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This is my first draft, which
I will rewrite Thursday.

4-12-39

Gene
(Duffield)

4-12-39

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, "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 command the attention of the country. Therefore, my appearance here today may well be my last before this Committee on 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 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 remember with pleasure.

The Opportunity for Basic Reforms

When I appeared before this Committee on March 24th, I said that the Treasury would soon be ready to give to the appropriate Congressional committees its recommendations for changes in the tax system. Representative Doughton and

Senator Harrison have expressed a desire to receive the recommendations for action at this session.

Some revenue legislation during this session is a recognized necessity, because the income taxes on corporations expire at the end of the calendar year, and excise and sales taxes yielding about \$500 millions expire during the summer. I hope that Congress will not simply extend the expiring levies and adopt the usual technical changes, but will take this opportunity to adopt those few basic reforms that we badly need to put the revenue system on a more just foundation. May I repeat that, if we are to accomplish these few fundamental reforms, this year is the one in which to achieve them. In my opinion Congress should seize this opportunity to climax and perfect the work on the tax system which we have had to do in recent years under the unusual stress of depression demands. At the same time, I suggest that Congress should point the way, as best it can, toward a tax policy and a fiscal policy applicable to the next five years. Both lines of action, I believe, would be of real importance under present business conditions. Removal of inequities in existing tax law should release private business enterprise from restrictions or irritants, and development of a better tax and fiscal policy should remove the uncertainty over budgetary eventualities which some businessmen now say prevents assumption of ordinary business risk.

Since 1932 the amount of money which we collect under our internal revenue taxes has trebled. Although a part of the increased collections is attributable to improved business conditions, the more important part results from tax increases enacted during the past seven years or from the denial of some tax deductions previously allowed. In 1932 Congress raised the income tax rates to approximately the levels prevailing shortly after the world war, estate taxes were roughly doubled, and a long list of excise taxes was imposed. Liquor taxes were added in 1933. Collections of social security taxes began in 1935. Income, estate and gift taxes were raised again in 1934 and in 1935. Corporation income taxes were basically changed in 1936 and again in 1938 while in 1937 legislation was enacted closing loopholes in the individual income tax. Each year since 1932 has brought some change in our tax structure, usually a change by the demands of the moment. My first suggestion is that we look back over the work of the past seven years, revising it in the interest of simplicity, justice, adequacy and encouragement to business.

In this connection I have six points which I should like to present for your consideration:

1. We now have four different taxes applicable to ordinary business corporations: a remnant of the 1936 undistributed profits tax, a capital stock tax

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and an excess profit tax enacted in 1932, and the ordinary income tax. The capital stock tax is not based on the actual value of a company, nor is the excess profits tax actually a tax on excessive profits. In its emasculated form, the undistributed profits tax is meaningless. 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 incomes, with some concession in rate to corporations having less than perhaps \$25,000 net income.

2. In my opinion we should reinstate the allowance under which the corporation which sustains a net business loss in any one year can carry forward that loss and deduct it from taxable income realized in subsequent years. At present a business which has lost \$50,000 a year for three years and has then netted \$150,000 in the fourth year must pay a normal tax on the full \$150,000, although the plain fact is that the business has made no profit at all over the 4-year period. Taxation of income in annual segments is an arbitrary measure of corporation earnings which is made necessary by administrative requirements.

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However, we should not push this arbitrary basis for measuring income to the extent of refusing to recognize alternating periods of profit and loss. The present system of allowing no carry-over of business losses of corporations for normal tax purposes places the tax system in a position of deterring both new investments and the durable goods industries.

3. The existing provisions for capital losses sustained by corporations are another example of how the existing tax laws discourage new investments. If a corporation suffers a loss on capital assets, this loss can be deducted only against capital gains, if any, which the corporation has made in the same year, plus \$2,000. In many instances, therefore, a corporation does not in practice get any tax allowance for a capital loss, a fact which discriminates against a risk-taking enterprise.

4. Dividends received by individuals should be given some special tax allowance comparable to that which was in effect prior to 1932. At present corporation income is taxed, and then when the income is paid out as dividends, the stockholder pays the full individual income tax on his dividends with no allowance for the fact that the corporation

has already paid a tax on the same earnings. This tax arrangement incidentally encourages corporations to go into debt rather than to sell stock because corporations may deduct interest payments from their taxable income but may not deduct dividends paid. Interest is taxed once, while dividends are taxed twice.

5. I suggest that Congress in this session enact legislation creating a national commission to study and report on ways of eliminating Federal-state-local tax conflicts and overlappings which have grown up, especially during the last ten years in both national and local governments and reached out for new revenue sources.

6. Perhaps the most important suggestion of all of those which I would like to offer today is a combination of proposals designed to encourage the idle private savings of this country to play their normal part in financing business expansion and reemployment. During recent years a great deal has been said about the high taxes on individual incomes which reach a peak of 79 per cent in the top bracket. These taxes when increased by state and local taxes in many jurisdictions are said to discourage the ordinary assumption

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of risk by investors because the tax collector takes so great a share of any income realized from a business venture. In view of other features of our income tax structure such as the capital gains section of the income tax law, tax exemption which is extended to state and Federal securities, I can not honestly agree that the surtaxes on individual income are too high under existing conditions. Very large portions of big incomes escape taxation in whole or in part. However, I should like to suggest the following measures which if enacted in combination might increase the equity of our tax system and encourage the employment of venturesome capital: tighten the capital gains section of the income tax law as suggested below, increase estate and gift tax rates, remove tax exemption from future issues of Federal, state, and local securities and then reduce the surtax rates in the top brackets of our income tax. May I at this point renew my recommendation that ^{the section of new} tax exemption securities be abolished ~~in the~~ ^{future}. Now that the Supreme Court has indicated a changed attitude toward the problem of inter-Governmental tax immunity, it seems to me that the inclusion of a future Government and Government-guaranteed bond interest in taxable income is one of the most obvious steps towards tax justice.

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In addition, removal of this tax exemption would tend to push into the financing of new or expanding business enterprises, the kind of private capital which can afford to undertake the hazards inherent in business development.

I have discussed one tax simplification and five tax allowances which if granted to taxpayers would, in my opinion increase the fairness of the tax system and encourage investment. I come now to another aspect of desirable tax revision: the removal of concessions which have been made to certain groups of taxpayers.

1. I should like to suggest for your consideration a change in the present capital gains and losses provisions of the individual income tax. A profit from the sale of a stock or a bond or a piece of real estate or any other capital asset is now taxed at a maximum rate of 15 per cent if the asset has been held more than two years. Compared with the ordinary income tax rates that apply to salaries, interest, dividends, and rents, the rates on these long-term capital gains are very low. One reason given for setting them so low is that the deduction of capital losses is somewhat restricted.

A fair tax system can not be achieved by 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 per cent), coupled with more liberal allowance of capital losses. Perhaps capital losses could 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.

2. 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.

3. The gift and estate taxes should be coordinated so that from the tax point of view there is practically no difference whether a man gives away his estate during his life or at his death. This coordination would in effect consider gifts and the final distribution of the estate at death as a unified series of transfers. The present law regards successive gifts as accumulative distribution and it remains merely to accumulate the estate as if it were a final gift, leaving only one exemption and one rate

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scale, where we now have both the gift and the estate taxes. If Congress desires to give some special inducement to gifts made prior to death, this can be accomplished through special credits. In addition, I would like to suggest that Congress consider increasing the yield of the estate and gift taxes, which now produce less than 7 per cent of our Federal revenues, by somewhat lower exemptions and higher rates in the lower and middle brackets and by eliminating the exemption for life insurance up to \$40,000.

ADEQUACY OF REVENUE

Thus far I have been discussing in detail revisions of the tax laws which have been enacted over the past seven years. I should like now to turn to the more sweeping problem of pointing the way for future tax policy and fiscal policy.

One of the standard requirements for any tax system is that it should yield adequate revenue. The real question is: what is "adequate" in any given time and place. This question is at the root of our tax problem and raises the whole matter of fiscal policy, yet unless we answer it, all our specific recommendations for tax changes assume an air of temporary suggestions resting on a foundation which may shift at a moment's notice. Unless tax policy is founded on a thorough fiscal policy, business men may feel that they cannot

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adequately judge the future impact of taxation upon their businesses or upon new ventures which they may wish to undertake, and the taxing authorities themselves cannot be sure of what demands may eventually be forced upon them.

The present tax system is a powerful system, which has yielded the Federal Government more revenue than any other tax system enacted during peace times. It will not, however, be able to stop all increase in the public debt over the next five years, or thereabouts, even though we may see further business improvement and some reduction in Government expenditures. In a year of great prosperity with a national income of eighty billion dollars, current Federal revenues might raise to eight billion dollars. The existing tax system might under these conditions permit a moderate amount of debt reduction in such a year. But over a longer period, good years and bad, the present revenue system will result in a substantial-net increase in the public debt unless there is a radical reduction in expenditures. With relief and national defense absorbing per cent of our Federal disbursements, I cannot foresee any immediate opportunity to make a significant curtailment in expenditures.

Even with the lowest expenditures on relief and defense that can be reasonably expected, it is, in my opinion, unreal to talk of balancing the budget next year, or even in the year after next. But unless we are to commit ourselves

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to a philosophy of continuing increases in public debt, I believe Congress should enact this year measures which will bring in added revenue within three or four years. The adoption by Congress of a program which commits us to a trend toward a balanced budget during the next five years is, in my opinion, much more important than the exact date of budget balancing. Such a program seems to me to play a vital part in increasing the national income.

We must rely upon business to provide employment for at least the great majority of our men and women of working age. I have suggested some tax revisions which I believe would remove specific obstacles to business recovery and reemployment. But the problem is much broader when the uncertainty of conditions abroad is coupled with the uncertainties of an unbalanced Federal budget at home and when the road toward a balanced budget has not been charted. The man who has saved money or who is in charge of a business enterprise may refuse to undertake an ordinary investment or expansion. He knows that business must sometime face new taxes heavy enough to bring the budget into balance, perhaps even heavy enough to retire a sizeable part of the public debt. He can not know where these taxes will fall. He can not reasonably foretell what affect they may have on the undertaking which he has considered. Because he can not forecast the future, he marks time. The result is business stagnation not the

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steady business advance which has been characteristic of the country. It is my sincere hope that this Congress, this year, will dispel much of this uncertainty by pointing the way which tax policy and fiscal policy are to move toward a balanced budget. Businessmen would then have the statement of Government policy on which they could rely in assayed future business commitments.

Because Congress votes the taxes and appropriations of the Federal Government, it alone is able to give to businessmen the assurance which they desire. However, in closing, I should like to suggest for your consideration steps which seem to me would lead toward a balancing of the budget some time within the next five years:

First, the continuation of the sales and excise taxes which otherwise expire this year.

Second, the program of tax adjustment and revision which I have outlined above.

Third, an increase in the middle bracket income tax rates, a reduction of the income tax exemptions to \$800 for single persons and \$2,000 for married persons, and an increase in the estate tax and gift tax rates, and the lowering of state tax-gift tax exemption.

Fourth, and most important, a declaration by Congress in unmistakable terms of a policy which would lead toward gradual balancing of the budget.

TELEGRAM SENT

JR

GRAY

April 12, 1939

2 p.m.

AMEMBASSY

LONDON (ENGLAND).

RUSH.

252.

From Morgenthau for Butterworth.

Please be at home at 5 o'clock Washington time
today (repeat today) to expect telephone calls.

HULL
(HF)

EA:FL:HJM

TELEGRAM SENT

JR

GRAY

April 12, 1939

2 p.m.

AMEMBASSY

PARIS (FRANCE)

256.

RUSH.

From Morgenthau for Cochran.

Please be at home at 5 o'clock Washington time
today (repeat today) to expect telephone calls.

HULL
(HF)

EA:FL:HJM

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 12, 1939, 6 p.m.

NO.: 711

FROM COCHRAN.

A little sterling was acquired by the French control today on a market which witnessed neither much fluctuating or trading. The rente and share markets here are likewise awaiting statements tomorrow by the French and British premiers. The tense international situation meanwhile has its effect on these markets, although they are not panicky.

BULLITT.

Q3V1331R

PPC-E-LW

TELETYPE UNIT
 EQUIPMENT NOT TO BE USED
 WITHOUT THE APPROVAL OF THE DIRECTOR

PARTIAL PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: April 12, 1939, 8 p.m.

NO.: 254

FOR BUTTERWORTH FROM SECRETARY OF THE TREASURY.

There is quoted below the text of the inquiry which you are to communicate to the British Treasury, as you were instructed over the telephone this afternoon:

"The countries who are members of the Tripartite accord and their nationals now hold in the United States over \$500 million of earmarked gold, over \$1 billion of bank deposits, over \$2 billion of American securities and over \$1 billion of direct investments. Doubtless each of the countries likewise has substantial holdings of assets in other countries.

It has been the policy of the United States freely to offer its banking, investment and gold facilities to the governments and nationals of foreign lands and thus to provide a haven for funds seeking investment and security, and it is our hopeful desire, as it is no doubt yours, that we shall be able to continue to do so.

We feel that the interests of the members of the Tripartite Accord now make it desirable that there be prompt consultation directed toward protecting the security, commodity and money markets in the event of

WAR

- 2 -

war in Europe, and agreeing upon effective measures for that purpose; with particular regard to preventing panicky marketing and utilization of assets in the markets of the other countries.

Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the Tripartite Accord should assure the success of such consultations.

We would appreciate a prompt expression of the attitude of your Government with respect to this proposal."

You are requested to explain clearly, when you present this, that in so doing you are not indicating that immediate conflict is expected.

HULL

RECEIVED

NOV 18 1944

THE NATIONAL ARCHIVES
COLLECTION OF THE
UNITED STATES GOVERNMENT

EA:LWW

PARTIAL PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: April 12, 1939, 8 p.m.

NO.: 261

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

There is quoted below the text of the inquiry which you are to communicate to the financial authorities of France, Belgium, Switzerland and the Netherlands, as you were instructed over the telephone this afternoon:

"The countries who are members of the Tripartite Accord and their nationals now hold in the United States over \$500 million of earmarked gold, over \$1 billion of bank deposits, over \$2 billion of American securities and over \$1 billion of direct investments. Doubtless each of the countries likewise has substantial holdings of assets in other countries. .

It has been the policy of the United States freely to offer its banking, investment and gold facilities to the governments and nationals of foreign lands and thus to provide a haven for funds seeking investment and security, and it is our hopeful desire, as it is no doubt yours, that we shall be able to continue to do so.

We feel that the interests of the members of the Tripartite Accord now make it desirable that there be prompt consultation directed toward protecting the security, commodity and money markets in the event of war in Europe, and agreeing upon effective measures for
that

- 2 -

that purpose; with particular regard to preventing panicky marketing and utilization of assets in the markets of the other countries.

Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the Tripartite Accord should assure the success of such consultations.

We would appreciate a prompt expression of the attitude of your Government with respect to this proposal".

You are requested to explain clearly, when you present this, that in so doing you are not indicating that immediate conflict is expected.

HULL.

4 V 13030

FOR 81 008

STANDARD DOCUMENT
SEARCHED FOR IN 1953
RECORDS OF NATIONAL ARCHIVES

EA: LWV

Regraded Unclassified

Wednesday, April 12, 1939

Mr. Irigoyen, Financial Attache of Argentina, called this morning to see the Secretary and to discuss the financial situation which Argentina faces at the moment. The Secretary expressed his warm sympathy for Argentina's problems and stated that he would be anxious to cooperate in any way possible to bring about a closer relationship between the two countries. He suggested that Mr. Irigoyen discuss these problems in greater detail with Lochhead, and the discussion was carried on between Lochhead and Irigoyen in the afternoon.

Mr. Irigoyen stated that owing to the unfavorable trade balance which Argentina was experiencing at the present time it would be necessary for Argentina to secure foreign exchange by the sale of a portion of its gold holdings. It apparently was not feasible to float any further bond issues in the United States at the present time and the European markets were of course not favorable for borrowing. The last issue of Argentina dollar bonds had been floated in the United States on a ten-year basis as private investors were not receptive to foreign issues and it had been hoped that the banks would invest in these intermediary bonds. The issue was not a success and was selling at a discount. He inquired whether there was any way in which the United States Treasury could assist Argentina.

Lochhead pointed out that the Treasury, under powers at present available, could purchase gold from Argentina either in New York or

in case it was desirable, even in Argentina, although in the latter case it would be understood that the gold would have to be shipped immediately to the United States under terms and conditions to be arranged. The United States Stabilization Fund could also supply dollar exchange to Argentina against purchase of Argentine pesos, secured by gold deposited in New York, along the same lines as the arrangements entered into with Mexico, China and Brazil.

Mr. Irigoyen evidenced interest in this latter suggestion and thought that they might wish to discuss this procedure further.

As to financial assistance which the United States Government might be able to extend to Argentina along the lines of a long-term credit, it was suggested that the Argentine Treasury might approach the United States Treasury for a general discussion of Argentina's problems along the same lines as were followed by Brazil and there was every reason to believe that the Treasury would give sympathetic consideration to any proposals which Argentina might propose if they followed the lines which had been used in case of Brazil.

Mr. Irigoyen mentioned the general dissatisfaction of Argentina regarding the sanitary pact but agreed that this was outside the Treasury's province. He did say, however, that Argentina was discussing a new trade pact with the State Department and hoped that some progress might be made with this pact, although he understood that the State Department is waiting for Congress to adjourn before pushing it further. Under the new trade pact there were hopes that a larger quota of Argentina canned meat would be admitted to the United States. He felt, however, that the State Department would insist on

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Argentina adopting a more liberal exchange policy if a pact was to be arranged and he felt that Argentina would not be in a position at the moment to furnish the foreign exchange necessary unless some assistance was obtainable. For this reason he thought that a conference between the Treasuries might be very desirable to explore this possibility.

The basis of this whole conversation was entirely informal and he stated that if Argentina decided to take further action to develop these thoughts we would be advised through official channels.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

Approved

DATE

APR 12 1939

TO Mr. Duffield

FROM Mr. Foley

Re: S. 2045 (Brown Bill), To transfer bank examination and supervision functions to the Federal Deposit Insurance Corporation.

It is my opinion that the Treasury Department should oppose the enactment of S. 2045, since, without regard to the merits of transferring the functions of the Comptroller of the Currency to the Federal Deposit Insurance Corporation, so far as the office of the Comptroller of the Currency is concerned, everything contemplated by S. 2045 can be more efficiently accomplished by the procedure prescribed in the Reorganization Act of 1939.

Pending a careful study of the advisability of combining in one Federal agency all the bank examination and supervisory functions and of codifying the Federal laws relating to the examination and supervision of banks, I favor tying the office of the Comptroller of the Currency even more closely into the Treasury under the authority contained in the Reorganization Act of 1939. I am not expressing an opinion at this time as to whether the office should be retained in the Treasury permanently, but so long as it is in the Department, the Secretary of the Treasury should have adequate control to assure that the functions and duties of the office are fully and effectively carried out.

E. W. F.

War Department
Office of the Chief of Staff

26

April 12, 1939.

MEMORANDUM FOR Secretary Morgenthau:

Herewith is a final estimate of the status of the European situation which is very largely from information received by the State Department, as well as through our own sources.

M. G.

Incl.

CONFIDENTIAL

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

G-2
J M

2/2657-II-90

April 12, 1939.

MEMORANDUM FOR THE CHIEF OF STAFF:

Subject: The European Situation.

Following is a resume of information received from official sources:

General. There is little fundamental change in the European situation as previously reported. In general the atmosphere is diplomatically and militarily tense. Official information is lacking as to any precise British commitments to Greece. However, on good authority it is reported that the Turkish Government has been informed that an attack on Greece would be regarded by Great Britain and France as a "causus belli." It is known that the Greek Government is awaiting some statement from London, and the atmosphere there is described as one of hope and confidence resulting from a firm statement by the Greek Premier and "rumors" of British firmness.

A convincing analysis of the Soviet position by our Charge d'Affaires in Moscow concludes that the Soviet will remain aloof in all respects from the European situation as long as Soviet territory and interests are not immediately affected.

Military. No details are known as to movement of British and French naval vessels except that on April 11 the British flag ship and numerous war vessels were in the port of Malta. On April 10 nine British vessels are reliably reported to have departed hurriedly from Tunis.

The Military Attache in Paris was informed by the Ministry of War that France so far has called up for service about 130,000 specialists, assigned principally to fortification troops. All leaves for officers and men have been cancelled and antiaircraft artillery is being installed in France.

The Ambassador in Italy reports that Rome is filled with many alarming rumors, none of which can be confirmed. Among these he

CONFIDENTIAL

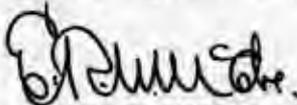
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mentions that the Albanian force is to be increased to 100,000 men; that German troop trains have been reported passing southward through Rome; and that numerous classes are being called into service. He carefully reiterates that these are rumors. The figure of two million men shortly to be under arms in Italy, reported by the French Intelligence Service, is believed by this Division to be greatly exaggerated. In fact, it is suspected that some of the reports furnished by the French Intelligence Service are released to our Military Attache for propaganda purposes. An estimate of all Italian forces with the colors, including those in East Africa, Libya and Spain, is believed not to exceed 1,250,000 men.

The Yugoslavian Minister of War informed the British Military Attache in Belgrade that the Italian expeditionary force which occupied Albania consisted of the 9th Army Corps, containing two infantry divisions and one mechanized division. The same authority stated that there was no German concentration on Yugoslavia's northern frontier, and added that no fear was felt of invasion from either frontier. The Bulgarian Military Attache informed the American Military Attache that he was officially advised that Bulgaria has no intention of invading Yugoslavia, regardless of what Italy may do. Despite these assurances, however, the Yugoslavs are extremely suspicious of Bulgarian intentions.

Greek troops are reported to be continuing concentrations along the frontiers both of Albania and Bulgaria, and it is estimated that some 30,000 troops are now in each area.

On April 11 the Dutch Government called into service some 26,000 reservists to garrison frontier posts. The Ministry of Defense states that it is intended to keep these reservists on duty throughout the summer. The Prime Minister emphasized that these measures should not be interpreted as alarming, but as natural precautions in view of the general situation. He nevertheless pointed out that the Dutch were determined to maintain their independence and neutrality.



E. R. W. McCABE,
Colonel, G. S. C.,
Assistant Chief of Staff, G-2.

td

CONFIDENTIAL

April 12, 1939
9:12 a.m.

HMJr: Hello.

Operator: Mr. Bailie. Go ahead.

HMJr: Hello.

Earl
Bailie: Hello.

HMJr: Earl?

B: Good morning, Henry.

HMJr: How are you? Are you at your office?

B: Yes, I am.

HMJr: Good! Can you talk?

B: Yes.

HMJr: Earl, I wanted to drop this thought into your mind, and that is that if we should have a world war I'm thinking of a few people that I want to talk to.....

B: Yes.

HMJr:about the possibilities of coming down here on a dollar a year basis.

B: Yes.

HMJr: And I wanted you to be thinking it over. See?

B: Well, how many do you -- how many people have you in mind, Henry?

HMJr: Well, I tell you, I've got three or four in mind. I've got you in mind, and I've got Tom Smith in mind, and I've got -- I don't know whether you know Basil Harris or not.

B: Who?

HMJr: Basil Harris.

B: No.

HMJr: Well, he's a -- a full partner in the U.S. Shipping Lines.

- 2 -

- B: Yeah. I've heard his name.
- HMJr: And him for -- you see, we'd have to take over all this shipping and customs and all that stuff.
- B: Yeah.
- HMJr: What?
- B: I guess you can -- he'd be a fine person.
- HMJr: You see what I mean? And I want somebody else on the Central Purchasing, but I haven't been able to get an agreement with the President on it yet.
- B: Yeah.
- HMJr: But it's perfectly agreeable -- you three are to him, but.....
- B: Well, Henry, I -- I will think it over. I hope we don't ever have to decide it.
- HMJr: Well, the point that I have in mind is this. I'm asking these -- then besides that I'm setting up an advisory board of economists.
- B: Yeah.
- HMJr: Of Walter Stewart and Reifler and Viner and Hanson of Harvard. They haven't all accepted yet. You see?
- B: Yeah.
- HMJr: To sit here with no administrative responsibilities, but just to think.
- B: Yeah.
- HMJr: You see?
- B: Yeah.
- HMJr: And I -- this is just strictly between you -- I wanted E. R. Stettinius with Central Purchasing, but for some reason I wasn't able to get it by the President.
- B: You wanted who from there?
- HMJr: Stettinius.

- 3 -

B: Oh, yes.

HMJr: You see.....

B: Yes.

HMJr:to take over the Central Purchasing.

B: I'm not sure that the -- in this one case your boss wasn't right.

HMJr: Really?

B: Yes.

HMJr: I see.

B: I -- I don't believe he's got quite the ability he's supposed to have.

HMJr: Oh really?

B: I may be wrong about that, but.....

HMJr: Well, the President shied away. Now, what I'm doing is, you see, I'm setting up this machinery -- even if I want to do it down to the point of having a desk and clerks and everything ready. You see?

B: Yeah.

HMJr: And so if you thought this thing -- and what I had in mind I wanted you to do was this -- this question of -- we'll have to have some sort of ex -- or modified -- or some kind of exchange control of all the rest of that, you see?

B: Yeah.

HMJr: And I -- I want, what they call in shipping, a couple of trial runs.

B: That's right.

HMJr: In the strictest of confidence to see if the thing is all ready.

B: Yeah.

- 4 -

HMJr: So that if, for instance, there's a world war tomorrow that the place would be ready for Earl Bailie to come in and sit and he'd have the machinery set up the way he wanted it.

B: I get you.

HMJr: You see what I mean?

B: Yes, I get you perfectly.

HMJr: Because once the thing breaks it's -- it's just a mad scramble.

B: It'll be quite active if it breaks.

HMJr: And I want each of these people, if I can get them and they want it, to come down and go over the machinery and know what lawyers they want and what clerks and everything -- and have everything ready so it's just a question of opening your desk and there it is.

B: Right.

HMJr: And that's the way I think to keep us from having a panic.

B: I quite agree. Well now, Henry, when you talk about exchange control you have the -- you have the idea of the gold movements and.....

HMJr: Well, I -- yes, gold movements -- I mean, we have these huge foreign earmarked deposits here, you see?

B: Yeah.

HMJr: I mean, after all, we're the safety deposit vault of the world.

B: Yes.

HMJr: And what I want to do is to do everything possible to keep a sign open "Business" as usual.

B: You bet.

HMJr: And -- and to assume the world power role which we ought to.

B: Right.

HMJr: And then, I mean, this whole question of -- under that licensing, and purchasing, and the whole business of handling world money.

B: Right.

HMJr: You see?

B: I get you perfectly.

HMJr: Now, what I want Tom for is the Treasury's position in connection with national banks.

B: Naturally.

HMJr: You see?

B: Which would be/^{very}-- become very active.

HMJr: Very active and -- we had.....

B: Particularly if -- if Congress hasn't gotten around to fixing it so that Eccles has all the power the way he asked for it the other day.

HMJr: Did you see my answer?

B: (Laughter) God, I got a big laugh out of his statement, Henry.

HMJr: But did you see my answer?

B: Yes, I did, and I thought it was perfect.

HMJr: That I was too busy.

B: Yeah.

HMJr: What?

B: Yes, I thought it was perfect.

HMJr: Yeah.

B: But I thought it was -- it was quite the most childish thing he's done.

HMJr: Well, I -- I think so. I think it was the height of stupidity.

B: It was the height of childishness.

HMJr: Yes.

B: It's a very, very babyish trick.

HMJr: Very.

B: Well now, Henry, in this -- there's only one problem about this thing.

HMJr: Yes.

B: Well, there are two problems, really. First, 54 Wall Street.

HMJr: Right.

B: Now the second thing is whether or not I've got the health to do it.

HMJr: Well, I understand it.

B: Which I'd have to talk to the Dr. about.

HMJr: Well now, what I'd like you to do, if you don't mind, -- this doesn't mean that I'm afraid or -- or thinking something is going to happen. But I don't know. But if you could give me an answer within a day or two.

B: Sure. I will.....

HMJr: You see today is.....

B: Ah.....

HMJr:Wednesday, and if I could have one by Friday morning?

B: Sure.

HMJr: What?

B: Sure. I'll -- I'll call you up either Thursday night or Friday morning.

HMJr: Good.

B: How are you coming on with your memorandum, Henry?

HMJr: Well, it's two-thirds finished.

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B: Yeah.

HMJr: But I've got to blow life into it; it -- it's dead.

B: I get you.

HMJr: It -- it has no -- it has no sex appeal.

B: Well, I think there I might be of some help.

HMJr: Oh, really?

B: (Laughter)

HMJr: Oh, now, don't you flatter yourself. Well, well, well....

B: One of my two or three ---- if I may say so.

HMJr: I see sort of a specialty of the house, what?

B: Exactly.

HMJr: Well, we'll certainly try you out. We'll give you a trial run on that.

B: All right, sir, I hope it won't prove merely an idle boast.

HMJr: I see. Well, are -- are you coming down?

B: Well now, here -- here -- you know what my schedule is.

HMJr: Yes, you -- I -- well, maybe -- you could -- could be here Monday, isn't that it?

B: I could be there on Monday if you want me.

HMJr: And do you want to come down Sunday night and spend Sunday night with us?

B: Yes, I think probably I'd have to come down -- get there -- oh, around -- well, nine or half past, or something of that kind because.....

HMJr: At night you mean.

B: Yes. I'd have to come down on an evening train.

HMJr: Uh-huh.

B: I'd love to spend the night, if I could.

HMJr: Surely.

B: Because Dave is coming home for lunch.

HMJr: Right.

B: And he's been having not too happy a time.

HMJr: Oh!

B: And I.....

HMJr: Well now, you be -- I -- I want to have eight or ten people for supper; now, if you'd care to come, we'd love to have you. And you be perfectly frank; you either come.....

B: I'd come afterwards, Henry.

HMJr: All right.

B: In other words, I'd come down on a train.....

HMJr: O. K.

B:that left New York, say, around six and got to you about ten.....

HMJr: Fine.

B: because if I came earlier it would mean I -- I wouldn't see David.

HMJr: Right.

B: And I -- and that would be quite serious from his point of view.

HMJr: Oh, I see.

B: So I'll -- I'll plan -- well, I'll talk to you on....

HMJr: Right.

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B:on -- on.....

HMJr: At any rate, we'll have the beds turned down and the hot water.....

B: O. K. And I'll talk to you on Thursday night or -- or Friday morning, one of the two. I'll find out in advance what's convenient for you on this other thing.

HMJr: Yes.

B: It's needless to say, I -- I -- there's nothing I would like to do better. I -- and I think I probably could -- could do it as far as my health is concerned.

HMJr: Well, there are two things.....

B:rather disturbing.

HMJr: First -- in the first place, you could do it and in the second place, you know Treasury machinery, which is terrificly important.

B: Oh yes, and besides I feel, rightly or wrongly, that -- that people in the Treasury would rally behind me.

HMJr: Right!

B: I mean, in a way that -- because I've been there.

HMJr: Yeah.

B: And because they regarded me as a friend and I regarded them as a friend.

HMJr: Yeah.

B: That makes a lot of difference.

HMJr: Right.

B: And, of course, I -- I want to do it -- I want to do it for you anyway.

HMJr: Well you think it over very carefully.

B: Yes, very carefully.

HMJr: And -- and I'll give you a chance to put a little essay into my essay.

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B: (Laughter) O. K. I'll see it myself.
HMJr: O. K.
B: Good bye.
HMJr: Good bye.

April 12, 1939
9:28 a.m.

HMJr: Hello.

Operator: Admiral Leahy just came in.

HMJr: Right.

O: Go ahead.

HMJr: Hello.

Admiral Leahy: Hello, Mr. Secretary. This is Admiral Leahy speaking.

HMJr: Yeah, I called last -- yesterday afternoon and I.....

L: I guess I was over at the White House yesterday afternoon when you called, because I wasn't here and didn't get the message.

HMJr: Yes.

L: Well, what I wanted to speak to you about, Mr. Secretary, was this. We got a message from a clerk up in the Assistant Secretary's office yesterday that you wanted us to prepare for you a daily summary of the situation in Europe.

HMJr: Yes.

L: And he told you it was all right, we'd do it.

HMJr: Yes.

L: Now, we have no information upon which to base such a summary.

HMJr: Oh.

L: We don't get reports at all from Europe, and the only news that I get that's hot at all comes from the White House.

HMJr: For heavens sakes!

L: The other departments of the Government don't give it to us and we don't get any, so we just haven't got a summary over here and we can't make one up.

HMJr: Well I'll be darned. Well, I -- I thought surely you had something on the Mediterranean.

- 2 -

L: Well, we haven't a thing. There -- there hasn't been a report of any interest that has come to us regarding the changing situation in Europe. We just don't get them. I get a good deal from the White House, of course.

HMJr: Well.....

L: They get it, and I imagine they must get it.....

HMJr: Well, I get what -- what they get.

L: Of course, you get that too.

HMJr: They get that from the State Department.

L: Either that or by direct communication.....

HMJr: Yeah.

L:with the Embassies over there. I'm sorry, we just haven't got a thing here.

HMJr: Well, if it wasn't you, why I'd say it was unbelievable.

L: Well, it -- it's a fact. We don't get a single report about the situation in Europe. I -- I haven't the remotest idea, for instance, where any of the ships are; except that the British have a fleet -- have some ships in the Mediterranean. I don't know what they are. The President knows because he told me yesterday he knows.

HMJr: He does know.

L: I don't know where he gets it.

HMJr: I see. Well, I guess I'll have to go to the President.

L: Well, I -- there's nothing we can do about giving you a daily summary, Mr. Secretary. I wish I could.

HMJr: I thought surely you'd have something.

L: No.

HMJr: All right.

L: All right, sir.

HMJr: Good bye.

L: Good bye.

April 12, 1939
9:49 a.m.

Operator: Go ahead.

HMJr: Hello.
Pat
Harrison: Henry?

HMJr: How are you?

H: Did you have a nice trip?

HMJr: Pretty good, Pat. Unfortunately I wasn't well most of the time I was down there.

H: You weren't?

HMJr: No.

H: Are you all right now?

HMJr: Pretty good.

H: I saw your picture in the paper the other day where you were out paying tribute to Marian Anderson.

HMJr: Yeah. It was a great thrill hearing her sing.

H: Yeah, they say she is a wonderful singer.

HMJr: Yeah.

H: I'll tell you, Henry, what I called about.

HMJr: Yes.

H: Mr. Klogh -- Harley L. Klogh of Chicago -- he's in my office....

HMJr: Yeah.

H: And he had some matter with reference to taxes in '33-'34.

HMJr: Yeah.

H: And, of course, I called up -- I made an engagement for him to see Guy Helvering.

- 2 -

HMJr: Yeah.

H:this morning.

HMJr: Yeah.

H: I didn't want to bother you with a matter like it, but he said that he'd made an offer -- it had been recommended that -- you see, he's got nothing. You know, he used to be very wealthy. The banks out there took everything he had and all, and he said that the matter had been agreed to and all, but that something had come up in some way -- I don't know -- and that kept it from going through, and he was anxious to get it out of the way. And so I've asked him to talk to -- to Guy.

HMJr: Yeah.

H: And ask Guy to look into it and so on.

HMJr: Right.

H: You don't recall any of the facts, do you?

HMJr: No, I'm not familiar with it at all.

H: Yeah. Well, he was worth considerable money, and now he ain't -- like a good many others, hasn't got anything.

HMJr: Uh-huh.

H: All right, Henry.

HMJr: Well. No, I'm not at all familiar with it.

H: Well, I did right then to have him go down and see Guy?

HMJr: Yeah.

H: All right.

HMJr: Thank you.

H: Good bye.

HMJr: Good bye.

April 12, 1939
9:55 a.m.

HMJr: Hello.

Operator: The Attorney General.

HMJr: Right.

O: Go ahead.

HMJr: Hello.

Frank
Murphy: Hello, Henry?

HMJr: Hello, Frank. I hear you've got a bad foot.

M: Oh, not very bad. Just had it cut a little.

HMJr: Oh, for heavens sake!

M: It's all right.

HMJr: That's good. Frank, I sent over to you at the President's suggestion last night -- that we get a ruling from you on this countervailing duty on Italy.

M: Yeah.

HMJr: And I thought if it wasn't crowding you too much, if you could have that and the one on the munitions board ready by Friday, if we have a Cabinet meeting.

M: All right.

HMJr: We might want to take them both up then.

M: All right.

HMJr: Because I'm not sure -- the State Department -- Frank Sayre wants us to give Italy thirty days' notice, but I'm not sure that the President wouldn't want to do it right away, you see?

M: I'd be a little careful on the way you bring up the munitions matter.

HMJr: Would you?

M: The Secretary is very put out about it for one thing.

HMJr: Yeah.

- 2 -

M: For another, it may be that he will be able to say with some plausibility.....

HMJr: Yes.

M:that the Secretary of the Treasury ought not to be asking for an opinion, formally or otherwise, on a matter within his own jurisdiction -- I mean, within the jurisdiction of the Secretary of State's department.

HMJr: Oh!

M: Now, my people here raised that, and I told them to forget it. No matter where it came from that the -- a member of the Cabinet wanted the advice of this department as to the law, and that was enough.

HMJr: Well, I -- after all, I'm a member of the Munitions Board.

M: Yes, indeed.

HMJr: And I'm responsible to Congress and not to the Secretary of State.

M: Well, but the other part of it is, Henry, the -- doesn't the State Department alone issue these licenses?

HMJr: Well, I suppose. We.....

M: The Munitions Board takes no action on it.

HMJr: Well.....

M: And hasn't.

HMJr: Well then that -- that's our negligence, isn't it?

M: I don't know. I think that you set up some regulatory procedure for that.

HMJr: Well.....

M: Whereby the State would -- State Department had complete control over it.

HMJr: Well, let's put it on this basis. Supposing we had a Congressional investigation -- supposing some member of Congress felt that the Munitions Board, through granting

- 3 -

these licenses, was not living up to the law. Wouldn't I, as a member of the Board, be held jointly responsible or would Mr. Hull be held responsible? You see, that's the question.

M: Mr. Hull would, I think.

HMJr: You mean I'd have no responsibility?

M: I doubt it.

HMJr: Well that's, of course, where our attorneys differ. They feel that I am personally responsible.

M: Uh-huh.

HMJr: And that -- that's what I want you to tell me.

M: Yes. Well.....

HMJr: I mean, if -- if you give me.....

M: Well, for the time.....

HMJr: See, if you say to me, as Secretary of the Treasury I have no responsibility.....

M: Um-hm.

HMJr:that's one thing, and I -- but our people here feel that I have a distinct responsibility as a member.

M: Yes. Well, I just thought that for the time being, Henry, I ought to -- it would be worth while for you to keep it in mind before you bring it up.

HMJr: Well, I tell you what.....

M: There's feeling over there about it.

HMJr: Supposing you and I, before we do anything, have a dress rehearsal?

M: I think so.

HMJr: After you.....

M: That's the thing to do. The other matter you can bring right up and I'll have an opinion ready for you on it.

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HMJr: But.....

M: On the countervailing duties.

HMJr: Our boys gave it to Judge Townsend. The countervailing duties -- it's in the hands of Judge Townsend they tell me.

M: Oh, it is?

HMJr: It went over last night.

M: Um-hm.

HMJr: I mean, I addressed it to you personally, but they say it's in the hands of Townsend -- that's the countervailing duty thing.

M: Um-hm. I'll check on that right away.

HMJr: But on -- on this Munitions Board -- when you -- when you're satisfied, let's have a dress rehearsal.

M: All right.

HMJr: As to what is my responsibility as a member,

M: Um-hm.

HMJr: See? That's what's bothering me.

M: All right. All right, Henry. Now, say -- hello?

HMJr: Yes?

M: I went through the report on the Annenberg case....

HMJr: Yeah.

M:myself.....

HMJr: Yeah.

M: the head of the department.

HMJr: Yeah.

M: And one or two others; am arranging for the commissions be given for the members of your staff.

- 5 -

HMJr: Yeah.

M: As special assistants, and with jurisdiction anywhere in the country that's necessary in this case;.....

HMJr: Fine!

M:will commission the ablest men from my own department.....

HMJr: Fine!

M:and have -- set it up with a good wallop so it will go right ahead without delay.

HMJr: 'Atta a boy!

M: And then I'm making a search for the best trial man that there is available in the State of Illinois.....

HMJr: Grand!

M:that I'll commission to go along with this fellow. So we'll get up a staff and a setup here that they can't beat.

HMJr: Wonderful!

M: If necessary, why, I'll take a visit down there too myself.

HMJr: Wonderful!

M: So we won't be outsmarted on this thing.

HMJr: Well, that -- that's the best news I've had today.

M: All right, Henry. Get the Skidmore and the other things ready.

HMJr: Yeah, I'm putting all the pressure on it possible.

M: All right. Good bye.

April 12, 1939
10:45 a.m.

HMJr: Hello.
Preston
Delano: Good morning, Mr. Secretary.

HMJr: Hello, Preston.

D: I'm reporting back....

HMJr: Yeah.

D:that -- the letter business. I talked it over with Leo and with Marriner.

HMJr: Yes.

D: It's difficult to clear it in the sense of having them agree.....

HMJr: Yes.

D: Leo, I think, doesn't feel as strongly, although he - he feels that it is a mistake, as Marriner does.

HMJr: A mistake?

D: Yes. Now, Marriner takes -- takes the position that it's -- it's quite objectionable, and he's writing me a letter about it. He has put it before his Board and he is voicing his objections in that letter.

HMJr: I see.

D: Now, he asked me, as a courtesy to his Board, not to present the letter for signature to Mr. Giannini until his Board had a chance to register its objections. I said I thought that we would grant that. Now, I'm just wondering whether -- I'm waiting for that letter, and when it comes in, of course, I'll bring it right in and show it to you -- I'm just wondering now -- Giannini is here and, of course, I've been holding him at arm's length.

HMJr: Yeah.

D: It seems to me that we have a direct order from the President of the United States, sir.

HMJr: Absolutely!

- 2 -

D: And I just don't feel, personally, like assuming the responsibility myself for not carrying out that order.

HMJr: Well.....

D: I think we ought to wait until we get this letter from -- from Marriner as a -- I think that much courtesy is due him.

HMJr: Why don't -- if I may offer a suggestion -- when you get the letter from Marriner, let's you, Hanes and I sit down.

D: Right. Fine.

HMJr: As soon as you get it.

D: I -- just as soon as I get it, I'll bring it right in.

HMJr: How's that?

D: That's fine.

HMJr: O. K.

D: Right.

HMJr: Good bye.

April 12, 1939
7:05 p.m.

Archie
Lochhead: Hello.

Operator: Hello, Mr. Butterworth.

Butterworth: Hello.

L: Hello, Butterworth.

B: Yes, sir.

L: This is Lochhead calling.

B: Yes, how are you?

L: O. K. Butterworth, I'm going to read you a statement.
Have you pencil and paper to take it down?

B: Yes, sir.

L: Well, I'll read this and then -- and then talk to you
about it.

