the country. This was followed by the introduction of the period of political tutelage. It was originally hoped that this would expedite the consummation of constitutionalism and the early completion of national regeneration through revolution. Unfortunately shortly after domestic unification had been brought about, new difficulties arose. For five or six years the Government devoted a large part of the manpower and financial resources of the nation on operations which should have fallen within the period of military rule. Scarcely had the nation gained its second breath before the enemy started their premeditated aggression and penetrated deeper into the heart of the country every day. To protect our sovereign rights and to preserve our national existence, we rose to offer resistance. For nineteen months we have fought a bitter war. The areas of our territory now under enemy control and the losses suffered by our people could hardly be computed in miles or in numbers.

Judging by the present conditions, not only have our programmes for the period of political tutelage been hindered, but the work of the period of military rule has to be done all over again. To put it in another way, we must first of all crush the aggressor's military force, destroy all traitors and puppets and eradicate all influences detrimental to our nation and antagonistic to our revolutionary cause. We have to wait until our lost territories have been recovered and domestic disorders liquidated before we can have political tutelage and prepare ourselves for constitutionalism. Thus, strictly speaking, we are now still in the period of military rule. The main tasks of this period, according to article six in the Outlines of National Reconstruction, should be as follows: "All organizations must be subordinated to military administration. The Government should on the one hand employ military forces in clearing the nation of all internal obstacles, and on the other propagate its principles (Three People's Principles) for the enlightenment of the masses."

As I have already mentioned, the pressing needs of our nation today are the simultaneous prosecution of the war and the enforcement of our programme of national reconstruction. Hence, we must concentrate the people's views and arouse their strength in active preparation for the completion of our two-fold task. Meanwhile, during the war, we should heighten our sense of responsibility toward the State and our understanding of San Min Chu I. Although busy in removing obstacles during the renewed period of military rule, political tutelage must proceed without interruption. In order to hasten the early completion of our revolutionary task, we should actively push the work of political tutelage which,

however, must not interfere with military activities.

Meanwhile, it is hoped that the progress in political tutelage may prove of a supplementary value to military affairs. We must realize that before our war of resistance comes to an end, the priority naturally goes to military operations and to our goal, namely, victory. The needs of the period of military rule must receive first consideration, but political tutelage may go on side by side. Such a conception is absolutely indispensable, or all our activities will lose their center of gravity. Because what we aim to create is a thorough-going democracy, we cannot neglect the necessary procedures and steps for its materialization. On the other hand, due to thousands of years of autocratic rule, our people need the necessary psychological preparations. They have not had the required training in politics, so that before the dawn of a genuine democracy, obstacles must be removed and groundwork must be done. This makes reconstruction through revolution an essential stage which we must undergo.

Besides dividing the process of revolution into three periods, Tsung-li gravely warned us by saying: "Within a few months after the outbreak of the Revolution of 1911 there came about the downfall of an autocratic form of government which was more than 4,000 years old, and simultaneously the end of the Manchus, who were the rulers in China for over 260 years. None can deny that its destructive power was terrific. Yet up to the present the materialization of San Min Chu I was as uncertain and remote as ever. Why? Because after the destruction we failed to rebuild in accordance with the programme that had been previously decided upon."

People at that time made the mistake of neglecting the necessary procedures and instead they rivalled each other in talking about democracy. That is why the provisional constitution adopted at that time has since degenerated into a mere piece of paper. Then like a vicious cycle, disorders and disasters followed one after another. Finally the supreme laws of the State came to be manipulated by the politicians and warlords to cover up their own evil doings. As a result, democracy has remained an ideal. Furthermore, numerous barriers were laid in the way, and untold sins were committed in the name, of democracy. The situation finally deteriorated to such a point that it was best described by a certain revolutionist during the French Revolution, who lamented that a great number of sins and evils were committed in the name of Liberty.

In order to rectify this mistake, we have to start from the very beginning. The nation must first be freed from external aggression. Since the formation of this Council, we, its members, have willingly sacrificed our personal freedom in the interest of laying a foundation for democracy. This is the most gratifying thing during the war and, for that matter, since China became a republic in 1911. I feel confident that in the future we will follow more closely the teachings which Tsung-li bequeathed to us and lead the rest of the nation in the task of political tutelage. We must set an example to the people by displaying a high sense of responsibility and by actual accomplishment, and avoid the downfall of irresponsibility and unmindfulness of realities.

We must make it clear to our people that democracy is not a synonym for lack of laws and order, or for anarchy.

The public opinion on which democracy is based must be sound, collective and representative of the majority of the people's wills. The freedom which democracy endows on the people should not conflict with public welfare, nor should it go beyond the sphere as marked by laws of the State. With our nation facing the worst invasion in history, we must

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teach the people to respect the absolute authority of laws of the State. The Government is the repository of governing authority, the enforcer of laws and also the guardian of the entire nation. In order to protect the people and national interests, the Government cannot but punish those who violate the laws and destroy the political institutions of the nation. Penalties applied in accordance with the laws must not be mistaken as oppression. In any democratic countries, there are governments, political institutions and laws. The last two in a democracy should, above all, receive the people's respect and their destruction by a few can never be tolerated.

In laying a foundation for democracy during this war, we must inform the people of the real meaning of democracy. We, members of the Council, are the vanguard of the people as a whole. On our shoulders rests this duty of thus enlightening the people. For the preservation of the interests of the State and of the people, we must fully exercise the authority of upright public opinion in condemning any violators of the laws and institutions of the State, especially when their actions should result in reducing our war strength under the cloak of freedom and democracy. At the same time the people must realize that military rule is essential to the prosecution of our war and political tutelage is a prerequisite for national regeneration, and between them there is not the slightest room for hypocrisy or obstruction. We must bear in mind our past errors and proceed to lay a lasting foundation for a genuine democracy by faithfully following the procedures as laid down in Tsung-li's bequeathed teachings.

Tsung-li's objective in his life-long political struggle was to convert into facts his San Min Chu I, thereby obtaining for the people the governing rights. However, a people without training cannot govern themselves. Prior to his death, Tsung-li called on the intellectuals of the nation and his revolutionary comrades to serve as guardians of the masses, to whom they should discharge the duties as teachers while remaining in status as their public servants. This is the main road to success in national reconstruction.

In the Chinese history there are two good examples of this spirit of political tutelage. The first was the story of Premier Yi Yin and Emperor Tai Chia of the Shang Dynasty (1766-1122 B.C.), and the second was that of Premier Duke Chow and Emperor Chou of the Chow Dynasty (1122-249 B.C.). Emperor Tai Chia was a minor when he came to the throne. Premier Yi Yin took upon himself the task of teaching and guiding the youthful monarch. His counsels were later compiled into an essay named after the wise premier. It happened that Emperor Tai Chia at first did not heed his advices and instead became addicted to evil. Premier Yi Yin sent the emperor to the Tung Palace and kept him there. While ruling the kingdom as the regent, Premier Yi Yin braved suspicions and rumours. He resorted to various means of teaching the wayward monarch. The three relevant chapters in the History of Shang Dynasty bore a lasting testimony to his regard for the welfare of the nation and his utmost loyalty to the throne. Later, when Emperor Tai Chia, repenting his past wrong doings, realized the meaning of responsibility and had acquired the necessary abilities for administration, Premier Yi Yin turned over to him the reins of government, while he himself retired from political life. Immediately before his retirement, he left with the emperor an essay wherein he made known his views on public administration.

In the case of Duke Chow, he was entrusted by Emperor Wu to help his crown prince. At the time of his father's death, Emperor Chen was young, with his power of judgment and discernment still undeveloped. Duke Chow had to take preventive measures against Wu Kang's premeditated revolt, and at the same time forbore the mischievous rumours created and circulated by Tsui and Tsai, two of Emperor Chen's uncles. The positio:

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of Duke Chow was indeed an extremely difficult one, but he carried on despite untold hardships and humiliations. All the time he remembered his heavy responsibility of bringing about peace and order in the kingdom and of assisting Emperor Chen until he could rule by himself. He shunned no difficulties and clung fast to his duties. The four verses entitled "The Owls" in the Book of Poems, wherein Duke Chow's love for the nation and his loyalty to the emperor were metaphorically described, were most moving and inspiring to present-day readers. Later, when all uprisings in the kingdom had been quelled and when Emperor Chen had come of age, Duke Chow, like Premier Yi Yin, restored to his master the reins of government. As if still not thoroughly assured, he recorded his precepts in an essay named "No Leisure," with a view to informing Emperor Chen of the hardships which his ancestors had experienced in founding the kingdom and their constant vigilance lest they became lazy and negligent of their duty.

Today we are living through our worst national crisis in history, and we are far from the completion of our task. In reading the poem "The Owls", how could one help being moved by the feeling which moved Duke Chow? Tsung-li often regarded himself as Premier Yi Yin and Duke Chow and he was the conscientious forerunner in our national revolution. He advocated the division of our revolution into three periods of military rule, political tutelage and constitutionalism, because he wanted to train the people before giving them the governing rights. Seen in the light of history, how great were Tsung-li's spirit and his sense of responsibility?

In his essay on "Oneness of Virtues," Premier Yi Yin said: "It is not that Heaven has any particular love for the Shang Dynasty as such, but it treasures the virtues it stands for; it is not that the Shang government wants the people within its fold so much as the people wish to come into it". Since the overthrow of autocratic rule, the Republic of China also has a oneness of virtues to guide the nation. This is none other than Tsung-li's San Min Chu I. Our task today is to carry on the work left us by Tsung-li as well as to emulate the spirit of Premier Yi Yin and Duke Chow. We must whole heartedly put San Min Chu I into practice so that the entire nation can sincerely embrace this oneness of virtues. We, members of the Council, must assume the weighty responsibility of enforcing San Min Chu I and building a solid foundation for democracy. We are leaders of society and of the people at large and we must set ourselves as exemplary citizens.

At the same time, it is our duty to educate the people and make them conscientious of their responsibility and also the ways of fulfilling it. We are Premier Yi Yins and Duke Chows of today and the people are Emperor Tai Chias and Emperor Chens. We must look upon the people as our masters, and it behoves us to teach, train and care for them until the governing rights can be returned to them. The time when they are ready to assume those responsibilities should coincide with the consummation of San Min Chu I.

To fulfill our mission, we, members of the Council, both in and outside the conference room, should set ourselves as examples by respecting laws and orders, observing discipline and loyally carrying out our duties. As the ancient saying goes, "The upright man needs no orders to have others obey him." Another proverb says: "One who teaches others by setting himself as an example has many followers." Being models for our people, we must practise what we preach, be responsible, observe strict discipline. We must be responsible for every word we utter to the State and to the people, and every action of ours must be in conformity with laws and orders.

Led by such a spirit, the people will naturally accept our guidance, and after having had training, can build up a real democracy.

The purpose of the Government in convening this Council was for us to take up upon our shoulders the common responsibility of the State like Premier Yi Yin and Duke Chow. The Government hopes that at the end of the war, our work of political tutelage will also be concluded. In another word, it hopes that the day of our final victory will coincide with the completion of the groundwork of our national reconstruction. With the Government expecting so much from us and the people reposing such high hopes in us, how hard should we work so as not to disappoint them?

Whether democracy can be established in China depends entirely upon us. Whether our national regeneration can be brought about also depends upon us. The ultimate aim of San Min Chu I--the materialization of universal brotherhood as well as the ideal world set forth in the Book of Rites--awaits our joint efforts at its promotion as members of the Council before the people can become all industrious at production and the spirit of harmony and co-operation can prevail.

The three points the Fifth Plenary Session of the Central Executive Committee of the Kuomintang expected of the nation--strengthening of the national unity, intensification of our struggle, and the speeding up of our reconstruction programme--have been crystallized in the resolutions adopted by this Session. Meanwhile, it is necessary for us as members of the Council to publicize these resolutions, to set ourselves as examples and then these resolutions can be effectively executed.

The People's Political Council is not an ordinary discussion assembly, but a guiding body in our war of resistance during which we must share the same hardships and cooperate full-heartedly to tide the nation over storms. It is not only a place where public opinion can be aired but also a place where the people's power is centralized. We, members of the Council, must be people of action as well as formulators of national policies. Our spirit of not avoiding dangers and difficulties is already well known.

Now our war of resistance has entered its second stage, the all-important period in the determination of our fate. It is hoped that after our return to our respective places, we can all contribute our efforts in accordance with the resolutions of this Session, to elevate our national spirit and to promote our traditional virtues. Regarding the numerous important resolutions adopted by this Session, such as the revised system of conscription, the enforcement of spiritual mobilization, the expedition of economical reconstruction, and the reorganization of the hsiao-chia (mutual guarantee) system, it is sincerely hoped that we can assume the responsibility of promoting their application. Each of us must work hard at our posts and help to put these resolutions into execution, so that not only the Government can be benefitted by our help but the entire nation will also be gratified in their aspirations.

Now the Session is coming to its end. When I come to think of the trials and tribulations lying in front of us, I cherish the greatest hopes in you who are sharing the same fate like people in the same ship that has been caught in a storm. I wish you will all strive hard to achieve victory for our war of resistance and success for our national reconstruction.--END.

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**PEOPLE'S POLITICAL COUNCIL URGES INSTITUTION OF
DEMOCRATIC GOVERNMENT**

Calling upon the Government to take practical steps to institute a democratic form of government in order to lay the foundation for national rebuilding, members of the People's Political Council advanced six reasons why a direct popular government should be instituted in China at an early date. Advanced by 51 of the members, the proposal won the approval of the Council.

"The major Powers of the world are being lined up into two blocs, the democratic and the anti-democratic, and even Mr. Neville Chamberlain, the British Prime Minister, does not seem successful in preventing their formation," the 51 Councillors pointed out in their bill.

"If we can at the present moment lay the first cornerstone of a democratic government and a government by law, we may not only secure further sympathy and assistance from the democratic bloc but may also join hands with the democracies in the fight for world peace."

"Should the right of the people to participate in government affairs fail to keep pace with the expansion of the governmental power the result would inevitably be the transformation of China into a totalitarian state, which would have a most undesirable effect on the future of the nation. Consequently, the people should be given more voice in politics.

Now that a government by law has been looked upon as the ideal form of government in China, stressed the sponsors, the actions of the Government henceforth should be in accordance with the existing laws which, when properly made and promulgated, shall be the standard of related Government activities and shall not be disobeyed, ignored or distorted.

Secondly, the proposal emphasized that the future activities of the Government should be systematized. In this connection, it advanced the following proposed reforms: (1) institution of a civil service system; (2) the rights and duties of the public functionaries should be clearly demarcated, and (3) the relations among the various Government bureaux should be clarified.

In order that a government "of the people, by the people and for the people" may be gradually brought about in China, the bill made the following concrete suggestion:

"Before the enforcement of a constitutional form of government in China, there is no reason to demand a change in the status quo--namely, the Kuomintang should continue to direct the political machinery under the system of political tutelage, and the Government should be organized by the Kuomintang. However, the Government formed and directed by the Kuomintang should still be responsible to the people. If the citizens should express dissatisfaction with the Government and the latter still fails to satisfy the people, the Kuomintang should either take steps to rectify the situation or reorganize the Government.

"The Kuomintang should, after improving or reinforcing the present People's Political Council, form another more representative advisory council; it should also adopt gradual steps to empower the advisory council with the right to supervise the administration in accordance with law."

