

TREASURY DEPARTMENT

207

INTER OFFICE COMMUNICATION

DATE APR 10 1938

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

For your information -

We have been advised this morning by the Postmaster General that a regulation has been issued, effective upon giving of due notice to the respective countries concerned, prohibiting the transportation in the regular mails or parcel post from any foreign country into the United States of gold having a value in excess of fifty dollars.

This is the action desired by the British, and they are being advised of it.

E. H. F.

Treasury Department
Division of Monetary Research

Date April 10, 1939 1938

To: Secretary Morgenthau

Appended are:

1. Summary of proposal (on one page as requested).
2. Abstract of the article.

A translation of the complete article
is available if you wish.

MR. WHITE
Branch 2058 Room 208

4-10-38

Proposal to establish a "new and more extensive Tripartite Accord"

Summary of proposal

1. The author believes that the best response the democracies can make to the political offensive of the aggressor nations is to promote prosperity among the leading democratic countries.

2. For this purpose a new and more extensive Tripartite Accord is proposed. A "coordinating committee" would be set up which would both recommend action to be taken by the participating countries and would administer any international program which might be assigned to it when a central administration was deemed advisable. This coordinating committee might recommend the following types of action:

(a) To support currencies under attack. When, for example, England is losing gold to the United States, the committee would recommend that the "international clearing house" purchase with funds from the American Stabilization Fund sterling balances against which England would set aside 25 percent gold reserve to cover the exchange risk.

(b) To recommend programs designed to provide capital for colonial enterprises the benefit of which the world will share. The report is vague about many of the important details and definitely states that it makes no attempt to indicate the methods of financing and the source of the funds to be used in the various programs. The only source of funds it refers to is "surplus gold", wherever that "surplus gold" may be.

(c) The committee will likewise recommend and coordinate the activities of various countries in accumulating strategic war materials as a war chest instead of gold in those countries that have surplus gold. The refugees and colonies are not overlooked -- again to be taken care of out of surplus gold. The details on these matters are scanty.

Comments on the proposal

1. It is, in essence, the Van Zealand report in a somewhat different dress.

2. This program is a thinly disguised plan by which under present circumstances the United States would be giving most, if not all, of the financial aid to needy countries. The United States would be called upon to provide funds for the protection of the currencies of other countries, for the accumulation of raw material stocks, for the aid of refugees, and for the development of colonial enterprises the benefits from which would be shared in by other countries including the aggressor nations providing they reduce armaments. The plan also envisages other types of assistance.

Abstract (prepared by S. Adler) of Memorandum on the Necessity of Supplementing the Tripartite Accord and of a Plan for so Doing.

1. The economic and financial defense of the democracies. The liberal economic system can only function satisfactorily under peaceful conditions and is directly threatened by the international tension maintained by the fascist powers. The democracies have a monopoly of gold credit and financial power. If they cooperated they could (a) defend their economic system and prosperity and be beyond the reach of any combination of powers, and (b) release an offensive of prosperity which no nation could resist.

2. The common problems of the democracies are to increase their national incomes, to re-establish the purchasing power of the raw material producing countries and of their own producers of raw materials, and to re-establish the financing of international trade and of international investments.

No separate solution of these problems is possible. But a rapid increase in the national income is only possible through an expansion of credit which cannot succeed unless as a result of a coordinated plan on the part of the great democracies.

3. As there is now economic equilibrium between the currencies of the members of the Tripartite Accord, the problem now is to prepare for the regulation of unwanted movements of capital between them, which eventually is the sole alternative to exchange control.

4. A new and more extensive Tripartite Accord is essential by which the present scattered efforts of the different parties would be coordinated.

A Plan Complementary to the Tripartite Accord

Title 1. Constitution of an organization for coordination among the stabilization funds.

Articles 1 and 2. A coordinating committee of the stabilization funds of the participating countries is to be instituted, to be composed of a number of trustees whose role is to be primarily consultative.

Title 2. The role of the coordinating committee in the regulation of capital movements and the coordinating of credit policy.

Article 1. It is agreed that (a) when capital movements are normal, the stabilization funds should operate as at present; (b) but otherwise the coordinating committee should at its discretion

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recommend the intervention of an "International Exchange Clearing House" (henceforth referred to as the I.E.C.H.). As an example of the operation of this clearing house what would happen if there were an abnormal movement of capital from England to the United States would be that instead of the British stabilization fund purchasing dollars, losing gold and perhaps allowing the pound to fall, dollars would be drawn by the I.E.C.H. on a current account which would be opened to it through the United States stabilization fund.

Article 2. The risk of exchange loss on the part of the I.E.C.H. would be covered by a deposit of gold with it on the part of the stabilization fund in whose favor it was intervening. By this means the country losing gold would only have to lose a fraction of what it would otherwise have lost.

Article 3. Management of foreign exchanges by the I.E.C.H. Management of the foreign exchanges held by the I.E.C.H. on the one hand and variations in the current accounts opened by the stabilization funds with it on the other might take the place of needed sterilization or positive credit measures.

Article 4. Compensation of capital movements. When there is e.g. a reflow of capital from the United States to Great Britain, the supply of dollars will be absorbed by the I.E.C.H. whose debit account with the American stabilization fund will now be cleared by corresponding credits. Similarly with the demand for sterling.

Article 5. Guarantees of the I.E.C.H. The liabilities of the I.E.C.H. are constituted by the amounts it draws on the different current accounts opened with it by the stabilization funds. Its assets consist of the foreign exchanges which it manages, the guaranteed gold deposited with it by each nation and a reserve fund arising from the active utilization of its foreign exchanges.

Article 6. The trustees of the coordinating committee should recommend from time to time the adjustments necessary for facilitating the rectification of capital movements.

Results

The above mechanism would permit an effective defense of the participating countries' currencies, and constitute a perceptible step forward on the road of monetary stability, a stimulation of confidence and revival of business.

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Article 1. The role of the coordinating committee in the putting into effect of certain programs of action of the democracies with a view to international economic appeasement.

Gold and raw materials. When a country's war chest consists solely of gold, certain dangers arise. It would, therefore, be in the interest of the majority of the countries in the Tripartite Accord to replace a part of their gold stocks by stocks of raw materials. For this purpose "national companies" would be created which would purchase and maintain such stocks. The functioning of these companies would result in an improvement in the world distribution of gold and tend to stabilize the prices of raw materials on the international market. The coordinating committee could operate so as to have the national companies function in concert.

The utilization of gold for the solution of outstanding economic problems. The search for international economic appeasement raises the serious problem of the transformation of war economies into peace economies. As soon as the release of important surpluses of gold occurs, it would be possible to execute certain previously proposed plans (the author seems to have such plans as the Van Zeeland plan in mind) which were impracticable because there was no feasible method of financing them. In so far as the autarchic countries were willing to give political guarantees, particularly with respect to disarmament, the committee could facilitate the development of their economies in useful directions by recommending the use of the surplus gold for such financing. The recent treaty between the United States and Brazil provides an excellent model of the action which could be undertaken in this direction.

(The search in the memorandum is merely repetitive.)

RE TAX EVASION CASES

April 11, 1939.
11:20 a.m.

Present: Mr. Foley
Mr. Graves
Mr. Klaus
Mr. Helvering
Mr. Wenchel
Mr. Gaston
Mr. McReynolds

H.H.Jr: Now, Mr. Helvering, at lunch yesterday I asked the President if there was anything he wanted before I brought up what I had on my mind. He said, "Yes, I want Moe Annenberg for dinner." I said, "You're going to have him for breakfast - fried."

Helvering: Mr. Secretary, I think we've got this thing worked out.

H.H.Jr: He did. That's just what he said.

Helvering: And the tentative set-up on Mr. Moe Annenberg himself amounts to about three million dollars in taxes and penalties. Now, we have had two conferences which were attended by Mr. Wenchel and Mr. Foley and

Klaus: Klaus.

Helvering: ... Mr. Klaus, Graves and Irey and the investigating agents. Was anybody else there?

Wenchel: No, that's all.

Helvering: As I say, this matter, as tentatively set up, is over three million dollars. This has been prepared exactly the way we prepare every case, sent through the Attorney General's office, so nobody can be accused of any deviation in procedure on this fellow as against that for anybody else.

That's the memorandum signed by myself, recommending the prosecution, setting out in detail those exhibits there, the matters that we've investigated. And for your information I've prepared a recommendation here and am setting out some of the pertinent points in a short memorandum. If you would either like to read it, or I'll read it.

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A.J.Jr: I wish you'd read it. Is this from you to me?

Delivering: Yes.

"There is attached a letter to the Department of Justice in which I am recommending that the above named individual (Moses L. Annenberg) be prosecuted for attempted income tax evasion for the years 1933 to 1936 inclusive.

"The attached letter contains a detailed statement of the manner in which the attempted evasions were accomplished. The principal items as enumerated in the attached letter are as follows:

"(a) Profits of over \$200,000 a year from the sale of gambling paraphernalia, known as wall sheets, were omitted and their receipt was concealed by a complicated series of manipulations. This item is discussed in heading No. 1.

"(b) Income from Canadian business received by Annenberg in clandestine manner, totaling over \$30,000 yearly, was omitted."

"That's discussed in detail in that. All these are discussed in detail.

"(c) When Annenberg bought the stock of the German News Bureau, his corporation paid \$750,000 for such stock. However, the item was entered on the books of the purchasing corporation at a cost of \$850,000 and the \$100,000 overstated was received in currency by Annenberg.

"(d) Personal and non-deductible expenses of Annenberg such as the cost of settling a criminal prosecution against him, etc.; cost of a wedding party for his daughter, etc." There's any number of those in there.

A.J.Jr: I saw that one.

Delivering: Six thousand dollars for that, beefsteak dinners and paraphernalia out on his ranch. I didn't enumerate those here.

A.J.Jr: Did he charge to expense the time Rex Tugwell spent

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out to his ranch?

Belvering: Yes.

A.J.Jr: Is that in there?

Belvering: He invited all those people out to his ranch; bought them sombreros, shirts.

A.J.Jr: Alex went out there.

Belvering: I didn't know Alex went out there.

A.J.Jr: Oh yes.

Belvering: Now, these were charged to expense accounts in various corporations controlled by him - for conventions and things like that. "Improper withdrawals were also made from six corporations by Annenberg for his personal use and charged to expense." That has particular reference to this expense on the ranch.

"(e) Under the guise of advances from one of his corporations to another, Annenberg received in excess of \$2,000,000 in a manner which ordinarily would conceal the fact that he in reality had received income of this amount.

"(f) To conceal the true ownership of the stock of his top holding corporation, the Cecelia Company, Annenberg caused one-sixth of the stock to be issued in the name of a confidential employee who to our agents denies that he ever owned any stock in the corporation and whose name was dropped from the list of stockholders when the name of the corporation was changed."

One-sixth of the stock of this corporation, worth almost a million dollars, which will indicate the magnitude of the manipulation - that was dropped out; the man was dropped out, and he had stock one day and didn't have it the next - yet he didn't know anything about it - amounting to nine hundred-odd thousand dollars, nearly a million dollars.

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"This had the net effect of cutting down Annenberg's surtaxes."

"In addition, if it can be shown..." - now, here's an "if" in there - "In addition, if it can be shown in a grand jury investigation that the remaining stock standing in the name of Annenberg's children was really his, more than \$500,000 additional surtaxes..." - we haven't charged that in that statement I gave you of the amount - "... will be found to have been evaded on this item alone."

Now, Mr. Secretary, we have just set out those six or seven points to show you that we are not shooting in the air on this case.

Then I finish with a recommendation to you that a criminal case be made out: "I am of the opinion that a criminal case has been developed for deliberate concealment of income and planned evasion of surtaxes and that the reference of the case to the Department of Justice at this time for the institution of criminal prosecution is entirely warranted."

H.C.Jr: Now, what do I do?

Delivering: Well, I guess we want you to sign on the dotted line. We discussed this; as when you wanted to get this out. I commissioned Mr. Graves to write up a memorandum with the General Counsel and there is our suggestion of what perhaps ought to accompany this to the Attorney General.

H.C.Jr: I've never done this before, have I?

Delivering: No, not that I know of.

H.C.Jr: Think it's all right?

Delivering: I think if I were doing it I'd not write the letter but I'd go over and talk to the A.G. about it informally, and not make the record; let the Commissioner send over the case in the regular way...

H.C.Jr: I've never done this.

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... to the Department of Justice; but I'd talk informally to the Attorney General and express your interest and the President's interest in the matter.

H.H.Jr: Whose idea was the letter?

Belvering: Well, I thought you wanted some sort of transmittal to him, and I think it was the sense of all of us, wasn't it, that there ought to be

H.H.Jr: Yes, but this is very unusual. I mean from what you tell me, this three million dollar case - I don't think that this begins to compare with the seriousness of the one that Ivey sent me out last night on this Schenck-Zanuck thing. I think that's much worse.

Belvering: But in that case we haven't got the basis quite yet established on which we can start that.

H.H.Jr: I think the thing to do - my own horse sense tells me - I'll call up the Attorney General now and say the case is - the Treasury has closed the case and it will go over today from you to Mr. Morris in the usual form, but I do wish that he would personally interest himself in it because the President of the United States is very much interested in it.

Now, the reason why I think that's right - the President asked me yesterday about this Pendergast case. I said, "I'm going to be asked about it and what do you think?"

He said, "Well, I'd simply say - if they ask me that, I'm not going to say anything; if they ask you, it's just one of - it's just another case."

That's what I've always said, I think.

Boley: May I say one thing? When you call the A.G. I don't think I'd say that the Treasury has closed the case. What we have here is a prima facie case that we've gone as far as we can with, and it is now timely for us to turn it over to the Department of Justice.

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H.M.Jr: All right.

Foley: But it needs a great deal more work on it. And ...

H.M.Jr: (On phone) Attorney General.

Foley: .. and also, if the thing follows the usual course over there, Jim Morris will seize on it and then Thurman Arnold will try to tie in his anti-trust case with the tax case. I think this case ought to be referred to Chicago and I think that all the negotiations between the taxpayer and the Government ought to be conducted in the United States Attorney's office in Chicago rather than by Jim Morris over here in Justice. If you don't do that, this thing is going to be dragging out in the Department of Justice and you're not going to get your proceeding before your grand jury and you're not going to get this thing under way.

Helvering: I gathered the information, Mr. Secretary - at least I had the impression - we did want to make this step here.

H.M.Jr: (On phone) Tell McNeynolds and Gaston to come in here right away, please.

Wenckel: Mr. Secretary, I agree with what Eddie said, but I can't see how we over here can prevent Mr. Morris from handling the case.

H.M.Jr: Oh, that's easy.

Wenckel: Well, I ...

Helvering: Do what?

Wenckel: Keep Morris from handling it in the usual way, which would mean we'd invite Annenberg to come in.

H.M.Jr: Maybe - why the hell shouldn't I sign it? I don't know.

Wenckel: Why don't you (Helvering) tell him what happened in connection with Morris wanting to wait pending ...

Helvering: Oh yes. You see, they have a procedure over in the

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Attorney General's office that after he sends this letter there - the big letter to the Attorney General's office, that they call the defendants, so-called, in the case in for consultation over here. In this case, as far as our consultations with the defendants in this case and their representatives, we have never gotten anything out of the case at all except an endeavor on their part to ascertain what we had.

H.A.Jr: I see.

Delivering: I think that's correct, isn't it?

Glads: Yes.

H.A.Jr: I see.

(McReynolds and Gaston come in)

Do you (McReynolds) think I should break my regular procedure and send such a letter to the Attorney General in regard to M. L. Annenberg, Mac? You've initialed the thing; I don't know whether you read it.

Mac: Yes, I read it.

H.A.Jr: Herbert, have you read this?

Gaston: No, I haven't.

Mac: Well, it was my understanding that you wanted definitely to place that in the hands of the Attorney General. I don't think there is any particular significance to it except that you're making an unequivocal record of just what you're doing. You are today handing it to the A.G. I think it's perfectly proper for you to do it. It seemed to me that that made it a very clear

Gaston: Is that outside the usual course?

H.A.Jr: Yes.

Mac: Ordinarily there is no formal letter of transmission.

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Foley: The Commissioner sends the case to the Assistant Attorney General in charge of taxes.

Gaston: Does that intimate that we don't think the case will get proper attention, they won't be diligent enough on it?

Wenchel: I think if it means anything, it means that the Secretary of the Treasury is personally interested in this case.

H.M.Jr: Well, I am. I am.

Foley: So is the President.

Wca: I don't see any objection at all to the letter.

Wenchel: I can't see any objection to the Secretary doing it.

H.M.Jr: Well, I'm - Harold, what do you think?

Graves: I think it would be a good thing to sign the letter and deliver the case to the Attorney General to be referred by him to Morris on the Commissioner's letter.

H.M.Jr: I think it's all right.

Gaston: I think it's all right. We're ready to deliver the record. They're ready for an indictment, are they?

Graves: That's right.

Delivering: Be no question about an indictment. I don't think there is any question about an indictment.

H.M.Jr: (On phone) Hello. What about the Attorney General?

Operator: Waiting for him to put him on. I got his secretary; I don't know whether I'm going to get him or not.

H.M.Jr: What's her name?

Operator: Miss Baumgartner.

April 11, 1939
11:37 a.m.

HMJr: Hello.

Operator: The Attorney General.

HMJr: Hello.

Frank
Murphy: Hello, Henry.

HMJr: How are you?

M: Fine, thanks. Couldn't be better.

HMJr: Good! Frank, I just signed a letter to you on the
Moe Annenberg case.

M: Yeah.

HMJr: And I'm sending it over to you.

M: Good.

HMJr: Now, this is the first time I've ever followed this
procedure. It usually goes right to the Commissioner
of Internal Revenue to -- to Morris, but I felt in
view of the President's interest in this case that I
would show you that I'm interested.

M: All right.

HMJr: Because the President only yesterday expressed his
interest in the Annenberg case, and if I might make
the suggestion -- if you didn't mind my making the
suggestion -- I hope that, not only will you follow
it yourself, but that it can flow from you to Campbell.

M: Yeah.

HMJr: You see?

M: All right.

HMJr: If you don't -- of course, after you've had a chance
you'll make up your own mind, but I am taking the
liberty of making that suggestion.

M: I went down to Chicago last week before I went to
- Kansas City.

HMJr: Yeah.

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M: Had a talk with Campbell who is an agreeable and superior young man; entirely inexperienced in this sort of matter.

HMJr: Right.

M: And with a staff that is one of the most politically ridden of all of them in the country.

HMJr: Yeah.

M: He's had to get rid of most of them and the ones that are left have never been gated for an uphill fight of this kind against the most competent of counsel in the country.

HMJr: Right.

M: This case will rise or fall from now on on our ability to meet -- the case is all right; the facts are there; it is perhaps one of the best that will come in from what I know about it.

HMJr: Well.....

M: But whether or not we've got it set up right is the task from now on in, and I will get the ablest kind of counsel into this case some way.

HMJr: Well, nobody could ask for any more than that.

M: And I'll watch it personally.

HMJr: That's all I'm asking.

M: I went down to Kansas and straightened that crowd out down there.

HMJr: Yes.

M: Got their chin up a little and there is ham strung in every direction except by the Federal authorities, and when they've found that we're foursquare on the thing, why they took a lot of heart about it.

HMJr: Right.

M: Now, there's another bad situation over in Chicago. I guess the local political organization isn't

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enthusiastic about it, because testimony will probably disclose many embarrassing things after it gets under way so far as the police and others are concerned in the local political machine.

HMJr: Is that the Skidmore case?

M: That's the Skidmore case.

HMJr: Right.

M: And there again we've got to be able to hit with both fists.

HMJr: Right.

M: Now, you ought to get that to this office as soon as you can, Henry. There's never anything ever reached us in the Skidmore case that I know of.

HMJr: Well, I'll -- I've got Helvering sitting here now, and also Ed Foley, and I'll ask them why not. See?

M: Yes. I'd like to get the Skidmore case and the Annenberg case here in shape. The Pendergast case is in good condition now and.....

HMJr: We've got a tip on the -- on the west coast that just came to my attention. It's a "beaut". It's bribery of Labor officials, a hundred thousand dollars, and it involves Mr. Schenck, Mr. Mayer of Goldwyn-Mayer, and the -- oh, this head of the Twentieth Century Fox.

M: For doing what?

HMJr: Criminally cheating the Government at bribing Labor officials. Eleven million dollars involved. We're not quite ready on it yet. It's a tip.

M: Cheating the.....

HMJr: Government on income tax and they had this fellow -- remember the strike they had out there?

M: Yeah.

HMJr: Well, they handed this fellow a hundred thousand dollars cash, and for you, and for you only, it was brought to my attention by Robert Montgomery who is President

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of this Union which comprises two hundred and fifty thousand people.

M: Yeah.

HMJr: And he wouldn't trust it to anybody else except me.

M: Yeah.

HMJr: And we'll be ready on that very soon.

M: Yes, I wish you'd get it into my hands.

HMJr: Well, I'll.....

M: These big -- these salient cases.....

HMJr: Yeah.

M: My experience in public affairs has been such that there's a certain classification of cases that their successful prosecution depends upon whether or not those in public authority are made of the stuff and the abilities that can resist.

HMJr: I know.

M: Both the pressure and the abilities that great wealth can put in the firing line.

HMJr: You're telling me!

M: It's just a "corker".

HMJr: Yeah.

M: And if you get those cases that you're interested in and you want to go ahead -- and get them in my hands, Henry, I'll assume the responsibility from then on in.

HMJr: Well, nothing could make me happier.

M: Yeah.

HMJr: It's like a breath of fresh air.

M: Well....

HMJr: Now wait a minute, before we got -- now we're off the -- the original thing. Now, I've got one other little thing that I'm waiting for.

M: Yeah.

HMJr: You promised me an informal opinion.

M: Yes, well I'm going to see Mr. Bell today. They've been working on that upstairs.

HMJr: On the munitions.

M: Yes. I'll have an opinion for you.

HMJr: You will?

M: Yeah.

HMJr: 'Atta boy!

M: All right, Henry.

HMJr: You talk about -- that's a different kind of pressure.

M: All right. (Laughter)

HMJr: And incidentally, the President -- I went over it with the President yesterday.

M: Yeah.

HMJr: And he said that Cordell called him up and scolded me to the President.

M: He scolded me too.

HMJr: You?

M: Well, he scolded you to me.

HMJr: Who? Cordell?

M: Yeah.

HMJr: So I said to the President, as I understood it, that you wanted a son-of-a-bitch department organized against these aggressive nations, and if this isn't what you want, you tell me.

M: Yeah.

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HMJR: He said, "This is what I want." That's the way I understood it.

M: That's what I think we ought to have too.

HMJR: So -- so I said.....

M: I don't think we've gone enough -- or fast enough on them,

HMJR: Oh, I'll say we don't.

M: I think that there's never been a time when we ought to be stronger and stand right out about it than now. Hit them on the flank and front and every way.

HMJR: Well, I'll -- whenever you're ready on -- on that munitions thing and I'm going to -- what I'm -- if we get an informal opinion, what I may do is I may ask Harry to publicly take the front on this thing, for me. He's a member also, Harry Hopkins.

M: Yeah.

HMJR: I think it would -- if he'd be willing to do that I think it would be helpful.

M: All right.

HMJR: But you'll let me know.

M: You bet I will.

HMJR: And the Skidmore thing will be -- I mean, the Annenberg thing will be with -- in your lap between now and one o'clock.

M: And get the Skidmore thing here as soon as you can.

HMJR: I'll tell.....

M: And the west coast material as soon as you can.

HMJR: That's a "pip", the west coast one.

M: Well, we'll go at it hammer and tongs.

HMJR: O. K.

M: All right. Good bye.

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H.M.Jr: Tell her I'm waiting.

Operator: She's trying to get him now.

H.M.Jr: O.K. (Hangs up)

McR: Well, that's practically carrying out what you told the Attorney General over the telephone you were going to do.

H.M.Jr: I said I was going to put it in his lap first.

Graves: That's right.

H.M.Jr: (On phone) Hello. (Conversation with Attorney General Murphy follows:)

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H.W.Jr: O.K. Of course, this is triple confidential. No leaks on that one.

Helvering: We've got to get a little more information on the Skidmore case.

H.W.Jr: All right. Well now, Mac, get that over to the Attorney General, get it in his lap.

Gaston: What he said is express approval for this method of handling it. He likes that.

H.W.Jr: Yes.

Foley: We ought to get the Skidmore case over, so we can put it up to the same grand jury.

H.W.Jr: What have you been doing out there, Sam?

Albus: I've been making pictures. Thought you'd like to see this (chart) - the Annenberg empire.

H.W.Jr: Oh yes. This looks like alcohol to me.

Gaston: You've got them all on the square; I don't like that.

Albus: How do you like them, crooked?

H.W.Jr: I'm surprised that you haven't got more than three million dollars.

Foley: That's only Moe Annenberg; it isn't the rest of the family or the corporation.

H.W.Jr: Does this go over with the thing? I think that ought to go over to the Attorney General; I want a copy to go to the President, too.

Albus: I'll get a copy.

H.W.Jr: Now, you (Helvering) were going to organize for me a group to go after these pool rooms. Are you ready?

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Belvering: No.

H.M.Jr: When are you going to be ready?

Belvering: First I've got to get .. (words not understood) ... fifteen thousand; second, we'll take one district, send the ones in that district to the agents to check.

H.M.Jr: Well, it's at least two weeks or longer since I mentioned it to you. Well, let's have an "M Day" on this. How about a week from today?

Belvering: You mean to get those investigations over?

H.M.Jr: Or the plan.

Belvering: Oh well, the plan - the plan is virtually set up.

H.M.Jr: Well, I want it.

Belvering: You see, they've given me the figure of fifteen thousand places, but up to date I haven't been able to get hold of where these are located.

H.M.Jr: What I want to do, Guy and Harold - I want to try it out in some - not too big a city - a plan; let's just send a crew in and mop up a city, see how it works. As we used to do in Farm Credit - try it out in one place.

Belvering: You don't have to wait between now and Monday to find out when you're going after these pool rooms.

H.M.Jr: O.K. And then the other thing - when should I send for the President of A.T. & T. and say, "Mr. Gifford, you have ..." - how many, is it fifteen thousand long distance cables?

Klaus: Around fifteen thousand.

H.M.Jr: "... that you're serving." I mean I'd like a memorandum on that. And then I want to say, "And this is illegal. Now, we want to give you the opportunity of cancelling these yourself or we're

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going to go to Congress and get the necessary legislation. But I want to give you the chance of doing it first."

And I want a memorandum prepared for me... where's the Foley?

Foley: Right here.

H.A.Jr: ... for me to talk to Gifford from. I'll say, "Here's the thing. This is the evidence. We'll give you a chance first to say that you will cancel this service; but if you don't, then this information will be laid before the Senate and the House. But I want to give you a chance first."

This is good. This is fun. (Looking at chart of Annenberg empire)

Adams: This is the first edition. We'll get more facts later.

H.A.Jr: All right. But let's get a clean-up crowd on these pool rooms. We don't have to wait for it.

Foley: Let's not fool ourselves, Mr. Secretary; we still have got plenty of work to do on this case.

H.A.Jr: Oh, I know that. Oh, you haven't touched this thing.

Foley: We've got to use all the resources we have available.

H.A.Jr: Who's going to get this over to the Attorney General?

Wen: Is it ready now, Guy? Is that entirely ready to go?

Helvering: Yes.

Wenckel: That's my responsibility. I'll send it over by special messenger.

H.A.Jr: If you don't mind, I'll give it to McNeynolds; it's coming from me.

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Wenchel: All right. Then I'll talk to Mac.

H.M.Jr: Well, anyway, Mr. McReynolds will see that it gets over there between now and one o'clock.

Now, when in the hell you fellows going to have something like that on Skidmore?

Delivering: We've got to get some more

Albus: Want it to be the same grand jury.

H.M.Jr: And you're living in Chicago.

Foley: He's living with this case. Probably be a year's job at least.

H.M.Jr: Having a good time?

Albus: Wonderful out there. Learning all about horse-racing and gambling, bookmaking.

H.M.Jr: I want to go into it.

Foley: He's ...

H.M.Jr: I want to go into a town - what's the capital of Michigan?

Gaston: Lansing.

H.M.Jr: All right, that would make Frank Murphy happy, Guy. Let's go into the town of Lansing, Michigan, and make Frank Murphy happy and try it in Lansing, Michigan, with the Republican Governor and Administration there, and let's clean up the pool rooms in Lansing, Michigan.

Foley: And Detroit.

H.M.Jr: Well, that's too big for a starter. Let's try it on Lansing, Michigan. If it works there

Delivering: Have we got any connection there? I suppose we have.

H.M.Jr: And if it works there, we'll go to Harrisburg next; not political, but we'll just try it out. But let's

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try it. That would please Frank Murphy to death if we took Lansing, Michigan, and then if it worked down there we'd go down to Detroit next.

I want to go in - God, you fellows - you're all old and decrepit. All I've got is a stiff back and a stiff neck.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 11, 1929.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM L. W. Knoke

I called Mr. Bolton at 11:23 a.m. They had had a pretty bad day, he said. They had done \$20,000,000 and the Dutch had lost about \$15,000,000. The French franc was relatively steady; the Swiss, he thought, was under pressure although he had not spoken to Switzerland today. It was difficult to realize that so much exchange could go through a market which outwardly seemed so very quiet. There was no feeling of any crisis in London at all. Personally he did not think there was going to be a crisis in the near future and ^{he} felt so simply because he did not think there was any necessity to anticipate anything further.

I referred to his cable No. 343 requesting us to sell \$25,000,000 worth of gold in all, value today, including \$4,500,000 ex Laconia. Since the Laconia was scheduled to arrive only late this afternoon, was it satisfactory to him if we sold only \$20,500,000 today and the balance tomorrow? This would save us some handling charges and him additional insurance. Bolton replied that that program was entirely satisfactory to him. I stated that I assumed that his insurance covered delivery either at our vaults or the Assay Office. Bolton replied he would look into it.

I reverted to our telephone conversation late in March about gold shipments by parcel post and informed him that the Acting Postmaster General had issued, under date of April 8, order #12761 reading:

FEDERAL RESERVE BANK
OF NEW YORK

134

OFFICE CORRESPONDENCE

DATE April 11, 1939.

TO CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

"The transportation in the regular mails or parcel post from any foreign country into the United States of any consignment of gold coin, gold bullion, or gold dust, having a value in excess of \$50, is prohibited."

This order was to be effective upon the giving of due notice to the respective countries and this, I understood, had been done. Bolton thought that action in this matter had been exceedingly quick, that the order was exactly what they had hoped Washington would do and that he was sure they were very grateful to us.

Bolton spoke of our weekly order for \$25,000,000 worth of gold at 34.76 1/4 and thought that in view of their today's sales totaling \$35,000,000 (in the market and to the Dutch), he might have to inquire whether we would be willing to increase the amount although he never liked to use the order unless it was a matter of great emergency. I replied that it continued to be my understanding that the order was given for the purpose of being used if necessary.

LWK:KW

RECEIVED

APR 11 1939

RECEIVED TREASURY
APR 11 1939

Regraded Unclassified

TELEGRAM SENT

235

GRAY

April 11, 1939

4 p.m.

AMEMBASSY

LONDON (ENGLAND)

246

FOR BUTTERWORTH FROM THE TREASURY.

Refer your 402, March 27. Advise British Treasury of the following Post Office order:

QUOTE.