B: All right.

L: Ready?

B: Yes.

L: "The countries who are members of the Tripartite
Accord and their nationals now hold in the United
States over \$500 million of earmarked gold, over
\$1 billion of bank deposits, over \$2 billion of
American securities and over \$1 billion of direct
investments. Doubtless each of the countries like-
wise has substantial holdings of assets in other
countries.

"It has been the policy of the United States freely
to offer its banking, investment and gold facilities
to the governments and nationals of foreign lands
and thus to provide a haven for funds seeking invest-
ment and security, and it is our hopeful desire, as
it is no doubt yours, that we shall be able to con-
tinue to do so.

-2-

"We feel that the interests of the members of the Tripartite Accord now make it desirable that there be prompt consultation directed toward protecting the security, commodity and money markets in the event of war in Europe, and agreeing upon effective measures for that purpose; with particular regard to preventing panicky marketing and utilization of assets in the markets of the other countries.

"Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the Tripartite Accord should assure the success of such consultations.

"We would appreciate a prompt expression of the attitude of your Government with respect to this proposal."

L: Now, do you think you'll have that O.K.?

B: I do.

L: Well now, this message has been telephoned to Cochran this evening.....

B: Yeah.

L:with instructions that he get in touch with France, Belgium, Holland and Switzerland, and communicate it to them.

B: Yes.

L: This is more or less in connection with the outline that you gave in your number 428.

B: Yeah.

L: In other words, your people on that side have apparently made their decision already.

B: Yeah.

L: We are considering it from what effect an outbreak of war on the other side might have on our markets.

B: That's right; I understand.

L: And so we are sounding out these other countries, through Cochran, to find out how they feel about it.

- 3 -

- B: Yeah.
- L: We hope that they will be sympathetic and inclined to cooperate.
- B: Yeah.
- L: They are just offering the suggestion just now.
- B: Yeah.
- L: And -- and Cochran is going to report by tomorrow -- I think at nine o'clock his time or four o'clock our time.
- B: Yeah.
- L: The Secretary wants you to give this to the Treasury on your side and let them know that Cochran is communicating it to the others.
- B: Yeah.
- L: I don't think it calls for very much expression on their part. They've already expressed themselves. But the -- that is the way that we feel we should start this.
- B: Yeah.
- L: And the Secretary/^{also} requested you let Mr. Kennedy know about this the first thing tomorrow morning, because he telephoned on Saturday and wanted to know, I think, what action we were taking.
- B: Yeah.
- L: And this has been in consultation with the S.E.C. and Federal Reserve, and so forth. We've communicated and agreed that this would be the first approach.
- B: Yeah. Right you are, I think.
- L: Now, I don't know of anything further at the -- at the moment. When I finish here, I'm going to try to transfer you up to the Secretary's house.
- B: Yeah.

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- L: He was just started on the way home when this call came through and if he gets -- if he's there by that time he probably might want to speak to you a couple of moments.
- B: All right, now, Archie?
- L: Yes.
- B: Let me ask you a question. What's the -- what's the difference in -- in that first paragraph between direct investments and security investments?
- L: Well, those are more or less fixed investments, I think.
- B: Yeah.
- L: The way they -- they fix that up. You see, the two billion of American securities.....
- B: It's more or less -- in other words.....
- L: And then one billion of direct investments would probably be stuff like real estate and things like that.
- B: Yeah.
- L: Those are fixed investments.
- B: Right.
- L: Now the -- the feeling is here that it might have -- with all this big amount over here, they might have quite an effect on our market.
- B: Yeah.
- L: And we're not doing -- we're just calling attention to the fact -- to the other people that they owe something to us in keeping these markets steady.
- B: I understand.
- L: And -- more or less, not threatening anything but just pointing out to them that they should give us pretty good attention.
- B: Yeah. Archie?

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- L: Yes.
- B: Do you know a man called Neff?
- L: Who?
- B: Neff. N-E-F-F.
- L: Neff? I -- I don't think so.
- B: Well, he belongs to the S.E.C. and he came over here recently.
- L: Oh I see, that's the new man.
- B: He's been traveling around.
- L: Yes.
- B: Just between ourselves, last September they were considering very seriously trying to keep our markets open entirely.
- L: Well now, let me tell you this -- we are -- want to keep our markets open.....
- B: Yeah.
- L:just as much as we can.
- B: Yeah.
- L: I think everybody's feeling is here that we should continue and keep things just as -- going as much as usual.
- B: Yes, but we can't afford to have a flood of selling orders from the other side.
- L: And it's for that very reason that we want this action taken to try to prevent any such selling, and if anything should break out on the other side, the mere fact -- when it was known that there is going to be cooperative action, will probably prevent a lot of panicky selling from people who think that the foreigners are going to dump here.

- 8 -

B:

L: What's that?

B: What do you mean about the fact that it would be known?

L: Well, if after -- if something happens, and we -- it was known that the countries had all cooperated in trying to prevent this dumping, there would probably be reassuring.

B: I mean, there's no plan -- I'll just get these replies -- to issue a public statement.

L: There's no public statement being made at all just now. This is simply a feeler.

B: I understand.

L: Now, as the other thing too, it's -- you don't want to get the impression that we're doing this because we think that the war is going to break out tomorrow.

B: No, I understand that.

L: We -- we're just canvassing the possibilities and trying to get the house in order.

B: So is everybody else.

L: Yes. Now, how are things on the other side?

B: Oh, they are just a little bit better today, Archie. I sent my telegram because we've had a kind of sunny, June day today.

L: I see, a little touch of sunshine.

B: So everybody's better for no good reason.

L: I see.

B: But the atmosphere remains the same. I mean, the -- the conditions.

L: Yes.

B: It has every expectation that -- that

- 7 -

- L: That's right. Well, I'm still - still betting myself that they -- that they won't happen right away.
- B: No, I agree with that.
- L: I think there's a lot of compromising can still be done.
- B: The danger zone, in my opinion, has been and still is that we are going to get into the real danger zone probably around June.
- L: That's right.
- B: We're going to have a lot of experiences, to put it mildly between now and then,
- L: Well, that's what I feel -- that we're going to have a lot of alarms and a lot more gold on the way.
- B: Yeah. What are we going to do with all this gold?
- L: Why, it's not worrying me at all.
- B: Good!
- L: These -- the more the fellows put over here the more -- the more hostage they put over on our good behavior.
- B: Good!
- L: And my feeling -- personal opinion, is this: It's not costing us anything just now.
- B: Yeah.
- L: We're not sterilizing it.
- B: Yeah.
- L: Secondly, the danger of inflation, and expand in the credit base is always there, but where there's an extra two or three billion, it doesn't mean anything; it's not taken hold.
- B: Yeah.

- 8 -

- L: Thirdly, if the people are going to take money out of this country, they either have to do it by buying our raw materials.....
- B: Yeah.
- L:we have no objection to that; or our manufactured products, no objection to that. And if they don't want those, the only other way they can take their money out is taking the gold out again.
- B: Right !
- L: And I think that -- really, to tell the truth, that this movement of gold has strengthened the cause of gold, because it showed, without a doubt, there's not another darn thing to take it's place. No, personally, I'm not worried about it.
- B: Fine, Archie.
- L: I can't say that the -- the newspapers will agree with me.
- B: No.
- L: But I -- I -- my feeling of worry is -- is pretty well down on it.
- B: Good !
- L: Well, I hope you're all right. Is your family O.K.?
- B: Fine, thanks, Archie.
- L: It's not a very nice atmosphere to live under.
- B: Well, that's all right.
- L: Well, good luck to you, and I'm going to ask the operator to try to switch you up to Mr. Morgenthau.
- B: Yes, Archie. It's nice to hear your voice.
- L: Fine. I'm glad to hear from you. Good bye.
- B: Good bye.
- L: Just hold the wire now; I'll try to get you switched.

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Operator: Operator.

L: Will you try to switch this call to Mr. Morgenthau now.

O: All right. Right away.

L: Thank you. Well, let me know.

O: Yes, I will.

(Pause)

HMJr: The Canadians, don't you think they'd rather have it come directly from me?

B: Oh, of course, they would.

HMJr: Don't you think so?

B: Oh, of course.

HMJr: Yes, that's what I thought.

B: Oh, of course.

HMJr: And your people wouldn't take any if I take it up directly with Canada.

B: Oh, yes.

HMJr: What?

B: Oh, yes. Because they are very touchy on that point.

HMJr: Canada?

B: Yes.

HMJr: Well that's what I thought.

B: I mean, they feel they've got their own Minister and all that sort of business

HMJr: Well, you might sort of drop a word that I'm going to talk to Canada tomorrow.

B: Good!

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HMJr: Now, how are you betting on war and peace?

B: Well, I don't -- I think we are going to have difficult times for -- for a little while, but I think that the really critical point is going to come about June.

HMJr: Not -- not until then?

B: Not until then.

HMJr: Oh, you don't think it's this week?

B: No, I don't.

HMJr: Uh-huh.

B: I think we're going to have alarm but the initiative -- the initiative still lies in central Europe.

HMJr: Uh-huh.

B: And I think that although Mr. Chamberlain may make some commitments tomorrow in the House of Commons -- I think the Germans can still take some steps to consolidate their position.

HMJr: Uh-huh.

B: And although we're going to have scares, I should think we'd enter the -- to really face the result about the first of June.

HMJr: Uh-huh. Well, you'll tell Mr. Kennedy about this tomorrow, won't you?

B: Indeed, sir.

HMJr: And tell him what we're doing on the Continent.

B: I will indeed, sir.

HMJr: Uh-huh. All right. That's all I've got.

B: How are you, sir?

HMJr: I'm -- I'm pretty well. It's hectic as usual. Hello?

B: Yes.

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HMJr: How's the new baby?
B: The new baby is flourishing.
HMJr: That's good.
B:
HMJr: All right.
B: Good night.
HMJr: Good night.

April 12, 1939
9:21 a.m.

HMJr: Hello.

Operator: Mr. Basil Harris at Pinehurst.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Basil
Harris: Good morning, Mr. Morgenthau.

HMJr: I hope I haven't ^{didn't wake} weke you up.

H: No, all you did was you just held up my golf game, and I don't mind that.

HMJr: Well, I don't either.

H: (Laughter).

HMJr: I hope I bring you good luck.

H: Yes.

HMJr: Mr. Harris, what I want to.....

H: I don't hear that one.

HMJr: Can you hear me?

H: Yes, now I hear.

HMJr: What I wanted to suggest to you is this. Nobody knows what's going to happen in Europe.

H: Right.

HMJr: As I explained to you once before, if something does happen, I'm counting on you coming down here.

H: Right! I'll come at a moment's notice.

HMJr: But, the machinery is very, very complicated.

H: Yes.

HMJr: And what I'd like to have you do would be to make a couple of trial runs.

H: Yes.

HMJr: And see that the machinery is set up.

H: Right.

HMJr: That it's oiled, and that it's what you want.

H: Right.

HMJr: And it's with that that I -- in mind, that I'm calling you.

H: Yes.

HMJr: Because it's -- it's a -- it's a stupendous task and I don't want to wake up in the morning and see something in the paper; then call Basil Harris and say, "Come on down." And then have you find that nothing is ready.

H: Right.

HMJr: Now, when could you come to Washington and give it a -- a couple of days?

H: Well, I could come next week.

HMJr: Well, could -- were you coming north -- when?

H: I could come, say Tuesday evening.

HMJr: Tuesday evening?

H: Yes.

HMJr: Well, that'll be fine, and then we'll put the whole -- that end of it at your disposal.

H: Yes.

HMJr: I mean, I want to get it down to a point that you've got a desk -- you've got the clerks, the attorneys, everybody that you want so that if something happens, all you've got to do is to open your desk and press a button.

H: Right! I get you.

HMJr: And I think it's terribly important.

H: Right.

HMJr: Don't you?

H: Well, I -- I'm a little bit away from the scene here. It doesn't look so important down here.

HMJr: Well no, I don't -- I'm not.....

H: Oh -- yes, as far as getting the thing to work quickly, I agree.

HMJr: No, I don't -- I -- I'm not trying to forecast whether there will or won't be, but I don't want to have the emergency arrive and then try to set up the machinery.

H: No, that's right.

HMJr: You see?

H: Yes.

HMJr: So, if you could come and spend a couple of days here and look over what we've got.

H: Well, I'll come down Tuesday night.

HMJr: Yes.

H: I'll report to you Wednesday morning.

HMJr: That'll be splendid.

H: How early do you want me there?

HMJr: Oh, ten o'clock.

H: Yeah, I'll be there at ten. All right.

HMJr: And I hope you -- what do you, break ninety?

H: I beg your pardon?

HMJr: Do you go under ninety?

H: Oh yes, I can get well under that.

HMJr: You can.

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H: Yeah.

HMJr: O. K. All right.

H: All right, I'll see you then.

HMJr: Righto.

H: Give Johnny my best, will you?

HMJr: I'll do that in five minutes.

H: Thank you.

HMJr: Good bye.

H: Good bye.

RE PLANS FOR STABILIZING MARKETS
IN EVENT OF WAR IN EUROPE

April 12, 1939.
11:45 a.m.

Present: Mr. Hanes
Mr. White
Mr. Foley
Mr. Lochhead
Mr. Bernstein

H.M.Jr: Come on, gents. God, don't do "Alphonse and Gaston" on me.

White: The exhibits we have ...

H.M.Jr: More than one copy? One for Mr. Hanes?

White: Excuse me - yes.

Hanes: Thank you.

(H.M.Jr. reads silently attached memorandum entitled "Proposed Course of Action for Tripartite Members")

H.M.Jr: Now, the trouble with this is you don't state what your objective is in the beginning.

White: I see. That was merely our program. This was the important document.

H.M.Jr: Which?

White: This one here ("Exhibit C - Draft of suggested communication to members of the Tripartite Accord"), which is the one that required just sort of a background.

Foley: That's "C" Mr. Secretary; that's referred to on page 3 in paragraph 7.

White: There were numerous reasons which led to that which we'd like to raise.

H.M.Jr: You haven't got the statement of how much each of the tripartite members own of our securities?

White: We have whatever figures are available, yes.

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Foley: Haven't you got them?

White: I can give them to you off-hand.

H.M.Jr: Give them to me verbally. We'll have them later on. England

White: England has about 900 million dollars.

H.M.Jr: Yes. That's total, in securities?

White: In securities, bonds, and exclusive of cash; cash assets, about another billion.

Foley: Would that be public and private?

White: That's public and private securities and bonds, preferred stock, registered in England; it may not all be England. Holland has about half a billion. France has about 250 to 300 million. Switzerland, I think, has about 350 million. That's rough. Altogether, about three billion.

H.M.Jr: I think we ought to have sort of a preamble: "In view of the fact that Great Britain has 900 million dollars worth of American securities, plus so much gold on earmark, plus so much of the different things, or a total of two or three billion dollars here; and that France has so much and Switzerland has so much, Holland has so much; and in view of the fact that it has been the policy of the United States Government to offer a haven of refuge to funds seeking both investment and"

Foley: Protection?

White: Security.

H.M.Jr: "... security; and it is our hopeful desire that we will be able to continue to do so; we therefore feel that in the interests of stability it would be desirable for the tripartite countries to consult and see if we can't take steps which are mutually advantageous for both the governments and the individuals who have their money in our securities and on deposit here."

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Now, that accomplishes my big thought and the hint is that, after all, over the President's signature we can tomorrow freeze every dollar balance here. And if these bastards won't play ball, we don't need to go to Congress, we can just freeze every balance here. We can't freeze their stocks, but we can freeze their balances. We just - the President gives me the authority and we freeze the balances and they can't touch a dollar here. Now, having that power, we certainly would be suckers to sit here and let them dump their stocks on us.

Now, Great Britain has advised us of the steps they're going to take getting hold of their securities, and they won't sell a dollar's worth of American securities without first consulting us.

Now, this preamble I've got is enough of a hint - these fellows are smart - to see what we've got in mind. "And if you boys want to keep sending your money over here..." - we don't say a word about whether we will or won't pay \$35 an ounce, which the French financial attache only asked me yesterday; we don't raise that question, you see - "... but now, boys, if you want to keep sending shipload and snipload of stuff over here for us to look after, why, it's only fair that in return for that, in case of a world war, that you take steps similar to what England has done to corral all American securities and have a committee so that we can provide the market for orderly business,..." - I won't even use the word "liquidation" - "... so we can continue as a place where you can deal in your securities and continue to do so, etc."

Now, I personally think - this is a little bit new to you (Hanes) - that it's perfectly proper - somebody suggested that we don't want to ask first - ask them to do it, then they first turn us down and we say, "All right, you so and so, we'll freeze your balances." That's kind of high-handed, isn't it? But we'll throw the hint out first and then say, "You sent your stuff over here; we've paid you a good price. It's here now. We've paid you \$35 for it. It's here and we'll take care of it; it's all right."

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"We've just got a little favor we want to ask of you: that you corral this stuff and have the machinery set up to do it on an hour's notice, so that we don't wake up and have sales here of a billion dollars worth of securities at the market some morning and we've got to close the market. Then our market's closed to you and you've got to find yourselves doing business on a bootleg market or blank market. Now, we want to keep our markets open; we're the world center. You own out of a total of ..." - our New York stocks total how much?

White: 150 billion. They own a very small percentage.

H.M.Jr: No, of the total stocks that are registered, what proportion are held by foreigners?

White: I should say a very small percentage.

Hanes: There's 96 billion divided equally between stocks and bonds - 96 billion total. Harry's estimates show them owning about five and a half to six billion of all types of investments.

White: That includes direct.

Hanes: All types of investments. Divide it down to their proportion of common stocks to the 44 billion, which is the common stock total - it's about one and a half billion to two billion only; in other words, 2/44.

H.M.Jr: Just shooting from the hip and not committing yourself, how does it sound?

Hanes: Sounds good to me. I think also we've got to do some things here at home to protect our own interests. We're foolish, the way we're sitting here now, letting the marginal requirements stay up where they are now, which is a perfect absurdity. With a drop in the market of the proportions we've had, the first thing the Federal Reserve Board ought to do is to let that margin scale go right down the line. The best thing we did in 1929 was when we reduced the marginal requirement to 10 percent; just stabilized the market over night.

H.M.Jr: Will you bring that up this afternoon?

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- Hanes: Yes.
- Lochhead: Mr. Hanes, there's a question I wanted to bring up; I wonder if you could have the answer on it. We're talking about trying to get these foreign countries to mobilize their securities and not sell them in this market. By any chance, has the S.E.C. the authority by which they can prohibit the sale of foreign securities?
- Hanes: None I know of.
- Lochhead: That would be the ideal thing: if there was any authority; simply not have to ask any of these people.
- Hanes: Not any mechanical way you can do it. The Stock Exchange hasn't any way of doing it. Neither has the S.E.C. You see, when a bank in San Francisco is selling for a bank in London, they send the order over the wire as from San Francisco.
- Lochhead: I mean the mere fact they couldn't sell for foreign account - every broker concerned, if you had the power, would have to satisfy himself that it wasn't foreign.
- Hanes: If the secretary has the power of freezing their balances so they couldn't take the money out, there's no incentive to them to sell.
- H.M.Jr: The part I don't like on this thing is, I don't want to say we're going to put on exchange control; I don't think it's necessary. I can call up George Harrison and say, "George..." - I mean he'd sit in on the thing anyway; we've got to bring him in, he's our fellow. He isn't sitting around the Board toying with ideas; he's an operator. I'd say, "Now George, I want..." - the way he did once before - "... I want you to call up every bank president in New York tonight and say, see, that this is the Treasury program and will they play ball." There'll be nothing in writing, but he'll get every bank president - every fellow will do it and there won't be, as far as the public is concerned, anything that we've slapped on exchange control. See what I mean?
- White: It's well to try that first.

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H.M.Jr: Oh, it will work, Harry.

White: That's what England does.

H.M.Jr: I mean we simply call up - George has to come down and get in this thing; then we simply say, "Now George, at the 'M Day' when this thing arrives, at a certain time, you've got to have your machinery ready so you can call these banks in, and you may even want, after thinking it over, to have them in in advance to talk it over and see how it feels in advance. You don't have to do what you did once." He got all the bank presidents out of bed between 12 and 1 in the morning. That alone scared them half to death. What?

Hanes: Sure.

H.M.Jr: That was when we put in the tripartite, wasn't it?

Lochhead: Preliminary, yes.

H.M.Jr: And told them to play ball. But I don't want to - see whether Hanes and I are thinking - I'd like to - my objective is to try to keep the markets open - "Business as Usual": that should be our sign. ✓

Hanes: Oh, of course. It's easy to close, but it's a hell of a job to open again; and it's awful easy to slap on foreign exchange control and it's awful hard to undo it.

H.M.Jr: I've never been refused by a New York bank any request that I've made; not once.

White: Of course, with the implied threat, or with their knowledge - you don't have to tell them that - that you can put on exchange control, there is a great incentive for them to play ball.

H.M.Jr: I would substitute for "exchange control" "the cooperation of the New York banks." I mean where you have "exchange control" I'd substitute the words "the cooperation of the New York banks." that's the way I'd word it.

I'm not laying down the law. We're just talking

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this thing over. But I want you to know how I react to it. Mr. Hanes is - he'll have his reaction after he gets soaked up on this thing, and that's the purpose. But I wouldn't talk "exchange control."

White: In this communication and in the one that you dictated, which I think we could just take almost as is and rephrase, there is no mention of exchange control, but we did think it was desirable to have some implication of a threat, and that's what the last sentence has - I mean to the foreign countries.

H.M.Jr: "here is your threat?"

White: The last paragraph.

H.M.Jr: Which one?

White: Exhibit C. That's the document which presumably will go to the other countries, which is distinct from what you would do on "M Day" here.

H.M.Jr: Where is the threat? I don't see it.

White: The threat is that we are determined - "...the United States Government proposes to take whatever steps are necessary to defend its security markets from disorderly liquidation of securities by foreigners in the event of major disturbances abroad, but to attain this end we prefer measures which will be consistent with the interests of the other countries..." In other words, we're ready to take whatever measures are necessary. Also, we're afraid that Netherlands and Switzerland, as we talked last night, might say they're not ready.

H.M.Jr: Well, try it my way. Come right out at the beginning, say, "We've done all this for you, taken care of your money and taken care of it every day; very glad we've been able to do so, hope we'll be able to continue to do so. And in exchange for this great service that we are rendering you, we would like to bring to your attention another suggestion which we think would be to the mutual advantage of the members of - all the tripartite members." You see?

But I want to get it right in the beginning that we've been doing this for them, so forth and so on.

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White: Yes, we'll pull that right out.

H.M.Jr: I think, Johnny - you and I, I think, are together - when we get a little bit further along, I want to bring in George Harrison and I want to bring in the President of the New York Stock Exchange, too. I mean I feel we trust them and let's show we trust them; tell them what we're trying to do, ask their advice, so forth, right from the beginning and not get them out of bed, say, in the middle of the night, hold a pistol to their head and say, "This is what the Federal Government wants to do." Don't you agree?

Hanes: Yes.

H.M.Jr: Nobody suggested that today.

Hanes: Bill Martin is away. I told Bartlett this morning to get Bill Martin back here. I think this is no time for the President of the New York Stock Exchange to be in Jamaica. He said he's going to get him back.

White: On that preliminary statement, is your thought to include this communication for Cochran, or did you have in mind to put it in this - just a program for our action - for this afternoon.

H.M.Jr: No, what I'm talking - no, all I think that I would tell these people is this statement, which would be the statement that we give to members of the tripartite.

White: That's right; and that's what you were dictating.

H.M.Jr: Yes. As to this other stuff...

White: That's just for our own background.

H.M.Jr: Our own stuff; and they'll - a little knowledge is a dangerous thing. I mean if we go into all the details and all the rest of it - just be confusing.

Lochhead: Might be a question whether this is a recommendation. This is the power we have, if you wanted to do something; wanted to make sure that we weren't approving

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that this be put into effect.

- H.M.Jr: The statement that's to go to Butterworth and Cochran - that's what I want to show these boys this afternoon.
- White: Is it your thought - that's the way you want to handle it? There were two suggestions ...
- H.M.Jr: I was thinking it over. By the time you code and decode - transmission of message - you can't get it done in quicker than five hours; that's the quickest it's ever been done, isn't it?
- Lochhead: Confidential code, we never get it any sooner.
- H.M.Jr: I think the thing to do is call these two boys on the telephone, read it to them on the phone; never had any leaks. We'll say the way we did before, "Butterworth, you take care of England, and Cochran, you take care of the Continent. Use the telephone. When you've got the answer, call me back."
- White: Let them telephone to the various ...
- H.M.Jr: Sure. This thing - this is something - the way the thing is moving, this is something I'd like to get a clearance from and begin working on tomorrow.
- White: I think that it has an advantage, because by his telephoning from Paris in response to a cable from you, it will indicate the importance you are placing on it, and that you want a quick answer, whereas if he just went around to visit them, it might be regarded merely as
- H.M.Jr: You see, having been through all this on the tripartite - I refer you to the Saturday Evening Post this week, gentlemen; be glad to furnish you with a copy - we have a technique, and the technique works. Now, I don't think we can improve on that.
- These dumbbells here - I mean you bring down - I was thinking about it last night in bed - bring down Mr. Marc Peter, the Minister from Switzerland - lovely fellow, sweet fellow, serves a very nice

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dinner, his wife loves music - lovely fellow; by the time I'd start explaining the thing to him, the fellow would be in a mad perspiration, wouldn't know what I was talking about. And then you go through the old, old thing at the end of having somebody over at the State Department blocking us every way, or Mr. Bullitt might not like it, or there's a thousand and one things. So we've got the arrangement, we've got the backing of the President. We would only do it if I had his approval and if the crowd thinks well of it; and after Mr. Hanes gets a chance to dig into it, why, I would do it just the way I did the other.

White: When will the State Department get in on this, at the meeting this afternoon?

H.M.Jr: This afternoon.

White: We the first.

H.M.Jr: Johnny, am I moving too fast?

Hanes: No. But this - I wouldn't let this last paragraph go abroad.

White: Well, the other approach makes most of this unnecessary.

Hanes: I was thinking, if something doesn't happen, it might just cause a wave of liquidation unnecessarily.

White: That was one of the things we worried about, whether this would do that in any case, if there was going to be any concern if it gets out.

Hanes: I don't think the first part, with some statement like the Secretary said - I don't think that would hurt, but I think that last paragraph would start them thinking, "Well, we better be moving out the stuff that's in America already. Maybe nothing will happen this week, but it might next."

White: It would frighten them - any foreign holder.

H.M.Jr: Well, let me say to you men again that with the exception of the British Government, any other government that we do - and the Swiss - I mean there will be no leaks there, but these other people - just can't

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trust them.

White: Of course, they have very little choice of what to do now.

H.M.Jr: No, I mean as to leaks. It won't be in the paper, but their friends will know all about it.

White: Even if it doesn't leak, there's not much they can do, they're confronted with such bad choices. But if couched the way you dictated there, I think it might be ...

H.M.Jr: Get a copy of what I said now - I mean don't argue - and if I have a chance before 3:30 we'll take another look; but in any event, show it to Mr. Hanes before 3:30, see.

And then the other thing, Johnny, I wish we'd think about - I'd like to get something - after we had an agreement, I'd like to be able to tell the world we've got such an agreement, see?

White: We were trying to work on a statement like that, and the difficulty there is to avoid the very thing that you (Hanes) suggested. We'd like to give them assurance and yet we don't want to lead them to believe that their governments are going to confiscate or take over their securities. But it's a question of steering somewhere in between there.

H.M.Jr: Well, your public statement doesn't have to be the same as your arrangement. I mean you can say that "As an extension of the tripartite agreement, the members of the tripartite have entered into an agreement in order to look after the mutual interests of the securities of their citizens."

White: "And to help maintain - help keep open the various - or help maintain the stability of the various security markets."

H.M.Jr: Yes. And the most difficult thing - I don't know what Wallace will contribute on that - is what you're going to do about commodities.

White: We haven't done anything.

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H.M.Jr: Well, that's up to Wallace.

White: We're getting - I'm getting the boys to look up what the experience has been in the War Control Board on commodity prices.

H.M.Jr: Yes.

Proposed Course of Action for Tripartite Members

1. All Tripartite members other than the United States will requisition all foreign balances, securities, assets and gold owned by their nationals.

2. The United States will revoke general foreign exchange license and will tighten foreign exchange control and restrict payments by banking institutions in the United States. Copies of the documents accomplishing this marked Exhibit "A".

3. The United States will also require complete reports to be filed with respect to all foreign-owned balances, securities and all assets located in the United States. Copies of such report forms are annexed.

4. Other members of the Tripartite will require similar complete reports to be filed with respect to all foreign owned balances, securities and all assets located in their respective countries. We will furnish the foreign countries with copies of our report forms as a suggestion with the end in view of having all countries requiring comparable information to be filed.

5. All the information thus obtained will be made reciprocally available to the members of the Tripartite Accord.

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The foregoing will facilitate enormously the Tripartite members in acquiring assets in this country belonging to its nationals, since the foreign nationals will know that we will have information as to their assets in this country which we will turn over to their governments. The foreign exchange control will prevent the foreigner from pulling the assets out of the United States while this system is being set up. It would seem probable that in a comparatively short time, say two weeks, the Tripartite members will have acquired all of the assets in this country owned by their nationals so that it will be possible to loosen the foreign exchange control. This program would likewise have the advantage of facilitating the carrying out of the government foreign policy

6. There will be set up a committee consisting of representatives of each of the Tripartite members. This committee will coordinate the utilization of the foreign exchange assets of each of the Tripartite members located in the United States and elsewhere; and will also coordinate the liquidation of foreign securities. This committee will have complete information as to the foreign exchange assets of each country, each country's need for foreign exchange, the conditions of the markets in the United States as well as elsewhere and will therefore be in a position to facilitate an orderly use of foreign-owned assets in this country. Fundamentally this committee will only be of an advisory capacity, yet the likelihood is that it will be able to exercise great influence in view of the desires of the other Tripartite members to gain our cooperation. In connection with the formation of

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this committee and the taking of the action aforementioned, it will be desirable to make public a statement of the action to be taken and thereby instill confidence in the public and assure them that the governments involved have complete control of the situation and thus minimize the probabilities of panic conditions resulting.

7. A statement should be prepared to be presented to the various members of the Tripartite (except England, who should be informed of the measures taken), either by way of Cochran or by way of the financial representatives of the governments in Washington. Exhibit "C" is suggested draft of the statement to be given to the four foreign governments.

After having received the reaction of the various governments to the proposal we will be in a better position to decide the next move.

An alternative method of approach would be to first communicate with the French and indicate our belief that they should go along with the British proposal. Once having gained French approval, we would then consult with the French and British about the plan above mentioned. The approach to the junior members of the Tripartite would be made after an agreement is reached between the senior members thereby being able to bring stronger pressure to bear on the junior members if necessary.

Exhibit "C"

Draft of suggested communication to members of the Tripartite Accord

The recent behavior of our security markets has given us concern as to the future stability of the security markets in the event of an increasing acuteness of the international political situation. We feel it highly desirable to protect our economy as much as we can against the adverse effects arising from any sudden and large liquidation of foreign holdings in the United States and elsewhere.

One of the effective procedures which has suggested itself is for the members of the Tripartite Accord to consult with each other and agree upon measures for the control of the liquidation of foreign securities held by its nationals in each other's markets.

For its part, the United States Government proposes to take whatever steps are necessary to defend its security markets from disorderly liquidation of securities by foreigners in the event of major disturbances abroad, but to attain this end we prefer measures which will be consistent with the interests of the other countries and will be in full conformity with the spirit of the Tripartite Accord. We would appreciate a prompt expression of your views on this proposal.

April 12, 1939

At 12:15 Secretary Morgenthau telephoned Miss Le Hand and asked her to inform the President that on Tuesday, April 11, at 3:30, HM, Jr had a meeting in his office which was attended by Secretary Wallace and an assistant, Mr. William Douglas and Mr. Jerome Frank, Mr. Eccles, Mr. Goldenweiser, Dr. Feis and members of the Treasury staff. They discussed at this meeting the possible effects on our security and commodity markets in the event of hostilities breaking out abroad and what steps could be taken to protect our markets from such eventualities. The group was to meet again this afternoon at 3:30 and the Secretary thought that sometime tomorrow he would have ready for the President's signature whatever Executive Orders were necessary to take care of the situation.

April 12, 1939.
3:30 P.M.

RE PLANS FOR STABILIZING MARKETS
IN EVENT OF WAR IN EUROPE

PRESENT: Mr. Hanes
Mr. Foley
Mr. Bernstein
Mr. White
Mr. Young
Mr. Wallace
Mr. Feis *see [unclear]*
Mr. Frank
Mr. Purcell
Mr. Eccles *FR*
Mr. Goldenweiser

H.M.Jr: Well, everybody is here but Agriculture, so supposing we start anyway. Shall we? We'll do this thing according to protocol. Has the State Department anything to offer?

Feis: The only one of the several topics I feel that I have done any thinking about is the one we talked about yesterday, this question of the exchanges - the security exchanges - and all I express now is just a personal judgment or inclination, which is that our immediate domestic policy and various other general interests would be well served if the exchanges could be kept open, and that it would be worthwhile giving consideration to the idea of preparing a statement which at the same time would declare a desire to keep the exchanges open, give a presentation of the advantages of keeping the exchanges open, but also allay apprehension by indicating that if that turned out to be under actual short trial unsatisfactory, why, they would be closed. That is on the whole it seems to me the course of action that might be most useful.

H.M.Jr: Well, Mr. Eccles, should we sort of - as long as Mr. Feis brought up exchanges, should we stay on that for the minute and then - or would you rather.....

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Eccles: I think that's better. I think if you did, then it would.....

H.M.Jr: Flow better?

Eccles: Yes, I think so - avoid confusion. I suggest we stick to exchanges.

H.M.Jr: All right. Well then, if that's agreeable, Mr. Frank, do you want to.....

Frank: Mr. Purcell has prepared an excellent memorandum indicating the arguments pro and con with respect to the various alternatives discussed yesterday. It is perhaps too long to read. I think as he is the author of it - the members of the Commission have all acquiesced in it - I think he had best summarize it.

H.M.Jr: All right.

Purcell: The way we view this, trying to consider it perfectly coldly on the basis of market influences and on past history as well, there are probably three things which might be anticipated in the event of a declaration of war in Europe.

One would be that foreign holders of American securities would proceed to liquidate, in fact dump, their securities in this country, absent any consideration which you have received, Mr. Secretary, from the British Government.

Secondly, that domestic security holders would be moved to liquidate their holdings through fear of the first, the foreign dumping.

And third, that potential buyers would withdraw from the securities market and their orders would be withdrawn as soon as there were an actual declaration of war, through fear.

It seems to us that the principal concern that we have is with the foreign holdings of common stock rather than bonds or preferred holdings. I think we can practically dismiss the importance of the problem created by the holdings of preferred stocks and bonds, inasmuch as they are apparently held in fairly small amounts and

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experience has shown that in times of stress of any nature, the market for bonds and preferred stocks inclines to disappear, so that dumping is made virtually impossible.

Therefore, some measures would seem necessary in order to withhold at the source foreign dumping. Those measures would probably follow the lines indicated yesterday. Domestic security holders will of course undertake to throw over their holdings if they have a real fear of foreign liquidation. We feel that panic would be naturally created.....

(Wallace comes in)

H.M.Jr: Mr. Purcell has just started to summarize the position of the SEC. Go ahead, Mr. Purcell.

Purcell: Panic conditions would be accentuated, if not created by the amount of foreign holdings which were liquidated in our market. Let us suppose that the agreements which might be entered into with foreign governments were not successful in obtaining a withholding of practically all of the foreign-held common stock. Our market, as we view it, cannot absorb any material amount of liquidation, or - let me put it this way - any liquidation of any material amount of common stock now held abroad.

The present condition of margin accounts is not too good. Brokers' loans have decreased only a very small portion recently. We have been, according to our current reports - have learned that restricted accounts are on the increase, have been during this recent decline. That's from the technical aspect of a market and we feel would be pretty much of a danger point.

Of course, the domestic situation you people know better than we do, certainly better than I. Business conditions are not certainly too rosy, and that being the case would contribute again to a panic stage.

As to the potential buyers of stocks, with any such situation, as we view it now, there would be an immediate withdrawal, there would be no incentive for potential buyers to stay in the market. All this is without consideration of possible public statements concerning arrangements that might be made or in process of negotiation.

It seems to us that there are two alternatives, with variants: one, to keep the markets open, perhaps supervised and managed by some government authority or agency, perhaps even a pegged governmental - a governmental peg in the market such as Dr. White referred to yesterday. The other would be the temporary closing of the exchanges and some regulatory force, either governmental or otherwise, which is exerted upon registered dealers and brokers in the over-the-counter market.

Our feeling is that, without going into the various considerations in detail that we have called up, regarding the making public of any information concerning negotiations - that the net effect would be worse than making no announcement at all. We have the feeling that perhaps the best course would be to really employ both of these alternative courses in the reverse order. That is, first closing all markets contemporaneously, assuming that other world markets are closing at the same time, letting the fear and panic stage adjust itself, taking out of the picture all quotations of securities and security transactions, just as was done in 1914 - really follow the 1914 course so long as it may be necessary; and then reopening, first on a restricted basis, perhaps with governmental authority supervising the markets as they reopen to make sure that genuine transactions are taking place and not speculative transactions such as short sales.

We feel that a review of the 1914 history demonstrates that the procedure followed there in operation was really the best that can be visualized a priori.

Concerning the suggestion of a governmental peg, we feel that that would have more evils incident to it than advantages. One evil would be the accumulation of a large governmental position overhanging the markets at all times, even after markets resumed their ordinary courses.

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As to restrictive regulation of an open securities market, such as a prohibition against trading after the price of an individual security has declined a certain percentage, that as you all know tends to - once that system is brought into operation, it tends to establish the opening price for any particular day at the low level permitted and thus virtually to close your market without the advantages of a really closed market.

I think that is about the summary of our feelings, without going into any detail.

H.M.Jr:

Well, might I talk to the point - on the question of foreign markets, because since we have seen you we have worked out something a little bit different than we had yesterday, and we think that we've got the answer as far as the foreign selling goes. We will first put it in its worst light and then we will put it in the diplomatic language in which we've got it couched here.

The five countries who are members of the Tripartite Agreement have got some 500 million dollars worth of earmarked gold here, a billion dollars worth of bank deposits, and over two billion dollars of American securities and over a billion of direct investments. Now, what we had in mind was to say to these people, these countries, which are England - having agreed to it - France, Belgium, Switzerland, Holland, that - well, I can read this very short statement; and this is still very rough. In fact, Mr. Hanes and I just got it two minutes ago. But this is the idea, you see. This is the proposed draft that we would put up to these people, the different treasuries:

"The countries who are members of the Tripartite Accord and their nationals now hold in the United States over 500 billion dollars of earmarked gold, over one billion dollars of bank deposits, over two billion dollars of American securities and over one billion dollars of direct investments.

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"Doubtless each of the countries likewise has substantial holdings of assets in other countries.

"It has been the policy of the United States freely to offer its banking, investment and gold facilities to the governments and nationals of foreign lands and thus to provide a haven for funds seeking investment and security, and it is our hopeful desire, as it is no doubt yours, that we shall be able to continue to do so.

"We feel that the interests of the members of the Tripartite Accord now make it desirable that there be prompt consultation directed toward protecting the securities and money markets in the event of war in Europe, and agreeing upon effective measures for that purpose; with particular regard to preventing panicky marketing and utilization of assets in the markets of the other countries.

"Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the Tripartite Accord should assure the success of such consultation.

"We would appreciate a prompt expression of the attitude of your government with respect to this proposal."

Well, what we're saying to them now is, "We're tickled to death to have your money and your gold and take care of it for you, and we have offered you this haven of refuge. And now we are making a suggestion which we think is mutually advantageous, that each government take over the securities of their nationals, particularly American securities, and agree with us that they will not sell any of these securities without first consulting with us."

Now, how can we make them behave? We can make them behave - we have - and of course this is triple confidential - we have an executive order drawn up which we will submit to the

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President tomorrow morning, if he decides it is the thing to do. We're going to ask the President to give us the authority which we have to put in complete exchange control. The implication to these countries is that if they should dump American securities on our markets, we will just freeze their accounts.

Having the authority, I don't want to use it. I think that we could get in touch with George Harrison the way we did before and have him call up every bank president and say, "This is what we would like; we'd like to have you play ball," and I am 99 percent sure every one of them would. But I'd want the gun loaded.

And I think that in 48 hours I could - well, maybe - I think certainly in two days, starting tonight, I could almost get an agreement out of the five countries that they would play ball, because if they didn't we have all the weapons. I mean we have their money here and we could just freeze it.

Now, I'm talking of it in its worst light to you, and to them I would talk most politely and just hint that we had a steel hand under the glove. But we here feel that using it in that way - I think we could take care of the foreign selling. I mean I'm confident that we - because we've got everything here. I mean they want us to look after their money, they want us to continue to accommodate them, they're shipping gold just as fast as they can get it on the boat - I don't want to raise the question that I won't buy their gold, but I am willing to hint that we might freeze their accounts here.

That's our thought here as a method of taking care of the foreign selling, and as I say, with the experience I have had here, I am quite confident that that would take care of it.

As I say, Marriner, having the authority, I wouldn't want to use it, you know.

Eccles:

I was just thinking not so much of getting the authority and preventing the use of it, but what is to stop the foreign individual from selling now as far as the governments are concerned? If they

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do as the British Government indicated they intended to do, and that was to take over the securities, then there is no danger of selling. But in the case of the French and maybe some of the other countries where they wouldn't have the same control over their nationals - and even in the case of the British there may be some of their people that before they can actually get possession of the securities - that for the first day or two is when the selling would come and that there is an interim period, it would seem to me, from the time that the British and the other countries, too, for that matter, could make effective their ownership of the securities. As long as they were owned by these governments, then this danger of selling, I think, would not mean anything.

H.M.Jr: Well, maybe I didn't - what I was suggesting was to say to France and these other countries that they do just what the English propose to do. Now, they may come back and say, "Well, we need a week to do that, and in order to play ball with you, will you close your exchange for a week?"

Eccles: That's right, that's the argument for closing the exchange in the interim here.

H.M.Jr: Or for three days.

Eccles: For several days until these governments can actually get control and get hold of the securities. And when they do, then you wouldn't need the exchange control; that is, if the governments agreed they wouldn't sell securities without consultation with authorities here and if the stock exchange was closed, then individuals couldn't sell.

H.M.Jr: This would just give these governments time to put their machinery in order.

Eccles: That is, the closing of the exchange would.

H.M.Jr: Well, and this suggestion to them that they follow - let's call it the English plan, that they take over all American securities that their nationals hold.