National Enemy Resisting Oath

Another bill of interest and importance, also passed during the fifth session of the Council was the "National Enemy-Resisting Oath" bill with twelve commandments to facilitate national spiritual mobilization.

tion in accordance with the Generalissimo's opening address before the Council.

The text of the "Vow", as adopted by the Council, reads: "We, the undersigned pledge to obey this National Enemy-Resisting Vow, support the National Government, follow the guidance of Generalissimo Chiang Kai-shek, to serve our nation with all our heart and ability. We will take any punishment from the Government should we act against this "Oath".

The twelve commandments attached to this Vow are; (1) We will not disregard the Three People's Principles; (2) We will not disobey Government orders; (3) We will not disregard the welfare of the state and nation; (4) We will not be traitors nor serfs; (5) We will not join any puppet organization; (6) We will not serve in enemy armies; (7) We will not lead the way for enemy armies; (8) We will not spy for the enemy; (9) We will not work for the enemy; (10) We will not accept banknotes issued by the enemy or puppet banks; (11) We will not buy enemy goods; (12) We will not sell any goods to the enemy.

The text and the commandments of the Vow will be promulgated by the National Government and the entire nation will be ordered to vow accordingly at a date to be set for this purpose by the Government. The "Vow" will be taken in every Pao--the lowest Chinese political unit--with the name of the head of the family fixed on the text, representing all members of the family.--END.

China Information Committee
P. O. Box 107
Chungking, China
Feb. 25, 1939

INDEX NUMBER OF WHOLESALE PRICES IN CHUNGKING, Szechwan
CHINA (SIMPLE GEOMETRIC AVERAGE)
c. CLASSIFIED BY STAGE OF MANUFACTURE
January - June 1937 = 100

二十六年一月至六月=100

類 別	總指數	原料品	半製成品	製成品
Groups	General	Raw Materials	Semi-Manufactured	Manufactured
項 數	92	26	27	39
二十六年 1937				
一月 Jan.	96.2	93.7	97.1	97.3
二月 Feb.	99.1	99.3	100.2	98.3
三月 Mar.	99.8	99.6	99.9	99.9
四月 Apr.	101.0	98.4	100.0	103.0
五月 May	101.9	101.1	100.0	103.7
六月 Jun.	99.1	104.4	91.8	100.8
七月 July	97.9	94.3	100.1	98.9
八月 Aug.	98.6	88.9	100.2	100.3
九月 Sept.	106.5	85.6	113.4	115.6
十月 Oct.	107.4	94.8	108.9	116.0
十一月 Nov.	106.1	93.9	107.6	114.5
十二月 Dec.	106.6	87.7	114.1	116.3
二十七年 1938				
一月 Jan.	112.4	87.7	116.7	129.8
二月 Feb.	123.1	95.6	120.2	141.7
三月 Mar.	128.8	96.5	129.0	156.4
四月 Apr.	127.9	89.9	120.9	162.6
五月 May	127.0	87.1	125.0	164.2
六月 Jun.	132.3	87.1	131.9	175.1
七月 July	134.0	84.2	134.5	183.9
八月 Aug.	135.3	79.2	139.8	192.3
九月 Sept.	146.4	83.5	152.8	208.5
十月 Oct.	157.3	86.6	164.0	229.8
十一月 Nov.	162.6	92.9	163.4	236.4
十二月 Dec.	168.5	95.8	167.8	242.6
十二月上旬	164.8	97.0	165.8	237.1
十二月中旬	167.7	100.0	167.2	240.6
十二月下旬	169.8	99.4	163.0	243.8
二十八年 1939				
一月上旬	171.7	100.8	174.4	246.7
一月中旬	173.4	103.3	174.1	248.7
一月下旬	174.4	100.0	170.6	251.5

註：乙丙兩表總指數略有不同，緣以乙表係92項物品，丙表係92項。因重慶棉花一部為土產一部為外省產品，故乙表本省產品及外省產品之內均將棉花列入，而成93項物品。

INDEX NUMBER OF WHOLESALE PRICES IN CHUNGKING, SZECHWAN, CHINA (SIMPLE GEOMETRIC AVERAGE)
 b, CLASSIFIED BY SOURCES
 January - June 1937

二十六一年一月

Local products

項數	總指數	本省產品							外
		雜項類	食料類	衣料類	燃料類	建築材料類	雜項類	雜項類	
1	2	3	4	5	6	7	8	9	
26年 1937									
1月 Jan	98.1	95.3	84.7	80.2	102.8	99.5	91.9	99.5	
2月 Feb	99.0	99.6	101.1	95.6	99.2	100.4	92.3	99.8	
3月 Mar	99.6	100.2	101.7	103.6	98.3	99.1	94.3	99.2	
4月 Apr	101.0	99.8	97.4	105.1	99.3	100.0	105.1	100.4	
5月 May	101.9	102.0	101.3	121.0	96.1	99.8	104.2	99.7	
6月 June	99.8	98.4	86.8	108.2	101.1	100.3	104.1	101.5	
7月 July	98.1	97.5	91.5	106.4	101.7	107.9	102.6	103.7	
8月 Aug	98.9	99.9	90.3	105.5	116.9	109.6	94.7	103.3	
9月 Sept	101.2	87.0	91.2	105.0	115.7	97.0	82.1	123.8	
10月 Oct	107.8	97.4	94.6	114.7	133.0	98.5	80.0	123.8	
11月 Nov	105.9	96.5	93.5	115.6	155.5	97.8	78.3	115.9	
12月 Dec	100.5	94.5	89.4	117.0	145.5	105.9	60.5	118.3	
27年 1938									
1月 Jan	112.2	96.2	87.6	115.3	148.6	130.8	70.4	131.4	
2月 Feb	122.8	101.7	91.3	132.4	141.4	135.3	79.8	148.4	
3月 Mar	128.5	103.9	90.9	146.4	150.8	137.2	89.8	169.8	
4月 Apr	127.7	100.4	80.3	153.9	146.3	138.5	86.6	174.7	
5月 May	126.5	100.0	85.6	141.0	140.4	141.4	82.6	185.1	
6月 June	122.7	100.4	85.4	138.6	145.6	142.2	78.1	201.2	
7月 July	133.8	100.4	83.7	150.0	151.9	146.2	79.9	205.8	
8月 Aug	135.4	100.7	80.7	150.7	158.7	153.5	80.7	209.1	
9月 Sept	140.4	108.3	82.6	165.9	160.5	173.3	86.3	245.7	
10月 Oct	137.5	109.8	80.8	174.0	238.0	191.6	81.8	260.4	
11月 Nov	109.5	114.0	84.1	180.7	254.5	190.0	60.0	254.3	
12月 Dec	109.0	113.4	85.6	154.3	251.9	183.0	101.8	231.3	
12月上旬	104.8	116.0	87.0	185.5	248.0	194.2	67.7	259.1	
12月中旬	107.7	119.5	89.7	184.5	250.9	185.0	101.9	263.4	
12月下旬	109.0	110.1	88.9	186.3	255.5	178.4	105.6	264.1	
1939									
1月上旬	171.0	131.0	90.7	196.8	255.5	178.1	109.3	272.3	
1月中旬	173.0	122.0	92.1	199.1	253.5	178.1	114.5	273.5	
1月下旬	174.0	123.6	93.2	198.6	246.5	173.3	120.5	275.7	

二十六一年一月

due to from other provinces Products imported

本省產品					國外產品				
食料類	食料類	金銀	雜項類	雜項類	燃料類	金銀	建築材料類	雜項類	雜項類
1	2	3	4	5	6	7	8	9	10
98.1	109.0	100.7	99.8	98.9	98.2	91.2	89.1	97.5	
99.1	102.3	100.1	99.8	96.9	99.5	94.9	94.1	99.0	
98.8	98.8	101.1	99.8	99.2	100.1	98.8	98.3	100.0	
100.6	94.2	102.1	99.8	106.2	100.1	111.3	107.1	101.1	
100.6	89.6	99.0	100.3	101.9	100.1	102.5	104.6	101.7	
102.4	106.0	97.1	100.3	99.5	102.1	97.9	108.9	99.9	
104.0	111.1	98.6	106.7	94.8	89.9	94.5	98.7	101.9	
99.0	107.8	116.8	109.6	105.2	95.0	132.9	118.5	111.8	
122.6	110.2	145.7	165.3	130.9	87.5	154.9	181.5	185.0	
118.0	111.4	135.9	145.6	128.6	87.0	145.6	188.9	187.9	
108.7	113.1	132.9	144.7	134.4	81.2	147.6	231.5	144.1	
112.3	106.6	136.2	166.7	144.6	96.8	155.5	287.1	128.8	
121.7	103.0	163.1	185.2	161.6	101.6	189.7	312.9	156.9	
130.1	108.5	181.1	218.5	200.4	119.1	247.3	322.2	195.4	
161.4	125.6	220.6	261.9	210.7	123.0	265.9	309.8	185.7	
160.7	131.4	234.8	223.4	208.6	135.7	247.4	296.3	208.0	
170.3	132.4	239.7	210.8	196.0	134.3	232.1	248.3	191.2	
194.8	133.2	246.4	225.5	216.7	158.2	255.4	204.8	198.8	
200.0	114.8	239.0	233.6	233.4	178.4	274.2	268.7	208.1	
202.8	169.3	305.5	241.3	243.0	188.8	290.5	311.1	213.6	
236.8	109.3	417.8	255.9	268.8	202.2	308.0	338.3	237.7	
246.8	110.1	480.6	311.8	329.7	242.4	307.4	379.6	288.6	
238.6	113.1	473.8	376.0	355.9	274.3	415.8	472.2	307.2	
249.7	118.1	457.7	370.9	370.8	280.7	436.7	472.2	322.0	
245.3	113.1	463.3	379.5	367.7	280.7	429.5	472.2	298.1	
249.2	113.1	467.5	366.6	360.8	280.7	427.9	472.2	298.1	
253.9	113.1	441.8	366.6	370.3	280.7	448.8	472.2	322.6	
263.1	115.6	437.3	367.2	370.5	282.4	451.5	444.5	321.6	
265.7	123.1	457.3	351.1	374.4	280.7	444.3	472.2	323.6	
265.4	133.2	437.3	392.4	375.5	280.5	443.0	455.6	323.6	

INDEX NUMBER OF WHOLESALE PRICES IN CHUNGKING, SZECHWAN, CHINA (SIMPLE GEOMETRIC AVERAGE)
A. CLASSIFIED BY USE OF COMMODITIES

1937 = 100
民國二十六年 = 100

類別	總指數	食料類	衣料類	燃料類	金屬及電料類	建築材料類	雜項類
Groups	General	Food	Clothing	Fuel	Metals & Electrical	Building	Misc
物品項數	92	52	18	10	11	9	12

民國二十六年 1937

一月	Jan	93.6	98.6	92.8	94.6	79.8	92.5	96.3
二月	Feb	96.2	104.8	93.5	93.5	82.0	93.8	99.5
三月	Mar	99.7	105.9	93.4	93.5	84.7	92.9	97.6
四月	Apr	97.9	100.8	95.1	94.0	92.6	94.9	105.2
五月	May	91.8	104.5	96.4	92.2	85.5	94.5	104.8
六月	Jun	95.8	106.4	96.6	95.3	88.0	95.2	104.2
七月	July	96.1	98.4	97.0	93.3	81.5	99.5	103.8
八月	Aug	95.7	99.8	94.5	95.6	97.1	103.0	93.7
九月	Sept	103.1	95.0	112.1	89.1	127.9	95.2	90.7
十月	Oct	104.4	98.6	111.2	107.7	121.6	99.9	96.9
十一月	Nov	104.0	97.5	105.4	110.9	122.3	100.4	96.3
十二月	Dec	98.8	93.2	108.1	117.8	188.6	111.4	80.0

民國二十七年 1938

一月	Jan	109.3	91.4	114.2	122.3	163.8	135.6	93.4
二月	Feb	119.2	95.1	122.7	140.1	193.7	140.3	109.9
三月	Mar	127.2	95.1	148.6	183.6	216.8	141.4	116.9
四月	Apr	124.1	90.9	144.0	187.2	207.7	141.9	117.9
五月	May	125.4	89.3	175.8	136.4	197.5	141.7	111.5
六月	Jun	128.2	89.7	170.9	148.4	216.6	143.5	109.2
七月	July	130.8	87.3	174.5	169.2	234.8	147.2	112.5
八月	Aug	132.5	84.4	177.4	167.6	241.5	160.9	116.8
九月	Sept	143.0	86.3	200.7	190.9	274.2	176.4	123.4
十月	Oct	154.2	84.5	203.7	228.8	349.5	194.1	139.6
十一月	Nov	158.5	88.7	207.2	251.2	361.8	198.0	143.0
十二月	Dec	104.0	96.0	214.7	252.4	372.5	191.5	156.0
十二月上旬		161.7	89.1	212.2	250.7	367.4	192.4	160.7
十二月中旬		164.4	91.7	214.3	251.8	368.8	194.2	154.6
十二月下旬		106.3	90.9	218.1	254.4	378.7	187.2	159.7

民國二十八年 1939

一月上旬		169.4	94.8	225.1	255.1	379.8	185.7	164.0
一月下旬		171.0	96.3	228.4	255.2	374.9	187.0	165.4
一月下旬		172.0	97.6	228.8	252.5	378.4	187.7	174.3

衣料類在本旬內上漲者三項較前旬減六項下落者四項增三項平價者十一項增三項。毛呢布每疋漲五角，沖直買呢一仙，深市服一元下跌者計三跌布每尺五角，刺州十六支紗二十四元八角七仙老司球二十支紗二十二元八角九仙四等選三十二支紗七元九角七仙。指數為225.3較前旬減0.1。

燃料類在本旬中向上漲者四項較前旬增四項，下落者一項較前旬減二項，平價者四項，較前旬減二項。計煤油每罐漲一元汽油每罐漲八角，洋燭每箱漲一元，均因市面又缺貨之故。白炭每市担二十八元，較前旬跌四元二角指數為252.5，減0.7。

金屬電料類在本旬內變化極少，上漲者無，下跌者一項較前旬減二項，平價者九項，較前旬增二項。而跌價者僅洋鋼一爐而已。指數為378.4較前減1.5。

建築材料類在本旬內無上漲者，較前旬減一項，下跌者二項，較前旬增二項，平價者七項較前旬減少一項。計石灰每百担跌十二元，玻璃跌三元指數為151.7，較前旬減5.3。

雜項類在本旬內上漲者六項較前旬減少一項，下跌者二項較前旬增加一項，平價者仍為四項。計毛邊紙以原料上漲每張漲三元，黃牛皮每市担漲三元四角八仙並內銷糖既之故。豬鬃亦因出口者增加，而來源稀少由五百九十元漲至五百九十八元。亦大英香則每箱跌落二十元，雙刀牌香燭因缺貨故每箱增八元，腳馬快牌香亦因來源不多漲二十元。

COMPARISON OF PRICE INDICES DURING THE PERIOD WITH THOSE IN 1936 To 20th Jan and Jan 1937

類別	Group	指數			較前旬	
		1936年六月	1937年一月	1937年一月	1936年六月	1937年一月
總指數	General	172.0	171.0	98.8	+ 1.0	+ 73.9
食料類	Food	97.5	96.3	100.4	+ 1.2	- 8.9
衣料類	Clothing	92.8	228.4	96.6	- 0.1	+131.7
燃料類	Fuel	252.5	263.2	95.3	- 0.7	+167.2
金屬電料類	Metals	378.4	374.0	83.0	- 1.5	+230.4
建築材料類	Building	151.7	167.0	95.2	- 5.8	+ 80.5
雜項類	Misc	175.3	168.3	104.2	+ 7.0	+ 71.3