POST OFFICE DEPARTMENT

Washington

April 8, 1939

ORDER NO. 12761

Section 2233 of the Postal Laws and Regulations is amended, effective upon the giving of due notice to the respective countries, so as to add paragraph 3, as follows:

3. The transportation in the regular mails or parcel post from any foreign country into the United States of any consignment of gold coin, gold bullion, or gold dust, having a value in excess of \$50, is prohibited.

(Signed) Ambrose O'Connell
Acting Postmaster General.

END QUOTE

This

-2- #246, April 11, 4 p.m., to London (England)

This subject was treated by the Post Office Department as an internal problem relating to the handling of packages after arrival in this country. Understand the cable notice of this order has been forwarded to French Post Office by United States Post office.

HULL
(GSP)

EA:HP:LMW

Eu

A-M

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OFFICE OF
THE SECRETARY OF THE TREASURY
C O P Y

4-11-39

Dear Mrs. Morgenthau:

Thank you for your very nice letter and your suggestion that the Secretary might bring the question of Decatur House to the attention of the Director of the Budget. It has, or is about to be sent to him, I believe, with the favorable report of the Interior Dept. As the Director is new, he probably knows nothing about the House. So some information from your husband would be very helpful.

I shall hope to see you soon.

With my best wishes to you and to the Secretary, I am,

Sincerely yours,

/S/ Marie Beale

Decatur House
La Fayette Square.

April 11th

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Dear Mrs. Morgenthau
Thank you for
your very nice letter and
your suggestion that the
Secretary might bring the
question of Decatur House

To the attention of the Director of
the Budget. It has or is about
to be sent to him, I believe, with
the favorable report of the Interior
Dept. As the Director is now in
probable pain rather about his
house, so some information from your
husband would be very helpful.
I shall hope to see you soon,
with his best wishes & my own.
I am, Sir, Yours,
The Secretary, Maria Keane

239

Mrs. Mary Haggen
211 Thirtieth Street.
Washington D.C.

April 11, 1939

I spoke to the President on the telephone about putting countervailing duties on silk goods out of Italy and the President asked me to explain it to him and I did. He said had I talked to Hull and I said, "Yes - at least I sent him a notice on April 3d". He said, "Talk to him again. Get a ruling from the Department of Justice. After we get a ruling we will do it with tears in our eyes."

I then had a conversation with Mr. Frank Sayre. (Attached)

1. I have before me a Treasury Decision calling for the imposition of a countervailing duty on silk goods from Italy at varying rates depending upon the quantity and character of the silk content.

2. The total amount of goods imported from Italy which will be affected by this order is something less than a million dollars a year.

3. There is also being studied the bounties being granted on exports of cotton, wool and leather goods from Italy.

Talked to F. D. R.
at 1:15 P.M.

Pres wants Report of Justice
opinion. Says ^{then} with
tears in our eyes we will
be compelled to do it.
also I should speak to
Cordell Hull.

April 11, 1939
1:24 p.m.

HMJr: Hello.

Operator: Operator.

HMJr: Is Mr. Sayre.....

O: Yes, he's coming right on.

(Short pause)

HMJr: Hello.

Frank

Sayre: Hello. How are you, Mr. Secretary?

HMJr: I'm pretty well.

S: Good! (Laughter) It's an awful procession these days, isn't it?

HMJr: Terrible.

S: Mr. Secretary, Fels just told me about that Italian countervailing duty.

HMJr: Yes.

S: And he promised that either Secretary or Hull -- either Secretary Hull or I would call you up.

HMJr: Yes.

S: I have to see the Italian -- the Vice President of the Philippines at two-thirty and if it's convenient for you I could come over right after that.

HMJr: Well, Mr. Sayre, I'm always glad to see you, but what's the use of coming over?

S: Well, I thought I'd just give you a little memorandum of -- of the situation -- one -- one thing I do want to -- did want to speak about is to urge the -- if this thing is going to be done.....

HMJr: Yeah.

S:to give Italy a little advance notice so that she'll have a chance to correct her procedure. That's -- that's the practice which we have been following in most of the cases.

HMJr: Well now, may I just take a minute now?

S: Yes.

HMJr: Because you're busy and I'm busy. I mean, of course I'll see you any time you want to see me. Now, I can't -- the President asked me to get an Attorney General's ruling.

S: Yes.

HMJr: So that will take at least twenty-four hours. So that -- I could let the thing go over until tomorrow morning because I'm all tied up this afternoon. Now, how would that be if you wanted to come over tomorrow morning?

S: That would be all right, but -- but I spoke of time. I mean, after it's positively decided we're going to do it, then if we follow the practice we've been following with most of these countries, it seems to me highly advantageous for our own interests, to give the other country a chance to correct their procedure. That is.....

HMJr: Oh, I can't wait for this. Now, look, you people tie me up -- I'm under law -- to carry out the law. I've been tied up five months on this German thing, and I'm not going to have them -- I'm going to -- I can't -- either the law is there to be carried out or it isn't.

S: Yes, but I.....

HMJr: I mean, this -- this thing -- of always stalling me -- that's the law.

S: Well.....

HMJr: I can't do it, Mr. Sayre.

S: No. This -- the proposition now is a little different. The proposition would be to tell the Italian Government that their present tax is in contravention of our provisions. Ask -- suggest that, let's say thirty days from date, if they don't see fit to change their practice, we'll have to begin imposing countervailing duties. Now, I don't -- I don't think there's anything in the law that would prevent doing that. As a matter of fact, it seems to me that carries out the intent and purpose of the law because it does give the

- 3 -

foreign Government a chance to correct what we see fit to term a contravention of the law. Now that's.....

HMJr: Well.....

S:, exactly what we did, you remember, with the German Government -- when was it, two years ago.

HMJr: Yes. I don't know how long we gave them, but we didn't do it the last time.

S: No, we didn't,.....

HMJr: Now, look.....

S: But we have been doing it to many -- in many cases.

HMJr: Well now, here's -- here's -- I'll -- I'll make a bargain with you.

S: (Laughter)

HMJr: I'm willing to give them thirty days if they'll give us access and give us the information that we want on a lot of other things that they refuse to give us the information. We can't get the information on a lot -- a lot of other articles.

S: Yes.

HMJr: And if -- if the Italian Government will give us, promptly, the information that we -- we've been trying to get through our Customs service, and unable to get, then I'm willing to do the gentlemanly thing to them.

S: Well, I -- I.....

HMJr: But they -- they absolutely refuse to let our people -- they just throw them out on their ear.

S: Well, of course, they -- they say that there's been complaint after complaint because of the delay in that too and we replied to that effect that we haven't been able to get the information which you wanted on that. Now I -- I don't think there's any kind of a bargain possible there.

HMJr: Well, why should they -- we treat them like gentlemen when they -- when they treat us so shabbily?

- 4 -

- S: Well, I believe in being a gentleman myself, whatever the other fellow does.
- HMJr: It doesn't pay these days.
- S: I beg your pardon?
- HMJr: I'm sorry, I -- I don't think it pays these days. I don't think you can treat people like gentlemen when they're just -- well -- the people, like the Italians and the Germans.
- S: Well, I -- I don't lose love for them, and yet I -- I want to be a gentleman myself. This situation is one where I think it's in our own interest.
- HMJr: I tell you what you do. Supposing you come over at ten-thirty tomorrow.
- S: Righto.
- HMJr: And -- and don't you -- and I'll have some of the Customs' boys here.
- S: Yes.
- HMJr: To explain the thing.
- S: Well -- well, I don't know that any explanations are needed, Mr. Secretary.
- HMJr: I'll have a memorandum of the things that we're trying to get out of the Italian Government and can't get.
- S: Uh-huh.
- HMJr: See? And I'll hand you that and you hand me one. How's that?
- S: (Laughter) Well, all right, if you feel a useful purpose will be served. I -- my only -- I'm thinking of our own interest, the interest of this Government, that we're -- now we're....
- HMJr: So am I. That's my.....
- S: There isn't a lot of trade tied up in this thing. I believe there's something like half a million dollars worth of fabricated silks, and of course there are other articles. Italy is buying a lot of stuff from us.

- 5 -

Now, Italy will hit back, of course. I'm -- I'm thinking of our -- of our own -- of our own trade interest.

HMJr: Well, I'm thinking of a mandate of Congress that I have to carry out this law.

S: Yes, well I -- I'm not suggesting that we shouldn't give them the notice and go forward, but I -- my only suggestion is that we carry out the law in the same way in which the law has been interpreted again and again before -- that is, to give the notice, and give them, say, thirty days to correct their procedure or else have the countervailing duties go into effect.

HMJr: Well, I tell you, you come over tomorrow morning, and maybe I'll be feeling better. I don't know.

S: (Laughter) Well, all right.

HMJr: And I'll have -- I'll have a bill of complaints for you then.

S: All right. At ten o'clock?

HMJr: Ten-thirty, please.

S: Ten-thirty?

HMJr: Please.

S: All right.

HMJr: Thank you for calling.

S: All right. Good bye.

TREASURY DEPARTMENT

247

INTER OFFICE COMMUNICATION

DATE April 11, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *HA*

The automobile industry, as you know, occupies an important position in the present business outlook. I asked Mr. Seltzer to go to Detroit and make a canvass of this situation while I was making the rounds of the reporting companies.

*Please have Seltzer in Detroit Monday
to check once more. Have him telephone
me at 12 o'clock Monday, May*

TREASURY DEPARTMENT

248

INTER OFFICE COMMUNICATION

DATE April 11, 1939

TO Secretary Morgenthau

FROM Mr. Hase

Subject: Plans and prospects of the automobile industry
as reported to Mr. Seltzer.

1. Up until the last few weeks the automobile industry had been expecting 1939 to be a good automobile year--not as good as 1936 or 1937, but almost or quite as good as 1935, when U. S. and Canadian output aggregated 4,120,000 cars and trucks. For comparative purposes the total production for recent years is listed below.

Thousands of Cars

Year	U. S. and Canada
1930	3,510
1931	2,472
1932	1,432
1933	1,986
1934	2,870
1935	4,120
1936	4,617
1937	5,017
1938	2,656

2. In line with the expectation that 1939 would be a good though not a boom year, and in order to regularize employment through the winter, the industry deliberately built up a large stock of cars in the hands of dealers and distributors. This was particularly true of General Motors, and to a somewhat lesser extent, of Chrysler, but not of Ford. The idea of General Motors and Chrysler was that a large field stock of cars at the beginning of the spring selling season would not only permit regular employment during the winter just past, but would also eliminate the

Secretary Morgenthau - 2

necessity for overtime and extra employees this spring. In consequence, even though a good season was contemplated, General Motors and Chrysler did not expect to increase the scale of their production operations substantially this spring--a 4-day week with few extra employees was contemplated. (This, of course, upsets seasonal corrections for the automobile industry in most indexes of general business conditions.)

3. Although retail sales in the early months of this year promised fully to fulfill the expectation of the manufacturers, General Motors' retail sales lagged early in March (Chrysler's did not). The result of this temporary lag in retail sales was to frighten a number of General Motors officials. The large field stocks which had been deliberately planned now took on threatening proportions, and some curtailment of production was made.

4. But substantial curtailment of production schedules could not be lightly decided upon because (and this is strictly confidential) of an agreement among virtually all the manufacturers to introduce new models one month early this year--in August instead of September. This early introduction of new models means that the parts makers will be working on parts therefor during May, June and July, and will not be available for any substantial stepping up of the output of parts for the current models if retail demand should be heavy.

The General Motors people were therefore caught in a serious dilemma: If 1939 is to be as good a year as they had anticipated, they must maintain a high level of current production in order to maintain adequate stocks of cars in the hands of dealers during the spring selling season. If they curtail production now in order to reduce their field stocks to more normal proportions, the early new model changeover will prevent adequate increases in production later on if retail sales should prove to be as good as had earlier been anticipated.

The European situation and the stock market slump have been influences in favor of curtailing production. Excellent increases in retail sales in the last 10 days of March

Secretary Morgenthau - 3

(65,000 versus 39,000 and 36,000, respectively, in the two preceding 10-day periods), corroborating the earlier forecasts of a good year, have worked in favor of maintaining or increasing current production. When Mr. Seltzer left Detroit a week ago, night conferences were still in progress to debate and determine policy in this respect.

Preliminary confidential figures for General Motors retail sales in March indicate an increase of 68 percent over February--140,000 versus 83,000--the third largest February-March percentage increase since 1929.

5. Chrysler is doing relatively better than General Motors so far this year and the people there seem more optimistic. The Chrysler people emphasize the excellent performance of used car sales this year as indicative of the solid foundation for a good--though not a boom--automobile production year.

April 11, 1939
8:58 a.m.

HMJr: Hello.

Jake
Viner: Hello, Henry.

HMJr: How are you?

V: Fine.

HMJr: Good. Jake, we're working this week on my tax statement and I've got both Magill and Carl Shoup here on it..... Hello?

V: Yes, I'm listening.

HMJr: And it's taking on more the aspects of a declaration of fiscal policy for the next five years.

V: Uh-huh.

HMJr: And it -- it's shaping up very well. I mean, the approach is -- well, I mean, we're getting into what are we going to do about revenue and balancing the budget, and where we are going to be the next five years.....

V: Uh-huh.

HMJr:and it's shaping up as a declaration of policy.

V: Yes.

HMJr: And I wondered if it would possible for you to be here Friday when Magill comes back.

V: Yes, I think so.

HMJr: Well, if you could, by Friday it will be in shape.

V: All right.

HMJr: And inasmuch as it's -- it's shaping up into a fiscal policy, I'd like very much to have the benefit of your advice.

V: All right, I'll be there Friday morning.

HMJr: And I feel that -- well, it's up to me to say something.

V: Yeah.

- 2 -

HMJr: What?

V: Yeah.

HMJr: If we have a draft before.....

V: Yes.

HMJr: I -- I'll mail you one.

V: All right, do that.

HMJr: Right. How are you feeling?

V: Pretty good.

HMJr: Let me ask you this: I've got a call in for Dr. Abraham Flexner.

V: Yes.

HMJr: What I'm trying to do is to get people lined up in case of a world war.

V: Yes.

HMJr: And besides yourself, I was going to ask -- I was going to talk to you when you came down -- I was going to ask Flexner, in case of a war, would he lend me Stewart and -- and Reifler. What do you think?

V: I don't get -- would he do what?

HMJr: Lend me Walter Stewart and Reifler.

V: Oh!

HMJr: I mean.....

V: And what do I think?

HMJr: Yes.

V: I think he should.

HMJr: Don't you think so?

V: Why sure.

- 3 -

HMJr: What I've got in mind is, I want to get three or four outstanding economists who would be here.....

V: Yeah.

HMJr:with no administrative responsibility, but just to think on all matters -- whether it's gold, or exchange, or trade, and so forth -- to sit here and advise the Government as to how we should look after our interests.

V: Yeah. Well, I think that's -- I think that's -- that's just the right idea.

HMJr: Don't you think so?

V: Yeah.

HMJr: There would be no administrative -- just to think, that's all,

V: Yeah.

HMJr: I mean, they ought not have anything but a stenographer but then be able to draw on any staff in Washington.

V: Uh-huh.

HMJr: What?

V: I think that's right.

HMJr: What?

V: I think that's a good idea.

HMJr: Well I want to talk to you about it when you come down.

V: Yeah.

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

V: All right, Friday.

HMJr: Fine.

V: Did you have a good holiday?

HMJr: No, I was sick the whole time.

- 4 -

V: Oh, is that so?

HMJr: Yeah.

V: That's too bad.

HMJr: O. K.

V: Good bye.

HMJr: Good bye.

April 11, 1939
9:20 a.m.

HMJr: Hello.

Operator: Mr. Edison is in New York for several weeks.

HMJr: Yes.

O: Mr. Compton, his assistant, is there.

HMJr: Compton?

O: Yes.

HMJr: All right.

O: All right.

HMJr: Hello. (Pause)

HMJr: Hello -- hello -- hello.

O: Mr. Compton.

HMJr: Hello.

Louis Compton: Mr. Compton speaking.

HMJr: This is the Secretary of the Treasury.

C: Good morning, Mr. Morgenthau.

HMJr: Mr. Edison -- good morning. Who is Acting Secretary of the Navy today?

C: Mr. Swanson will be in today, Mr. Secretary.

HMJr: Well.....

C: As far as I know he will. He was here -- here yesterday. He's due here around ten thirty, sir.

HMJr: Well.....

C: And in his absence Admiral Leahy would be Acting.

HMJr: Well, I wonder -- I tell you what I want, and see if you could take care of it for me.

- 2 -

C: Yes, sir. I'll be very glad to.

HMJr: With this situation in the Mediterranean,....

C: Yes, sir.

HMJr:I wondered whether Naval Intelligence once a day could give me a report as to the situation in the Mediterranean, or -- or as to the possibilities of war. You see?

C: Yes, sir.

HMJr: And -- if somebody could come over here every day, say five minutes of one, and hand me a report as to what the situation is, because it looks to me as though with the British fleet moving around and everything.....

C: Yes, sir.

HMJr: But I -- I wanted just a one page summary of whatever the latest news is for me -- for my own information only.

C: One page summary -- and you want it every day at twelve.....

HMJr: Five minutes of -- twelve fifty-five.

C: Twelve fifty-five. Yes, Mr. Secretary.

HMJr: To be put into my own hands.

C: Yes, Mr. Secretary. It'll be -- it'll be done.

HMJr: And -- and a summary of whether -- the Mediterranean -- anything which would help me withstand -- I've got to handle foreign exchange, you see?

C: Yes, sir. Yes, sir.

HMJr: And I want to know, until this thing either blows over or blows up.

C: All right, Mr. Secretary, I'll take care of that today for you.

HMJr: Are you a Naval Officer?

- 3 -

C: I'm not, I'm Mr. Edison's assistant. I came down with him from New Jersey, Mr. Morgenthau.

HMJr: Well, fine. I just wanted to -- but you get what I'm after.

C: I know exactly.....

HMJr: I mean, from a layman's standpoint, what's going on.

C: Yes, sir.

HMJr: And what's the chances of war; is it getting worse; is it getting better; what all these Italians are doing on all these islands; what is their objective; et cetera. You see?

C: Fine. All right, sir, a daily estimate of the situation.

HMJr: A daily estimate of the situation.

C: All right, sir.

HMJr: At twelve fifty-five each day.

C: Yes, sir.

HMJr: To be put into my own hands, and the only use I'll ever make of it is that -- you can tell the Naval Intelligence -- I naturally feel free to discuss it with the President.

C: Yes, sir.

HMJr: But outside of that, it will not leave my hands.

C: Yes, sir. All right, Mr. Morgenthau. Yes, sir.

April 11, 1939
9:34 a.m.

Operator: Go ahead.

HMJr: Hello.

Bill Douglas: Hello, Henry.

HMJr: How are you?

D: Fine.

HMJr: Bill, in talking to the President yesterday, he was very anxious that I talk to you today.

D: Yeah.

HMJr: And that while you're still available.....

D: Yeah.

HMJr:that you and Eccles and I get together and whoever you would designate on the S.E.C. to discuss what we would do in the case of a world war, as far as stocks are concerned -- and I think you ought to include commodities as well.

D: Yeah.

HMJr: He didn't suggest that.

D: Yeah. That would mean bringing in Henry Wallace.

HMJr: Yeah.

D: Well, any time -- today would be the best day.

HMJr: Gosh, today is the worst.

D: Well.....

HMJr: But I'll -- I'll just -- how -- how about four o'clock?

D: O. K.

HMJr: Well, now.....

D: Your office?

HMJr: Is that all right with you?

- 2 -

D: Yeah. Yeah.

HMJr: Now, then, should I get in touch with the others?

D: Ah.....

HMJr: Well, you bring somebody from your office.

D: I'll bring somebody from my office, yes.

HMJr: Who will carry on.

D: Yeah.

HMJr: And I'll contact Eccles and Wallace, huh?

D: Swell.

HMJr: Is that all right?

D: Yeah.

HMJr: I should think -- let's -- let's make it three-thirty.

D: All right, three-thirty.

HMJr: What?

D: Three-thirty. Do you suppose that we ought to have Feis from the State Department?

HMJr: I think it would be good, yes.

D: At the Munich crisis, I was in heavy conversation with him.....

HMJr: Good.

D:on various angles of the thing.

HMJr: Good.

D: And I think it might be.....

HMJr: Yeah, we've worked closely with him.

D: Yeah.

HMJr: So I'll get it across to him.

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D: Fine.
HMJr: Thank you.
D: Three-thirty?
HMJr: Three-thirty.
D: Yeah. Good bye.

April 11, 1939
10:16 a.m.

Operator: Go ahead.

HMJr: Hello.

Dr. Flexner: Hello.

HMJr: Dr. Flexner.....

F: Yes.

HMJr: Henry Morgenthau, Jr.

F: Oh, hello -- hello. How do you do?

HMJr: How are you?

F: I'm all right, thank you. I hope you are well.

HMJr: I'm quite well. Dr. Flexner, what I'm calling you up about is quite confidential.

F: Yes.

HMJr: This is Dr. Abraham Flexner, is it?

F: Yes.

HMJr: As you know, things abroad are at sixes and sevens.

F: Yes.

HMJr: And we never know when we'll have a blow-up. And I'm trying to get the Treasury prepared for any eventuality.

F: Yes.

HMJr: And in doing that, it would be very useful to me if I could call on both Walter Stewart and Reifler.....

F: Yes.

HMJr: But -- with this in mind, I want to have three or four or five of the leading economists in the country to be here to advise me and the President on general economic matters and to set up the machinery so in case there should be a world war, they could sit as a Board, with no administrative responsibility, but purely to be looking over the whole field.

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F: Yes.

HMJr: And it wouldn't necessarily be a full-time job, but it -- I want all full-time as far as their brains go.

F: Yes. Well now, of course, you know, Mr. Morgenthau, that in any such eventuality.....

HMJr: Yes, sir.

F:I, personally, would chuck everything.....

HMJr: Yes, sir.

F: to help the -- you and your associates, from the President down.

HMJr: Yes.

F: And regardless of any other consideration whatsoever, I think that Stewart and Reifler would do the same. Now, I'm going to be in -- in Baltimore -- in Princeton tomorrow.

HMJr: Yes.

F: If you can wait until tomorrow.....

HMJr: Oh, yes.

F:I will take it up with them personally.

HMJr: Now, what I want to do was, if -- if you approved of it -- the idea -- knowing what I had in mind, whether they could be down here Saturday morning to talk it over.

F: Yes, yes.

HMJr: And I was thinking of asking also Dr. Viner and Dr. Hanson. Those are the four people I had in mind.

F: Who were the other two?

HMJr: Hanson of Harvard.

F: Oh, yes, yes, yes.

HMJr: And Viner of Chicago.

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F: Yes, yes.

HMJr: And I wanted to sort of set up the machinery so that in case of a world war, these people could be here to advise the President and myself on anything -- any economic situation and how we should meet it.

F: Today -- let's see, today is Tuesday, isn't it?

HMJr: Yes, sir.

F: I think it would be better, from your point of view....

HMJr: Yes, sir.

F:if I spoke to them.....

HMJr: Yes.

F:myself.....

HMJr: Yes.

F:as I can do tomorrow morning.

HMJr: Yes.

F: I'll be in Princeton tomorrow morning.

HMJr: Yes, sir.

F: And I think, as far as I know them, that they would chuck the institute, or anything else.....

HMJr: Yes.

F:to help you and the Administration in -- in an emergency of this kind.

HMJr: Well, tell me when.....

F: And....

HMJr: Please. I'm listening.

F: I say, just as I -- I mean.....

HMJr: Well, in September Reifler told me that his services were at the disposal of his -- of the Government in case of a world war.

F: Yes.

HMJr: I -- I never took it up with Walter Stewart.

F: I -- I'll speak to him. I'm perfectly sure that those men will do -- do anything that a patriotic American, regardless of politics or anything else, would do in an emergency.

HMJr: Well, would you call me after you've spoken to them?

F: I'll get there probably sometime towards noon.

HMJr: Yes.

F: And then I'll call you as soon as I've seen them.

HMJr: Yes -- now, this is the proper way to take it up, is with -- through you, isn't it?

F: I think it's the best way.

HMJr: Yes.

F: You could do it directly.

HMJr: No, I'd much rather do it through you.

F: Probably -- I probably think what would happen is -- if you spoke to them, they'd come and speak to me.

HMJr: Yes.

F: And I would say, "Well now, you -- you follow your own judgment."

HMJr: Yeah.

F: Now, taking it up this way, I can in a way, without putting them in -- under any compulsion, I can indicate what my own feeling is.

HMJr: Yes.

F: And then -- I -- well, there's strong feeling, which, of course, I don't express and don't urge....

HMJr: Yes.

F:that the democracies of this world ought to stand together.

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HMJr: Right.

F: And that all this talk about neutrality and is bosh when you've got a couple of -- of bandits keeping the world in a state of jitters continuously.

HMJr: Yes.

F: Now, if they'll sit down and behave themselves, nobody would be better satisfied than I will.

HMJr: Right.

F: But if they are going to keep us all wondering whether they are going to take the British West Indies and from there have an air base to Florida and South America -- I mean, the whole thing is getting -- it's an intolerable situation.

HMJr: That's right.

F: And I don't think that we should be indifferent to it.

HMJr: That's right.

F: Other people have made great mistakes, there's no question about it. We've also made some; nobody's hands are clear, but all that fades into insignificance....

HMJr: Yeah.

F:compared with the damage that those people are doing morally and otherwise -- politically -- every way -- socially to a -- to world decency and order.

HMJr: Right.

F: And I really think we ought to get to roll up our sleeves and lay everything else aside.....

HMJr: Right.

F: if it comes to a test.

HMJr: Well, the point is, I want to be ready, you see?

F: That's I understand that.

HMJr: And know who I can count on.

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F: Wise forethought.

HMJr: Pardon me?

F: I think that's wise forethought.

HMJr: Well, thank you so much. I appreciate your attitude.

F: That's all right. I'll do anything in my power.

HMJr: I'll look forward to hearing from you tomorrow.

F: All right. If you need any authorities on medieval history, we can give that to you too.

HMJr: I may.

F: How is your father?

HMJr: He's fine, thank you.

F: That's very good.

HMJr: Thank you.

F: All right.

HMJr: Good bye.

F: Good bye.

April 11, 1939.
3:00 P. M.

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RE PLANS FOR STABILIZING MARKETS
IN EVENT OF WAR IN EUROPE

PRESENT: Mr. Lochhead
Mr. White
Mr. Young
Mr. Foley
Mr. W. O. Douglas
Mr. Frank
Mr. Purcell (S.E.C.)
Mr. Feis
Mr. Wallace
Mr. Robbins (Agri.)
Mr. Eccles
Mr. Goldenweiser

H.M.Jr:

Gentlemen, the President asked us to get together for him in the strictest of confidence - also to give Mr. Justice Douglas a good send-off - and he wondered what, if anything, we were doing in case there should be a world war to look after the various markets; and I told him that frankly talking for myself I wasn't ready and I didn't know whether anybody else was. So he asked us to meet and discuss it and to get ready. And so I will start anywhere you want.

Possibly a good way to start would be to tell you what the English have told us in strictest of confidence that they propose to do. Maybe that would be a good way to start.

Douglas:

Just as a background, Mr. Secretary, I can say this: As far as we are concerned, we are prepared with all of the legal documents necessary for the closing of the exchanges if that proves to be necessary. I mean all those documents are drawn and they are all in the icebox and they could all be executed within a very few minutes; so we are prepared against that contingency.

H.M.Jr:

Well, that would be on that angle.

Douglas:

That's right.

H.M.Jr:

But what to do to keep them from closing.....

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Dowd:1881

If worst comes to worst and it appears that the exchange has to close, there won't be any scurrying around as to all the details; they have been taken care of so far as you can anticipate.

H.M.Jr:

And might I ask you, when you say exchanges does that include the monetary exchanges, commodity exchanges?

Dowd:1882

No, just security exchanges.

Wallace:

The commodity exchanges are within the Department of Agriculture's.....

H.M.Jr:

Do you mind my asking you if you are as ready as SEC is?

Wallace:

I would very much question whether it would be necessary for us to close the commodity exchanges.

H.M.Jr:

I mean in case the President.....

Wallace:

No, we are not as ready.

H.M.Jr:

Would that be a reasonable request to make?

Wallace:

We'll get ready.

H.M.Jr:

You'll have that ready?

Wallace:

(Nods yes).

Frank:

Mr. Wallace, does the statute give you the power to close it?

Wallace:

No, I think not, but we have a great deal of power of moral suasion.

Frank:

Mr. Secretary, you see we have under our statute - we have that power without - it isn't moral suasion. We just can do that.

H.M.Jr:

Well, if it does nothing else, this meeting will certainly educate me; it will be useful.

Well, that, of course, is the - how should I say - the last resort.

Dowd:1883

That's right.

H.M.Jr:

And as I say, I don't know what the Federal Reserve - if they have been thinking along these lines.

Hodges:

Well, last summer or last fall at the time of the Munich Conference, when things appeared to be pretty black, I was away on a vacation at that time and I talked to Mr. Ransom, Vice-Chairman of the Board, and they had some of the bank presidents in and they also considered this whole subject; and work was done at that time on a statement that could be issued that seemed to cover the emergency situation. The matter was again revived just a few days ago. There aren't so many things really that we can do.

Dr. Goldenweiser was present at those conferences last summer and I'd like him to make a statement as to the development at that time, and whether you feel that that would meet the situation now.

Goldenweiser:

Well, Mr. Secretary, what was done - last Friday we sent out a letter to the banks asking them whether they wished to take up with their boards or directors any questions in connection with the possibility of wanting to reduce their rates or make any local announcements; and in addition to that we prepared a statement that the Board could issue if hostilities in Europe should develop, which would be a reassuring statement about the fact that we are in a position where any demands from withdrawals of any kind could be met without the slightest difficulty. That statement was prepared, as the Chairman says, last September, and was brought up to date the other day; and it has been approved by most members of the Board and will be ready to be issued if the occasion should arise. It would tell the public of the position of the banks, of the fact that they stand ready to meet any withdrawals and all that sort of thing.

H.M.Jr:

Well, would it be agreeable to you to let the principals here see that statement?

Hodges:

Well, I haven't - we haven't got the statement, and the Board itself hasn't taken official action. I would like to take the matter up with them and get it in its final form. And I would see certainly no objection, because it ought to be issued in connection with the general action of the Government. It isn't a matter that any of us should act alone on.

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H.H.Jr: I mean things might move so fast - do you suppose in 24 or 48 hours you could.....

Hodges: Well, I would think that we could certainly do it tomorrow, wouldn't you, Dr. Goldenweiser?

Goldenweiser: I see no reason why we couldn't.

And that Mr. Wallace, the SEC, and myself could be furnished with a copy.

Hodges: That's right.

H.H.Jr: And the State Department.

Hodges: Yes, the State Department. Let's see, that would be the four of you then.

H.H.Jr: There is SEC, Agriculture, State, and Treasury.

Hodges: All right.

H.H.Jr: I think that this is sort of a - this is an ultra-confidential cable from London just saying what they have done. And we asked the French whether they had anything like this and they said, "No." Is that right?

Goldenweiser: That's right. I have a copy.....

But it is interesting - the English have given us some idea. And incidentally, if they would let us use part of this and give it out, I think it would be very reassuring. We could show, when you read this thing, that they don't - they are not going to dump their securities. I mean that's what so many people are worried about. When you read this, you'll see they have no intention of dumping.