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- Eccles: If there was the danger of exchange control - your idea is that that would deter the individuals from selling over here because they couldn't get their money out.
- H.M.Jr: Yes.
- Eccles: That would be.....
- H.M.Jr: Well, the whole - the money that they already have here on deposit and anything else that they might sell. We might just freeze it.
- Frank: You'd take away the incentive to dump, if they're going to do it.
- H.M.Jr: We won't make the dollar exchange available. They want dollars; we won't make them available.
- Eccles: I think that's all right. If there is any question about the governments themselves - if these foreign governments - if there was the slightest question about their being willing to cooperate with authorities here in connection with the selling of securities, then of course, as you say, this exchange control would make them willing to cooperate.
- White: That's the only purpose in letting them know of it; if we ever do let them know of it, it will be for the purpose of helping them to cooperate, to do it without making it necessary to impose these controls.
- Frank: Mr. Purcell made a point - I don't know whether he brought it out strongly in this memorandum, but I think it should be considered. "Experts do not anticipate that foreign governments would succeed....." - that is, that they could succeed - ".....in expropriating more than one half of such holdings." Well, even a preponderant proportion might be less than a half, or a quarter. "Therefore, it is not likely that such measures would prevent panic conditions in our domestic securities market."

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In other words, you've got a position in those markets today such that they are very, very vulnerable to any large volume; even if it were a quarter of the foreign holdings, it would be enough to push it down the elevator chute.

H.M.Jr: That's the more reason for having the authority, just having to go across the street. We should have that weapon available and loaded. But my inclination would be, having it - after all, the President has signed that sort of thing for us how often - once before or twice before.

White: I think twice.

H.M.Jr: We never used it. At least once and I'm not sure it wasn't twice. We've never used it.

But I would much rather go through the routine of having Harrison come down and do it by telephone and word of mouth. We did that in the case of the Czechoslovakian deposits. We froze them for - what was it, four or five days?

Eccles: About a week, wasn't it?

H.M.Jr: And there wasn't a bank that refused. We just froze them until the State Department had a chance to make up its mind what it wanted.

Now, we've always gotten that kind of cooperation, and I just brought this particular thing up at this time because - it's just like the export market; while it may only be ten percent of our business, still it is damned important; and it's the same thing with the foreign selling. I think they'd be quicker on the trigger than our own people would be. That's what I think; I don't know what you think. What?

Goldenweiser: Mr. Secretary, may I bring out one consideration in this connection. I think that all the power you propose to get is exchange control - I mean so that they can't get them out of the country. The point is - that I want to make is that I think most of these people will not want to get their money out of country. They'd rather have

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it here than anywhere else. And if they have free use of their bank deposits, then exchange control wouldn't be any weapon at all.

- White: They wouldn't have free use. As the Secretary said, he'd freeze the balances.
- Gold'r: Freeze the balances within the banks.
- H.M.Jr: Yes, I can freeze their balances. If Switzerland has 200 million dollars on deposit here, we can freeze that balance.
- Gold'r: Freeze it so they can't take it out of the banks?
- H.M.Jr: (To Bernstein) Is that right?
- Bernstein: That's right. We can prevent all payments from any banking institution in the United States.
- Eccles: They can't even use it within the country.
- Bernstein: That's right.
- H.M.Jr: That's the big threat.
- Gold'r: That's the real point. That's what I wanted to make clear.
- H.M.Jr: I'm glad you did.
- Eccles: Would that be true of an individual same as a government, or a central bank?
- Bernstein: The law talks in terms of the President having power to prohibit payment by the banks over any banking institution in the country.
- White: Which also means - there is another clause in here which would relate not only to the insurance of orderly selling of securities, if that were the objective, but also under the same powers to the orderly utilization of such balances as they have. That is, you have control in a very large sense over their rate of purchase and their rate of use in various ways, if you wish to use it.

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Frank: May I ask out of ignorance, Mr. Secretary, if you have such an executive order, does that have to be published before it becomes effective?

Foley: It would be held, I assume, and signed by the President only in the event the emergency should arise.

H.M.Jr: I don't think Mr. Frank means that. You mean after we use it.

Frank: My recollection of the Federal Register Statute is that it becomes effective the minute it is delivered to the archives. You would hold it until it is needed, then the minute it is needed it would be signed and sent over, and then it is published in the next few days; but it becomes effective upon delivery.

Foley: That's right.

Bernstein: Mr. Secretary, in connection with that point made by Mr. Frank that experts think repatriation by foreign countries would be only half successful, there is also the power that we would have to require reports to be filed with respect to all foreign-owned assets in this country, which reports, if made available to the foreign countries, would certainly facilitate the repatriation of all their assets.

Frank: Well, I assume we are talking about the same thing. You mean this agreement to control the sales by their nationals, their taking over.

Bernstein: They would be able to get information not only from their nationals, but from the Americans who hold property belonging to the British, for instance - wouldn't be any incentive on the part of the Americans not to file the reports.

White: When you say "they," you are referring only to members of the Tripartite.

Bernstein: That's right.

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Frank: I assume that undertaking would mean too that those foreign governments could take control of the proceeds of any sales by their nationals; that is, they could take the balances as well.

Bernstein: That would be a matter of domestic law for them, the law of Britain.

Frank: That would do much to destroy the incentive of any British national to sell: if he knew his government was to take the proceeds. As you say, it's a matter of domestic law in Great Britain, as to whether they could take the proceeds over here.

H.M.Jr: Our people here - we think we have the answer as far as foreign selling goes. We think we've got the thing right in our own hands and that it is such a terrific weapon that if these members of the Tripartite are acquainted with it I should think they'd be delighted, because we give them a great deal more than they can give us. Excuse me.

(H.M.Jr. goes to
White House phone)

(On White House phone) Hello. - - Swell. - -
Thank you so much.

We've got a deadline; the President says he wants the answer to this by 5:00 o'clock.

Well, should we sort of - do you (Frank) want to explore this particular thing further?

Frank: No.

H.M.Jr: Mr. Wallace, do you want to ask any questions on this?

Wallace: The only question I have on this.....

H.M.Jr: I mean this particular phase.

- Wallace: Just a slight continuation of it. I don't know whether you want to explore it at this time. I would assume that these countries, in handling the mobilized repatriated funds, would want sooner or later to use them for purchases inside this country. I don't know whether you care to set up a committee looking to that or not, or whether it is part of what you have been asked to look into.
- H.M.Jr: Well, what we thought is when they asked us that - we thought until somebody told us otherwise that the answer was that they can purchase anything that they want under our present statutes.
- Wallace: How does the money become available to them if it is immobilized?
- White: That would be the control you'd exercise.
- Foley: That would have to do with price control. Some kind of an operating committee could be created.
- White: Which would give you almost absolute control over the use made of those funds, so far as amounts are concerned; so far as purposes are concerned, it's another matter.
- H.M.Jr: And to answer your thing, the President brought up the other day, "What are you going to do if in the first three months they drive copper, and so forth, up too high?" Here is the answer.
- Foley: Control prices by controlling expenditure.
- Gold'r: Handle it the same way as you handled the proceeds of the loans to the Allies during the War.
- H.M.Jr: I'm not familiar with that.
- Fels: Mr. Secretary, that 5:00 o'clock deadline is an actual deadline?
- H.M.Jr: Yes.

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Feis: I think I ought to leave and report to the Secretary of State right away.

(Feis requests that ensuing remarks not be recorded)

H.M.Jr: Nothing has been decided, you know.

Feis: Exactly, but if the 5:00 o'clock deadline.....

H.M.Jr: I want to report as to what we're doing, and I asked what time and I've been told 5:00 o'clock.

(Further remarks by Mr. Feis not recorded)

H.M.Jr: Well, of course, what I say you can put on the record. We find ourselves in a situation where a world war can break out at any time. I am not particularly proud of the fact that I am not ready; I told the President that Monday. I am surprised that I have had no suggestions from the State Department of any kind or any advice as to what - or any communication as to the likelihood of war, and the only thing that I can get is by begging people to tell me. And, in this room, I don't mind telling you that General Craig has just told me that if there is anything that's going to happen, it will happen within the next three days; and his authority is good enough for me. And I can't, the President wanting this, sit around and wait. If after we have had time to - and after working all night - I mean we've done it often enough before - we can decide whether this is a Fascist movement or whether this is a move to look after the interests of our citizens.

But if you (Feis) have been disturbed - I want you here - I think the sooner you let Mr. Hull know, the better, because that's why you're here.

Feis: Exactly.

H.M.Jr: But please tell Mr. Hull nothing has been decided, but we've got a pistol to our head and one country after another is mobilizing and we have no plan here whatever to meet the situation if it should break during the night - no plan.

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Fels: I go back a little bit confused as to just the situation that we believe we've got to meet. I find certain differences of opinion as to whether we will have to meet one where foreign powers will be liquidating securities or one in which they mightn't be. It is certainly impossible to be certain how much of a crisis in your security exchanges you are going to have to face. As far as I am acquainted, I think it would be useful that I should be able to state quite definitely to the Secretary of State that that is the problem as far as this group have brought it under consideration, that all other phases of economic adjustment that a serious conflict abroad might bring us we haven't yet extensively discussed. This suggestion centers around the mere and to me quite secondary problem of temporary movements in the security exchanges.

But I think I had better follow your suggestion and.....

H.M.Jr: And when you speak to Mr. Hull, I am going to ask you that the same program be followed as heretofore, that he limit this to himself and the Undersecretary and you, if he will, please.

Fels: I'll tell him that that is your suggestion.

H.M.Jr: If he doesn't - I mean ^{if} that's a courteous suggestion I'm making.

Frank: Mr. Secretary, I would just like to say as far as - the SEC, of course, has no proper concern with exchange control or the like, but so far as it bears on the question that you discussed, we do feel that there is a grave likelihood of serious consequences to the security market in the event of war, and that that problem needs immediate attention.

Fels: I think there have been serious episodes in the security markets in the absence of war; and the world wasn't made over.

Frank: I wasn't addressing myself to that problem.

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Feis: I'm sorry to have been so semi-dramatic - seem to have the world in charge. But I'll tell Mr. Hull.

White: Think you can find your way?

Feis: I find my way in a world that looks slightly different to me from the one that I entered.

(Feis leaves)

H.M.Jr: That gave us the relief that we needed. Anybody want a drink?

(Hearty laughter)

We have an alcohol laboratory.

Eccles: Gad, I didn't.....

White: I think he misunderstands our approach.

Eccles: Either he does or I do.

Frank: He understood there was a gun, but he didn't anticipate it was going to be used.

H.M.Jr: I swear - I mean when you're trying to be calm and do this thing dispassionately, that certainly doesn't help any. What?

Wallace: What do you have to do by 5:00 o'clock?

H.M.Jr: I was just going to walk across the street and tell the President that we have been talking this thing over, bring him up to date, and say, "Mr. President, we've got this executive order; we'd like to have this cleared by the Attorney General and have you sign it and put it in the safe, with the understanding that we don't use it unless you say so." You see? I mean that's - we've done it before, because he's always told us he likes to have the things ready so that if he is.....

Wallace: Why not do it? Why not get it?

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- H.M.Jr: Well, if you people think that that is all right - I'm asking advice - I mean all I want to do, Marriner, is just to go over and say to the President - I spoke to Mr. Murphy upon the Hill and asked him if he could clear an executive order tonight if the President asked him to, and he said he could. Then the President signs it, we put it in the safe, and there she is. I mean it's just getting.....
- Wallace: Well, you really have to have it as a part of being fully prepared.
- H.M.Jr: That's all.
- Wallace: Chances are probably fifty to one against using it.
- Foley: Hope so.
- Eccles: As I understand this whole discussion, it is simply a case of those agencies having some responsibility for the financial and security markets getting together.
- Hanes: Trying to find out what the best thing is to do.
- Eccles: Trying to find out what's the best thing to do in the event of war, and it's a preliminary discussion, and even though we might come to some agreement today upon a general program we might revise it tomorrow. It's a thing that has got to be flexible to meet situations as we see them develop.
- Hanes: This is a basis for discussion with the foreign powers and if upon discussion we find the conditions different than they are now, you might change your whole program.
- H.M.Jr: Well, supposing it happens tomorrow morning and you've got an order for - I don't know how many - a couple, two, three million shares at the opening. Are we going to get together then? I mean it's ridiculous.
- Frank: Mr. Secretary, in that connection.....

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- H.M.Jr: It's ridiculous. All I'm saying is, you people have got the responsibility and I'm showing you the weapons that we've got in the closet. I'm not going to - any more than if you ask the President is he going to use Thomas currency tomorrow; of course he's not going to use it.
- Frank: Mr. Secretary, I'd like to ask in this connection, if we should need to close the exchange, we have to have the approval of the President; now we have the papers drafted, and would you suggest we submit them now to the Attorney General?
- H.M.Jr: Why don't you go with me at 5:00 o'clock? You want an opinion on that and I want an opinion on
- Foley: Executive order.
- H.M.Jr: Pardon?
- Foley: Executive order.
- H.M.Jr: I want an executive order. All I am asking the President is, is it agreeable to him to send it to Frank Murphy? Frank Murphy says he will have them work on it. You need the same thing.
- Frank: I think we need the Attorney General's opinion.
- H.M.Jr: I think you ought to go along.
- Wallace: If I could report very briefly.....
- H.M.Jr: What are you going to do?
- Wallace: I can tell it to you very briefly.
- H.M.Jr: Well, it's up to you. Go ahead.
- Wallace: Well, we have no power in the Act to do anything. We believe that if any trouble of the sort did arise we could prevail on various commodity exchanges to close, if it would be desirable to do so, but that if we did do so it would also be desirable to have Liverpool and Winnipeg close.

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There is a remote possibility that the President has power to close the exchanges; we are not sure about it as yet, and we have the lawyers looking into it. But in the Department of Agriculture we have no power to close the exchanges, have no absolute power; we have just the power of suasion.

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

Wallace: That should properly be exercised in conjunction with closing in Canada and England.

H.M.Jr: Well, if we took up this question would you want us to include commodity exchanges - if we started phoning? I mean would you want us to do that for you or would you want to do that yourself - I mean contact the governments? I mean, in other words, do you want to come in under this?

Wallace: Maybe you've got a power here to close the exchanges.

H.M.Jr: No, I mean when we bring to their attention this thing that we can freeze their balances - I mean at the same time there are certain things we want them to do; want them to consult with us before they sell any American securities.

Wallace: We'd welcome your bringing us in under that.

H.M.Jr: You would?

Wallace: Yes, because we don't have any pressure otherwise.

H.M.Jr: Why not use.....

White: You'll have to include the consideration of Canada, which is outside of the Tripartite. It is important for itself.

H.M.Jr: Marriner, are you scared at anything that's been said here?

Eccles: No, I'm not scared. Hell no.

H.M.Jr: What?

Eccles: I'm not nervous at all on anything that's been said here.

Wallace: You've been keeping up.

Eccles: I've been scared a damn sight worse than this in my lifetime.

H.M.Jr: If it's agreeable, shall I call up Harrison now and have Harrison and Knoke come down as our fiscal agents to be here tomorrow morning?

Eccles: Sure.

H.M.Jr: To tell them what we have in our minds.

Eccles: I want to say something on this exchange business.

H.M.Jr: Do you mind if I get them before I leave?

Eccles: Harrison was here this morning; he just went back.

H.M.Jr: Just went back.

Eccles: Went back this morning.

H.M.Jr: Oh, did he?

Eccles: Here yesterday.

H.M.Jr: (On phone) Mr. George Harrison. If he is not there, whoever is in charge of New York - the Fed.

Goldenweiser, are you frightened?

Gold'r: Not the least bit in the world. I don't see how you can frighten one, fight a war over a ping pong table.

Frank: Mr. Secretary, the Canadian arrangement would be very desirable if it could be done, because tentative figures indicate that the Canadian volume is pretty heavy. Those are the latest.

H.M.Jr: I'll be with you in a minute.

Frank: See, there is no net selling; shows a big volume.

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

April 12, 1939
4:26 p.m.

HMJr: How are you?
George Harrison: Hello, Henry. I'm first rate, thank you. I was sorry not to see you yesterday. I was -- happened to be in Washington for a meeting and I just ran around to see you first.

HMJr: George, in the strictest confidence, we've got a meeting here. Chairman Eccles is here in the room now.

H: Yes.

HMJr: And I want you, and Knoke, if you would please, to be in my office at nine-thirty tomorrow morning. It's very important.

H: Nine-thirty tomorrow?

HMJr: Yes. We're going -- we're going over the various things, but.....

H: I can't hear you, Henry.

HMJr: We're doing this thing -- we're going over the situation in case there should be a world war, what should we do.

H: Yes.

HMJr: And we want your advice about fiscal agents.

H: All right -- we'll -- we'll be down there. I asked -- I'm having a meeting of all my officers now just discussing all those very things.

HMJr: Well then -- then that's all the better. But if you could be here at nine-thirty; I consider it of the first importance.

H: All right, I'll be there.

HMJr: You and Knoke.

H: All right.

HMJr: Please.

H: First rate.

HMJr: Thank you.

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H.M.Jr: Harrison says he is working just on that right now.

All right, now, did you (Eccles) want to say something?

Eccles: Well, there are one or two things. It seems to me on this, as we discussed it with Parry, who is in charge of that Division - you know Parry, Jerome -

Frank: Yes.

Eccles: We asked him what he thought about what ought to be done and he referred to 1914, and it was his opinion that it would be possible to control this matter without closing the Exchange at all. He said that after the Exchange was closed in 1914 for several months that at the time it was opened, it was opened on a restricted basis; that is, that no security could be sold at less than the prices at the time of the closing of the Exchange, except that the Committee of the Exchange was authorized to adjust the prices rather slowly and orderly. And it had this effect: that those securities that were actively traded in and that were - many of them went up above this minimum price and there was a certain amount of activity that there would be over the counter anyway; whereas certain other securities that were very sluggish - there was very little activity in them and possibly the price was more than they were worth - they were slowly adjusted. He said that worked out very, very well at that time. And it was his opinion that the market would never have had to be closed at the time it was closed, maybe not at all, if this mechanism for the operation of the Exchange had been developed prior to the closing of the Exchange. And he was wondering why you couldn't have this mechanism all set up that was used at that time and thus avoid the closing of the Exchange, but merely establish these minimum prices - set up a committee for operation and never close the Exchange. I just wanted to throw that in; I didn't know whether you had gone into that.

Parcell: There was a rather - if I remember, Mr. Chairman, there was a rather gradual readjustment of trading.

- Eccles: After the Exchange opened.
- Purcell: No, really before the Exchange had opened, if I remember correctly; the Exchange closed on July 31, and the first trading permitted was on September 9, which was in a very restricted group.
- Eccles: Yes that's right.
- Purcell: That's right. Covered bonds first, later stocks, without quotation of prices. There were, I think, three or four stages of the resumption of trading on the Stock Exchange, and about two stages in the over-the-counter markets, or, as they were then known, the bond houses. The first stages permitted trading only in a very limited number of bonds, without quotations.
- Frank: You mean without publishing them.
- Purcell: Without published quotations, and only at or above closing prices on July 31. It resulted in very little trading at the beginning and gradually a resumption of trading as it was felt the stock was worth that much or the bonds were worth that much. Then it went into guaranteed rails, I believe, into preferreds and into common stocks finally. Now, the great virtue of that, as we get it from the history of it, was that the last thing that was permitted was the publication of prices or list of transactions which took place. Thus it enabled the Comptroller of the Currency, for instance, to issue a ruling, to take one example, that for the purposes of loans on securities, Steel could be valued at $51\frac{7}{8}$, its close on July 30, whereas it was actually selling in the gutter markets at $38\frac{1}{2}$.
- Eccles: Yes, that was the virtue of it, and I was wondering - I merely raised the question now as to whether or not, instead of the Exchange entirely closing, you might put the mechanism in effect immediately and keep the Exchange open.
- Frank: Technically open.
- Eccles: Technically open for the psychological benefit of it.

- Frank: You mean you would quench the quotations.
- Eccles: That's right; you could do that thing and get some benefit out of keeping the Exchange open and at the same time control it.
- Purcell: I think perhaps we both have virtually the same view. Our thought was that there is no need of approaching it with the advantage of the history of the 1914 incident - to keep the market closed for four and a half months, as it was at that time; or you could close it for only two or three days, then open on a restricted, controlled, or supervised basis, cutting out the quotes, restricting the price levels and looking for bona fide transactions, permitting only bona fide transactions, not allowing short selling.
- Frank: The difference isn't very great, you feel, Murriner. The substance is the point and the form of keeping the market open would have a psychological value.
- Eccles: That's right. I don't pretend to know very much about it. I just wanted to let you know we had given it a little thought and that was what I wanted to offer.
- Purcell: I don't pretend to know an awful lot about it myself, but I was interested in your suggestion because I think it is a clarification of one of the thoughts we had concerning prompt reopening. Our thought of closing it was only to permit the panic.....
- Eccles: Well, it may be possible to avoid closing it if that's done, and if so, if we are the one country to keep it - at least keep it open on a restricted basis, you would have the psychological benefit everywhere in the world that the market at least isn't closed; and you avoid these panic prices because you put the bottom on the thing through the restrictions, and thus from a credit standpoint you at least would give confidence to the people who have borrowed money on securities and also to the banker, who isn't put in a position of wanting to call his loan.

Evans: All of this suggests, Mr. Secretary, that arrangements probably ought to be made with the Comptroller looking to instructions to the bank in that respect - and the Federal Reserve Board, both.

Hobbs: It seems to me you've got a condition here totally different than 1914. You haven't got any over-extension of credit in the market. I don't know what the brokers' loans are now; they can't be over a billion dollars.

Russell: They're under - about 739 million.

Hobbs: That's what I thought - seven or eight hundred million.

Evans: You haven't the credit problem at all.

Hobbs: What you've got is a psychological problem. You've got people now. It isn't the - I'm told in the last three or four days that it isn't the extension of credit and the calling of margins, although that's had its influence, that's had some influence in causing the market to go on down, but it's the people who have gone down to their boxes and are shipping securities into New York in ten-, twenty-, thirty-, forty-share lots and are selling out what they've got to reduce it to cash - every asset they've got. Apparently people run immediately to reduce everything they've got to cash.

Well now, it seems to me that the problems - we've got some domestic problems, and if this will solve the problem of dumping from abroad - and I don't see anything to be frightened about in this as a basis for negotiations with our friends in the Tripartite. So if we've got a problem here, we've got a domestic problem and we ought to face this domestic problem very squarely in the face. And one of our domestic problems is - it's as much an absence of selling that we're trying to engender as a presence of buying, and you can attack that problem from two angles.

So it seems to me that one thing which the Federal Reserve could well do right at this particular moment would be to reduce the margin, because your present marginal requirement of 55 percent.....

Eccles: No, forty.

Hanes:55 percent of the face value is a perfectly ridiculous and absurd marginal requirement.

Eccles: We reduced it from the 55 to 40; that's what the margin has been for, oh, a year and a half or more.

Hanes: That is, 60 percent.....

Eccles: You can borrow six hundred dollars on a thousand dollar value.

Hanes: That's still a highly restrictive margin when you've only got 740 million dollars borrowed on securities. And when we reduced the margins in 1929, one of the things that did as much to help as the so-called Morgan pool that went in to buy securities at that time, which was nothing more than a big group of people with an aggregation of capital going in and saying, "We'll stand here and take a few stocks, not all by any means" - but it did create an absence of selling and that had a good psychological influence on the market. And I think if the Federal Reserve would reduce their marginal requirements to 25 or 30 percent - we reduced them in 1929 to 20 percent, which was a tremendous help to the securities market.

Eccles: We could do that. However, the law requires that in fixing margins we don't take into account the question of stimulating activity in the stock market. The purpose for which we are given that is for credit purposes.

Hanes: Well, Marriner, that's outside the question. Nobody has any thought of engendering any activity in the stock market. Christ, what we want to do is to stop the activity in the stock market. We also want to stop these margin calls. I got the margin calls from one house - happened to be my own firm; just asked them for this information for curiosity's sake. Last Saturday morning they had 137 margin calls, a total of 535 thousand dollars in calls. Well, I think that.....

Eccles: But reducing the margin doesn't help that, it helps future buying.

Hanes: Well, it will help future buying if a fellow can buy for a smaller amount of money than he puts up. If he can buy more, you are encouraging some buying.

I also think that the SEC could, under their section 916 - I think they could establish some pegging, stabilizing, and fixing rules which would enable people who know something about the value of individual securities to come in and buy the stocks if they are selling at a ridiculous price. In other words, let the law of supply and demand and the natural laws of the economy work, rather than try to close the door after the horse has escaped.

So I am not in sympathy at all with closing the Stock Exchange under any consideration. I don't think it is necessary and I think it would be an admission that we can't handle our own situation. And then we open up that horrible gutter market again where people have money stolen from them right and left. They didn't have a chance to protect themselves, and the absence of published quotations was, in my opinion, the worst thing that was ever done to the American people, because, my God, the things you could perpetrate on the American people - you'd go out and say, "I'll give you thirty-five dollars for this share of stock," when it may have been selling in the open market at forty-five. People had no way to protect themselves whatsoever against fraud. So I think it's throwing away the thermometer to prove you haven't got a fever.

Eccles: You're not opposed though to the suggestion the market be kept open but that certain restrictions

Hanes: Well, I tell you, the best plan I've heard for that - I don't know whether the SEC agrees with this or not, but the best plan I've heard for that is a program worked out by the Stock Exchange

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which will permit about a 10 percent fluctuation each day, which is a pretty wide fluctuation when you come down to it, but it does stop things somewhere. And it would give the Comptroller of the Currency the right also - it would give him something to peg, to hang his hat on so as to say that the banks may lend a certain number of - X dollars on X stocks. It would give him a very good basis for calculation of what the banks could lend on various types of securities.

Frank: How has that worked out in the commodity markets, Mr. Wallace? You've had that. Has that worked pretty well?

Wallace: Well, you see, it was on a five-cent basis on wheat. Back in the fall of '33, before it was made a matter of law, we arbitrarily had that in operation. As long as there was great instability and prices were tending to decline we said, "You can go five cents under the preceding day, go five cents this day," when perhaps it should have gone seven, and then say the next day they can go another five. We had that as long as it was a wild market. The speculators and some of the cash grain houses and some of the bankers backing the cash grain houses said that that rendered the Exchange inoperative over certain periods of time. I never was convinced by their arguments.

Frank: You think it did do some good?

Wallace: I think it did.

Frank: You see, it's substantially the same idea.

H.M.Jr: Well, when I used to be a wheat operator over in Farm Credit in '33, buying a million bushels at a time, I thought that that five-cent thing was very helpful. When it was going down, I thought it was helpful. I was a wheat operator once for Mr. Wallace, with Mr. Hopkins' money. But I thought - I once bought five million bushels of wheat in three minutes and then fainted. That was no joke.

Wallace: You did?

H.M.Jr: I did. I was actually dizzy. Fortunately, it was 12:00 o'clock. If it had lasted another five minutes, I would have fainted. But I was absolutely dizzy.

May I take the liberty of making this suggestion? Inasmuch as Mr. Harrison is coming down in his capacity as our fiscal agent, and Mr. Knoke, who operates for us in the foreign exchange, would it be out of place to suggest to you that the Head of the New York Stock Exchange would be here tomorrow?

Purcell: The President.....

Hanes: Martin is away. Get Eddie Bartlett. He'll come in.

Frank: Can we get Mr. Bartlett?

Purcell: Yes.

H.M.Jr: My thought is we'd continue this at 9:30 tomorrow morning - this conversation - and I just was taking

Frank: We'll get him down.

H.M.Jr: Would you have him here at 9:30?

Purcell: Sure.

H.M.Jr: Would you?

Now, we're going to go over. I'd like Mr. Wallace to go with me, and Mr. Frank, if he would; and Mr. Eccles.

Eccles: I'll be glad to go if you would.....

H.M.Jr: I'd like very much if you would. And you'll go, Johnny, won't you?

Now, what I'm going to say to the President is this - having dress rehearsal - "Mr. President, we need an executive order; I'll have it ready so that if you think it is wise to use it we can put on foreign exchange, if the occasion should so arise. I'm asking you tonight whether you will say to me verbally that it is all right to give it to the Attorney General, because he said he could set up a committee to work all night to give it to us. Furthermore, I'd like to ask you to approve my sounding out through our Treasury

representatives in London and Paris now, very informally, tonight, still - if we do it tonight they can go to work tomorrow morning - and the thought is that they should follow what we call the English plan, so that amongst the Tripartite countries there would be a concerted action. I just wish to start these conversations and that's as far as I can go."

Certainly Mr. Hull or anybody else cannot object to that, can they, huh?

Wallace: (Nods no).

H.M.Jr: And I won't say anything about closing exchanges; I'll just go that far tonight in my talk with our men in London and Paris.

White: If you get the British permission.

H.M.Jr: To discuss it with France?

White: They gave you that information very confidentially.

H.M.Jr: Oh, I'd say - Cochran has that in his hands. I wouldn't say "what the British did." I'll say to Cochran "something along the same lines, and you know what I'm referring to." See what I mean?

White: That's different.

H.M.Jr: No, no. And he can begin to - and not talk anything about closing exchanges or anything else, but.....

Eccles: In other words, you won't say, "This is the English plan."

H.M.Jr: No, Harry's right. No. But Cochran has the English plan in his hands now.

Then I take it, Mr. Frank, you want to talk to him about getting an executive order too.

Frank: I don't think we need an executive order, but I'd like to have the Attorney General advise me. I think all we need to say is "approved."

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- H.M.Jr: That's just as far as we'll go tonight. Now certainly I don't see how any reasonable person can object to that. What?
- Wallace: No.
- H.M.Jr: And then we'll have to work out some way - I don't know how - we have nobody in Canada; we'll do it through the Canadian Minister.
- White: Raises the question whether you'd do it direct with Canada or through England.
- H.M.Jr: I don't think so.
- Can anybody - Marriner, can you see how anybody can object to that?
- Eccles: Well, I can't see why they should.
- H.M.Jr: Yes.
- Eccles: People can object. People can object, but I don't see any reason why they should object.
- H.M.Jr: I'm not going to say anything about our program. I'm going to show it to the President. He may like it, say, "Go ahead and use it."
- Eccles: We have a statement that you asked me yesterday to give you people a copy of, and I said that I would. Now this statement that we have drawn is a tentative statement subject to the approval of each of the Reserve Banks. We wanted to say here that it would be the policy of the Reserve System, the Reserve Banks, to stand ready to make advances on Government securities at par under certain circumstances, and then it goes on to tell something about the general credit problem.
- H.M.Jr: Well, that isn't what I've got.
- Eccles: No, that's an analysis of the stock market.
- There's the question of whether it is advisable to issue any public statement or not. It's a question whether you want to do it. I am rather of this opinion: that for the Reserve System to issue a

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statement of their own would not be so well. It's a question of whether that would be advisable. I rather think that this may be advisable: that the Treasury either issue a statement and say they are cooperating with the SEC and Federal Reserve and Department of Agriculture - issue a statement that would cover this thing, or we could issue a joint statement in which we would cover the points that we feel are well to cover, and the SEC could cover their points, the Treasury could cover their points. And if we could get together a joint statement, it seems to me that if any statement is going to be issued that type of a statement would have a valuable psychological effect in the country as a whole. It would indicate that all of the governmental departments had been together, that they were thoroughly acquainted with the problems and that they had everything well in hand.

- H.M.Jr: Well, if we're going to do anything, I'd much prefer a joint statement. I don't want to talk - I mean it would go over the joint names.
- White: Was it your thought that a statement would be appropriate now?
- Eccles: No, no, to have such a statement ready. My thought is that we get ready a statement so that in the event of war if you're going to close the Exchange or if you're going to do something else, that whatever is going to be done with reference to these problems we have been discussing - that after all we don't want the public - we don't want rumors and confusion and we don't want individual action. So it would seem to me that it would be well to make a joint statement outlining to the public the program that has been jointly agreed upon, that that would be the way to handle it.
- H.M.Jr: Well now, I think - is that for you or for me?
- Eccles: Well, you asked me yesterday, you remember - now that's just a tentative outline of what we think. If a statement is advisable - if we were asked to issue a statement at that time, this is about what we think we ought to say. But I think this ought to be said in conjunction with the whole picture.

RE PLANS FOR STABILIZING MARKETS
IN EVENT OF WAR IN EUROPE

April 12, 1939.
5:40 p.m.

Present: Mr. Hanes
Mr. White
Mr. Duffield
Mr. Bernstein
Mr. Lochhead
Mr. Feis
Mr. Foley (for brief period)
Mr. Frank (" " ")

H.M.Jr: Hello, gents. Sit down, everybody. Bernstein,
you don't have to go over, do you? I think you
better stay here.

(On phone) Hello. - I want Mr. Hull. - Can
I have him now, please? - Hello. - Yes.
Thank you. (Conversation with Hull follows:)

April 12, 1939
5:50 p.m.

HMJr: Hello.
Hull's Secretary: Hello, Mr. Secretary?
HMJr: Yes.
S: Just one second, please.
HMJr: Thank you.
S: I'll put Secretary Hull right on.
(Brief pause)
Cordell Hull: Hello.
HMJr: Hello, Cordell?
H: Yes, sir.
HMJr: How are you?
H: All right. I've been keeping in good working condition and keeping pretty close at it.
HMJr: Well now, this is what I'd like your advice on. We've just come back from the President. We've been having a meeting here with -- at his suggestion -- with Eccles, S.E.C., and Henry Wallace and ourselves to try to get ready, at the President's request, in case there should be a world war what would we do with our markets.
H: Yeah.
HMJr: We -- we mean if some machinery in case -- I want to say first, everybody is in agreement that our objectives are: one, to keep our markets open if possible, and two, not to invoke exchange control unless it's absolutely necessary.
H: Yes.
HMJr: But in order to be prepared in any eventuality, we asked him to let us get the Attorney General tonight to pass on the form of the exchange control that we have set up, which the President approved -- for the Attorney General to pass on, but he said he will not sign it until the -- the occasion arises, and that

the Attorney General tonight is also asked -- passing on the legality of the closing of the stock exchange.

H: Yes.

HMJr: And Henry Wallace is drawing up a draft of an appeal on the part of the President to the commodity changes in case he should desire that they -- they should be closed.

H: Yes.

HMJr: Now, all this is machinery in case they want it, but everybody that has met here is a hundred per cent in accord that -- that we want to keep the markets open; we want to have a sign out "Business" as usual, and we don't want to impose exchange control.

H: That's in case of war.

HMJr: Only in case of war.

H: All those things.

HMJr: Now, we've invited George Harrison to come down here tomorrow at nine-thirty as our fiscal agent, in order to talk over what we should do on a voluntary basis...

H: Yeah.

HMJr:if necessary.

H: Yeah.

HMJr: Also, either the President of the New York Stock Exchange and the -- or the Chairman, whoever is there.

H: Yeah.

HMJr: All of this as preparation.

H: Yes.

HMJr: Now, the thing that -- I'd like to read a very short statement. As you know, Butterworth sent us about a week ago a proposal that the English had in mind.

H: Yes, I read that.

HMJr: And then we asked the French if they had anything in mind and they said, "No." Now this is a very short statement, and I would like to read tonight to Cochran and Butterworth.

H: Yeah.

HMJr: To take up with the members of the Tripartite countries, if you think it's all right. The President thought it was all right and could see no objection and thought it would be a protection against -- outside of demoralizing our markets.

H: Yes.

HMJr: Now, if I may, I'd like to read this.

H: Yes.

HMJr: "The countries who are members of the Tripartite Accord and their nationals now hold in the United States over \$500 million of earmarked gold, and over \$1 billion of bank deposits, over \$2 billion of American securities and over \$1 billion of direct investments. Doubtless....."

H: Which countries is that?

HMJr: Well now that.....

H: The Tripartite Agreement.

HMJr: Of -- of the countries.

H: That's Great Britain and France.

HMJr: Belgium, Holland and Switzerland.

H: Yes, that's right. Those -- those.....

HMJr: Those five.

H: Yeah.

HMJr: "Doubtless each of the countries likewise has substantial holdings of assets in other countries."

H: Yeah.

HMJr: May I go on?

H: Yes.

HMJr: "It has been the policy of the United States freely to offer its banking, investment and gold facilities to the governments and nationals of foreign lands....."

H: Yeah.

HMJr: ".....and thus to provide a haven for funds seeking investment and security, and it is our hopeful desire, as it is no doubt yours, that we shall be able to continue to do so."

H: Yes.

HMJr: "We feel that the interests of the members of the Tripartite Accord now make it desirable that there be prompt consultation directed toward protecting the security, commodity and money markets in the event of war, and agreeing upon effective measures for that purpose; with particular regard to preventing panicky markets and utilization of assets in the markets of other countries."

H: Yeah.

HMJr: "Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the Tripartite Accord should assure the success of such consultations."

H: Yes.

HMJr: "We would appreciate a prompt expression of the attitude of your Government with respect to this proposal."

H: Yes.

HMJr: Now that -- that is what we have in mind.

H: Well, that's not -- that's not -- that is bringing up suggestions first to get the reaction from the other countries, isn't it?

HMJr: That's right.

H: And it's not taking any definite action unless.....

HMJr: None what -- none whatsoever.

H: Nor -- nor even adopting plans until you hear from the other governments.

HMJr: Absolutely.

H: Well, it strikes me -- now I -- of course, I have right smarted confidence in Livesey and Pasvolsky and some of those fellows in particular.

HMJr: Yeah.

H: And I haven't talked with any of them. That looks to me -- just speaking -- you understand how I'm talking offhand here -- it looks all right.

HMJr: Well now, we had -- our people -- Goldenweiser was here from the State Department -- for Federal Reserve.

H: Yeah.

HMJr: And there were two people from S.E.C. and there were four or five people from the Treasury, and there was Herbert Feis.

H: Yes. Well, he's ordinarily pretty -- pretty good.

HMJr: Well, Herbert was very much excited. I don't know why. He got terribly excited about this.

H: I see.

HMJr: And.....

H: He came back and tried to tell me something. I told him to go and write it down.

HMJr: Well, he was terribly -- he was terribly excited. None of us could understand why because usually he's so calm and collected, but he just sort of jumped up and got very excited. Now, we're not committing this Government to anything; we're just saying that we'd like the reaction of these other countries.

H: Yeah.

HMJr: And I can't see any harm. Personally, I think there might be some good out of it.

- H: Well, I -- if you need to go forward with it tonight, I wouldn't want to -- to stand in the way just because I could only offer a layman's offhand opinion at this time.
- HMJr: Well -- well, no. I -- it's much more than that. I mean, the only reason I'm pressing for tonight is that, frankly, I -- I'm frightened and I don't want to wake up in the morning and find that a world war has broken out and I'm not ready. Now, the President -- you see, Kennedy called the President on Saturday.....
- H: Yeah.
- HMJr:and said, "Are we ready"? The President asked me Monday and I said, "No, Mr. President, I'm not ready and as far as I know none of these agencies are ready."
- H: Yeah.
- HMJr: Well, he said, "Please get ready."
- H: Yeah.
- HMJr: So we had this meeting yesterday at which Feis was present and we met again today, and then, in order to report to the President we walked over there.
- H: Yeah.
- HMJr: Wanted to report. And I -- he explained the thing, and,.....
- H: Well I -- I -- my guess would be, Henry, that -- that since you are just making an inquiry and are not actually adopting anything yet.....
- HMJr: It's not.
- H:that.....
- HMJr: You -- you'd -- you'd have plenty of time after the answers come back.
- H: The matter would be -- would be wide open then, wouldn't it?
- HMJr: Entirely.

H: Yeah.

HMJr: Now, we've done business before and I don't think I've ever misled you yet, and I don't intend to.

H: Yes -- I've been awfully tied down today.

HMJr: I know.

H: And am tonight, really. I'm trying to -- it's on two or three things the President is directly interested in.

HMJr: I understand.

H: So all I can do in this instance would be just to

HMJr: Well, all we're asking is that you'll trust the Federal Reserve, and the S.E.C. and ourselves to make this inquiry.

H: Yes. We can -- suppose I say that we just preserve -- reserve -- that we don't object to you going on. Of course, but -- through utter lack of time on that part that I don't undertake to express an opinion on the merits.

HMJr: But you don't offer any objection.

H: Not -- I'll not object if -- if -- in view of what you say -- that you and the Reserve System and the President, all of you, have decided on the feasibility.

HMJr: Well, and -- and you will have opportunity -- when the answers come back, I'd like very much to take the answers and come over and sit down with you and talk over.....

H: Well, we'll get things worked out then, I'm sure.

HMJr: Now, there's one other thing. They all thought we ought to tomorrow morning -- to -- the time factor -- put the same thing up to Canada.

H: Uh-huh.

HMJr: See?

H: Yes.

HMJr: Now, could you have somebody arrange to have the Canadian Minister come to my office the first thing tomorrow morning?

H: Yes -- or if you'll just have him call and tell him that I suggested that you do that.

HMJr: Well, if that's all right.

H: Yeah.

HMJr: And then if -- if Feis is around -- if he could come back and -- sit back here again while we phone, why, then we'd be back on the same basis that we always were.

H: Yeah. Well.....

HMJr: Unless he.....

H: We'll -- we'll all bump along in some fashion.

HMJr: All right. Well then, I'll do it this way and then I'm going to confirm this by cable, so we'll make a record of it.

H: Yes. All right, Henry.

HMJr: And is -- is Feis around?

H: No. I told him I didn't understand him. I said, "Go and write this down. I'm awfully busy on some other things anyhow." And I haven't heard from him. I don't know whether he did or not.

HMJr: Well, it's just exactly the way I've stated it.

H: Yeah. Well, thank you very much, Henry.

HMJr: Thank you.

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White: I think that some - they ought to see that statement and O.K. it, if that's what they're going to transmit, so there won't be any question.

H.M.Jr: No, I'm not going to - the President's going to see it. The hell with it.

(On phone) If Dr. Feis is around, ask - first place, put in a call for Cochran and Butterworth - Cochran first and Butterworth - see if they can't get one after the other, see? Tell them it's important; I want to rush it. And then while you're putting in the calls - they're at their homes; I sent them a cable to be home - then let me talk to Dr. Feis, please.

White: What is the technique with respect to Canada? Do you have to do anything with Great Britain or do you treat Canada, so far as you are concerned, as a separate country?

H.M.Jr: I think separate. They've got a separate central bank, so forth and so on.

(To Kieley) Would you call up the Canadian Legation, please, and ask the Canadian Minister - tell him that I have spoken to the Secretary of State and that I would like to have him here - I wonder what time; we start at 9:30.

White: Would you have to speak to Cochran first, or Butterworth? Is that necessary?

H.M.Jr: I should think if he was here at - tell him it's a financial matter that I want to communicate to the Treasury of Canada, see? You get his secretary on the wire. And if he could come himself, I would appreciate it, at 9:15 tomorrow morning, at the Treasury. It's a financial matter and the State Department - and Mr. Hull and I would like him to be here, if he could, at 9:15. As it's a financial matter, if he's not there, then their Counselor. But I would say it's a financial matter.

Bernstein: At the risk of really repeating Harry's question,

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if the approach is through the Tripartite, even assuming Canada to be an independent country, can you approach Canada prior to approaching at least one of the other Tripartite members?

H.M.Jr: (On phone) Hello.

Operator: Dr. Feis is with Secretary Hull.