(2) 重慶零售物價指數

四川省政府建設廳駐渝辦事處編

(1) 二十八年一月下旬物價指數變動說明

重慶零售物價指數仍在上月本旬為 172.0 較前旬略增高 1.0 較去年六月加多 73.1

NUMBER AND PERCENTAGE OF COMMODITIES FOR WHICH PRICES WERE HIGHER, LOWER, OR UNCHANGED DURING THE PERIOD AS COMPARED WITH 11th to 20th Jan 1939

類別	總計		漲		落		平	
	項數	%	項數	%	項數	%	項數	%
總計	90	100	28	31	14	16	48	53
食料類 Food	82	100	14	46	5	14	13	40
衣料類 clothing	100	100	3	17	4	22	11	61
燃料類 Fuel	9	100	4	44	1	13	4	44
金屬電料類 Metals	10	100	0	0	1	10	9	90
建築材料類 Building	100	100	0	0	2	22	7	78
雜項類 Misc.	12	100	6	50	2	22	4	33

食料在本旬內上漲者十四項較前旬增二項下跌者三項增一項平價者十三項減五項。上漲者以米糧特多計尖熟米每市石漲四角中熟米漲三角糙南米漲二角尖碩米漲二角。重要木薯粉每袋各漲一角。黃豆漲二角黃豆價特巨每市石增二元三角其餘八種雜糧。牛肉每市担較前旬漲價二元八角因近兩年需要加多所致。豬酒漲價每市担由四十二元漲至四十三元七角五分。榨菜因新貨向來出市有留者稀少故每市担漲一元零五分。白茶每市担漲四角四分。茶葉漲二元一角六分均因缺貨之故。水糖跌七角一市担，白糖跌三元，熟豬油跌七角，菜油跌三元六角二分，燒酒跌二元三角五分，均因來貨較多而致。其餘又漲放下落甚巨食料類指數升為 97.6 較前旬增 1.2。

(3) 成都市二十七年十二月及二十八年一月零售物價表

物品名稱	單位	價格(元)		物品名稱	單位	價格(元)	
		二十七年十二月	二十八年一月			二十七年十二月	二十八年一月
食物類				漂白洋布	..	.288	.213
米	雙市斗	2.160	2.362	土白布	..	.290	.238
麵粉	市斤	.083	.108	棉花	市斤	1.020	1.100
切麵	..	.072	.088	洋毯	雙	.400	.450
豆豉	雙市斗	1.040	2.125	綢鞋	..	.008	.076
豬肉	市斤	.250	.300	房租類			
牛肉	..	.168	.190	行租	標準間	.704	.704
羊肉	..	.292	.350	押租	月租	.145	.148
豬油	..	.310	.400	燃料類			
雞肉	..	.379	.409	煤炭	市担	3.480	3.600
雞蛋	個	.034	.038	煤炭	挑(100)市斤	3.780	4.100
蔥	市斤	.032	.071	大河松柴	大捆	.246	.260
韭菜	..	.026	.033	南河松柴	小捆	.214	.230
黃豆芽	..	.026	.029	程枝青杠	擔(兩擔)	1.120	1.138
窩筍	根	.014	.021	保元青杠	..	.090	.060
包菜	市斤	.039	.044	火柴	盒	.011	.020
泡海椒	..	.105	.117	雜項類			
榨菜	市兩	.025	.025	小雙刀紙烟	包(10)支	.176	.170
麵粉	市斤	.160	.200	皮林烟	市兩	.080	.080
豆腐	塊	.017	.020	肥皂	塊	.256	.260
花椒	市兩	.079	.088	毛巾	條	.240	.248
數個	市斤	.161	.162	毛茶	市斤	.640	.640
菜油	..	.272	.300	河酒	斤	.144	.178
白糖	..	.256	.276	菜碼	個	.061	.090
冰糖	..	.410	.402	飯碗	..	.052	.048
衣著類				銀鐲	口	1.720	2.200
陰丹士林布	市尺	.414	.426				

註：1,一雙市斗=2市斗 2,一標準間=267立方尺 3,以押金之月利二分計算
4,一挑=160市斤 5,大捆=18斤 小捆=14斤 6,一擔=30斤

INDEX NUMBERS OF COST OF LIVING FOR LABORER-PEDDLER CLASS
IN CHENGTU, SZECHWAN, CHINA (WEIGHTED AGGREGATE)
February - June 1937 = 100

(2) 成都市勞動負販界生活費指數 (加權綜合)

民國二十六年二月至六月 = 100

類	別	總指數	食物	衣着	房租	燃料	雜項	法幣
Group	Category	Index	Food	Clothing	Rent	Fuel	Misc.	Unit
物品	項數	48	24	6	2	7	9	購買力
民國二十六年平均		95.2	94.1	104.9	100.0	99.2	101.0	104.1
Jan. 一月		96.8	94.2	94.5	100.0	107.2	98.2	102.8
Feb. 二月		100.4	100.8	97.9	100.0	108.9	98.0	99.9
Mar. 三月		100.9	101.4	97.3	100.0	105.1	95.5	99.5
Apr. 四月		101.0	101.4	102.9	100.0	99.8	95.6	99.0
May 五月		100.4	100.5	102.0	100.0	96.8	102.6	99.6
June 六月		97.3	98.1	90.0	100.0	95.6	102.6	102.9
July 七月		98.2	90.1	95.2	100.0	95.3	101.8	107.3
Aug. 八月		93.8	89.8	101.2	100.0	88.6	102.5	107.2
Sept. 九月		97.2	94.6	118.1	100.0	100.0	103.3	102.9
Oct. 十月		90.5	85.0	118.4	100.0	97.2	102.3	110.5
Nov. 十一月		91.6	86.8	114.2	100.0	96.0	102.5	109.2
Dec. 十二月		92.0	88.3	118.1	100.0	96.0	101.9	108.0
民國二十七年平均		94.0	88.4	148.4	100.0	107.8	105.3	105.9
Jan. 一月		98.4	97.0	117.0	100.0	94.4	108.8	101.0
Feb. 二月		98.0	96.3	124.3	100.0	104.9	104.4	101.1
Mar. 三月		94.9	90.1	127.1	100.0	105.1	104.4	106.8
Apr. 四月		92.7	87.9	124.3	100.0	111.7	103.7	108.7
May 五月		92.0	86.9	120.4	100.0	110.0	102.0	107.6
June 六月		96.0	91.7	130.5	100.0	103.8	102.0	104.2
July 七月		97.4	93.6	145.6	100.0	101.8	103.8	102.7
Aug. 八月		91.4	84.5	148.0	100.0	100.1	104.1	109.4
Sept. 九月		87.0	77.1	161.1	100.0	102.2	104.5	114.8
Oct. 十月		90.9	80.7	180.3	100.0	113.4	107.8	120.0
Nov. 十一月		94.0	88.6	182.4	100.0	121.5	109.9	105.4
Dec. 十二月		98.6	89.5	203.5	100.0	126.0	112.8	101.4
民國二十八年 1939								
Jan. 一月		105.0	98.9	211.0	100.0	131.5	117.0	94.4

(2)

燃料和七種物品，因銷路旺盛，而河水日小，車運稀少，價格隨漲上漲指數自上月之 126.0 點，再漲 0.5 點較去年同期之 94.4 點高 37.9 點。

雜項類計有九種物品，上漲者六項，平穩未動者二項，下跌者為小號刀紙類一項，因其價格增漲過高，一般消費者多改取舊子題，銷路減少，故紙商不得不減價出售。河酒與菜碗類，因運費及進價增高，菜類因生及價格之上漲，故價格均有猛烈之上漲。指數為 117.0 點，較上月之 112.8 上漲 4.2 點，較去年同期高 15.9 點。

本月市成都勞動負販界所收入之法幣對於生活上所需物品之購買力降為 94.4 點，較上月減低 7.0 點，較去年同期則低 7.2 點。

成都市勞動負販界生活費指數，自去年九月迄至今年一月，四個月內上漲百分之 21.7。其主要原因，所受銅元漲價所致，該界中雖有一小部份人因銅元漲價，收入亦相當增加，然大多數人之收益，則非以銅元計算，故生活益趨困難。

二十八年一月份指數與二十七年十二月份及一月份比較表

類	別	指 數			比較廿七年十 二月指數點	比較廿七年一 月指數點
		廿八年一月	廿七年三月	廿七年一月		
總	指 數	105.0	98.0	98.4	+ 7.3	+ 7.5
食	物 類	98.0	89.5	87.0	+ 9.4	+ 1.0
衣	着 類	211.6	203.5	111.0	+ 8.1	+ 94.6
房	租 類	100.0	100.0	100.0	0	0
燃	料 類	131.5	125.0	94.4	+ 6.6	+ 37.1
雜	項 類	117.0	112.8	103.6	+ 4.2	+ 15.2



第二卷

第三期

四川物價旬報

民國二十八年二月六日出版

四川省政府建設廳編

目 錄

1. 成都市勞動負販界生活費指數
 - (1) 二十八年一月份指數變動說明
 - (2) 成都市勞動負販界生活費指數
 - (3) 成都市二十七年十二月及二十八年一月零售物價表
2. 重慶零售物價指數
 - (1) 二十八年一月下旬指數變動說明
 - (2) 重慶零售物價指數

1. 成都市勞動負販界生活費指數

四川省政府建設廳編
大學農學院農業經濟系 合編

(1) 民國二十八年一月份指數變動說明

民國二十八年一月份，成都市四十八項物品零售物價中，有四十一項上漲，五項平穩未變，二項下降。依據此四十八種物品所計算之成都市勞動負販界生活費指數為 105.9 點，較之上月之 98.6 增高 7.6 點，較去年同月之 98.4 亦高 7.5 點。

成都市勞動負販界生活費用指數

類 別	總計項數	漲	平	降
總 計	48	41	2	5
食物類	24	23	—	1
衣着類	6	5	1	—
房租類	2	—	—	2
燃料類	7	7	—	—
雜項類	9	8	1	2

食物內計有二十四種物品，除青菜價格平穩未變外，餘二十三種價格一律上漲。米及黑豆，因受西鄉賣價漲高之故；麵粉，因受價上漲，一因水小碾坊出貨減少；肉類以前近年，消費增多；蔬菜以銅元缺乏，交易均改以大洋計算；冰糖與白糖，則因省中，內江之糖產運銷步市，宜昌一帶，米貨缺乏，價格均屬上漲。本月指數為 98.9 點，較上月之 89.5 上漲 9.4 點之多，較去年同月之 97.0 亦高 1.9 點。

衣着類六種物品，上漲者五項，下跌者一項，指數為 211.6 點較上月之 203.8 點再漲 8.1 點，較去年同月則高 94.6 點，仍因米貨困難而銷路增加之故。
房租類未有變動。

March 9, 1939.
9:28 a.m.

HMJr: Hello.

Operator: Mr. Welles. Go ahead.

HMJr: Hello.

Sumner
Welles: Hello, good morning, Henry.

HMJr: Hello, Sumner.

W: I'm sorry to say I was tied up over at the White House with the President from five until after seven and I didn't have a chance to know whether you had called me or not.

HMJr: No, I didn't.

W: I wanted to find out if that final draft was all right for you to sign.

HMJr: Yes, and I just was told as you rang the phone that your men just arrived here now. They were supposed to have been here at nine.

W: I see.

HMJr: And they're outside of my room, and I'm ready to sign my draft.

W: That's grand.

HMJr: See?

W: Because Aranha is due here at eleven fifteen and we wanted to get it wound up so that he could get away.

HMJr: Well, your men arrived here thirty seconds ago.

W: All right.

HMJr: Now, will you tell Aranha that I'd like very much to see him to discuss this Central Bank thing with him?

W: Yes, I will.

HMJr: And I can do it any time tomorrow forenoon.

W: Well the trouble is, Henry, that I think he's got to leave today. You see, he's sailing tomorrow.

HMJr: Well, then I ought to see him today.

W: Yes.

HMJr: Because I -- I -- since it's decided we're going to do it, I'd like to have a chance to talk to him.

W: I think it's absolutely necessary.

HMJr: What -- what about this afternoon?

W: Well, I'll get in touch with him immediately. What time would you suggest?

HMJr: Well, I'm going to the White House at two.

W: At two?

HMJr: And let's say the President is delayed -- I would say that three thirty would be safe.

W: Three thirty?

HMJr: Yes.

W: I tell you one thing that is on his mind. His brother, who came up with him, he fears is suffering from a brain tumor, or something which may be more serious than that --

HMJr: I see.

W: And he's in the hands of Dr. Cushing and Aranha wanted to have an opportunity of talking personally with Cushing in New Haven before he sailed.

HMJr: Yes.

W: That is the complication.

HMJr: Well, I -- I --

W: But I'll get in touch with him immediately and suggest three thirty.

HMJr: But you told me he is going at eleven thirty to you.

W: That's right.

HMJr: Well, I've got this two o'clock tax appointment with the President, so --

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W: Yes.

HMLJr: So I'd make it earlier, but I'm gathering the President will be a little late, and --

W: You wouldn't make it -- you wouldn't be able to make it after he leaves me here?

HMLJr: I can see him before he comes there, if that was possible.

W: Well, I think that would be much better.

HMLJr: I can see him at eleven. I only want fifteen minutes.

W: Yes indeed. I'll get in touch with him immediately and I'll call you back.

HMLJr: Right.

W: All right.

HMLJr: Thank you.

W: Thank you, Henry.

March 9, 1939.
9:39 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Sumner
Welles: Hello, Henry. Sorry to bother you again.

HMJr: That's all right.

W: Aranha said he'd be delighted to stop to see you at eleven o'clock.

HMJr: Fine.

W: So as to talk with you before he comes over here.

HMJr: Fine.

W: I suppose there's no chance of persuading you to come over here for the final wind-up, is there -- with him?

HMJr: Yes, -- I mean, at the final wind-up.

W: Yeah. I mean just the exchange of letters and hand-shaking for a few minutes. I think it would please him if you could.

HMJr: I'd love it.

W: Well, that's grand. Why don't you come right over with him after you get through talking with him and we'll be ready here.

HMJr: Fine, I'd love it.

W: All right. Thank you. It would help a lot if you do.

HMJr: Righto.

W: Good bye.

March 9, 1939.
10:13 a.m.

HMJr: Hello.

Operator: Secretary Wallace. Go ahead.

HMJr: Hello.

Henry A. Wallace: Henry, I was just talking with Senator Ellender.

HMJr: Yeah.

W: I had occasion to call him about another thing and he was at this conference yesterday morning.

HMJr: Yes.

W: I asked him what he thought this -- how he judged the sentiment among the various people at the conference.

HMJr: Yeah.

W: There were the "key" people on both the House and Senate side, and I presented the same material then, although in much greater detail than at yesterday afternoon.

HMJr: Yeah.

W: And he said that it could be swung either for plan number one or plan number three.

HMJr: Three is the Export plan.

W: That's either the Smith plan or the Export plan, according to the leadership the Administration gave.

HMJr: Yeah.

W: And he thought if there was any tip-off as to the attitude of the Administration at the present time, that it would swing it.

HMJr: Yeah.

W: He says they're having a meeting on it this morning and will be having further meetings.

HMJr: Yeah.