"One. Immediately upon the outbreak of a war the British Government will requisition all foreign securities, foreign balances and gold belonging to British residents (the term British residents includes foreigners who are normally British residents). The British Government will not take

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steps to liquidate any American securities thus acquired without prior consultation with the appropriate American authorities.]

"Two. The British Government does not intend to declare a general moratorium but expects to close all banks and financial institutions for one day. The banks consider that they need such a period to make the necessary adjustments and the British Treasury is of the opinion that should war eventuate towards the end of a given week it would be necessary for the banks to make arrangements whereby payroll wages could be met.

"Three. It is our plan that the Bank of England should announce, probably daily, foreign exchange rates for sterling and the other banking institutions would be authorized to supply foreign exchange in suitable amounts for bona fide reasons. Therefore American citizens who happen to be in the United Kingdom upon the outbreak of a war would be able, after the banking institutions reopen, to cash travelers' checks, dollar drafts and draw on dollar letters of credit, etcetera, and thus obtain not only such pounds as they may require but necessary amounts of American dollars.

"My own impression is that there are two schools of thought as to the rate at which the pound....." - I'll finish reading - ".....at which the pound will be evaluated in terms of dollars when dealings begin after the outbreak of a war. But I feel reasonably sure that those who favor an immediate and sharp depreciation of the pound will prevail and that the sterling dollar rate as first announced by the Bank of England after the outbreak of a war would show a very considerable depreciation of the pound as compared with the present level."

This interests you (Wallace).

Wallace:

Very much so.

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Goldenweiser: Is that Butterworth's wire?

H.M.Jr: This is Butterworth's, but this is - this is direct from the British Treasury to me via Butterworth - from the British Treasury.

Goldenweiser: The last part was his opinion.

H.M.Jr: Well,.....

Lockhead: Yes, at the top here.

H.M.Jr: Yes. Thank you.

"Four. The stock exchanges will be shut upon the outbreak of a war. The British Treasury intends to reopen them as soon as practicable but realizes it is impossible now to set any definite period inasmuch as the object of shutting the stock exchanges would be to prevent panic selling from developing."

Of course, if they did close, that would throw more of a burden upon us, wouldn't it?

"Five. Under the present war plans the British Treasury will attempt to continue to function in its present building in Whitehall, in the basement of which bomb shelters have been constructed."

We'll have to bring in our general contractors to do the same thing. I wonder if we've got a bomb cellar here.

"But it is not really known whether this tentative arrangement will in fact prove feasible under actual war conditions."

"The above information has been obtained on the explicit understanding that it would be treated most carefully and confidentially. In this connection the Ambassador suggests that the head of the Securities and Exchange Commission might be informed of the stock market information but in the strictest confidence."

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Then Mr. Kennedy called up the President again on Saturday and again said, "What are these men doing over here? They ought to be ready."

Well, that gives you people some idea of what they are doing, and I don't think we have gone anywhere near as far in meeting a similar situation. But if we had a plan coordinated with the other bourses and could get the countries in the Tripartite - get particularly Holland, Belgium, and Switzerland - particularly Holland and France, to agree to a coordinated plan, which would be perfectly possible, and then could announce that there is such a plan, don't you think that would be very reassuring?

Frank: (Nods yes).

H.M.Jr: I mean if it could be announced - I mean that there was a coordinated plan - I mean, for instance, that all the stock exchanges would close simultaneously and not just one - leave the other open and exposed to take the brunt of the attack.

Frank: Mr. Purcell was just saying that if we close ours and they close theirs and.....

H.M.Jr: I mean in case of a war if the countries in the Tripartite, which are the five countries, England, France, Switzerland, Belgium, and Holland, should work out a coordinated plan of how to take care of this stuff, I should think it would be very reassuring.

White: Mr. Secretary, we went over the material of what happened on the day when they closed their exchange, and it said that before the stock exchange governors decided to close on the morning of July 31, they had obtained definite.....

H.M.Jr: Excuse me - this was what year?

White: July 31, 1914.

H.M.Jr: You didn't say that.

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Wittet: I'm sorry.

Said they obtained definite information of a wholly unprecedented volume of selling orders being cabled overnight from Europe to take place in New York banking houses for execution, by virtue of the closing of the London Stock Exchange.

Farrall: At the market.

Wittet: No limit on it.

W.H.S.: Well, Bill, don't you think one of the things we might do would be the possibility of working out an arrangement with the five exchanges - four exchanges in the four countries so that we move together if we do move?

W.H.S.: That might be possible; I don't know. The most likely thing would be an agreement whereby we would all close at the same time.

W.H.S.: That's what I mean. And no one would close without notifying the other fellow. See, we could handle that through our Tripartite Agreement - I mean acting as agent for you. What? I mean we have the contact.

Don't you think, Herbert, that we could do that?

Fels: I think you are in a position to discuss the idea - in an admirable position. I'd want to listen much longer before I knew whether the idea itself was a good idea.

W.H.S.: Well.....

Fels: I should think that if you offered to the investors of the world the prospect that in the event of war there will be absolutely no place they're going to be able to sell their securities, you might be producing a very substantial effect on your present and prospective security markets.

W.H.S.: Mr. Fels, you mean if that announcement were made now.

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Feis:

Yes, or if word got out that negotiations to that end were under discussion. I don't know that that is enough of an objection to make the thing unwise, but I am sure that it is something to which you want to give consideration. I should think that the way in which you - the exchange policy that you follow might very well depend on what the level of prices was, to some extent. And I suggest therefore that other alternative lines of action besides this be considered.

All of those remarks are just thinking aloud, talking aloud.

Frank:

I gather, Mr. Secretary, that you had two things in mind. One was a discussion looking forward to what would happen if war were declared. The other is a distinct question: assuming that such an agreement were made, whether an announcement of that particular fact should presently be made. That is a distinct question.

H.M.Jr:

It is a distinct question.

What I am trying to do today is for myself, and I don't know - I can only talk for myself - is to get myself thinking about this thing for the President, get everybody thinking about it today; and then we'll meet again maybe tomorrow and after we have had 24 hours, talk it over, see how much or how far we have gone, and then talk again. But he thinks and I think that we ought to by the end of the week have a formula and a program so that we could go and say, "Now, we've got this; we'd like to put this before you. What do you think about it?"

I told him yesterday, talking for myself, I wasn't ready.

Wallace:

There is one point, Henry - if I remember the situation between July 31, 1914, and November 1914 correctly, there was - the fact of the closing of the stock exchange did not mean that there were no transactions anywhere.

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H.M.Jr: It was a black market.

Wallace: And if there was any prospect of any long continuance of closed markets - well, it would be just too bad.

H.M.Jr: Well, to answer.....

Wallace: I should think it would be wise, if you're going to make any statement, that you indicate, if you could possibly work it out - indicate how you were going to handle the situation during an interim period.

H.M.Jr: Well, I want you to know how I feel. I would do everything possible to keep the market open.

Felt: That's right.

H.M.Jr: See? I mean - and I think I have twice been instrumental, when the President asked my advice, in keeping the markets open. I mean everything that - I would do everything to try to keep the markets open, and I want to come to what we can do to keep the markets open. But in the case of last resort - my whole philosophy is to do everything possible to do that and prove we are a world power, we can go along, so forth and so on; I mean that's the way I'm thinking, just so that you know.

Felt: May I just throw out this suggestion half way in between. If it appears that we could serve our own interests at all times best by keeping the market open, if we could get an understanding with other governments to the same effect as those British assurances there, you might have something that would help very much in keeping it open.

Felt: And a present announcement of that might be very helpful.

Felt: That might have just the opposite effect.

H.M.Jr: Say that again please.

Felt: The British have said that they were going to requisition all the securities - all the dollar securities held by British residents. Suppose the French, the Swiss and the Dutch said the

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same thing. The British have said, "Furthermore, we won't dispose of those without prior consultation with the proper American authorities." Suppose the other governments said the same thing. Then you'd know that in trying to keep the markets open you would not have to deal with this great enormous panic selling of the securities from abroad.

H.M.Jr: That's right.

Fels: That might be a tremendous help in trying to keep it open, in which they would unquestionably have a considerable interest.

H.M.Jr: That's right.

Lowland: Might that not be open to the same danger, that any word that the governments would requisition securities would make the nationals try to sell them beforehand.

Fels: You'd have to skip that part, simply get an understanding to another effect: that no selling would be carried on in the American market except after consultation, simply meaning that they would control the business of selling.

H.M.Jr: You see, the unfortunate thing - the leaks in the other governments, excluding the British Government - the leaks are terrific.

White: I am wondering, Mr. Secretary, whether there isn't something to be said on the other side, just thinking aloud, with respect to the effect of the closing of the securities market in the event of war. Might not it be possible that a holder of securities, knowing the possibility of war, anticipating that a decline might come - might he not be reassured at the information that the securities market would be closed? I'm merely throwing that as against the other.

Fels: Maybe.

White: Might he not feel that he doesn't want to get caught and therefore might he not precipitate some selling now, if it were bruited about that the markets would not be closed at such a time?

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Hester:

I think there is an awful lot in what Harry says. You take last spring, the spring of '38, when the market was so bad; there was quite a good deal of pressure for a day or two to close that market. You remember that, Bill, that there was the general sense of panic conditions and that people said, "Now, all you've got to do is close that market for a day or two until this panic gets over with, and then everything will be all right."

Now the question of the bank holiday was a typical case. The only way you could get started on - stop the run, was to close the thing and then reopen. And I think that there are a great many people - if they felt that a panic was going to be stopped by the closing of the market until the impact of the thing was over, until people had a chance to get some adjustments, it would have a favorable effect other than an adverse effect.

And especially is that true if these other countries are going to be forced to close their markets, and no doubt they would possibly have difficulty guaranteeing that they would keep their markets open. If all five countries could be assured that they could keep the markets open, then that would possibly be the best thing to do. But, knowing that the four European countries would likely close their markets, I think for us to attempt to keep our market open would serve no useful purpose. That's the way it would appear to me.

Hester:

Then there is another angle to it, that when the markets were closed in July 1914, you remember, this outlaw market appeared and they soon began publishing sheets in which they were listing the prices of the bootleg transactions. And the information was very surprising, in view of the fact that the price declines were very small. Therefore, when they decided to open the markets they knew the markets would open at approximately the levels which prevailed then, which happened to be the approximate levels at which they had closed. Now then, if the markets were closed and if this were again permitted to happen, you would have an indication of the state of the markets and you would know whether the markets could be safely opened or whether possibly

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it would be better to postpone the opening of the markets until stock picked up. But you would have that kind of information which might enable you to act more intelligently, which you couldn't have if the stock markets were open. That's another thing to be said on that side, possibly.

Well, wouldn't this - I mean I'd like everybody - for instance, I don't like to tie you up any longer than necessary - knowing this is something the President would like us to do, how would it be if, unless somebody has something else, each person would think this over and we could meet in 24 hours again and then come in and say, "Well, talking for myself, I could do this." I mean we could put each of our things on the table and maybe get a coordinated plan out of the thing, you see, so we could go over to him and say, "Mr. President, here we can do one, two, three, four, and here are the alternative things you can do. We are ready to discuss it amongst ourselves. We feel this is the best thing. What do you think?" I mean, having gotten the thing started, we could think about it and come back in 24 hours, if it wasn't rushing. Is that rushing you people too much?

No.

What? Is that.....

(No no no).

How about you (Wallace)?

I'd like to ask, in that statement from the British were they thinking of closing the commodity exchanges?

Doesn't mention it.

I imagine - they're going to close the banks, everything will be practically closed for a day or two; I think they are thinking along the lines of everything.

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Frank: May I ask - I remember reading one of the London periodicals at the time of Munich, and I think they were preparing to close their commodity markets, weren't they?

H.M.Jr: Would you people like a copy of this cable in strictest confidence? Supposing you (Lockhead) give each.....

Lockhead: I'll have to check with.....

H.M.Jr: We can give a copy, can't we, to these people?

Felix: It's perfectly all right, but if I were you I wouldn't.

Wallace: Jerry, I wonder if some of our people could get in touch with your people.

Frank: Right away.

H.M.Jr: What?

Couglas: The way I look at it is this.

H.M.Jr: Please.

Couglas: The closing of the exchange in this country doesn't mean depriving investors of a market - of all markets for securities. There is a big over-the-counter market.

H.M.Jr: Oh, tremendous.

Couglas: And that has been gaining in some securities rapid strides in the last few years, due to obvious advantages companies have in not listing their securities. That's been one of the things - one of the inequalities we have been trying to rectify. From the point of view of the investor, he probably - and this again is a generalization; it is subject to a lot of inaccuracy - probably would suffer the same possibility or probability of getting poor bargains as he would if the stock market were allowed to stay open and the things would sag down, go up, and sag down; because that over-the-counter

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market is in spots at least a very severe market from the point of view of the investor - very wide spreads and so on. So from the point of view of the investor, I don't think it is important - I don't think it is - from the point of view of protecting him. It is necessary usually to close the stock exchanges, but I think the same depressed condition would exist on the over-the-counter market, if anybody wanted to buy.

But there is a broader problem of the psychological effect on the country as a whole of this thing zooming down, I mean, and that seems to be the important thing rather than from the investor's point of view, because I think they'll get the same type of bad bargains on the over-the-counter market as they would in the exchange market in that period. From the point of view of the business man, psychological effect upon the country as a whole, a market that is zipping down does have a tremendous bad effect.

Now, if the British block off the American securities held there, that takes out a very, very important chunk from this market. Have you got the percentages.....

Frank: The foreign-held securities.....

Douglas: What are the British? ✓

Frank: Well, over half?

White: Little less than half. They have exactly about 900 million out of the 3.2 billion, including stocks and bonds; about a billion.

Eccles: How many, Harry?

White: About a billion dollars out of roughly three and a quarter billion total securities; stocks and bonds are listed as being through U.K. so they might definitely be other.....

Wallace: Are those all listed securities?

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White: I don't know. I imagine most of them are.

Eccles: It's about a billion out of three billion two, taking all of them.

White: With Latin America. France has about two hundred twenty-five, the Netherlands almost 600 million.

Wallace: What percentage would that represent of the total values of listed securities?

White: Very small percentage, but I think that wouldn't be the test, because the test would be that they might throw them on the market all at once and they are concentrated, I take it, in a smaller group of the better securities.

Eccles: What I was getting at was this: If the British type of agreement - perhaps not exactly the same, but at least some agreement to control selling and some notification of us in advance of allowing this stuff to come out - such an agreement from France, from the Dutch and from the Swiss, perhaps not necessarily going the full extent of the British, since that might not be practical for their own internal reasons - but some such agreement would seem to me to give us the only protection we need.

H.X.Jr: It would be wonderful.

Douglas: What?

H.X.Jr: It would be wonderful.

Douglas: Yes, if we could get some agreement on their part to control the selling; that is, to say to - some agreement on their part to advise the appropriate authorities here before they release American securities from those countries for sale.

White: It would be the knowledge of that fact that would help check a far greater amount of domestic selling.

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Frank: The knowledge is important.

White: The knowledge is what is the important thing.

Wallace: Ought to be eager to do it, oughtn't they?

White: They would account for the bulk.....

Douglas: Every conceivable self-interest for them to keep this market open.

White: You have named the countries in the Tripartite; they have the bulk of it, with the exception of Canada.

H.M.Jr: We can take care of them.

Purcell: I wonder how effective any such agreement on the part of the French would be, in view of the fact that the French nationals have such a great amount of their securities out in hiding in Switzerland and other places, even in this country.

Frank: Well, even your U.K. figures are foreign, some of them, aren't they, Harry?

White: Yes - you can't tell.

Frank: But I assume the British Government could control it, nevertheless, if it is in English name.

H.M.Jr: Well, if they would include - simply say to the French Cabinet, "You can do your selling; everybody else can't." I think you could get it through all right if we could say to the French Cabinet, "You are excluded from this," and then everything would be lovely.

Dooley: That's the trouble with you fellows; you are members of the wrong Cabinet.

H.M.Jr: That's right.

White: I think you want to take this into account in trying to see what would happen: these two things.

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First, that if it is known that the Government is going to requisition, it will be assumed that when they requisition they will pay the price of the day they have taken over; that therefore your security holders will have no fear that they are going to lose through that. That will tend to encourage them to hold to their securities. Another factor that you'd want to take into account in trying to forecast is the probability that your professionals will decide that every European currency is going down in terms of the dollar, and that, I should think, would prompt security selling.

I don't know how - I just throw those two things out as among the things you would want to put on a piece of paper when you are trying to forecast.

White: Hardly the second, Herbert, because United States Steel would have a value in dollars and would be just as good as owning the dollar balances. In fact, it would lead them to hold their securities. I think what would be the motivating factor there is if they wanted to evade confiscation - might select one or the other depending on which they think they could hide most easily.

Frank: I was going to suggest something that we might do for our own use: take each suggestion and have a double entry for the arguments pro and con on each one.

White: We haven't mentioned but one of the possibilities. There are three or four others you have you might mention.

H.M.Jr: Well, just to show you how big this movement is, Lockheed tells me that last month we estimate 25 million dollars worth of American currency was shipped out of this country. That's a lot of money.

Wallace: Do you - pardon me.

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H.M.Jr: Please.

Wallace: Do you care to discuss at all the prospect of further devaluation of the pound relative to dollars?

H.M.Jr: I will if you insist.

Wallace: No, I don't insist.

H.M.Jr: I'll tell you now that I'll go through with the same motions, only more violently, that we did in December to keep them from doing it. We were successful then; I don't know whether we can do it again. But I think I would take encouragement from the fact that we could do it in December, where they served notice two or three times that the pound would go below 4.60 and couldn't tell where it would stop. We were able to keep them from doing it. No question the pound is pegged and they did everything over there, so to speak, we having the distinct advantage of them. I should think we'd have a better opportunity and a better chance in making them continue to peg the pound in case of war than we had in December, where we really didn't have very much other than just moral influence.

Lockhead: Except that at this time, Mr. Morgenthau, I'm going to have to get a ruling if they're going to peg the rate as to how much gold we are willing to carry on the other side. That's the problem we have to face this time.

White: Mr. Secretary, a bit of gossip. I just heard last week from somebody who has talked to several very important British bankers who had told him they had wanted - the story that went around was they had wanted to lower the pound and the only reason they didn't lower it was because you refused to let the British Treasury do so.

H.M.Jr: Wonderful! Thank you, Harry, for the support.

White: I thought I would pass on the story.

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Goldenweiser: Why should the British want the pound to go down in case of war?

White: There are some who do and some who don't - pros and cons. Just as he said, there were two points of view as to whether they would, and there are two points of view as to where their best interests lie.

Wallace: Both the British and French held up their currencies during the World War, didn't they?

White: For a long time.

Goldenweiser: Had it pegged at 4.77.

H.M.Jr: Would 3:30 be a good time to meet tomorrow? Is that all right, Marriner?

Eccles: 3:30 tomorrow?

H.M.Jr: Yes; that's Wednesday.

Eccles: Yes I think that's all right.

H.M.Jr: Is that a good time for you people?

Parcell: Any time.

H.M.Jr: Herbert, why doesn't each person do - and then might I make just this suggestion: what I'd like to do would be to set up a sort of a committee which could function in case of this thing, as a representative group. I mean that each of us would say that this fellow would represent us after we get the thing set up, so we would have everything oiled and greased - even a place to meet. We would have everything, so it would be as smooth as that, and not wait and suddenly say, "Well God, who am I going to put on this?" So forth and so on. I mean could we even go that far in setting this up, so that these people would get to know each other and so that we could have a smooth running organization which would be a sort of standing committee; because once we get into this thing, none of the people here will have time to sit

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every afternoon and have time to get a report every five minutes - something like that, but not to actually sit on it. And we might be thinking along those lines: that there will be a standing committee that would take care of the situation, representing State, SEC, yourself (Eccles), Wallace, and Treasury. As long as we don't need any lawyers, there is no reason to have Justice on here, is there? We've got the Supreme Court. I mean do we need Justice? Well, anyway, you might want somebody from Justice. Do you think so?

Frank: Might.

H.M.Jr: What?

Frank: Might.

H.M.Jr: Oh, this will just be an operating committee, won't it? I mean that's the way I conceive of it: an operating committee, a committee that will sit and operate on this thing.

Eccles: Wouldn't want necessarily anyone from Justice right now. There may - get in a war, may develop to that point. But it seems to me all you need for the time being is a staff or standing committee that can develop and work up this program and can advise with these departments from time to time, bringing us together as the need might develop.

H.M.Jr: Mr. Young, you will advise Mr. Hanes tomorrow morning of what has happened. Will you bring him up to date please?

Young: (Nods yes).

H.M.Jr: Is there anything else?

Douglas: Nothing.

H.M.Jr: Wallace, anything else?

Wallace: (Nods no).

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H.M.Jr: Mr. Eccles?

Eccles: No, no, I haven't anything.

H.M.Jr: Frank?

Frank: Nothing.

H.M.Jr: Feis?

Feis: Nothing.

H.M.Jr: We will go to work here and we will have something on paper tomorrow and.....

Frank: Mr. White was just saying that there are four possible suggestions, and I thought it might be helpful if he would outline them so we could be thinking about them.

H.M.Jr: Go ahead, Harry.

White: Well, there are the four rather obvious ones. One is to close the exchanges, as has been discussed. The second possibility is to follow the procedure that your commodity exchanges adopted with some commodities, of limiting the extent of decline in terms of percentage in each day's activity. A third possibility is to create some government agency or take some government agency and provide it with the powers to acquire securities under circumscribed conditions, in an attempt to support the market. And the fourth was to reduce the hours of the exchange - closing time - which would be something in between.

Those are merely suggestions that have been made, without attempting to comment on the merits of them. Those are the usual ones, and each person might come forward with pros and cons on those and any additional thoughts they may have, so we could throw out those that don't meet with any approval at all, and concentrate on the one or two measures that are regarded as feasible.

Wallace: With regard to the - you say the Government acquire the securities?

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White:

Well, that's a suggestion that has been offered. I don't like to say more about it, because it might imply I support it, which I don't. I mean that's a suggestion about which there has been a good deal of thought: creating either a special agency or having the RFC - it has even been suggested that the stabilization fund, merely because it has the legal power to do so, should buy a list of securities and keep them pegged at something close to the market.

Those are suggestions which have been floating around and which have been discussed. You might want to raise them only to dispose of them summarily, once for all, concentrating on the particular one you think feasible.

There has been very little said about this one of limiting the extent of the decline each day, and that your (Wallace) experience might throw a good deal of light on.

Wallace:

The moment it begins to become effective, they all turn to kicking, I assure you.

Douglas:

And, of course, there you have no control over the over-the-counter market.

Purcell:

That becomes the opening price every day - the minimum.

H.W.Jr:

If everybody is agreeable, shall we say 3:00 tomorrow?

STRICTLY CONFIDENTIAL

Conference in the Secretary's Office
at 3:30 P.M., April 11, 1939, on the
Subject of Preparation for National
Defense in Case of War.

Those present, for the Treasury, Secretary Morgenthau, Archie Lochhead, Ed Foley, Philip Young, Harry White; for the Securities and Exchange Commission, Bill Douglas, Jerry Frank, Carson Purcell; for the Department of Agriculture, Secretary Wallace, Mr. Robinson; for the Federal Reserve, Mr. Eccles, Dr. Goldenweiser; for the State Department, Dr. Herbert Feis.

Mr. Morgenthau stated that he had been asked by the President as to whether or not the Treasury was prepared in case of war. Mr. Morgenthau said that speaking for himself he was not, and that the President had suggested that Mr. Morgenthau get in touch with the other Departments and create a plan of preparedness which would function automatically on short notice in case of crisis. Mr. Douglas stated that the SEC was prepared in that it had already drawn up the legal documents necessary to close the securities exchanges in case war would be declared. These documents are in the icebox and could be executed in a very few minutes.

Mr. Morgenthau asked Mr. Wallace if similar measures had been taken by the Department of Agriculture governing the commodities exchanges. Mr. Wallace replied that he did not think such documents were necessary and that the commodities exchanges could be handled easily in such a situation. Mr. Frank asked Mr. Wallace as to whether or not the Department of Agriculture had the power to close the commodities exchanges, and Mr. Wallace replied that it did not have any power except that of moral suasion which he considered adequate.

Mr. Morgenthau asked Mr. Eccles as to what steps the Federal Reserve had taken. Mr. Eccles replied that the Federal Reserve had conferred with its member banks on a statement to be made public if war should be declared. Mr. Eccles asked Dr. Goldenweiser to point out the reassuring effect such a statement would have upon the financial community in case of a crisis. Whereupon, Mr. Morgenthau stated that for purposes of background he would read a confidential cablegram from the British Treasury to the United States Treasury via Butterworth outlining the steps which Great Britain was prepared to take, especially with respect to the dumping of American securities in case war were declared. (A copy of this cablegram is included in your diary dated March 31, 1939.)

Mr. Douglas, Mr. Frank, and Dr. White outlined the effect that the closing of foreign exchanges would have upon the United States exchanges and the relative amounts of foreign securities to domestic securities. The discussion continued in an attempt to draw some parallel between the days of July and August of 1914 and those days which might come in the near future.

The primary purpose of this meeting was to start the Department of Agriculture, the Federal Reserve, the SEC, and the Treasury thinking constructively toward a preparedness plan. Mr. Morgenthau suggested that a permanent standing committee representing these agencies be established with definite headquarters so that, if, as and when a crisis occurred, this committee could function at once and efficiently.

Concerning the suggestions which the representatives of these various agencies were to make at the next meeting, Dr. White outlined four of the more obvious proposals, as follows:

- (1) The closing of the securities markets.
- (2) The limiting of the volume of trading percentage-wise.
- (3) The pegging of prices.
- (4) The establishment of or the use of a Federal Agency to buy dumped securities.

Some of the difficulties with respect to these four suggestions were outlined by Mr. Wallace, Mr. Frank, and Mr. Douglas. It was Mr. Morgenthau's suggestion that perhaps the countries operating under the Tripartite Agreement, namely, the United States, Great Britain, France, Holland, and Switzerland, might be induced to cooperate so that if it became necessary to close securities markets, all the securities markets in these countries could be closed simultaneously. Dr. Feis pointed out with respect to this that such a move, if it were made public, might have a deleterious effect upon the psychology of the investor. Rather it was more to the point that these five countries should cooperate in an effort to keep world securities markets open in a time of crisis.

Mr. Douglas pointed out that, as the over-the-counter market was a factor to be considered, the closing of the exchanges would only serve to emphasize its importance. Dr. White stated that the over-the-counter market had been of service when the stock exchange was closed July 31, 1914, because the record of over-the-counter transactions gave an indication as to what the action of the market would be when it was reopened. Dr. Feis and Mr. Morgenthau discussed the difficulties of securing adequate cooperation between the five countries involved, with special reference to the efficiency of the British in making secret moves and to the inefficiency of the French in keeping anything confidential.

Mr. Morgenthau suggested that another meeting be held tomorrow, Wednesday afternoon, at 3:30, to discuss actual suggestions. Mr. Morgenthau asked Mr. Young to advise Mr. Hanes concerning what had taken place today, so that he would be in full possession of the facts at the meeting tomorrow.

R.H.

April 11, 1939.
11:20 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Preston
Delano: Yes, Mr. Secretary.

HMJr: Is this Preston Delano?

D: Yes, sir.

HMJr: I want you to know, when I had lunch with the President yesterday I read the second half of your proposed letter from Giannini to you.

D: Yes.

HMJr: And that was entirely satisfactory to the President.

D: Fine. I -- the reason I was out this morning, I was clearing the letter with Leo Crowley.

HMJr: Right.

D: He just got in this morning and I went down to the train to meet him so I'd have a good chance -- shot at him.

HMJr: Good.

D: And I'm seeing Eccles at noon.

HMJr: Well, I want you to know that the President -- I read aloud to him the second half. The first part didn't interest him, but the second half, you know....

D: Yeah. That's -- that's the -- the Comptroller dividend policy through any one of the three agencies.

HMJr: And he said that that was just exactly what he wanted.

D: Well that's -- that's in order.

HMJr: All right.

D: All right, sir, we'll try to get it. Now, I'm seeing Eccles at noon and I'm seeing Giannini at three o'clock.

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HMJr: You are seeing Giannini when?
D: At three o'clock.
HMJr: Oh!
D: This afternoon.
HMJr: Mario?
D: Mario.
HMJr: I see.
D: And I'm -- after clearing this with Eccles -- it's clear with Crowley.
HMJr: Right.
D: Why, I'm going to present it to Mr. Giannini.
HMJr: O. K.
D: Right, sir.
HMJr: Good luck.
D: Thank you. Good bye.

April 11, 1939
2:03 p.m.

Operator: Go ahead.

HMJr: Hello.

Frank Sayre: Hello, Mr. Morgenthau.

HMJr: Yes.

S: This is Mr. Sayre speaking.

HMJr: Yes.

S: Mr. Morgenthau, I find that I'm so filled up with engagements in the morning that are hard to break, I was wondering if I couldn't see you the end of this afternoon.

HMJr: Well.....

S: Or anytime this afternoon.

HMJr: I'm booked right solid through.

S: Are you?

HMJr: And I've got things that I can't break.

S: Yes. Well, now I wonder then -- maybe I'd better send Mr. Page over in the morning.

HMJr: No, there's no reason.....

S: Well.....

HMJr: Let me send my people over to you. I can send Mr. Cairns over to see you, Mr. Johnson.

S: Could -- could he come over this afternoon.

HMJr: Yes, at any time that you say.

S: Well, that would be bully if they could come over this afternoon.

HMJr: Yes.

S: What time shall we say -- four o'clock this afternoon?

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HMJr: You -- you name -- you -- well, I want to prepare this -- well, they'll have it by four, yes.

S: But, Mr. Secretary, what I -- what I hoped was that this question of -- of giving them the thirty days could be -- could be discussed. Now, will Mr. Cairns..

HMJr: I've already talked to Cairns and I've explained to him and he'll listen to you, then he'll come back and report to me and I'll give a phone call in the morning, and nothing will be done in the meantime.

S: All right, first rate. I -- I may have to work up -- up home in the morning. I've got things -- got on my list I've got to.....

HMJr: Well, I've got to get -- I mean, if you see Cairns this afternoon, I give you my word I will do nothing until after Cairns comes back and I get a chance to talk to you.

S: Yes. Well, all right, Mr. Morgenthau. That'll be fine. What I was going to say, I -- I've got to deliver a lecture out in Missouri next week -- three lectures that have got to be.....

HMJr: Well, when can you talk on -- when you're -- when you want -- you call me tomorrow when it's convenient for you.

S: Yes, sir.

HMJr: You call me.

S: All right.

HMJr: And I'll have Cairns over to see you at four o'clock.

S: All right; first rate.

HMJr: How's that?

S: All right; fine. I'm sorry I -- I had to -- couldn't -- can't be there in the morning, but it's.....

HMJr: Well, it's all right, and -- and.....

S: It's.....

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HMJr: And nothing will happen until after Cairns has seen you, he's reported to me.....

S: Yes.

HMJr:and -- and you call -- it's up to you to call me tomorrow.

S: All right.

HMJr: How's that?

S: All right, Mr. Morgenthau. First rate; thanks.

HMJr: O. K.

CUSTOMS BUREAU MATTERS

April 11, 1939.
11:55 a.m.