H.M.Jr: (On phone) Well, leave word that if he can come over to see me within the next 15, 20 - well, as soon as he comes out, ask him to call me.

Operator: All right, I will.

H.M.Jr: Feis was sitting right there next to him.

White: He may have been sitting outside.

H.M.Jr: What do you say about the Canadians? Oh, this is - no, I'm not going to do this as a Tripartite matter; I'm going to do this as an extra. We've got to rewrite this leaving this out. You can say, "I have communicated this to the Tripartite countries; I'd like to ask if we can get similar cooperation."

White: The advantage of doing it through the Tripartite - I don't know whether it's important or not - lies in the fact that you would be confining yourself to certain countries and not have to explain why you didn't take other countries.

H.M.Jr: But my dear Harry, if you know the Canadians, it's not a Dominion, it's completely separate with its own Parliament, and I think they would take great umbrage

(On phone) Hello. (Conversation with Feis follows:)

April 12, 1939
6:00 p.m.

Herbert
Fels:

Hello, Henry.

HMJr:

Herbert.....

F:

Right, sir.

HMJr:

I've just completed a very satisfactory talk with Mr. Hull.

F:

I just come out -- I went his office on the tail of your talk.

HMJr:

Yes. And if you could come over here now, I'd like to see you.

F:

Right. Well, I'll -- I'll wait until I get there. I'll be over there in about five minutes.

HMJr:

I put in a call for Cochran in the meantime.

F:

All right.

HMJr:

Please.

F:

Right.

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H.M.Jr: You know, terribly funny, having just read this article here in the Post - I mean to be right back again at the old game.

No, knowing Canada - I mean Mr. Hull - I said, "Can I send for him?" and he said, "Yes." He didn't think it was funny. And I know Canada; they'd take it a damn sight better from us than they will from Mr. Chamberlain calling them up.

White: Yes, I think so.

H.M.Jr: Now, if it was Newfoundland, it would be different. Newfoundland is a Crown Colony.

I finished that sherry; now I'll get really argumentative.

Bernstein: Maybe that's why I'm a little argumentative - because I finished my sherry. But isn't Harry's point, assuming that Canada is an independent - supposing it weren't Canada, supposing it were

White: Sweden.

Bernstein: ... Sweden that you were approaching. Would you approach Sweden on this matter before you sounded out the other members of the Tripartite, and particularly Britain and France?

H.M.Jr: Yes.

Lochhead: Britain has already said they're going to do this.

Bernstein: This document that you are now going to send over to the British talks in terms of a Tripartite arrangement. Will they feel that we are withholding information from them?

H.M.Jr: Oh, I'm telling them tonight I'm going to do it with Canada.

Bernstein: I'm sorry, I misunderstood.

H.M.Jr: I'm telling them tonight I'm going to take it up with Canada. O.K. now?

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Bernstein: Perfectly.

Lochhead: You'll be interested to know ...

H.M.Jr: (On phone) Tell Miss Chauncey to come in if she is still here.

Lochhead: ... today when we spoke to England about shipping some more gold - they gave us 14 million today, and I haven't called - had them call up so they'd catch it on this week's boat; and they said they were busy boxing up 25 million for Switzerland to send over this week.

H.M.Jr: Well, I want to say that in our conversation with the President, so we get this thing down, first we cleared that the Executive Order goes over tonight to the Attorney General for his - to be passed on. The President said he won't sign it until the occasion arises, but we should keep it in our safe.

Mr. Frank got his approval that he should send over what they want to do in the case of the closing of the New York Stock Exchange.

And Mr. Wallace said we should include the word "commodities," see - include the word "commodities," so that we take him under our wing. He also said he would prepare for the President's signature a proclamation of an appeal to the commodity exchanges to close, because Mr. Wallace doesn't think he has the authority.

The President read this thing very carefully, and he said, "I can't see anything the matter with this." He said, "All it does is look after our own interests." I told him about Feis - that we were nothing but Fascists, and I told him - I think everything I told Feis I was very careful on, wasn't I?

Hanes: Uh-huh.

H.M.Jr: So he still - and he questioned us very closely, said while the English were trying to get started couldn't they - some of the insiders or the French transfer some of their balances; thought they could take some of the gold earmarked and sell it to a private citizen. I told him it was impossible.

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- White: There is one point that might be raised with respect to your working through the cooperation of the banks - may develop later - that the banks may be very willing to cooperate but they may not have the power, in which case....
- H.M.Jr: They didn't say that in connection with Czechoslovakia.
- White: "well, maybe not for four or five days, but on a blanket order covering all foreigners they'd say, "We'd very much like to cooperate, but we're exceeding our authority."
- H.M.Jr: Well, Harrison today said he was in consultation with his own people on this thing and he'd come down tomorrow morning. And the thing I was surprised at - they hadn't asked the stock exchange people to come down, had they?
- I think this is all right. I hope to God we don't have to use any of it.
- White: Did you want to make changes in that before you read it to Cochran?
- H.M.Jr: I'll put in the word "commodity."
- White: But the word "Tripartite."
- H.M.Jr: That's for Canada - has to be changed tomorrow morning.
- (Feis comes in)
- Hello, Herbert.
- Feis: Hello, Mr. Secretary.
- H.M.Jr: Having a little drinkie?
- Feis: Just getting a little one.
- H.M.Jr: "Who would be the next man from Canada? The Minister has the flu. Would it be Dr. Walter Riddell or Mahoney?"
- Feis: Riddell.

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H.M.Jr: Riddell.

Feis: Before you telephone, could I talk to you a minute?

H.M.Jr: Sure.

Feis: As I understand it - as I say, I just had a minute; the Secretary asked me to put it in writing, and I took this time putting it in writing, and by that time he was talking to you, and I spoke to him and he said that your present idea was to address simple inquiries....

H.M.Jr: Just like that (handing Feis copy of intended message) - that and no more.

Feis: Which seemed to me fine. Just a simple inquiry. Now, thinking on the way over then about who to address it to, Canada came into my mind as possibly presenting a little bit of a special problem that you'd want to think about a bit, in this respect. Certainly with England, France and ...

H.M.Jr: Well, here's to peace anyway, in the war in the world and between State and Treasury.

Feis: Yes, sir. England and France - at least, England's already said it would do certain things; I'm almost certain that France will agree to do the same. Even in Canada

H.M.Jr: (On phone) Hello. - Yes. - But... - yes.

Paris is busy; we can get London first.

Feis: I just want to throw out this thought. I'd anticipate that before addressing Canada - that when you got in a discussion with them they'd press for a reciprocal basis, while none of the others might; and I think you want to bear that in mind before you get in very far with a Canadian discussion.

H.M.Jr: What would that mean?

Feis: I just don't know yet. I'm just calling your attention to it.

White: It would be perfectly all right - what is called for

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there is the exchange of information - as far as the exchange of information is concerned. So far as the acquisition of foreign securities, that's a different matter. But it may be that they have some suggestion; we're not recommending any specific proposal as yet.

H.M.Jr: This is a question.

White: They may have suggestions of their own which would make it possible to have reciprocal arrangements; and they need not be the same arrangements which exist in other countries which happen to be abroad.

H.M.Jr: Let's put Canada aside for the minute. What I had in mind - what I told Mr. Hull, what he agreed to, what the President agreed to, is that I read this to Butterworth tonight and tell him that we are reading this to Cochran and Cochran is taking it up with France, Holland, Switzerland and Belgium, and that we should inform the British Government, you see, and particularly Mr. Kennedy, because it was Mr. Kennedy who started this whole thing by phoning the President Saturday and asking if we were ready; and the President asked me Monday if I was ready and I said we were not. And the President said, "Please get ready," you see, because after all that's the way we did before.

Now, the evaluation of anybody, I guess, is that if there is going to be trouble it's going to come this week; and the reason I have been trying to do it tonight and push is because if they get this thing tonight, they can, between now and noon tomorrow, which is by seven o'clock our time tomorrow morning - Cochran will have covered the Continent. I don't know whether you (Feis) were here or not, but this - a memorandum which was given to me by S.E.C.: what they're worrying the most about is foreign selling, and this will take care of it.

Feis: This looks to me all right.

H.M.Jr: What?

Feis: This looks to me all right. I have only one question on phraseology.

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H.M.Jr: Well, you've still got time.

Feis: "... in the event..." - I don't know whether you want to be a little more specific to avoid a possible ambiguity. This is phrased "... in the event of war." "... event of war in Europe."

H.M.Jr: Doesn't it say that?

Feis: No. What do you think - add it?

H.M.Jr: Yes. Sure.

White: Only thing that would be disturbing is that there already is war elsewhere.

Feis: I don't want it to suggest to anybody the idea that we're going to get in there next week.

H.M.Jr: Where does it say it, Herbert? Oh yes - "...war in Europe." Gee whiz, I wonder if we have time....

(On phone) Find out if there's any stenographer, please, left in my room. If not

Bernstein: You can get one from my office.

H.M.Jr: Bob is there.

(On phone) Tell Bob to come in, please.

Feis: If I may continue to suggest, I think among your verbal instructions to Cochran - if before he broaches this he'll start out by saying, "Now, this doesn't mean that the American Government believes war is coming tomorrow or anything of the sort," if he'll make that clear in his verbal introduction.

White: If it was coming tomorrow, this would be too late.

Feis: By tomorrow means next week, two weeks.

H.M.Jr: That's all right. Go on.

White: Do you get the impression reading that that they will interpret that we'll offer them reciprocal

action? If so, we ought to correct it.

H.M.Jr: have you got another one of those?

Bernstein: Yes.

Feis: I should certainly expect in the case of Canada - if I were Canadian Secretary of the Treasury, I'd say to myself that "I'm going to have a security market problem, too; now, if I take obligations on vis-a-vis the United States, will they take it on vis-a-vis us?" It may be that some other country will raise the same question, but it's not nearly as likely. That's why I distinguished that Canada suggestion. You might want to think that through a little bit before we plunged in with Canada.

H.M.Jr: (to McHugh) After the word "war" put "in Europe."

White: Unfortunately, Canada

H.M.Jr: Just a second, let's see if Mr. Feis has anything else.

White: Canada is almost as important as England so far as this particular thing is concerned.

Feis: If they raise the reciprocal character, we can always say we can't do it or can do it; can always leave it for later discussion. I should think it would almost inevitably be raised by Canada. Whether Holland, Switzerland and Belgium will raise it, I don't know. After all, the American holdings of their securities are not important. I don't think they'd be likely to raise it.

H.M.Jr: Now, my understanding with Mr. Hull is this doesn't commit us to anything.

Feis: That's an inquiry - exactly. But I'm trying to foresee what

H.M.Jr: All right.

Feis: Canada, for other reasons, might welcome the inquiry.

H.M.Jr: Now, what you want to get is this. Mr. Wallace has asked us to take him under our wing and that's why we

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have included the word "commodity," see? The thing reads now "security, commodity and money markets," you see - and particularly Canada.

Feis: Well, as an inquiry it's all right: see what the problem is and what could be done. Sure.

H.M.Jr: You think it over. We can get - I wasn't

Feis: No, on the inquiry line - the point that was so new to me and that I hated to try to digest in that short time was this suggestion that to try to make this effective, when you referred to the possibility of all these things we were going to do.....

H.M.Jr: This is the memorandum I had, and it hasn't been changed at all since you left here, with the exception of the "commodity." This is exactly the thing I had when you were here.

Feis: That probably covered the memorandum, but the discussion covered a much wider ground.

H.M.Jr: I said I was putting absolutely the worst face on it. And the President's reaction was that there is nothing to this - and I told him everything that I said when you were here - other than that we are just exploring all possibilities, all avenues.

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

April 12, 1939.
8:25 p.m.

HMJr: Hello.
H. Merle Cochran: Hello, Mr. Secretary.

HMJr: Well, we're back at the old stand again.
C: Yes, it seems natural.
HMJr: And -- Mr. Fels is here. Have you got a pencil?
C: Yes, I have one.
HMJr: This is a -- well, I'll read it to you, see?
"The countries who are members of the Tripartite Accord....." Hello?
C: Right.
HMJr: ".....and their nationals now hold in the United States over \$500 million of earmarked gold, over \$1 billion of bank deposits, over \$2 billion of American securities and over \$1 billion of direct investments. Doubtless each of the countries likewise has substantial holdings of assets in other countries."
C: Right.
HMJr: Hello?
C: Hello. ".....in other countries."
HMJr: That's a paragraph now.
C: Yes.
HMJr: "It has been the policy of the United States freely to offer its banking, investment and gold facilities to the governments and nationals of foreign lands and thus to provide a haven for funds seeking investment and security, and it is our hopeful desire, as it is no doubt yours, that we shall be able to continue to do so.
"We feel that the interests of the members of the Tripartite Accord now make it desirable that there be prompt consultation directed toward protecting

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the security, commodity and money markets in the event of war in Europe and agreeing upon effective measures for that purpose; with particular regard to preventing panicky marketing and utilization of assets in the markets of the other countries."

Just -- just a moment.

Hello?

C: Yes.

HMJr: "Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the Tripartite Accord should assure the success of such consultations.

"We would appreciate a prompt expression of the attitude of your Government with respect to this proposal."

C: Yes.

HMJr: I'll read it to you back.

C: Would you rather I would read it?

HMJr: No, I'll read it to you. Hello?

C: Yes.

HMJr: "The countries who are members of the Tripartite Accord and their nationals now hold in the United States over \$500 million of earmarked gold, over \$1 billion of bank deposits, over \$2 billion of American securities and over \$1 billion of direct investments. Doubtless each of the countries likewise has substantial holdings of assets in other countries.

"It has been the policy of the United States freely to offer its banking, investment and gold facilities to the governments and nationals of foreign lands, and thus to provide a haven for funds seeking investment and security, and it is our hopeful desire, as it is no doubt yours, that we shall be able to continue to do so.

"We feel that the interests of the members of the Tripartite Accord now make it desirable that there be prompt consultation directed toward protecting the security, commodity and money markets in the event of war in Europe, and agreeing upon effective measures for that purpose; with particular regard to preventing panicky marketing and utilization of assets in the markets of the other countries.

"Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the Tripartite Accord should assure the success of such consultations.

"We would appreciate a prompt expression of the attitude of your Government with respect to this proposal."

- C: I have it.
- HMJr: Now, this is the thought - that you would put this up to the French, Belgium, Holland and Switzerland.....
- C: I didn't get it after French - put it up to the French.
- HMJr: French, Dutch, Belgian and Swiss.....
- C: Dutch.....
- HMJr: Treasury.
- C: Treasury, yes.
- HMJr: And -- and by -- in the case of all except the French you'll have to use the telephone.
- C: Yes, sir.
- HMJr: And tell them that we'd like to have an answer promptly. Now, in bringing this to their attention, we're not forecasting whether war is evident or not - hello?
- C: Yes.
- HMJr: But which -- as Will Rogers just -- used to say, "All I know is what I see in the papers."

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C: Yes, yes.

HMJr: You see?

C: Yes.

HMJr: And, of course, what we would like to see them do is to do something like what Butterworth told us about.

C: But I am not free to use that as I understand it.

HMJr: No, no.

C: And I am not free to use that.

HMJr: No, but you have that in mind.

C: Yeah. I have it in the back of my head as to what they've done, of course.

HMJr: That's right.

C: Prepared to do. So it's really here, tomorrow, that I'll get in touch with the top man himself.

HMJr: That's right. That's right.

C: And the only thing, it's -- it's a little difficult to put that up to the Treasury themselves over the telephone.

HMJr: Well, you've got to use your own judgment how you do it, but do it fast.

C: For -- for instance, the two men, both the Swiss and Belgians are through. You see, the Belgian is just in temporarily. I know him; he's a good friend of mine too.

HMJr: Yes.

C: And the Swiss one I haven't met yet, you see?

HMJr: Well, look.....

C: He wasn't in when I made that tour around in January.

HMJr: Well, Cochran, old man, use your own head and -- and do it. I leave it to you.

- C: Well, my only question is, do you want this done in a day or two or would you give me, say, through Monday to see these people?
- WJr: What day is tomorrow?
- C: Tomorrow is Thursday.
- HMJr: I give you Thursday.
- C: Well, then I can't see them.
- HMJr: No. No, you can't make a tour of the country. You've got to use the telephone.
- C: Well, it's -- it's essentially for Treasuries alone. You don't want it to go up to the Central banks at all.
- HMJr: Look, get it to the governments, and you use your own judgment.
- C: If you permit in -- in the cases where I think necessary to get it through the Central banks, I can get it tomorrow.
- HMJr: That's all right.
- C: All right, sir.
- HMJr: And in this case, as is always, you will keep a record at your end for me the way you always have.
- C: All right.
- HMJr: Now, just a minute, let me see whether anybody -- whether Mr. Feis wants to talk to you.
- C: All right.
- HMJr: He says he doesn't. That's what he thinks of you.
- C: (Laughter) All right.
- HMJr: Now, just a moment.

(Pause)

Hello?

C: Yes?

HMJr: When I'm through talking to you, I'm going to talk to Butterworth.....

C: Yes.

HMJr:and tell him the same thing, and tell him that you're contacting the -- the Tripartite Members on the continent.

C: Yes, the four members here.

HMJr: Yeah.

C: Right!

HMJr: And -- and the State Department will send you a confirmation of this by cable tonight.

C: Thank you.

HMJr: And let the -- Ambassador Bullitt know about it in the morning, will you please?

C: All right,

HMJr: And you'll get a confirmation of this.

C: All right.

HMJr: How do things look to you?

C: May -- may I ask you this one question on this. We have no ideas as to how this consultation should take place. We just want to advance this much of the proposition.

HMJr: Yes, and then, I take it that the way he did before that their reply will clear back through you to me.

C: Right. Yes.

HMJr: See?

C: Yes. I say, we have no more concrete suggestion than this to advance to Treasuries.

HMJr: Not at this point, no.

C: Right. All right.

HMJr: But -- but what I have in the back of my head is, and what I hope they'll do -- and you keep it in the back of your head, that they'll do what we -- let's call it the Butterworth plan.

C: Yes, yes.

HMJr: See?

C: Right.

HMJr: Now, just a moment. Hold on please.

(Pause)

Now, now -- how are things?

C: They -- they had a meeting of the Council of Ministers today and the ^{will come out tomorrow that will} have something to do with the treatment of foreigners.

HMJr: I see.

C: Whether it will touch upon foreigners holdings, I don't know.

HMJr: I see.

C: I couldn't find out this evening.

HMJr: Well.....

C: But I'll get on that -- I'll go over there the first thing in the morning and see our friends there.

HMJr: Well, if you had to bet on peace or war, how would you make the odds tonight?

C: Well, I'm too dull; I still think it's going to be peace.

HMJr: You still think it's going to be peace?

C: Yes.

HMJr: Well, that's fine!

C: (Laughter) All right.

HMJr: What?

C: I may not know about it until it's broken out, but things haven't gone the way I hoped they might have gone. I'd like to see the people first.

HMJr: You'd like to do what?

C: I should have liked to have done a little more bribing before this thing got this far.

HMJr: Bribing?

C: Yes.

HMJr: What do you mean?

C: I mean down -- down south. I think it could have been done pretty easily.

HMJr: Oh! I see.

C: But that's entirely unorthodox, so I.....

HMJr: But -- but you still think.....

C: I still think the gentleman who counts to ten will have a chance.

HMJr: I see.

C: I -- it's old-fashioned, but I do, really.

HMJr: And -- how did the Bourse -- how did the Bourse act today?

C: Here it wasn't bad. There hasn't been much trading. It -- it was weak. There's still -- still nervousness and they're waiting very patiently to see what is announced tomorrow by the two Prime Ministers.

HMJr: I see.

C: It may be simultaneously at four o'clock tomorrow.

HMJr: Simultaneous with who?

C: The French and the British.

HMJr: I see.

C: Now, I didn't see my chief this evening. He was over and saw the gentleman who used to live over with you, you know, and was to send a message at eight o'clock.

HMJr: Yes.

C: But I was at the office at seven-thirty when we got this message of yours.

HMJr: The Ambassador.

C: I -- I came home then.

HMJr: Yes.

C: So his message hasn't been filed, so it may be in the State Department by now, but I haven't seen him.....

HMJr: I see.

C:since he saw these people who -- who have the latest information.

HMJr: O. K.

C: Fine. Shall I wire you tomorrow evening what I've done or phone you back?

HMJr: Wire and telephone both.

C: Any preferable hour?

HMJr: No, any hour will do, just as soon as you've got it as long as it's -- well, if you're -- whenever you're ready you phone.

C: That is, wait until I get replies from all of them?

HMJr: Well, in any event, I -- try to get to me not later than four o'clock tomorrow.

C: Not later than.....

HMJr: Four, which is nine o'clock your time.

C: I -- I'll phone you not later than nine o'clock what I have at that time.

HMJr: That's right.
C: And I'll get as much as possible.
HMJr: That's right.
C: Good bye.
HMJr: Thank you.
C: All right, sir.
HMJr: Good night.

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(^here follow the aside conversations in the Secretary's office during the phone conversation with Cochran)

H.M.Jr: Get me the number of the telegram in which Butterworth sent me this information, so I can refer by number to the cable.

 Now just a minute, let me see whether anybody - whether Mr. Feis wants to talk to you. - He says he doesn't. That's what he thinks of you. Just a moment. - Now just a moment.

Any suggestions?

Hanes: Nothing.

H.M.Jr: What?

White: Want to tell him that you're going to say anything about Canada, or isn't that necessary with him?

H.M.Jr: What do you (Feis) think?

Feis: I think I'd let that arise in the discussion, if it does arise. I can see a dozen questions which are going to arise of which that is just one. I'd keep it as simple as I could for this time.

H.M.Jr: But I'll tell him I'm going to tell Butterworth - I'm going to tell Butterworth to tell the English Treasury that he's doing this on his end.

Hello - when I'm through talking to you

 Now just a moment. Hold on please.

White: You asked him how things were.

H.M.Jr: Now, how are things?

 (Conversation with Cochran ends)

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(Foley came in during conversation
with Cochran)

H.M.Jr: Is Lochhead talking to Butterworth?

Foley: He's over in his own office; I think he is.

H.M.Jr: (On phone) Is Mr. Lochhead talking to Mr. Butterworth?

Operator: Not yet, but I'm going to have him in about a minute.

H.M.Jr: (On phone) Well, when he's read that message to him, then I'll talk to him, see?

Operator: All right.

Foley: I haven't been able to locate the A.G., but I've talked to Miss Baumgartner. She said he left no instructions at the office. There's nobody there. She talked to Kemp, but Kemp knew nothing about it. He's due at a cocktail party at the Shoreham, then he's going to a dinner at one of the Justices' houses.

H.M.Jr: Justice Stone. He said he'd get Bell and Kemp together.

Foley: She hadn't seen him since he went on the Hill.

H.M.Jr: He said to give it to Miss Baumgartner and leave it with her. What's she going to do?

Foley: He's over at the hotel. Going to call me as soon as ...

H.M.Jr: What hotel?

Foley: At the Washington, right across the street.

H.M.Jr: Does he have to change his clothes?

Foley: She doesn't know. He'll come back if he has to change his clothes; otherwise, he'll go right to the cocktail party. Said she'd call me, but that Bell isn't over at the Department and Kemp doesn't know

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anything about it.

Feis: I'll save a little time - going to ask them to put this on the wires. (Goes out)

Foley: Jerry's still down in my office if you want him.

H.M.Jr: Well, let's just

Foley: Have Jerry come down here?

H.M.Jr: Give him a drink?

Foley: Sure.

H.M.Jr: He can have this. If that makes him sick, he can have some whiskey.

Foley: You going to call him?

H.M.Jr: (On White House phone) Will you try and locate the Attorney General for me? It's important. - Thank you. - Thank you.

White: What did Cochran say? We couldn't get it.

H.M.Jr: Oh, couldn't you get it? What he said was that he was old-fashioned and orthodox - to transpose what he said - and that he thought they could have still done a little bribing with Italy and he didn't think they had exhausted that opportunity. See? That he's in a minority, but he felt they could have bribed Mussolini down there. He said that they'll get out some decrees tomorrow in connection with the treatment of foreigners. Now, he said, whether that will be foreigners and foreign capital, he doesn't know. And it may be a joint statement by the English and the French. But there's something coming tomorrow. Said that the Bourse was very quiet and that he still thought there would be peace.

(On White House phone) Hello. - Thank you. - Hello. - Hello, Frank. Ed Foley and Jerry Frank are here, and they got a clearance from the President to give you these two documents, and we just want to be sure that you could get them, you see. - Well now, to whom and where? - Room 707. Is that where you are? - Room 707. - Well, how long will you

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be there at your room? - Well, they'll be there in seven and a half minutes. Room 707. Thank you. (Conversation ends)

Room 707. What the hell is the matter with you fellows?

Foley: I don't know.

H.M.Jr: What's the use? Wait until I kid him - is Jerry Frank coming in?

Foley: He's coming in, yes.

H.M.Jr: What the hell's the matter? Did you ever see anything like these fellows?

Foley: I'll tell him to come in.

(Foley brings in Frank)

Washington Hotel. He must have just come in.

H.M.Jr: What's the matter with you fellows? I go to the telephone and say, "Give me the Attorney General." Like that I get him - Room 707. You've got time enough to take a drink. He says if you'll come in fifteen minutes he'll see you. Room 707.

Frank: We're not going to be alone in this convivial

H.M.Jr: We've had ours.

Frank: I notice Feis is outside. Is he

H.M.Jr: Everything is lovely. Mr. Hull cleared it, sent Herbert Feis over. Everything's fine. You wouldn't have thought - I would have thought I was dreaming.

But I can't make out what's the matter with Ed Foley. I tell him to find the Attorney General and he can't; and all I do is pick up the thing and there he is. I just reached for the telephone and I get him. I can't understand this thing; here this fellow comes in and says he can't get him.

(Feis returns)

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Feis: Could I talk to you?

Foley: Is it all right to show this to the A.G., tell him what you're doing?

H.M.Jr: Yes.

Foley: Let's go over.

H.M.Jr: (On phone) Have you got Butterworth? - Now, can't I do this - tell Mr. - tell Mr. Lochhead to come in and I'll explain it.

I don't see why Lochhead can't read that over the telephone, simply say, "Pass this on to the British Treasury tomorrow morning." I don't see why I have to sit here and read this thing. I mean it's so easy in his case - Butterworth, I mean. Huh?

Feis: Are we going to give it to the British as something directly to them, or as something we have asked Cochran to give to the other fellow? We want a direct response from the British, don't we?

H.M.Jr: Yes, don't you think so?

Feis: Yes.

H.M.Jr: What?

Feis: Yes.

(Lochhead comes in)

H.M.Jr: Look, Archie, you're elected. I want - having trouble with the circuits, see - you stay here and read this thing to Butterworth, you see, and then simply say to Butterworth - if I'm still home you can switch him and I'll talk to him; but the point is he should get this to the British Treasury tomorrow and that we've asked Cochran to contact the members of the Tripartite on the Continent.

Herbert Feis wants to sleep over the thing on Canada tonight, which is all right, because we don't have the time factor there. We won't say anything about Canada. And he'll be here at 9:30 tomorrow morning and by that

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time he can tell me the best way to approach Canada. I think it's important to talk to Canada.

But would you mind

- Lochhead: I'll just read it to him, tell him to give it to the Treasury, tell him we've asked Cochran to submit it.
- H.M.Jr: And tell him to let Mr. Kennedy know tomorrow the first thing.
- Bernstein: I don't know whether Archie was here when you told Cochran how soon you wanted to get a reply.
- H.M.Jr: Well, I want to hear by - some sort of a reply by four o'clock tomorrow afternoon.
- Lochhead: Excuse me - have you the number of the cable we want to refer to?
- H.M.Jr: Harry, have you got it?
- White: Yes.
- Lochhead: 428.
- H.M.Jr: I want some sort of reply by four o'clock tomorrow my time; it's nine o'clock their time. And ask him how things are. I've got to go home and get dressed. I'll still be home at eight.
- Johnny, you want to go home?
- Hanes: I'll be home all evening if you want me, except I've got a broadcast at 10 o'clock.
- H.M.Jr: You've got a car.
- reis: Got a broadcast on this?
- Hanes: I'm going to tell the American people about this on the radio.
- H.M.Jr: You know, the President made a statement - I didn't want to challenge it; I don't know who gave it to him; I'm going to ask him when I have him alone - he

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said when I talk on the telephone seventeen different nations can take it down. He's absolutely wrong on it; I don't know who's told him that they can break down these trans-Atlantic calls. Have you (Feis) heard that?

Feis: We're rather - our code people tend to be rather cynical about our secrecy with anything.

H.M.Jr: You mean on the trans-Atlantic telephone?

Feis: Both cable and telephone.

Lochhead: The experience, as I understand it, on this is that the telephone companies themselves not only put it on two wave lengths - one conversation on one wave length and one on the other - but they've got a new system where they have an automatic wave length transmission changer. In other words, every so many seconds the thing switches to another length; and you may be able to pick up a few words on each, but you'd have to cover every wave length. You can get snatches, but you can't get a

(Feis leaves)

H.M.Jr: I've spent \$15,000 trying to do that, break these trans-Atlantic codes. We couldn't do it, and we've got the smartest people in the country.

Lochhead: In the beginning we did; we picked up Knoke's speech.

H.M.Jr: Yes. This is a Treasury matter. \$15,000.

well, I'm going to go. Want to drive me or ride me or something?

Hanes: I'll give you a ride.

April 12, 1939

Dear Missy:

I don't know whether this scandal sheet, "The Week", has been brought to the President's attention. If it has not, I think he will enjoy reading it.

Yours sincerely,

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THE WEEK

28 VICTORIA STREET,
LONDON, S.W.1

TELEPHONE:
ABBEY 1884

DAYS OF SURRENDER.

Almost unbeknownst to the British public, the situation has passed within the last ten days into a new and much graver phase than is currently suggested: the European power position is being stood on its head in a way not yet hinted at publicly even by the most "alarmist": as a result of the action of the London Government since the Rumanian appeal of Saturday week, we are moving out of a phase in which it was a question of how much the British Government might be prepared to do to organise the "great collective alliance" or "peace front" against the Axis attack, towards a phase in which it is a question of just how isolated the British are going to be against a possible "collective alliance" directed against them.

Rebuke for Paris.

Since the British newspapers give scarcely a hint of it -- nor the French papers either for that matter -- it is hard for British and other observers to grasp the full depth and power of the effect upon French opinion of first, the British Government's refusal of the Soviet proposals for immediate conference of the anti-aggressor powers, secondly the British Government's refusal to offer Poland terms adequate to bring Poland into a permanent declaration, third the British Prime Minister's Thursday statement declaring that he welcomed German economic expansion and was opposed to the formation of a bloc against the Axis, and finally the open encouragement given by London to Mussolini to proceed with his claims against France.

"Thunder from London"

For at least three days and nights after the Birmingham speech, the new Soviet offer already made in Moscow, and every prospect of the Axis drive being blocked at Bucharest and all other points, French opinion was veering swiftly to out-and-out support of collective Franco-British action which would have rallied the smaller powers.

The realisation that -- as a French commentator put it -- "the veiling of Mr. Chamberlain at Birmingham was merely the first stage of Plan mortis", has tilted the entire French position.

Exactly according to the German and Italian aims already referred to weeks ago in this correspondence, the rift between London and Paris has widened with startling speed. It is now a major factor in the situation.

Dark-noon

At this point occurs a curious phenomenon: nobody will speak -- publicly -- of this horrifying development, for the reason that those "friends of the Axis" in London and Paris who favour the split do not want to reveal the game too soon, and those on the other hand who are trying

even those who feel it, are afraid to talk about it because it might "play into the hands of the Axis". The Axis however is perfectly well-informed on the subject, since it has at least one French Cabinet Minister working on its payroll, and has in London highly-placed allies who do not (with some notable exceptions) even ask to be paid. In any case, it is desirable to report frankly on the real position.

The situation which it is optimistic to refer to as "the gravest since 1793", for it is the gravest since 1917, outstandingly significant points are these:-

The "Tory Revolt"

The Birmingham speech was made under pressure of an incipient "Tory revolt". On the Saturday of that week -- when the Rumanian appeal and the Soviet offer of immediate action were already in the British Government's hands -- the "rebels" were apparently genuinely confident that the Birmingham speech "meant something".

On that Saturday, their leaders were declaring that "if Chamberlain turns stiffen now he will be out". Mr. Nicolson, prominent among the "rebels" on the Government side of the House went so far as to write a little piece for the Spectator explaining that this time it was genuine.

The "capitulators", who had "seen nine-and-thirty leaders of revolts" -- after Austria, after the bombing of British ships by Italy off Spain, after Berchtesgaden and on the night of Godesberg -- were almost entirely unperturbed. They refused the Soviet offer immediately, and refused the Rumanian appeal.

Eden Messel went, and then the Rumanians had to capitulate to the extent of accepting the Trade Pact. Poland was obviously tottering on the edge of capitulation: especially when they learned that in the middle of last week the Foreign Office had informed foreign correspondents that "the Poles went too much" -- meaning a straight guarantee. (Since, if there had been any serious intention to resist, the British Government would have been falling over itself to offer the Poles anything they would want, the effect of this extraordinary formulation in Whitehall may be seen.)

The Italian Intrigue

As the eastern bastions crumbled, "Tory revolt" flared again: but this time, instead of the strategic "retreat to Birmingham", there was a tactical offensive riposte. The Italian intrigue, first publicly launched in the Daily Mail, was brought into the centre of the whole affair.

On Monday of this week, it was being semi-officially "explained" in the Foreign Office that

Poland cannot be defended without Soviet co-operation, and is therefore an ally unless the Soviet Union is an ally too.

It is true that such an alliance would "wipe the floor" with any opposition opposed to it, but "we must always remember" that in Warsaw there are "certain hesitations about co-operation with Moscow".

When questioned as to whether the objections were really in Warsaw or not very much more in London, the Foreign Office sighed and giggled and said that of course there "are certain elements in the Cabinet who" etc etc

(4) But in any case "we know definitely from Mussolini" that any co-operation with the Russians would preclude any "sympathetic attitude towards us in Rome".

Under the Function

At the same time there began to appear in the British and French

press -- a few days before had been publishing jolly pictures of Stalin and Beresilov -- articles "doubting" the strength of the Soviet Army, the Soviet airfleet, etc. etc. etc. precisely along the lines of the "indirect conversations" at the time of the September surrender. By the time that Hitler had launched his claims on France, the Times -- and still more the British Embassy in Paris -- were "doing the Runciman" and despoiling French surrender to "these reasonable claims" exactly according to the plan of "Runcimanisation" outlined early this year in this correspondence and hotly denied then by all and sundry.

First and Four Power Pact.

Behind the Italian intrigue in London immediately re-formed itself the grotesque alliance which has existed for years (and frequently been commented on here) between the "Stream frontists" who imagine that they are "pulling Mussolini out of the Axis", and the Four Power Pacters" who know very well that the purpose of concessions to Mussolini is to find a way, via Rome, to Berlin; whose aim, that is to say, is not opposition to Berlin, but an approach to Hitler through Mussolini, with France ultimately playing fourth fiddle in the Four Power combination.

The flaw in the first theory is that it is an illusion. The flaw in the second is that while it is intended to lead to a position in which the British Government will have "muscled in" at least to a place "on the board" of the Berlin-Rome-Berlin-Tokyo company, what it really leads to is a progressive weakening of the positions held against the Axis by Britain and France, and hence the acceleration of the rate at which the Axis approaches the moment when Gott will strafe England.

The alternative.

Subscribers are constantly writing to ask us whether the people who support these catastrophic policies are fools or villains, and if neither, why they go on the way they do. So far as the first part of the recurrent question goes, it is really immaterial whether people are villains behaving foolishly or fools behaving villainously: and in any case there is a point where stupidity and villainy come to very much the same thing. So far as the reason why they behave as they do, particularly during the past week, it is relatively simple: for the alternative to these policies of disaster is that co-operation with the Soviet Government which these same people rejected (despite the reports of Balfour and Buchanan) even in the darkest hours of 1918 when their own advisers assured them that co-operation with Lenin would certainly damage the Germans and might turn the scale of the war, and rejected again on Saturday March 18th 1939 when the crosses were reaching for the Rumanian Pact and the domination of Poland.

Paris-Rome.

Statements that there had been simply "preliminary" conversations between the French and Italian Governments on the question of surrender to the Italian claims before Mussolini's speech, are inaccurate. There had been -- with British participation -- detailed conversations conducted first by Laval and then by Legerdolle.

The migration that Laval should go to Rome to clinch the capitulation was made exactly fifteen days ago, personally, by Herr von Ribbentrop to M. Bonjean, former Minister in the Sarraut Government.

The point is of especial significance because it is proof of the fact -- already sufficiently well-known in other quarters -- that the supposed "necessity" of Berlin over the "Italian approach to France", which has been given such a play in the capitulationist press in Britain, is the merest moonshine, the whole plan of the Italian approach having been disclosed between the Italian and German Governments, and actually pressed upon the French by Ribbentrop himself.

- 4 -

M. Bonnet's lack of taste.

The logical -- not the British-theoretical -- consequences of the abandonment of eastern Europe and the pressure on France to accept the Mussolini claims, were very quickly and unpleasantly evident in London in the conduct of M. Bonnet during the Lebrun visit.

The first thing that happened was that M. Daladier telephoned to Bonnet and suggested -- under pressure of the public opinion then prevalent in France in favour of quick and strong Anglo-French-Soviet action -- that M. Bonnet had better urge the British Government to "get on with it". M. Bonnet replied that he was not proposing to do anything of the sort; that he entirely understood the hesitations of his London friends; that he thought the Soviet proposal was just as "premature" as the British did, and that he would fall in entirely with the British attitude.

M. Daladier, possibly under the pressure of the bottle, raged at M. Bonnet, ordered him to do as he was told.

Whereupon, cool as you please, M. Bonnet replied that he would do as he chose, and if dear Edouard wished to object, why then dear Georges would say a word or two to this person and that about just precisely what happened at this and that particular moment of the Stavisky scandal and why and by whom so-and-so was suicided etc etc. Thus, for once at least, the famous blackmail which is supposed (incorrectly) to be the sole reason why Daladier has to keep Bonnet in his Cabinet at all was brought into operation.

Talking to Flandin.

All this however was regarded as good class fun compared with what happened next. For next M. Bonnet, having effectively silenced the absurd Daladier, proceeded to put himself in communication with M. Flandin. In fact during the greater part of his visit to London, M. Bonnet was reporting not to the French Government but to M. Flandin, who in turn -- as a Munichois cent pour cent and avowed capitulator -- was in direct communication with Herr von Ribbentrop.

Via M. Flandin, M. Bonnet sounded out Herr von Ribbentrop once again on the possibility of a quick Franco-German deal at the expense of the Entente Cordiale, at the expense of the continuance of democratic institutions in France, and in favour of French "neutrality" on der Tag when Hitler "comes for London".

The "better element" among the British thought this sort of thing -- conducted from London itself -- hardly in "the best possible taste" and ostentatiously cut M. Bonnet at the India Office Ball. Even the capitulators, themselves hand-in-glove with Berlin and Rome, were a trifle chilled by M. Bonnet's behaviour, judging that at the best it tended to "give the enemy a bad name" and confirm the suspicions of M. Bonnet spread in such "un-

services as The Week, and at the worst might expose the whole case in unpleasant fashion just as things were "simmering down" after Prague and the Birmingham move.

FRANCE

Although neither M. Bonnet nor M. Daladier can be taken as to any serious extent representative of French mass opinion, there is no question that the reactions of the British Government, plus its support for Mussolini's claims, strengthened the hand of the capitulators in France, by hoodwinking and confusing patriotic opinion.

It is significant of the situation within France that around the emergency decrees there is still a sort of equilibrium between the forces: sufficient at least to prevent the decrees for the moment being used not for national defence but for strike-breaking and for the final removal of the improvements in working class conditions achieved by the People's Front.

Observers in Paris believe that even under present circumstances, it would be impossible for Bonnet to carry out his pro-Nazi capitulationist policy "to the end" without facing social revolution in France, and for this reason the process of trussing and hamstringing the public by means of the emergency powers would have to go a great deal further than it has yet gone before anything of the kind could be seriously contemplated.

This was in fact pointed out by von Ribbentrop to M. de Brinon, Bonnet's agent, when the two met in Berlin several weeks ago. It was demanded by Ribbentrop on that occasion that France "in order to convince Germany of the sincerity of her intentions and her friendship, must make certain internal adjustments, including the suppression of the Communist Party and a more vigorous restraint of press freedom".

This is of course the method traditionally employed by the Germans in their advance: attacks upon the left being carried out as a rule under the cover of "a strong national stand against aggression", and thereafter, the patriotic forces having been muzzled and trussed, and if possible provoked into strike action -- something of the kind by attacks from the right, it is possible for the capitulators "within the gates" to carry out the surrender without further trouble.

It would be untrue to say that this situation -- or anything like it -- has yet been reached in France, and indications from Paris still suggest that despite the disastrous character of the Philippe-Bonnet policy, the resistance of the patriotic left and of the army High Command is being sufficient at least to delay the process: with the possibility that they may not only delay it but actually defeat the whole policy -- this in turn depending of course on the degree to which the policy is defeated "at the source": namely in London.

London turmoil

By Tuesday night of this week, the situation at the London end had

is seems so bad that again the "Tory revolt" was in progress, and
 a Government under Lord Halifax was revived. It appears
 that under the influence of the Bishop of Ripon, Lord
 Halifax has within the past three days committed himself more defin-
 itely than ever before to opposition to the policy of Mr. Chamberlain,
 and has gone to the length of expressing also certain views on the
 personal and political character of Mr. Chamberlain in general, which
 could be seen at least, to make it somewhat difficult for Lord Halifax
 to continue any longer his policy of acting as a sort of "stooge" for
 the Prime Minister, continually taking the edge off attacks upon the
 Government by the suggestion that "after all Halifax is all right".

The "rebels" believed last night -- and for all anyone knows
 may still be believing by this evening -- that they have secured from
 the Labour leaders an agreement not to object to a "Premier in the
 Lords", if and when they succeed in breaking the Cabinet split wide
 open and openly backing Halifax.

Although all such "revolts" are liable -- in the absence of any
 serious push from the Labour side -- to collapse overnight or over
 lunch, it is true that the situation has now reached a point of such
 extreme gravity that even what have been called "the great ivory headed
 masses of the Tory Party" are, so to speak, turning in their sleep. It
 was thought to be of extreme significance on Tuesday night that Sir
 Samuel Hoare was beginning to speak gravely of his touch of flu and
 allowing the suggestion to be made that he might be confined to his bed
 for at least a fortnight.

This was taken as an excellent barometer of the gravity less of
 Sir Samuel Hoare's physical health than of the political health of the
 Prime Minister, which must be judged shaky indeed if Sir Samuel feels
 himself compelled to withdraw from the scene until the cat has jumped
 one way or another.

Grave and gloomy as the situation is, it is still true that a
 rapid and total reversal of "Chamberlainism" in British foreign policy
 could even now recover a great deal of the ground lost, and build --
 with the Russians and the French -- a "front" against the aggressors
 which would cause an indefinite slowing down of the "Goering plan" of
 "elastic attack" referred to here three weeks ago and carried out with
 deadly efficiency since then.