W: And I'm inclined to think --

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HMJr: Yeah.

W: In view of what he says --

HMJr: Yeah.

W: That provided you're convinced as to where the President stands, that it would serve very much to clear the matter, if you would give the lead that you indicated earlier this morning.

HMJr: Well I'm not convinced a hundred percent, but certainly from the talk I had with him Monday and the way he talked yesterday, I -- I would say that he favors selling this cotton at a price in the world market.

W: If the choice is merely between one and three, I'm convinced from -- I stopped just a moment at the close there -- I'm convinced he's against one because of --

HMJr: Definitely!

W: Because of the danger of the pyramiding -- pyramiding costs.

HMJr: That's right.

W: So I would say -- I don't -- he didn't give any very great consideration to two. Ellender assures me that because of the cotton mill opposition that two has no chance at the present time.

HMJr: Well Henry, purely on my own, I'm willing to indicate where I stand.

W: Well if you're willing -- if you're willing to do it --

HMJr: Yeah.

W: If you're willing to do it at the present time it would be Ellender's judgment, and I'm inclined to think he's accurate -- well, I didn't mention to him about you at all, of course -- I was just asking him -- well, he volunteered that if the Administration gave him a positive lead, either with respect to one or with respect to three, that it would be determining.

HMJr: O. K. Well, --

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- W: So if you -- I don't know how our other friends will feel, but if you feel -- as far as I'm concerned, if you want to go ahead and give that lead now, I'm inclined to think it will help.
- HMJr: Well listen, what I want to do is this -- I mean, the next few months, if we could get the south -- if they knew where they were headed and what the price of cotton was going to be, and the future for cotton, certainly they can settle down and go to work.
- W: Yeah, that's right.
- HMJr: And it's an enormous percentage of our population, and if I can help you in bringing that about, I want to do it, see?
- W: Yeah.
- HMJr: Now, I've just been talking with Bell and as far as the Treasury is concerned in your Orange and Blue plan -- mechanics and everything else, we'll be -- be ready.
- W: Fine.
- HMJr: But, Bell thinks that it's very important that this thing be brought to the attention of the Comptroller General, before you start, because otherwise he's very fearful that for one reason or another the Comptroller may, after you've started, kill this plan, and I don't want it killed.
- W: I'm wondering, Henry, you know -- you may remember some conversations we've had about a certain gentleman from New Hampshire --
- HMJr: No, not with me.
- W: I mean that's been brought up on certain -- certain meetings.
- HMJr: Oh, yes.
- W: I'm wondering, in view of that, if the concern -- you know this -- this present gentleman is -- is sometimes politically minded.
- HMJr: Yeah. Well, let me tell you --

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- W: It seems to me that there is a -- that means, of course, that if we do that -- I tell you, we've got -- we've got here -- we have a favorable opinion from our own solicitor, and in view of the prospects for the future -- in view of the fact that we do have a -- a clearance here from our own solicitor, I wonder if we aren't safe in going ahead?
- HMJr: Well, as I get it from Bell, he's afraid that our boys will be holding the bag. It's -- our disbursing offices.
- W: Oh!
- HMJr: Now, I want to tell you. I'm so much interested in this plan I'll do something I've only done once before in my life. I'll go over to see the Acting Comptroller General myself with your people. I'm willing to do that.
- W: To speed it along?
- HMJr: What's that?
- W: Would that enable us to get the green light by early next week?
- HMJr: Well, I -- I'm willing to make an appointment to see him at once and ask him -- tell him I think if you and I and our two lawyers went over and called on him with Mr. Bell that it would impress him and at least we'd know where we are and we'd ask him for an opinion by not later than Monday.
- W: All right sir, will you do that?
- HMJr: Well, I think it's your --
- W: All right.
- HMJr: Task, and I'm -- if you want to ask him if he'd see us at eleven tomorrow morning -- hello?
- W: All right.
- HMJr: And I'll have Ed Foley get in touch with your solicitor so he can be brought up to date.
- W: Fine.

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HMJr: But I think if you and I marched over there and Bell goes with us, and call on this fellow and say this is a matter -- impress upon him the -- the great needs in what you want to do, and say, "Can we have an answer Monday?" you --

W: Above everything, the support of the trade.

HMJr: Pardon?

W: And indicate to him the great support of the trade.

HMJr: Then you'll know where you're at. I -- I -- and inasmuch as our boys -- I think it's handled thru our disbursing offices, I think we ought to have it.

W: All right. We'll do it.

HMJr: And if you want to make it at eleven, I'll march over there with you.

W: Well, much obliged.

HMJr: O. K.

W: All right.

HMJr: Good bye.

March 9, 1939.
12:59 p.m.

Operator: Go ahead.

HMJr: Hello.

Herbert
Emmerich: This is Emmerich.

HMJr: How are you?

E: Very good, sir.

HMJr: I wondered if you could tell me what you are going to do with me when I get out there now.

E: You didn't get my letter then.

HMJr: No.

E: Well, I've planned to call for you at the Englewood Station Saturday morning.

HMJr: Yeah.

E: And I'd like you to come over to our building Saturday morning.

HMJr: Right.

E: And President Hutchins would like to take lunch with you.

HMJr: Yes.

E: At noon. That's -- he was tied up for the rest of the weekend.

HMJr: I see.

E: But he'd like very much to see you then, and they just -- three or four of us are going with him.

HMJr: Good.

E: Then Saturday evening the boys in the building here would like to have dinner with you.

HMJr: I see.

E: The heads of our various organizations will have you ask questions -- whatever you're interested in.

HMJr: Well, they can ask me a few.

E: How?

HMJr: They can ask me a few.

E: All right. If you're willing, they'll do it.

HMJr: When do I see Jake?

E: Jake wants you at noon on Sunday for dinner.

HMJr: Oh! Well, I haven't communicated with him, will you?

E: I've done so.

HMJr: Well, will you tell him that you spoke to me and it's fine.

E: That suits you.

HMJr: Yes, Sunday for lunch?

E: Yes.

HMJr: At - at Jake's.

E: At his house.

HMJr: That's fine.

E: And he was asking me if he should invite anybody else, and I said I thought you wanted it very quiet.

HMJr: I'll leave that to him. If he thinks there are some people he'd like to have me meet, that's O.K.

E: I see. Well, I'll get that word to him.

HMJr: Tell him either way I'd be delighted -- just to have lunch -- for me, or, if he thinks it would be good for me to meet some people he has in mind, I'd be glad to do it that way.

E: Well, I'll be glad to do that. I thought probably you preferred quiet because there's some -- well, there's Walter Lippman out here lecturing, and he's our journalist.

HMJr: That's all right.

E: And there's President Benes --

HMJr: Oh, I'd love -- I'd love to meet President Benes.

E: You would.

HMJr: Oh, I'd love it.

E: I can arrange that, I'm quite sure.

HMJr: I mean, do you think you could do it at Viner's, or --

E: I don't know. I'd have to find out through the President's office.

HMJr: Well, I'd love to meet Benes when I'm out there.

E: Well, I'm glad to know to that and I'll try and arrange it.

HMJr: No, I don't -- you don't have to keep it so secret. There's -- after all -- and if Jack Viner -- do you think I ought to call him direct? Supposing I call him later on.

E: Yes.

HMJr: And I'll talk to him direct.

E: All right, or I can phone him -- get word to him to call you.

HMJr: Well, I can call him just as easy.

E: Yeah, he's a little hard to get on the phone.

HMJr: Well, I have no trouble.

E: O. K.

HMJr: And --

E: Well, is there anything else we could fix up for you?

HMJr: No, and there's -- I'm not going to tell the papers, but I -- but I -- it's no calamity if anybody knows I'm out there.

E: Well, that's -- glad to know that.

HMJr: Right! That sounds -- I'd love to meet Benes though.

E: All right. I think we can arrange it. I'll get in touch with the President's office and maybe he can come to our lunch.

HMJr: That would be grand.

E: All right, Mr. Secretary.

HMJr: Thank you.

E: Looking forward to seeing you.

HMJr: Good bye.

E: Bye, bye.

March 9, 1939.
4:15 p.m.

HMJr: Hello.

Operator: Secretary Wallace. Go ahead.

HMJr: Hello.

Henry A.
Wallace: Hello, Henry?

HMJr: Yeah.

W: I suppose you noticed ^{they reported} /out the Smith Bill.

HMJr: No, I've been at the White House all afternoon.

W: Were you there when I was talking with the boss?

HMJr: Yeah.

W: You were there, huh? Do you understand -- I can't figure for the life of me how you could possibly work what he's got in mind.

HMJr: Well, I haven't had time to look at it, Henry. I just came back after two hours at the White House. I'm all in.

W: Well, you heard the President talking at his end of the line to me, or did you?

HMJr: No.

W: Oh, you didn't hear that.

HMJr: No, we went in there at two ten.

W: Yeah well, you didn't hear the President talking to me then?

HMJr: No, I wasn't in the room.

W: Oh, I see. Well, I guess you guessed wrong about what his slant really was. He's really interested in this proposal of our taking over the cotton when the note -- when the loans become due.

HMJr: I see.

W: Taking over seven million bales.

HMJr: Uh-huh.

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- W: He's really interested in --
- HMJr: Hello.
- W: Yeah.
- HMJr: He is interested?
- W: He really is interested in that. He turned thumbs down on the export debenture because Cordell had kicked.
- HMJr: I see.
- W: He turned thumbs down on the certificate plan. I -- tell him -- that -- for the life of me I can't understand how, under his plan, he is going to get -- I called his attention to the fact that in the Agricultural Adjustment Act of 1938, there's this section 381 which provides that -- that not more than three hundred thousand bales can be sold in any one month and not more than a million and a half bales in a year, and that it will be necessary to get a -- that beginning next July 31st. Therefore it's necessary to get an amendment to the Act, and tell him that I think that Smith will tie any amendment of that sort into bow knots and won't let us -- won't let us do it unless he --
- HMJr: Well, Henry --
- W: Unless -- unless we have a very -- unless we have a plan worked out that -- recommend itself to the gentleman.
- HMJr: Which one do you think that the President is for.
- W: He's not for any one of the three. He turns them all down.
- HMJr: Well, that's nice.
- W: And he comes out with this business of our taking hold of Commodity Credit -- of seven million bales of the Commodity Credit loan stocks and the government doing the marketing. Well, then I'd say 'No, the government musn't do the marketing.' Well, the government should do some of the marketing, and we'll work the rest through Will Clayton and McFadden, and so on.

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HMJr: Well, now listen, old man, I can get about half of what you say. I've never been so tired in my life.

W: No.

HMJr: I've had two hours with Harrison and the President. I'm completely shot.

W: Yeah.

HMJr: I'd love to see you and talk to you about it, because I'm vitally interested and I'd like to be helpful, but just at the moment -- hello --

W: Yeah.

HMJr: I'm all in.

W: I can understand that.

HMJr: And -- let me get in touch with you tomorrow when I'm -- -- when I'm fresh.

W: Yes. What I thought was, if you could give me your offhand reaction -- to -- if you could any possible workable way of using the President's suggestion.

HMJr: Well, I couldn't give anybody any suggestions for anything right now.

W: Yeah.

HMJr: Are we going to the Comptroller tomorrow?

W: Well I haven't heard on that yet. I expect --

HMJr: Well, you let me know, won't you?

W: Just a moment. I may have the answer now.

(Pause)

W: It's set for eleven o'clock.

HMJr: Well, supposing -- we'll have a chance to talk. Would you pick me up and we'll go over together?

W: Yes, I'll stop around and pick you up and then we can talk for five or ten minutes on our way over.

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HMJr: O. K.
W: I'll be there at your office at a quarter of eleven.
HMJr: Swell! Thank you.
W: Fine. Good bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau

DATE: March 9, 1939

FROM D. W. Bell

Returns on Exchanges

<u>Issue</u>	<u>Exchanges</u>
Long-term bonds	\$890,000,000
Short-term bonds	317,000,000
Notes	<u>53,000,000</u>
Total	\$ 1,260,000,000 (about 98%)

*DWB
per ERB*

10 A.M. March 9, 1939 - Tentative Total

FEDERAL RESERVE BANK	'60-65's	50-52's	Notes		
Boston,	37.2	18.5	2.2		
New York,	56.9	21.6	3.6		
Philadelphia,	40.9	4.9	2.1		
Cleveland,	11.6	8.1	.9		
Richmond,	27.4	4.7	.5		
Atlanta,	8.2	1.7	.1		
Chicago,	109.5	23.5	7.1		
St. Louis,	5.7	10.5	1.2		
Minneapolis,	9.2	15.1	.3		
San Francisco,	8.5	6	.6		
St. Paul,	5.3	1.3	1.5		
San Francisco,	17.3	3	.2		
Treasury,	2.3	.3	-		
Total,	852.1	313.6	52.7		
	70.90	26.90	4.00		
		1,218.4			
		94.00			

GROUP MEETING

March 9, 1939
9:30 A. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. Hanes
Mr. Gibbons
Mr. McReynolds
Mr. Bell
Mr. Haas
Mr. Duffield
Mr. Lochhead
Mr. Foley
Dr. White
Mr. Gaston
Mrs. Klotz

H.M.Jr: I had an offer from the Saturday Evening Post to publish an article on "How I Balanced The Budget in The Last Four Years" by Daniel W. Bell.

Bell: That ought to be simple; would take only a couple of paragraphs.

Gaston: The title should be, "I am For the Swedish Budget", by Daniel W. Bell.

H.M.Jr: And I will write the second story: "I am For The Swedish Massage".

Bell: I suggest you wait until after the 15th of April so we can put "X" before it.

H.M.Jr: All right, Gaston. Gaston called up last night and I said, "Good morning, I am glad to meet you today".

Gaston: I don't believe I have anything this morning.

H.M.Jr: What happened to that little note of the President's?

White: Mack has it.

H.M.Jr: I had one photostat made. I got another note on this business of the Florida politics and I want

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to recreate this political committee which you, Guy, Herbert and Mack sat on. I just haven't got the time to take the hours necessary -. Did you talk to Pepper yesterday?

Gibbons: Yes, but not about that.

H.M.Jr: Well, they will give you a copy of this thing. We only have one copy and you fellows will have to do the legislative work. I told -

McReynolds: Jim Farley.

H.M.Jr: - whatever the decision, good or bad, I will have to take it. I want to say this, after having seen the play the other night, it is "stinking".

Gibbons: And this is more so.

H.M.Jr: Trying to do anything down there, but if we get the order - well, I can only fight on so many fronts at one time.

Gibbons: Well, I think the Senators are divided.

H.M.Jr: If we can keep them divided.

Gibbons: I think we can do that.

H.M.Jr: I mean down there in Florida. These people that call themselves "liberals" and then kick out a fellow who for five years has served his Government well - just kick the fellow out, I think it is terrible.

Gibbons: Awful. I wonder what they are going to do in Maryland with the Collector of Customs who went along with Davey Lewis.

H.M.Jr: I think this business of cutting or chopping a fellow's head off just because a new senator comes in, a fellow who has served Roosevelt for five years loyally, I think is terrible.

Gibbons: The Collector of Customs in Maryland is one of the best men in the service.

H.M.Jr: It is the same group recommending this sort of thing who tried to torpedo the Treasury on its recovery program.

Gibbons: O.K. I have just been going along the lines of least resistance, letting it sleep, but I know we have the two Senators from Florida divided.