Present: Mr. Gaston
Mr. Gibbons
Mr. White
Mr. Foley
Mr. Cairns
Mr. Johnson
Mr. Moyle

A.A.Jr: All right. Which end do we start on this thing?
Who's going to talk?

Cairns: We have two matters, the Italian subsidy and the
marking of Manchukuo goods.

A.A.Jr: Let's do the Italian first.

Cairns: Think Johnson better start it.

Johnson: I have before me a draft of the Treasury Decision
which will give notice of the imposition of
countervailing duties on silk goods from Italy.
The order contains the usual 30-day notice and
specifies several different rates, according to
the stage of manufacture of the silk in the im-
ported articles.

A.A.Jr: Now, why are you imposing them? What have you
found?

Johnson: The Italian Government by decree has provided for
the payment of subsidies to exporters of silk goods,
the purpose of which is to offset the disadvantage
occasioned those manufacturers by a fixed high price
for silk cocoons to the Italian silk farmers.

A.A.Jr: I see. That's interesting. To offset that, huh?

Johnson: Yes, sir.

White: That's only one of many cases. That's the first of
a much wider range.

Johnson: We also have, not ready in draft, a question of
countervailing duties on silk goods, leather goods,
and woolen goods from Italy. The system there is

April 11, 1939
12:02 p.m.

HMJr: Hello.

Operator: Dr. Feis. Go ahead.

HMJr: Hello.

Herbert Feis: Yes, sir.

HMJr: Herbert.....

F: Right.

HMJr:I have our Customs' people here....

F: I -- I beg your pardon?

HMJr: I have our Customs' people here in regard to a counter-vailing duty on -- on Italian silk.

F: Right.

HMJr: And they wrote you on April third.

F: Right.

HMJr: Now, we have no answer -- formal answer from the State Department.

F: Right.

HMJr: And unless, for some reason that I don't know about, I'm going to tell the President that I want to get it out today following the same.....

F: We passed it out of this division into the interested divisions about a week ago. I am sure that the Secretary would want a little bit more time to consider it if you can see your way clear to it.

HMJr: Well, -- I mean, I don't know what a little time means I mean.....

F: Well.....

HMJr: I've been through things where you people take four or five months.

F: Well, I can't control that. Either I can immediately report your message and ask.....

HMAJr: I'd like to know today.

F: I'll have -- do my best so that either Sayre or the Secretary telephones you before one o'clock. Would you talk with him?

HMAJr: Oh, yes.

F: All right. I'll do my best, Henry.

HMAJr: Yes. Well, it doesn't have to be -- any time -- I want to be reasonable -- I'll say up until three o'clock.

F: I beg your pardon?

HMAJr: Any time -- any time up to three o'clock.

F: All right, I'll do my best.

HMAJr: I mean, I don't want to say fifty-five minutes. If I say between now and three o'clock that would give you a chance to see him before lunch or after lunch. Wouldn't it?

F: Well, I'll get -- I'm tied up for another twenty minutes and then I'll get right busy on it. As I say, it moved out of this division a week ago and I don't know what's happened since.

HMAJr: Well, between now and three o'clock I would like to hear from either Mr. Hull or Mr. Sayre.

F: Right. I'm sure you will.

HMAJr: Right.

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entirely different. No goods can be imported into Italy except under import permits issued by governmental authorities. Those permits, in the case of the three classes of goods that I have mentioned, are supposed to be on the basis of replacement of raw materials used in exported goods. For example, an Italian manufacturer of ...

A.M.Jr: I want Gaston on this.

(On phone) Tell Gaston to come right in.

Johnson: Shall I wait for him?

A.M.Jr: Go ahead.

Johnson: An Italian manufacturer of cotton gloves may export a thousand dozen pair to New York. The import control authorities estimate a certain amount of raw cotton is needed to replace

A.M.Jr: Excuse me.

(On phone) Hello. I'll take it in the wash room.

Excuse me.

(Goes out to take phone call and
returns in few minutes)
(Gaston comes in)

Sorry, gentlemen. Go ahead.

Johnson: The import permit would be granted for a quantity ostensibly to replace the cotton used in the manufacture of the thousand dozen gloves, but in fact it's for a considerably larger quantity, varying in different cases. The same thing runs through the woolen goods, and the only variation in the leather goods is that the merchandise permitted to be imported in Italy differs from the leather used in the exported articles. Now, our difficulty with those three classes, and the reason we have no order ready, is that we have been unable to get sufficient information as to the amount of these subsidies. We have been trying to get it by investigation in Italy and our Treasury representatives have stated that they absolutely cannot get the information; the Italians are forbidden by their

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domestic law to give it. The representatives have been practically thrown out, and have asked that any further inquiries be made through diplomatic channels.

We have tried to find some indication of the difference between the world price of these commodities and the prices in Italy, but we find that the prices in Italy are approximately the world prices, the difference being paid not for the goods but for the permit. The dealings in the permits are under cover. They are, although they must certainly be known to the Italian authorities - are frowned upon, and therefore there are just no open market rates.

H.M.Jr: Well, how long has this silk cocoon thing been going on?

Johnson: We've been developing this - the oldest date I have in the file is November, 1938.

H.M.Jr: Well now, who signs this?

Johnson: This order is prepared for signature by the Commissioner of Customs, with the approval of the Secretary of the Treasury.

H.M.Jr: I see. Now ...

Johnson: May I say, first, that in accordance with the usual practice in this case, I wrote on April 3 to Dr. Feis in the Department of State, telling him that the Bureau had information on these subsidies and I believed that the countervailing duty order must issue, and stated that his early comment on the matter would be appreciated.

H.M.Jr: Yes.

Johnson: Now I understand that a letter is in circulation in the Department of State stating that they have no comments but would like to ask the Italian government whether it has any further information. That matter has not been cleared and there has been no meeting of the Executive Committee on Commercial policy on the matter up to date, according

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to my inquiry this morning.

H.M.Jr: How long do we have to wait for them?

Johnson: It's a pure matter of accommodation. We don't have to wait. I just wanted to mention that that was there, because

H.M.Jr: Well, you let them know on April 3?

Johnson: April 3.

H.M.Jr: Today is

Johnson: That's the date of my letter.

H.M.Jr: Well, I think that

Foley: It's a week.

H.M.Jr: A week. Ought to be able to answer us in a week.

Johnson: In the past it's taken about thirty days to get those.

H.M.Jr: Well, this is too important. Who - do you contact Feis direct?

Johnson: Yes, sir, I wrote directly over my own signature to Feis.

H.M.Jr: I'm not going to be stalled the way I was on that other thing.

(On phone) Dr. Herbert Feis, please.

Not going to get run around.

Gaston: Right.

Cairns: No doubt about it.

H.M.Jr: Why, sure.

Foley: I think it would be very timely, Mr. Secretary, for something to come out right after this Albanian thing.

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H.M.Jr: Oh, I think it would be perfect.

Foley: Just the same as we came out on the other thing right after they moved into Czechoslovakia.

White: Particularly if it is indicated that this likely is to be only one of numerous items that are being examined.

Foley: That can be handled in the press release.

H.M.Jr: I think so.

Gibbons: You know that Matthew

H.M.Jr: (On phone) Hello. (Conversation with Feis follows:)

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H.M.Jr: Let me just clear with the President and find out ...

Gibbons: Matthew Noll's crowd has been insisting on this for a year, you know, and I've been telling them we're investigating it.

H.M.Jr: The State Department doesn't recognize them.

How much money - how much do we buy, how much does it amount to?

Watts: On that particular item it's only about a million dollars. Our imports from Italy are about 48 million dollars - between 45 and 48 million dollars.

H.M.Jr: How much?

Watts: 45 or 48 million dollars total, but this applies to only about a million or million and a half, possibly; but the rest of the items in prospect apply to approximately 8 or 10 million - all the things we have in mind.

H.M.Jr: But this particular thing.

Watts: About a million, million and a half. Silk goods, not raw silk.

H.M.Jr: Silk goods.

(On W.H. phone) The President, please. -
May I speak to Miss Lehman, please? - Hello,
Missy. You say you think I can talk when? -
No, no, it's - I'll tell you, if I could talk to
him just before lunch it would be perfect; it
will only take 60 seconds. - That would be
perfect. - Thank you.

I can talk to him before lunch, now if necessary;
now is not necessary.

Well, let me sign the thing anyway.

Wiley: Then hold it.

Gibbons: Do it in advance.

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H.M.Jr: Right?

Johnson: You put your signature here and we'll get everything else off.

H.M.Jr: Has the Commissioner signed? Let him sign first.

(Moyle signs order)

Gibbons: Well and that crowd have been anxious to do a job on the State Department on this - this American Federation of Labor crowd.

H.M.Jr: Why don't you get an opinion from the Attorney General on this one?

Foley: Don't need it.

Cairns: It's obvious.

Foley: There's no barter involved here. This is straight subsidy.

H.M.Jr: This is straight.

Johnson: This is obvious. We're basing this on a printed official decree.

H.M.Jr: If you don't mind, I'll keep it right here.

Johnson: May I get a few more initials on it while I'm at it?

H.M.Jr: What a man! Well, that's enough on this one.

Foley: On this one. Do you want to do Manchukuo?

H.M.Jr: Five minutes, then get the hell out.

Foley: Go ahead, Huntington.

Johnson: Go ahead.

H.M.Jr: Come on.

Cairns: we have the marking of goods from Manchukuo; names of provinces are not acceptable markings.

H.M.Jr: Not acceptable?

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Wicks: Markings of goods - we don't accept "Saxony" or "Bavaria." We have so ruled.

There is general information before the Treasury Department that the relationship between Germany and Slovakia is similar to that between Japan and Manchukuo. We have at the instance of the State Department been accepting goods marked "Manchuria." We have tentatively reached the conclusion that the marking "Manchuria" must be discontinued. We want to know whether the goods should be marked "China," "Japan," or some other entity.

W.Jr: Yes.

Wicks: I have here a formal letter to the State Department to be signed by the Assistant Secretary, raising that question. I have here a memorandum for telephone conversation with Secretary Hull, raising it informally.

W.Jr: What raised it?

Wicks: This telephone conversation is for your file if you

W.Jr: I don't want to do it that way.

Wicks: May I talk to Sayre?

W.Jr: If you don't mind, let me send it to Hull direct. Make it for my signature.

Wicks: There is a question whether you want to do anything or nothing.

W.Jr: Sure, let's go.

Wicks: All right.

Wicks: One other alternative - want to throw it in for discussion. There may be room for an innovation in marking. It may be neither "Japan" nor "China" nor "Manchuria," but the marking late - what is it, Section 2 of the Act - permit a marking which might say "China Under domination of Japan" or "China Under control of Japan." That's permitted in the

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marking rules, if neither "Japan" nor "China" is satisfactory, if you want to introduce ...

H.M.Jr: Why don't you suggest "Manchukuo Raped by Japan"?

White: That would be fewer words; we didn't think of that.

Gaston: "Criminal assault."

Johnson: I have a little concern about this myself. I'm not sure that's the only question you're going to raise if you bring this up. It seems to assume that the standard is our position with reference to Slovakia, and I'm not sure we're not raising the question of our propriety in our position with that country.

H.M.Jr: Well, can't you get on some other standard?

Johnson: The whole question is the comparison between the two relations, the one between Slovakia and Germany, the other between Manchukuo and Japan.

H.M.Jr: Well, the things are marked now "Made in Manchukuo"?

Wiley: That's right.

Gaston: No, "Made in Manchuria."

Johnson: We accept either "Manchuria" or "China."

H.M.Jr: I think it's silly - let's go on, let's do business on the thing.

White: All we're asking for is information.

H.M.Jr: Let's go ahead and do business.

Now what else?

Johnson: On the German countervailing duty order, as we knew at the time it went out, there is a substantial volume of business in free foreign exchange, and of course that will undoubtedly be the predominant method of business after the effective date of the order. A great many importers have raised the

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question of satisfying the Department at the time their Customs entry is filed that there will be no subsidy involved, for the purpose of waiving the deposit of the 25 percent duty. In other words, they would, at the time we would ordinarily require the deposit, furnish us with the proof that it would be refunded if we did take it. Now, from the administrative point of view it would be advisable to provide for that, unless there are reasons of policy

H.A.Jr: Provide it now?

Johnson: Provide for accepting evidence at the time of entry that no subsidy is involved, and that therefore there is no necessity on that particular importation

H.A.Jr: How do we do it in all the other cases?

Johnson: We've never had a case just like this.

H.A.Jr: Well, I

Johnson: But it would be the normal thing.

H.A.Jr: When do it - I would do it the normal way. I mean I always want to do, in anything having to do with Germany - if it isn't like this, I'd give them the break a little bit.

Johnson: All right.

Gibbons: In other words, they're bringing in something and they say they're proving to us that it is not subject to this extra 25 percent. Why collect it and then make the importer wait a year before he can get the refund?

H.A.Jr: I'd rather err on the side of somebody saying I was a little bit on their side rather than say that I did something which was unfair.

Reley: Following that, you go along with Hill's suggestion.

H.A.Jr: Sure.

Reley: I think that's reasonable, rather than tie up the

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cash.

H.M.Jr: Oh yes.

Foley: Make a cumbersome procedure.

H.M.Jr: Whose cash is it?

Foley: It's the importer's cash.

H.M.Jr: A United States man?

Foley: Yes.

H.M.Jr: Sure.

April 11, 1939.
2:30 P. M.

Re: TAX STATEMENT

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PRESENT: Mr. Gaston
Mr. Shoup
Mr. Blough
Mr. Duffield
Mr. Henry Morgenthau, III
Mr. McReynolds

Shoup: We have gone through the statement of yesterday and revised it, rearranged it, rewritten it, and have here a document of about twenty-two pages with a table of contents, representing, we hope, some improvement in form and arrangement over yesterday's material, but no substantial change in thought.

H.M.Jr: Well, if you could let me take it, and maybe today I could do better by reading it.

Shoup: It has just come off the typewriter; I haven't read it myself.

H.M.Jr: Have you got a copy - could you (Duffield) let Henry look on with you?

Duffield: Sure. I just want to say we haven't polished this. We just rearranged the parts.

H.M.Jr: Well, it's a day's more work on it.

Duffield: That's right.

H.M.Jr: You'll be amused - I got Ros Magill fixed up in a plane so he could leave Columbus at five and get here at seven Thursday. He didn't want it. He didn't want it. He could come in from Columbus in two hours by plane.

(McReynolds comes in)

H.M.Jr: "I should like first to say that I appreciate this opportunity to present to your Committee my views on necessary revenue legislation. You have heard the saying that 'no year is a good year to suggest a tax bill.'"

Herbert, why don't you share a copy with Mac?

WRI: I can listen.

E.M.Jr: Can you listen? Can you hear what I say?

"Certainly this remark would seem to be an accurate forecast of 1940, a year in which a national election will command the attention of the country. Therefore, my appearance here today may well be my last before this Committee on the broad subject of tax legislation."

That doesn't sound as though I was going to resign, does it? Well, anyway, that's..... -- what?

Duffield: It wasn't intended to. I thought it hooked on to '40.

E.M.Jr: All right.

"For that reason, may I digress a moment to thank this Committee and especially its Chairman, Representative Doughton, for the cooperation and consideration which have been extended to me throughout my term in office. Representative Doughton, your Committee, Senator Harrison and the Senate Finance Committee have loyally served the welfare of this country in a manner of which we may all be proud. Working with this Committee and with the Senate Finance Committee has been an experience which I shall always remember with pleasure.

The Opportunity for Basic Reforms

"When I appeared before this Committee on March 24th, I said that the Treasury was ready to supply the appropriate Congressional committees with its recommendations for changes in the tax system. The chairmen of the two Congressional committees have expressed their interest, and their desire to receive the recommendations as promptly as possible, for action at this session. Some revenue legislation during this session is a recognized necessity, since the income taxes on corporations expire at the end of the year, and excise and sales taxes yielding about \$500 millions expire during the summer. I hope that Congress will take this opportunity, not simply to extend the expiring levies nor simply to adopt the usual series of technical changes to meet particular hardships, but to adopt those few basic reforms that

we badly need to put the revenue system on a just foundation. The fundamental reforms that I want to suggest can be adopted, as a practical matter, much better this year than next year; and the encouragement to the taxpayers of the country by their adoption at this time is a factor of real importance under present business conditions."

Well, so far, so good.

Outfield: This is the introductory.

Mr. J.: "Developments of the Past Decade."

"In order to achieve lasting reforms in taxation it is essential to get a proper perspective, a perspective that we are in danger of losing through the close attention necessarily given to tax developments day by day. Before considering specific measures I therefore suggest that we look at the development of the tax system during the last ten years.

"During the period 1926-1930 the Federal tax system was producing about three and a half billion dollars a year. The Great Depression - I love that "the Great Depression" - ".....drove the yield down to two billions in 1932 and government expenditures increased. The result was the Revenue Act of 1932, the first of a series of revenue acts all designed to strengthen the tax system in one way or another.

"The 1932 Act put the income tax rates back to the levels prevailing shortly after the War. It also doubled, roughly, the estate tax rates, and imposed a gift tax and a series of manufacturers' excise taxes. Nevertheless, so powerful were the forces of depression that the tax revenue did not rise above two billions in 1933. But for the next five years it increased to an extent practically unprecedented in the recent history of national governments, reaching an all-time record for this country of six billions in 1938.

"Among the measures passed since 1932, about equal shares in achieving this result can be assigned, first, to the taxation of liquor following repeal of prohibition; second, to the social security payroll taxes; third, to the further increases in the income taxes, the estate tax, and the gift tax in 1934 and 1935; and to the processing taxes while they were in

existence."

Is that necessary?

Shoup: You mean the "processing taxes while they were in existence"? That might be.....

W.H.Jr: I see. Well, I suppose it might be - it's all right. No, I just mention it - as long as they are no longer in existence, do you think they are important?

Shoup: They produced about four hundred million, almost half a billion dollars.

W.H.Jr: "Some revenue was also obtained, in the pressure of emergency, by disallowing certain well-grounded deductions, that are recommended below for reinstatement. Finally, the great recovery in revenue has of course been achieved in large part through the recovery in business from the depths of 1932 and 1933.

"Despite the great increases in income tax and estate tax rates and the introduction of a gift tax, these taxes produced only 50 percent of the Federal tax revenue in 1938. This compares with 68 percent in 1929 to 1931. The fact seems to be that, important as have been the developments in direct taxation in the past decade, they have been in large part but the necessary structural work, with much of the content yet to be added if direct taxation is to play the part it should. This point is especially important because, after all, the Federal Government collects less than half the country's tax revenue. The State and local tax systems depend on the property tax for two-thirds of their tax revenue and on the gasoline and motor vehicle taxes for 13 percent. Thus they make very restricted use of direct taxes graded to take account of net differences in taxpayers' power to support government."

Is that the way to say - same thing as saying "the taxpayers' wealth"?

Shoup: Well, it's a matter of income and wealth both, and personal differences and family status, and so forth, all summed up.

W.H.Jr: I've never heard it put just like that - "taxpayers' power to support Government." Is that.....

Blough: A synonym for ability.

Shoup: More specific way of saying "ability."

H.M.Jr: I like it, but - is it something that you coined?

Shoup: No, it's been used.

H.M.Jr: Want to say something, Mac?

Mac: No, not on this.

H.M.Jr: "Aims of Tax Revision."

"Among the aims of tax reform, encouragement of business must of course rank high, especially at the present moment."

Gaston: I would strike out the "present moment." It seems to carry the confession that we never thought of it before.

H.M.Jr: That's right.

Blough: Uh-huh.

H.M.Jr: And it is stronger that way.

Duffield: I may say this is a section which we all felt we've got to work on quite a bit; want to make it as strong as we can.

H.M.Jr: I think "Among the aims of tax reform, encouragement of business must of course rank high" - I think that's a strong statement, but I think it can be built up.

Gaston: Yes. Yes.

H.M.Jr: "This is partly a matter of specific measures designed to lighten the tax load at strategic points. It is also, however, a matter of formulating a definite fiscal policy. This policy, as I explain later, calls for a strengthening of the tax system. The system can not be strengthened with much assurance unless it is first improved with respect to simplicity, justice, and federal-state-local coordination - points that therefore have direct bearing on business recovery."

Well, I'm not going to - certainly that is worthy
.....

And then, as a matter of fact, feeling that this is at least going to be - the way it is received - fifty percent interpreted as to fiscal policy, Jake Viner will be here Friday, see, to look at it from a fiscal standpoint. He will be here Friday.

You (Shoup) know Viner.

Shoup: Oh, yes. Surely.

H.M.Jr: He'll be here Friday.

Duffield: Danny Bell's got a point on that. I'll wait until you get through.

H.M.Jr: And Hansen will be here Saturday.

Shoup: Oh, yes.

H.M.Jr: Hansen will be here Saturday.

Duffield: Had you thought - as Dan says, probably by the time you make this statement there will be a political Director of the Budget, and he might feel that he ought at least to be shown what you are going to say about budget policy.

H.M.Jr: That's all right, but this old theory that Lew Douglas had that I can't talk about fiscal policy is just the bunk.

Duffield: Oh no, Dan wasn't suggesting that. He just thought that in the interest of friendly relationship it would be a good idea to show the Director of the Budget - let him know what was going on.

H.M.Jr: Oh, absolutely.

Gaston: It seems to me that if you show it to higher authority than the Director of the Budget, that takes care of that.

H.M.Jr: No harm in showing that, if Danny thinks that's a good move.

Duffield: Danny feels that if we aren't very courteous to him the Budget may draw away from the Treasury as it did under Lew Douglas.

H.M.Jr: That would be - I'll go along with Danny on that. But this fellow needs friends worse than I do, and

God knows I need them badly enough.

MoR: Well, I am not worried about this new Director of the Budget. I don't consider him a political Director of the Budget.

Gaston: He himself said he didn't consider himself a political Director of the Budget.

MoR: I don't think that he's going to be looking for reasons to object to what the Treasury does.

H.M.Jr: Well, there are a couple fellows back in the Budget that have that attitude. I think they ought to be put out on their ear. I mean this idea that the Secretary of the Treasury can't talk on fiscal policy - I mean we won't get into an argument, but I don't look to the Director of the Budget to pass on this.

Gaston: No, distinctly not.

H.M.Jr: I still say we will show it to Mr. Smith.

Puffield: Sure.

H.M.Jr: "Simplicity."

"Among the desirable goals of the tax policy, simplicity is one of the most important. The cost of administration should be kept within reason, and the collection of taxes should be as little burdensome to the taxpayer as possible.

"Regional agencies. The Treasury has considerably simplified tax administration by establishing regional agencies to settle controversies locally, and to speed up the work. It is no longer necessary to come to Washington in order to settle an income tax or an estate tax or a gift tax case. I have no illusions about the possibilities of eliminating completely such complexities as the elaborate provisions on corporate reorganizations, or the even more detailed sections added in 1938 to permit utility companies to reorganize in conformity to the holding company act without unduly heavy tax liabilities. Tax laws can not be wholly simple in a complex society."

Put a question mark after that, because I don't know what the hell that is. I don't think anybody

else does, outside of a few utility lawyers.

Quaton: I think that can be said in general terms. I think that is too specific.

Shoup: We will recast it in the interest of simplicity.

H. R. Jr: Right. I lean a little bit that way.

"Moreover, the sections I have mentioned apply to the few cases, not to the many."

I think you're getting too specific down there.

"The Four Kinds of Corporation Tax. There is at least one complexity, however, of general application that can be removed. We now have four different taxes applicable to ordinary business corporations: an income tax, an undistributed profits tax, a capital stock tax, and an excess-profits tax. The income tax is of course an excellent fiscal instrument. The undistributed profits tax, on the other hand, has been reduced to a point where it possesses little significance in either obtaining revenue or increasing the fairness of the tax system; it seems mainly to serve as a business irritant. The capital stock tax is not a tax on the actual value of corporate property or even corporate stock, and the excess profits tax is not really a tax on excessive profits. Both taxes are in practice based on the guesses of corporate officials as to future corporate income. The corporation tax system would be greatly simplified, and its justice measurably increased, especially in lightening the tax load on deficit corporations, if all four taxes were consolidated into a single flat tax on corporate net incomes, with some concession in rate to corporations having less than perhaps \$25,000 net income.

"Fairness.

"Another essential goal of tax policy is fairness in the distribution of the tax burden. Agreement with the broad objective, however, has not always been followed by the specific steps necessary to accomplish it. The imperative budgetary necessities of the present decade have been allowed to override a number of allowances to the taxpayer that experience has shown are essential to a fair system

of taxation. On the other hand, in some cases undue concessions have been made to certain groups of taxpayers; these concessions necessitate extra burdens on other taxpayers and should be removed."

That last sentence I don't like at all.

Shoup: You mean in style?

H.M.Jr: Yes. You have "on the one hand....."

Shoup: Uh-huh.

H.M.Jr: ".....undue concessions have been made to certain groups." And then it's like just piling one block up on top of another; I don't know what it means when you get through.

Shoup: Uh-huh.

H.M.Jr: That sentence -- I don't know what it means.

"Net Loss Carryover. Among the allowances that in my opinion should be reinstated for purposes of the corporation normal tax and the individual tax is that whereby a net business loss of any one year can be carried forward and be used to reduce the taxable net profit of a later year. At present, a business which has lost \$50,000 a year for three years and has then made \$150,000 in the fourth year must pay tax on the full \$150,000 without any allowance at all for the losses of the first three years, although the plain fact is that the business has made no profit at all over the four year period."

Gee Whiz, are you going to go up to four years now on the examples?

Shoup: Well, I plead guilty to that. I changed that example in terms of four years.

H.M.Jr: You're going English on me.

Shoup: I'm going English. Moreover, this is fairly -- the typical kind of situation is one where you have a cycle of net profit and loss that extends over four to five to six years. To put an example in terms of three years only seems to me really to distort the situation. That's the way I believe -- the way we do. However, we'll

H.M.Jr: All right. Of course, when I talk in those terms, they'll think I'm talking in terms of four years.

Blough: This is the three-year carryover; that, I had understood, is the line along which we are thinking.

H.M.Jr: Yes, yes.

There is one thing that was brought out somewhere that I am very much interested in using -- the example that the B & O could buy in its own bonds at fifteen or twenty cents on the dollar and then not have to pay a tax on that, you see.

Duffield: They do have to.

Shoup: They do have to now. That's a question that is up.

H.M.Jr: No, but there is a way of overcoming that. I don't see why the B & O shouldn't be able to buy and sell at fifteen to twenty cents on the dollar, retire and recapitalize. They can't do that under the present law.

Duffield: That's right. As we were saying today, you open the door to some questionable practices. I don't see how you can be neutral on this one. Lots of times-- I know of cases of the Budd Wheel Company where they retired depreciated preferred stock in order to get out of some dividend arrearages, and then pay themselves some dividends on the common stock, which they couldn't have done otherwise.

H.M.Jr: You question this practice?

Duffield: I question whether you want to let them do it without paying the tax.

Shoup: It's got a lot of ramifications which are not obvious at first sight. I'd be inclined to go very slowly on them.

H.M.Jr: Let them go through a reorganization of 77-B?

Shoup: Well, the question is whether the 16 2/3% tax on the difference between the par value and the purchase price is really enough in practice to block that kind of a thing when it should be done. I would merely say that it's a thing to go slow on, and would require a good deal of investigation and study before we make up our mind.

H.M.Jr: Well, we'll skip it.

"Capital Losses of Corporations. Another example of such loading is the present restriction on a corporation " -- "of such loading"?

Shoup: Loading against the new investment in durable goods industries.

H.M.Jr: I think that ought to be explained.

Shoup: Three lines above.

H.M.Jr: You fellows know what that is; I don't.

"Another example of such loading is the present restriction on a corporation that incurs a loss when it sells a capital asset. This capital loss can be deducted only against the capital gains, if any, that the corporation has made in the same year (plus \$2,000). In many cases, therefore, the corporation does not in practice get an allowance for its capital loss. Thus again the risk-taking type of business is discriminated against, compared to the safe and stable business.

"Dividends Received by Individuals. Another allowance that should be reinstated concerns dividends received by individuals. At present a corporation's income is taxed, and then when it is paid out in dividends the stockholder pays the full individual income tax on the dividends with no allowance at all for the fact that the corporation has also paid an income tax. Thus, an extra burden is imposed on all income from corporations, large and small. More serious, perhaps, is the fact that this arrangement gives corporations a strong inducement to raise money by selling bonds or borrowing at a bank rather than by selling stock. This is so because the interest that the corporation pays out on this borrowed money can be deducted from its gross income in computing its net income; but it cannot deduct dividends paid out; and both dividends and interest are taxed in full to the individual. A remedy is to give the individual taxpayer some relief from full taxation on the dividends he receives, in acknowledgment of the fact that the corporation has already paid tax on the profits whence those dividends come. The relief need not be so large as to equal the corporation tax, but it should, in my opinion, be substantial. Before the relief was eliminated in 1936, it took the form of exempting

dividends from the normal tax (leaving them subject to the surtax). Whether this device would be adequate now must be considered in the light of the fact that while the normal tax is only 4 percent, the corporation tax, except for small corporations, has been raised to 16 $\frac{1}{2}$ percent at a minimum and will be even more if the rate is increased upon elimination of the capital stock and excess-profits tax, as suggested above."

Incidentally, put a question mark on that, because I personally don't believe in consolidated returns. You'll have to sell me on that.

Senator: On this next paragraph -- "Consolidated Returns."

H.R.Jr: I don't believe in consolidated returns. You'll have to talk to me on that. I'm not sold on that. I think it's -- but I mean.....

Duffield: That's what we're to do this afternoon. I mean we want to get those things.

H.R.Jr: I mean I have grave doubts about permitting a corporation to enter consolidated returns.

"Intercompany Dividends. The other provision makes a corporation include in its taxable income 15 percent of the dividends it receives, although these dividends come from profits that have already paid the full corporation income tax. This measure has nothing to do with tax evasion through personal holding companies, a problem solved for the present at least by the series of prohibitive taxes worked out in 1937 on the 'incorporated pocketbook,' whether foreign or domestic. Instead, this partial taxation of intercompany dividends penalizes parent corporations, ordinary holding companies, and the ordinary type of investment trust."

Now, I think there -- I know this is going to be -- I think what we did in '37 ought to be spelled out there.

Senator: Explain more in detail.

H.R.Jr: Yes, because that is where -- is a difficult one to get by the President. I mean I think just what we've done to make it impossible to incorporate one's pocket-book should be explained.

Gaston: Shouldn't that go back above in the history of what we've done in the way of.....

H.M.Jr: Well, either there, Herbert, or right after, when we say that we want to do away with the surplus tax. I mean you say we do away with the surplus tax because we made it impossible in '37 to incorporate one's pocketbook. That's what I.....

Duffield: That's right.

H.M.Jr: Because the President is going to say when he reads this - then I'd have to say, "Well now, wait a minute, read the next paragraph and you get the explanation."

Duffield: I think you're right.

H.M.Jr: But not here, anyway.

"There are undoubtedly reasons for controlling the growth....."

Now, do I - let's just ask this. As I understand it, let's say there are two corporations and I am the XYZ corporation; I have 15 percent in stock of another, and this second corporation pays me a dividend and I have to pay a tax on that.

Shoup: You pay a tax on 15 percent of the dividend.

H.M.Jr: 15 percent.

Shoup: Of the dividend.

H.M.Jr: And you are suggesting that be done away with?