(Subscription rates to THE WEEK 3/- Half-yearly, 16/- yearly. Foreign
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April 12, 1939.

MEMORANDUM FOR MR. IREY:

1. The Secretary asked me this morning to obtain as promptly as possible a statement giving the full history of the Torric case. In this connection he referred to a statement of the probation officer in the case of "Jimmy" Hines, which, as he said, was published in full in the New York TIMES on the day after the conclusion of the Hines trial. He indicated that he considered this report an excellent model, which might be followed in the preparation of the report on the Torric case.

2. He also asked for a similar report covering the case of Mrs. Lauer (which I assume might as well include also the George Burns, Jack Benny, and Albert Chaperau angles).

3. He asked also that we hereafter make it a practice to supply reports of this kind in relation to all important cases, at the time the cases are closed by conviction. From his comment, I believe his purpose is to give such reports to Mr. Gaston, with a view to their being distributed to newspaper men as "background."

4. He asked also that we supply him with the names of the officers of the Treasury Department who were chiefly responsible for the work done in the Torric and Lauer cases. Again, I think it would be advisable to cover the Burns, Benny, and Chaperau angles, as well as the Lauer case. My further suggestion would be that, although the Secretary did not specifically ask for this, letters be prepared for the Secretary's signature commending these officers for their work.

5. He asked also that we prepare letters to the Attorney General for his signature commending the officers of the Department of Justice who were responsible for the prosecution of the cases here mentioned.

I suggest that when the above material is ready, it be delivered by yourself either to the Secretary personally or to Mr. McReynolds, as may be convenient.

Harold N. Graves
Assistant to the Secretary.

April 12, 1939

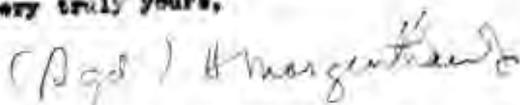
My dear Mr. Hull:

Under the customs regulations governing the marking of imported articles to indicate the country of origin, names of provinces within a country are not acceptable (article 526(b) of the Customs Regulations of 1937, as amended by (1938) T. D. 49656). At the instance of your Department, however, the Treasury Department has been permitting articles from "Manchukuo" to be marked either "Manchuria" or "China" although it was understood that the United States regarded the area as still a province of China. This matter was the subject of letters from your Department dated July 2, 1934 (142.14/1422), July 17, 1934 (78 142.14/1423) and June 20, 1935 (78 142.14/1756).

The Treasury Department has tentatively reached the conclusion that products of the provinces of Manchuria or "Manchukuo" should no longer be permitted to be marked "Manchuria". A question has arisen, however, as to whether the acceptable marking should indicate China, Japan, or some other entity as the country of origin. As the question may involve the position of the United States with respect to matters of sovereignty in "Manchukuo", the Treasury Department would appreciate receiving the views of the State Department on this subject.

In this connection it is noted that, although your letter addressed to this Department on March 17, 1939, with respect to Bohemia, Moravia and Slovakia, made no distinction between the present political status of those provinces, general information before this Department indicates a relation between Germany and Slovakia which is perhaps similar to that which obtains between Japan and "Manchukuo".

Very truly yours,



Secretary of the Treasury.

Honorable Cordell Hull,

Secretary of State.

15:41 4/12/39

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 12, 1929.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHBANK OF ENGLAND.FROM L. W. Knoke

Mr. Bolton called at 10:17 this morning. They were still having a bad time although since New York's opening their dollar losses had decreased and the net now probably was not much in excess of the \$16,000,000 sold according to their earlier cable #349. The Dutch and Swiss were losing; he might have to ship some gold to us for the latter account and would let me know definitely as soon as he had received final instructions. Generally speaking, Bolton thought there was no increase in tension anywhere in Europe today. The Far East as a whole continued a big buyer of dollars with Shanghai, Hongkong, India and the Dutch East Indies leading. There was very little speculation in the market as a whole, he thought, most banks being very reluctant to increase their commitments.

He had completed his arrangements about their insurance of gold shipments so that in future they could send gold to us for delivery either at our vaults or at the United States Assay Office.

Bolton referred to our telephone conversation of yesterday and the new Post Office order prohibiting shipments through the mail of gold in excess of \$50. He had passed my message on to the Treasury and to other Government agencies, all of whom were delighted and had asked him to express their very great thanks. The matter had become somewhat urgent for them because everybody had gotten ready to make their own arrangements to transfer gold through the mail.

FEDERAL RESERVE BANK
OF NEW YORK

164

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE April 12, 1939.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM: L. W. Kneke

I called Mr. Bolton at 11:15 a.m. and explained that when speaking to him earlier in the day I had not realized that with the sale to us of \$14,000,000 today (his cable #351), our gold order of last Saturday had been exhausted. I was now calling to say that we were increasing the order today and to ask whether in his opinion \$25,000,000 or \$50,000,000 would be more appropriate. Bolton replied that \$25,000,000 was quite enough. I continued that with our cable increasing the order, we would also ask them tonight to make the following two additional gold shipments: \$5,000,000 on the Roosevelt sailing on Saturday and \$5,000,000 on the American Trader sailing on Friday. It would be greatly appreciated by us if they did their best to comply with this request, which I was now making orally so as to give them more time to prepare for it. Bolton replied that since speaking to me earlier today he had received final instructions from the Swiss to ship at once \$25,000,000 to New York and that he had just instructed his bullion office accordingly. The only question for the moment, therefore, was whether the bullion office was physically capable to handle more shipments. Nevertheless, needless to say, they would do the best they could.

LWK:KW 1 4 1 3 3 W

APR 12 1939

FEDERAL RESERVE BANK
100 WALL ST. N. Y. C.

Subject: The European Situation.

April 13, 1939

Following is a resume of information received from official sources:

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General. While superficially there is relaxation of tension in Europe, this should not be construed as greatly affecting the fundamental situation. Rather the situation is entering upon a phase of negotiations. These negotiations are diplomatic only to the extent that they are being conducted by civilian personnel. All questions involved are military and strategic.

This new phase is formally being initiated by the statements of the British and French Governments to be made to-day. The statements are expected to involve certain offers of reciprocal assistance by Great Britain and France to those countries bordering upon the strategic Eastern Mediterranean and the Black Sea. As Mr. Lippmann pointed out in an admirable article of this morning, the accentuation upon air power so notable in post-Munich days has given way to considerations of sea power, which ultimately is more decisive than air power. While it cannot be denied that aviation has modified naval strategy in narrow sense, and has greatly affected naval tactics, the new phase of diplomacy seems to be concerned essentially with factors influencing the continuance of British predominance at sea.

The efforts now in progress are attempts to integrate Greece, Turkey, Rumania and Bulgaria into the British system of defensive agreements. Assuming the preponderant importance of sea power, Greece and Turkey, it would seem, will naturally adhere to this system. The problems involved with Rumania and Bulgaria are more complicated. Rumania is hesitant to make territorial sacrifices to Bulgaria essential to the inclusion of the latter country. Such concessions would rouse the irredentist demands of Hungary. The Poles find it difficult to offer any guarantees to Rumania because of their friendship for Hungary. This situation creates a stalemate because of the recalcitrance of Rumania.

Military. French officials now admit that there are no significant military movements in Germany. They insist, however, that the concentration at Brindisi, and movement of supplies to Albania, are greater than any needs dictated by the Albanian situation alone. French immediate concern is regarding the Italian forces in Spain. The pretext of keeping the Italian forces available for the ceremonial parade in Madrid is considered to be utterly flimsy. The French still claim to have definite proof that between April 1 and 10 some 8,000 Italian troops were landed at Cadix, and state that their efforts to obtain explanations have been unsuccessful. Meanwhile it is asserted that France can neglect no military or naval precautions in the present situation, and that these are being made effectively and discreetly.

The Military Attache in Rome has been informed by the Ministry of War that only the classes of 1901 and 1918, plus certain specialists and unemployed of various classes have been called into service, in addition to the normal classes of 1917 and 1918, and the first quarter of 1919 class. He believes that for the present it is not contemplated to call any other classes, and Italian official declarations to this effect "barring extraordinary circumstances" were published to-day. This official announcement was believed to have been designed to stop prevalent rumors, to reassure the civilian population, whose morale is very low, and to quiet anxiety over future possible belligerent measures.

The Military Attache stated that French estimates of Italian forces are excessive. He confirms his previous estimates of about one million men in service in the metropolitan army (including Libya, Dodecanese, Spain and Albania). While the consensus of opinion in Italy is that Mussolini has no intention of engaging in war, it cannot be overlooked that unusual military activity continues which cannot be accounted for by the Albanian situation alone.

In Malta there is a lessening of tension. Relaxation in precautionary military measures and the granting of short shore leaves to naval personnel are mentioned.

The Egyptian reaction to the Albanian affair is described as less alarming than that after Munich. There have been normal precautionary troop movements on the western frontier, and certain British troops have been returned to Egypt from Palestine. Considerable doubt

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among important Egyptians
is being expressed/as to the ability of Great Britain successfully
to defend the country against Italy.

Following is a brief estimate of the total numbers of
ground troops believed to be with the colors in major European coun-
tries:

Great Britain:

In British Isles - 95,000 regulars (210,000 Ter-
ritorials while not under arms can be quickly
called).

In Mediterranean Area - 33,600 (Egypt, Palestine,
Malta, Gibraltar, etc.).

France:

In France proper - 514,000 (including gendarmerie,
50,000).

In North Africa - 180,000.

Total for French Empire - 900,000.

Germany: 1,030,000.

Italy: 1,250,000.

Poland: 900,000.

April 13, 1939
9:15 a.m.

HMJr: Hello.
Operator: Mr. Baillie called while you were talking.
HMJr: Oh! All right, I'll take him now.
O: All right, I'll call you.

9:17 a.m.

Earl
Baillie: Henry.
HMJr: Yes.
B: Henry, I called up to ask you one question in order
to help me on my thinking here.
HMJr: Please.
B: And that is this. On this job, if it came up, would
it be satisfactory if I took a leave of absence from
all my activities, rather than the complete severance
which I did before.
HMJr: Absolutely!
B: Because you can see.....
HMJr: Oh, yes.
B: There are certain things. For instance, take the
C. & O. business.....
HMJr: No, no. I can.....
B: There are thousands of -- of.....
HMJr: Oh, absolutely. That's why I said a dollar a year.
B: Right. Well, that's what I -- that's what I wanted
to be just sure about.
HMJr: No, I -- I -- it wouldn't be fair to ask you to sever
your connections.

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- B: See, what I will do will be to write a letter to each person and each activity in which I am concerned, saying that I am going into the Government service; that I can take no part in that activity during the time I'm there, and asking for a leave of absence. And I could do that without any embarrassment.
- HMJr: Well, I -- I don't see -- this is -- this would only be in the case of a war in Europe.
- B: That's right.
- HMJr: That's right. Well, I -- I'm willing to take the responsibility and say it's all right. I'm -- I don't have to.....
- B: I know you'll never be embarrassed by any stocks that come out of it.
- HMJr: No.
- B: I mean, somebody could say, "Well, he actually is still the Director of the C. & O." whereupon my letter to the Chairman of the Board stating that I asked for -- to be excused from work while I was working on a Government job caused by the war, and the reply of the Board that they were glad to give me a leave of absence.
- HMJr: Well, Earl, your -- your position will be the same as a member of a court who has a case coming up in which either he or his family is interested. If something came up and I had to pass on something with the C. & O. you'd say.....
- B: Why, of course.
- HMJr: "Please excuse me on that."
- B: Exactly. I would go out and look at the cherry blossoms.
- HMJr: Except that -- well, you'd have to wait a year.
- B: That's when I think the war is coming. (Hearty laughter) Henry, I'll give you a final answer on this tonight, but the answer is going to be "yes".
- HMJr: Wonderful!

B: I mean -- only I just have gotten certain things I must do before I say it.

HMJr: Yeah.

B: And I'll be -- I'll talk to you more about it on Monday, of course, but.....

HMJr: Fine!

B: But I'm sure I can do it.

HMJr: Wonderful!

B: I'm much amused at my Dr.'s and Margaret's reaction.

HMJr: What was it?

B: Well, it was this, that it might be the best thing in the world for you.

HMJr: No!

B: Yes. (Laughter) He said, "Last time -- last time you went down into that hell hole, you were in better health than you'd been for years and years."

HMJr: I see.

B: So that to my intense surprise.....

HMJr: Yeah.

B:my wife regards it as a purely health measure and is now looking for war clouds with a great deal of interest.

HMJr: In other words, they think it would distract you.

B: Well, that's the point.

HMJr: Well, it's a question of -- you'd be worrying about other people's money.

B: That's it, but in a very impersonal manner.

HMJr: Right!

B: And, besides I'd have the fun of being with you which would be.....

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HMJr: Well, that's fine.

B:a pleasure.

HMJr: Well, this is most encouraging.

B: Well, I -- I'm sure I'm going to be able to say "yes" but I don't want to say it definitely until I.....

HMJr: Well, we definitely need some hard-headed fellows down here and the Government is very short on them, and you saw Noble went with.....

B: Yes, I did.

HMJr: Harry, and I think I'm very lucky.

B: I think you're very lucky.

HMJr: That I -- that he didn't come with me.

B: Well, I mean, anybody who would be tempted by that setup, Henry.....

HMJr: Yeah.

B:he would be very unhappy.

HMJr: Well.....

B: We must realize that the minute that this war starts that you could ask down anybody you wanted and they'd have to come.

HMJr: Oh, yes.

B: So that it would -- it would -- otherwise I'd -- I'd be -- I'd say -- well, I'm not competent to do this, but I know that I'm competent to get the right people.

HMJr: Right.

B: And to -- and to make them work like hell.

HMJr: Right.

B: And that, after all, is what you want.

HMJr: And -- well, I'm simply delighted and I'll look forward to a call from you tonight.

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B: I -- I'll call you and in the meantime I'm looking up my old Sam Browne belt.

HMJr: I see.

B: All right, Henry.

HMJr: O. K.

B: Talk to you later.

RE PLANS FOR STABILIZING MARKETS
IN EVENT OF WAR IN EUROPE

April 13, 1939.
9:30 A. M.

Present: Mr. Hanes
Mr. Lochhead
Mr. Gaston
Mr. Eccles
Mr. Harrison
Mr. Knoke
Mr. Goldenweiser
Mr. Frank
Mr. Purcell
Mr. Carl B. Robbins (Agri.)
Mr. J. W. T. Duvel (Agri.)
Mr. Feis
Mr. Edward Bartlett (of N. Y.
Stock Exchange - present
for brief period)

H.M.Jr: Gentlemen, the Securities and Exchange Commission, talking, I take it, as a Commission - the reason that Bartlett isn't here is they asked that if he came over we should ask him what the New York Stock Exchange had in mind, explain that we'd like to listen, and then after he tells us what he has in mind we'd ask him to withdraw, then continue the discussion. Is that the idea?

Frank: Yes. May I say - you made the comment that this was talking as a Commission. It really isn't, because I haven't had an opportunity since yesterday to talk to anybody except Chairman Douglas. And the only point is that I think some of the suggestions he may make are of a character that involve both questions of our statutory power and of policy, which the Commission has not yet had an opportunity to discuss. And I think there oughtn't to be - I just respectfully suggest that other agencies of the Government ought not to indicate acquiescence in anything he might say until the Commission has had an opportunity to canvass his powers and his policy.

H.M.Jr: Well, when he comes in would you like me to state what we want from him or would you rather state it?

Frank: I'd prefer you do.

H.M.Jr: In other words, you want us to listen and say nothing, then ask him to withdraw. Is that right?

- 2 -

Frank:

That's correct.

H.M.Jr:

And just to explain - my schedule, which I can't change, is this. At 10:30 I have a semi-weekly press conference and at 11:00 we have an inter-departmental committee on the Brown bill. But I'm free all afternoon, so - I mean I have no appointments for the afternoon.

Mr. Harrison, what we were doing here is trying to look over the field, at the request of the President, to see what the Government and the various agencies would do in case of a war in Europe. Now, that doesn't mean that we expect a war in Europe and we certainly sincerely hope that there won't be one.

And I think I might say, for your benefit, that it is the opinion - not the opinion, the attitude of everybody, including Mr. Wallace, who represents the commodity exchanges, that we all want to do everything possible to keep the exchanges open and not to invoke exchange control except as a last resort.

Now, in a statement which the SEC gave us, one of the things which they are bothered about the most is the question of foreign selling. And for your own information, strictly confidential, in your capacity as our fiscal agent of the Treasury, we have a plan from the British, which I'll show you, where they have worked out in case of a war that they will take over all American securities held by their nationals and will not sell any of them without first talking with us.

Now, we sent out a feeler last night to the other members of the Tripartite as to how they would feel under war conditions, and of course we haven't had an answer. And we're going to do, Mr. Feis, the same with Canada?

Feis:

Mr. Secretary, I don't.....

H.M.Jr:

You said you wanted time.

Fels: Yes. I don't know what the best method would be. My inclination is to think that rather than to call Riddell in, because I don't believe he'd be a very satisfactory intermediary, and give him the same inquiry as you have given through intermediaries to Governments with whom - who understand us - I mean with whom we have been in touch all the time - I think it would be more satisfactory to merely tell Riddell that you had this set of problems in mind and that you think it would be a good idea, since no doubt the Canadian Government also has it in mind, that they would send someone down to talk with you.

H.M.Jr: Clark?

Fels: Clark or that other fellow, the Undersecretary of Finance - it probably would be Clark. I think to get in direct touch might be a little bit more satisfactory procedure.

H.M.Jr: Well, will you do this for me when you go back? See them this morning and ask them to send somebody down tonight, and could they be here tomorrow?

Fels: I'll tell the Secretary of State that that is what you'd like.

H.M.Jr: Would you? That I'd like somebody from State Department to contact them, so somebody could get on a train tonight and be here tomorrow morning, if he approves. But by tomorrow morning I'd like to see somebody from the Canadian Government, see? Would you rather I say that to Mr. Hull?

Fels: No.

H.M.Jr: Will you take care of it?

Fels: No, the only thing that - and that's part of your plan - looks a bit difficult is this schedule, to get them down here - to get the Undersecretary of Finance.....

H.M.Jr: Oh, they'll come.
Feis: On a night train?
H.M.Jr: I can call Clark on the phone and he'd come down.
Feis: Well, that's the only.....
H.M.Jr: Would you like me to call Clark on the phone, or do you want to clear it with Mr. Hull first?
Feis: No, that - I don't - I'm just trying to think what procedure.....
H.M.Jr: Well, think it out, and before you go let me know.
Harrison: You can get Towers down at any time. He is, next to Clark, the best man up there.
Feis: Let me have a couple moments, Mr. Secretary. But I do think that's better than trying to work through this fellow on a formal basis. I think that would complicate your discussions.
H.M.Jr: I want somebody tomorrow morning, see?
Mr. Wallace won't be here? Are you gentlemen representing him?
Robbins: He's sorry, Mr. Secretary, but he couldn't avoid a date to go the Hill this morning.
H.M.Jr: All right.
Feis: Perhaps while you're waiting, if I could get the Secretary on the telephone.....
H.M.Jr: Want to go into Mrs. Klotz's room?
Feis: Save your time that way.
H.M.Jr: O. K.

(Feis goes out)

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George, you said yesterday you were thinking about it, and what have you got in mind as suggestions to offer while we're waiting for Mr. Bartlett as to how this thing might be handled?

Harrison:

Well, we approached it in New York of course last fall when we thought we were going to have trouble, and my particular concern was the New York money market, including the market and exchanges and the effect upon credit and the Government bond market. We made a study of 1914 and couldn't find anything from the experience of 1914 that would really help us in estimating what might happen now. In fact, the situation is so changed that you might expect almost the reverse of everything that happened then.

The one thing that we wanted to know before we could make any plans at all in handling our particular problem there was what was to be the attitude of the Government about markets in general, and you've answered that now as well as you can; that is, that they should stay open.

H.M.Jr:

Well, that - we all felt that that was what we wanted. Isn't that right, Mr. Frank?

Frank:

If it's possible, yes.

H.M.Jr:

I mean that's our objective, to try to keep them open. Isn't that right?

Frank:

Yes. Right.

Harrison:

Well, that's all you could be expected to decide now, anyway.

Then the next question we would like to know before we could really formulate any definitive plans would be, generally, what would be your attitude about gold and foreign exchange control? On foreign exchange control, you have answered that as well as you can now. I presume that

you wouldn't want to institute that at the moment, or unless something would develop that would force it. On gold, I assume, as long as you take that position about exchanges and the market, that you would continue your present gold policy.

H.M.Jr: Well, I think I can answer all three of those questions. I mean I'm talking for myself. The others, if they don't agree, can talk up.

We've got the head of the commodity market here, and he and I used to do business six years ago, didn't we?

Duvel: That's right. We got rid of some wheat.

H.M.Jr: That's right.

I'd like to hang a sign outside of my door: "Business as Usual." That's the way I feel. I'd like to be able - I want to do everything possible to maintain the position of the United States as a world market and keep going on with business as usual. Now, I don't know whether the others feel - I think that's the way they feel. Is that, Mr. Frank, would you say.....

Frank: That's my own feeling. I should say that I have not carried back the result of yesterday's discussion to the Commission, but I am inclined to think it would take the same position.

H.M.Jr: Mr. Eccles?

Eccles: Yes, that expresses my feeling.

H.M.Jr: And how about Agriculture?

Robbins: We feel the same way, Mr. Secretary.

H.M.Jr: Well, there you are.

Harrison: Well, that would be my judgment. I hoped that would be the conclusion you would reach.

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Then assuming that the responsibility in event of war of the Reserve System would be to cooperate with the Treasury in the maintenance of an orderly money market.....

H.M.Jr: I'm sorry, I didn't hear that.

Harrison:would be to cooperate with the Treasury in the maintenance of an orderly money market, and by that at the moment I mean the Government bond market, because that is the money market at present, there are two phases that you'd have to contemplate. If war were declared tomorrow morning, you would have probably a panicky situation for a while and you might have very substantial gyrations in prices which I would expect after a short while would iron out and ultimately develop into a fairly orderly market. But you would have to make plans as to what you would expect to do for the first few days in handling the possible dumping of a good many Government bonds on a market at a time when there would probably be very few buyers.

H.M.Jr: Well now, may I just interrupt you a minute there. Mr. Eccles, I haven't had a chance to mention that, but we are ready to put - if you fellows would discuss maybe that phase of it with your Board: whether you go joint account - but I'll say right now as far as the Government bonds we are ready to put up a hundred million dollars, if you people.....

Eccles: You mean on the purchase of.....

H.M.Jr: To maintain an orderly market, if you fellows will do the same.

Eccles: That would be a matter for the whole Committee to decide, and the Presidents will be in here on Monday. That wouldn't help very much, I guess.

H.M.Jr: I think that they ought to have a - I hate to be pressing everybody like this, but a lot of fellows have been pressing harder.

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Eccles: The thing that I suggested yesterday - that is, that the memorandum that I gave you - that the Board had considered tentatively an announcement about lending on Governments on the basis of par to not only the member banks but the non-members and corporations and everyone. That would have some influence. I think, however, more than that, it would be necessary - I think the question of possibly buying bonds would be necessary.

(Feis returns)

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

Eccles: And we - the Executive Committee - we'd have authority to increase the portfolio on the basis of a telephone approval. In other words, we are in a position to act by getting a telegraphic or telephone approval by the other members on the Committee. And I would certainly feel that in an emergency, something developing quickly, we could get a very quick response. Wouldn't you think, George, there'd be no trouble on that score?

Harrison: I don't think there would be any trouble at all.

H.M.Jr: Well, could you work at it today?

Eccles: What is it?

H.M.Jr: Could you work at it today? I mean in case - supposing tomorrow morning we read there is a war in Europe.

Eccles: Yes. I think we could call the other members that are not here. There would be only four. George is here and there are only four others to call. There is the Board and the four members.

H. M.Jr: Well, I'd like to go joint account with you fellows.

Harrison: I think you're - I don't mean this in anything but a friendly sense - almost a piker in talking in terms of a hundred million, preparing for what will happen.

- H.M.Jr: We're talking in terms of two hundred million. You want to raise me?
- Harrison: I want to raise you, yes.
- H.M.Jr: How much?
- Eccles: I think we ought to get authority to buy at least five hundred million. It doesn't seem to be a question of how much you're going to buy, but you've got to get authority to buy whatever the situation may.....
- H.M.Jr: I'll play table stakes. I'll see you whatever you raise me. I'll see you - table stakes.
- Harrison: That's right. Well then, having - if we should decide on some amount, whether it's five hundred million.....
- H.M.Jr: O. K., Johnny?
- Hanes: Sure. I agree with George; I don't think you can stop at a hundred million.
- Harrison: I mean if you're going to attempt to do it.
- H.M.Jr: I'll be a little facetious. I just would love to have the Federal Reserve raise us once.
- Eccles: Of course, ordinarily, we go in when you don't go in at all.
- H.M.Jr: Well, that's just exchanging bills.
- Eccles: No, I'm speaking of open market operations. Of course, we haven't increased the portfolio because of the huge excess reserves now for nearly two years.
- H.M.Jr: Well.....
- Eccles: It's almost two years since we bought anything.
- H.M.Jr: The week that I came to the Treasury, November 17, 1933, was the last time the Federal Reserve increased its portfolio.

- Eccles: No, no. No, no, we increased the portfolio in the fall.....
- Harrison: Fall of '37.
- Eccles: Two years ago right now.
- Harrison: In the fall of '37.
- Eccles: A little in the fall.
- H.M.Jr: How much?
- Eccles: We increased it in the spring of '37 and a little in the fall of '37, so you're wrong.
- Gold'r: A hundred thirty-four millions all together, Mr. Secretary.
- H.M.Jr: Really?
- Eccles: In '37.
- Harrison: Yes. You don't read our statements. I don't blame you.
- H.M.Jr: Well, anyway - listen, if you people, Harriner, would formally let me know what you have in mind, whatever you people think is necessary on the Government bond market, we'll match you.
- Harrison: Then I think the next thing, assuming you do that - the most important question would be - where we would need the best technical advice we could get would be on how to do it. Let's suppose you had a flood of offerings on the first day after war might be declared, and I think you might because in 1914 we had call loans which banks could use for liquidity - at least they thought they could - we had commercial paper, and we had a lot of other kinds of market paper that they could come to the Reserve Bank on. But now principally the only instrument which they can turn to for liquidity, if they want it, is the Government bond portfolio. So you might have a lot of banks who do not need liquidity in fact but think they might want to prepare for liquidity, or who might want to protect paper profits that they have now got before they

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vanish, which is the more likely motive, and they would be offering bonds all over the lot.

Verily, I believe we could get the principal banks in New York, for instance, to hold on to their bonds. In fact, I talked with several of the banks in September and they admitted the futility of trying to dispose of their bonds on a market that would result after the declaration of war. And I think that we should attempt to do that in the principal cities throughout the country. The principal holders of bonds - in their own self-protection, it would be just the height of folly for them to begin dumping bonds, because they know they couldn't sell them unless the Fed and the Treasury bought them; we'd be the only buyers.

Then would come the question of how we want to handle the market. Do you want to peg it? My answer to that would be no, that it would be a silly thing, with markets fading away in every part of the world, in all kinds of commodities and securities, for us to try to have the Government bond market sit up like a sore thumb. And if we did, all we would do would be to invite holders of bonds to bail themselves out at a profit, to take all their profits, and leave us holding the bag.

H.N.Jr:

Well, I think it is very important that you do get together with the Federal Reserve Board and decide what you want, Marriner, and then maybe if you could spare the time we could get together this afternoon again, see?

Eccles:

Yes, we can get together this afternoon, that is, those who are in town. All the Board members except one are here. George is here. The majority of the Committee is in town. We can discuss it.

I feel that this point that George makes is very important, that about the only reason that banks are going to sell would be in order to protect their profits. They have very large profits due to the high price of Government bonds. They don't need liquidity. There aren't any of the banks

that really need liquidity. They have excess funds all over the lot. They can borrow against any asset now. So the question of liquidity is fully taken care of, and it would be just a question of to what extent do we want to protect their profits; and I for one certainly don't feel that either the Government or the Federal should step in and peg any prices or attempt to in any way freeze them. I don't think that at all.

I think that to the extent of avoiding a complete panic in the market where there would be no buyers and thus the market could drop an unjustifiable amount between sales - that we should do something on that score, but only that.

Harrison: I think there is one thing.....

H.M.Jr: Could I - excuse me. I mean Mr. Bartlett is here and I've got just until 10:30.

Harrison: Before he comes in, I want to say one thing on that. It won't take a minute. One of our great troubles in a period of declining markets is the quotation of bond sales on the New York Stock Exchange: not so much the fact that they report quotations as the fact that they report the changes between sales. Very frequently a particular issue won't sell for three days on the Stock Exchange, so that you might have a case where on a day when the bond market has gone off half a point over the counter, the Stock Exchange in the morning reports that that particular issue has gone down two points - I mean using exaggerated figures now.

H.M.Jr: Of course, if I was on the New York Stock Exchange, I'd say, "Well, why doesn't the Government give us a little bond business? Then we could afford it."

Harrison: Well, they've suggested that at times.

But I think - that's a thing I've talked to Mr. Martin about and he realizes the difficulty, but we haven't come to any agreement as to how to handle it. But it is a very important thing because the figures the country banker looks at are the New York Stock Exchange figures and not the over-the-counter figures. Now, we give to the Tribune and Times - they'll publish every day the over-the-counter figures as well as the Stock Exchange figures in the bond market, but generally the country as a whole gets the Stock Exchange figures, which are not reflective at all of the transactions of a particular day.

H.M.Jr: Well, I'm a country fellow and I look at the bond quotations on the New York Stock Exchange and I guess that's why I've been misled.

Harrison: I've got hell from the Federal Reserve Board because we allowed a certain issue to go off a point and a half when we were supposed to be stabilizing it. Well, the bonds haven't been traded in for three days, and that represented a three-day drop rather than a one-day drop.

Feist: The Secretary believes it would be more satisfactory to get someone down from Ottawa and suggests that if you want to suggest to Riddell that he come here this morning, have him be here if you so wish, and put it right up to him to get someone on the train tonight. So I thought if you wanted to set a time for Riddell, I could go out and phone him now and get him down whenever you want to see him.

H.M.Jr: Well, how long do you think this banking meeting will go today, Marriner? How long do you think it will take?

Eccles: I haven't any idea. Entirely up to you, I would think. I think it depends on how extensively you want to discuss the problem.

H.M.Jr: Well, if at 12:00 o'clock we were still busy, I could excuse myself - I mean what I want to say to Riddell takes three minutes.

Feist: Exactly.

H.M.Jr: Well, do you want to.....

Feis:make an engagement for 12:00 o'clock?

H.M.Jr: Yes. This is going to run until 10:30.

Feis: I had better get Riddell right now, make sure I can catch him.

H.M.Jr: Kieley can do it.

Feis: I'll ask Mr. Kieley, if it's all right with you.

H.M.Jr: Now, will you introduce Mr. Bartlett to the people, if he's here, and bring him in. We can meet again this afternoon. I think it's - we've got a joint three-cornered proposition.

Feis: You said 12:00 o'clock?

H.M.Jr: Yes.

(Frank brings in Mr. Bartlett)

Frank: Mr. Bartlett, Mr. Secretary.

Bartlett: How do you do, Mr. Secretary.

Hanes: Hello, Eddie.

Bartlett: Hello, Johnny.

(Mr. Bartlett is introduced to the principal conferees)

H.M.Jr: Mr. Bartlett, what we are trying to do here, in the strictest of confidence - I don't know how - I'm afraid some of the newspapermen have seen some of you come in; I don't know what I'll do at 10:30 when I have a press conference - but what we're trying to work here for the President is to take a look at all angles of what the Government would do in case of a war in Europe, which doesn't mean we think there is going to be a war in Europe.

Bartlett: Yes sir. I understand.

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H.M.Jr: And at least that we should be prepared. And I might say - I think I can talk for the Administration - that what we are trying to do is to make it possible that business will go on as usual.

Bartlett: Yes sir.

H.M.Jr: And the last thing we want to do is to close any institution.

But if you would be kind enough - and I'm afraid it will have to be a one-way conversation - would you tell these gentlemen here what you people have in mind and what you think would be helpful? We'd like to listen.

Bartlett: Well, I assume that there is no dispute about the desirability of keeping the Exchange open; and of course that can not always be done, but we have the feeling that in this case it can be done.

In the first place, there has been no great amount of foreign liquidation that we have seen. The market has been low and there is no great speculative interest in the market.

Of course, we don't know what would happen. The question of keeping the market open under a terrific impact that you might have with the declaration of war is, unless it is going to continue indefinitely, largely a question of mechanics. If you had no minimum prices or anything to check a serious break, the market might go out of hand and go to a level that would be ridiculous. So we feel an attempt should be made to handle the situation with this game of minimum prices, which of course is not now.

And after considerable discussion, which of course has just taken place the last two days - Mr. Martin, the President of the Exchange, is away - we have felt that minimum prices should be placed on both the - I won't say in event of a war, because that wouldn't necessarily be the signal in the stock market; the signal would be the appearance of uncontrollable liquidation, which might come before war or might come with the declaration of war. That would probably be something that we would be better judges of than anybody else, because it's

a thing that a broker senses or that you sense by being around a market.

And we feel that an attempt should be made to handle it, if it arises, with ten percent minimum prices. For instance, a stock selling in the forties would be permitted to decline in any one day four dollars, and the same thing with bonds at that price. And if they were offered at that price and no buyers appeared, naturally the market in that stock would be closed - not necessarily the entire market. It is in effect a partial kind of closing; it might or might not be.

Now, the question that would arise would be whether ten percent would be too wide a fluctuation to allow. I feel that the desirable thing is to get as much of the liquidation out of the way from day to day, if it happens, as is possible, and that if we have a very narrow decline possibly it might snap right to that price without accomplishing liquidation and the market would be marked down more.

So we feel that that should be tried and that could go on for a few days and then we'd see what the situation was then and how we could handle it at that time. You never know what these things are going to be until you get in them. And that's the way we feel about that.

Of course, in former crises - they're a little before my time, but I do remember - in the stock market they have had buying power that would come from banking pools under those conditions, where key stocks would be supported. That, of course, under the Securities Act would not make its appearance today. And also we have had at times pretty generous support in stocks from directors in companies and various other sources. Those two kinds of buying power today would be out, so the market would have to depend on investors or speculators, individuals, buying.

H.M.Jrs

What do you think the Government could do to be helpful?

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Bartlett: Well, I'm inclined to think - of course, all these things, sir, are guesses - I'm inclined to think that if margin requirements were reduced to something like the Stock Exchange minimum requirement of thirty percent, it would be helpful.

H.M.Jr: How much, Mr. Bartlett?

Bartlett: Something like the Stock Exchange requirement. I'm saying the Stock Exchange has the minimum requirement, according to our by-laws, of thirty percent. That's the minimum requirement, and that's probably a safe margin requirement, because it functioned properly during the break in 1929. Anywhere between that and the present Federal Reserve requirement on - I can't keep up with these margin things, but I think at present that's forty percent.

Eccles: It's forty now. It hasn't been changed for two years. In fact, it's only been changed once. It is now at the rate that was fixed by Congress. They fixed a formula which was not mandatory, but that.....

Bartlett: That's right.

Eccles: The margin now is approximately at the margin that Congress fixed in the formula when the law was passed, and it hasn't been changed for two years.

Bartlett: Then, of course, there is another feature of that; that's what they call the daylight - as I understand it, they call it the daylight trading rule. I don't have much to do with this. But under that rule today the trader and the partner and the floor member have to margin all their - the aggregate of all their transactions during the day. There is a different rule applicable to them than is applicable to an outsider. Now, that goes into the philosophy of Stock Exchange regulation; but at the same time it does restrict greatly the operations of a trader or somebody who might temporarily be able to take a speculative risk. I don't know whether the Government would consider changing that under that stress, but it undoubtedly would create a very large additional buying power and increase the magnitude of the market and its ability to absorb liquidation.

- H.M.Jr: Well, that would be between you and SEC, wouldn't it?
- Bartlett: Well, I think that's Federal Reserve.
- H.M.Jr: Is that Federal Reserve?
- Frank: That's - I think daylight trading is the SEC.
- Bartlett: Daylight trading is the SEC?
- Eccles: All we have is the fixing of margins for credit purposes only.
- Bartlett: I'm not advocating it, but I'm just pointing out that that is a very restricting regulation which, on top of the others I have mentioned, does limit the support that the market would be likely to get under those conditions.
- H.M.Jr: Has anybody raised the question about the rulings of the Comptroller of the Currency in connection with loaning on stocks? Has that come up?
- Bartlett: What's that?
- H.M.Jr: I mean the rulings of the Comptroller of the Currency to banks as to how much they could loan on stocks.
- Bartlett: No.
- Eccles: I don't think they have any ruling on it. The submitting of the - there are so many of the stocks that are unlisted stocks, and I think it is merely a question of judgment as to whether or not the loan is adequately and properly secured.
- Hanes: The Federal Reserve has the right to change restrictions on the margin of the banks as well as with brokers.
- H.M.Jr: But as to the prices on the stock?
- Hanes: The prices are the.....

- Eccles: Matter of margin based on prices.
- Hanes: Margin based on prices. There's a place there for the Comptroller.....
- H.M.Jr: It was mentioned yesterday.
- Hanes: That's right.
- Eccles: We fix the - the margin does not apply to existing loans. It applies only when the margin goes into effect. It doesn't mean that an existing loan is affected by it. In other words, when a loan is made at the time the margin requirement is, say forty percent, that complies. Later the stock goes down. As far as the Federal Reserve is concerned, they don't require any change in the margin, but the Comptroller might. He may go in and that stock may have gone off until it's an unsafe loan - even though there is a forty percent margin and it met the requirement of the Federal Reserve when the loan was made, the stock would go off to the point where the loan would be unsound; and if their examiners find that situation, in their judgment, they could require that they get additional collateral, as I understand it.
- Bartlett: Well, the Stock Exchange has a requirement.
- Eccles: You have a minimum of thirty percent.
- Bartlett: That makes that automatically callable when it hits the Stock Exchange requirement.
- Eccles: So far as the broker is concerned.
- Bartlett: So far as the broker is concerned.
- Eccles: But not so far as the banks are concerned.
- Hanes: Your minimum margin requirement is thirty percent of the debit balance.
- Bartlett: Yes, which means about twenty-three percent of the market.
- Hanes: About half the margin required by the Federal Reserve.

Bartlett: However, it has proved an adequate margin to take care of serious market situations. And it differs from the Federal Reserve in that it must be kept good; it is a minimum margin, it is not - it must be minimum. That margin must be kept there and if the market would mark down daily, it would be the broker's duty to make that margin constantly good. And that would be the purpose of minimum prices: to keep mechanics of the market such that a broker would have time to get his checks in and mark the market down, and then he would have at the point where - when conditions turned, the market would be open. The difficulty with closing a market is, if you close a market there is great difficulty to open it, particularly if values decline materially. Then you've got to wait until the raft floats again. You can't open it without serious breaks confronting you. Sooner or later you've got to face the music.

H.M.Jr: Mr. Bartlett, on the New York Stock Exchange how much are you people worried about foreign selling in case of trouble?

Bartlett: Well, all we can say is we have seen no evidence of anything to alarm us. And of course there are a good many securities held by foreigners, but the experience of the last war, I think, has made people look at this thing a little differently. The liquidation, of course, was terrific. There were speculatively held securities and a lot more securities which were loosely held abroad. But the experience was that the war was bullish on the market, and I think with that experience behind them a lot of people would feel that a European war, whether for good or not, would after the first impact probably be bullish on a great many of our securities. And I don't - as a personal opinion, I don't think that you're going to have any deluge of foreign selling. I can see no evidence of it and I don't know where it would come from. Those are things you'd feel; they're in the air. I haven't examined all the figures, but a broker gets the feel of those things. That's my opinion. That's why I think that possibly a minimum price system will permit the market to function and keep

open until it gets to the point where there can be free trading again.

H.M.Jr:

How much of an influence would the Government bond market - if it was weak or strong, the Government bond market - the effect it would have on the rest of the market?

Bartlett:

I think ultimately it would have a considerable effect, but these things that we have to care for in the market are things that come in sudden rushes. The things that are watched most are the key stocks like United States Steel and things of that kind. That's why in the past these banking pools have always supported them, because the whole market structure depended on the action of those stocks.

Now, of course, we wouldn't attempt to put any limitation on the price of Government bonds. That would be an exception as far as the Stock Exchange would be concerned.

We have had considerable liquidation and I felt rather glad to see the market go down gradually. It is now at a point where the average price of stocks, I think, is under twenty-five. So the impact cannot be as serious and there must be a point where support will come into the market. There are undoubtedly plenty of funds in this country that would be willing to take a chance at bargain prices. It would take a day or two probably for the situation to clarify, and that's why we feel that these prices should be marked down gradually.

You know, the first experience that I had with minimum prices was on the day the Lusitania sunk. I was in the cotton business at that time, and cotton broke from 18 cents to 12 on the opening rush of panicky selling, and then rallied to 16 or 18. Now, that was what induced or brought about the idea of minimum prices to prevent those devastating kinds of drops from sudden rushes of orders under these unusual conditions. And it is a question largely of

mechanics and giving people time to adjust their ideas and handle the thing.

H.M.Jr: Mr. Eccles, would you like to ask some questions?

Eccles: Just going to ask if the Exchange has the power to regulate the market in the manner you suggested. ✓

Bartlett: I asked our lawyer that question the other day and he said, "Yes."

Eccles: So that the.....

Bartlett: Of course, the market was closed in 1914, and after it reopened they had these prices fixed and were permitted to do that.

Eccles: The Exchange, then, could close the market or they could fix minimum prices. Would that require the approval of the SEC?

Bartlett: I don't think so.

Frank: We're inclined to think not.

Bartlett: I think that, as I understand it, the President has the power to close the market, is that correct, under the Act?

Frank: The Commission, with the approval of the President.

Bartlett: The Commission, with the approval of the President. But as to the fixing of minimum prices, that, I assume, would be a matter of our own.

Frank: I am inclined to think you can do that without any permission.

Bartlett: Naturally, we wouldn't care to do so if we didn't have the tacit approval of the Treasury or Federal Reserve or other interested parties. What we're trying to do is, if possible, keep this thing going and functioning and that's the only way that we see that it can be done, and we are hopeful that it can be done.

Hanes: Eddie, did the Stock Exchange and the banks work out the minimum price at which loans may be made in conjunction - back in 1929, you remember, when they put up a set price on certain stocks?

Bartlett: I don't know. Of course, there is one difficulty with the whole thing and that is the over-the-counter and the outside markets. Now, the over-the-counter dealers and the others, I think, cooperated fully. There was, however - what sprang up was really virtually a bootleg market later, and that of course was an undesirable thing. But we had the cooperation of the press and very little publicity was given to any other prices than those at which last rates had been made.