H.W.Jr: The President spoke to me - I will make a record of it so they can't say - (telephoning) Mr. Kannee. Welles? Hello. That is all right. Fine. Fine. Yes. I mean at the final wind-up. I would love it. Fine. I would love it. Righto (end telephone conversation). Invited me to come over with Aranha for the final wind-up - hand shaking and so forth and so on. I wondered if they were going to do that.

Mrs. Klotz: When shall I tell that man to come in?

H.W.Jr: Just tell him I am going to the State Department and I don't want to make any other appointments for tomorrow. (Telephoning) Hello. Mr. Kannee? I have a memorandum from the President in regard to Florida politics, and on the memorandum the President says: "Speak to me". See? Hello. This is a formal notice to Mr. Kannee, Acting Secretary of the President, that I am ready to be spoken to at the President's pleasure. It can go over until Monday a month from now as far as I am concerned. I am just formally telling you I am ready to be spoken to, so if you make it next Christmas it is all right with me. (End telephone conversation). He said "Could it go over until Monday a week?" I said it could go over a month from Monday.

McReynolds: A year from Thursday.

H.W.Jr: So you fellows know I have asked the White House and we are awaiting the word. Anyway, you fellows, there you are. And I will take that over Monday at lunch - the foreign situation.

Gibbons: I will get a copy of it too.

McReynolds: Yes.

H.W.Jr: Yes. Anything else, Herbert?

Gaston: No.

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- Duffield: For the record. Bill Douglas says the letter on the Barkley bill is 100 per cent. No suggestions. Thinks it is all right.
- H.M.Jr: Good.
- Duffield: I have here the transcript of the meeting with the Manufacturers Association. It is still all right to send it to them?
- H.M.Jr: Yes. (Exhibiting newspaper reproduction of photograph) For the record: I say I vote for Herbert Gaston as the most good looking man of the three. Pass it around. (Laughter)
- Gaston: Gosh, oh gosh. I hope there will be some editing done on that picture.
- H.M.Jr: I think it is marvelous. I think when Johnnie Hanes sees it - at least Herbert looks refined.
- Duffield: That is all I have.
- Gaston: Can't tell who is telling the story.
- H.M.Jr: Mrs. Morgenthau says I look "fearful". George, why the hell don't you do something on commodities? What are you doing back there all the time, anyway?
- Haas: Working on a few other things. (Handing documents to the Secretary) They are going up. The situation looks pretty good. You undoubtedly have noticed that the Times Index -
- H.M.Jr: About a point?
- Haas: A point and four tenths advance on car loadings. It is difficult to tell, as far as the Times Index is concerned, about the car loadings because the break down between miscellaneous and all others -
- H.M.Jr: You better suppress this chart, this is terrible. Dan, if you are still interested -
- White: (Commenting on newspaper picture). Looks like some banks ought to worry about that.
- H.M.Jr: Well, this is terrible, Dan.

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- Haas: They will balance the Budget.
- Bell: Expenditures going up and the business index going down.
- H.M.Jr: Income is above expectations and the out-go is below expectations. What are we going to do about it?
- Gaston: There was a suggestion in one of the morning papers this morning. It said it was suggested by a certain group in the Government that we should abandon taxes on some of the lower income groups or reduce them, and also in the high income group. So I think the logic of that is we just stop having any taxes at all, and then we would make a real contribution.
- Bell: The only trouble is it creates a bad precedent.
- Haas: You notice on the second page, Mr. Secretary, the public works. It just seems impossible for them to really spend that money.
- H.M.Jr: Are you sitting in on the 150 million?
- Bell: No.
- H.M.Jr: Anything else, George?
- Haas: No, I have nothing else.
- Foley: There is a letter from Connery of Massachusetts on its way around the State Department. Carr told Connery that they couldn't do anything unless we changed the regulations and invoke counter-vailing duties under Section 303.
- H.M.Jr: Did he say that?
- Foley: Yes, said it was up to us.
- H.M.Jr: Marvelous.
- McReynolds: A copy of that letter is in Connery's -
- Foley: Quoted it in the letter.

H.M.Jr: That is better than the Seller letter.

White: Did you read it?

H.M.Jr: I will tell you what I would like to do: Right after the meeting, at ten o'clock tomorrow, if you fellows will have ready for me a little dozier to take over to the Cabinet on this thing, because Welles says he is going to bring it up, and if I start the thing off by saying, "Mr. President, I want you to know the State Department says the next move is up to us. We have been wanting to move for four months, and if that is the question I am sure Mr. Welles will have no objection to raising the embargo", but I want something to read.

McReynolds: That is a good pusher, that letter of Sayre's that Connery quotes.

Foley: Carr, wasn't it?

H.M.Jr: Carr is in Czechoslovakia.

McReynolds: Carr hasn't been here for years. That is Sayre. I thought it was when I sent it in. And they just put it right straight back on the Treasury.

H.M.Jr: I am going to bring it up in Cabinet because Welles said he was going to bring it up, so if you fellows will have that ready at ten we will go to town on it.

Foley: O. K.

H.M.Jr: What I will tell the President - let's see if I have the procedure straight. I might as well learn my lesson now. If we invoke this Treasury thing, it will take 30 days to go into effect and 30 days after it goes into effect, the importer will have to prove that he didn't use the cotton or the copper or the oil, for which he received something like 25 per cent premium in Germany, that he didn't use that as a method to buy merchandise in Germany and sell it in the United States at below our cost, and that he didn't use this cotton method as a method of receiving from Germany a "bonus" - is that what you call it?

White: Bounty.

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- H.M.Jr: Bounty. To dump the goods in here below cost. Then I shall tell the President that each case stands on its own merits and the man can go to the Court of Claims -
- Foley: And say he didn't acquire the German goods through this system.
- H.M.Jr: But each case will be tried individually.
- Foley: That is right. And that is why we cannot be 100 per cent sure that, in the particular case coming up, we are going to be successful in court.
- Gaston: Custom's court?
- White: It is not necessary to sell the goods here at prices below -
- H.M.Jr: But each man has a chance to go to Custom's court?
- Foley: That is right.
- McReynolds: Court of Customs Appeals.
- H.M.Jr: I said "Court of Claims" originally. I was wrong about that. You see, Herbert, how careful you have to be. You say a thing and I stick to it for the rest of my life.
- Gaston: Very consistent.
- H.M.Jr: Absolutely. That shows how careful you have to be. So you will have ready - I think I have learned my lesson.
- Foley: Yes, you have got that much of it.
- H.M.Jr: He says, "Yes, you have got that". (Laughter)
- Foley: Well, I meant how much more do you want? You really don't need a memorandum.
- H.M.Jr: Listen, I am coming up for air after three weeks - all right.
- Gaston: On that same thing: We have a telegram from the Boycott Committee, which assumes we are about to enter into some arrangement with Germany for barter

trade. They have got the thing all twisted, but anyway there is a telegram on it.

H.M.Jr: Get your court straight tomorrow.

Gaston: Yes.

Foley: We checked with Milo Perkins on that subsidy for Belgium linen and there is nothing to it.

H.M.Jr: O. K.

H.M.Jr: How did we do it the other day. I signed it and who handed it to Mack. (Letter signed and handed to Mr. McReynolds). They are not as scared of you, Mack, as they were before when you were associated with the Justices. They are not quite as scared of you any more.

McReynolds: I haven't caught them by-passing me yet, though.

Foley: We have got that memorandum on the obligations that can be issued outside of the debt limit, but until Dan gives us the figures on this it won't mean much.

H.M.Jr: Give it to Dan.

Foley: I have already given it to him. This is the original and I don't see any reason to give it to you until you get the figures.

H.M.Jr: What have you got? (Addressing Mr. Lochhead)

Lochhead: France continued to gain gold at a fairly reasonable rate, taking five or six million dollars every other day. They are buying dollars and asking us to convert the dollars into gold.

H.M.Jr: Where does it go?

Lochhead: Ear-marked in the Federal Reserve Bank.

H.M.Jr: Increasing?

Lochhead: Yes.

H.M.Jr: The last time had about 125 million?

- Lochhead: It is over 160 million, 160 to 170 millions now. They are gaining and that is at the expense of Belgium. They are under considerable pressure. We have had to take some shipments from Belgium and Holland has had to take gold, which in turn comes to us. It results, it seems, in gains on this side.
- H. M. Jr: We will get Herbert Hoover to go back and help Belgium.
- Lochhead: Well, they may need some help before they finish.
- H. M. Jr: You fellows are too young to even remember that.
- Lochhead: Your stock market yesterday was not run by the farmers, as you will notice. That is all.
- White: We ought to send Schmidt down to Paraguay; we have been holding that up a long time.
- H. M. Jr: I am not going to send good men down there. Can't you get one of those 56 economists.
- White: As a matter of fact, one of them was suggested.
- Gaston: I can get you one.
- H. M. Jr: (Laughing) Pass that one around. (A press photo)
- Gaston: That is the one he wants you to autograph?
- H. M. Jr: I think so.
- White: It won't be for long; it will only be for several months.
- H. M. Jr: No, get some fellow.
- Foley: Some punk.
- White: We have another man coming in that we could send down very well.
- H. M. Jr: Schmidt is too good.
- White: We can send Speigel down. He is one of the other boys whom you asked to learn Spanish, and he is well qualified to go down and look the ground over.

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and if we keep in close touch with him so he doesn't make any recommendations he will be all right. Will it be all right to send him down?

H.M.Jr: Yes. I don't know him.

White: Speigel is one of the two boys - he is very able. He had a year at Harvard at the new school and he is due back very soon. Is that all right with you?

H.M.Jr: Yes.

McReynolds: It will be good experience for him.

White: The tax department had hoped to get him but he really belongs to us. I said they could have him if we didn't want him.

H.M.Jr: O. K. Johnnie photographs well these days. (Looking at photograph).

Gaston: I think you really should wait until Johnnie is here to show that so he could make some defense.

H.M.Jr: Well, we will give him a chance.

Foley: I have one of Johnnie that was taken out in Indianapolis that was almost as good as that; he didn't have his eyes open there either.

H.M.Jr: You get these, don't you? (Exhibiting papers)

Bell: Yes.

H.M.Jr: Anything else, Harry?

White: That is all.

H.M.Jr: Are you all right today, Harry?

White: Yes. I haven't heard anybody else around here say anything about it, but there are three people in the division who reported they had severe headaches yesterday afternoon. I thought it might be something about the ventilation system. Anybody else get any reports like that?

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- H.M.Jr: Where were you all Wednesday night? Anybody else in the room have a headache? Harry says three of them had, yesterday, and he wants to know if it was due to the ventilating system.
- McReynolds: Did he say "ventilation" or "irrigation"?
- White: We will have to investigate that.
- Gibbons: Eddie Fussell who used to be here with Herbert Gaston, did something for us out in Seattle.
(Mr. Hanes enters room)
- H.M.Jr: Johnnie, we have been laughing at your expense and I am terribly sorry. Come here old man, you have got to take Exhibit One (referring to photograph).
- McReynolds: They have both been all the way around the room.
- H.M.Jr: And here is Exhibit Two. Steve Gibbons says, "Don't show that to any banker, it will scare him".
- Hanes: This is a fine one, isn't it?
- Foley: Looks like Indianapolis, Johnnie.
- H.M.Jr: I don't want them.
- Hanes: I don't think I do either.
- H.M.Jr: I think the crowd is in a raucous mood this morning. It will take a couple of minutes to catch up. The last remark was that Harry White, in all seriousness, said, "You know three men in my division had a terrible headache; I think there is something the matter with the ventilation system".
- Bell: Did you try opening the windows, Harry?
- White: It is again Mack's rules.
- Gibbons: You remember the theater that was built up where the old Century theater was supposed to be. Two women coming out and one said to the other: "The acoustics are terrible." And the other one said, "I did not smell anything".

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White: I have a lot of stories but I can't tell them now.

McReynolds: Don't let Harry start on stories.

Gibbons: I want you to know that the Treasury employees are functioning. Clinics for addicts have been established in several states and have been tried out in several states, including New York, and it was up to the House and it looked as though it was going to go through. Senator Schwellenbach said he thought it would. I called Ed Fussell and he got a hold of the Speaker and it was killed.

Gaston: I have a letter that came yesterday for you, Steve, on that.

Gibbons: Did a swell job.

H.M.Jr: Dan?

Bell: As I told you yesterday the Agricultural Department is rather anxious to move on this surplus commodity program. We have been over it quite a good deal. We think we can handle the mechanics of it through our disbursing office, but I urged them yesterday to get the Comptroller General in on it, both from a legal standpoint and accounting standpoint because I feel that they are going to just get started good when the Comptroller is going to step into the picture and throw a monkey wrench into the machinery. They don't want to go to the Comptroller because of his decision in the hosiery mill case. They think that decision was clearly political and they are afraid it gives him an opportunity to render another decision. I told them I did not think they could stay away from the Comptroller because of that; that they had to go to him eventually or we would and our disbursing officer would be holding the bag.

H.M.Jr: Well, Wallace called me this morning on it and is calling me again now, and I said I would let him know what I am going to suggest to him. Who is his finance officer?

Bell: Jump is the budget finance officer.

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- H.M.Jr: Is he a good man?
- Bell: Very good. I don't know how much he has been in on this.
- H.M.Jr: Would it be agreeable to you if I tell him that Jump ought to get in touch with you and that we think we should clear this thing first with the Comptroller so as to get the thing going nicely so it would not be blocked and that we will be glad to send somebody over from the Treasury with their people to help them.
- Bell: I believe they would have more success if they went to the Comptroller and said nothing about the Treasury, unless they say that the Treasury suggests the General Accounting Office, because if they go to the Comptroller and say the Treasury approves this, I think the Comptroller will disapprove it.
- H.M.Jr: What do you want me to tell Wallace?
- Bell: I think you should tell me that we feel, over here, it should be cleared through the Comptroller's office before we take any steps.
- H.M.Jr: But as far as we are concerned -
- Bell: I think we can handle the mechanics. It is unusual and I am afraid of the eventual cost. I don't believe they are going to get by with one hundred million dollars under Section 32.
- H.M.Jr: Well, Dan, may I say as to the underlying purposes, there is nothing that comes out of Agriculture with which I am very much pleased or interested, and I am on record back in May or June that they should do something in order to use our surplus crops to feed people who are hungry and clothe people who haven't enough to wear, and that all of the plans which in six years have come out of Agriculture this is the one plan that I think is worth backing.
- Bell: Well, I think that -
- H.M.Jr: This is the one plan that has come to me. Now, we have done a lot of talking here for six years

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about taking care of the one-third and this is the first plan that has come out of Agriculture that interests me. Remember he is only going to start in six cities so you better get the bug out of it first, but we have talked this thing now for almost a year in the Treasury and this is the first time that I have ever seen anything come out of it.

I am told that the Nursing Association here has sixty-nine nurses who go into the homes of poor people who haven't anything to eat - just haven't got anything to eat. They are people who come back from emergency cases at hospitals and they come back and the larder is empty; people who are heads of families of four or five people and there is no food in the place and here we sit around and talk about 15 million bales of cotton; we talk about wheat surplus and this large surplus and that large surplus and we have not done a thing.

This is the first time that anybody has tried to approach it. Now, I want you to know how I feel about it. If he was doing it on a national basis, I would say "no", but this is the first time that Agriculture has not sprung the thing on forty-eight states at one time, so I feel very very deeply about it and I want this to be given a fair trial.

Bell:

Well, I think it has possibilities and there are possibilities of it being extended over the entire country and they will be forced to extend it beyond WPA and relief.