Shoup: Yes. The suggestion is that that be done away with, so that will be complete exemption.

H.M.Jr: As between corporations.

Shoup: As between corporations, yes. On the basis that the money has already paid the tax in the hands of the first corporation on the basis of profits.

H.M.Jr: Of course, this was put in to control growth.

Shoup: Yes, and we have some remarks on that, saying there are much better ways of controlling growth, that this is likely to hit the innocent as well as the guilty, this kind of business.

H.M.Jr: I see. I have never agreed to this, but I will read it.

Shoup: It's not very strongly put.

H.M.Jr: What?

Shoup: It's not very strongly put.

H.M.Jr: "There are undoubtedly reasons for controlling the growth of such types of corporate structure, but it is also true that there are many cases where those types are legitimate and even desirable from the public point of view."

Do you believe that?

Shoup: I think there are undoubtedly cases where subsidiary corporations are quite advisable from the public point of view. In some cases states require separate incorporations; if you are going to do business within that particular state, you must form a separate company to do business. That's true of Texas.

Shoup: True of many states.

Shoup: I think there are cases where corporations like to experiment on new things, don't like to involve the whole corporation in it; but if they can keep it in one small company they do it. It's the limited liability principle extended into management affairs. It's very important. Standard of New Jersey some years back split itself up largely for the morale of having separate entities, with presidents at the head and a feeling of responsibility which they couldn't get when the thing was just one big mass. So I think there are reasons; how many and just how weighty is a troublesome question.

H.M.Jr: I don't know; I've got a question on it.

"The tax penalties strike the deserving and undeserving alike, making no distinction of either motive or results. It is therefore pertinent to ask whether we are not wielding too blunt an instrument in these cases, harming some unintentionally and unwittingly allowing others to escape too lightly. Of course, any system of tax laws is bound to affect business practices, and it is not sensible to say that taxation should in no

circumstances be used as an instrument of social control; but tax laws are complex enough and hard enough to make fair as revenue producers without being asked to take on the task of social control."

I see, that's the way you put it.

Shoup: That's a revision from last time.

Gaston: I think maybe it needs a little further revision. You seem to say that you can't make so sweeping a statement as that, and then you do seem to make the statement just as sweeping as you had it before. And you have to consider the fact that we do have at least a dozen different so-called tax laws that are nothing in the world but instruments of social control, that have no justification as taxes at all -- narcotics law, the Firearms Act, Oleomargarine Act, there are others; they have nothing to do with taxation.

Shoup: Customs.

H.M.Jr: Well, as I say, I'm not -- I haven't got the time today to go into it. I'll have to do it some more this week. But I question this thing about inter-corporate dividends. I'm not yet -- I question the consolidated returns thing -- those two. I just question those two.

"Surtax Rate Structure. The present rate scale of the individual income tax reaches a peak of 79 percent in the top bracket, with several percents added by State income taxes in many cases. From the viewpoint of an equitable distribution of the tax burden I do not believe this rate scale is too severe."

Shoup: Yes -- from the point of view of an equitable distribution of tax burden; if you will go along.....

H.M.Jr: ".....but to run it up to such high levels in the top brackets is to make scarcely worthwhile for the wealthiest taxpayers any risking of their capital in hazardous ventures."

Shoup: May I explain something there?

H.M.Jr: Please.

Shoup: There is a distinction to be drawn between what we consider a fair distribution of the tax burden as between how much one man should contribute today as compared with the other man, and the problem of what will the economic effect be if we carry out the program. It may be we will have to sacrifice our program at first in order not to really injure the country in the long run, because economic difficulties arise.

H.M.Jr: Well, why didn't you say that? I didn't mean that to sound the way I said it.

Shoup: I know what you mean. It should be pointed out more clearly -- the contrast there.

Gaston: It is like saying this: that from the standpoint of equity you ought to be able to levy a certain tax, but the fact is you can't get it.

Shoup: It is also short-term justice versus long-term justice.

Blough: Let's not go into that.

H.M.Jr: "I therefore suggest that the following combination of measures be considered as a means of preserving the fairness of the tax system while leaving more encouragement for risk-taking enterprise: let the rates in the top brackets of the income tax be substantially reduced and, as noted below, let the capital gains provisions be tightened, the estate and gift tax rates increased, and future issues of tax exempt securities prohibited."

Now, there is a swell sentence.

Gaston: Too much in a sentence, I think.

H.M.Jr: I know, but as to the idea.

Duffield: I think that is a good one.

Gaston: I think that is the nucleus of a list of things that you recommend.

H.M.Jr: I mean there is something -- "let the rates in the top brackets of the income tax be substantially reduced and ... let the capital gains provisions be tightened, the estate and gift tax rates increased" -- there is your whole program.

You want criticism; you don't mind.

Shoup: Of course not.

H.M.Jr: I think there is too much space spent on things like consolidated returns, too much on intercorporate dividends, even if I believed in them, and not nearly enough on the surtax thing and this part here which I underlined.

Shoup: You would like to see that expanded and made more pointed.

H.M.Jr: Oh yes. And the other things -- if I did believe in them, I'd simply say, "I believe you should re-examine the question of consolidated returns and the question of intercorporate dividends." Period. That is as far as I want to go, if I believe in it. "I should say you want to re-examine those two things." Period.

But this thing here gets down to something. Are you with me so far, Mac?

McReynolds: Yes, sir.

H.M.Jr: I don't know where you stand on intercorporate dividends and consolidated returns.

McReynolds: I think the consolidated return has a place that you can't -- it simplifies the problem for corporations. And you haven't got a uniform attitude on the part of the corporations. Some of them don't want it. But I think it is a good thing. I never believed that it was worth eliminating.

Easton: If you had some clear line of division as to where consolidated returns would be permitted and where they shouldn't be permitted -- that's a very difficult thing to do.

McReynolds: It's hard. Sometimes it's advantageous and sometimes it's disadvantageous.

H.M.Jr: Well, I don't know.

"Tax-exempt Securities. It is obvious that the progressive-rate feature of the individual income tax -- the keystone of our fiscal policy -- is distorted and in many cases completely nullified by the existence of a large amount of tax-free securities. Now that recent Supreme Court decisions indicate a change in attitude toward the problem of intergovernmental

immunity, it seems to me that the inclusion of all future governmental bond interest in taxable income is one of the most obvious next steps toward tax justice."

".....future governmental and governmental-guaranteed
....."

Shoup: Uh-huh.

H.M.Jr: What? Right?

Shoup: Yes.

H.M.Jr: That's a different kind of issue, isn't it? I think it's worth saying. I mean you think of government bonds and government-guaranteed bonds.

Shoup: Yes. I suppose I really hadn't thought about that.

Barton: I would have thought that this would carry it.

H.M.Jr: No, I think it's worth repeating, because over in Farm Credit -- we have some issues there which are totally tax exempt, including surtax, if I'm not mistaken.

Barton: Federal Farm Mortgage Corporation.

Shoup: It wouldn't hurt to call attention to it because oftentimes some of these things tend to get an isolation of policy.....

H.M.Jr: They'd say, "Well, Morgenthau evidently will....."

Reynolds: They would try to make it appear that way.

H.M.Jr: Yes. It's so easy to put a few more words in.

"More than that, it should tend to push into new enterprises the kind of private capital that can afford to take risks."

Gee Whiz, get something new for me on capital risks. I mean get a couple of synonyms. I don't know what to suggest. Can you suggest something, Henry, besides taking a risk?

Barton: "Cold money."

H.M.Jr: "Venture money."

Shoup: "Venture capital."

H.M.Jr: "Venture capital - exploration."

Shoup: "Taking a chance, gambling."

H.M.Jr: Now, that's just - everything but - go all around, but don't say it. We want them to gamble, but we don't want to say so.

"I have discussed five types of allowance that, if granted to taxpayers, would, in my opinion, increase the fairness of the tax system, and encourage investment, especially investment that is willing to take risks. I now come to the other aspect of business: undue concessions that have been made to certain types of taxpayer. Removal of these concessions will serve the double purpose of improving the equity of the system and counterbalancing to some extent the decrease in revenue that would result from the allowances discussed above.

"Capital Gains and Losses."

Shoup: This is new. It wasn't in yesterday. Ros hadn't concluded it because he just hadn't gotten to it.

H.M.Jr: "A gain from a sale of a stock or a bond or a piece of real estate or any other capital asset is, if the asset has been held more than two years, taxed at a maximum rate of 15 percent. In the vast majority of cases the tax rate is even much less than this. Alongside of the ordinary income tax rates that apply to salaries, interest, dividends, and rents, the rates on these long-term capital gains are absurdly low. One reason given for setting them so low is that the deduction of capital losses is somewhat restricted. A fair tax system cannot be achieved, however, simply through matching an unjustified concession by a harsh restriction. A more sensible procedure is to remove both the concession and the restriction. Hence I suggest for consideration an increase in the tax rates on long-term capital gains, and possibly also on intermediate gains (now taxed at a maximum of 30 percent), coupled with more liberal allowance of capital losses, possibly by letting them be carried forward several years to be offset against future capital gains. The net

result should be no deterrent to genuine long-term investment (especially in view of the suggestion above concerning surtax rates) and a great increase in fairness among individuals."

Well, I believe in the theory, but I haven't got time to take the whole thing apart. I mean I'm fighting time, unfortunately, today all along the line.

"Depletion. The present law allows excessive depletion deductions to oil and gas wells and certain types of mine. As the Treasury has often pointed out, a large amount of revenue can be recovered by closing this loophole."

Now, what I head this thing up -- not the way you said it before. I would say "Loopholes Yet to be Stopped" or something along those lines, you see? Up to now, everything we have been talking about is on the side of "Well, we're too hard." Now we're going to talk about things yet to be accomplished. I don't know how many more there are, but certainly oil depletion is one; estate and gift tax is another. Right?

Sen. McNamara: Yes. Yes.

Sen. McNamara: I think there ought to be a thing -- "Things Yet to be Accomplished."

Sen. McNamara: Uh-huh.

Sen. McNamara: "By Way of Stopping Up Loopholes."

"The estate and gift taxes together contributed only 6.9 percent of the Federal revenues in 1938, and only 3.9 percent of total Federal, State, and local revenues."

Haven't I read this thing?

Sen. McNamara: Yes, that was read yesterday.

Sen. McNamara: "Estate Tax Insurance Exemption."

Sen. McNamara: That was not in yesterday.

Sen. McNamara: "The exemption granted to life insurance (up to \$40,000) under the estate tax gives a preference to those fortunate enough to be able to save in this manner over all other savers and other forms of saving. Removal

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of this discrimination is in my opinion highly advisable."

Oh, my God, are you going to take that away from my children? Can't you make that in the future instead of retroactive? This is where the old shoe is going to begin to pinch.

Blough: I don't think you need to worry; they won't pass it.

H.M.Jr: I mean Mellon kept the tax from going above \$700,000 as long as he was here. Can't I keep the \$40,000 thing?

Shoup: Would you compromise on thirty-five?

H.M.Jr: Well, I am afraid if I begin to compromise - I'm like the lady of virtue; can't compromise.

"Coordination with State and Local Taxes."

Blough: It's the same.

Duffield: Same as yesterday.

H.M.Jr: That's the same.

"Growth of Conflict."

Shoup: That's the same.

H.M.Jr: "Results of Conflict."

Shoup: That's the same.

Blough: "The Next Step" is the same.

Shoup: Yes, the same.

Gaston: All the rest of that, down to "Adequacy of Revenue."

H.M.Jr: What page is that?

Gaston: 18.

H.M.Jr: 18 -- page 18.

"Adequacy of Revenue."

"It is trite to say that a tax system should yield adequate revenue. The real question is, what is

'adequate' in any given year and place. Yet this question is at the root of our tax problem. Unless we answer it, all our specific recommendations for changes in the tax system assume at best an air of temporary structures resting on foundations apt to be shifted at a moment's notice. Here it becomes necessary to complement the backward glance over the past decade given at the beginning of my statement with a look into the future of the next five years or so.

"As we look, certain probabilities take form. To what policy they should lead may not be entirely self-evident, but it is clear that we must resolutely face the problems that they raise."

Well, I think that paragraph could be greatly improved.

Shoup: Uh-huh.

E.M.Jr: "The Prospects for a Balanced Budget."

I mean I think that thing there is very important and should be carefully done.

Duffield: Is this next language the same as yesterday's?

Shoup: Yes.

E.M.Jr: I'd like to read this next one again. This thing here, Henry, I consider -- the next thing is from my standpoint one of the most important things in the whole business.

"The Prospects for a Balanced Budget. The present tax system is powerful; but it is not so powerful that it will stop all increase in the public debt over the next five years or so, even given some measure of business improvement and some reduction in expenditures. In a year of great prosperity, with a national income of some 80 billions of dollars, the current revenues might rise to 8 billions; and, depending on the course of expenditures, a moderate amount of debt reduction, perhaps not more than a billion dollars and conceivably less, could result in such a year. But over a longer period, good years and bad, the present revenue system will result in a substantial increase in the public debt, assuming no radical change in expenditures. The

crux of our expenditure problem lies in relief and national defense. Together these items are accounting for _____ of our total national expenditures for the current year.

"Even with the lowest expenditures on relief and defense that can reasonably be expected, it is in my opinion unreal to talk of balancing the budget next year or even the year after next; but, unless we are to commit ourselves to a philosophy of continuing increase in debt, it will be necessary to enact this year measures that will, within three or four years, bring in added revenue. These measures are indicated in detail below. It is not so much the exact date of budget equilibrium that matters, or even the precision of the balancing, as it is the adoption of a program that commits us to a trend in this direction during the next five years."

I think this is terribly important, but I think that that also can be greatly improved. And when this is mailed to Dr. Viner, will you (Duffield) draw his attention particularly to this part?

Duffield: (Nods yes).

H.M.Jr: See? I want to send it airmail. And draw his attention.....

Duffield: He is to be here Friday?

H.M.Jr: Yes.

Duffield: Just so we have another chance to go at it before we send it to him.

H.M.Jr: Yes, but get it - it should leave here tomorrow by airmail.

Duffield: That's right.

H.M.Jr: "The Necessity for a Commitment Toward a Balanced Budget. Such a program seems to me to play a vital part in increasing the national income.

"The healthy functioning of the country as a whole depends in the last analysis upon the healthy functioning of the wage-earners and the businesses

of the country. We must rely upon business to provide employment for at least the great bulk of our men of working age. I have suggested some measures of tax fairness that will remove specific obstacles to business recovery; but the problem is much broader than that. When the uncertainty of conditions abroad are coupled with the uncertainties of an unbalanced national budget, and when measures to produce a balance are hopes, not realities, it is not surprising that the man who has saved money, whether a few dollars or a million, refuses to take a chance on an investment in anything save the soundest, best established, most stable securities. He knows that business must sometime face new taxes heavy enough to bring the budget into balance, perhaps even heavy enough to retire some part of the debt, and he cannot know where they will fall."

Now, I'd like to say something along the line here that I think that one of the most important things that we can do to encourage a lasting recovery is to point the way towards a balanced budget, see?

Shoup: Uh-huh.

H.M.Jr: And I think that that can be spelled out, you see.

Shoup: Uh-huh.

H.M.Jr: With the sincere desire that, having pointed the way, it will encourage people to in turn - well, I don't know whether you want to go into the vernacular - "to take your money out of the stocking and put it into - put it to work." I mean that's what I mean. I mean "take it out of the stocking and put it to work."

Shoup: Uh-huh.

H.M.Jr: But I think that this part here, for my - I am really much more interested in this than I am in a tax program. And I don't know, when you get all around to it, whether this thing mightn't be brought up around to the front.

Cuffield: He thought it was a good closing statement.

H.M.Jr: Well, all right, but from my standpoint as Secretary of the Treasury I think that this is the all-important thing and it's got to be greatly improved and strengthened. I mean people like Viner and Hansen working over this thing will contribute.

Shoup: Oh yes, surely.

W.M.Jr: What?

Shoup: If you get enough people working on it, you ought to be able to get it strengthened the way you want it.

W.M.Jr: Yes. Let's just see now - well, the ideas are all right so far. There are only two things, and I haven't changed, have I, Blough, on those two things?

Blough: That's right.

W.M.Jr: On consolidated returns and intercorporate dividends I've still got my fingers crossed.

Blough: Better leave them out.

W.M.Jr: No, leave them in; let's see what happens.

"Since he cannot forecast the future, he marks time. The result is business stagnation, not the steady business advance which has been characteristic of the country.

"Sources of Added Revenue. A definite policy looking toward the balancing of the budget sometime within the next five years or so seems to me to imply the following steps:

"First, a declaration of the policy in unmistakable terms."

".....policy on the part of Congress....."

Shoup: Uh-huh.

W.M.Jr: "Second, the continuation of the sales and excise taxes that otherwise expire this year.

"Third, a program of readjustment within the several taxes as suggested in the sections above. The net effect of these readjustments will probably be a loss of revenue, but they are essential because of the very fact that the system as a whole must raise more revenue. When the tax burden becomes severe in the aggregate, injustices within the system that might otherwise as a practical matter be ignored may become intolerable.

"Fourth, an increase in rates and a decrease in exemptions, in a manner calculated to cause the least immediate disturbance to consumer purchasing power and to capital's willingness to invest. Here the most promising points of attack seem to be:

"(a) The rates of the estate tax and gift tax (co-ordinated as suggested above) in the middle and lower brackets. The full revenue from increases in these brackets will not come in until three or four years have passed, but when it does arrive it will be a powerful factor operating to balance the budget.

"(b) The exemption of \$40,000 under the estate tax-gift tax. This could, in my opinion, be substantially lowered."

I don't like the way you people summarize. I think it is too - I mean I think it can stand a lot more polishing - this summary.

Shoup: Is it a matter of the briefness or of the wording? Is it too brief? Does it strike you as being too brief or too blunt?

H.M.Jr: No, too blunt.

Gaston: Make a statement rather than just put in a topic.

H.M.Jr: Too brief.

Gaston: Say that points of attack would be to do certain things, I should think.

Shoup: You find it a little cryptic, possibly?

H.M.Jr: Yes.

"The middle brackets in the individual income tax, especially those between \$5,000 and \$50,000. An increase here rather than elsewhere....." - and so forth.

"The exemptions under the individual income tax." And so forth.

(H.M.Jr. finishes reading silently)

Well, I think this is an awful good start, and as I say, I think there is everything in it that I

want, with the possible - as I say - and there are only two things I question about it; and I take it everything is in here that you fellows believe in.

Shoup: Well, we have had to pick and choose. There are a lot of other things we would like to see, but we don't want to get everything in the bag - get too complicated.

H.M.Jr: Now, your plan would be to be back here Friday?

Shoup: I can be back here Friday morning.

H.M.Jr: I think that would be splendid.

I should like first to say that I appreciate this opportunity to present to your Committee my views on necessary revenue legislation. You have heard the saying that "no year is a good year to suggest a tax bill". Certainly this remark would seem to be an accurate forecast of 1940, a year in which a national election will demand the attention of the country. Therefore, my appearance here today may well be my last before this Committee on the broad subject of tax legislation.

For that reason, may I digress a moment to thank this Committee and especially its Chairman, Representative Doughton, for the cooperation and consideration which have been extended to me throughout my term in office. Representative Doughton, your Committee, Senator Harrison and the Senate Finance Committee have loyally served the welfare of this country in a manner of which we may all be proud. Working with this Committee and with the Senate Finance Committee has been an experience which I shall always remember with pleasure.

The Opportunity for Basic Reform

When I appeared before this Committee on March 24th, I said that the Treasury was ready to supply the appropriate Congressional committees with its recommendations for changes in

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the tax system. The chairman of the two Congressional committees have expressed their interest, and their desire to receive the recommendations as promptly as possible, for action at this session. Some revenue legislation during this session is a recognized necessity, since the income taxes on corporations expire at the end of the year, and excise and sales taxes yielding about \$500 millions expire during the summer. I hope that Congress will take this opportunity, not simply to extend the expiring levies nor simply to adopt the usual series of technical changes to meet particular hardships, but to adopt those few basic reforms that we badly need to put the revenue system on a just foundation. The fundamental reforms that I want to suggest can be adopted, as a practical matter, much better this year than next year; and the encouragement to the taxpayers of the country by their adoption at this time is a factor of real importance under present business conditions.

Developments of the Past Decade

In order to achieve lasting reforms in taxation it is essential to get a proper perspective, a perspective that we are in danger of losing through the close attention necessarily given to tax developments day by day. Before considering specific

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measures I therefore suggest that we look at the development of the tax system during the last ten years.

During the period 1926-1930 the Federal tax system was producing about three and a half billion dollars a year. The Great Depression drove the yield down to two billions in 1932 and government expenditures increased. The result was the Revenue Act of 1932, the first of a series of revenue acts all designed to strengthen the tax system in one way or another.

The 1932 Act put the income tax rates back to the levels prevailing shortly after the War. It also doubled, roughly, the estate tax rates, and imposed a gift tax and a series of manufacturers' excise taxes. Nevertheless, so powerful were the forces of depression that the tax revenue did not rise above two billions in 1933. But for the next five years it increased to an extent practically unprecedented in the recent history of national governments, reaching an all-time record for this country of six billions in 1938.

Among the measures passed since 1932, about equal shares in achieving this result can be assigned, first, to the taxation of liquor following repeal of prohibition; second, to the social security payroll taxes; third, to the further increases in the income taxes, the estate tax, and the gift tax in 1934 and 1938;

and to the preceding years while they were in existence. Some revenue was also obtained, in the presence of emergency, by alienating certain well-crowned sections, that are recommended below for reinstatement. Finally, the great recovery in revenue has of course been achieved in large part through the recovery in business from the depths of 1932 and 1933.

Despite the great increases in income tax and estate tax rates and the introduction of a gift tax, these taxes produced only 50 percent of the Federal tax revenue in 1938. This compares with 66 percent in 1929 to 1931. The fact seems to be that, important as have been the developments in direct taxation in the past decade, they have been in large part but the necessary structural work, with much of the content yet to be added if direct taxation is to play the part it should. This point is especially important because, after all, the Federal Government collects less than half the country's tax revenue. The State and local tax systems depend on the property tax for two-thirds of their tax revenue and on the gasoline and motor vehicle taxes for 15 percent. Thus they make very restricted use of direct taxes graded to take account of not differences in taxpayers' power to support government.

Aims of Tax Revision

Among the aims of tax reform, encouragement of business must of course rank high, especially at the present moment.

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This is partly a matter of specific measures designed to lighten the tax load at strategic points. It is also, however, a matter of formulating a definite fiscal policy. This policy, as I explain later, calls for a strengthening of the tax system. The system cannot be strengthened with much assurance unless it is first improved with respect to simplicity, justice, and Federal-State-local coordination -- points that therefore have direct bearing on business recovery.

Simplicity

Among the desirable goals of the tax policy, simplicity is one of the most important. The cost of administration should be kept within reason, and the collection of taxes should be as little burdensome to the taxpayer as possible.

Regional Agencies. The Treasury has considerably simplified tax administration by establishing regional agencies to settle controversies locally, and to speed up the work. It is no longer necessary to come to Washington in order to settle an income tax or an estate tax or a gift tax case. I have no illusions about the possibilities of eliminating completely such complexities as the elaborate provisions on corporate reorganizations, or the even more detailed sections added in 1938 to permit utility companies to reorganize in conformity to the holding company act without unduly heavy tax liabilities. Tax laws cannot be wholly simple in a complex society. Moreover, the sections I have mentioned apply to the few cases, not to the many.

The Four Kinds of Corporation Tax. There is at least one complexity, however, of general application that can be removed. We now have four different taxes applicable to ordinary business corporations: an income tax, an undistributed profits tax, a capital stock tax, and an excess-profits tax. The income tax is of course an excellent fiscal instrument. The undistributed profits tax, on the other hand, has been reduced to a point where it possesses little significance in either obtaining revenue or increasing the fairness of the tax system; it seems mainly to serve as a business irritant. The capital stock tax is not a tax on the actual value of corporate property or even corporate stock, and the excess profits tax is not really a tax on excessive profits. Both taxes are in practice based on the guesses of corporate officials as to future corporate income. The corporation tax system would be greatly simplified, and its justice measurably increased, especially in lightening the tax load on deficit corporations, if all four taxes were consolidated into a single flat tax on corporate net incomes, with some concession in rate to corporations having less than perhaps \$25,000 net income.

Fairness

Another essential goal of tax policy is fairness in the distribution of the tax burden. Agreement with the broad objective, however, has not always been followed by the specific

steps necessary to accomplish it. The imperative budgetary necessities of the present decade have been allowed to override a number of allowances to the taxpayer that experience has shown are essential to a fair system of taxation. On the other hand, in some cases undue concessions have been made to certain groups of taxpayers; these concessions necessitate extra burdens on other taxpayers and should be removed.

Net Loss Carryover. Among the allowances that in my opinion should be reinstated for purposes of the corporation normal tax and the individual tax is that whereby a net business loss of any one year can be carried forward and be used to reduce the taxable net profit of a later year. At present, a business which has lost \$50,000 a year for three years and has then made \$150,000 in the fourth year must pay tax on the full \$150,000 without any allowance at all for the losses of the first three years, although the plain fact is that the business has made no profit at all over the four year period. No income tax should be payable where there have been no profits. If the Government wants investment in new businesses -- businesses which cannot guarantee a profit every year -- the least the Government can do is to provide that only net profits over a term of years will be taxed. The same remarks apply to the heavy industries producing durable goods -- industries that are particularly sensitive to the business cycle and in which unemployment is most pronounced. Under the present system of allowing no carryover of business losses, the tax system is loaded both

against new investment and the durable goods industries. Unfairness here, as so often, acts as a deterrent to the business enterprise.

Capital losses of Corporations. Another example of such leading is the present restriction on a corporation that incurs a loss when it sells a capital asset. This capital loss can be deducted only against the capital gains, if any, that the corporation has made in the same year (plus \$2,000). In many cases, therefore, the corporation does not in practice get an allowance for its capital loss. Thus again the risk-taking type of business is discriminated against, compared to the safe and stable business.

Dividends Received by Individuals. Another allowance that should be reinstated concerns dividends received by individuals. At present a corporation's income is taxed, and then when it is paid out in dividends the stockholder pays the full individual income tax on the dividends with no allowance at all for the fact that the corporation has also paid an income tax. Thus, an extra burden is imposed on all income from corporations, large and small. More serious, perhaps, is the fact that this arrangement gives corporations a strong inducement to raise money by selling bonds or borrowing at a bank rather than by selling stock. This is so because the interest that the corporation pays out on this borrowed money can be deducted from its gross income in computing its net income; but it cannot deduct dividends paid out, and hence

dividends and interest are taxed in full to the individual. A remedy is to give the individual taxpayer some relief from full taxation on the dividends he receives, in acknowledgment of the fact that the corporation has already paid tax on the profits whence these dividends come. The relief need not be so large as to equal the corporation tax, but it should, in my opinion, be substantial. Before the relief was eliminated in 1936, it took the form of exempting dividends from the normal tax (leaving them subject to the surtax). Whether this device would be adequate now must be considered in the light of the fact that while the normal tax is only 4 percent, the corporation tax, except for small corporations, has been raised to 16½ percent at a minimum and will be even more if the rate is increased upon elimination of the capital stock and excess-profits tax, as suggested above.

Consolidated Returns. Two provisions in the income tax law are aimed directly at corporation subsidiaries. One is the provision forbidding two or more corporations to file a joint, or consolidated, return even though they comprise a group consisting of a parent corporation and 100 percent-owned subsidiaries. Thus a loss incurred by one of the group cannot be used to reduce the profit of another in the group, though so far as the shareholders are concerned they are simply one large corporation.

Intercorporate Dividends. The other provision makes a corporation include in its taxable income 15 percent of the

dividends it receives, although these dividends come from profits that have already paid the full corporation income tax. This measure has nothing to do with tax evasion through personal holding companies, a problem solved for the present at least by the series of prohibitive taxes worked out in 1937 on the "incorporated pocketbook", whether foreign or domestic. Instead, this partial taxation of intercorporate dividends penalizes parent corporations, ordinary holding companies, and the ordinary type of investment trust.

There are undoubtedly reasons for controlling the growth of such types of corporate structure, but it is also true that there are many cases where those types are legitimate and even desirable from the public point of view. The tax penalties strike the deserving and undeserving alike, making no distinction of either motive or results. It is therefore pertinent to ask whether we are not wielding too blunt an instrument in these cases, harming some unintentionally and unwittingly allowing others to escape too lightly. Of course, any system of tax laws is bound to affect business practices, and it is not sensible to say that taxation should in no circumstances be used as an instrument of social control; but tax laws are complex enough and hard enough to make fair as revenue producers without being asked to take on the task of social control. It remains a good general working rule that whatever governmental regulation is necessary should be attempted, in the first instance at least, by other means.

Surtax Rate Structure. The present rate scale of the individual income tax reaches a peak of 70 percent in the top bracket, with several percents added by State income taxes in many cases. From the viewpoint of an equitable distribution of the tax burden I do not believe this rate scale is too severe; but to run it up to such high levels in the top brackets is to make scarcely worthwhile for the wealthiest taxpayers any risking of their capital in hazardous ventures. I therefore suggest that the following combination of measures be considered as a means of preserving the fairness of the tax system while leaving more encouragement for risk-taking enterprises: let the rates in the top brackets of the income tax be substantially reduced and, as noted below, let the capital gains provisions be tightened, the estate and gift tax rates increased, and future issues of tax exempt securities prohibited.

Tax-exempt Securities. It is obvious that the progressive-rate feature of the individual income tax - the keystone of our fiscal policy - is distorted and in many cases completely nullified by the existence of a large amount of tax-free securities. Now that recent Supreme Court decisions indicate a change in attitude toward the problem of intergovernmental immunity, it seems to me that the inclusion of all future governmental bond interest in taxable income is one of the most obvious next steps toward tax justice. More than that, it should tend to push into new enterprises the kind of private capital that can afford to take risks.

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I have discussed five types of allowances that, if granted to taxpayers, would, in my opinion, increase the fairness of the tax system, and encourage investment, especially investment that is willing to take risks. I now come to the other aspect of business: undue concessions that have been made to certain types of taxpayer. Removal of these concessions will serve the double purpose of improving the equity of the system and counterbalancing to some extent the decrease in revenue that would result from the allowances discussed above.

Capital Gains and Losses. A gain from a sale of a stock or a bond or a piece of real estate or any other capital asset is, if the asset has been held more than two years, taxed at a maximum rate of 15 percent. In the vast majority of cases the tax rate is even much less than this. Alongside of the ordinary income tax rates that apply to salaries, interest, dividends, and rents, the rates on these long-term capital gains are absurdly low. One reason given for setting them so low is that the deduction of capital losses is somewhat restricted. A fair tax system cannot be achieved, however, simply through matching an unjustified concession by a harsh restriction. A more sensible procedure is to remove both the concession and the restriction. Hence I suggest for consideration an increase in the tax rates on long-term capital gains, and possibly also on intermediate gains (now taxed at a maximum of 30 percent), coupled with more liberal allowance of capital losses, possibly by letting them be carried forward several years to be offset against future capital gains. The net result should be no deterrent to genuine long-term investment

(especially in view of the suggestion above concerning surtax rates) and a great increase in fairness among individuals.

Depletion. The present law allows excessive depletion deductions to oil and gas wells and certain types of mine. As the Treasury has often pointed out, a large amount of revenue can be recovered by closing this loophole.