Of course, some liquidation to fix up situations is desirable. But I don't know just what would happen with the over-the-counter market. That is something over which we have no control, of course - the over-the-counter market and other markets than our own.

H.M.Jr: As a matter of curiosity, the Board of Governors - when you are, for instance, talking over what you would do, do you talk informally, for instance, to the Cotton Exchange?

Bartlett: This, sir, I have not discussed with the Board of Governors. I have felt that it was highly desirable not to do anything that might create panicky feeling or the feeling that we anticipated anything of this kind. I have - Mr. Martin, as I say, is away - I have discussed it with the Executive Committee, which is a small committee, and it would be done in conjunction with the committee that has charge of operations on the floor; they would handle the market end of this thing if it was put into effect. But I believe fully that the Governing Committee would back up our judgment and give us the power to do anything we wanted at an instant's notice.

We have felt it highly desirable that we say nothing and our policy is to not discuss this.

and the only people that we would discuss it with would be either you, Mr. Secretary, or the Commission or the Federal Reserve Bank. Other than that, we listen to nobody. We have a lot of what I call jitterbugs around that nearly drive us crazy, but we pay no attention to them.

H.M.Jr: Mr. Frank, do you want to say anything?

Frank: (Nods no).

H.M.Jr: Dr. Feis?

Feis: No sir.

Bartlett: Of course, these things are largely a question of feel and guess. We don't know what's going to happen. We hope and think possibly it isn't going to happen at all, but we've got to have a definite program and this is the best one we can devise, if you gentlemen think it is sound.

H.M.Jr: Well, that's the purpose of this meeting.

Bartlett: Yes sir.

H.M.Jr: Mr. Harrison?

Harrison: There is one problem that we have, Mr. Bartlett, that has caused us trouble in previous periods of liquidation in the Government bond market, and that is the daily quotation on the exchange of the transactions in Governments. The volume of trading on the exchange in Governments is so small, relative to the over-the-counter market, that very frequently a day's transactions don't represent what is going on.

Bartlett: That's very true.

Harrison: And you give in your quotations the highs and lows and also the change since the last sale; very frequently the last sale may have been two or three or four days prior, and the change reflected in the newspaper on a given morning doesn't really represent the day's drop in bonds at all. And unfortunately the small country banker and others outside of New York

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get those figures, do not have the over-the-counter figures, and see that a certain issue has dropped maybe a point, point and a half, two points; they don't understand it and they get scared.

Is there any way - I talked with Martin about it last fall when we anticipated the possibility of trouble, and he agreed that something ought to be done about it, but the crisis passed for the moment and I have never been in touch with him since.

Bartlett: Well, I'm not a bond man and I never discussed it with Mr. Martin, but I don't think there is any doubt that something can be done about it. It is just a question, as you say, of published quotations.

Harrison: It would be a mistake to.....

Bartlett: I really don't know - I can't say that I know personally how far our market is from what you might term the major bond market, or market for Government bonds. I can't say how far it differs. I haven't looked into that.

Harrison: Well, at times it differs very much. I wouldn't think it would be wise to cease to give your quotations at all, because that would make a lot of fellows think there was no market in Governments. But it might be wise if we only eliminated the last figure, which represents the change, because that is misleading in many cases.

Bartlett: Yes sir. Well, I wouldn't like to say at first blush, in my inexperience in that matter, just what can be done, but I am sure something can be done to satisfy you on that.

Frank: Could you work out a consolidated quotation on the market and the over-the-counter?

Harrison: We've tried to do that and have been successful in getting the Times and Tribune to emphasize the over-the-counter market in Governments rather than the Stock Exchange figures, although

you always see at the head of the bond quotations the Government quotations, and that's the first thing a small country banker will look at and we can't direct his attention to the over-the-counter figures that come out only in order to do this.

- Hanes: George, every time you make a change in price, if it's a change, say, from one day to the next, couldn't you just put enough bonds over the Exchange to make that price in accord with what your major market price was?
- Harrison: I don't know whether.....
- Hanes: The Government might do a little wash selling off the record.
- Bartlett: I don't know anything about it, but it would seem an extraordinary thing for it to differ very much, because there would be an arbitrage in there.
- Harrison: It differs only when there is no sale for two or three days. On a given day I agree with you, but when there has been no transaction for three days.....
- Bartlett: We could give our bid and asked quotations when there is no sale. They would probably be in line with the counter market.
- Harrison: When you represent the change between sales you give the drop that has taken place from the last sale prior to the day that you are reporting.
- Bartlett: We'd be very glad to study that and give you an opinion as to how it can be handled to represent.....
- Harrison: I wish you would.
- Bartlett: I'll write that down. Be glad to do it.
- H.M.Jr: Here's a chance to get a little business too.

- Harrison: I don't know whether Mr. Frank will let us do that.
- Hanes: We can wash sale or do anything you damn want.
- Bartlett: I'll say that the Government bonds are very important to you gentlemen, but the broker gets so very little out of them that we don't care about them. We don't like to see them go down, though.
- Foote: We're not the ones that manipulate it. What you ought to do up there is get these Government bond dealers; they're the only fellows that are not subject to regulation by anybody.
- H.M.Jr: Does Agriculture want to ask any questions?
- Robbins: No, thank you, Mr. Secretary.
- Fels: Mr. Secretary, this isn't so much of a question as a matter on which someone else may have some ideas. I should anticipate that the weakest spot in the whole market would be the market for foreign government bonds.
- H.M.Jr: For what?
- Fels: Foreign government bonds. Now, I don't know nor am I suggesting that there is anything - any different policy or treatment that should or could be adopted. But there, I should think, almost certainly you'd see the complete smash. I mean.....
- Harrison: But I imagine the minimum prices that Mr. Bartlett talked about would apply to those as well as others.
- Bartlett: Apply to all bonds and stocks except United States Government bonds.
- H.M.Jr: Well, we'll hire a good fellow that does know how to manipulate. We don't have that kind of fellow.

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- Bartlett: Well, may I understand then that you feel it is desirable that the Exchange be kept open if it is possible?
- H.M.Jr: Well,
- Bartlett: I mean that's the premise we are working from.
- H.M.Jr: I can talk for myself and I simply say that I hope they will all stay open. I mean we have - you're a very important one, but there are others too.
- Bartlett: I understand that.
- H.M.Jr: I can say, talking for myself only, that we certainly will do everything possible to help to keep them open.
- Bartlett: I presume that a little conformity of action would be a desirable thing in the event that this thing does happen. That, of course, is something that we cannot control.
- H.M.Jr: Well, you'll get conformity from the Administration, because everybody that's got anything to say is sitting in the room now.
- Frank: I must say, as a caveat, that I haven't consulted the Commission, I'm just presenting my own views; but that would be ours, I think, and assuming that that was the Commission's attitude and no unusual circumstances occurred, I wouldn't think there would be any difficulty, Mr. Bartlett, in working out with the other security exchanges - I mean I'm sure we can get them all together along.....
- Bartlett: May I ask you, Mr. Frank, if you have any personal opinion as to the relative merit of the ten percent decline as a daily minimum. That is, of course, a question. I think it is desirable to mark the market down as much as possible to allow the latitude for getting as much liquidation as possible.
- Frank: Well now.....

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- Bartlett: Of course, if anything does happen, it will probably happen very quickly. We want to do the best thing we can.
- Frank: Speaking purely informally for the minute, I don't think we have any authority - personally expressing our views - but I do think we ought to work together on what we think is the best thing to do. Now the Commission may not feel that way. I think when you get through you might go back with me and have a talk with the other Commission members, sometime during the rest of the day. But technically the Commission has no authority over you with respect to any such arrangement.
- Bartlett: Well, you might have a good opinion.
- Frank: And I think we ought to have an opinion. That's my personal view. I don't think we ought to act in this aloof manner.
- Bartlett: It's our idea that this would be something for the general good and we are all working here for.....
- H.M.Jr: Johnny, do you want to ask anything?
- Hanes: No, not a thing.
- H.M.Jr: Well, Mr. Bartlett, we appreciate very much your coming over.
- Bartlett: I appreciate the opportunity of coming over.

April 13, 1939.
4:00 P.M.

RE PLANS FOR STABILIZING MARKETS
IN EVENT OF WAR IN EUROPE

PRESENT: Mr. Hanes
Mr. White
Mr. Lochhead
Mr. Barnstein
Mr. Foley
Mr. Eccles
Mr. Harrison
Mr. Knoke

H.A.Jr: Hello gentlemen.

Eccles: Are we late or early or what?

H.A.Jr: When you get here the meeting starts.

Eccles: Oh, I see.

H.A.Jr: Well, we've still got the battle on with the Attorney General on our ruling as to how much power we will get under the executive order if the President should want to put on exchange control, etcetera, etcetera. And when do you think, Ed, we will know where we are at?

Foley: Well, I should think tomorrow or Friday they ought to be able to tell us.

H.A.Jr: What?

Foley: I think they ought to be able to tell us tomorrow or Friday.

H.A.Jr: And tell these gentlemen what is the only point they question.

Foley: Well, they have no doubt at all as to the validity of the proposed order insofar as it applies stringent foreign exchange control. The only point they are hesitating on is the adequacy of the power to put in the order a provision requiring detailed reports as to all foreign assets - foreign-owned assets in this country. The statute says that under certain conditions the President has the power to regulate, investigate and prohibit

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foreign exchange transactions. We think "investigate" means the furnishing of information as to foreign asset holdings in the United States, and they say it isn't clear and they are hesitating. They are not willing to say - the people that are working on it for the A.G.; this isn't the A.G.'s feeling - they are not willing to say categorically that the statute doesn't convey the power. On the other hand they think, without knowing just the extent of the emergency that exists at the time the power is exercised, they can say categorically that it does exist. It is a question of statutory construction and a question of legislative intention.

We think that the power is there and that the order as we have prepared it is all right.

Harrison: Doesn't the statute go further than that and authorize the investigation of foreign exchange and credit transactions, as I remember the law?

Foley: That's right.

Harrison: Well, if the two mean different things, I should think the credit transaction would mean investigate the result of a foreign exchange transaction, which means a deposit in a New York bank, we'll say; and I don't think there is any - I am not a lawyer any more, but I don't think there is any question about it.

Foley: You see, Governor, they don't hesitate about our ability to freeze all those accounts and require that transactions as to those foreign accounts be made only by license. They don't hesitate about that. That seems to me to be the major thing. The other thing, the giving of information as to what the foreign-owned assets are, is the thing that they are sticking on.

Harrison: But didn't we for account of the Treasury conduct for a long while a series of weekly reports in which we asked for that very information?

S.M.Jr: You still are.

Harrison: Well, we do it.....

- Foley: We did the same thing insofar as gold was concerned; we asked for quite detailed reports in 1933 as to the gold holdings. And that power was sustained by Judge Woolsey in New York when it was challenged in the Campbell case.
- Harrison: That's right.
- Foley: And that was before the power was ratified by Congress in January '34.
- Harrison: I'm pleased that the Attorney General is giving deliberate consideration to the obvious.
- H.R.Jr: Well, anyway, what I'm trying to do is - it shows how important it is to do these things before there is a crisis. You get ready and then pray to the good Lord there won't be any crisis. But if we were fussing around and Frank Murphy saying, "You can't do this thing," and you fellows putting the pressure on to do it, everybody would be excited; and this way we do the thing and then if there is no crisis, why, we are very fortunate. But I am tickled to death we've got this thing under way now.
- Harrison: I hope you won't have to issue that order.
- Foley: So do we.
- H.R.Jr: It's all true, but if you want a weapon you want to keep it oiled and loaded.
- Harrison: That's right.
- H.R.Jr: But with the sincere hope that you don't have to use it, that's all. No, what I am counting on is this, and this is what I want to say to this small group. What I call all of these things, they are trial runs, you see. Now, what I want to ask you (Harrison) as our fiscal agent in New York - what can you do for us just with - along the lines of asking these various presidents of these banks to play ball? And if, for instance, war should break out Monday morning, what are the things we'd want to ask them to do, so forth and so on, you see?

And what I was thinking of - I mean writing it down here - I mean what would we want until the English could get their securities under control and the other countries get their securities under control, you see - about the balances and holding them. What are the various things that we ought to ask them in order to freeze the thing? And try to do it on a voluntary basis, you see, pending giving these other people a chance. And the thought that I had in mind - one of the real reasons - I wanted to ask you first what is the list of things you want to ask, and what our people think you ought to ask; and then the thought of pulling these people in and sitting down and talking with them, saying, the way we've been doing here, "If there is trouble, these are the things that the Administration is going to ask you to do on a voluntary basis. How do you feel about it? We don't want to get you out of bed at 2:00 o'clock in the morning the way we did on the day of the Tripartite, but we want to talk these things over in advance and get your ideas. And would you be willing to go along on such and such a program?" You see? That was one of the principal things.

Then if all that was worked out and these fellows who do do the business with the foreigners and you sat down and had your list and you say, "Now this is what we want to do. This is what the Administration is going to ask you to do on a voluntary basis. But you ought to know that they've got the power to ask you to do this." And so you could have a trial run with these fellows in New York. That was the principal reason.

I talked to Mr. Eccles before I asked you down about doing this sort of thing, and you (Eccles) are in sympathy with this, aren't you, Harriner?

Coates: I'm very much in sympathy with doing everything you can without putting on.....

B.M.Jrt: But I'm not going too fast, am I?

Coates: Not for me.

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H.M.Jr: All right.

Eccles: You did that before, George; you called these presidents up and got cooperation.

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

April 13, 1939
4:15 p.m.

Operator: Go ahead.

HMJr: Hello.

Henry
Wallace: Hello.

HMJr: Yes, Henry.

W: Oh, Henry, here was a matter I thought possibly if matters came to a certain pass you could be helpful to us on, and that's on this matter of the trading of the cotton and wheat for rubber and tin.

HMJr: Oh. Well now, what -- what have you got in mind?

W: Some of the British were around here yesterday. I didn't see them. They saw some of our people -- saying that this matter of the rubber that's been -- that the British grow in the East Indies is not under their control. Well, of course, it can be or can't be according to which way they want to put it.

HMJr: Yeah.

W: And I just thought it might be worth your while to keep that in mind and if it came to any bargaining along the lines that you outlined the other day.

HMJr: Well, Henry, you're about three jumps ahead of me and I don't know what you're doing on this -- on this swap business.

W: Yeah.

HMJr: Now, if you could have somebody give -- write me a little memo; as Will Rogers says, I only know what I see in the papers and I don't believe everything that I read.

W: Yeah.

HMJr: So you had me all pepped up on this export bonus business and -- and now -- now -- you're swapping are you?

W: How's that?

HMJr: Now you're swapping rubber for cotton?

- W: Oh no, no. It doesn't take the place of the export bonus at all. We're going ahead and see what we can do with that and if -- we have to go the legislative route.....
- HMJr: Oh.
- W:on the export bonus.
- HMJr: But, are we.....
- W: As a matter of fact, as I told the President in the first place, I was afraid we would have to, but there's been more opposition on the Hill to it than....
- HMJr: But on this swapping scheme.
- W: Not on the swapping scheme.
- HMJr: I don't know a thing about it.
- W: Do you mind -- are you in a position to listen a moment?
- HMJr: Well, I've got a group here now.
- W: I see.
- HMJr: And we're just talking about foreign exchange.
- W: Uh-huh.
- HMJr: But if you could have somebody there just write down on a page what it's all about and stick it in an envelope, I'd appreciate it.
- W: All right. We'll get that -- we'll get that over to you in a day or so and then possibly I'll see you sometime tomorrow or at Cabinet, I don't know.
- HMJr: Well, I -- I don't think there is any Cabinet tomorrow.
- W: They're having it from twelve to one tomorrow.
- HMJr: Oh my God! All right.
- W: (Laughter) All right.
- HMJr: When do I eat.

W: Well, they may feed you there; you can't tell.
You're supposed to go out to Mt. Vernon at one-
thirty you know.

HMJr: I know.

W: All right.

HMJr: All right.

W: Good bye.

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Harrison: Well, Mr. Secretary, in answer to your suggestion, do you want me to speak?

H.A.Sr: Yes. I just wanted to make sure..... Johnny, so I get the benefit of your eyebrows, would you mind sitting there? I mean I've got my back turned to you and I don't know whether you like what I'm doing. This way you can give me the eyebrow signal.

Harrison: That won't get on the machine though.

H.A.Sr: What?

Harrison: That eyebrow signal.....

H.A.Sr: The eyebrow signal - no. But I can watch his eyebrows and I want the benefit of his advice.

All right, please.

No, I just wanted - if Eccles didn't approve what I was asking, I wanted him to say so, you see.

DeLoe: Well, you mentioned before George came down that you were going to do this. You merely mentioned - you said you were going to have him come down. Now, as to the practical operation of the thing, why, whatever the New York Fed thinks they could do - it gets down to a practical job. That's really what it amounts to. I'm sure so far as the Board is concerned - it isn't a matter I think that they would have responsibility for anyway.

H.A.Sr: Well, I didn't want to say that. I mean I feel I can go to George as our fiscal agent and ask him to do things, but as a matter of courtesy and having the benefit of the Board's backing I am asking informally, and I'd like the Board to be sympathetic to what I am asking George to do. Now, is that.....

DeLoe: That's all right. I understand.

H.A.Sr: No, I want them to be sympathetic, I want them to know. I don't want to have it come up later on that I have asked the Fed of New York

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something and I don't want George to be between two millstones. But I would like the sympathetic backing of the Federal Reserve Board for what I am asking; and you know plenty in advance so you can say, "Well now, wait a minute, Henry, this is something that we wish you wouldn't do." You see? Is that clear, Marriner?

Eccles: That's clear to me.

Harrison: I'll tell you what I have already done.

H.M.Jr: O.K.

Harrison: And then I'll tell you what we can do.

H.M.Jr: All right.

Harrison: Before the Munich crisis we made a complete survey in the New York banks of the 1914 versus the 1938 situation.

The one thing we felt we needed definitely in New York, in the light of past experience, was to have a bankers' committee to which I might go in any hurry upon any matter dealing with credit, loans, foreign exchange, gold, or anything else that the Treasury might want us to do. The banking community agreed definitely that I should have such a committee - call it advisory committee or a market committee or a contact committee. There was some difference of opinion as to how it should be organized, but nevertheless the principle was agreed to. We dropped it merely because of the Munich appeasement, as it was called, I understand.

At that time I discussed with the principal banks in New York the whole question of the bond market for one thing, the foreign exchanges, and the question of foreign balances. I think there is no question that they would be all definitely willing and glad to do anything that they legally can within their rights. And if I set up such committees, as I had planned yesterday to do today if I had been in New York, all I would have to do would be to put up any question I want to to the committee and let them do the dirty work. That's the way I'd rather do than

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call them up, as you say, at 2:00 o'clock in the morning.

On the question that you asked - well, I'll say one thing that they said about government bonds. They all agree, those with whom I talked, that in event of an emergency the New York banks would not, because in their own interests they probably couldn't at any reasonable price, unload their Government; that it would not be a practicable or sensible thing to do. That doesn't mean that some who are under pressure for one reason or another might not have to try, or get a loan from us. But in principle, they agreed that as a banking community they shouldn't demoralize the market by trying to run to cover and unload their holdings of securities on us.

On the question that you now bring up of asking their voluntary cooperation on the matter of blocking foreign accounts pending the opportunity, say, of the British Government to get hold of them, there is difficulty. At the time of the Tripartite, it was quite appropriate that we should ask and that they should agree not to indulge in any speculative foreign exchange transactions that might have the result of putting pressure on the exchanges. They all agreed and they played ball on that, I am quite confident.

This is different. They hold balances running to the credit of various individuals, various foreign banks, properly attested and properly owned by foreign nationals. Query: Whether we could reasonably expect them to dishonor a draft drawn by the owner of that account, even if we asked them voluntarily to do it; because their lawyers would say, "You run a great risk of being sued for damages for having failed to honor the draft."

I think that if we were to expect to freeze those accounts so that the British Government could get hold of them and prevent the British nationals from disposing of them, we would have to go, in their protection - the banks' protection - as far as to require them not to make payment, because.....

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H.A.Jr: Not do what?

Harrison: I say I think you would have to^{go} as far as to require them not to make payment, because of the fact that no matter what their wishes might be they couldn't voluntarily agree, I think, without liability to refuse to make payment. Now, it is exactly comparable to the British on the Czechoslovak case. The British Treasury asked them there not to make any payment at all without consultation with or approval of the Treasury; but, recognizing that there was a very reasonable and likely liability, the Treasury instantly got an Act of Parliament undertaking to indemnify the banks for any damages that might follow from their having agreed.

H.A.Jr: Now how would you suggest handling this particular piece of machinery?

Harrison: Frankly, I hadn't thought of this blocking of British nationals' account pending the opportunity of the British Government to get hold of them. I am afraid if we asked the banks voluntarily to do that, they'd say, "Well, we'll have to consult our lawyers," and the lawyers would say - nine out of ten - that you can't do it without liability.

H.A.Jr: Well, the Attorney General isn't questioning our authority to do it.

Foley: No, he admits that.

H.A.Jr: What?

Foley: He admits that this executive order insofar as it deals with stringent control over all foreign balances in this country, is all right.

H.A.Jr: All right.

Hanes: He agrees that we have the right to freeze those balances and demand of the banks that they not transfer them.

Foley: That's right.

- Seales: That relieves the bank of the liability.
- Foley: The issuance of the order would relieve the bank of any liability.
- Seales: You have an Act of Congress. This executive order would take care of it.
- Foley: That's right. And our power even goes farther than what they tried to do by indemnification in Great Britain.
- Harrison: But you'd have to have indemnification if you asked for voluntary action on their part.
- Foley: That's right.
- H.M.Jr: We had a call from Cochran, who saw Paul Reynaud today, and Paul Reynaud said he didn't think this thing would interest him - this is triple confidential - because he didn't want to do anything which would keep France from being the haven of refuge for European capital; and he felt sure that France would be the one place that everybody would want to come, and he wanted to do everything to encourage people to send their money there. ✓
- Harrison: Therefore he would not as a corollary to that want to commandeer or requisition French balances here.
- Witte: In the event of war.
- Harrison: Well, I'll bet you a nickel he'll be doing it within two weeks, if it's not too late.
- H.M.Jr: Well, I said facetiously yesterday on this commandeering of accounts that if you would exempt the French Cabinet, you would get quick action.
- All right. Well now, go ahead with our regular business. What?
- Harrison: Well, that was the only specific thing that you asked me to do. I'd like to go back to this question of the committee that I'd have there.

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I would expect to have a committee representing the commercial banks, the investment houses, perhaps the government bond dealers, the savings banks, and perhaps even the insurance companies, although that would be doubtful. And I would expect to have them organize subcommittees such as one on foreign exchange, for instance, so that if I have a meeting of the group I can turn over any foreign exchange ruling or question or suggestion or cooperation that you want to procure to the full committee, leaving it to the representative on that committee that has the foreign exchange committee to do the job.

I think that we might have to have a representative of the Stock Exchange available. I don't know. I'd rather not cross that bridge yet. I'd rather have those fellows decide that rather than to have me decide it.

But if I can get such a committee organized promptly next week.....

W.H.Jr: Oh hell, you ought to have it ready by Monday morning.

Harrison: Well, I could have it ready - I can have it ready, without choosing the personnel that I want instantly; but I would like to do it myself personally, and I don't know whether I'm going to get back tonight or not.

W.H.Jr: You are as far as I am concerned.

Lucas: Well, it seems to me that you've got the plan, you know that it is just a question of a telephone call; as you say, you could set up this thing in an hour if you've got the plan. There isn't anybody that would refuse to cooperate. And it may be really better not to advise with everybody and to discuss it with them, because you get a certain amount of.....

Harrison: I would frankly rather not set up the committee in advance, because it gets out, on top of other rumors, and there is a risk that people will suspect we've got information that others haven't got and that this is a lot more intimate than it appears to be.

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H.M.Jr: Did you see the statement that the Wall Street Journal ticker carried?

Harrison: Yes, I did.

It's a question of tactics. I think I have talked with enough fellows and have enough cooperation in spirit to be able to do it.

H.M.Jr: Well, George, it's your responsibility and you've got to do it, as far as I am concerned, and we are here and you know how we feel.

Have you got any suggestions, Johnny?

Hanes: None at all.

H.M.Jr: What?

Hanes: I think I'm in agreement with George Harrison that I wouldn't set up this committee until you are ready to move. These fellows think that the Government has information here about this thing that nobody else has at all. As a matter of fact we've got very little, but they think we've got an awful lot.

Eccles: Well, if George has got the plan and personnel in his mind.....

Hanes: And he knows he can get them and knows perhaps the crowd he would call on instantly and that they will all come immediately.

H.M.Jr: All right. So we've got only one other thing to settle. Did you fellows decide on what you wanted to do on the Government bond market?

Eccles: Yes. We had a meeting of the four members of the executive committee - didn't have time to get Mr. Leach, who is the outside member, there - and the members of the Board were all here and they also came into the meeting, so that present there were seven, with the six Board members and George making the total of seven. There were four other members making up the full committee.

And we adopted a resolution authorizing a purchase of bonds up to 500 million dollars. It is subject to, however, the telephonic approval of the other members, which has not yet been secured. But we don't contemplate that there would be any difficulty in getting their telephonic approval just as soon as we have an opportunity to contact them. Next week the Bank Presidents are coming in anyway, and at that time we can have a regular meeting of the full committee, at which time a ratification of this action can be gotten, and further authority if the situation would seem to warrant it.

Does that cover the situation, George?

Harrison: Yes. I think it is fair to say that we reported to them that we understood you would be willing to go in with us.

H.M.Jr: Well, I didn't know but that somebody might object to having us join you.

Harrison: Well, we might on the sales but not on the purchases.

H.M.Jr: All right.

Lochhead: If you're going to cover those table stakes, we may have to use some gold chips.

H.M.Jr: Meaning what?

Lochhead: Well, you would first use in buying there the special twos.

H.M.Jr: About a hundred twenty million.

Lochhead: After you exhausted that, what fund would you buy from?

H.M.Jr: There is only one fund.

Lochhead: Stabilization.

H.M.Jr: Yes.

Lochhead: That would be gold chips, because we'd have to throw some gold into the System, because the balance.....

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- Eccles: Well, a little more or less wouldn't make any difference.
- Lochhead: Just mentioning it to you.
- Eccles: As a matter of fact, that's what I said, that we anticipated that.
- Wise: Harriner is developing an immunity to excess reserves anyway.
- Eccles: Developing it? Hell, I've had it for a long time.
- H.M.Jr: Well, we've got over a hundred million of those special twos.
- Lochhead: Yes.
- Harrison: Mr. Secretary, I think one terribly important thing is - that's the reason I wanted to stay over until tomorrow - assuming you agreed that in some amount and on some basis we are going to buy bonds in event of emergency, the most important thing is the technique of handling it. I've got a number of ideas - I don't know whether you would all agree with them. I mentioned some of them this morning. But I do think if we really want to be prepared, while it is a detail in a sense, it is a terribly important detail that we should fairly well agree on the broad outline of the method.
- H.M.Jr: Now when do you want to do this?
- Harrison: I've got an engagement for the Federal Reserve Board at 10:30 tomorrow morning.
- H.M.Jr: Where?
- Harrison: Over there.
- Eccles: Well, what we've got - it's our.....
- H.M.Jr: All right.
- Eccles: The operation is an operation of the Executive Committee of the Open Market Committee and what

we want to do is to discuss the question that George raises here as to the New York Bank as the agent of the Open Market Committee as well as the Treasury.

H.M.Jr: That's something between you people.

Eccles: That's right, but at the same time it is also a matter that the Treasury is going to be interested in, because if there is going to be a joint account, the policy to be pursued in maintaining an orderly market, the extent to which you let the market go down, and how far you will stick your neck out, so to speak - I mean it's a question of a technical operation and all you can do is discuss it in very general terms now, and you'd have to be in constant contact on the day-to-day operations during such a crisis anyway.

Harrison: But what I wanted to do was talk to the Board - I thought the most orderly way of doing it was to talk to the Board and see if I can work out a program with them and see if you (H.M.Jr) will approve of it yourself; or if you'd rather have somebody from the Department sit in, it's just as agreeable to me.

H.M.Jr: No, while we're making these policies I want to be present. After the policies are made we'll designate somebody to operate. I mean I won't be able to operate, but in the making of this stuff I want to at least make my contribution. But once we get to operating, why, we'll furnish an operating man.

Harrison: Yes. Well, what I had in mind, for instance - it is almost a question of policy. It is conceivable that there may be circumstances that would make it wise to put on a minimum price for a day's transactions, just as the Stock Exchange is considering doing for stock.

H.M.Jr: Look, George, if you could do this, this would help me. I don't have to go to Mt. Vernon tomorrow, see? I mean.....

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(On phone) Ask Mr. Kannee over there if there is a Cabinet meeting tomorrow and what time, please.

Now, if there is a Cabinet meeting from 12:00 to 1:00 and the President is going to Mt. Vernon, I can skip Mt. Vernon, see? I don't have to go to Mt. Vernon. I just thought it was a wonderful excuse to get out and get some fresh air. The President is going down and asked his Cabinet to go along with him. I don't have to go.

Harrison: What is tomorrow?

H.M.Jr: I don't know - something at Mt. Vernon. He's making a speech down there. I don't know. It's some anniversary, something. What's the fourteenth?

Foley: It's the Pan-American good neighbor business.

Harrison: Oh, I see.

H.M.Jr: At Mt. Vernon?

Harrison: Just wondered whether there will be a holiday in New York tomorrow.

Hanes: Washington's birthday in April.

H.M.Jr: 2:30 P.M. is the Mt. Vernon address. I don't know what the occasion is.

White: Before you adjourn, on the other aspect, Mr. Secretary, did you want to postpone exploration of the question as to whether it would be desirable to impose the freezing of the balances in the event of an outbreak, in view of the fact that apparently cooperative efforts need that support; or do you want to postpone that until the situation develops more?

H.M.Jr: No, I want to postpone it. Now France is not interested, Switzerland is interested, Holland is very much interested. But don't, as I say, for God's sake, don't let it get out, because they say, "We're supposed to be neutral. Belgium is interested, but please don't mention it. We're neutral." They're scared to death, poor things.

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I told them not to worry, I wouldn't do anything without their saying it, you see. And the Canadians are sending somebody down here Saturday.

(On phone) Hello. - O.K. - Thanks.

Eccles: In other words, all but France are willing apparently to cooperate.

H.M.Jr: Yes.

Eccles: And take such action as the English are willing to take with reference to avoiding a dumping on this market.

H.M.Jr: Now, to answer your (White) question, I just thought that I want to assimilate this a little bit, you see. And then also I'm waiting for the Attorney General's ruling.

But there is no reason that I have why Mr. Knoke should stay unless he likes it down here in Washington.

Lockhead: Can't get a place to sleep.

Harrison: I've got a room for him.

Knoke: I've got a reservation on the midnight which can be cancelled if necessary.

H.M.Jr: Do you want to raise anything, Knoke?

Knoke: No, I have nothing.

H.M.Jr: Well, I think we're all right.

Knoke: I was just wondering - as regards France, I don't think the figures in the case of France are particularly important, of course not nearly as important as the British figures in this market; so that even if France stayed out, I don't think it would nullify the whole thing necessarily.

Harrison: What is your estimate of the amount of French holdings of our securities?

Knoke: Well, in a very general way I can say this, that French purchases have been very small over a long period now.

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White: About two hundred fifty million of securities.

Harrison: Yes.

White: Approximately two fifty million of securities, beside their short-term balances.

Harrison: And their short-term balances?

White: Short-term banking funds, two twenty, and ear-marked gold, a couple hundred million dollars. But their securities - and that does not include direct investments, which are small - as I say, less than a quarter of a billion.

Harrison: I don't see Reynaud's argument at all. If he wants to make Paris a haven, I don't see how commandeering balances in New York is going to hurt that.

Knoke: It would be part of exchange control, and I think with a measure of justification he claims that exchange control in France would certainly interrupt the present flow of funds back to France.

H.M.Jr: That's his argument. That's his argument.

Knoke: After all, he is in a different position from the rest of the world. I mean he's really the only one who has been gaining in the last three months, when Switzerland plus Italy - I mean plus Holland and Belgium and England have been losing. ✓

White: But there's been no war in the last three months.

Knoke: No what?

White: There has been no war in the last three months - very different situation. We're talking about the situation that would arise in the event of a European war, and under those circumstances we'd see whether France would attract any substantial amount of funds.

H.M.Jr: I can't see it.

Eccles: You would think they'd want to move immediately in order to conserve all of the balances and all of the securities they can. If any country

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needed to commandeer them and would want to move, you'd think it would be the French.

Harrison: Mr. Secretary, may I ask a question?

H.K.Jr: Please.

Oh, here is something - I've just about run out down hill - this is strictly confidential from Butterworth: "As instructed I presented to the British Treasury the memorandum this morning. The British Treasury stated that a formal reply would be forthcoming in due course but they said informally that they felt that the answer would of course welcome the suggestion of consultative exchange of view. At the same time they referred to the fact that the broad outlines of their immediate procedure upon the outbreak of a war had already been communicated to me as reported in my 428, March 31, 6:00 P.M."

Well, we know what that is.

"After emphasizing that they were speaking personally and informally they remarked that the matter of bank deposits and earmarked gold seemed to them to fall into a somewhat different category from the question of marketing securities;....."

They got it.

".....that in the event of a war they would expect to use the available dollar funds for purchasing American p-r-o-d-u-c-t-i-v-i-t-y....."

White: Bad thing to buy.

Lauchlin: I think that's probably the coding or decoding; it's probably "products."

H.K.Jr: ".....and as regards earmarked gold they hoped they could assume that the United States would continue to give dollars in exchange for such gold which likewise they would use for purchases in the United States."

They got it. What?

"They went on to say that they themselves had had in mind the question of approaching the American

monetary authorities on the problem of dealing with the holdings of American securities; and naturally they would wish to obtain funds from the American securities to be taken over from British residents and that there seemed only two possible methods (1) to sell them and (2) to borrow against them. On balance they were to prefer the latter procedure but the question arose as to whether it would conflict with existing American legislation:....."

White: No, it would not. If we set up a special government organization it wouldn't, but if it were private it would.

H.M.Jr: Well, there's a point for you.

Harrison: That was the question I was just going to ask you.

H.M.Jr: I think we have crossed that. As I understand it, if they put up a bunch of securities, they could borrow against them.

White: There are certain securities they could borrow against. The Government can lend against any

Bernstein: Not from private persons.

H.M.Jr: Well, that's a question. Well, anyway.....

White: The suggestion has been made with respect to this to set up a government organization whose function shall be to extend loans.

H.M.Jr: Well, wait a minute, they go on here - excuse me. ".....if the British Government as such could not legally borrow against such American securities, could a 'straw man' do so? Accordingly, the British Treasury asked me informally to ascertain whether we had in mind any given procedure to meet such a contingency, or whether we would or would not prefer them to raise this question in their answer to the memorandum."

Well, that's a very decent thing, very proper, and it's right to the point.

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Lochhead: A straw man might do it, but it seems to me some agency such as the RFC could do it.

I thought we had a memorandum on that.

White: We had.

H.M.Jr: I thought we had a memorandum saying they could pool those things, there was a way they could borrow against them.

White: But Bernie has held that there are certain definite objections to using a straw man.

H.M.Jr: I thought that bridge had been crossed. Well, it's a good cable. Butterworth is a good man.

Harrison: Fine, fine - entirely able.

H.M.Jr: They've got the comebacks; we got just the comeback we wanted. And it's so much better - what we said yesterday was that instead of asking them - not the British, the other people - and being turned down and then threaten, we should throw out this little hint. They got it and now we don't have to threaten.

And as far as the French are concerned - well, we've handled them before. There are many ways of handling them.

White: Would there be any value in possibly letting the other countries know the British views? Would it be possible?

H.M.Jr: Harry, my brain right now is played out. I don't want to make any decisions at this point. I know when my brain is played out. I'm through for today.

Harrison: I move we adjourn.

H.M.Jr: I'm glad to chit-chat, but as to getting any decisions out of me, my brain is exhausted and I don't want to make any more decisions.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 13, 1939.

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

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For your information

Congressman Doughton has agreed to introduce today the legislation removing the limitation of thirty billion dollars on the authority to issue bonds. I understand that Senator Harrison prefers to wait until the House Bill comes over before his committee takes any action on the President's proposal.

I will continue to keep you advised.

E. H. Foley

APR 13, 1939

My dear Mr. Buell:

Thank you very much for sending me the preprint of your Fortune Round Table on "Taxation and Recovery." Mr. Blough, chief of the Division on Tax Research, has some comments he would like to make on portions of the article and I believe he is transmitting them to you directly.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Raymond Leslie Buell,
Round Table Editor,
Fortune,
Time and Life Building,
Rockefeller Center,
New York, New York.

ESD:hp 4/12/39

dc
Gene Duffee
FORTUNETIME & LIFE BUILDING
ROCKEFELLER CENTER
NEW YORK

EXECUTIVE OFFICES

April 7, 1939

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

Dear Mr. Secretary:

In view of the discussion which has apparently taken place within the Administration with respect to tax revision, I thought you would be interested in receiving a preprint of the second FORTUNE Round Table - devoted to the question of tax revision and recovery. Please respect the release date of April 26.

Sincerely yours,

Raymond L Buell

Raymond Leslie Buell
Round Table Editor

PLEASE HOLD IN CONFIDENCE UNTIL APRIL 26TH The Second FORTUNE Round Table

In its newest application of group journalism, FORTUNE again brings together a panel of active, well-informed business and professional men to explore a topic of pressing importance to the nation's economy and synthesizes their findings.

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THE MEMBERS OF THIS ROUND TABLE

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Chairman of Board, The Studebaker Corp.,
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Taxation and Recovery

We start with these premises

IN APPROACHING the tax question, FORTUNE's Round Table is impressed by its overwhelming complexity. There is disagreement between those who believe that low taxes are essential to secure prosperity and those who insist that high taxes are necessary to redistribute purchasing power. Countless questions arise as to the many forms of taxes imposed by the federal government, our states, and our municipalities. Countless technicalities are involved in such matters as the definition of taxable income. Moreover, the tax system is constantly changing. Since 1932 nine revenue bills have been introduced into Congress, each authorizing some new form of levy. States and cities, spurred by unprecedented relief needs, impose new sales taxes and excises, and competing tax jurisdictions struggle for the same sources of revenue.

No group of businessmen or even of experts could hope to find a quick and sure cure for all of these manifold problems. Although several members of our Round Table are taxation authorities, most of us are laymen who can merely advance certain tentative proposals. Our first and foremost suggestion is that Congress authorize the appointment of a national tax commission, drawn from among the ablest men in public and private life, to take evidence from every competent source and recommend the adoption of such principles and methods of administration as would remove much of the present complexity and uncertainty.

What we have in mind is something like the committee headed by Lord Colwyn appointed in 1924 by a Labor government in Britain. For nearly three years this committee, representing various points of view, studied the British national debt and incidence of taxation. It held forty-eight sittings and received evidence from sixty-two witnesses, representing among others the Trades Union Congress, the cooperatives,

government officials, and economists. We believe that a similar inquiry organized by the federal government could recommend to Congress a comprehensive tax system that would provide the revenue necessary for America's social and fiscal needs.

Meanwhile we feel able to advance certain principles and offer certain suggestions the acceptance of which should have a beneficial effect.

1. Taxation is an obligation of citizenship that should fall upon the wealthy to a greater extent than on the poor.

As a result of taxation the government is able to meet essential social needs and help create that equality of opportunity for the most humble

which is the goal of every democracy. Even though large taxpayers may receive less obvious benefit from their taxes than do the poor, they do gain security for themselves and their property. Business could not operate except for the police protection, judicial system, highways, mail service, sanitation facilities, and national defense provided by government. The assumption by government of responsibility for the unemployed assists private enterprise in carrying a burden that it probably could not carry alone. If properly directed and controlled, public expenditure undoubtedly increases the capacity of business to make profits, and business should pay taxes in return.¹

2. The amount of federal revenue must be increased.

It is not our function here to express an opinion as to whether the federal budget should be balanced immediately or over a

¹By Mr. Fisher: Not the best theory of taxation, nor do any considerations of this kind make tax paying any pleasanter.
For the illustration of Mr. Vance, see Appendix II, page 124.

ical period, although all of us believe that sooner or later budget must be brought into balance. We wish to point out, however, that in the fiscal year 1939 the federal government will expend more than nine billion dollars. Even with the best of our minds it will be possible to reduce such expenditures to the level of six billion revenue reached in 1938. Plans are being made almost daily for new expenditure; appropriations for national defense are increasing; the President has proposed to liberalize the provisions of the Social Security Act; large public-health programs are being contemplated; and generous grants to agriculture may be made. A sound policy is to believe that the federal budget can be brought into a cyclical balance merely through the increased tax revenue that would be automatically produced with a rise in national income. While some increase in yield would occur at existing rates, most of us believe that certain tax increases are also needed if we are to have a sound fiscal policy.² The need for a larger government revenue has become a necessity. It may be unpopular, particularly when appropriations bills are being debated, but it is time for the country to face reality.

Final expenditures by all government agencies today are over 25 per cent of the national income, part of which is being covered by deficit financing. Any taxation adequate to meet this vast sum is bound to exercise a profound effect upon the functioning of our economy. In formulating a tax system care must be taken not to penalize business expansion, upon which the solution of our employment problem depends. If a tax system discourages risk-taking in the creation of new enterprises the system will prove more harmful to the worker than to the wealthy. In imposing taxes particular attention should be paid not only to the size of the income tax but to the economic function it should perform. Although there is disagreement among us as to whether given taxes do discourage new investment, the Round Table unanimously believes that the nature of a tax system as well as the amount of taxes may hamper the growth of enterprise. If government expenditure succeeded in increasing national income faster than tax increases then such increases

Mr. Stichter, Appendix II, page 117.
Mr. Vance, Appendix II, page 122.

could be borne. On the other hand, taxes may be levied in such a way, or the burden may be so heavy, that business is discouraged from increasing production and the object of governmental policy is thereby defeated.³

4. Taxation should be primarily for revenue. In recent years the employment of taxation to effect social reform has been advocated in a number of quarters. The use of the tax power to punish giant corporations or destroy huge fortunes has been proposed. Although some members of the Round Table are of the opinion that the American economic and social system is in need of far-reaching reforms, most of us doubt that regulatory or punitive taxation is the proper means of bringing them about.

The effect of such taxation is unpredictable; it is not a selective agency, for it punishes saints and sinners indiscriminately. Once taxation as an instrument of reform is accepted, business will suspect some covert purpose behind every revenue proposal and lack of confidence will persist. If it is desirable to make social changes, direct methods should be found.⁴

In our opinion the purpose of taxation should be to raise the largest amount of revenue while doing the least injustice to any class of citizens and encouraging the fullest degree of private employment.