H.K.Jr:

I hope so.

Bell:

I can not see why a man who is trying to maintain a family on, say, \$18 a month and working in a gasoline station should be discriminated against in favor of a WPA man who gets \$40 a month or less on WPA. Now, my criticism of Agriculture is that they never substitute one program for another. It is always supplemental and on top of. I asked them if this thing were to cost three or four or five hundred million dollars if they extend it all the way down the line, wouldn't they be willing to substitute it for the Soil Conservation,

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and they said, "No, that has been suggested and went out the window." I said, "That is the trouble with you fellows, you never think of economizing on one side and taking up something on the other."

H.M.Jr:

I agree with you there but I hope that we are in a transitional period, but during that transitional period, just like this cotton export matter, one hundred million dollars on top of the five hundred million. I am not sure enough of myself yet or of recovery, which I am not sure of at all, that we can at this time suggest to Wallace that if it takes one hundred million to begin, to cut down on eleven or twelve million bales of cotton, which are frozen, that he should take it out of the five hundred million. I am not sure enough of myself and in the fight that we are making for recovery there are so many people in the Administration which are opposed to us, that I have just got to take - I have got to learn how to walk and I think so has the country. I mean, as far as I am concerned and as far as my own responsibilities I never was sure that I am doing is right, but - and I never was more sure that the people - that the millions and millions of people who haven't got enough to eat and haven't got a decent place to live and they haven't got enough clothes on their back, and this is the only suggestion that I have seen since I have been here that appeals to me.

Bell:

I think it is very good.

H.M.Jr:

And the thing that gets me so sore is that here I am, the Secretary of the Treasury, who more or less originated this idea last summer, and if some of the people around who are trying to make us do dirty politics in Florida and that kind of stuff, would concentrate on this thing instead of trying to undercut Hanes and myself and what we are trying to do, I think the whole country would be a great deal better off.

Bell:

That is right.

H.M.Jr:

But I want to let everybody know just where I stand and how I feel on this thing, because Wallace needs all the help he can get. I never saw a fellow whose back is so up against the

wall and at the same time I have never heard - Wallace was at our house and again yesterday at the White House and, incidentally the President suggested after listening to all of the plans, that the Treasury should buy all of the surplus cotton and that then we should peddle it out if, when and how we could. Well, of course, I think that was just a sop to the State Department because Sayre sat there and said if Wallace did what he was going to do it would just wreck the whole trade program and so forth and so on.

Wallace talked to me again this morning and he is pretty much sold on this tax board surplus plan and I am going to go down the line with him on that because, as I told the President, it is costing forty or fifty million dollars a year to carry this cotton and yet people come over from England and go down on their knees saying, "Won't you please sell us some cotton", and it is all tied up in Commodity Credits on the loans. It is the most asinine proposal I ever saw.

White: You made a statement a moment ago that I would like to remark about. You said: "I want everybody to know how I feel." I think everybody should know how you feel about it and I don't think anybody does. I think it is important that the people know about it. Why could not the question be answered at the next Press conference with regard to your attitude toward the Agricultural program. I think it is important for two reasons: It is important for the program and I think it is important for the Treasury and I think it would make some of your other tasks easier.

Gaston: The Secretary did speak about it at a Press conference some months ago when some mention was made of the plan and the Secretary said that he was in favor of any plan that would increase the food quota to the people who needed food.

White: Then there is no harm in repeating that. It is just a thought.

H.M.Jr: I think you are right.

Bell: Well, I have told them that we are prepared to move and we will put all our forces behind the

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experiment to make it a success, to the extent that we participate in it, but I told them I did not think they wanted another hosiery mills proposition.

- H.M.Jr: Who is carrying this in the Treasury Department?
- Bell: Well, so far as the mechanical end, it is carried by Bartelt and myself, upstairs, and the legal end, I believe Bernstein is working on it.
- H.M.Jr: Who personally is watching all the rest of the stuff?
- Bell: Well, they are doing their own contacts but nobody has control of the whole thing.
- H.M.Jr: If it is agreeable to you and Mack, I would like to take Harold Graves and pin this right on to him.
- Bell: It is all right with me.
- H.M.Jr: I would like to pick up Harold Graves and just say that I want him to see this thing through until it is accomplished. Is that all right?
- Bell: All right with me.
- McReynolds: All right.
- H.M.Jr: Is Harold in town?
- McReynolds: Oh, yes.
- H.M.Jr: Just dump this in Harold's lap and say that I want him to pick this up and see it through.
- McReynolds: I don't want him to spend too much time away from revenue until after the first of July, because that thing is really going, you know. You are sort of forgetting it because it is going, but it is pegging every day.
- H.M.Jr: Can he do this in addition?
- McReynolds: I think he can take this over.
- H.M.Jr: I gather that each person is doing a little.

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Bell: I don't think it is lagging in the Treasury at all. They have got so much work to do but we can give it plenty of time.

H.M.Jr: But if I want to press the button and say to somebody, "Who is doing this" who would I send for?

Bell: Well, it all depends on who you want. I think we can give you the story any time.

H.M.Jr: I want somebody that is going to watch this and somebody watch that and tie the whole thing up - some one person.

Bell: Well, I think Harold Graves can do it.

McReynolds: Well, Harold, of course, will do it. He will see that the thing is under way and that nothing is forgotten.

H.M.Jr: Let Harold do it, will you, Mack?

McReynolds: Yes.

H.M.Jr: Now, let us get Wallace on the telephone.

White: By the way, Mr. Heath has been in our office and spoken to everybody - we have talked to him.

H.M.Jr: When does he sail - next week?

White: Saturday is when he would like to sail.

H.M.Jr: O. K.

White: He has his stuff ready.

H.M.Jr: Ten-fifteen tomorrow morning. (addressing Mrs. Klotz)
Let him sit in on the ten o'clock meeting.

White: He does not know much about it.

H.M.Jr: Let him sit in on the ten o'clock meeting tomorrow morning, and he can stay afterwards, you see.

White: But would he know what the boys went over there for. They might not want to go into detail

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H.M.Jr: (On telephone with Mr. Henry A. Wallace) Hello.

Wallace: Henry, I was just talking with Senator Ellender.

H.M.Jr: Yes?

Wallace: I had occasion to call him about another thing and he was at this conference yesterday morning.

H.M.Jr: Yes.

Wallace: I asked him what he thought this - how he judged the sentiment among the various people at the conference.

H.M.Jr: Yes.

Wallace: There were the "key" people on both the House and Senate side, and I presented the same material then, although in much greater detail than at yesterday afternoon.

H.M.Jr: Yes.

Wallace: And he said that it could be swung either for plan No. 1 or plan No. 3.

H.M.Jr: Three is the Export plan.

Wallace: That's either the Smith plan or the Export plan, according to the leadership the Administration gave.

H.M.Jr: Yes.

Wallace: And he thought if there was any tip-off as to the attitude of the Administration at the present time, that it would swing it.

H.M.Jr: Yes.

Wallace: He says they're having a meeting on it this morning and will be having further meetings.

H.M.Jr: Yes.

Wallace: And I'm inclined to think --

H.M.Jr: Yes.

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Wallace: In view of what he says -

H.M.Jr: Yes.

Wallace: That provided you're convinced as to where the President stands, that it would serve very much to clear the matter, if you would give the lead that you indicated earlier this morning.

H.M.Jr: Well, I'm not convinced a hundred per cent, but certainly from the talk I had with him Monday and the way he talked yesterday, I - I would say that he favors selling this cotton at a price in the world market.

Wallace: If the choice is merely between one and three, I'm convinced from - I stopped just a moment at the close there - I'm convinced he's against one because of -

H.M.Jr: Definitely!

Wallace: Because of the danger of the pyramiding costs.

H.M.Jr: That's right.

Wallace: So I would say - I don't - he didn't give any very great consideration to two. Ellender assures me that because of the cotton mill opposition that two has no chance at the present time.

H.M.Jr: Well Henry, purely on my own, I'm willing to indicate where I stand.

Wallace: Well, if you're willing - if you're willing to do it.

H.M.Jr: Yes.

Wallace: If you're willing to do it at the present time it would be Ellender's judgment, and I'm inclined to think he's accurate - well, I didn't mention to him about you at all, of course - I was just asking him - well, he volunteered that if the Administration gave him a positive lead, either with respect to one or with respect to three, that it would be determining.

H.M.Jr: O. K. Well -

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- Wallace: So if you - I don't know how our other friends will feel, but if you feel - as far as I'm concerned, if you want to go ahead and give that lead now, I'm inclined to think it will help.
- H.M.Jr: Well listen, what I want to do is this - I mean, the next few months, if we could get the south - if they knew where they were headed and what the price of cotton was going to be, and the future for cotton, certainly they can settle down and go to work.
- Wallace: Yes, that's right.
- H.M.Jr: And it's an enormous percentage of our population, and if I can help you in bringing that about, I want to do it, see?
- Wallace: Yes.
- H.M.Jr: Now, I've just been talking with Bell and as far as the Treasury is concerned in your Orange and Blue plan - mechanics and everything else, we'll be ready.
- Wallace: Fine.
- H.M.Jr: But Bell thinks that it's very important that this thing be brought to the attention of the Comptroller General, before you start, because otherwise he's very fearful that for one reason or another the Comptroller may, after you've started, kill this plan, and I don't want it killed.
- Wallace: I'm wondering, Henry, you know - you may remember some conversations we've had about a certain gentlemen from New Hampshire -
- H.M.Jr: No, not with me.
- Wallace: I mean that's been brought up on certain meetings.
- H.M.Jr: Oh, yes.
- Wallace: I'm wondering, in view of that, if the concern - you know this present gentleman is sometimes politically minded.
- H.M.Jr: Yes. Well, let me tell you -

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Wallace: It seems to me that there is a - that means, of course, that if we do that - I tell you, we've got - we've got here - we have a favorable opinion from our own solicitor, and in view of the prospects for the future - in view of the fact that we do have a clearance here from our own solicitor, I wonder if we aren't safe in going ahead?

H.M.Jr: Well, as I get it from Bell, he's afraid that our boys will be holding the bag. It's our disbursing offices.

Wallace: Oh!

H.M.Jr: Now, I want to tell you. I'm so much interested in this plan I'll do something I've only done once before in my life. I'll go over to see the Acting Comptroller General myself with your people. I'm willing to do that.

Wallace: To speed it along?

H.M.Jr: What's that?

Wallace: Would that enable us to get the green light by early next week?

H.M.Jr: Well, I'm willing to make an appointment to see him at once and ask him - tell him I think if you and I, and our two lawyers, went over and called on him, with Mr. Bell, that it would impress him and at least we'd know where we are and we'd ask him for an opinion by not later than Monday.

Wallace: All right, sir, will you do that?

H.M.Jr: Well, I think it's your -

Wallace: All right.

H.M.Jr: Task, and I'm - if you want to ask him if he'd see us at eleven tomorrow morning - hello?

Wallace: All right.

H.M.Jr: And I'll have Ed Foley get in touch with your solicitor so he can be brought up to date.

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Wallace: Fine.

H.M.Jr: But I think if you and I marched over there and Bell goes with us, and call on this fellow and say this is a matter - impress upon him the great needs in what you want to do, and say, "Can we have an answer Monday?" you -

Wallace: Above everything, the support of the trade.

H.M.Jr: Pardon?

Wallace: And indicate to him the great support of the trade.

H.M.Jr: Then you'll know where you're at. And inasmuch as our boys - I think it's handled through our disbursing offices, I think we ought to have it.

Wallace: All right. We'll do it.

H.M.Jr: And if you want to make it at eleven, I'll march over there with you.

Wallace: Well, much obliged.

H.M.Jr: O.K.

Wallace: All right.

H.M.Jr: Goodbye.

Bell: Give out the plans and get the head lines and then the Comptroller turns it down. If you do it beforehand, he hasn't got a chance.

H.M.Jr: I can't do anything more.

McReynolds: Much more effective than anything else.

H.M.Jr: We have done it once before.

McReynolds: Down on Farm Credit.

H.M.Jr: I thought it was -

McReynolds: Maybe you did when I wasn't there.

H.M.Jr: O.K.

(Meeting concluded)

March 10, 1939.
10:07 a.m.

HMJr: Hello.

Operator: The Attorney General. Go ahead.

HMJr: Hello.

Frank
Murphy: Hello.

HMJr: Hello, Frank.

M: Yes.

HMJr: Henry Morgenthau.

M: Yes, Henry.

HMJr: How are you?

M: Fine, thank you.

HMJr: Frank, I talked to you sometime ago about this Treasury decision which has been held up for four months.

M: Yes.

HMJr: On countervailing duties --

M: Yes.

HMJr: Coming in from Germany.

M: Yes.

HMJr: And I spoke to the President about it a month ago and then I talked to him about it again Monday.

M: Yes.

HMJr: And I left a memorandum with him, and he left me under the impression that he was going to ask you for an opinion.

M: Yes.

HMJr: I don't know whether he's done it or not.

M: Yes, he made some reference to it, but I don't think the documents have been referred to me.

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HMJr: Well then, if you don't mind, I think I'll bring it up at Cabinet. Is that all right?

M: Well, I -- I think it is.

HMJr: The documents are over in your shop and have been there for four months.

M: Are over where?

HMJr: In your place.

M: Yes.

HMJr: I'd rather not bring it up at Cabinet. Welles said he was going to bring it up.

M: Well now, look here, what is it that is wanted. An opinion from this office?

HMJr: Yes.

M: Right away.

HMJr: Yes.

M: Well, you can have that without bringing it up. I'll get right at it and see that -- well, -- something's done about it.

HMJr: Well, I -- very much off the record, Homer Cummings told me that it had been prepared months ago.

M: Uh-huh.

HMJr: And that it was a favorable opinion.

M: Yeah.

HMJr: But that the State Department had asked to hold it up.

M: Yeah.

HMJr: See? Now, I talked to the President and he left me under the impression that he would say, "Go ahead now."

M: Uh-huh.

HMJr: And -- because I've got three Congressmen who have written me now, putting me on the spot and I've just got to carry out the law.

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M: Certainly.

HMJr: Now, it would be enormously helpful to me, in this particular instance, for reasons which are obvious, in getting out the ruling if I could back it up with the Attorney General's opinion.

M: Well, Henry, I feel happy about that. Leave it with me for a day or two.

HMJr: Well, that -- that's --

M: And I'll get a report to you.

HMJr: Well, it'll go -- it'll flow from you to the President, won't it?

M: Yes.

HMJr: Right?

M: Yes, but I'll keep you advised.

HMJr: Well, I'd appreciate it, because after all, this is what I told Sumner Weller. I can't be put in a position to consider whether it's a good time or a bad time to enforce the law.

M: Yes.

HMJr: And as far as I'm concerned, there is no good time or bad time, and our people say the law is being broken in this instance, and I want to enforce it, and I don't want the Republicans to force my hand and make me do it.

M: Yes.

HMJr: And that's what's going to happen.

M: Well, you're right about it.

HMJr: Now I -- I say, I got the impression when I left this memorandum -- that the President would -- would -- now ask for it, and of course -- and I explained the situation and I got definite feeling that -- that he was ready to go to town on it.

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M: Well, I think it will be unnecessary -- I have no objection to your bringing it up, but I think it will be unnecessary. From this talk with you I can get it cleared, I think, satisfactorily.

HMJr: Well, I won't bring it up. Now, Welles may.