Estate Tax and Gift Tax Coordination. The estate and gift taxes together contributed only 6.9 percent of the Federal revenues in 1938, and only 3.9 percent of total Federal, State, and local revenues. One of the reasons why these taxes do not play a larger role is that wealthy persons can split their giving between life and death in such a way that the transfers fall only in the lower brackets of each of the two taxes. Moreover, there are two exemptions, one for each tax. The remedy for this situation is not merely to increase the rates, nor even merely to eliminate one of the exemptions. The aim, it seems to me, should be to coordinate the gift tax and the estate tax so that, from the transfer tax point of view, it makes practically no difference to the donor whether he gives during life or at death. Of course if some tax incentive to give during life is deemed desirable, it can be given, even under the coordination suggested below. At present such incentive as exists may fairly be called erratic and far too costly in revenue.

This coordination would in effect consider gifts and the final distribution at death as a unified series of transfers. At the present time successive gifts are cumulated for tax purposes. It remains merely to cumulate the estate as if it were a final gift.

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There then would be one exemption and one rate scale. If it were desired to give new incentive to gifts it could be accomplished through special credits. Furthermore, any undue hardships at death could be eliminated through special provisions.

With this loophole of avoidance closed, it would probably be desirable to increase the yield of the estate tax still further through somewhat lower exemptions and higher rates in the lower and middle brackets. The Federal estate tax at the present time applies to a very small proportion of estates and the tax on all but the top portions of very large estates is relatively small. In my opinion the rates on the highest brackets of the largest estates are already sufficiently high and should not be increased, although the total tax on those large estates would, of course, increase as the middle and lower bracket rates were increased.

Estate Tax Insurance Exemption. The exemption granted to life insurance (up to \$40,000) under the estate tax gives a preference to those fortunate enough to be able to save in this manner over all other savers and other forms of saving. Removal of this discrimination is in my opinion highly advisable.

Coordination with State and Local Taxes

In a federal system such as ours, coordination of federal, state, and local taxes becomes one of the major goals of fiscal policy.

Growth of Conflict. While the national government has been obliged to strengthen its revenue system, the States have been faced with a similar problem. They too have experienced drastic declines in revenue and increasing demands for expenditure. To meet their revenue needs they have reached out for new tax sources. Taxes on incomes, retail sales, alcoholic beverages, tobacco, and chain stores, and a variety of business taxes have been newly imposed in many States. As a result, there has been an enlargement of the group of taxes that are imposed by both Federal and State governments. Transfers of property at death are taxed both by the Federal Government and 47 of the States. Individual income is subject to the Federal income tax and 34 State income taxes. Motor fuel is taxed by the Federal Government and all the States; The Federal Government and 44 States derive revenue from alcoholic beverages; and in 31 States the Federal and State Governments tax tobacco. Similar duplications exist in many other taxes.

Results of Conflict. The simultaneous expansion in the revenue systems of both the States and the Federal Government has greatly increased the conflicts between national and State taxes and between the taxes of the various States. The results are increasingly unsatisfactory to everyone. The various units of government find their revenues adversely affected by competing taxes of other governments. The costs of collection are higher in proportion to the revenue than if this competition did not exist. The types of taxes that States have felt obliged to impose often give rise to smuggling

across the State lines, necessitating practically the setting up of customs offices by the States. The taxpayer is also adversely affected. He is often subject to two or more taxes on the same income or the same transaction. These taxes are frequently imposed without regard to each other so that the levies are unequal and onerous. For example, in some States combined Federal, State and local gasoline tax levies reach 10 cents per gallon. The taxpayer must prepare numerous reports which must often be compiled in different ways to satisfy the many requirements of the different taxing authorities. Even the salaried individual must fill out several forms for income tax (including duplicates) in many States.

The Next Step. Although in a Federal system of government the tax structure will inevitably be complex, the existing confusion and conflict can be diminished. A variety of suggestions have been made from different sources. Thus, it has been proposed that uniform returns be used by different States and the Federal Government in collecting the same tax and that uniform apportionment formulas be adopted to avoid taxing the same income or transaction twice by different States. In the case of some taxes it has been suggested that the Federal Government administer the tax and distribute its proceeds among the States whence the revenue comes. Another suggestion is that the Federal Government leave some of the revenue sources to the States and that the States leave other sources to the Federal Government. Federal

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collection of taxes accompanied by grants-in-aid to States has also been suggested.

It is high time to consider seriously how the national and State Governments can coordinate their taxes in such a manner as to minimize duplications and conflicts, to reduce the taxpayer's cost in complying with the tax laws and to assure adequate revenues to all governments. The existence and seriousness of the problem have been widely recognized and there has been a good deal of talk about it. To date, however, little has been accomplished.

In my opinion, the most fruitful approach to this difficult and complicated problem is through the appointment of a national commission made up of men having the highest possible level of ability and public confidence. They should represent not the Federal, State or local Governments as such, but the national interest at large. They should have at least one year, more probably two or three, in which to hold hearings and prepare a report, and ample funds should be provided for staff work. The function of the Commission would be to study the inter-governmental fiscal problem in its many ramifications and report to Congress. I suggest that Congress consider the creation of such a Commission.

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Adequacy of Revenue

It is trite to say that a tax system should yield adequate revenue. The real question is, what is "adequate" in any given year and place. Yet this question is at the root of our tax problem. Unless we answer it, all our specific recommendations for changes in the tax system assume at best an air of temporary structures resting on foundations apt to be shifted at a moment's notice. Here it becomes necessary to complement the backward glance over the past decade given at the beginning of my statement with a look into the future of the next five years or so.

As we look, certain probabilities take form. To what policy they should lead may not be entirely self-evident, but it is clear that we must resolutely face the problems that they raise.

The Prospects for a Balanced Budget.- The present tax system is powerful; but it is not so powerful that it will stop all increase in the public debt over the next five years or so, even given some measure of business improvement and some reduction in expenditures. In a year of great prosperity, with a national income of some 80 billions of dollars, the current revenues might rise to 8 billions; and, depending on the course of expenditures, a moderate amount of debt reduction, perhaps not more than a billion dollars and conceivably less, could result in such a year. But over a longer period, good years and bad, the present revenue system will result in a substantial increase in the public debt,

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assuming no radical change in expenditures. The crux of our expenditure problem lies in relief and national defense. Together these items are accounting for _____ of our total national expenditures for the current year.

Even with the lowest expenditures on relief and defense that can reasonably be expected, it is in my opinion unreal to talk of balancing the budget next year or even the year after next; but, unless we are to commit ourselves to a philosophy of continuing increase in debt, it will be necessary to enact this year measures that will, within three or four years, bring in added revenue. These measures are indicated in detail below. It is not so much the exact date of budget equilibrium that matters, or even the precision of the balancing, as it is the adoption of a program that commits us to a trend in this direction during the next five years.

The Necessity for a Commitment Toward a Balanced Budget.-

Such a program seems to me to play a vital part in increasing the national income.

The healthy functioning of the country as a whole depends in the last analysis upon the healthy functioning of the wage-earners and the businesses of the country. We must rely upon business to provide employment for at least the great bulk of our men of working age. I have suggested some measures of

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tax fairness that will remove specific obstacles to business recovery; but the problem is much broader than that. When the uncertainty of conditions abroad are coupled with the uncertainties of an unbalanced national budget, and when measures to produce a balance are hopes, not realities, it is not surprising that the man who has saved money, whether a few dollars or a million, refused to take a chance on an investment in anything save the soundest, best established, most stable securities. He knows that business must sometime face new taxes heavy enough to bring the budget into balance, perhaps even heavy enough to retire some part of the debt, and he cannot know where they will fall. Since he cannot forecast the future, he marks time. The result is business stagnation, not the steady business advance which has been characteristic of the country.

Sources of Added Revenue.- A definite policy looking toward the balancing of the budget sometime within the next five years or so seems to me to imply the following steps:

First, a declaration of the policy in unmistakable terms.

Second, the continuation of the sales and excise taxes that otherwise expire this year.

Third, a program of readjustment within the several taxes as suggested in the sections above. The net effect of these readjustments will probably be a loss of revenue, but they are essential because of the very fact that the system as a whole

must raise more revenue. When the tax burden becomes severe in the aggregate, injustices within the system that might otherwise as a practical matter be ignored may become intolerable.

Fourth, an increase in rates and a decrease in exemptions, in a manner calculated to cause the least immediate disturbance to consumer purchasing power and to capital's willingness to invest. Here the most promising points of attack seem to be:

(a) The rates of the estate tax and gift tax (coordinated as suggested above) in the middle and lower brackets. The full revenue from increases in these brackets will not come in until three or four years have passed, but when it does arrive it will be a powerful factor operating to balance the budget.

(b) The exemption of \$40,000 under the estate tax-gift tax. This could, in my opinion, be substantially lowered.

(c) The middle brackets in the individual income tax, especially those between \$5,000 and \$50,000. An increase here rather than elsewhere seems indicated by the manner in which the weight of the tax system as a whole is at present distributed. It must be remembered that even the wealthiest man has part of his income in the middle brackets, so an increase there would in part directly recoup the loss incurred by reducing the rates where they are most restrictive economically, that is, on the top parts of his income.

(d) The exemptions under the individual income tax. By lowering the single exemption from \$1,000 to \$800 or thereabouts, and the married exemption from \$2,500 to \$2,000 or thereabouts, not only will a new class of taxpayers be awakened into consciousness of the needs of the government, but all existing taxpayers will be required to contribute something more.

This program recognizes the desirability of increasing the role of direct taxation in the system of the national government.

Whether it would prove adequate to balance the budget at the proper time would of course depend on many factors, some of them adduced above, that cannot be examined in detail here. At the very least, however, it would be a program, not a policy of drifting that is in itself a sort of choice by default; and the achievement of a carefully formulated program must, in my opinion, be the cornerstone of our fiscal policy.

April 11, 1939
4:32 p.m.

HMJr: Hello.

Operator: Mr. Noble.

HMJr: Right.

O: Go ahead.

HMJr: Hello.

Edward J. Noble: Hello, Mr. Secretary.

HMJr: I'm sorry, but I've had one of these days.

N: I know. Well, I tell you, I just dropped in a couple of times, because I just wanted to shake your hand and look you in the eye and tell you how appreciative I am.

HMJr: Well, maybe we can do more than that and have lunch together not too distant.

N: Well, I'd like very, very much to. When you get a minute or two I'd like -- I wouldn't take over two or three minutes.

HMJr: Well, you can have two or three hours if you want it.

N: (Laughter) You've already been too generous.

HMJr: No. Well, we'll -- we'll get together very soon. It's just been trying to do two days -- two weeks' work in two days.

N: Well, I know, yes. What kind of -- what kind of weather did you have south?

HMJr: We had beautiful weather.

N: It was good, huh?

HMJr: Unfortunately I wasn't well, though, the whole time I was down there.

N: Is that so? I'm terribly sorry to hear that.

HMJr: But I'm feeling better, and I'd like very much to see you and I'll get in touch with you very soon.

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N: Well, at any time at all that you can spare just a few minutes I'd like very much to talk to you.

HMJr: Righto. Well, I'll tell you now -- if you wanted to say -- I'll say at three o'clock tomorrow.

N: Oh, that'll be slick.

HMJr: Three o'clock tomorrow.

N: Fine, I'll be there.

HMJr: Righto.

N: Good bye.

April 11, 1939

5 p. m.

Present:

Mr. Lochhead
Dr. White
Mrs. Klotz

HM, Jr: You two fellows take this thing standing, please.

The main thing that you fellows can do for me tomorrow, I think, from our standpoint, is that if we can have something to get the Tripartite countries to agree not to dump American stocks. Naturally, that's the most useful thing to do. I wish you fellows would develop that. And on this thing, even if you do have to work tonight -- I do want something by 3:30 tomorrow. Plus that we ought to sound them out on commodities. I don't know how that works from there. I don't know what else they can sell that they own.

Mr. Lochhead: Gold. That's going to be the first question that comes up.

HM, Jr: All right. When I was over there, four years ago, everybody was buying certificates of copper. They dealt in copper. You could buy a certificate. You can't buy a ton of copper, but you buy a piece of it. So just

Dr. White: I think we ought to work with one of the boys in Legal.

HM, Jr: That's all right.

Herbert Feis asked me whether it was all right to suggest Wayne Taylor to go down to Venezuela and I told him no.

Mr. Lochhead: He said outside that's out. He's all right.

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HM, Jr: There were three things the President of the United States wanted that he was opposed to. And how could we send him on a foreign mission? On the other hand, when Jesse Jones said could he offer him the presidency of a bank, President of Anglo-California or some other bank, yes, I have no objection to that, but certainly anything that the President of the United States or the State Department or the Treasury wanted that Wayne Taylor disapproved -- and Sumner Welles told me as long as he was there he would see that Wayne Taylor never got anything. He was through with Taylor. Feis said he had hinted several times and I said, Herbert, as long as you ask me, I will tell you where I stand.

Mr. Lochhead: Well, he withdrew it.

HM, Jr: Well, it's just as well it came up. I knew it would.

Dr. White: You can't dodge this thing. You have got to make up your mind.

HM, Jr: It's not a question of making up my mind.

Dr. White: That's out, but other things are in with it.

HM, Jr: If you fellows ----

Dr. White: We will come at you again tomorrow.

HM, Jr: Besides that, I went over 30 pages of my tax statement today.

(Mr. Lochhead left the office with Dr. White and the Secretary called Dr. White back.)

HM, Jr: Harry, I am thinking as part of my war plan -- did I tell you I am thinking of bringing four economists?

White: You said four men.

HM, Jr: I am making progress.

Dr. White: That's a very good plan. I think some-

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thing is trying to be put over on you on this Venezuela business.

HM, Jr.: Before the State Department puts something over on me! Do you know the Attorney General is going to give me an opinion on this Munitions Control Board?

Dr. White: A favorable one?

HM, Jr.: I don't know. I have no inside information.

Dr. White: I think it is going to be favorable.

HM, Jr.: I think so too, but nobody has told me.

Dr. White: You are also going to get a ruling on the silk thing?

HM, Jr.: Yes. The President said so, and we will get a ruling and then with fire in our eye we will do it!

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 11, 1939.

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

Re: Moses L. Annenberg

I have given thought to the subject which you raised in our conference yesterday about the advisability of a discussion between you and Mr. Gifford. It would seem that if the subject is taken up with him cold, his position would be that his company cannot undertake to be a policeman on behalf of the Government; that the Government should prosecute Annenberg first and then the company will follow up with appropriate action; that this subject had been gone in to by the Federal Communications Commission and by the company's attorneys, and the company does not believe that it can validly refuse to give service, and furthermore, that there is insufficient evidence to supply the company with an adequate defense against any claim for damages or other legal action to compel the giving of service to Annenberg. In order to break down this resistance (which is undoubtedly largely based on the financial profit to the company deriving from the Annenberg business) it would seem that the timing and the circumstances must be such as to leave Mr. Gifford no other alternative than to associate his company with efforts to suppress the gambling business. From the point of view of the case itself, the value of a cessation of the wire service business would be to break down the unwillingness of witnesses to testify on behalf of the Government; if the wire business goes, the morale of the Annenberg organization would be so

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shattered as to shake the confidence of the employees in the invincibility of their boss.

It seems to me, therefore, that when the District Attorney in charge of the case, or our men on his staff, give the word that the grand jury has reached the stage when a body blow is necessary, and when enough has been developed of an indisputable character with which to confront Mr. Gifford, you should be so notified. You may perhaps at that point wish to consider whether the Attorney General should not be associated with you in order to exercise the strongest pressure; it would seem that not only might a case have been developed for legislation but possible criminal violations on the part of the telephone company of Federal, or state, statutes might also have been made out.

I note from the files that on October 17, 1938, Mr. Oliphant prepared a list of suggested questions for a similar purpose. Subject to your approval, when the time is ripe for conversation with Mr. Gifford I shall go over Mr. Oliphant's letter for the same purpose.

E. N. F. h.



TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE April 11, 1939.

to Secretary Morgenthau
FROM Mr. Haas



Subject: Field Trip Notes -- Visit to Corporations Furnishing
the Secretary of the Treasury with Confidential New
Orders Figures.

GENERAL COMMENT

1. Coverage. I talked with 24 people representing the reporting companies. I did not get a complete coverage, as some of the people were absent from the city and some were so located that time would not permit a visit, but at least one corporation of each industrial classification was interviewed. Those corporations which I did not see for one reason or another could be taken care of in a few weekend trips, if such is your desire.

2. Willingness to Cooperate. All the corporations were not only willing to cooperate in supplying the new order information on a confidential basis but many went out of their way to express their feeling on this point. They were pleased to know that you were using the information to follow the general business situation, and felt that any information they had should be made available to you. Several of the corporations apologized for earlier inquiries they had made asking whether or not we still had use for the information they were sending. With the experience they have had in the last few years they felt confident that their information would be kept on a strictly confidential basis. International Harvester Company was particularly pleased with regard to this aspect. They told me that some years ago they supplied a governmental department with this information, and one day it came over the New York ticker tape.

3. Some New Information Secured. I found two new types of information which I think will be useful in analyzing the business picture.

a. The Air Reduction Company will supply us with a series covering only their oxygen sales. This series correlates very closely with steel construction (oxygen and hydrogen gas are used in acetylene welding of steel).

b. The Standard Oil Company of New Jersey has another confidential series which represents sales of fuel oil for industrial use only.

4. "Business Appeasement Program". Many of the corporation executives felt that there was a large volume of potential private spending which would come out with the establishment of any longer term business confidence. They explained that everything today was done on a spot basis. Many of them expressed keen disappointment in the ups and downs in the so-called "Washington business appeasement program". All of this information was volunteered. I made no inquiries on these points. Several executives expressed gratification with regard to your recent statement on the Social Security Act. They felt that this was a tangible move in the right direction.

5. Business Situation.

a. Stock Market. I found no corporation executive who could offer any explanation of the stock market reaction in terms of his particular business. Some of the executives, however, were apprehensive that the stock market might adversely affect their business trend. The only explanation they had with regard to the stock market behavior was the unfavorable foreign situation and, to a lesser extent, the occurrence at the same time of disappointment with regard to the "business appeasement program". I found no corporation executive, however, that felt that the European situation had particularly affected his business decisions. But most of the executives added that if business were really booming the case might be somewhat different, as now practically all business is done on a very near term basis.

b. Inventories. I found no business that had any inventory problem. In fact all of them felt unusually secure in this respect.

c. Volume of Business as Between Types of Corporations. I found no corporation which has, as yet, changed its budget estimate of business it expects to do for the year.

(1). Consumer Goods. Business in these lines appeared to be very good. Sears-Roebuck and Woolworth, for example, were very enthusiastic. Sears-Roebuck pointed out that not only light consumer goods were selling well but the same was true of heavier lines, such as electric refrigerators.

(2). Electric Equipment. There is a good upward trend in both the light and heavier lines. Orders in this industry cover a broad range of economic activity.

(3). Automobiles. The automobile companies were optimistic but somewhat apprehensive for fear the stock market would adversely affect automobile sales. This was particularly true because the recent weekly sales figures were indeterminate, one week up and the next week down. (However, more recent sales figures which have just come to hand show a sharp upturn. A special memorandum is being prepared on the automobile situation.)

(4). Steel Companies. Orders are less than anticipated earlier but United States Steel is optimistic, feeling that the orders will be forthcoming. All business is on a spot basis with no forward buying. The inventory situation is good with no stocking anywhere along the line.

(5). Rail Equipment. Business is very low but a substantial improvement is expected if carloadings increase substantially. Because of the present condition of railway equipment, railroads would be obliged to increase purchases sharply with any substantial increase in carloadings.

(6). Miscellaneous. Farm equipment, communications companies, building suppliers, oil companies, office equipment, etc. are discussed briefly in the individual company reports which follow.

INDIVIDUAL COMPANIES

United States Steel Corporation -- Mr. Vogt, Comptroller.

New orders are somewhat less than was expected earlier in the year, but Mr. Vogt said he was optimistic and expected the upturn in orders would be resumed. If the European situation would either clear up or business here would become accustomed to the situation abroad, and with some improvement in business confidence, he thinks that there are potentialities in the present situation to produce an especially good business level.

He pointed out that there is a substantial amount of potential business in the railroad industry once carloadings show a material increase. At present, he said, all business is on a spot basis. There is no forward buying from any source. There has been practically no inventory or stocking anywhere along the line. He stressed the importance of business

confidence of the longer term sort so that business would feel they had a basis on which to move ahead. In this connection he mentioned the relationship between Government and business. He thought much could be accomplished along this line if Government and business really got better acquainted.

General Electric Company -- Mr. Perry, Assistant to Mr. Swope, Chairman of the Board.

New orders have shown a sharp increase since the first of the year, increasing to a weekly level of \$7 millions plus as compared with \$4 millions plus at the low point of 1938. The increases have run more or less uniform through all lines, both light and heavy. He estimated that 15% of their new orders have come directly or indirectly from Government business, mainly through the utilities and the marine business.

Mr. Perry said that Mr. Swope was glad to supply you with the new orders figures but had asked him to furnish them in each instance only on a written request. (I write for them each week.)

General Motors Corporation -- Mr. Andersen, Assistant to Mr. Sloan, President; Mr. Hayford, Economist, and Mr. Horner, Statistician.

General Motors were still betting on a 3.5 millions car year, which is their early year estimate. They were somewhat apprehensive that the stock market break might adversely affect automobile sales. The present weekly sales figures were indeterminate, with one week up and the next week down, etc., but they were hopeful that the weekly figures would soon establish a trend. (Weekly sales figures which were forwarded to us following this conference have shown sharp increases.) They pointed out that the weather has been unfavorable to automobile sales, but Mr. Andersen thought that spring and warm weather would soon establish an upward trend.

American Telephone and Telegraph Company -- Mr. Andrews, Chief Statistician.

Mr. Andrews felt that general business was now marking time. He did not view this with any alarm but thought it was rather a favorable development, as it would mean that the rise would probably last longer. In making the A. T. & T. budget estimates for the current calendar year they assumed business in 1939 would be 15% higher than in 1938, and he could see no reason for modifying this estimate. He views the present

waiting period as merely delaying the expected rise. It was his opinion that there will be little capital goods expansion this year. He pointed out that their toll business, which is a good business indicator, was doing well.

American Locomotive Company -- Mr. Dickerman, President.

They have no steam locomotive orders, only some for diesel locomotives. The parts business and the car orders are going fair. This, he held, was usually a good sign, as these orders usually preceded locomotive orders. For his business he expected 1939 would be about like 1936. With the development which is now taking place he is still looking forward to somewhat the same curve but with the rise delayed 30 to 60 days. He pointed out that profit for this year on the locomotive business is out of the question unless orders come in soon, as 5 to 7 months are required to build a locomotive.

Mr. Dickerman spoke about the disappointment of the "appeasement program" and said that he thought businessmen actually had confidence that the business accord would be carried through this time. He thinks the next 30 or 60 days will hold the key as to what type of business year 1939 will be.

Mr. Dickerman emphasized the great difficulty they were having in securing foreign business. He said he had just received word from a representative of his in Portugal that they had lost some prospective Portuguese business to the Germans. He said he would not know the exact details regarding the case until his man returned, but from what he had heard he suspected that the Italians did the fighting in Spain and the Germans were now taking the business. He suspected that the Portuguese Government felt it important to stay on good terms with the Germans, and the Germans, therefore, were able to secure this railway equipment business.

Air Reduction Company -- Mr. Davidson, Secretary.

Their business is good in all parts of the country except in Oklahoma and Texas. He offered to supply me with a sales series which would include only their oxygen sales. This series, he pointed out, correlates very highly with steel construction because of the use of this gas in acetylene welding of steel.

He said that his feeling merely reflected his business and he was optimistic.

Johns-Manville Corporation -- Mr. Roberts, Vice President and Treasurer.

Their budgets were based upon an expectation of a 15% increase in business in 1939 over 1938. Upon his own volition he talked a long time about the importance of good relationship between Government and business, digressing often into general economic problems, including taxes, labor difficulties and labor rackets, etc. He indicated that he was discussing these general matters in order to emphasize what he thought was of tremendous importance, that of working up a longer term confidence in the minds of businessmen. He pointed out that whether this is rational or not, it is what makes new orders, and he is convinced there is a tremendous amount of potential business once this confidence is restored. It is his feeling that the President could develop a long term business confidence. He does not feel that the stock market reaction will affect their business, which, to a large extent, is dependent upon construction.

International Business Machines Corporation -- Mr. Lenk, Comptroller's Office.

This is one corporation that appears to always have a good volume of business. In fact, only twice (1932 and 1933) since 1925 has their net income failed to exceed that for the previous year. Their difficulties were not concerned with lack of business but rather in transacting business, particularly in the foreign field. I. B. M. conducts business in a large number of foreign countries, about 1/3 of their total volume being in the foreign field. In this field they are experiencing, as one might imagine, serious difficulty in connection with exchange controls, German propaganda, etc.

Western Union Telegraph Company -- Mr. Rahde, Assistant Comptroller; Mr. McKay, Vice President and Comptroller; Mr. Moore, Statistician.

Mr. Rahde felt that their toll figure represented an excellent composite of general business. Representing such a very broad coverage it naturally fluctuates over a narrower range than some individual industry, as, for example, the steel industry.

Mr. Rahde took considerable time out to tell me how much he was impressed by your recent statement with regard to revisions in the Social Security Act.

American Car and Foundry Company -- Mr. Hardy, President.

Their railroad equipment business is at a very low level, but Mr. Hardy feels there is a large pent-up demand for railroad equipment once the railroads feel they can go ahead. This will depend to a large degree on the curve of railroad overloadings.

Mr. Hardy said he thought he could get quite a little business if it could be adequately financed. He had just come back from a conference with Mr. Rentschler of the National City Bank. He said he was attempting to work out a basis for financing some prospective business he had in the making. Financing has been causing them considerable difficulty. Most of the equipment is now sold on a lease contract, and he felt that the situation would be greatly improved if some financing company would take over the credit risk, as he felt railroad equipment companies were not equipped to act in a banking capacity. In fact, he thought they had already done too much of it.

Mr. Hardy said he knew your father, and I told him I would mention his financing problem to you.

Standard Oil Company of New Jersey -- Mr. Blood; Mr. Moore, Statistician.

Mr. Blood pointed out that January was down from December, but he did not feel that he was particularly equipped to express an opinion on their business outlook.

He pointed out that a series which they have worked up, which includes fuel oil for industrial purposes only, is a good measure of business activity. He agreed to send this series to me.

The Texas Company -- Mr. Puyyer, Assistant to the President.

The Texas Company is mainly a gasoline company. They expect their 1939 business to be about 6% above 1938. At present their business volume is good but prices are not so good. The price situation is not due to lack of demand but to a production situation which has gotten a little out of hand.

F. W. Woolworth Company -- Mr. Lovell, Assistant Secretary.

January and February, he said, were the best business months in the history of the company. He was optimistic and said that they had accumulated practically no inventory.

American Woolen Company -- Mr. Connett, Assistant to the President.

They have no inventory accumulation. He pointed out that spring orders were delayed and they are now between the spring and fall business, but still busy on spring orders. He indicated that because of this delay in spring business they have not had much time to even work up fall samples and that the orders for fall business would necessarily be delayed. One reason for the low inventory, he said, was that the price situation was such as to discourage the building up of speculative stocks.

American Steel Foundries Company -- Mr. Jarchow, Comptroller.

Mr. Jarchow said they are now losing about half as much as they lost last year. He added further that if everything in sight works out favorably they may reach a break-even point sometime during the year. Orders have been very low but they have had some inquiries. He did not expect much of a volume in business until railroad carloadings show a substantial increase. This, he was sure, would bring forth railway equipment business because cars are not available to handle a substantial increase in carloadings. He pointed out that an increase in carloadings is what is needed in the railway equipment business, that easy money alone is of no help. They have no service or repair business of any significant volume, and this appears to be one reason for the sharp fluctuations in their business.

Recent months have shown some upward trend in their orders from the very low levels reached in 1938. The unfavorable European situation has had no effect on their business. He added, however, that if the level of orders were higher there might have been some noticeable effect.

International Harvester Company -- Mr. Marlow, Comptroller's Department.

Mr. Marlow makes up the yearly estimate of net sales upon which the company's budget is based. He is estimating their 1939 year, which ends November 1, at \$180 millions, which is the same as the previous year. They are now \$22 millions behind their budget estimate but he expects this will be made up before November 1. Harvester's business, he pointed out, lags about 6 months behind general business on the downturn and about 6 months behind on the upturn. With any kind of a good crop he expects the farm implement business to show a considerable pick-up from the present low level of sales. The farm implement business is now over 40% less than last year, but the parts

business is doing much better. Their truck business is good in some of the eastern sections and has brought Harvester's total net sales above a year ago. Their business is the best in the East and in the South, east of the Mississippi River. The Northwest and Southwest are the poorest areas.

Sears, Roebuck and Company -- Mr. Carney, President.

Business, Mr. Carney pointed out, was especially good. It was best in the steel and automobile production areas. He said it was running about 30% above a year ago. They have accumulated practically no inventories and have done no speculative buying.

Speaking of the general business situation, he saw no reason why business should turn down. Inventories are not excessive and there has been no excessive credit expansion or other maladjustments of which he is aware. The two adverse factors, as he saw them, were the low farm income and the European situation, but he did not think that the European situation was in any way affecting their business. He thought the business community would soon work up a sort of immunity to war scares. In his business not only light consumer goods but also durable consumer goods, such as electric refrigerators, were going very well. Residential construction, he thinks, should continue to go up, as it does not suddenly stop once it gets started.

Mr. Carney felt much could be done to improve business confidence by improving the relationship between Government and business. With regard to the business-Government accord, he thought it was unfortunate to build up the hopes of businessmen and then let them down. That, to him, was worse than nothing. He was very cordial and his comments on these points were volunteered.

Some of the gain in their business has been due not only to improvement in general buying but also to some of the innovations they have established to increase their sales.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

E-1 29

TO Secretary Morgenthau

FROM Mr. White

Subject: United States Exports to Germany

The compilation of United States exports to Germany of cotton, petroleum and copper is given below.

The data are taken from the export declarations, are the amounts listed for the week ending April 6th, are for exports which actually took place from 3 to 14 days prior to the time the export declaration was released.