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

II. The system

WHEN Congress enacted the Income Tax Act of 1913 the normal rate was 1 per cent and the maximum surtax 6 per cent. In 1916 only 17 per cent of federal tax revenue was derived from income taxes, most of the remainder coming from customs, and from liquor and tobacco excises. As a result of the World War, Congress sharply increased taxes and imposed new levies. In 1918 the normal individual rate jumped to 12 per cent on income above \$4,000, and the maximum surtax rate to 65 per cent. By 1921 nearly three-fourths of the federal revenue was derived from income and excess-profits taxes.

With the end of the War, extraordinary expenditures fell off, and Congress adopted a policy of radical tax reduction. Under the Revenue Act

[Continued on page 116]
³ For the observations of Mr. Myrdal, see Appendix II, page 122.

THE AREA OF AGREEMENT

Here are fifteen men: a "conservative" midwestern manufacturer, a "progressive" New England manufacturer, an anti-Roosevelt southern businessman, a pro-Roosevelt labor leader, a couple of men who inherited wealth, a Socialist, several tax experts, also one of Sweden's most distinguished economists and practical Socialists, Gunnar Myrdal, invited to the table for his comments on our American tax system.

On the subject of federal taxation these men are known to disagree, but after struggling with the complicated issues before them they were able to define an AREA OF AGREEMENT and even to concur upon some immediate reforms. With the exceptions and qualifications noted in the text, this AREA OF AGREEMENT is as follows:

- I. Taxation should be primarily for revenue.
- II. It is an obligation of citizenship that should fall more heavily on the wealthy than on the poor.
- III. The amount of federal revenue must be increased.
 1. While apparently the budget cannot be balanced immediately, a cyclical balance is imperative.
- IV. If we are to maintain the capitalist system, taxes must be imposed so as to place the least hindrance upon economic progress.
- V. The present tax system is inadequate:
 1. Because it cannot raise enough revenue.
 2. Because, bearing too heavily on the poor, it is inequitable.
 3. Because, bearing too heavily on the rich, it holds back investment and therefore employment.
- VI. The Round Table recommends:
 1. Reform of corporation taxes to eliminate double taxation of dividends, the capital-stock tax, and the excess-profits tax; also to permit consolidated returns, reasonable allowances for depreciation, and the carry-over of losses.
 2. Abolition of tax-exempt securities.
 3. Relief of the poor by repeal of all federal excise and sales taxes (except gasoline, tobacco, and liquor).
 4. An increase of \$700,000,000 in the income tax to be raised from the middle income brackets by lowering exemptions and raising present rates.
 5. Establishment of a National Tax Commission to formulate long-term tax policy, eliminating present uncertainty and complexity.

MAJOR QUESTIONS UNRESOLVED

- I. Do surtaxes on large incomes discourage venture capital?
- II. Is the principle of the undistributed-profits tax sound?

Fortune Round Table

[Continued from page 58]

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

	Millions of dollars	Percentage
Corporation taxes		
Income	1,489.0	31.5
Capital-stock tax	139.8	3.1
Excess-profits tax	91.4	0.6
Payroll taxes	745	16.8
Individual income	1,266.3	31.2
Estate and gift taxes	417	6.9
Tobacco	568	9.4
Spirits and liquor	568	9.4
Customs	559	9.0
Sales taxes	514.7	9.3

Based on the progressive principle, the personal income tax now starts with the normal rate of 4 per cent on nonexempt income. A surtax of 4 per cent begins with net taxable income over \$4,000 and gradually rises to the maximum surtax of 75 per cent.

Before 1934 the highest rate of income tax on corporations was 15.75 per cent, subsequently giving way to a graduated tax ranging from 8 to 15 per cent. In 1936 Congress also imposed a tax on undistributed profits, which varied with the percentage of undistributed income. If a corporation distributed 90 per cent of its net income it was liable to a 7 per cent tax on the undistributed amount. This rate rose progressively so that when all earnings were retained the corporation was subject to a total normal tax and surtax of 38.4 per cent

of its net income. The undistributed-profits tax was drastically modified in the Revenue Act of 1938. Today corporations with incomes of less than \$25,000 pay an income tax ranging from 18.5 per cent to 16 per cent. Larger corporations are liable to a tax of 19 per cent with a dividends-paid credit of 2.5 per cent. The present corporation-tax provisions expire December 31, 1939. Before that date, Congress will presumably enact a new corporation-tax law.

Since 1933 corporations have also been obliged to pay a tax of \$1 for each thousand dollars of adjusted declared value of capital stock. To prevent a corporation from placing too low a value on its capital stock, a 6 per cent excess-profits tax is imposed on all income in excess of 10 per cent of the adjusted declared value, and 12 per cent on income in excess of 15 per cent of such value.

The federal government also taxes estates. While property up to \$40,000 is exempt, the tax begins at 2 per cent on the first \$10,000 above the exemption, reaching a maximum of 7 1/2 per cent on taxable estates above \$50,000. To discourage the avoidance of the tax through making gifts before death, Congress now imposes a gift tax amounting to three-fourths of the rates imposed on estates.

Finally, large sums are derived from levies on tobacco, liquor, gasoline, and other sources; from customs; and from payroll taxes for old-age benefits.

III. Taxes and corporate risks

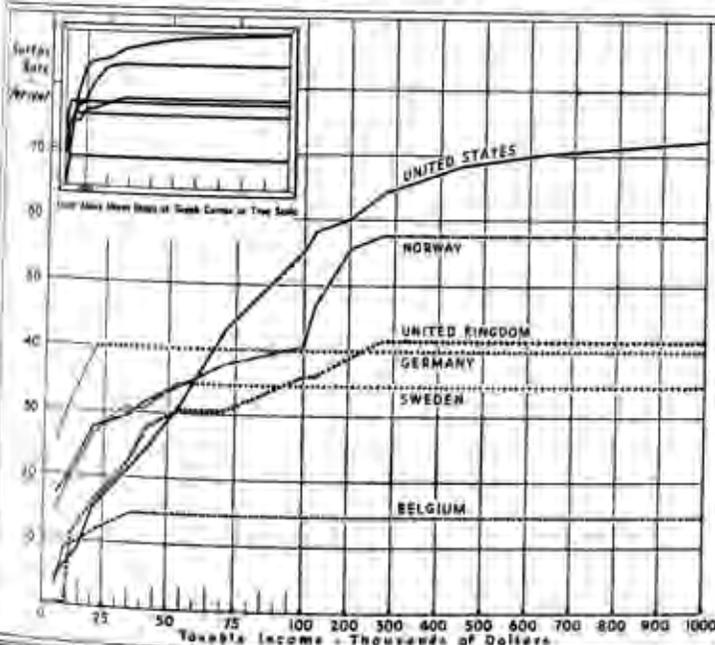
THE members of the Round Table find that their attitude toward taxation is affected by their views on government expenditures and the importance of saving. One group is alarmed by the unprecedented increase in government expenditure, when unaccompanied by any effort to balance the budget. This group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

A second group in the Round Table does not believe that government expenditures can be reduced. On the contrary, there is such a vast need for public housing, old-age pensions, unemployment relief, public-health facilities, public-works and conservation plans, agricultural assistance, national defense, and other essential projects that government expenditure, in this group's opinion, will have to increase. Consequently government must find additional revenue, not only by augmenting the national income but by increasing certain tax rates. Some members of this group go further and declare that as a result of the disappearance of the territorial frontier and a slowing of the rate of population increase, opportunities for sound private investment have greatly declined. In their opinion government should impose heavy taxes upon people of great wealth and corporations with large reserves in order to divert funds from savings to the consumption stream and maintain a proper equilibrium in the economy.

[Continued on page 111]

PROGRESSION OF SURTAX RATES FOR SIX COUNTRIES

(Graph Scale widened from 0 to \$100,000 for clarity)



Despite these fundamental differences, all are convinced of the need of increasing income, and in a way that does not militate against expanding production. We agree that America's greatest problem today is unemployment. Until men find productive jobs our national income cannot really increase, nor can we hope to raise our standard of living. Employment depends partly on some one being willing to meet a payroll. If that is to endure, investors and business men must see some prospect for profit; they must have an incentive to invest. The effect of taxation upon such incentives we shall first discuss in connection with corporation taxes.

The general corporation tax always enterprise and investment, operating some case of 4 percent.

undistributed profits, capital stock, excess profits, and payoffs. Moreover corporate profits are subject to double taxation. A corporation pays tax on its profit as part of corporate income, and the stockholder pays a tax on the same profits received as dividends. In contrast, bond interest is taxed only once.

The Round Table favors the taxation of corporations as a means of obtaining revenue, without the numerous burdens of corporate taxes, and many other features of these taxes are in our opinion to discourage enterprise and employment. This is true of the double taxation of dividends, and also of the taxation of taxable income. Designed to obtain as much revenue as possible, such definitions frequently designate as taxable income items that are only remotely related to the real income of an enterprise for the business year in which it operates. For example, a corporation that suffers a loss in one year cannot deduct it from income in the following year. Such a system works against a new enterprise that may well be in the red for the first several years. As soon as the enterprise shows profit in a given year, it is liable to income tax even though it may have a deficit. If such enterprises were allowed to carry over losses, risk taking would become more attractive.

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

The Round Table believes that the federal law should be changed to recognize the carry-over of business losses, including capital losses, for several years. It believes also that the possibility of adopting the principle of average income rather than of annual income in the case of many industries should be studied. For many common goods industries that enjoy a fairly regular annual determination of taxable income is equitable; but capital-goods

Fortune Round Table

[Continued from page 110]

industries whose profits depend upon a five or ten-year cycle should be taxed on the average income for the period. It also believes that the capital-stock and excess-profits taxes are burdensome to young and developing concerns and that business expansion would be encouraged by a repeal of these two taxes.⁹

The development of new enterprise is also handicapped by the prohibition of consolidated returns. Formerly the losses of a pioneering subsidiary could be offset against the profits of the older and more stable unit. In an effort to obtain more revenue, and perhaps penalize intercorporate relationships, Congress in 1934 ignored the advice of the Treasury, and prohibited consolidated returns. Today, if five subsidiaries show losses totaling \$1,000,000 the parent corporation nonetheless is obliged to pay a tax on its own profits of \$200,000, although the unit as a whole is in the red. Some corporations avoid such a situation by merging enterprises. As a rule, however, we believe the prohibition of the consolidated returns again operates against risk taking. Consequently we believe that for closely related enterprises under a common parent the prohibition should be repealed, and the objection to complicated corporate structures met by other means.⁷

We believe the Treasury could encourage business activity by allowing more generous deductions for depreciation, and by liberalizing some of its accounting practices. Sweden recently inaugurated a "free depreciation" system under which the tax authorities accept the rate of depreciation placed upon machinery, stocks of goods, and other inventories by the enterprise itself. The purpose of such legislation was to establish a rational connection between taxation and sound accounting principles and to stabilize corporation earnings and tax revenues.

In the opinion of the Round Table members, government should not discourage management from accelerating provision for depreciation in order to embark on new investment. Many instances are cited, moreover, where the tax authorities do not accept commercial principles of accounting in estimating net income. Thus insurance premiums earned in a given year cannot be reduced by the amount that experience would indicate might have to be refunded because of cancellation of policies. Fees and subscription payments collected in advance for a period of years must be regarded as income for the year actually collected, although under commercial accounting part of them could be deferred. Whenever such instances occur, business enterprise suffers a degree of injury and harbors a sense of injustice. We believe that such practices should be carefully reviewed and that the Treasury, while

⁹By Mr. Parker: I cannot agree to the repeal of the capital-stock and excess-profits tax until we get a balanced budget. Moreover, perhaps every corporation should pay something to the government for the privilege of doing business in the corporate form.

⁷By Mr. Buchler: I am willing to reinstate the consolidated return for a time to observe its effect under present conditions, as its prohibition may deter taking of desirable risks. Yet I should like more evidence that it should be reinstated, for it did permit some tax avoidance by holding companies.

keeping proper safeguards against tax avoidance, should adopt sound commercial principles of accounting in the assessment of taxes.⁸

The carry-over of losses should be permitted, and the capital-stock and excess-profits taxes repealed.

NOW a corporation income tax is a levy on profits. Generally speaking, the more the tax is increased the less is the return on capital. Possibly American business may have to content itself with a lower rate of profit in the future than in the past. Nevertheless when tax legislation enforces a too drastic and rapid reduction in profits, enterprise is slowed up, particularly in periods of great economic instability. What business needs is an incentive to develop so as to provide new employment. We are almost unanimous as to the following:

1. Adoption of the carry-over of losses, and the study of the principle of averaging income.
2. Adoption of the consolidated return in so far as closely related enterprise under common parent companies is concerned.
3. Experiment with more reasonable allowances for depreciation.
4. Elimination of unfair or unbusinesslike methods of tax accounting.
5. Repeal of capital-stock and excess-profits taxes.¹⁰

In addition some of us favor a moderate reduction in the rate of the corporation tax, say from 14 to 16 per cent or even lower. (A reduction that would be brought about if the undistributed-profits tax were repealed.) It is interesting to note that Sweden recently fixed its corporation tax at a flat rate of normally 10 per cent and that corporations in Sweden provide only about 20 per cent of the total income tax of the country in contrast to our own corporations, which pay one-half.

Other members of the Round Table believe that existing rates would not be injurious if the double taxation of corporate profits were removed, if the capital-stock and excess-profits taxes were repealed, and if the carry-over of losses were allowed.¹¹ The adoption of a single corporation tax of whatever rate would reduce the present administrative burden weighing on both industry and government and remove a psychological as well as material deterrent to progress. Although differing on detail the members of the Round Table are unanimous in expressing the view that the system of taxing corporations should be changed.¹¹

IV. The undistributed-profits tax

IN DISCUSSING the corporation tax we have inevitably encountered the question of the undistributed-profits tax, the principle of which several members of the Round Table believe to be sound. Three arguments in favor of a heavy tax on undistributed profits are advanced. First, such a tax prevents the accumulation of large corporate surpluses as a means of evading high individual surtaxes by wealthy stockholders. Secondly, such a tax discourages speculative or unwise investments by corporate directors and obliges new financing to be carried on through the investment

[Continued on page 114]

¹⁰For the observations of Mr. Fisher, see Appendix II, page 124.

¹¹See Mr. Parker's dissent in footnote 9 on this page.

¹²For the observations of Mr. Laidler, see Appendix II, page 124.

¹³For the observations of Mr. Spalding, see Appendix II, page 124.

¹⁴Messrs. Dennison, Fichter, and Laidler.

Fortune Round Table

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having incomes of \$25,000 a year or less. It is extremely difficult, however, to draw the line between what constitutes a large and a small corporation. A number of corporations having incomes in excess of \$25,000 a year find it impossible to float securities on the market.

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

In this connection it is interesting to observe that Sweden abandoned its experiment with the undistributed-profits tax in 1946. Instead it has enacted the Depression Investment Fund law of 1938. Under this law corporations may secure exemption from taxation on income set aside as special "depression investment funds." In each year the amount set aside for building cannot exceed 10 per cent of net income and 2 per cent of share capital; while the amount set aside for equipment and stocks may not exceed 20 per cent of net income and 4 per cent of share capital. Corporations are encouraged to accumulate such funds to be expended at the downturn of the business cycle so as to assist in reducing the fluctuations of industry and trade. The government, however, decides when expenditures from these funds can be made. If the funds are invested within six years they are definitely exempt from taxation. Otherwise the income is taxed at the end of the six-year period. The adoption of this type of tax here should be studied.

V. "Soaking the rich"

SOME features of our personal income-tax system operate, in the opinion of most of us, to discourage investment as much as do our present corporation taxes. While our income tax burden is relatively light on individuals with income below \$50,000, the taxes imposed on the upper brackets are probably the highest of any country in the world (see chart on page 110). On an income of \$50,000 a married man with no dependents pays a tax of not quite 18 per cent. On any excess over \$50,000 he pays 55 per cent. This rate rises to 62 per cent on any excess over \$100,000, 74 per cent on the excess over \$500,000, 77 per cent on the excess over \$1,000,000, and 79 per cent on any excess over \$5,000,000. This burden is increased in those states having their own income taxes. In contrast, the maximum British rate is 68.75 per cent. While the British rate on small incomes is many times the American rate, the tax paid by very large incomes in Britain is less than in the U.S., and British incomes are further favored by the fact that there is no double taxation of corporation profits.¹⁵

So far as revenue is concerned, the impor-

¹⁵For the observations of Mr. Nash, see Appendix I, page 118.

ance of these higher surtaxes may be exaggerated. Should government confiscate every cent of net taxable income above \$100,000 it would procure, using 1936 figures, less than one billion dollars, which is just one-ninth of federal expenditures in the fiscal year 1939. In the process it might almost completely destroy the entrepreneurial energy of the country, extinguishing funds that in the past have been a source of new investment.

Even though present surtaxes do not completely destroy private savings in the upper brackets, nevertheless such surtaxes do inevitably affect the character of investment. Government now takes such a large part of income above \$100,000 a year that the recipients of such incomes are induced to abstain from chance taking. Confronted by a choice between two enterprises—one where the risk is great but the possible profit large and the other where the risk and profit are both relatively small—the investor has an incentive to play safe.

While we do not defend irresponsible speculation, we wish to point out that industrial progress under capitalism has been due largely to pioneering investment. Once the soundness of a new enterprise is established, venture capital may move into new fields, leaving more liquid capital to take over the established enterprises. Opportunities for relatively liquid capital, represented by the savings of people of moderate means, depend largely upon the initiative of venture capital. This capital should come from people of wealth since new developments involve great risk that they can best afford to assume. We realize that business incentive may be dominated as much by the creative impulse as by a desire for large profit. Nonetheless a tax system that takes an excessive part of the gains is likely to discourage not only profit but creative impulse as well.

Maximum surtax rates should be reduced from 79 to 60 per cent in order to encourage wealth in venturesome investment.

MOST of the Round Table believes that people of great wealth should be encouraged to invest in venturesome enterprises, and therefore that tax rates upon incomes above \$100,000 should be lowered. The maximum rate should be fixed at 60 per cent instead of 79 per cent. This would give the wealthy investor less than half the profit on a risky enterprise, which is not unreasonable if the chances of losing are great. Most of us also believe in making the reduction in maximum surtaxes dependent upon the abolition of tax-exempt securities, in order to terminate the present incentive to cautious investment.

A number of members of the Round Table dissent from the predominant view.¹⁶ They do not know of any authentic evidence of how much risky investment in real capital outlay in the past has come from these higher incomes. Today there may be a scarcity of ventures but plenty of "venture" capital available; on the other hand, large corporations may already be financing new ventures out of their own funds. Particularly in the absence of consumer demand these members doubt whether people would embark upon risky investment, even if surtaxes were reduced. The existence

[Continued on page 116]

¹⁶Messrs. Dennison, Laidler, and Fiskier.

By Mr. Spaulding: Is it not the sum total of all taxes, federal, state, and local, which must be paid by business enterprise before there is anything to distribute to stockholders and entrepreneurs that is the deterrent to investment of "venture capital" rather than the top surtax rates and "tax-exempt" that we have been discussing?

...where it is tested competitively against the financial requirements of other enterprises. If investors are obliged to pay out profits to stockholders, the latter can decide whether to invest their funds in expansion or spend their money in other ways. Finally, it is contended that the undistributed-profits tax is the means of solving the problem of oversaving. Proponents of this view believe we have reached a phase in our economy in which the portion of the national income that private capital can use is less than it has been, while the portion that can be effectively used for public capital expenditures is greater.¹³ An undistributed-profits tax forces profits either into the consumption stream represented by the smaller stockholders, or into the coffers of government, where it is spent on public works or relief. While agreeing that small growing concerns should be exempted, most proponents favor some form of undistributed-profits tax because the larger and well-established corporations taken as a whole, already have surplus accounts large enough to meet their needs and that any increases can be taxed without economic injury. Although these members of the Round Table admit that a proper technique has yet to be worked out, they insist that these principles must be reexamined.¹⁴

The majority is opposed to the undistributed-profits tax but do agree that it is essential for corporations wishing to expand.

MOST of us cannot accept these arguments in favor of the undistributed-profits tax. Any use

of wealth stockholders of corporation returns to avoid high surtaxes can be combated by a more rigid enforcement of Sections 102 and 103 of the Revenue Act of 1938, which not only place a heavy penalty tax on corporations that improperly accumulate a surplus for tax-avoidance purposes, laying the burden of proof on the taxpayer, but also place heavy taxes on personal holding companies.

Likewise the majority cannot accept the view that the financing of expansion by corporate reserves is unusual. Historically much of the expansion and new employment in America has been financed out of reserves. The famous Gubins Committee of Britain declares: "When a company saves by retaining part of its profit, the operation is smooth and simple. In the case of a progressive business the flow of capital is just in the place where it is required; it is at the growing point of industry, building new needs and opportunities to be met without delay or when they arise. This is true of the new enterprising business, which may as yet be making only small profits, as well as of the established company whose ability to save large sums for development year by year has given proof of efficiency and power of continued expansion. . . . Generally speaking it is true that the income tax, when it falls upon company reserves, encourages upon a form of saving which is of special value to the community."¹⁷

All but the most extreme proponents of the undistributed-profits tax admit that the smaller corporations in this country would be discouraged if they were subject to such a tax, and that such corporations should be encouraged to expand out of accumulated savings. In 1929 we accepted such reasoning to the extent of excluding from the tax corporations

¹³See the observations of Messrs. Dennison, Buchler, and Spaulding, see Appendix II, pages 124 and 126.

¹⁴Edward Full Employment, N. S. Dennison, L. M. B. F. Sandefur, M. E. Leeds (Whittlesley

...in a democracy they think is...
...reducing the surtaxes...
...evidence as to the...
...investment.¹⁷

Fortune Round Table

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VI. Capital gains and tax-exempts

ANY sentiment of people of means to refrain from pioneering investment is accentuated by two other features of our tax system. The first is the recent method of taxing capital gains, the second is the existence of tax-exempt securities. The extent to which venture enterprise has been hampered by a tax on capital gains is a matter of controversy. During the boom period capital gains realized during two years could be segregated from ordinary income and taxed at the moderate rate of 25 per cent; and, subject to certain limitations, capital losses could be deducted from ordinary income. Even this comparatively low rate of tax was criticized at the time on the ground that it deterred many holders of stock from disposing of their holdings, thus exaggerating the boom. Whether or not this criticism was justified, the revenue derived from capital gains provided a far greater proportion of income during the pre-depression period than it has since.

Now a capital gain often represents the realization in a single year of a long-accruing increase in value. The Revenue Act of 1934 endeavored to recognize this principle by devaluing a time sale and decreasing the tax on capital gains in accordance with the length of time the realized assets had been held. On the other hand, it limited the deduction of capital losses only to the extent of the capital gain in the same year plus an allowance of \$1,000. As a result of the complications in the measure, the limited capital loss deduction, the velocity of business transactions and the incentive to invest in new and more risky ventures were alleged to have been checked.

From the standpoint of enterprise the situation was considerably improved by the 1938 act. In effect a ceiling of 20 per cent was placed on the rate of income tax that might be imposed on capital gains realized on assets held for a period of from eighteen to twenty-four months, and of 15 per cent on gains realized on assets held for a longer period. Moreover, the act abolished the \$1,000 net capital loss limitation, permitted an individual to deduct his long-term capital losses from regular income subject to a certain ceiling, and allowed a limited carry-over of losses from one year to so far as such losses on assets held less than eighteen months were concerned. Certain members of the Round Table¹⁸ believe that the changes made in the 1938 act unduly stimulated investment and that no further amendments in the present system of taxing capital gains and losses should be made until after more data is available as to the working of the act in relation to the law of capital.

The predominant view of the Round Table about the 1938 act went too far in one direction and not in another. The provision allowing the deduction of capital losses from ordinary income rather than from capital gains alone, tends to overcorrect. On the other hand, the rather rigid time limits imposed on the carry-

over of losses by the 1938 act handicaps an investor wishing to take into account the duration of the business cycle.

We cannot subscribe to the view that capital gains should not be taxed at all. If gains were untaxed as in England, individuals might be clever enough to escape payment of income tax altogether by converting regular income into capital gains. We would not, however, go to the opposite extreme of subjecting capital gains to the higher surtax rates, for this might discourage the flow of risk capital. Most of the Round Table would completely segregate capital gains and losses from ordinary income tax the gains at a moderate rate, decreasing with the length of time the asset is held, and allow the carry-over of losses from the short- to the long-term period. Some of us would abolish the distinction between the two periods entirely and tax all gains at a moderate flat rate. The less complicated the system of taxing such gains, the more risk taking is likely to be encouraged.¹⁹

Tax-exempt securities serve as a positive discouragement to risk taking on the part of those most able to afford it.

WHEN large incomes are encouraged to take refuge in tax-exempt securities another blow to venture capital is given. Today it is more profitable for a wealthy man liable in heavy surtaxes to accept a small rate of interest from a tax-exempt security, involving virtually no risk, than to invest in taxable enterprises holding out the hope of a far greater return. This advantage, however, does not extend to people of small means. For example, to a married man with a net income of \$5,000 a 3 per cent tax-exempt security will yield the equivalent of only a 3.12 per cent taxed security. But to a man with an income of \$50,000 a year, a 3 per cent municipal bond upon which he pays no taxes is equal in value to a taxable security yielding 10.7 per cent. Why should a wealthy man take a risk on investments holding out the dubious hope of an 11 per cent yield when he can find an equivalent net return in tax-exempt securities that involve no risk at all?

At present there are more than nineteen billion dollars' worth of state and local tax-exempt securities outstanding. A large part of these securities is still held by institutions that do not profit from tax exemption but that do insist on safety; but nearly half of such securities are also held by individuals. Following the reduction of surtaxes in 1925, the ratio of tax-exempt interest to the total of millionaire incomes dropped from 8.41 per cent to 2.98 per cent, but following the reimposition of high surtaxes in 1932, the percentage of income from this source rose to 6.4 per cent in 1933, and 18.43 per cent in 1934. That these figures are not conclusive is indicated by the fact that in 1935 the percentage of income from tax-exempts fell to 6.5 per cent. This may have been due to the fact that with recovery, income from stocks increased while tax-exempt income remained constant. Nevertheless we are of the opinion that when the higher surtaxes are raised, there is an inevitable tendency on the part of those subject to such surtaxes to increase their holdings of tax-exempt securities.

¹⁸For the observations of Mr. Nicely, see Appendix II, page 126.

We all believe that these tax exemptions should be discontinued. Coupled with high surtaxes the present policy of tax exemption is a positive discouragement to risk taking on the part of those most able to afford it. The states and municipalities complain that termination of tax exemption would increase their cost of borrowing. But in the last analysis the same taxpayer foots the bills for the federal, state, and municipal governments. He should look with favor upon a tax system that promotes rather than hinders the development of new enterprise and employment.

Although the Round Table is unanimous as to the desirability of ending tax-exempt securities for the future, differences arise as to the best means of bringing this about. We cannot enter upon a discussion of whether Congress has the constitutional authority to tax state securities. Nevertheless, a majority of us believe that Congress should pass a law ending the exemption of all such securities issued in the future, leaving to the Supreme Court the task of deciding whether such a statute would be valid.²⁰ We favor this course because it is doubtful whether three-fourths of the state legislatures in any foreseeable period would approve an amendment authorizing Congress to tax their securities unless Congress gave something to the states in return.²¹

Certain of our colleagues do not go along with us here.²² They express the view that should the Supreme Court decide that Congress by ordinary statute could tax future state securities it would follow that Congress had the power to tax existing securities. Investors, whether individual or institutional, have bought tax-exempt securities to the amount of more than nineteen billion dollars, in reliance upon tax immunity. It would be unwise for Congress to give the Court an opportunity to reverse a long-settled doctrine, affecting the value of such a vast quantity of outstanding securities. They believe that a constitutional amendment should limit the termination of tax exemption to securities issued in future.

The majority of us do not fear that simply because Congress may have the power to tax tax-exempt securities whether outstanding or to be issued, it follows that Congress would exercise this power retroactively. Congress and the President could make it clear that they have no such intention; and even though any commitment on their part would not bind future administrations, it would have great moral weight.²³

VII. "Chiseling the poor"

IF THE American tax system unduly penalizes new enterprise, it falls far too heavily upon the low-income groups. The pennies in the poor are extracted with a minimum amount of difficulty because their taxes are usually hidden. An early form of consumption tax was the tariff. Its effect was to increase

¹⁹By Mr. Hill: In addition to enacting such a law, Congress should also propose a constitutional amendment expressly granting it power to tax state securities.

²⁰For the observations of Mr. Parker, see Appendix II, page 126.

²¹Mezrs. Spalding and Vance.

²²By Mr. Buehler: I favor a constitutional amendment ending tax exemption, under which the federal government would agree to discontinue the federal gasoline tax in favor of the states. Some such compromise is necessary before the states will consent to increase the federal tax power at their expense.

¹⁷For the observations of Mezrs. Buehler and Hill, see Appendix II, page 126.
¹⁸Mezrs. Parker and Spalding.

...from for the benefit of certain pro-
 The present sugar tariff, processing
 and quota control increase the cost of
 to the American public by about \$327
 per year or slightly over \$10 a family.

The increasing number of consumption
 taxes and levies levied by various government
 agencies have been inspired largely by a desire
 to increase revenues. Inasmuch as such levies fall
 on necessities their yield is stable. In
 comparison with taxes on income. Often these
 taxes are hidden in the purchase price or dis-
 tributed in such small amounts that the taxpayer
 is hardly aware of them than of a direct tax.
 In buying a package of cigarettes for a dime,
 the individual thinks he is getting a bargain.
 In fact he is getting four cents' worth of cig-
 arettes, while the U.S. gets six cents in tax-
 revenue, while the U.S. gets six cents in tax-
 revenue who consumes a package of cigarettes
 also pays a federal tax of nearly \$20 a year—
 about the amount of federal income tax
 paid by a married man with a \$4,800 income.
 Moreover, a consumption
 tax shifts people in the lower-income group
 to make some contribution to government
 revenue otherwise they might escape.

In our opinion the reasons of fiscal expedi-
 ency advanced in support of such taxation are
 outweighed by disadvantages, which are
 evident in the first place most consumption
 taxes fall more heavily on the poor than
 on the rich. It is estimated that low-income
 families in America are obliged to expend
 about fifteen cents out of every dollar of in-
 come in hidden taxes. Admitting that such
 taxes are largely grossed and that some
 of the taxes cannot be shifted, it still re-
 mains true that when a poor family pays such
 a tax it is usually deprived of what most of
 the world regard as necessities. In paying the
 tax, however, the wealthy family merely
 forgoes some luxuries, or pays the tax
 at a rate which would otherwise have been say-
 ing. Consumption taxes therefore are con-
 trary to American ideas of social justice.

We regard as even more important the fact
 that consumption levies, particularly upon
 the lower income groups, absorb sums that other-
 wise might be expended upon the products of
 industry or farms. Today the federal govern-
 ment is spending money at the rate of about
 \$30 cents per family of five, and it may be
 argued that poor people get more in return
 from the government than they give. Never-
 theless the result of indiscriminately taxing the
 products of private enterprise. Economic policy
 should aim at providing purchasing power
 to consume the products of industry, but
 it is ill-advised when government imposes
 consumption levies on essentials. From the
 viewpoint of the smooth functioning of our
 economy taxes should be taken from sums
 that would otherwise be hoarded, saved, or ex-
 pended on non-essentials,²⁴ rather than from
 sums that supply the most humble members
 of society with their daily bread. We believe
 that a case can be made out for the tobacco
 and liquor taxes since they rest upon non-
 essentials and unlike other sales taxes do not
 rest upon a shifting. Federal liquor taxes
 might be increased with the improvement of
 anti-laundering machinery. The gasoline
 tax might also be justified on the ground
 that the taxpayer receives an equivalent benefit

in the form of good roads, but there is a ques-
 tion whether the federal government should
 not surrender this tax to the states.²⁵

Apart from these cases, however, we favor
 the repeal, as soon as it is financially possible,
 of all sales and excise taxes imposed by the
 federal government,²⁶ and we oppose the im-
 position by the federal government of a general
 sales or transactions tax. Although it is not
 our province to discuss state and local taxation,
 we are convinced that unless a halt is called
 on the use of consumption or of real-estate
 taxes by local units of government, business
 recovery will become more difficult than
 ever.²⁷ Likewise we favor the gradual reduc-
 tion of duties in accordance with the Hull
 trade program.

VIII. Taxing the middle brackets

HAVING expressed the view that certain
 taxes on the rich should be reduced and
 that certain levies on the poor should be re-
 pealed, it is incumbent on us to show how
 taxes elsewhere can be increased. Such increases
 should not only fill the gap felt by the pro-
 posed reductions, but should actually result
 in an increase in total revenue.

In the U.S. there are about 10,000,000 secu-
 rity holders, 45,000,000 savings-bank accounts,
 and 25,000,000 automobile owners. Yet in 1936
 only 5,415,499 people filed federal-income-tax
 returns, and less than 1,900,000 paid any in-
 come tax. So far as taxes are concerned, the
 U.S. has a caste system, imposing excessive
 burdens on the wealthy at one extreme and
 the poor at the other; but the great middle
 class is hardly aware of the federal tax collector.

The U.S. exempts a married couple from
 all taxation below an income of \$2,500—usu-
 ally \$2,750 because of the earned-income ex-
 emption—but in Britain the tax exemption
 applies only to couples having less than \$900.
 Finally, in Britain the normal tax is 47.5 per
 cent, although people in the minimum tax
 categories pay about one-third the normal rate.
 In contrast, the U.S. imposes a normal tax
 of only 4 per cent. In Sweden exemptions are
 lower even than in Britain. According to an
 investigation made in 1934 people with in-
 comes under \$2,500 (10,000 kronor) paid more
 than half the state income tax and more than

²⁴By Mr. Myrdal: I believe that tobacco taxes could be increased considerably if other consumption taxes were reduced. It would be sound also to fix the rate of the gasoline tax so as just to cover the cost of construction and upkeep of the highways.

²⁵For the observations of Mr. Vance, see Appendix I, page 124.

²⁶By Mr. Laidler: In view of the necessary increase of social services, it may be desirable to increase real-estate rates where cities have no power to raise other forms of taxes.

three-quarters of the community income tax.
 They are not, however, burdened by high
 tariffs, or by levies on production, real estate,
 or sales, except liquor and tobacco.

Exemptions in personal in-
 come and estate taxes
 should be lowered, and rates
 on incomes below \$50,000
 should be increased.

IT IS evident to us
 that if the federal
 government is to make
 any serious effort to
 increase its tax reve-
 nue, such increase must necessarily come from
 the less-than-\$50,000 class. This increase must
 be effected in part by lowering the minimum
 exemptions (and thus vastly broadening the
 base) of the income tax, and in part by in-
 creasing the rate of the surtax on these incomes.

According to the Treasury's 1936 "Statistics of
 Income," 89.4 per cent of the net income re-
 ported for that year came from incomes be-
 tween \$1,000 and \$50,000; but the taxpayers
 within that range paid only 41.7 per cent of
 the total income tax. On the other hand, in-
 comes between \$50,000 and \$100,000 reported
 4.75 per cent of the total income and paid
 17.80 per cent of the tax. While we do not
 believe that these larger incomes are overtaxed
 in comparison with their ability to pay, it
 seems clear to us that the lower incomes today
 are undertaxed, and are best able to stand
 an increase. Unless taxes on incomes less than
 \$50,000 are increased, the demand for a fed-
 eral sales tax or other new levies on con-
 sumption may become irresistible.

Furthermore, we favor these increases for
 political reasons. It is only through a wide
 distribution of the direct tax burden that the
 people can be made to compare government
 cost with government service rendered. No
 democracy can permit the burden of direct
 taxation to fall on a small minority, while
 the majority escapes—or thinks it escapes—
 from paying for the expenditures that it votes.

Various practical plans to effect such a dis-
 tribution of the tax burden and increase the
 federal revenue have been put forward. Sen-
 ator La Follette has introduced a measure that
 would reduce the personal exemption of a
 married person from \$2,500 to \$2,000, and
 of a single person from \$1,000 to \$800—a
 proposal that should increase the number of tax-
 payers by 1,450,000. One of our members
 (Mr. Slichter) has worked out a plan that the
 Round Table tentatively accepts, pending
 further investigation. By lowering exemptions
 and raising surtaxes in what seems to us a
 fair proportion, Mr. Slichter's plan contem-
 plates an increase of about \$700,000,000 from
 the middle brackets, based on 1936 incomes
 (see box on this page).

It is perhaps worth noting in passing that
 probably all of the members of this Table
 would be affected by the proposals, and that
 the Round Table is virtually recommending an
 (Continued on page 128)

ROUND TABLE PLAN FOR INCOME-TAX INCREASE

Income class	Income reported for 1936 (millions)	Actual income-tax collections, 1936	Effective rate in 1936	Proposed effective rate	Proposed tax collections
\$1-2,000	\$5,011	\$1,011,000	47%	13%	\$45,171,000
2-3,000	3,345	13,988,000	41	40	135,010,000
3-5,000	5,828	32,753,000	34	30	229,308,000
5-10,000	2,978	79,389,000	27	20	238,283,000
10-25,000	2,689	175,615,000	66	100	315,445,000
25-50,000	1,400	101,359,000	72	100	257,019,000
Total	\$17,165	\$506,551,000			\$1,220,236,000

By Mr. Laidler: or placed in annual invest-

By Mr. Slichter: see Appen-

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talism should play the role of risk bearers. Instead of an alleged "strike" of capital, misconceived and unproductive taxation has created and fostered a premium on relatively sterile investment.

Although the number of taxpayers in the particular income class cited is limited, they play a strategic role in entrepreneurial activities and capital formation. In a so-called normal year like 1926 the income groups of \$100,000 and above reported a total taxable income of \$2,984 million. After paying over half the total federal income tax that year and spending say at the rate of \$50,000 a family on living, the balance left for investment and risk taking may be estimated at about 1.7 billion dollars. This equals almost half the Net Business Capital Formation for that year as computed by Dr. Kuznets (after deducting the Change in Inventories and the Consumption of Capital in Business Use). A decade later, or in 1936, the best year in our thwarted recovery, the income classes of \$100,000 and above had an aggregate taxable income of \$974 million and after contributing 31.5 per cent more in federal income taxes than in 1926 they had \$483 million left. After deducting the same amount per taxpayer as above for living expenses, only \$330 million was left for investment, without

making any allowance for the enormously increased estate taxes. This doubtless contributed to the reduction of Net Business Capital Formation to \$1,500,000,000, or under half 1926.

WE PROCEED now (in Table II) to an elementary comparison of the tax rates for the U.S. and Great Britain from 1915 to date, applicable to the income bracket just above \$100,000 and £20,000, respectively. It is noteworthy that while the British total income tax rate, owing to advance in the normal tax more than in the surtax, is now one-third above that of 1926, the American combined rate for this bracket is two and one-half times the level of 1926.

When it comes to cross comparisons from one economy to the other, we must bear in mind the organic differences between the two tax systems. The British tax income in the economic sense and tax it only once, and permit liberal allowances for losses. The U.S. taxes income more than once and also capital increments, and restricts credits for losses. Further, we have progressively eliminated offsets for losses of corporations through the abolition of consolidated returns. The case of the U.S. Steel Corp. is illuminating. Its 1938 report shows a consolidated loss before federal income taxes of \$4,787,455; yet it had to pay federal income and excess-profits taxes of \$2,930,000. This was due to the substitution of fiscal fictions for functional economic entities. It also denies the principle of cyclical equity to the highly fluctuating durable-goods industries compared with the relatively stable non-durable consumers' goods industries.

Now it happens that the underlying tax burdens upon the corporate investor's income are about the same in the British and the American economies. Thus a large income investor in a corporation in New York state loses on his return (a) between 16.5 and 19 per cent in corporate income tax to the federal government, without counting excess-profits and capital-gains taxes, (b) the minimum of 6 per cent franchise tax on corporations in New York, and (c) the New York state income tax on individuals of 8 per cent, subject to adjustments for mutual credits between the state and federal government.

The final column of our table shows the variable pattern of the relationships between the two surtax systems from 1915 to the present. First, in the early years of the Great War, British surtaxes were a multiple of the American taxes, but the relationship was reversed when we entered the War. Second, in the post-War period, British surtaxes were over one-third to two-thirds higher than the American, owing to the British War costs and social-insurance charges, and our own drastic reduction of surtaxes in 1921, 1924, and 1925. Third, after the great depression and subsequent recovery, the British slightly augmented their surtax rates, while affording certain reductions in the normal tax. In contrast, the U.S. only progressively elevated the surtaxes. As a result, present British surtaxes are only 60 per cent of ours, or, put differently, our surtaxes are 1.6 times theirs.

WE NOW turn to a more concrete and comprehensive evaluation of the differential tax burdens in Great Britain and the United States.

This involves, on the American side, a dual adjustment for (a) the lack of credits available to the British taxpayer, for the tax paid by the

and through the handicaps to the transfer of capital of small business enterprises and the combined tax-enforced and regulatory market-lowered urges for "liquidation" the entrepreneur's return would still be 20 per cent of the return from the operation in 1926 and his heirs would obtain 10 per cent of their 1926 return.

We have similarly computed the effect on the income of an individual entrepreneur with \$500,000 contemplating putting in work on an assumed estate of \$5,000,000 on the assumption that he would succeed and get a 20 per cent return of 10 per cent before taxes. The computation shows that after paying the 10 per cent income and emergency and federal normal taxes and surtaxes, he would net 10-14 per cent and could carry through 10-14 per cent. Thus in both cases the 20 per cent return is deflated to the level of 10 per cent and this deflation cannot be remedied by the abolition of such tax excesses. Under the present unacceptably low interest rates (a) plethora of gold and unemployed capital, (b) foreign-flight capital, and (c) governmental money-market manipulation the investors in the respective income categories need can hope to gain only a 1-2 and 1 per cent advantage over the best yields on sustainable long-term U.S. government bonds.

It is thus clear that the American tax system needs special safeguarding, as distinguished by utilization, the major objective of the income classes which under democratic capi-

REDUCTION OF PROFIT INDUCED BY TAXATION, 1938 IN CONTRAST TO 1926

ASSUMED	Net Income After Deductions Net Estate After Exemptions Contemplated Additional Investment Expected Gross Return	\$ 100,000 1,000,000 100,000 10%
TABLE I. A.		
<i>As Individual Enterprise</i>		
Individual Income	\$10,000	\$10,000
New York State Income Tax	300	800
	\$ 9,700	\$ 9,200
Federal Income Tax	2,425	5,704
NET INCOME TO TAXPAYER	\$ 7,275	\$ 3,496
(State Tax (New York and Federal))	582	1,175
NET INCOME TO HEIRS	\$ 6,693	\$ 2,321

TABLE I. B.		
<i>As Corporation—Distributing \$5,000</i>		
<i>(Only Income and Estate Taxes Considered)</i>		
	1926	1938
Income by Corporation	\$10,000	\$10,000
New York State Franchise Tax	450	600
	\$ 9,550	\$ 9,400
Subject to Federal Corporation Income Tax	1,140	1,661
Federal Corporation Tax	\$ 8,410	\$ 7,739
Distribution \$5,000		
Individual Income Tax on \$5,000:		
New York State	\$ 150	\$ 300
Federal	970	2,852
Long Term Capital Gains Tax on Undistributed Portion Payable Upon Retirement	425	411
NET INCOME TO TAXPAYER	\$ 6,859	\$ 4,076
State Tax—New York and Federal	549	1,570
NET INCOME TO HEIRS	\$ 6,310	\$ 2,506

operation on earnings disbursed to the individual and (b) for the initial absence to the individual of the six-year loss carry-over, available to British corporations. On the other hand, it involves a readjustment of the tax burden on individuals by spreading it over the reported income, augmented by the capital gains, which in that system are on the basis of taxation.