M: Yes.

HMJr: See? I -- I won't bring it up, but Welles may.

M: All right, Henry.

HMJr: O. K.

M: Good bye.

March 10, 1939.
10:34 a.m.

HMJr: Hello.

Operator: Mr. Krock.

HMJr: Hello.

Arthur
Krock: Yes, sir.

HMJr: Henry Morgenthau, Jr.

K: Yes, sir.

HMJr: How are you?

K: I'm pretty well.

HMJr: Well, you gave me a good breakfast this morning in your column.

K: Well, I'm glad of that because I like what you're doing.

HMJr: Johnny Hanes is sitting here across the desk and I told him that he didn't have to do that; that I could take it, I think, better than he can.

K: Well, he was -- it wasn't on that basis of his having to do it. I just thought that it was a good idea to give some clue of how small some things are in Washington.

HMJr: I agree with you there. They're damn small, but I meant that -- oh, if they don't like my blue sign I can take it better than Johnny can.

K: That's all right. You've had a little more experience in that than he has.

HMJr: Yeah, and I'm used to them.

K: Well, I -- I thought it was useful just to -- as an illustration of how things go, don't you know?

HMJr: Well, I think it's very useful, and -- and well, everything in Washington -- all these things are -- are small in the attitude of the people, but they have tremendous repercussions.

- 2 -

K: Yes they have. Well, I just did it on that ground because I wanted to help you if I could.

HMJr: Well that's very nice, and we're fairly cheerful around here.

K: That's good. I'm glad to hear it.

HMJr: Well, thank you again.

K: All right, sir.

HMJr: Good bye.

March 10, 1939.
4:29 p.m.

Operator: Norman Davis.

HMJr: Yes.

Norman
Davis:

Oh, Henry, this is Norman Davis. I tell you, there was a man in to see me I've known for many years -- Douglas Clench, from New York. He's been up testifying before the Coinage Committee on the extension of the powers of the President to devalue.

HMJr: Yeah.

D: And he testified in favor of it.

HMJr: Yeah.

D: Very strongly.

HMJr: Yes.

D: He's a queer sort of a fellow. He's a great -- great student of these problems. He's dealt in securities; he's never been a great financial success except he always keeps going, but he's done an awful lot of thinking on this, and I think probably from what he told me, his testimony would be very helpful.

HMJr: Fine.

D: And he told me though -- he said that he'd be very glad indeed to -- if I thought it would be worth while, to go and call on you.

HMJr: Well now, I'd love to see him, but I'm leaving in three minutes for Chicago.

D: Well then now, that settles that. What about his seeing John Hanes? That's just a question of whether it's -- as a matter of policy.

HMJr: I think it would be fine.

D: Well, now --

HMJr: Let me switch you over to Johnny, may I?

D: That's right -- yeah.

HMJr: It's just a minute and you can hear what I say, see?

D: All right.

HMJr: Just a moment.

Operator: Operator.

HMJr: Will you keep Mr. Norman Davis on the wire while I talk to Mr. Hanes a minute, please?

O: All right. Just a moment.

HMJr: Thank you.

March 10, 1939

I spent about three quarters of an hour with Wallace to-day and he is with me 100%. Wallace told me that Senator Gillette told him that they are working against him (Wallace) in Iowa; that Hopkins is trying to establish Iowa as his home state and that they are undermining Wallace there. Wallace asked me did I think the President was doing it and I said no. I explained to him my philosophy and what I am trying to do on recovery. He agreed with me. I said, "The so-called New Dealers, the Cochrans and the Cohens are fighting me and, frankly, it would be very helpful to me if you would say something that I am helping you on this "food-stuffs" so that they do not think I am just interested in taxes." He said he would do it on Monday when he addressed the grocers.

He told me that right now Hugh Johnson told him that Harry Hopkins is down with Berney Baruch in North or South Carolina.

He also, at my suggestion, is going to get the farm leaders for lunch and let me talk to them and tell them what I am trying to do.

March 10, 1939

Saw Steve Early about a quarter to four and suggested to him, in connection with the President's letter which he was to send on the Hill suggesting a committee to study economy, that when he saw the leaders Monday morning that he ask, before the letter goes up, who they would put on the committee to assure himself he would not get the committee loaded with Harry Byrd and his friends.

Early said, "That's a swell suggestion but can you trust the Vice-President?" I said, "I think you can. He has always kept his word with you. What do you think?" He said, "Well I think he would keep his word but just now with the feeling between the President and the Vice-President, I don't know how the President would feel about it". I said, "That's O.K., but the President told Pat Harrison he would send it up to the Hill but it would be well if the President can get a list from the Vice-President and the Speaker before the letter goes up - otherwise the Vice-President would blame him if he does not take action.

Diary

March 10, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



Before the President's Press Conference this morning I delivered to Steve Early a copy of the proposed letter to go to the Vice President and the Speaker. I told him you thought it important that the President should not be drawn into any discussion in the Press Conference of amounts that might be saved, especially that he should not try to minimize the possibilities of saving. Steve said he thought you were one hundred per cent right and said he himself had dissuaded the President from making any comment at Tuesday's conference on the economy move.

After reading the proposed letter he said he was afraid of what might happen if the President voluntarily put this power in the hands of Congress. He thought Garner might appoint Harry Byrd, for instance, Chairman of the Commission and the result might be a report that it would ruin the administration. I replied to that that there would be several restraining influences. In the first place I thought that Pat Harrison was in a mood where he could be won over to some degree of cooperation if he thought the administration was sincere in wanting to cooperate with him. Also I said that by putting this thing in the lap of Congress the President would be challenging them to lay their fingers on the particular items in the Budget that they would reduce. In such a situation neither Byrd nor anybody else could get by with general denunciation of the administration's spending policies. He would have to pick out specific items for reduction and if he did that he would be putting himself on the spot just as much as the administration. I thought that the necessity for being specific would exercise a lot of restraint on members of Congress who might be named to the Commission. Steve then said that he would advise the President to stay away from this subject in the Press Conference and would give him the letter to consider. He felt sure the President would want to think out all angles of it and wouldn't want to act hastily.

I added that if the President should decide not to use the letter he might at any rate take some occasion in ~~the~~ Press Conference to call attention to the fact that the power of the purse is and always has been in the hands of Congress and that he specifically suggested to Congress in two annual messages that they create some planning authority with respect to recovery spending and that of course he was always willing to accept their help and suggestions.

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My dear Mr. Speaker:

In my address to the Congress on the state of the Nation on January 4 of this year I referred, as I had in a previous message, to the need for systematic planning of government expenditures, and I suggested the creation by the Congress of an agency which would be "authorized to report on the urgency and desirability of the various types of government investment."

In using the word "investment" I was speaking in a broad sense of all those expenditures outside the ordinary operating expenditures of the government which we have been making in the last few years for the relief of our citizens and for the definite purpose of promoting recovery and promoting the well-being of all our citizens.

As to that type of expenditures I made the statement: "Investment for prosperity can be made in a democracy."

I think our experience of the last few years amply demonstrates the truth of that statement. But it is equally true, I believe, as I said in that message, that "Investing soundly must preclude spending wastefully."

We need to assure ourselves by constant examination of our expenditures that all of those we make for the purpose of promoting recovery are in fact "investments for prosperity." It was for that sort of examination that I sought the help of the Congress.

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Recent statements by thoughtful and influential members of the Senate and the House of Representatives lead me to believe that the Congress desires to extend that cooperation.

The recommendation in my annual message was for a permanent planning agency. As an immediate practical step in the same direction, however, I now suggest the creation by the Congress of a temporary commission to review past and proposed expenditures of the government and to report to the President and the Congress. Such a commission, I believe, ought to consist of representatives of both the executive and legislative branches of the government and private citizens as well.

I recommend further that the Congress provide an appropriation of \$50,000 for the necessary expenses of the commission.

I hope that the Congress will give immediate consideration to this recommendation.

Sincerely,

GROUP MEETING

March 10, 1939.
9:30 A. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. Hanes
Mr. Gibbons
Mr. McReynolds
Mr. Haas
Mr. Duffield
Mr. Lochhead
Mr. Foley
Mr. White
Mr. Gaston
Mr. Bell
Mrs. Klotz

H.M.Jr: I just want to say to get started "Good morning everybody". I understand Mr. Gaston is going to take a leave of absence. He is going to write editorials for Hearst from now on and here is the sample that got him this job.

Gaston: I want to amend that one; I will tell you later how to amend it.

H.M.Jr: This is very much in staff here. Don't let anybody breathe this to a living soul. (reading document prepared by Mr. Gaston)

Now, if that is not a nifty I never saw one.

Incidentally, I talked just now to Steve and I am begging him not to let the President get into the ten per cent business at the present conference and say that he can only save seventy millions, because Dan, a conservative cuss, says you can save four hundred million. The President will say seventy million and somebody else will say five hundred or six hundred million. I said "just skip that and go right to this", and Steve said he would do the best he could. I said, "skip the whole ten per cent business". Isn't that a peach.

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- Bell: Yes, I would like to suggest that private citizens be left off the committee. And I would like to see whether or not the President could not suggest a deadline for report.
- H.M.Jr: No, if you don't mind my differing with you. I want a couple of private citizens.
- Bell: You do?
- H.M.Jr: Yes. I think if the President put on a fellow like Averill Harriman, for instance, it would be swell, somebody of that type or, Ed Stitinius or Gerard Swope or somebody like that - why not.
- Gaston: Then we better get a couple of financiers and a couple of labor union men - labor-farmers.
- Bell: I think they would make better witnesses than members of the committee. That is my point.
- H.M.Jr: Well, this is the result of two hours yesterday. I think it is pretty good considering what we went through.
- Bell: Yes, I think so.
- H.M.Jr: If he sends that I will be very happy. I will send it over with a bunch of lilies to Marriner Eccles.
- Incidentally if you want to be good and mad, read Kent today.
- McReynolds: Waesche just called me. The Senate, at the instance of Barkley, at the last minute, when they were passing this defense bill, added a proviso that in letting contracts for any department head, letting a contract to spend money for national defense, they should exclude any contractor who was unfair to labor, going into considerable detail. Now, the military people are doing everything they can to stop it. He said they had asked him to cooperate with them on it and I told him not to do anything until I cleared it here. My opinion is that he and everybody else should cooperate on it and get it out because it makes every department head share the duties of the Department of Labor and National Labor Relations Board. It is spreading the job too damned far.

H.M.Jr: I would not touch it, I would just let it ride.

Gibbons: It is on the front page this morning.

McReynolds: You don't want me to look into it.

H.M.Jr: No, I would not touch it.

McReynolds: I told him not to touch it.

Gibbons: The Senate has put back the planes.

H.M.Jr: I mean if somebody came in and said, "Don't you want the Treasury to have its contractors be fair to labor", the answer is, "one hundred per cent, yes". Who asked us to try that.

McReynolds: Well, the War and Navy, of course, are trying to get it out. They don't want to have -

H.M.Jr: No.

McReynolds: Of course, it is in conference.

H.M.Jr: I am willing to accept my share of the responsibility

McReynolds: That means that you have got a basis of appeal on every contract that you let from the unsuccessful bidder, that the fellow who gets the contract is unfair to labor. The question of determining that is not our job - it is the National Labor Relations Board.

H.M.Jr: Let us be neutral on that.

McReynolds: O.K, we will be neutral.

H.M.Jr: Keep our hands off of it. Waesche?

McReynolds: Yes.

H.M.Jr: You bet your life.

McReynolds: That is all I have.

H.M.Jr: Dan?

Bell: Is that appointment on, this morning, for eleven-thirty?

H.M.Jr: Yea.

Bell: I find I have a hearing with the Governor of the Panama Canal Zone. I wonder if you will need me.

H.M.Jr: No, I think if you have Graves and Foley.

Bell: That is all right with me. If you want the Treasury mechanics, Bartell can go.

H.M.Jr: Is he a mechanic?

Bell: There are a lot of mechanics in handling it. He has been here three or four days working on the national defense program.

H.M.Jr: Who?

Bell: General Ridley, and I promised him today -

H.M.Jr: Have Bartell and Graves and Foley here, Wallace wants to pick me up. He is going to talk to me about cotton.

McReynolds: Graves and Bartell spent a couple of hours with Eddie yesterday. Those people are on the thing and I think as far as the mechanics of this particular thing is concerned, that Harold - I don't think it is necessary for Eddie to put in his time. I think Graves knows everything he has got. It is nice to have Eddie.

H.M.Jr: Bell suggested it so I would take him along.

Bell: It is all right with me. I thought you would want somebody from that end.

H.M.Jr: I think it would be very helpful.

Bell: That is all I have.

H.M.Jr: Will you, Dan, now, begin to pick up the various financing things because I am going to rely on you on that entirely and will you, Mack, write a letter for me to all of the agencies that have anything to do with floating issues and say that from now on that any matter that they want to consult the Treasury on, will they please take it up with Mr. Bell.

McReynolds: Yes.

H.M.Jr: That is on financing. Check?

Hanes: Yes.

H.M.Jr: And that includes the Federal Reserve. Is that all right.

Bell: Yes, that is all right.

McReynolds: How about representation of that corporation - farm credit.

H.M.Jr: My feeling is no. If they want to see us, let them come over and consult us.

McReynolds: Well, they have in that corporation a vacancy and they can not pass any resolutions. We will let Dan do what he wants.

Bell: Is it necessary for the Secretary to appoint somebody under the Statute?

McReynolds: That is what he told me yesterday.

H.M.Jr: I will leave it entirely in Dan's hands. The question of selling issues by independent agencies, shall go to Dan. Now, Dan, I see that the first issue we got you talked to me about is the 40-43, coming due. We have got some fifteen million dollars worth of those of 3-3/8 -- 42 and 43.

Bell: I don't know what you are looking at.

H.M.Jr: Fifteen million of them.

Bell: These are trust funds.

H.M.Jr: Postal savings.

Bell: Yes. They are callable in '40 and mature in '43.

H.M.Jr: Well, the chances are they will be called. I thought it was your suggestion to sell those and place them with two per cent.

Bell: No, my suggestion was that we sell out some of the intermediate bonds for the moment and then later we would sell, say, the 3 1/2 of '41 to take up the premium.

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H.M.Jr: Well, if you will get up a memorandum on that.

Bell: All right.

H.M.Jr: Now, what you gave the President yesterday was not what he wanted. I got it back here now. What he would like to have, if you could give me this Monday - you check me. What he wants is how soon, at the rate that we are going, will we reach the thirty billion dollar limit on the bonds. When the President asked me I said that we would reach it early next January or February.

Bell: That is right.

H.M.Jr: But could you -

Bell: Yes, I will have to make an estimate on it. It depends on what we do in the refunding the next six months.

H.M.Jr: I would go on the basis of the last one, that we will throw everything into bonds.

Bell: My estimate there assumed that about two-thirds of the issue would go into bonds.

H.M.Jr: Did you show that here?

Bell: Well, it shows as a total on the year; does not show by months, but I took two-thirds of the total.

H.M.Jr: Well, put it this way: Taking two thirds of the total going into bonds when would we reach the thirty billion dollar limit. Could I have that Monday?

Bell: Yes.

H.M.Jr: (Addressing Mrs. Klotz) I showed this to the President and he returned it. You keep it.