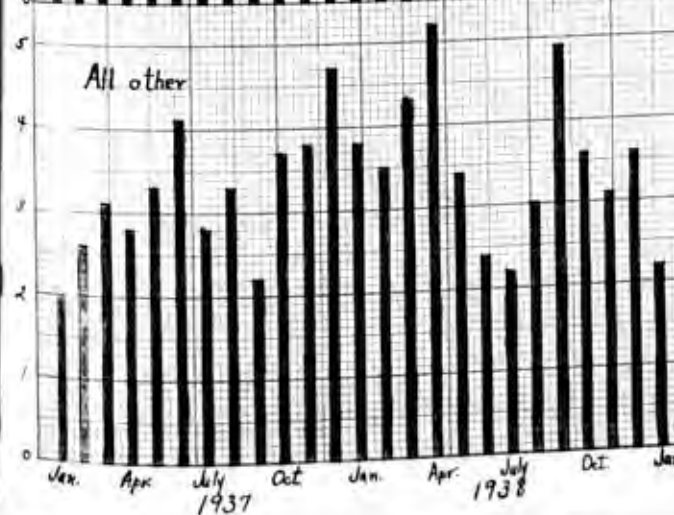
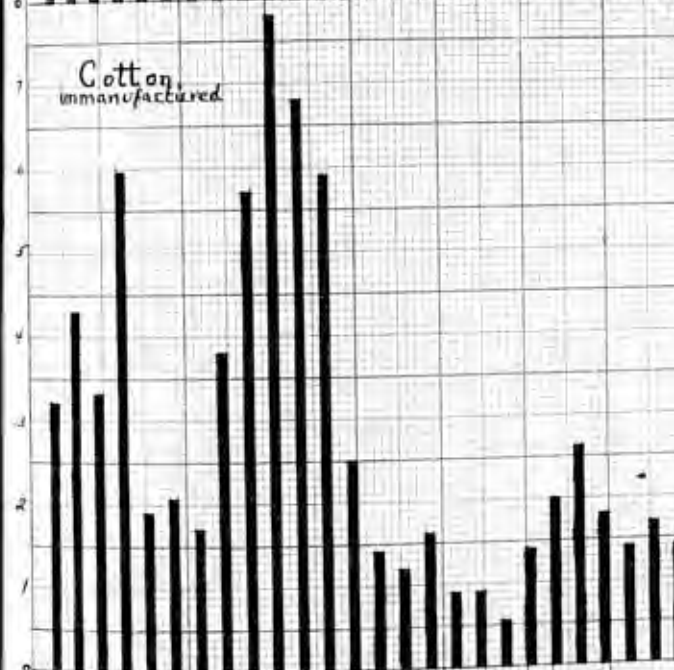
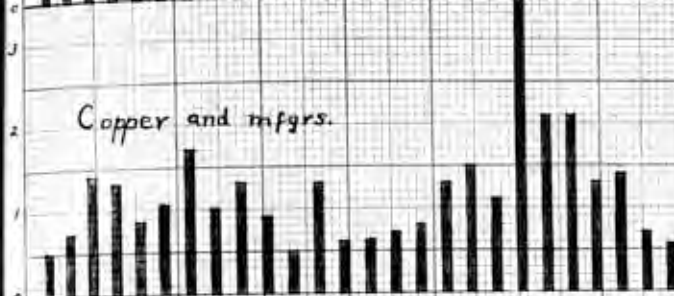
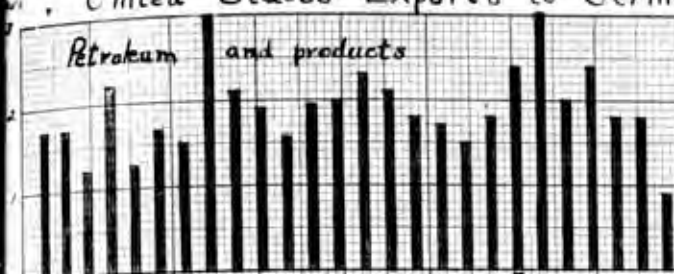
Exports to Germany for April 1939 include exports to Austria and Czechoslovakia, while the exports during March 1938 include only Germany, and the exports for February 1939 include Austria and Sudeten land.

Value of Exports
(In thousands of dollars)

	<u>During week ended</u> <u>April 6, 1939</u>	<u>March</u> <u>1938</u>	<u>February</u> <u>1939</u>
Cotton, unmanufactured (Tariff)	681	1,212	1,376
Petroleum and products	264	2,068	895
Copper	44	657	571
All other commodities	534	4,224	2,334
Total	1,505	8,161	5,176

United States Exports to Germany

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DEPARTMENT OF STATE
WASHINGTON

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9-1

April 11, 1939

Dear Mrs. Klotz:

The Secretary asked if we would prepare a brief informal memorandum for him regarding Iceland. There is not much in our files but the attached may prove of some value to him.

Sincerely yours,

Pierrepont Moffat

Enclosure:
As stated above

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

DEPARTMENT OF STATE
DIVISION OF EUROPEAN AFFAIRS

April 10, 1939.

MEMORANDUM

CONFIDENTIAL

DEVALUATION OF THE ICELAND KRONER

The American Legation in Copenhagen has informed the Department that on April 5, 1939 the Iceland kroner, which since October 1925 has been unaltered at 22.15 kroner to the pound sterling, had been devalued to 27 kroner to the pound.

Although it is known that for the past two or three years Iceland has experienced transfer difficulties, the Department has no information as to any recent changes in the situation which might have necessitated the devaluation of the kroner.

According to a report, dated March 22, 1939, from the American Legation at Copenhagen, a copy of which is attached, early in March two Englishmen went to Reykjavik and proposed to the Icelandic Government a loan of 2 1/2 million pounds sterling to be made by certain unnamed ^{AMERICAN} bankers. The proceeds of the loan were to be used to liquidate the entire Iceland foreign debt amounting to about 2 million pounds sterling and held in England and Denmark. The balance of the loan was

was to be used as an equalization fund to ensure the stability of the Iceland kroner. Due to the lack of credentials from the anonymous American bankers, the Icelandic Government declined to deal with the two gentlemen mentioned and said that the American bankers could communicate with Mr. Vilhjalmur Thor, Commissioner for the Icelandic Exhibition at the New York World's Fair, and one of the managing directors of the National Bank of Iceland.

According to a report from the Commercial Attaché at the American Legation in Copenhagen, during 1938 Iceland's foreign trade showed a slight contraction as compared to 1937. The export surplus, however, increased from 7.1 million Icelandic kroner in 1937 to 8.7 million kroner in 1938. Imports declined in value from 51.6 million kroner in 1937 to 49.1 million kroner in 1938, while exports only declined from 58.9 million kroner to 57.8 million kroner.

Iceland's foreign trade by countries indicates that Germany is cutting in on the British leadership in the Iceland market, and that during 1938 there was a decline in imports from Great Britain, the largest supplier, and an increase in purchases of German products, whereas in the case of exports there was a decline in value to Germany but an increase to Great Britain.

In 1937 Germany supplied 20.4 percent of total Icelandic imports, and in 1938 it increased its share to

23.5 percent, while Great Britain barely kept her position as supplier of 25.9 percent total during both years.

The foregoing information regarding Iceland's foreign trade was compiled from a report from the Commercial Attaché at Copenhagen. There is attached hereto a copy of the February 1939 Statistical Bulletin of the National Bank of Iceland.

As of interest in connection with the transfer difficulties which have been experienced by Denmark, despite the positive balance of trade which she enjoys, there is enclosed a copy of an excerpt of an address made by the Minister of Finance of Iceland early in 1938.

Copenhagen, March 22, 1939.

No. 395

Subject: PROPOSED ICELANDIC LOAN IN AMERICA

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to inform the Department that on the night of March 18th, I was one of the guests at a dinner, numbering 26 persons, given by General With, the Supreme Military Commander of the Danish army, at his official residence in Copenhagen.

AMONG

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Among the guests was my friend and colleague, Sveinn Björnsson, the Icelandic Minister to Denmark, with whom I had quite an extended visit and conversation on matters generally relating to the relations of Iceland and Denmark to the general European situation.

In the course of conversation, Minister Björnsson related an incident that had taken place upon the visit of two English gentlemen to Iceland during this month of March.

The statement of the two English gentlemen visiting Reykjavik, Iceland, in connection with prospective loans by American bankers to Iceland in order that the Icelandic government may pay off and discharge its indebtedness to the governments of Great Britain and Denmark was so interesting that I asked the Minister to submit the entire proposition to me in writing. This has been done and I have pleasure in enclosing the statement as given to me by Minister Björnsson.

It is evident from the statement, as submitted by the Icelandic Minister, that the two British gentlemen, one an attorney by the name of Mr. Newcombe Wright, and also a Mr. Draper, have made a visit to the capital of Iceland and suggested in the course of their conversations with government officials that in their opinion arrangements could be made by the Icelandic government with bankers of the United States for a loan of 2.5 million pound sterling, which would in turn enable the Icelandic

government

- 2 -

government to discharge all its indebtedness to the bankers of England and also to the Kingdom of Denmark and reserve unto itself the use of the remaining portion of the loan for the stabilization of the Icelandic Krona. It is significant to note the particular answer that the Icelandic government has given to the proposal in that Mr. Vilhjalmur Thor is in New York in the capacity of Commissioner for the Icelandic Exhibition at the New York World's Fair and that Mr. Thor has recently been appointed one of the managing directors of the National Bank of Iceland, and that all bankers of the United States who were interested in making any proposals for a loan would confer with him.

The Icelandic Minister, Mr. Björnsson, did not go as far as to express the opinion as to whether or not his government will be interested in such a proposal for a loan, nor did he seem to be interested in pressing the request for any negotiations or in any way encourage the proposition.

In view of the threatening and almost menacing situation in which Denmark and Iceland find themselves, it may be well to act with some caution before American banking interests would be so bold as to exchange their favorable position for that of an English or Danish creditor to the Icelandic government.

In the press of this morning there appears a startling statement that the Germans have made an

overture

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overture to the Icelandic government for the establishment of an aeroplane base in Iceland. The correctness of this newspaper account and its far-reaching implications will be immediately brought to the attention of the Department as soon as reliable information can be obtained.

Respectfully yours,

Alvin Mansfield Owsley

Enclosure:

Copy of Statement received from
the Icelandic Minister in Copenhagen.

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AMO/AO

In quintuplicate to the Department.

2. 17.
2. 18.
2. 19.
2. 20.

Enclosure to Despatch No. 395 of March 22, 1939
from the Legation in Copenhagen.

COPY of STATEMENT received from

THE ICELANDIC MINISTER IN COPENHAGEN,

dated: March 22, 1939.

In the beginning of March 1939 two English gentlemen, the lawyer Mr. Newcombe Wright and Mr. Draper came to Reykjavik, Iceland, and made the following proposal to the Icelandic Government:

Bankers in the United States to arrange an Icelandic Government loan of 2 1/2 million pounds sterling on favorable terms. The amount of the loan to be used to pay up all foreign Icelandic Government loans (in England and Denmark) amounting to about two million pounds in all. The rest to be a sort of equalisation fund to make it possible to keep the currency of the Icelandic Krona stable, making possible more freedom of trade than has been the case during the last years.

As far as I know, partly from the Icelandic newspapers, partly from telephonic conversation with one of the Icelandic Ministers, the two English gentlemen were not disposed to give the Government the name of the bankers in U.S.A. who they said were willing to give such a loan. Under those circumstances, and as they had no other credentials, the Government replied that in the case the said bankers in U.S.A. wished to negotiate a loan as proposed, they could communicate with Mr. Vilhjalmur Thor in New York. Mr. Thor is Commissioner for the Icelandic Exhibition under the New York World's Fair of 1939, and has recently been appointed one of the managing directors of the National Bank of Iceland from the end of this year.

March 22nd, 1939.

Sveinn Björnsson.

STATISTICAL BULLETIN

Vol. 8. No. 2

February 1939



ISSUED MONTHLY BY
THE NATIONAL BANK OF ICELAND
AND
THE STATISTICAL BUREAU OF ICELAND

Value of Imports and Exports.¹

Month	Imports 1000 kr.		Exports 1000 kr.		Surplus of Imp. (-) or Exp. (+) 1000 kr.	
	1938	1939	1938	1939	1938	1939
January	2 556	3 254	1 419	2 822	- 1 137	- 432
February	4 178		3 619		- 559	
March	3 132		3 677		+ 545	
April	4 478		3 470		- 1 008	
May	7 123		3 601		- 3 522	
June	5 157		2 640		- 2 517	
July	4 289		4 294		+ 5	
August	3 977		7 559		+ 3 582	
September	3 642		6 719		+ 3 077	
October	3 548		8 226		+ 4 678	
November	3 702		6 644		+ 2 942	
December	3 320		5 884		+ 2 564	
Total	49 102	—	57 752	—	+ 8 650	—

¹ Preliminary figures.

Exports of the most important Articles.

		Quantity		Value (F.O.B.) 1000 kr.	
		January 1938	January 1939	January 1938	January 1939
Cliphish	tons	539	636	289	318
Salted fish, uncured	—	396	798	126	213
Fresh fish (on ice and frozen)	—	2 102	3 886	563	677
Stock-fish	—	7	41	4	23
Herring cured	barrels	2 546	9 098	87	375
Cod liver oil	tons	208	269	139	171
Red fish oil	—	9	8	8	8
Herring oil	—	1	1 858	8	299
Herring and fish meal	—	45	1 866	32	382
Roef, salted	barrels	9	12	9	8
Mutton salted	—	136	43	12	5
Mutton frozen	tons	40	77	42	80
Sheep casings	—	1	5	12	56
Wool	—	13	6	32	12
Sheep skins, green-salted	thousands	5	8	22	41
Sheep skins, unhaird	tons	8	4	36	11

Foreign Trade with various Countries.

Imports C.I.F. Values (1000 kr.) Exports F.O.B. Values (1000 kr.)

	January 1938	January 1939	January 1938	January 1939
Belgium	24	13	"	96
Czechoslovakia	"	2	"	7
Denmark	251	328	134	158
Faroe Islands	1	1	"	1
Finland	9	6	2	"
France	9	4	"	2
Germany	579	525	32	128
Great Britain	558	584	713	909
Hungary	6	4	"	"
Ireland	"	1	3	1
Italy	206	411	"	"
Netherlands	22	26	"	187
Norway	79	94	24	390
Poland and Danzig	3	5	"	6
Portugal	128	12	"	"
Spain	1	138	"	"
Sweden	282	276	1	96
Switzerland	1	1	22	"
Argentina	"	"	77	"
Brazil	16	37	108	323
Canada	15	106	"	"
Cuba	"	"	56	81
Paraguay	"	"	"	6
United States of America	46	54	204	311
Philippines	"	13	"	"
Other Countries	"	"	1	1
Not specified	245	613	42	70
Total	2 556	3 254	1 419	2 522

Sea Fisheries and Stocks of Fish.¹

Index Number of Cost of Living in Reykjavik, Food only.			
1st of the Month (July 1914=100)	1937	1938	1939
January	187	192	191
February	182	193	192
March	184	194	
April	186	194	
May	186	197	
June	189	200	
July	193	202	
August	209	203	
September	204	198	
October	194	191	
November	195	190	
December	191	192	

Month	Sea Fisheries Tons ²		Stocks at end of the month Tons ³	
	1938	1939	1938	1939
January	369	3 221	2 317	5 953
February	2 974		4 265	
March	7 077		6 823	
April	11 347		14 513	
May	7 143		16 942	
June	2 391		17 024	
July	1 904		15 652	
August	1 171		11 761	
September	1 037		10 273	
October	922		9 881	
November	332		7 861	
December	656		3 861	
Total	37 323			

¹ Herring Fisheries are not included, nor the fish landed in Foreign Countries direct from the fishing grounds. ² Converted into fish in fully cured state.

The Position of the Banks.¹

End of Month	Deposits ² 1000 kr.				Loans ³ 1000 kr.			
	1938	1939	Monthly movement		1938	1939	Monthly movement	
			1938	1939			1938	1939
January	64 891	71 153	+ 4 586	+ 1 564	87 710	92 650	+ 1 163	+ 545
February	64 394		- 497		87 651		- 59	
March	65 646		+ 1 252		89 140		+ 1 899	
April	64 826		- 820		86 504		- 636	
May	64 363		- 463		90 670		+ 2 166	
June	64 474		+ 111		93 147		+ 2 477	
July	68 320		+ 3 846		94 320		+ 1 173	
August	66 232		- 2 088		95 955		+ 1 635	
September	69 074		+ 2 842		98 457		+ 2 502	
October	67 011		- 2 063		97 212		- 1 245	
November	67 720		- 291		96 575		- 637	
December	69 589		+ 1 869		92 105		- 4 470	

¹ The Banks are the following: 1) Landabanki Islands (The National Bank of Iceland), Loans Department, and Savings Bank Department, 2) Drottubanki Islands (The Fishery Trade Bank of Iceland Ltd), 3) Binnabanki Islands (The Rural Bank of Iceland), Savings Bank Department. ² Deposits on Current Accounts, and Savings Accounts. ³ Inland Bills, Loans on Security, Advances on Cash Credit and Current Accounts. ⁴ Balance with Foreign Correspondents and Foreign Bills.

Rates of Exchange quoted by The National Bank of Iceland.

Parity	Average Monthly						
	1938						
	August	Sept.	Oct.	Nov.	Dec.	1939	1939
London	18.16	22.15	22.15	22.15	22.15	22.15	22.15
New York	3.73	4.54 1/2	4.62 1/2	4.65 1/2	4.71	4.75 1/2	4.75 1/2
Copenhagen	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Oslo	100.00	111.44	111.44	111.44	111.44	111.44	111.44
Stockholm	100.00	114.36	114.36	114.26	114.26	114.23	114.21
Paris	14.60	21.52	12.54	12.54	12.55	12.62	12.60
Berlin	88.89	182.07	184.39	186.22	188.95	191.52	191.90
Amsterdam	149.09	248.30	249.41	253.14	255.93	258.34	257.98
Brussels	51.88	76.67	78.06	78.65	79.64	80.06	80.12
Vienna	72.03	104.08	104.56	105.77	106.73	107.50	107.40
Prague	11.05	15.90	16.25	16.37	16.46	16.50	16.60
H. Singapore	9.40	9.92	9.93	9.92	9.93	9.90	9.91

The State Accounts for the year 1938.

The following provisional statement of the state accounts for the year 1938 is based on details set forth by the Minister of Finance in his speech on occasion of submitting the budget proposal for 1940 to the newly opened session of the Althing.

Current revenue.		1000 kr.	Current expenditure.		1000 kr.
Taxes		5 428	Interest on State debt		1 758
Customs and excise		9 607	Althing and Central Administration		506
Balance on State undertakings ..		3 617	Justice, police etc.		2 044
Other revenue		636	Public health		701
			Communications		3 149
			Church and education		2 393
			Science, literature and art		240
			Industrial affairs		3 758
			Social affairs		1 586
			Pensions		363
			Miscellaneous		689
			Surplus		1 721
Total		19 308	Total		19 308
Capital revenue.			Capital expenditure.		
Repayments of advances, value of sold assets etc.		606	Reduction of the National debt ..		1 405
Deficit		1 335	Investments, advances etc.		535
Total		1 941	Total		1 941

The surplus of the current account surpasses the deficit of the capital account by 386 thous. kr.

At the end of 1938 the total National debt amounted to 46 449 thous. kr. as against 46 639 thous. kr. at the end of the preceding year.

The 10 largest Savings Banks.

End of Month	Deposits 1000 kr.		Loans 1000 kr.	
	1937	1938	1937	1938
January	7 095	8 156	6 238	7 077
February	7 116	8 118	6 320	7 168
March	7 182	8 126	6 299	7 128
April	7 106	8 115	6 286	7 129
May	7 155	8 137	6 405	7 180
June	7 352	8 227	6 468	7 201
July	8 043	8 439	6 625	7 166
August	8 836	8 792	6 773	7 268
September ...	8 085	8 600	6 882	7 659
October	7 634	8 423	6 688	7 619
November ...	7 993	8 107	6 775	7 532
December ...	9 274	8 859	6 959	7 658

Unemployment in Reykjavik.

The number of persons in Reykjavik registered as unemployed at the undermentioned dates.

	Feb. 1.	May 1.	Aug. 1.	Nov. 1.
1931 ..	525	59	106	62
1932 ..	550	205	633	73
1933 ..	623	268	226	56
1934 ..	544	190	390	71
1935 ..	599	432	252	51
1936 ..	596	720	226	60
1937 ..	789	282	199	61
1938 ..	690	345	316	80
1939 ..	473			

"Invisible Payments"

I have now talked about the Balance of Trade of the Year 1937, and the exports and imports, but as is generally known, there are several other things to be considered, when estimating the financial status of a nation on the whole. There are several payments that have to be made to other nations, others than directly for goods. It is very difficult to realize fully how large these payments are, even though several attempts have been made at finding out. The Committee for Trade Organization gave a report on this subject in collaboration with a Swedish political economist who stayed here for that purpose. After having finished its investigations, the Committee gave the opinion that in the year 1934 the difference in so-called "invisible" payments had been unfavorable by about 6 million kroner. With these payments are only counted payments of interest of foreign loans, but not instalments, as instalments go to decrease the debts. The Committee was of the opinion that if the Balance of Trade was favorable by 6 million kroner, foreign debts ought to remain unchanged. In the opinion of the Committee, interest on foreign loans amounted to almost 6 million kroner, and this conclusion made by the Committee corresponded to the opinion that other payments to and from foreign countries would be almost even on the debit and credit side. These payments are mostly cost of traveling for Icelanders and foreigners, freight and insurance premiums. This may be considered by comparing changes of the national debts to foreign countries for a certain period with the Balance of Trade. I have compared this from 1931 and to the end of 1936, and the increased national debts, in addition to favorable balance of trade during this period, is on an average 6.5 million kroner each year, and that ought to show 6.5 million kroner deficit on the invisible payments during these years, besides instalments on fixed loans which go to the decrease of the debts. It is not possible to come to an exact result in this matter, but these figures should not be far from the truth. But at the same time it should be borne in mind that these invisible payments are increasing. E.g. this year will be added instalments on the loan for the electricity works at Sog. Further, there have been erected factories against loans in the last few years. On the other hand, very few of the older loans have been paid off yet, as it is a comparatively short time since they were taken. It may therefore be taken for granted that in the future, these payments must be estimated higher than before. The Statistical Bureau are just now making special investigations in this connection, and I expect that within a short time there will be available a better survey of these matters than it has been possible to give hitherto. It is further correct to observe that if no loans are taken, the difference between exports and imports should amount to a sum that would make a real deficit on the invisible payments, and thereto added contracted instalments on debts. This would indeed be getting further than to an ordinary balance of payment as the debts would be decreased.

The Reasons for Difficulty in Transfer

Now I come to the currency trade. I can say that I am certain that

that during the past year the Balance of Trade has been favorable enough to meet the deficit on invisible payments. Not less, when taking into consideration the fact that in the imports are included imported goods for the factory at Hjalteyri and the last goods imported for the electricity works at Sog, both of which are paid with borrowed money. But there are several reasons that explain why the currency trade has been so difficult in 1937, and more difficult than one would have thought, considering the figures of the imports and exports. I have noticed that several people have difficulty in understanding this, which is also conceivable. The main reason for these difficulties in the currency trade is that during the year, a credit balance of the exporters, amounting to almost 2 million kroner has gathered in Germany. The reason for this is again that the exporters have been very eager to sell their goods to this country, partly because it has been impossible to sell some of the goods anywhere else at the particular time at which they had to be disposed of, and partly because the difference in price has been so great, that it has been considered impossible to refuse selling goods there, although it could be foreseen that a certain credit balance would have to be left there for some time. Further, everybody concerned, considered that the herring oil would be sold much earlier than has been the case, and that consequently the increase of the credit balance in Germany would not cause so much difficulty in the currency trade as has been the case. A further reason is that the credit for goods bought in the "clearing" countries, has been decreased or even withdrawn in order to be able to sell the credit balance of the exporters as soon as possible. It is apparent that these arrangements have also inevitably caused increased difficulties in the currency trade. The difficulties have still further been increased by the fact that the debts of the banks have been decreased to some extent from the previous year on account of decreasing stocks of fish in the country, as formerly mentioned. In order to give a better explanation of the effect of the trade with the clearing-countries in 1937 it should be stated that in the year 1936, we imported goods from Germany to an amount of 2.3 million kroner more than what we exported to Germany. In the year 1937, on the other hand, we exported goods to Germany to an amount of 200,000 kroner more than what we imported from said country. In this way the trade with Germany has changed by 2.5 million kroner during the year, and a corresponding amount less of free currency has been for disposal in the year 1937 than in 1936. One of the arrangements that is inevitable in this year, in order to ease the difficult currency situation, is to make this trade even, either by decreased exports for payment in clearing, or increased imports from the clearing countries, or both. It is of no avail to shut one's eyes to the fact that such an arrangement might involve the necessity of selling some goods at a lower price than otherwise would be the case, in order to obtain free currency. The experience of the year that was passing proves memorably that it is only a limited amount that we can sell against clearing, and things must be arranged according to this, although at first sight it would

would seem to be unfavorable for some people.

The Future

On the whole, the status of the year 1937 must be said to have been quite good for the national as a whole, although unfortunately it seems likely that the herring products are not going to fetch as much as had been expected. The difficulties are, to a great extent, due to the fact that it is very hard to sell our products in a free market. It is likely that the financial status of the nation will not rest on a safe basis again, before the cod fishing yields more than it has done hitherto.

It is very difficult to prophesy anything about the future, now as before, and therefore I shall not do so, but several things indicate that the price of our products will be going down, and the decrease in price of herring products since early last year is very serious. Therefore, everything indicates that we shall have to expect difficulties still for some time, and people had better not be too anxious although this might involve a certain amount of inconvenience. It is necessary in times like these, that concerns that increase the value of exports, or directly save imports, should be given a preference, but that unprofitable concerns, although necessary, that cost currency, have to wait for better times. It is very important that people understand this, and take it into consideration when making their decisions.

What has been Happening to the Icelandic Currency Trade?

The currency difficulties are a very common subject of conversation, and this is not unnatural. It is worse, that it is often discussed with little understanding. What is it that has been happening in Iceland for the last 3 - 4 years? The main market for the principal products of the country has gradually closed, and the second largest market has decreased by one half, without any real markets having opened instead. At the same time the price of the dried cod has gone down, although the price of other goods has gone up. At the same time the cod fishing has failed and in the last two years been only one half of the average catch before. One of the two main trades of the nation, the cod fishing, has therefore suffered a great loss.

The national has shown great energy in fighting against these difficulties. Public activity and private initiative have gone hand in hand. With enormous cost there have been made changes in the fishing industry, fish-and herring-industry increased greatly, and besides a great many other factories and industrial concerns have been established. These changes have been made at the same time as the market for older products has failed, and for the most part without increasing foreign debts on the whole, at least not in the last two years. Indeed, loans have been taken for some of the undertakings, but

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but older loans have at the same time been decreased, because of payment of instalments. On the other hand, most of the loans for the more recent undertakings are taken for a short period only and will, therefore, be difficult to meet, and several factories have been erected without having any real credit. Is it strange that Iceland has to fight currency difficulties when these facts are considered? Certainly not. The facts which I have now mentioned must therefore be borne in mind; whatever is our political opinion, it must be in our common interest to acquaint those who trade with the Nation with these facts, in order to create the understanding and sympathy which is necessary in the fight against the difficulties that have gathered around us in the last few years. We can quarrel about arrangements at home, but we must not and cannot be dispersed towards other nations, and none of us must be tempted to use the difficulties in order to revenge themselves on their antagonists in a way that may be of harm to the country. I firmly believe that the nation will succeed in compensating the loss caused by the difficulty in the fishing industry. This belief becomes a certainty when I look at the events of the last years and see how the nation has met the difficulties.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 11, 1939

TO Secretary Morgenthau
FROM Mr. Cairns

Johnson and I saw Assistant Secretary Sayre at the State Department shortly after 4:00 p.m. and discussed the proposed countervailing duty order against Italian silk goods.

1. Mr. Sayre expressed an urgent desire that the Italian Government be given thirty days notice before the order is issued in order that the United States may maintain the position that the order has no political implications. He asked that the attached memorandum initialed by him be handed to you. We stated that there appeared to be no question about the order being required by law and that only some possibility of considering further information would now justify a temporary withholding of its issuance.

2. We then discussed your suggestion to Mr. Sayre that a temporary delay in issuing the order might be justified as an administrative measure if he could assure you that the opportunity thus afforded him to give notice to the Italians could be used to make some practical arrangements for opening channels of information to facilitate the application of countervailing duties to Italian cotton, wool, and leather goods, of which notice could be given at the same time.

3. Secretary Sayre stated that the State Department would be glad to proceed along the lines of the suggestion, but indicated that he was doubtful that it would succeed.

4. He requested that you telephone him when you are prepared to discuss the matter with him, as he might be premature if he called you. He will be at home all day Wednesday, and his home telephone number is: Emerson 0271.

Huntington Cairns

April 11, 1939

Secretary Morgenthau

Mr. Cairns

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(Signed) *John M. Cairns*

10/op 4/11/39

DEPARTMENT OF STATE
WASHINGTON

April 11, 1939

MEMORANDUM

1. The immediate public announcement of countervailing duties on silk goods coming from Italy would be interpreted by the Italian Government as being a form of punitive action on the part of this country based on political considerations arising out of recent events.

2. Action of this type without prior notice to the Italian Government might well result in retaliatory action by the Italian Government against imports from the United States. This result may follow in any case but it would appear desirable to remove this danger so far as possible by giving the Italian Government advance notice and offering them an opportunity, if they see fit, to desist from the practices which the Treasury finds objectionable under Section 303 of the Tariff Act and so to obviate the necessity for imposing countervailing duties. This is the practice which has been very commonly followed over past years on countervailing duty cases as a result of informal arrangements between the Treasury Department and the Department of State. Experience under this procedure

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procedure has demonstrated its value in maintaining good commercial relations with the countries affected.

3. If the proposed action on silk goods is taken, and if similar action is taken, as it is understood is likely, with respect to cotton textiles, woolen textiles and leather goods, a very substantial portion of American imports from Italy will be affected. In view of the magnitude of the trade involved, it would therefore appear to be important that reasonable effort be made to protect American exports to Italy against retaliatory action by the Italian Government. For more than a year this Government has been most laboriously endeavoring to protect the interest of American exporters in the Italian market against the adverse manipulation of Italian trade controls.

F. B. S.

APR 11 1937

My dear Mr. Murphy:

At the request of the President, I am transmitting for an opinion with respect to the legality thereof a proposed Treasury Decision instructing collectors of customs to suspend liquidation of entries covering silk goods from Italy pending the declaration of the amount of countervailing duty to be collected. The following papers are enclosed:

1. Copy of proposed Treasury Decision.
2. Memorandum relating the proposed decision to the Royal Italian Decree.
3. Copy of the Official Gazette publishing the Royal Decree Law of May 29, 1937, Number 1267, pursuant to which the Italian bounties are paid, and a translation of the Decree.

I would appreciate receiving at your earliest convenience your opinion as to whether the proposed Treasury Decision is appropriate in form and substance.

Very truly yours,

Walter D. Henry, Assistant to

Secretary

Honorable Frank Murphy
The Attorney General

WD/ep 4/11/37

Original sent by Special Messenger 8 July 1937

(T. D.)

COUNTERVAILING DUTY - SILK GOODS FROM ITALY

Collectors of customs instructed to suspend liquidation of entries covering silk goods from Italy pending declaration of amount of countervailing duty to be collected - Deposit of estimated countervailing duties required

**TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
WASHINGTON, D. C.**

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

Official reports before the Department establish to its satisfaction that bounties or grants are paid or bestowed directly or indirectly in Italy on the export to the United States of silk goods which are dutiable under the provisions of the Tariff Act of 1930.

Notice is hereby given that pursuant to the provisions of section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1303), countervailing duties equal to any bounty or grant found to have been paid or bestowed will be collected on dutiable merchandise composed in whole or in part of silk and imported directly or indirectly from Italy, when entered for consumption or withdrawn from warehouse for consumption after thirty days after publication

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of this notice in a weekly issue of Treasury Decisions, whether imported in the condition in which exported from Italy or changed in condition by remanufacture or otherwise.