Another thing that is important. In my conversation with Dr. Aranha yesterday, I said: "Now, Mr. Aranha, we are changing these also on the Central Bank and it is up to us to get the authorization from Congress. When do you want me to do this". And he said, "No hurry, no hurry". He said, "I will

send a man from Brazil particularly to do this and I will appreciate it if you do nothing until this man arrives". I said, "It will take a month to get it through the Congress". He said, "I understand, but I want to see how the other things work and see what happens", and he said "I would appreciate it if you would wait until you hear from me". So I said "All right". And, of course, that is very important. I made it very plain, but he said "No, I will send a man up", and I said, "Is it to be your financial attache", and he said, "No, I will send a special man and we will see how this thing works, and please don't make any move until you hear from me", so that is perfect.

Have you anything further, Dan?

Bell: Nothing.

H.M.Jr: Gibbons?

Gibbons: Nothing.

White: Nothing.

Lochhead: Exchanges are all quiet - nothing unusual.

Foley: I have that stuff on the countervailing duties.

H.M.Jr: Well, we will do that right after this meeting.

Haas: I have nothing, sir.

Duffield: With the Reorganization Bill half way through the House and with it in its present form, so that it can effect bank examining agencies, with your permission I would like to suggest that instead of trying to draft a bill on bank examining agencies that you originally suggested, that we think of trying to draft an executive order, having in mind that perhaps other agencies interested in bank examinations and their consolidation, will draft executive orders. Do you remember you suggested it one time that we tried to get together just to look at it inside here.

H.M.Jr: That is all right. Get it out and Hanes and I will take a look at it. You better work with McReynolds on that.

Duffield: Yes, I know.

H.M.Jr: Fine.

McReynolds: Just so we will be ready on it in the event legislation does pass.

H.M.Jr: Dan, could I sell some T.V.A. bonds if I wanted to under the present law.

Bell: Yes, it is confined to certain kinds of works and they are in here now discussing that proposition.

H.M.Jr: How are they going to get that 80 million dollars?

Bell: That is what they are discussing. You see the trouble with the present Act is it has two sections under which they can issue bonds for certain specific purposes. What they are trying to do is find some bill in Congress so that they can attach a rider to combine the two sections giving them that authority. If we can get legislation before May 15, they ought to offer somewhere in the neighborhood of 90 million dollars in bonds.

Duffield: I think they are just going to come in here on the assumption that they put these bonds out and if they don't service them that is somebody else's hard luck.

Bell: No, I think the revenues from the T.V.A. will take care of 100 million; they are getting in about ten million in revenue and they are -

Duffield: But they plow it all back in.

Bell: That would be true of the period of construction of any project.

H.M.Jr: I got the impression in talking to the President that he is definitely in sympathy in having the Federal Power Commission act as engineers.

Bell: Well, I was not in on the conference in Mr. Hanes' office -

H.M.Jr: Well, there is a memorandum on it.

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- Hanes: That is what seemed to cause a good deal of friction among the other agencies.
- Foley: They will never give in to allowing the Federal Power Commission to have anything to do with their revenues unless you beat them right into the ground.
- H.M.Jr: Will you see that Bell gets a copy of the Hanes memorandum.
- Hanes: Yes.
- H.M.Jr: I gathered the President was in sympathy. While we are talking about it, Wallace tried to get me last night. He was terrifically upset because it seems the so-called Smith plan, cotton plan is out and then when he talked to the President yesterday the President talked to him until two o'clock. I was so tired I could not get it, but Wallace was in and the cotton thing was switched because Mr. Hull objected so strenuously.
- Hanes: The Smith Bill you mean, that has been reported out favorably.
- H.M.Jr: Out of committee.
- Hanes: A five cent a pound straight subsidy.
- H.M.Jr: Wallace said by the time you extend it to other commodities, which they will, it will cost two billion.
- Gibbons: Annually?
- H.M.Jr: Yes, annually. There is something for Mr. Harrison to put his teeth in.
- Hanes: Yes, Harrison has a good field there.
- H.M.Jr: It does not start until after sixty-five.
- Gibbons: Starts with the boll weevil.
- H.M.Jr: Have you anything?
- Bell: That was the best friend the Treasury Department had - the boll weevil.

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H.M.Jr: Maybe we could breed a few.

Gaston: I have nothing.

H.M.Jr: Now on this countervailing duty, you are in on that, from the Customs.

Gibbons: Yes, but I have not seen any of the letters yet.

H.M.Jr: White and Foley, I would like you and Hanes to be here, and Gaston.

(Meeting concluded)

March 10, 1939

Mr. Bell: We have in Postal Savings account \$25,000,000 of the 3-1/4%-1941 bonds and they cost us about 100-7/8 and we can sell them today for 107-11/32. That's at noon. I take it they are up this afternoon, so we get a profit of about 5-1/2, almost 6, and FDIC owns \$11,500,000 of them. Their profit cannot be so much because they have them on the books at 101-3/8, but I think we could sell \$10,000,000 of Postal Savings now and next week talk to FDIC.

HM, Jr: What I would say is \$5,000,000 Saturday and \$5,000,000 Monday.

Mr. Bell: We haven't these bonds in New York. They are down with the Treasurer of the United States, so I have to say in the telegram, "for sale and delivery Tuesday."

HM, Jr: That's all right.

(At this point, HM, Jr placed a phone call for Mr. Sproul, Federal Reserve Bank of New York.)

I am going to see if I can't get the Fed -- they have to take the edge off the market. I don't know whether they will or not.

Mr. Bell: Why don't they do something to let their portfolio run off a little?

HM, Jr: How much cash do you think we will pick up on our refunding?

Mr. Bell: About \$25,000,000.

HM, Jr: The President said at Cabinet, "Well, I guess the reason your issue went so well, you priced it too easily." I said, "No, the reason is because they have so much confidence in your Administration."

Mr. Bell: You should have said the Treasury.

HM, Jr: I get awfully sick and tired of having him tell me always that we price them wrong. I think it was priced exactly right.

(Secretary could not reach Mr. Sproul, so placed a call for Mr. Ransom.)

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Mr. Bell: On your premium, we are having a little difficulty with the Comptroller, because premium on a bond is nothing but a reduction in the coupon rate and he won't recognize that. He says that that premium has to go into the Treasury as Miscellaneous Receipts. I say it ought to go into the Treasury as interest and reduce the interest cost.

HM, Jr: How about starting this on Monday. I don't want the sales to be made until Monday.

(At this point, HM, Jr spoke to Mr. Ransom and copy of their conversation is attached.)

oOo-oOo

March 10, 1939.
4:23 p.m.

HMJr: (Aside - Just a minute). Hello.

Operator: Mr. Ransom.

HMJr: Hello.

Ronald
Ransom: Hello, Mr. Secretary.

HMJr: How are you?

R: Fine, thank you.

HMJr: Ronald --

R: Yes, sir.

HMJr: Bell and I are going to place an order in New York to
sell ten million dollars of '41 -- 1941 bonds, see?

R: Ten million of '41.

HMJr: Yeah.

R: Yes.

HMJr: Now the reason we're doing it is, as you know, this
bond market is just running away.

R: Yes.

HMJr: And I sincerely hope that the Federal Reserve System
will take into consideration doing something along the
same line, because this thing is just getting out of
hand.

R: Well it does look like it's^a pretty sloppy market, isn't
it?

HMJr: Well, I mean, it just goes up a half a point at a time,
and I -- we're going to put an order in with the State
of New York to begin to sell ten million of 1941 bonds
on Monday.

R: Yes.

HMJr: And I really wish that the Fed. -- after all this ought
to be a two-way proposition in the sense that -- well,
I think that the Fed. ought to take cognizance of the
fact that this market is just a runaway market.

- R: May -- may I ask you if you had an opportunity to give any thought to the situation we found ourselves in when we let our portfolio run off? I have been myself disturbed about that, and -- as well as disturbed about the Government bond market, which of course is a matter of concern when it's behaving as it has been recently behaving.
- HMJr: Well, what will happen if you let it run off?
- R: If we let our portfolio run off, we thereby, as a by-product of course, decrease excess reserves.
- HMJr: Well, we could do something to offset that.
- R: All right. Now, what can we do?
- HMJr: Well, there's a number. Well, if -- if three billion excess reserve is worrying you and you want to keep it there, there are a number of moves that we could make to -- to offset that.
- R: Well, that's an interesting thought. It isn't worrying me at all, as a matter of fact, you know -- you know that --
- HMJr: We can rearrange our deposits.
- R: Yes.
- HMJr: And -- and we can -- I don't know, put to it, we can do things to offset -- with gold I think we can offset some of those things.
- R: You see when we acted together in regard to this desterilization and our reduction of reserve requirements, I think all of us felt pretty much as if that was more or less an idle gesture, but it was part of a program of the Administration which we were trying to further if we could.
- HMJr: Well I'm sure, and now that Bell is on his way back again and taking hold -- he's sitting here with me --
- R: Yes.
- HMJr: And I've got the loudspeaker on.
- R: Yes.

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- HMJr: We can make readjustments, and I'm sure if -- if you would think about it and talk to them, that we could make adjustments if you sold ten million.
- R: Yes.
- HMJr: And that -- that we could make a countermove, if that's what you wanted, to hold the -- to increase the excess reserve by ten. I'd even use silver certificates.
- R: All right, sir.
- HMJr: Now --
- R: You interest me, because I -- in December when the open market committee voted not -- to let its bills run off if you couldn't replace without paying a premium rather than going into the bond market, I voted "No", and I expect I was perhaps the most positive --
- HMJr: Well, now --
- R: Of the Board on -- with any on it, and my whole feeling was that we seemed to me to be first putting up reserve requirements and then lowering them, and --
- HMJr: Pardon me -- Dan says that we could sell bills on credit.
- R: The Treasury could?
- HMJr: Yeah. That would -- that would increase the reserve.
- R: Yes.
- HMJr: I think that if you would take it up using Dan Bell, that we could offset it.
- R: Yes.
- HMJr: And I think that we are subjecting both of our organizations to criticism if we let this bond market run away without doing something.
- R: You're suggesting a line of thought to me which hadn't occurred to me and I think is very important and well worth exploration, and I'll start in and explore it right now with our people, if I may.
- HMJr: And you think maybe by Monday you can have something?

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R: I can certainly call you back Monday and tell you what -- what we can do.

HMJr: And my thought was if we sell ten million of bonds that you might do the same.

R: Yes.

HMJr: And we'll go along as long as we -- we don't have an unlimited amount, but we can dig up seventy-five to a hundred million dollars if we could sell.

R: Yes.

HMJr: Now if you fellows would do the same, and we could find a way to offset decreased reserve --

R: Yes.

HMJr: Why it might be a nice picture.

R: Yes. Well, we've played that sort of a team -- game on them before, you know.

HMJr: I know, you and I have been able to play together.

R: All right, Mr. Secretary. I'll take it up at once and see what we can do on it.

HMJr: Thanks.

R: All right.

REB

SPECIAL GRAY

Paris

Dated March 10, 1939

Rec'd 1:20 p. m.

Secretary of State,
Washington.

449, March 10, 3 p. m.

FROM COCHRAN.

Chase has official dollar buying orders today and getting a few on a quiet market. Lazards sold dollars importantly yesterday. Gold holdings of French stabilization fund passed 19,500,000,000 francs yesterday. Belga being held today without much cost. Dutch florin has tended to move sympathetically with belga last few days. Amsterdam, Zurich and London report increased demand for gold coins which is believed to emanate from Belgium. Banks in Northern France also report signs of capital movement out of Belgium.

Question of war risk insurance increases complexity of gold shipment business since 750,000 pounds is the maximum war risk insurance per vessel that Paris American banks can get on gold shipped from London to the United States and some vessels are barred entirely.

BULLITT

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 10, 1939, 4 p.m.

NO.: 450

Today Ambassador Kennedy and I had lunch with Paul Reynaud. In the course of the conversation Reynaud said that approximately 100,000,000 francs gold were being gained each day by the French. He showed great optimism about the financial situation, and believed that the outlook economically was most encouraging. He expected that a boom would take place in France if the crisis which was expected this Spring should be resolved peacefully and there should be the prospect of peace for a year or two. Reynaud said that he did not think the British would let a further drop in the pound take place.

BULLITT.

EA:LWW

March 10, 1939.
12:16 p.m.

HMJr: Hello. Hello.

Operator: Mr. Moffat. Go ahead.

HMJr: Hello.

J. Pierrepont

Moffat: Good morning, Mr. Secretary.

HMJr: How are you?

M: Fine, thanks.

HMJr: Mr. Moffat, I have Mr. Heath here, and I'd like to do a little business with you over the telephone if I may.

M: Yes, surely.

HMJr: I'd like to keep him in this country until the next American boat sails, which I think is next Wednesday.

M: Right.

HMJr: That's number one. Number two --

M: That's Heath?

HMJr: Heath.

M: Donald Heath, yes.

HMJr: Of Berlin.

M: O. K., that's easy.

HMJr: Now number two -- we -- I'd like to have -- you know we helped both Cochran and Butterworth and give him some money so that they can do some entertaining.

M: Yes.

HMJr: The department has always set the figure and I'd like to do the same for Heath.

M: Uh-huh. Right.

HMJr: And if you people indicate what you think is the proper amount, why we'll accept what you suggest. You see?

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M: Good, that's easy.

HMJr: And then the other thing is, we don't get any information out of either Poland, Hungary, or Rumania, and I wonder if he couldn't make little trips down there for us.

M: I don't see any objection.

HMJr: You see?

M: Yes.

HMJr: I mean he could start, let's see - let him take - begin to take in Poland and then he could just - I mean the way Cochran has just completed --

M: Up in there - Scandinavia -

HMJr: Scandinavia - and - I don't mean too often, but if - one month he might go up to Poland for a few days; another time down to Hungary and Rumania, and begin to pull in some of that other information for us on financial information.

M: Right.

HMJr: Do you think that sounds sensible?

M: I think it sounds sensible. What I think would be a wise thing - I mean - for us to write a personal letter to the three chief commissions involved, pointing out that it isn't anything derogatory to them, but we feel it would pass additional thoughts and information, and coordinate it; and sort of get them well-disposed, yes.

HMJr: And explain that Cochran is doing the same thing.

M: Right.

HMJr: In the rest of Europe for us.

M: No, I think that's - I think that's perfectly easy.

HMJr: Because I never - I don't know, I never see anything financial on Poland, Hungary, or Rumania.

M: Yes.

- HMJr: And they may become more important from our standpoint as the summer goes on.
- M: Right.
- HMJr: I mean, whether they're anywhere near the breaking point or whether they are gaining or losing, from an economic standpoint, that's all I'm interested in.
- M: He can even -- even if he didn't have time to do very much he can stimulate the others into -- into watching out for those particular things.
- HMJr: That's right.
- M: Yeah.
- HMJr: Well I feel that he's really gotten started now, and that if he does this, of course, I think that he ought to be free from other duties so that he can more or less concentrate on Treasury matters, which I don't believe he does now.
- M: No, I think not. Of course, at the moment with the Wilson situation in the air, and the Gilbert death and all --
- HMJr: Well --
- M: The thing is a little up in the air, but that will -- will revert to normal pretty quickly.
- HMJr: Within a couple of months it should be sort of worked out.
- M: Oh yes, oh yes.
- HMJr: Well, thank you very much.
- M: All right then, I'll -- I'll take charge of the three points and don't give them another thought.
- HMJr: And your forecast on Europe is still good.
- M: I -- I think it still holds.
- HMJr: Right.
- M: Or a bit longer anyway.
- HMJr: Thank you.
- M: All right then.