The liquidation of all entries covering merchandise described above and entered for consumption or withdrawn from warehouse for consumption after thirty days after publication of this notice in a weekly issue of Treasury Decisions shall be suspended pending the declaration of the net total amount of the bounty or grant determined or estimated to have been paid or bestowed and the net amount of the countervailing duties to be collected. A deposit of estimated countervailing duties shall be required at the time of entry. The amount to be deposited shall be calculated in accordance with the following table and predicated on the net weights of the silk (including schappe and bourrette) contained in the imported product, plus 33-1/3% of such weights if the natural gum has been removed from the silk used in the production or manufacture of the imported product:

- (a) Raw silk yarns, dyed, single or twisted of double cocoons; lire 23.256 per kilogram
- (b) Yarns of silk waste (schappe) including sewing thread; lire 34.887 per kilogram
- (c) Yarns of combings (bourrette); lire 8.615 per kilogram

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- (d) Raw silk doubled and twisted, drawn, dyed silk, silk sewing thread; lire 80.646 per kilogram
- (e) Woven materials, velvets, ribbons, tulles, crepes, knit goods and stockings, in raw state; lire 83.146 per kilogram, subject to the following variations:
 - (1) For every kilogram of double yarn lire 25.258
 - (2) For every kilogram of yarn of waste content lire 37.827
 - (3) For every kilogram of yarn of bourrette content lire 5.815
- (f) Woven materials, velvets, ribbons, tulles, crepes, knit goods and stockings, exported in the dyed or finished state; lire 85.646 per kilogram of silk content (not weighted), subject to the following variations:
 - (1) For every kilogram of double yarn content lire 27.258
 - (2) For every kilogram of yarn of waste content lire 40.887
 - (3) For every kilogram of yarn of bourrette content lire 5.815

The facts in regard to each importation shall be reported promptly to the Bureau of Customs. The entry and related papers shall accompany the report.

Commissioner of Customs.

APPROVED:

Secretary of the Treasury.

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MEMORANDUM

Countervailing duties must be imposed upon dutiable importations in the United States of silk goods from Italy because the exportation of such goods is subsidized directly by payments made through a trade organization in control of silk production in Italy. The price to be paid for Italian silk cocoons is fixed annually by the Italian Government. On the basis of this price for cocoons, the price to be paid by manufacturers of raw silk is fixed in advance for one year. The basic subsidy rate (integration quota) equals the difference between the fixed Italian price and the monthly average New York-Yokohama price for raw silk. An extra subsidy of 4 lire per kilo is paid on exportation to the United States. The basic rate is adjusted for different silk products according to the kind of silk used and the stage of its manufacture. On the basis of available data for the last half of 1934, the subsidy for the silk year 1938-1939 will range from 6 to 63 lire (30¢ to \$3.30) per kilo (2.2 lbs.) of silk in the exported articles.

The attached draft of a Treasury decision is believed to be appropriate in form and substance to notify importers that countervailing duties will be imposed. The rates of estimated duties set forth in the draft order were determined on the basis of the following facts obtained from the files of the Bureau of Customs, from discussions with customs officers at New York City, and from other sources.

Reeled or drawn silk produced from single perfect cocoons is the most valuable of any of the products of the silk cocoon.

Silk reeled or drawn from double cocoons, i.e., cocoons in which two silk worms have worked, is of substantially less value than silk reeled or drawn from single cocoons by reason of its coarseness.

In reeling or drawing silk there results a recoverable waste which, together with imperfect cocoons, is processed by boiling, carding, or combing, the longer fibers being spun into yarn which is known to the trade as "schappe" and the shorter fibers being spun into a yarn known to the trade as "bourrette." Schappe is apparently the most valuable of the secondary products; bourrette is the least valuable of any.

The irrecoverable wastes in the production of degummed reeled or drawn silk, schappe and bourrette, consist of a gum which is boiled out and a residue consisting of the remains of the silk worm and perhaps other foreign matter.

The loss in degumming Italian silk amounts to from 18 to 30% of the initial weight. 25% is deemed to be a fair average by recognized authorities (R. L. Ferndbach's "Chemical Aspects of Silk Manufacture",

page 15). The cocoon waste in converting cocoons to silk is calculated at 90% of the weight of the cocoon in fixing the price of raw silk per kilo at the cost of ten kilos of cocoons. This percentage is high by comparison with averages found by investigators but is of no concern in calculating the bounty which is based on the price paid for the simple drawn silk and the New York - Yokohama prices of similar Japanese silk.

Other wastes recoverable and irrecoverable occur in spinning, throwing, weaving and fabrication, but because of variation in quantities and values it is considered impracticable to fix an average for recoverable waste.

Reeled or drawn silk, as well as some fabrics of reeled or drawn silk, are ordinarily imported in the natural state, i.e., in the gum. The silk contained in chappe and bourrette is degummed in preparing the fibers for spinning.

Article 5 of the Italian Royal Decree of May 29, 1937 (No. 1267) provides that the "integration quota" shall be commensurate with the value of simple drawn raw silk and equivalent to the difference between such value and the average price of silk tillé 13/15 denier basic quality realized in the silk exchange markets of New York and Yokohama. In case of exportation direct to the Americas lire 4 per kilo is added to make up the basic integration quota. It appears clear to me from the foregoing that for the actual integration quota to be equivalent to the difference in the Italian value and the New York-Yokohama prices all calculations would have to be based on the quantity of simple raw silk represented in the exported product, and therefore the wastes occurring in manipulation would have to be taken into consideration in calculating the actual amount of the bounty or grant involved.

The tentative rates prescribed in the proposed Treasury decision are predicated on a basic rate of lire 54.146 per kilo representing the difference between the Italian price of silk for the 1938-1939 silk year and the average of the New York-Yokohama prices for July-November, inclusive, 1938, the latest figures available, plus lire 4 representing the extra premium paid on exportation to the Americas, or lire 58.146 per kilo, and the variations prescribed in article 5 of the above-mentioned Royal Decree, as follows:

- (a) 2/5ths of the basic rate or lire 23.259 per kilo
- (b) 3/5ths " " " " " " 34.887 " "
- (c) 1/10th " " " " " " 5.816 " "
- (d) Basic rate plus lire 2.5 or lire 60.646 " "
- (e) (1) " " " " " 5 " " 63.146 " "
- (e) (2) 2/5ths of basic rate plus lire 2 or lire 25.259 per kilo
- (e) (3) 3/5ths of basic rate plus lire 3 or lire 37.887 per kilo

- 3 -

- (e) (4) 1/10th of basic rate or lire 5.815 per kilo
 (f) (1) Basic rate plus lire 7.5 or lire 40.646 per kilo
 (f) (2) 3/5ths of basic rate plus lire 4 or lire 27.259 per kilo
 (f) (3) 3/5ths " " " " " 40.887 " "
 (f) (4) 1/10th " " " " " 5.815 " "

Provision is made in the proposed treasury decision for adding 33-1/3% to the net weight of the silk contained in the imported product to compensate for the natural gum removed in the production or manufacture of the imported products when appropriate.

HC:am
 4-11-39

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Regal Decree - Law May 29, 1937 No. 1287

Provisions in favor of the silk production for the five-year period 1937-1941.

(Official Gazzette No. 179, August 4, 1937.)

VICTOR EMANUEL III
KING OF ITALY
EMPEROR OF ETHIOPIA

Pursuant to article 5, no. 2, of law no. 100 passed the 31st of January 1928;

Upon recognition of the absolute and urgent necessity for adopting provisions for encouraging and increasing the production of silk and for facilitating the exportation of silk products;

After due debate in the Council of Ministers;

And upon the proposal of Our Minister, the Secretary of State for Corporations, together with the Ministers, Secretaries of State for Finance, Agriculture, Forestry, and Grace and Justice;

We have decreed and do decree:

Art. 1

Beginning with the 1937 silkworm rearing campaign, purchases of cocoons, including double cocoons lined and discarded, may be made only by those firms which have asked permission from the Italian Silk Office (Ufficio Servizi Italiani) and have obtained express authorization from it, observing all the rules which regulate the work of that office, which is subject to the supervision of the National Fascist Federation of Silk Industrialists and of the National Silk Office (Ente Nazionale Serico).

Purchases made without conforming to the provisions laid down in the present article are null and void.

Art. 2

In accordance with the value of 96 lire per kilogram for Arma and silk, dealt with in Article 9 following, the basic price for domestically produced French or any cocoons is fixed, for the 1937 silkworm rearing campaign, at 7 lire per kilogram in commercial lots of medium quality.

By measurable cocoons of medium quality are meant those which render one kilogram of silk for every ten kilograms of fresh cocoons.

There should be added to the aforementioned price of 7 lire for fresh cocoons, 70 centesimi per kilogram for cocoons sold after drying and selection, as a reimbursement for the expenses of these operations and for the subsequent storage expenses and for interest.

For succeeding unknown rearing campaigns, up to and including 1947, the reference value for drawn raw silk and the corresponding basic price for cocoons will be determined, year by year, by decree of the Minister of Corporations, in collaboration with the Ministers for Finance and Agriculture and Forestry, the additional 70 centesimi provided for in the preceding paragraph remaining invariable.

For every negotiation of cocoons a regular contract must be drawn up. One copy of every contract must be filed with the "Ammece Rosoli" (Cocoon Warehouse), another with the purchaser and a third must be sent, by the "Ammece Venditori" (Seller's Warehouse) to the National Silk Association, at the disposal of which, for the control falling within its competence, the "Ammece Collettivi" (Stock Warehouse) and the spinning establishments are each obliged to keep copies of the contract and of all other documents.

Art. 3.

All persons in charge of cocoon-spinning factories (double cocoons included) must keep relative record entries of the cocoons brought into the factory, keeping the lots of national production separate from imported lots, for which proof of purchase abroad or in the possessions and colonies must be furnished to the representatives of the National Silk Association for control purposes.

Art. 4.

To anyone selling silk products abroad, from June 16, 1937 until June 15, 1942, as provided for in Article 5 following, when the market situation is verified as provided for in the same article, there will be granted regularly a quota of price adjustment which will be paid by the National Silk Office, under the control of the Ministry of Corporations in agreement with the Ministry of Finance.

The grant of the integration quota is subordinated to the following conditions:

- a) that all the products were made from cocoons of national production and purchased according to the regulations set forth in art. 1;
 - b) that a price corresponding to the base price fixed in the preceding art. 2 was paid for said cocoons to the Collective Stock Sellers;
 - c) that the silk products were sold not later than the 15th of June, 1942, and shipped to the foreign purchasers:
 - within the 31st of July, 1942 for simple raw silk
 - " 30th " Sept. " double and twist silk
 - " 31st " Dec. " all other products;
 - d) that the vendor had provided for the remitting of the corresponding value of the sale consummated to the National Institute for Foreign Exchange through the Bank of Italy or other agent banks.
- For those countries with which there are clearing agreements, the integration quota will be liquidated only when the exportation permit has been checked up or when the National Institute for Foreign Exchange has granted the exporter the certificate provided for in art. 1 of the Royal decree-law of January 11, 1937, no. 1, containing the regulations relative to the financing of credits resulting from export transactions.

Art. 5.

The quota of price adjustment, dealt with in Article 4 above, will be computed on the basis of a value of 96 lire per kilogram of dressed raw silk, for the silk year from June 15, 1937 to June 15, 1938, and on the basis of a value determined in the manner indicated in the preceding Article 2, paragraph 4 for the subsequent silk years; the quota will be equivalent to the difference between said values and the average of the prices of silk, grade 13/15 denier, base quality, which are current in the silk markets of New York and Yokohama during the month in which the contract of sale is dated.

The quota of price adjustment for sales effected by direct consignees from Italian ports to destinations in the Americas shall be calculated according to the preceding paragraph, after deducting 4 lire per kilogram from the average of the prices of the silk markets, to cover the particular expenses incident to sales on those markets.

The quota of price adjustment, calculated as above, is considered a basic quota and will be allowed for every kilogram of simple drawn raw silk.

The basic price adjustment quota will be varied in the following ways for the products listed below:

- a) raw silk yarns, dyed, simple or twist of double cocoons: integration quota equal to two-fifths of the basic quota, per kilogram;
- b) yarns of silk waste (schappe) including sewing thread: integration quota equal to three-fifths of the basic quota, per kilogram;
- c) yarns of combings or "pettanusso o roccadino" (bourrette): integration quota equal to one-tenth of the basic quota, per kilogram;
- d) raw silk doubled and twisted, drawn, dyed silk, silk sewing thread: basic quota augmented by Lire 2.50 per kilogram;
- e) woven materials, velvets, ribbons, tulles, crepes, knit goods, and stockings, exported in the raw state:

- 1) for every kilogram of silk content: basic quota augmented by Lire 5;
- 2) for every kilogram of double yarn content: quota applicable to paragraph a) augmented by Lire 2;
- 3) for every kilogram of yarn of waste content: quota applicable to paragraph b) augmented by Lire 3;
- 4) for every kilogram of yarn of bourrette content: quota applicable to paragraph c);

- f) woven materials, velvets, ribbons, tulles, crepes, knit goods, and stockings, exported in the dyed or finished state:

- 1) for every kilogram of silk content: basic quota augmented by Lire 7.50;
- 2) for every kilogram of double yarn content: quota applicable to paragraph a) augmented by Lire 4;
- 3) for every kilogram of yarn of silk waste content: quota applicable to paragraph b) augmented by Lire 6;
- 4) for every kilogram of yarn of bourrette content: quota applicable to paragraph c) augmented by Lire 1.

Art. 6

Sales of simple or double and twisted raw silk, double yarn included, whether in the internal market or in foreign markets, must be denounced to the National Silk Association.

Art. 7

At the end of every silk season the Minister for corporations may dispose of the remainder of simple and double and twisted raw silk, double yarns included, as well as the remainder of cocoons already purchased, as set forth in art. 1, which have not already been transformed, and order their storage in warehouses to be settled upon.

The Minister for corporations, together with the Minister for finance and for agriculture and for forestry, may dispose for the spinning of the remainder of cocoons mentioned above, and of those that may eventually still be on hand at the Collective Stock Warehouse, in order to dispose of the product abroad together with the remainder of silk according to the present article.

Art. 8

With reference to the preceding regulations, however, should a question arise about the determination of the quality of the cocoon lots and their relative price, an irrevocable decision will be reached by a Commission formed in every provincial Council of corporations, to be composed of four members, one of which represents the farmers, one the agricultural laborers, one the industrialists, and one the industrial laborers, each designated by the respective provincial Unions, and presided over by the prefect president of said Council or by someone appointed by him.

Art. 9

Anyone who purchases cocoon products during the period 1937-1941 and does not conform with the regulations set forth in art. 1, is liable to a fine which, in more serious cases, may amount to the value of the cocoons purchased valued on the basis of the calculations listed in art. 2, providing no more serious crime is involved.

Those who do not adhere to the regulations contained in the last paragraph of art. 2 and in articles 3 and 6 are liable to a fine amounting to five 5000.

Art. 10

The funds necessary for the regular payment of the price adjustment quotas provided for in the present decree shall be entered in the balance of the Ministry of Corporations and placed at the disposal of the National Silk Office, as a credit, with respect to which it is permitted to disregard the existing regulations relating to the State bookkeeping.

The National Silk Office shall present the accounts for the business transacted with the funds furnished it in accordance with the same regulations.

For the expenses which are to be borne by the National Silk Office in carrying out the present decree, the appropriation referred to in Chapter 19 of the Ministry of Corporations' budget for the year 1937-1938 and for successive years up to 1941-1942 will be augmented by 400,000 lire.

The changes necessary for the enforcement of the present decree will be introduced into the balance sheet by decrees issued by the Minister of finance.

Art. 11

The forms for the obligatory denunciation to the National Silk Association of all articles for sale under art. 6 will be determined in a decree issued by the Minister of Corporations, together with the Ministers for agriculture and for forestry and for finance.

Art. 12

The present decree enters into effect on the day of its publication in the Kingdom's Official Gazette and will be presented to Parliament for its conversion in law.

The proposing Minister is authorized to present the outline for the relative law.

We order that the present decree, to which has been affixed the State seal, be inserted in the official collection of laws and decrees of the Kingdom of Italy, ordering all persons concerned to observe said

desire and to see that the same be duly observed.

Dated in Rome, the 29th day of May 1937

VICTOR EMMANUEL

Mussolini -- Lantini -- Di Revel --
Rasconi -- Solmi.

Acknowledged, Guard of the Seals: SOLMI.

Registered in the Court of Accounts, the 30th day of July, 1937.

Acts of the Government, register 387, sheet 173. - MANCINI.

REGIO DECRETO-LEGGE 29 maggio 1937-XV, n. 1267.

Provvidenze a favore della produzione serica per il quinquennio 1937-XV - 1941-XX.

VITTORIO EMANUELE III

PER GRAZIA DI DIO E PER VOLONTÀ DELLA NAZIONE

RE D'ITALIA

IMPERATORE D'ETIOPIA

Visto l'art. 3, n. 2, della legge 31 gennaio 1926, n. 100:

Riconosciuta la necessità urgente ed assoluta di adottare provvidenze per l'incoraggiamento e l'incremento della produzione serica e per facilitare il collocamento all'estero dei prodotti serici;

Atto il Consiglio dei Ministri.

La proposta del Nostro Ministro Segretario di Stato per le corporazioni, di concerto con i Ministri Segretari di Stato per le finanze, per l'agricoltura e le foreste e per la caccia e piscicoltura.

Abbiamo decretato e decretiamo:

Art. 1.

Decorrente dalla campagna bacologica 1937, gli acquisti di bozzoli, compresi i bozzoli doppi, calcinati e di scarto, possono essere effettuati che dalle ditte che ne abbiano richiesto all'Ufficio Serico Italiano (U.S.I.) osservando le norme che regolano il funzionamento dell'Ufficio, il quale è sottoposto alla vigilanza della Federazione nazionale fascista degli industriali della seta e dell'Ente serico, e ne abbiano ottenuta apposita autorizzazione.

Acquisti fatti non in conformità delle norme contenute nell'articolo sono nulli di pieno diritto.

Art. 2.

rapporto al valore di L. 06 per chilogramma di seta greggia semplice, di cui al successivo art. 5, il prezzo dei bozzoli di produzione nazionale è fissato, per la campagna bacologica 1937, in L. 7 per chilogramma a fresco corrispondente prezzo a secco, per partite mercantili qualità media.

Intendono per bozzoli mercantili di qualità media quelli anno una resa di un chilogramma di seta per ogni dieci grammi di bozzoli freschi.

Suddetto prezzo di L. 7 devono essere aggiunti 70 centesimi al chilogramma, a fresco, per i bozzoli negoziati ad azione e vendita avvenuta, a titolo di rimborso delle di queste operazioni e di quelle eventuali di conservazione per interessi.

Le campagne bacologiche successive, fino a quella 1941, avrà il valore di riferimento della seta tratta greggia base e il corrispondente prezzo base per i bozzoli verranno determinati, anno per anno, con decreto del Ministro per le corporazioni, di concerto con i Ministri per le finanze, l'agricoltura e le foreste, ferma restando l'aggiunta centesimi di cui al precedente comma.

Ogni contrattazione di bozzoli stipulata deve essere regolata contratto. Di ogni contratto una copia represso l'Ammasso bozzoli, un'altra presso l'acquirente a terza deve essere inviata, dall'Ammasso venditore, all'Ente serico, a disposizione del quale, per i bozzoli di sua competenza, gli Ammassi collettivi e gli agenti di filatura hanno l'obbligo di tenere le rispettive di contratto e ogni altra documentazione.

Art. 3.

Il mercante di stabilimento di filatura di bozzoli (bozzoli compresi) deve tenere apposite registrazioni dei bozzoli prodotti nello stabilimento, distinguendo le partite di produzione nazionale da quelle di importazione, per le quali è pure tenuto a fornire agli incaricati dell'Ente serico, per il servizio di controllo, la prova dell'origine all'estero o nei possedimenti e colonie.

Art. 4.

Quunque, a partire dal 16 giugno 1937 e fino al 15 giugno 1942, venda all'estero prodotti serici, di cui al successivo art. 5, sarà corrisposta, quando si verifichi la situazione

di mercato di cui allo stesso articolo, una quota d'integrazione di prezzo che verrà liquidata dall'Ente Nazionale Serico, sotto il controllo del Ministero delle corporazioni di concerto con quello delle finanze.

La corrispondenza della quota d'integrazione è subordinata alle seguenti condizioni:

a) che tutti i prodotti siano stati fabbricati con bozzoli dei raccolti nazionali ed acquistati secondo le norme dell'art. 1;

b) che sia stato pagato, per i detti bozzoli, all'Ammasso collettivo venditore, un prezzo corrispondente a quello base fissato ai sensi del precedente art. 2;

c) che i prodotti serici risultino venduti entro il 15 giugno 1942 e spediti ad acquirenti esteri:

entro il 31 luglio 1942 per la seta tratta greggia semplice;

entro il 30 settembre 1942 per la seta tratta greggia addoppiata e torte;

entro il 31 dicembre 1942 per tutti gli altri prodotti;

d) che il venditore abbia provveduto a versare all'Istituto Nazionale per i Cambi con l'Estero, per il tramite della Banca d'Italia o di altre banche agenti, l'importo corrispondente alla vendita effettuata.

Per i mesi con i quali vigono accordi di clearing, la quota d'integrazione sarà liquidata soltanto quando risulterà aver ricorrito il beneficiario per l'esportazione, oppure quando l'Istituto Nazionale per i Cambi con l'Estero abbia rilasciato all'esportatore il certificato di cui all'art. 1 del R. decreto-legge 11 gennaio 1937-NV, n. 1, contenente le disposizioni relative ai finanziamenti per i crediti derivanti da affari di esportazione.

Art. 5.

La quota d'integrazione, di cui al precedente art. 4, sarà commisurata ad un valore della seta tratta greggia semplice di L. 06 al chilogramma, per l'annata serica dal 16 giugno 1937 al 15 giugno 1938, ed a quello determinato ai sensi del precedente art. 2, comma 4°, per la annata serica successiva, e raggugliata alla differenza fra detti valori e la media dei prezzi della seta (tiroli 13/15 denari, qualità base, realizzata nelle borse sete di New York e Yokohama, nei mesi in cui è datato il contratto di vendita).

La quota d'integrazione per le vendite effettuate per spedizione diretta da porti italiani a destinazione delle Americhe sarà calcolata come dal precedente comma, previa deduzione dalla media dei prezzi delle borse sete di L. 4 per chilogramma per le particolari spese inerenti alle su quei mercati.

La quota d'integrazione, calcolata come sopra, deriverà come quota base, e sarà corrisposta per ogni grammo di seta tratta greggia semplice.

La quota base d'integrazione subirà, per i prodotti sottodenti, le seguenti variazioni:

a) filati greggi, tinti, semplici o rifiniti di bozzoli doppi: quota d'integrazione pari a due quinti della quota base, per chilogramma;

b) filati di casenni di seta (schappei compresi) e filati da enclre: quota d'integrazione pari a tre quinti della quota base, per chilogramma;

c) filati di pettenozzo o roccolino (borrette): quota di integrazione pari ad un decimo della quota base, per chilogramma;

d) seta tratta greggia addoppiata e torta, seta tratta tinta, filati da enclre di seta: quota base aumentata di L. 2,50 per chilogramma;

e) tenenti, velluti, nastri, tulli, crepi, maglie e salati, esportati allo stato greggio:

- 1) per ogni chilogramma di seta contenuto: quota base stabilita di L. 5;
- 2) per ogni chilogramma di filati di doppio contenuto: di cui alla lettera a) aumentata di L. 2;
- 3) per ogni chilogramma di filati di schappe contenuto: di cui alla lettera b) aumentata di L. 3;
- 4) per ogni chilogramma di filati di bourrette contenuto: di cui alla lettera c);
- 5) tessuti, velluti, nastri, tulle, crespi, maglia e calze, nati allo stato tinto o finito:
- 1) per ogni chilogramma di seta contenuto: quota base stabilita di L. 7,50;
- 2) per ogni chilogramma di filati di doppio contenuto: di cui alla lettera a) aumentata di L. 4;
- 3) per ogni chilogramma di filati di schappe contenuto: di cui alla lettera b) aumentata di L. 6;
- 4) per ogni chilogramma di filati di bourrette contenuto: di cui alla lettera c) aumentata di L. 1.

Art. 6.

Le rendite sia all'interno che all'estero di seta tratta greggia semplice o adoppiata e torta, filati di doppio compresi, non essere denunciata all'Ente Nazionale Serico.

Art. 7.

La fine di ogni campagna serica il Ministro per le corporazioni potrà disporre l'accertamento delle giacenze di tutta greggia semplice e adoppiata e torta, filati di doppio compresi, nonché di quelle di bozzoli già acquistati nel dell'art. 1 e non ancora trasformati, e ordinarne il posto in magazzini da destinare.

Il Ministro per le corporazioni, di concerto con il Ministro per le finanze e con quello per l'agricoltura e le foreste potrà disporre per la filatura delle giacenze di bozzoli di seta, e di quelle eventualmente esistenti presso gli assai collettivi, allo scopo di collocarne all'estero il prezzo unitariamente alle giacenze di seta accertate ai sensi del presente articolo.

Art. 8.

Ad ora, in relazione alle precedenti disposizioni, sorge la questione sulla determinazione della qualità delle partite di seta e del prezzo relativo, stabilisce insindacabilmente in tutto una Commissione paritetica istituita presso ogni ufficio provinciale delle corporazioni, composta di quindici membri di cui uno la rappresentanza degli agricoltori, dei lavoratori dell'agricoltura, uno degli industriali e dei lavoratori dell'industria, designati dalle rispettive autorità provinciali e presieduta dal prefetto presidente di Consiglio o da un suo delegato.

Art. 9.

Qualunque acquisto bozzoli prodotti nelle campagne 1937-38 forma delle disposizioni contenute nell'art. 1, è punibile con l'ammonda, la quale, nei casi più gravi, può estendersi al valore dei bozzoli acquistati valutato in base alle disposizioni contenute nell'art. 2, salvo che il fatto non costituisca più grave.

Chi non ottempererà alle prescrizioni contenute nell'ultimo comma dell'art. 7 e negli articoli 3 e 6, sono puniti con l'ammonda fino a L. 5000.

Art. 10.

Le somme occorrenti per la corrispondenza delle quote d'ammenda di cui al presente decreto, saranno iscritte nel bilancio del Ministero delle corporazioni e messi a disposi-

sione dell'Ente Nazionale Serico con ordini di accredito, per i quali potrà prescindere dai limiti fissati dalle vigenti disposizioni sulla contabilità dello Stato.

L'Ente Nazionale Serico presenterà i rendiconti delle erogazioni effettuate con i fondi ad esso forniti a norma delle disposizioni medesime.

Per le spese da sostenersi dall'Ente Nazionale Serico per l'applicazione del presente decreto, sarà aumentato di lire 400.000 lo stanziamento del cap. n. 19 dello stato di previsione della spesa del Ministero delle corporazioni per l'esercizio 1937-1938 e per i successivi esercizi fino a quello 1941-1942.

Con decreti del Ministro per le finanze saranno introdotti nel bilancio le variazioni occorrenti per l'attuazione del presente decreto.

Art. 11.

Con decreto del Ministro per le corporazioni, di concerto con i Ministri per l'agricoltura e le foreste e per le finanze, saranno determinate le modalità per la denuncia obbligatoria all'Ente Nazionale Serico di tutte le vendite di cui all'art. 6.

Art. 12.

Il presente decreto entrerà in vigore il giorno della sua pubblicazione nella Gazzetta Ufficiale del Regno e sarà presentato al Parlamento per la sua conversione in legge.

Il Ministro proponente è autorizzato alla presentazione del relativo disegno di legge.

Ordiniamo che il presente decreto, munito del sigillo dello Stato, sia inserito nella raccolta ufficiale delle leggi e dei decreti del Regno d'Italia, mandando a chiunque spetti di osservarlo e di farlo osservare.

Dato a Roma, addì 29 maggio 1937 - Anno XV.

VITTORIO EMANUELE.

MUSCOLINI — LASTINI — DI RIVERA
ROSSINI — SOLMI.

Visto, il Guardasigilli: SOLMI.
Registrato alla Corte dei conti, addì 30 luglio 1937 - Anno XV.
Atti del Governo, registro 387, foglio 172. — MINISTRI.

REB

GRAY

London

Dated April 11, 1939

Rec'd 3 p. m.

Secretary of State,
Washington.

401, April 11, 4 p. m.

FOR TREASURY FROM BUTTERWORTH.

The feeling in the city today is one of nervousness and uncertainty; such apprehension as exists seems due less to fear of an immediate war than to concern as to whether the British Government can and will adopt a vigorous and effective policy at home and abroad.

London stock exchange dealers have cautiously marked down prices in all sections of the market and there has also been some selling, particularly by continental holders but the pressure has not been great. British Government securities were notably weak, war loan for example closing almost a point down at 94-3/8th.

In the foreign exchange market the spot dollar rate has been held at 4.6818; there has been a steady but only fairly substantial takeoff of dollars. The forward dollar has moved out and despite operations by the British fund closed three months at 2 7/8-3. Likewise Swiss and Dutch currencies

REB

2-#461, From London, Apr. 11, 4p.m.

currencies have been weak. Dealings in the pound franc market have been few and far between and Paris is reported to be slightly more nervous than London today.

Gold was again fixed at parity and there was increased selling by hoarders as evinced by the fact that 174 of the 186 bars were married. However, the market was reported rated to the extent of 50 per cent of (*).

KENNEDY

KLP

CSB

(*) Apparent omission

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RECEIVED 10/11/41

RECEIVED 10/11/41

GJ

GRAY

London

Dated April 11, 1939

Received 12th, 3:05 p.m.

Secretary of State,
Washington.

466, April 11, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The information contained in your 246, April 11, 4 p.m., was conveyed to the British Treasury and Sir Frederick Phillips particularly asked that appreciative thanks be conveyed to you for the rapidity with which this helpful measure was put through.

Two. Nervousness and uncertainty were less evident in the city than yesterday due as much to today's unusual sunny weather in London as to the absence of any untoward development. The London stock exchange was therefore slightly firmer but there was little or no real buying. Money has been somewhat tighter, three months' bills were firm at $1\frac{1}{2}\%$ despite some buying by the Bank of England to ease the situation. There are indications that the clearing banks are accumulating cash, doubtless for distribution to out of town branches

as

-2- #466, April 11, 6 p.m., from London

as a precaution. In this general connection reference is made to my 428, March 31, 6 p.m.

Three. The demand for dollars has continued on a similar scale to yesterday. The British authorities have steadily made dollars available at 4.68 1/16 and this afternoon operated in the three months' forward market at three.

Gold was not presented today and of the 200 bars sold at fixing 97 were married and the British fund supplied a few. The total of dealings after fixing was fairly substantial in amount, made up of a number of small transactions.

KENNEDY

CSB

RECEIVED

APR 13 1946

TRAVELERS DEPARTMENT
Office of the Secretary
Federal Reserve Bank of New York

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 11, 1939, 8 p.m.

NO.: 703

FROM COCHRAN.

On the Paris market today, in the first official trading since last Thursday, the effects of Italy's move against Albania were noticeable. Rentes and shares here declined between two and three and up to five percent (sic). There were no heavy offers; however, there was a lack of purchasing counterparts.

There was weakness in the forward franc, and this afternoon it became necessary for the French control, through the Société Générale, to support the spot franc by yielding a little sterling. Weakness also in other continental currencies, with attacks on the forward belga in particular.

BULLITT.