Lacking Treasury data as to the sequence of losses in individual corporations over long periods we have developed the following short-run approximation of what this means for the American corporate economy. American corporations in the year 1935, which approximate in their average experience in previous abnormal decade, reported aggregate taxable earnings of \$5,163 million, while operating corporations had then combined losses of \$2,470 million. As the net earnings of the corporate economy were only \$1,696 million, the taxes were paid on earnings 3.05 times the net, and so the effective tax rate was 27.5 per cent but 53 per cent. Hence, in equating the American with the British income we added the amount of the appropriate-ly averaged corporation tax to the income reported for individuals and obtained the original corporate income plus the corporate income of individuals. Thus in the year 1935 incomes above \$100,000 amounted to a total of \$1,766 million and the total tax, including the adjusted corporate tax, amounted to \$1,282 million, or a combined effective tax rate of 73 per cent, in contrast with the conventionally reported rate of 27.5 per cent. Conversely, to equalize the British with the corresponding American income we had to add to their incomes for the year 1935, capital gains on which they are assessed, on the basis of ratios reported for the U.S. in a prior normal recovery year, such as 1926.

SUMMARY OF COMPARABLE EFFECTIVE TAX RATES ON EQUATED AMERICAN AND BRITISH INCOME CLASSES ABOVE \$10,000

Income Class	United States Using Multiplier of 1.8 to Adjust for Absence of a Year Loss Carry Over in the British System	Great Britain Using Capital Gains on 1926 Basis in U.S. to Adjust for Ab- sence of a Year Loss Carry Over in the British System
100,000	45%	51%
25,000	35	35
50,000	32	32
100,000	27	40
150,000	27	40
200,000	26	39
300,000	24	39

It thus appears that in the upper brackets the effective American tax rate is double the British effective rate, and that in the cumulative incomes above \$100,000 the ratio is 1.8 and the British.

Now the effect of the magnified tax burdens in recent years on the supply of capital for enterprise and reemployment is seen from a comparison of the higher net individual incomes (i.e., less taxes) as reported in 1936 and 1937, against their counterparts in 1926.*

In the latest years all incomes above \$5,000 remained after taxes, to 62 per cent of the 1926 level, but those above \$100,000 reached

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only 44 per cent in 1936 and 31 per cent in 1937; while those above \$500,000 were 10 per cent and lower. In contrast, the British income recipients above £20,000 attained even in 1935, the latest year available, 45 per cent of their corresponding excellent predepression year, 1925.

As the tax deductions from income move large numbers of taxpayers down to lower income levels, a still further refinement has been devised by us on the basis of the Pareto Law. By that method we found that all American income classes above \$100,000 had in 1936 net incomes, less capital gains and less taxes, of less than 10 per cent of their aggregate in 1926 whereas all British income classes above £20,000 so treated had in 1935 49 per cent of their 1925 income.

Since the net genuine incomes of these higher-income classes provide a large part of the enterprise capital of our economy, this constitutes a tax-induced wealth dissipation rather than distribution that has prevented the full recovery and reemployment of our national human and material resources. It helps to explain the chronically depressed character of our present anemic economy in contrast to the British and Scandinavian economies, which in recent years enjoyed fuller prosperity and reemployment.

Accordingly, the reform of our self-defeating taxation structure is an essential prerequisite

to the liberation of our economy and the restoration of the American standard of enterprise and living.

The Budget and Tax Increases

By Mr. Slichter

It is doubtful whether federal expenditures will diminish below \$8.5 billion as recovery proceeds. If the budget is to be balanced over the period of the business cycle, there should be a surplus at the peak of the cycle. If a surplus of \$1.5 billion is regarded as desirable for this peak, total revenue of \$10 billion would be necessary. With a national income of \$69 billion in 1937, the present taxes produced about \$6.1 billion. An increase from \$69 to \$80 billion in the national income would therefore have to produce an increase of \$3.8 billion, or 61 per cent over the tax yield of 1937 in order to yield \$10 billion revenue. Thus the national government would have to take \$3.8 out of the \$11 billion increase in national income or 34.6 per cent. However, the effort of the government to take approximately 34 per cent of any additions to the national income would certainly be a serious impediment to recovery itself. Consequently the effort to raise sufficient revenue to balance the budget over the period of the cycle must be pursued gradually and must in part be deferred until after the next depression and completed in the recovery following the present one.

So large is the present deficit, however, that some steps to raise additional revenue need to

(Continued on page 121)

TAX BURDEN ON INCOMES ABOVE \$100,000, UNITED STATES AND BRITAIN, 1915 TO DATE*

TABLE II

Year	GREAT BRITAIN					UNITED STATES					Surplus Rate in Great Britain as Percentage of U.S.
	Normal Tax %	Supertax or Surplus		Total Tax %	1936 = 100	Normal Tax %	Surplus %	Total Tax %	1936 = 100		
		s.d.	per £							per £	
1915	1/8	-/8		8/8	17.1	1	4	5	40	100	
1914	1/8	1/4	1/2	5/5	17.8	1	4	5	40	135	
1913	3/4	3/6		6/6	32.50	1	4	5	40	138	
1912	5/4	3/6		8/6	42.50	2	5	7	48	150	
1911	5/4	3/6		8/6	42.50	4	47	51	144	65	
1910	5/4	3/6		8/6	42.50	12	58	64	156	43	
1909	6/4	4/6		10/6	58.50	5	52	60	140	45	
1908	6/4	4/6		10/6	58.50	8	52	60	140	53	
1907	6/4	5/6		11/6	57.50	8	52	60	140	53	
1906	6/4	5/6		11/6	57.50	8	48	56	134	57	
1905	5/4	5/6		10/6	52.50	8	48	56	134	57	
1904	4/6	5/6		10/6	50.00	6	37	43	100	74	
1903	4/6	5/6		10/6	50.00	5	30	35	100	138	
1902	4/6	5/6		10/6	47.50	5	30	35	100	138	
1901	4/6	5/6		10/6	47.50	5	30	35	100	138	
1900	4/6	5/6		10/6	47.50	5	30	35	100	138	
1899	4/6	5/6		10/6	47.50	4	30	34	96	163	
1898	4/6	5/6		10/6	47.50	4	30	34	96	179	
1897	4/6	5/6		10/6	47.50	4	30	34	96	179	
1896	4/6	5/6		10/6	47.50	3	28	32	100	74	
1895	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1894	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1893	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1892	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1891	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1890	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1889	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1888	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1887	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1886	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1885	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1884	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1883	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1882	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1881	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	
1880	5/4	7/4	4/5	11/7	47.5	3	28	32	100	74	

*Converted to uniform indices and mutual surplus ratio for each year of the period.

and explanatory material will be available

...taken before the next depression. The
 ...of whom to raise (tax rates is a difficult
 ...The immediate effect upon business is
 ...to be mildly depressing. Hence one may
 ...to argue that recovery has not been
 ...robust enough to make it advisable to
 ...to the shock of new or higher
 ...On the other hand, one may argue that
 ...an inevitable increase in tax rates is a painful
 ...that we had better have behind
 ...rather than ahead of us, that so long as it
 ...ahead of us the uncertainties as to what
 ...taxes will be, whom they will hit, and
 ...they will affect business will be an im-
 ...portant deterrent to the development of long-
 ...range planning and hence will be a constant
 ...upon business recovery. On the whole the
 ...for some immediate action seems to out-
 ...the case for delay. I believe that \$700-
 ...to \$800 additional revenue (under 1936 condi-
 ...could be obtained from the income tax
 ...provided the immediate shock were cushioned
 ...moderate reductions (and other changes) in
 ...at excessive taxes on profits. Such an adjust-
 ...ment promising a considerably higher yield
 ...a national income well above 1936) would
 ...provide a badly needed foundation for re-
 ...covery because it would permit businessmen
 ...to make plans with reasonable assurance that
 ...the tax problem in the main had been settled
 ...in a few years to come.

Fortune Round Table

[Continued from page 123]

income tax rate affecting a very large part of the population, which constitutes an effective check on the state budget.

The Farmer and Taxes

By Mr. Fichter

If we reduce the personal exemption of a married person to \$4,000, as proposed by the La Follette bill, or to \$1,400 as suggested by Professor Buehler, we shall compel persons of low income to divert money from the purchase of consumption goods to the payment of taxes. In so doing, we should be cutting down the demand for farm products because the city people with low incomes spend a greater share for food than do those with the higher incomes. The farmer is in financial difficulty now on account of the fact that there is underconsumption of the products of the farm. Recovery of business will follow an increase in consumer demand, and this increase must come mostly from people of low and moderate incomes. If we insist upon bringing more of this group into the income-tax field, we should at the same time exempt them from consumption taxes.

As taxpayers, many farmers would not pay personal income taxes at present even though the exemption might be lowered to \$2,000 or to \$1,400. The average gross income per family in the U.S. in 1929 was \$1,825, and about 28 per cent of the farm families of that year received a gross income of less than \$600.* But since the purpose of this proposal is to make the mass of the people "tax conscious," we may expect the exemption to be lowered finally to an amount that will bring a large percentage of the farmers into the income-tax group. Through the property tax, the farmers are already overburdened. Since 1928 property taxes on owner-operated farms have taken about 12 per cent of the net income each year. In 1932 more than 36 per cent of the net income from farms was required to pay the property taxes, owing to the fact that these taxes remained as a relatively "fixed" charge during the most severe part of the depression.†

This high tax bill that the farmers must pay as a part of their business affects their purchasing power for city-manufactured goods, and hence retards recovery. Consequently, we should consider the possibility of reducing the property tax on the 6,000,000 farms in the nation before we add another tax on the farmers in the form of an income tax.

Appendix II

The following observations, too lengthy to be handled as footnotes, are presented here in the order in which they relate to the text. As contrasted with the material in Appendix I, they are not general but apply to specific points:

*Miscellaneous Publication, U.S. Department of Agriculture, page 13.
 †Social Research Report No. VIII, U.S. Department of Agriculture, page 8.

Note 1, page 67: by Mr. Vance: No one disputes the fact that ability to pay should be an important factor in levying taxes on income, but it seems clear to me that the evidence of our present economic situation, to say nothing of the subsequent conclusions of this Round Table, demonstrates (a) that when ability to pay is the sole factor in scaling up income taxes, there is a point beyond which they produce less rather than more revenue and beyond which they create serious economic repercussions; (b) that this critical point has been exceeded in our present schedule of surtaxes, which in my estimation has seriously retarded the flow of new capital into enterprise, which in turn is partly responsible for failure to solve the unemployment problem.

Note 2, page 68: by Mr. Vance: I think it should be stated more clearly that this conclusion is reached with great reluctance and only because of the pressing necessity for a more substantial balancing of the budget. Existing taxes in the aggregate—federal, state, and local—consume so much of the national income that they are a serious handicap to our efforts toward prosperity. Taxes should be increased only after opportunities to reduce expenditures have been exhausted, and that is far from the case at the present time.

Note 3, page 68: by Mr. Myrdal: Even one like myself who believes a more socialistic organization of economic life is desirable and is also in accordance with the trend will have the strongest reason to strengthen private business during the long period of transition if he wants this change to be gradual and does not speculate on revolutionary catastrophe.

Note 4, page 68: by Mr. Myrdal: Every tax system is bound to have an influence on the distribution of wealth, and progressive taxation is preferred because it is one means of equalizing the maldistribution of wealth.

Note 8, page 113: by Mr. Fisher: Some of the problems considered in this paragraph arise not from differences as to accounting principles, but from difficulties of proving troublesome facts, such as the length of time in which a machine will become obsolete, or whether an account is really uncollectable.

Note 10, page 113: by Mr. Laidler: I do not concur with the point of view that taxation of corporate profits and of dividends received by individuals necessarily involves double taxation. Taxes levied on the net income of business are founded on the principle of ability to pay of the corporation as such, separate and distinct from the stockholders. If this tax is greater than the value of the government's contribution to the corporation's income, it does not follow that it deprives stockholders of dividends. The tax may be shifted to other groups—to management, labor, or consumer.

Note 11, page 113: by Mr. Spalding: Although I agree in general with these conclusions, I believe we should decide to what extent the corporate income tax is an excise tax on the privilege of doing business and to what extent it is a withholding at the source of a tax on the stockholder's pro rata share of the profits. To the extent that it is the former, the rate of a federal tax should be the most not exceed 5 per cent. To the extent that it is the latter, credit should be allowed the individual stockholder for the tax already paid by the corporation.

Note 13, page 114: by Mr. Dennison: In working out a proper technique I strongly recommend a study of the Swedish system mentioned in the fifth paragraph below.

The Sales Tax

By Mr. Vance

I do not wholly agree with the blanket condemnation of a general sales or transaction tax. It seems to me that a business that may be profitable in some years if not in others ought fairly pay a reasonable tax for the support of government protection.

From two other standpoints transaction taxes are fair. One is that they provide a more stable revenue than do taxes on net income. The sales tax that they have broader bases, they affect a larger number of voters. Four years ago it was necessary for the state of Indiana to increase its tax income from sources other than property tax. Instead of imposing a state tax on net income with many exemptions, which would restrict the burden to corporations and to a relatively small group of individuals, the state adopted a gross income tax applicable to all incomes above \$1,000 per annum. The rates are 1 per cent on sources other than wholesale sales and .25 per cent on wholesale sales. The broad base of the tax has made it touch such a large part of the population that it has been free from subsequent legislative abuse. The rates are so low that the tax does not constitute a serious burden on the transaction of business. The revenue has been steady and has permitted the state to reduce its property taxes and through the return of funds to local communities has remained there to reduce their property taxes. For these reasons this form of tax is popular in Indiana insofar as any tax can be popular.

Of course, the Indiana gross income tax is really a species of sales tax although it applies to income from sources other than sales. The Indiana gross income tax now produces something more than half of the state revenue; the remainder coming from property and miscellaneous excise taxes on liquor, etc., all of which offer little opportunity for increase in rates. The voting population now places that increased government expenditure on the men by an increase in gross

By Mr. Bushler. A low-rate undistributed-
profits tax with ample exemptions should not
be compared to business, but I disapprove of
the 1936 tax and similar punitive measures. If
we had an undistributed-profits tax should be
increased rather than for regulation.

By Mr. Slichter. There is grave popular mis-
understanding of the share of the national in-
come going to increase the size of the nation's
plant. Even in 1929, when the national income
produced was \$81,000,000,000 the net addition
to the private industrial plant of the country
was only \$4,355,000,000 or 5.3 per cent of in-
come produced. This is not a large share of
the national income to devote to increasing our
productive capital, particularly in view of the
fact (1) that half of this increase was necessary
in order to give the new entrants into industry
the same as much equipment as the
present workers have and (2) that the average
amount of equipment per worker is only about
\$4,000. In order to raise the annual per capita
income of the gainfully employed from its
present level of about \$1,500 to \$2,000, and to
make possible a reasonably adequate standard
of living for American workers, at least twice
as much capital per worker as we now have is
necessary.

Note 17, page 116, by Mr. Bushler. I am of
the opinion that evidence regarding the effect
of such surtaxes is too meager to form any
definite conclusions, but I am willing to sup-
port the reduction of such taxes, if tax exemp-
tion is also abolished, in order to determine if
the effects are beneficial.

By Mr. Fisher. While an income-tax rate as
high as 70 per cent seems unwise, I agree that
there is not sufficient evidence regarding its
effect on the investment habits of the wealthy.
Occasionally the high surtaxes will cause an
active man of the speculative type to seek
riskier ventures in which there is a chance of
large profits but smaller profit, leaving so little
after the tax is taken out, does not seem to him
to be worth his time.

Note 16, page 116, by Mr. Nicely. The much-
discussed question of the income aspect of
capital gains outside ordinary business income,
could be set at rest and a fair levy imposed for
the sake of the revenue by a totally different
approach. I suggest that a transaction resulting
in a gain of this type be made the subject of a
flat excise tax payable promptly at, say, 10 per
cent or 15 per cent of the gain. This has the

Fortune Round Table

[Continued from page 124]

advantage of complete segregation from the
complicated rate apparatus of the income tax;
the levy falls on the taxpayer when he is in
funds; the Treasury receives the tax in full at
an earlier date; the income tax returns would
afford a more accurate picture of the true in-
come available and would furnish statistics on
which rates might be more intelligently pre-
scribed; the investor would be able definitely
to estimate the tax burden of his transaction.
Presumably losses would be ignored unless a
generous Treasury elected to permit them to
be deducted from general income as a matter
of decency rather than of tax practice.

Note 21, page 116, by Mr. Parker. While the
taxation of outstanding government securities
would be a breach of faith, I believe it would
be helpful to subject the interest on future
issues of such obligations to individual surtaxes
but not to the ordinary normal and corpora-
tion taxes. Since banks and insurance com-
panies own a large part of the securities, the
full taxation of interest from government se-
curities will not affect enterprise but will in-
crease interest rates. However, if such future
interest is subject only to individual surtaxes
it will close the existing loophole in the law
without increasing the cost of interest.

Note 24, page 117, by Mr. Slichter. The pro-
posal to avoid all taxes on consumption and
to levy them instead upon income that would
otherwise be saved is both impracticable and
unwise. When the government spends as much
as 40 to 45 per cent of the national income, it
simply cannot avoid taking large quantities of
private income which otherwise would be spent
for consumption goods. In fact even in boom
years the savings of the community do not
amount to one-fifth of the national income.
Surely it is not unreasonable to expect a person
receiving an income of \$5,000 to bear at least
half of the average burden, which would be 10
per cent of his income, or \$500, and for a per-
son receiving an income of \$10,000 to bear the
full average burden, which would be 20 per
cent of his income or \$2,000. But surely taxes of
\$500 out of an income of \$5,000 or of \$2,000
out of an income of \$10,000 would fall in sub-
stantial measure upon consumption—probably
more so than upon saving.

The country badly needs twice as much capi-
tal per worker as it now has. Certainly in a
world in which many interests are pressing for
more and more income, it is not sensible or
safe to hamstring industry in meeting these
demands by attempting to concentrate all
taxes on savings. The view that the world has
reached a stage of oversaving is disproved by
the experience of Great Britain, a much older
country than the United States, where indus-
trial production in 1926 was above 1929, and
new industrial capital issues in 1936 were
£105.6 against £194.7 million in 1929.

Note 30, page 118, by Mr. Buehler. If, then,
it costs more to impose income taxes on the
masses than the revenue obtained, there is
little reason for such taxation. Certainly it
cannot be justified as a revenue measure. The
exemption should be high enough to bring in
real revenue, and vanish, as it is lowered where
costs of administration equal revenues. Actu-
ally, the administrative costs of reaching the
moderate incomes are much less than many
suppose.

Note 31, page 118, by Mr. Spalding. The
progressive rate of the tax should be measured
by the individual inheritance rather than by
the whole estate, thus favoring the break-up
of large fortunes rather than their confisca-
tion. Exemptions for those in fact dependent
on the decedent for support, should be mate-
rially increased, not decreased. The tax now
comes at a time when beneficiaries previously
dependent on the decedent are less able to
pay. In addition the procedure for determin-
ing estate tax liability often imposes on mod-
erate sized estates an expense equal to or greater
than the tax itself. A tax on inheritance of
nondependents does not have these objections
and is socially justified at highly progressive
rates.

By Mr. Slichter. Estate and inheritance
taxes are forms of levy unliked for states be-
cause in most of the states the deaths of persons
possessing large estates come very irregularly.
This makes the yield of the tax highly variable
and also unpredictable. When a very wealthy
person dies, the state gets a windfall. This
is conducive to extravagance rather than care-
fully planned and economical public finance.
For the nation as a whole the yield of the
estate tax would be fairly steady. It would be
desirable in my judgment for the states to
give up inheritance and estate taxes entirely
in return for the federal government's giving
up the gasoline tax.

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

DUPLICATE

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Confidential

No. 173

Rangoon, Burma, April 13, 1939.

CONFIDENTIAL

SUBJECT: Yunnan-Burma road.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D.C.

SIR:

I have the honor to transmit herewith a copy of an article on the Yunnan-Burma highway which was written for the BURMA TRADE JOURNAL, official publication of the Ministry of Commerce and Industry, by Kenneth Lockley, import manager for Steel Brothers and Company, Limited, of Rangoon, the largest mercantile concern in Burma. The article was published in the March number of the JOURNAL, issued this week. Steel Brothers and Company have opened an office for import and export trade in Yunnanfu, and Mr. Lockley recently traveled over the new road in the interest of his firm. He took a number of photographs, and three road scenes and two other scenes were used in illustrating his article.

It will be noted that Mr. Lockley estimates that the road has a total length of nearly 772 miles. This is a greater length than estimated heretofore, and is thought to exceed the actual distance by road from Yunnanfu to Lashio. French maps show 1210 kilometers, or approximately 750 miles, and some previous estimates

have
Regraded Unclassified

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have placed the length at less than that.

Road Rollers for Highway in China.

Six Marshall road rollers equipped with Diesel engines were recently imported from Great Britain for the Chinese section of the Yunnan-Burma road, and they have been shipped to Lashio. They are eight-ton rollers, and it is expected to use them to great advantage in surfacing operations. Four Buffalo-Springfield road rollers, weighing 33 tons, have just been delivered here by the American steamship STEEL TRADER, which arrived on April 10th. Heretofore only crude stone rollers chiseled by hand out of blocks of rock have been available to the road forces. As previously reported, the plans of Mr. Ta'n Po-ying, director of the Chinese section of the highway, call for the use of ten road rollers between Yunnanfu and the frontier.

It is reported that the suspension bridge across the Mekong River is being strengthened, and that it will have a capacity of 16 tons when the work is completed. The present maximum is 10½ tons.

Road Not Yet Commercially Important.

Mr. R. C. Chen, agent of the Bank of China in Rangoon, recently returned here after a trip to China and Hong Kong. He traveled by car from Lashio to Yunnanfu and Chungking, and he has reported that he made the journey from Lashio to Yunnanfu in 36 driving hours. He was able at places to drive at a speed of 45 miles an hour, but at other places the maximum speed possible was 10 miles an hour. He encountered some small landslides on the road in China, and he took photographs

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of them. He appears to share the general belief that the road is likely to be damaged by landslides and wash-outs during the coming rainy season, but he expresses the opinion that some traffic will be possible. He has stated that the road cannot yet be regarded as commercially important. He has confirmed previous reports that about 20,000 men are now employed on the road in improvement and reconstruction work, and he has reported that a road-maintenance force of about 10,000 men is being organized to endeavor to keep the highway in condition for traffic.

"Panay" Survivor to Photograph Road.

Norman Soong, Honolulu-born American citizen who was on board the U.S.S. PANAY as a correspondent of the NEW YORK TIMES when that vessel was bombed and sunk, was in Rangoon a few days ago on his way to Yunnanfu over the new road. He is now representing LIFE of New York and PICTURE POST of London, and he said that he had been commissioned by those illustrated publications to submit photographs of the highway and articles concerning it.

Mrs. Amanda Boyden, an American who has written of China for the NATIONAL GEOGRAPHIC MAGAZINE, and who is said to have been recently employed temporarily in the office of the American military attache in Peking, arrived in Rangoon several days ago after a journey by car from Yunnanfu to Lashio. She told friends here that she counted 197 loaded trucks on the way. She left here by steamer for Victoria Point, the southernmost tip of Burma, with the intention of proceeding in a

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small boat from that place to a landing on the Isthmus of Kra, and of crossing the isthmus to the Siamese railway which runs along the eastern side. She expected to obtain first-hand information in regard to that narrow section of Siam, which is in the news at intervals in connection with reports of Japanese plans to build a canal.

Respectfully yours,

Austin C. Brady
American Consul

Enclosure:

Copy of article entitled "Burma-Yunnan Highway".

Distribution:

1. Original and four copies to Department.
2. Copy to American Embassy, London.
3. Copy to American Consulate General, Calcutta.
4. Copy to American Consulate, Yunnanfu.

800

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A true copy of
the signed original

Enclosure no. 1 to despatch no. 173, dated April 13, 1939, from Austin C. Brady, American Consul at Rangoon, Burma, on the subject of "Yunnan-Burma road".

Source: BURMA TRADE JOURNAL, Vol. II, No. 3, March 1939, pages 123-125. Copy.

BURMA-YUNNAN HIGHWAY

This very fine achievement on the part of the Chinese has been such to the fore in the news of the past month or so and quite recently in London one of the leading papers accused Burma of not fully appreciating the significance of the new road which extends from the capital of Yunnan - Kunming (Yunnanfu) to the Burma border and on to Lashio. This statement cannot be left unchallenged and one has only to travel over the section Lashio to the border to realize that the Government of Burma has fully done its share of road building and further several of the leading commercial firms in this country and at least one of the public services have already sent representatives to travel over the road and explore the possibilities of trading consequent upon the opening up of this new line of communication.

It is possibly true that the man in the street has not appreciated the magnitude of this feat by China and while it may be of interest to describe the route, it is impossible to convey an accurate impression of the difficulties the Chinese have had to overcome.

With the exception of the section Kunming to Hsiakuan, which was laid down about three years ago, the building of the road Hsiakuan to the Burma frontier, a distance of 367 miles, was accomplished in a little under 14 months and the whole distance of the road was made available to light motor traffic in December last. With every succeeding month - labour is plentiful and cheap - the road is being improved, surfaces laid, width extended and gradients and curves rectified, that it is still possible the route will be an all weather one before the monsoon breaks in May or June. Ample evidence has been afforded in this direction by the improvement in road conditions from December upto the current month.

In the past Burma and Yunnan have had to rely entirely on mule routes for land communication between the two countries. These routes from the Burma side emanate from the border towns of Myitkyina, Bhamo and Lashio, with Bhamo commercially by far the most important. The new road starts from Lashio and seriously threatens to cut out the first two towns as starting and receiving posts for trade between Burma and Yunnan.

The distance from Lashio to the frontier is 124 miles and the road except for hill sections near the small towns of Hsenwi and Kutkai, has an excellent surface and will undoubtedly be established as an

all weather route before the monsoon breaks. The border is reached at a small post named Wanting where a Chinese Customs Station was established some months ago but it was raided and burnt down by Kachin dacoits shortly after it started operating and consequently was moved further inland.

From the frontier the road surface is very rough but it is well graded and rises steeply to about 5,000 feet before descending to the valley of the Shweli River in extremely fine country, and then deviates towards Chefang where is now established the first Chinese Customs post. Thereafter further hill sections are encountered until a plain is entered in which is situated the town of Mangshih, the capital of the small states of western Yunnan. The country between the frontier and Mangshih is populated by Sino-Shans similar in type to the Shans on the Burma side of the frontier. It is divided into many small states governed by Sawbwas and they enjoy limited local autonomy much on the same lines as the various Shan States in Burma.

After Mangshih exceedingly bad road conditions exist up to the town of Lungling but the road has had to be built over extremely hilly country avoiding gorges and sheer rocks and whereas the direct mule caravan route is a matter of 12 miles the new road covers a distance of no less than 28 miles. From Lungling to Paoshan (Yungchang) one of the most difficult sections of the whole road is met. A mountain range to the altitude of 7,500 feet has to be negotiated with the road narrowing to 8 feet in long winding stretches before a precipitous descent is made to the valley of the Salween River. It is magnificent country from a scenic point of view but to the traveller intent on making progress it has its disadvantages in innumerable hairpin bends and steep gradients with the road surface meantime very rough and cut out of soft rock. The road descends to 2,500 feet to a suspension bridge about 250 feet wide over the Salween at Lamong and one is then faced with another steep climb up to 6,500 feet but over a much wider road with a more even surface, until a fairly extensive plateau is entered and in which is situated the town of Paoshan (Yungchang). This town is an important clearing centre for mule traffic and is a junction for trade from both Tengyueh and Lashio, distributing supplies of Cotton and Cotton Yarn from Burma and silk from Szechuan to Burma.

After Paoshan a further mountainous section is met and the road departs from what appears to be the main map route in a northerly direction to negotiate the crossing of the Mekong River, following that river for 20 miles before a modern suspension bridge 300 feet wide is reached. Thereafter magnificent mountainous country follows interspersed with small plains at Yangpi and Yangpi until a large plateau is entered



in which are situated the towns of Hsiakuan and Talifu and also the extensive lake (Erh Hai) of Tali. The road skirts the town of Hsiakuan to the south of the lake and Talifu lies 10 miles due north on the west bank of the lake, away from the new trade route.

The towns of Paoshan, Hsiakuan and Talifu, total population of about 100,000, are all of the same type encompassed in centuries' old walls 30 feet wide which were built to withstand attacks from marauding tribesmen and bandits. The streets are incredibly narrow and congested and modern sanitation does not exist. There are no industries in these towns except those of a cottage nature such as hand wheel spinning and weaving of cotton and cloth, and primitive brick making from mud and straw. The towns merely serve as distributing centres for local produce as the plains in which they are situated are remarkably fertile.

After Hsiakuan travel is made over a road which was laid down three years ago and one passes through the small towns of Tsuyung and Anning before arriving at Kunning. This section which is 281 miles long can be done comfortably by car in two days and the road is much straighter with less hilly country to negotiate and consequently less beautiful from a scenic point of view. It is being extended into a two way traffic road except in certain hill sections and the surface is moderately even.

The undernoted may be accepted as fairly accurate estimates of distances between Lashio and Kunning:

		<u>Miles</u>
Lashio	- Burma Frontier	124.0
Burma Frontier	- Lungling	83.7
Lungling	- Paoshan	112.3
Paoshan	- Yungping	92.5
Yungping	- Hsiakuan	78.4
Hsiakuan	- Tsuying	151.8
Tsuying	- Kunning	<u>129.0</u>
	Total distance	<u>771.7</u>

The photographs give a slight idea of the country over which the road has been built but one really has to visit the country to appreciate the difficulties of road making. The task has taken its toll of life and many thousands of people have died as the result of injuries and sickness.

K. LOCKLEY
Messrs. Steel Brothers & Co., Ltd.

April 13, 1939

Dear Jeff:

On my return from Sea Island, I am glad to find your letter of April 4th.

Personally, I had not gotten the impression that you had criticized me during your testimony before Senator Glass' Committee on the Hill.

I have never doubted your loyalty and friendship for me. Nothing has arisen to make me change my opinion.

With warm personal greetings to you and Katharine, I am

Yours sincerely,

Hon. T. Jefferson Coolidge,
67 Milk Street,
Boston, Massachusetts.

April 13, 1939

My dear Mr. President:

I am inclosing herewith Marlan Miller's article. I thought you might enjoy reading his reference to Lady Lindsay and the Chatfield-Taylors and the Battle of Yorktown.

Yours sincerely,

The President,
The White House.

SIXTY SEVEN MILK STREET
BOSTON, MASSACHUSETTS

April
Four
1939

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

Dear Henry:

I dined with Joanny Bonea last night and was quite upset when he told me that some of the papers had made out that I had criticized the Treasury and intimated that I had a lack of confidence in you.

In preparing my testimony I attempted to live up to two standards - one was that I should in no way criticize any action of the Treasury but only the proposed law, and second that I should say nothing that you could not say yourself if your views happened to coincide with mine on the question of what laws should be passed.

I am enclosing a copy of my prepared testimony. I had thought of sending this to you and George Harrison before appearing at the Senate Committee but on second thought deemed it wiser not to as I was afraid of questions as to whom I had consulted.

I have far too much respect and liking for you to ever want to be in the position of publicly criticizing you personally and if ever I should seem to do so you may be certain it was not so intended.

With kindest regards to you and Elinor,

Sincerely yours

Jeff

Enclosure

FURTHER DEVALUATION OF GOLD

I am asked to appear before you and express my ideas on the question of further gold devaluation and use of the Stabilization fund. I do this personally and representing in no way any organization.

When we consider the question of giving the administration the right to further devalue the dollar, it is well to consider first the results of the previous devaluation.

In 1933 we had over four billion dollars in gold - a normal amount to permit proper functioning of the Reserve system under the then existing reserve requirements - valued at \$20.67 per ounce. Our government under the Gold Reserve Act of 1934 raised the price to \$35 per ounce. This instantly created in dollar value over seven billion dollars of gold in this country. As is natural when the price is raised we bought more and more, and the mines of the world turned out more ounces annually which translated into dollars became double and then treble the former amount. Since that time we have purchased over seven billion dollars of gold at the new price. In ounces we have doubled our stock - in dollars it is more than trebled. Our banking system is overflowed. Two billion is locked in the Stabilization fund.

Yet Congress has before it the request to extend the right given one man, at his discretion, to raise the price even higher resulting, if used in full, in an increase of nearly three more billions to our existing stock and presumably a great further increase in new production and additional purchases. Thought should not be given to higher prices but should be directed to consideration of our present stock. Even under the present situation there is danger of depreciation of money and unfortunate expansion within our banking system.

There are however other considerations than our own banking situation that should be considered.

If one man has the right to change the price of gold the question is raised "Will it be changed?" At times the belief it will be sweeps across the world causing fear, hoarding of gold and flight of capital. Even though the power is never used damage can be caused by its mere existence.

- 2 -

Looking at the foreign situation, I am confident no great country desires further depreciation of its currency per se. If further depreciation takes place it will not be done willingly and gladly. It will be because of unfortunate events or policies that force the depreciation. If foreign countries should have the misfortune to have their currencies further depreciated, either through mistaken policies, fear, or inflation, let us at least maintain our present value and not voluntarily join the others in their troubles.

As a matter of fact I personally believe the best step to take to encourage foreign stabilization would be to definitely fix the price of gold and agree to buy from anyone and sell to anyone in unlimited quantities. Then the world would know where we stood and one by one the nations could, as the years pass, stabilize their currencies with ours with their own reserves of gold knowing they were tying their currencies to something inherently stable.

I further believe if Congress should definitely refuse to consider further devaluation there would be a feeling in this country of greater confidence in the future of our money and confidence in money promotes confidence in other matters.

Our Constitution states "Congress shall have the power to coin money, regulate the value thereof and of foreign coin." Under the proposed extension Congress delegates this right to the discretion of a single man acting without public discussion. This power should not thus be delegated no matter what confidence Congress may have in the financial wisdom of a man.

For the reasons I have outlined, I hope Congress states to the world that our money will not be further devalued.

EXTENSION OF POWERS IN REGARD TO STABILIZATION FUND

My thoughts in regard to the Stabilization fund are less definite. The Treasury desires continuance of its present powers and I have no criticism to make of its use of these powers in the past.

- 3 -

However it should be recognized that only a small percentage of the Fund under past and present practices of the Treasury has been used or will be used, and it may be well to raise the question of conceivable uses in the future.

Under present conditions it would certainly be unwise to inject this sum of gold into our already overloaded banking system by spending. How shall it be used? I shall let my imagination run on possibilities.

Should Congress desire to lower the price of gold, thus reducing the stocks in dollars, this Fund could make up loss incurred; should Congress desire a uniform currency, this Fund could retire silver certificates and greenbacks now outstanding, or should Congress so desire the Fund might be used in helping to stabilize the currencies of foreign nations. In regard to the first, my belief is that it is more important to definitely fix the price of gold and make our money freely convertible into gold than to worry about the proper price. To use it to attain a uniform currency system in this country would be wise and sound, and a minor step in this direction was taken with free gold when national bank notes were retired in 1935. To use it to help stabilize foreign currencies in the future, opens a difficult but interesting subject. I hope to see the day when major currencies are once more fixed on a definite gold basis. Should the time come when a real effort in this direction is made, skillful use of this Fund might be of great help in attaining the end. It is within the realms of possibility that some American nations might some day surrender their privilege of having control of their own currency (as our states did under the Constitution) and adopt a currency based on this gold.

Such considerations are not very practical at the moment but I suggest whether this Fund should not be administered by Trustees, of whom the Secretary of the Treasury should certainly be one, perhaps the Chairman of the Federal Reserve Board and the President of the New York Federal Reserve Bank two others, - these to have for the present powers limited to the use of only a small portion of the Fund but to recommend

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to Congress ways to deal with the gold in the future. It is in my opinion a problem that will last through several administrations and one that should be at least partially removed from the sole decision of the Treasury or a political administration.

T. J. Coolidge

March 9, 1939

April 13, 1939

3:50 p. m.

Present:

Mr. Foley
Mr. Klaus
Mr. Graves

HM,Jr: Mr. Klaus says the three worst fellows are still there in Mr. Campbell's office. How is the best way to get that to the Attorney General?

Mr. Foley: Don't you think that's what the A. G. had in mind, that that office was one of the worst politically ridden in the country and it wasn't all cleaned up yet?

HM,Jr: He did not tell me that.

Mr. Foley: Yes; on the telephone the other day. That's when he said he did not think he was going to give the case to Campbell.

HM,Jr: I wonder if he knows who these three are. These fellows are just getting new assignments.

Mr. Klaus: ... unless he intends to change it.

HM,Jr: What are the fellows' names?

Mr. Klaus: Ward, and Warren Canaday and I understand one of the worst was Eben.

Mr. Foley: Wait a minute! Eben is Mary Eben's son. Mary Eben at the White House.

HM,Jr: And so what?

Mr. Foley: I think he is a pretty clean boy.

HM,Jr: Before I call up the Attorney General

-2-

you three go over it and make damn sure. You want to underwrite her husband?

Mr. Foley: I don't know her husband.

Mr. Graves: Canada's has always been disliked by the Treasury group in Chicago -- Madden, Yellowley.

HM, Jr: Any grounds?

Mr. Graves: My only grounds is what I have heard said.

HM, Jr: Any way of checking? Well, put it on the calendar -- when are you going back to Chicago?

Mr. Klaus: I am waiting for the Attorney General to set up the staff.

Mr. Foley: Campbell will be here all next week.

HM, Jr: Oh! Then let's ask Campbell what about these two birds and Eben. Let's do it that way. Let's give him a chance. I think that's the best way of handling it.

When are we going to put on a demonstration on how to clean up a bunch of pool rooms?

Mr. Graves: I understand Mr. Helvering has that matter in hand. I don't know the status since you talked with him on Tuesday. I think you gave him one week to have a plan ready to go.

HM, Jr: All right. All right. That's about all I have.

Mr. Klaus: Ward, he's supposed to be Skidmore's man in the office, according to the grapevine.

HM, Jr: Klaus tells me that we turned the Skidmore case over last summer and somebody called up from the Attorney General's office and said let's hold off.

Mr. Foley: Yes. Bill Campbell told me that

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himself and tried to get the dope out of Riley.

HM, Jr: Nobody said anything about that to me when I was out there. They were going right ahead and try this thing in April. Why didn't they tell me that when I was out there?

Mr. Foley: Apparently Riley did not know. Bill Campbell said that when you were out there, he told Madden that he wanted a resume of the evidence that the Treasury had in its possession brought down to date and you turned to Madden and said how about that and he said he could get it up just as soon as he finished working on the Annenberg case. Bill Campbell told me that Madden was going to have in Mr. Ireys hands next Tuesday that completed resume.

HM, Jr: All right. I will be a little patient.

oOo-oOo

April 13, 1939
9:00 a.m.

HMJr: Hello.

Operator: The Attorney General. Go ahead.

HMJr: Hello.

Frank
Murphy: Hello, Henry. This is Frank Murphy.

HMJr: You're checking up on me, are you?

M: Yeah.

HMJr: Well, I'm here at the office.

M: Well, that's good. The -- the staff went over those orders last night.

HMJr: Yes.

M: And I've discussed it -- discussed the both orders with them this morning.

HMJr: Yes.

M: And subsequently this morning a memorandum is going to come over from your office and we're going to look at it somewhat further because, while we feel that from what they report to me, that the order as it affects with the Securities and Exchange regulation is on firm ground....

HMJr: Yes.

M:and all right.

HMJr: Yes.

M: But that there is grave doubt about the other.

HMJr: Oh really?

M: Yeah. Grave doubt about it.

HMJr: Is that right?

M: Yeah. The registration of the property here.

- 2 -

HMJr: I see.

M: And its possibilities. At least such that we think right now that the President ought to have the benefit of that view before him and then decide as a matter of policy.

HMJr: Yes.

M: Now, this isn't final, but it raises serious questions and I've ordered a group of three or four of them to work on it further this morning and then discuss it with me around noon hour, after we get the memorandum from your office that's coming over in further support.....

HMJr: I see.

M:of the order as it set up.

HMJr: Uh-huh.

M: Now, I wanted to tell you about it now and -- that -- it's of such importance that it ought not to be rushed in a few hours.....

HMJr: Oh, no.

M:unless it has to be.

HMJr: It does not.

M: Well, then I'm -- the thing to do about this is just spend the day on -- and the night, if necessary.

HMJr: Yeah.

M: And perfect it, correct it.....

HMJr: Oh, Frank.....

M: And get it just.....

HMJr:it's so important that I want you a hundred per cent sure that we're on firm ground.

M: Yeah. Well, that's the thing to do.

HMJr: I -- I mean, it's -- I.....

- 3 -

- M: The -- if you didn't, Henry, in this matter, and anything happened, and we began the registration of all properties in this country, it would be in court in twenty-four hours.
- HMJr: Look, I just -- you don't know me terribly well. I'll urge you to give me an opinion but I'll never urge you -- what that opinion should be. There's a grave difference, isn't there?
- M: Oh, yes.
- HMJr: I mean, I'll never say to you -- oh, well I mean, I happen to know that Henry Wallace -- he tried to use me to call you and the President on this cotton thing and I refused to do it. In other words, I'll never bring influence to try -- I know it would be useless, but to try to say, "Well, give me a favorable opinion." I -- I'll -- I may ask you to give me an opinion, but -- but please take all the time necessary because I would -- if you have any doubts, I won't move until you say, "Henry, it's all right." or you say, "Henry, don't do it."
- M: Well, I think that's best.
- HMJr: And in the meantime, I'm praying and hoping that there will be no war.
- M: That's right, but there's no use in giving you any help that isn't sound and valid.
- HMJr: You see, the thing that frightened me yesterday was -- just for your own information -- that General Craig, who I asked informally -- he said he -- if anything was going to happen, it would be during the next three days, but he didn't think anything was going to happen. So that's why I'm pressing everybody.....
- M: Well, why.....
- HMJr: to help me get ready.
- M: While any -- I don't think it will either, but there's enough to give us serious warning.
- HMJr: That's right.
- M: And besides, Henry, no matter what the General or others may think, it's heading up inevitably toward it.

- 4 -

When the time will come, we don't know. But there's -- unless there's a complete change of policy in Europe, it's inevitable. It's just a question of everybody getting in position for it first.

HMJr: Well, Frank, I appreciate tremendously the time you're giving it and I will sit tight until you are entirely satisfied.....

M: All right.

HMJr:and will advise me accordingly.

M: That's fine, Henry. We'll watch it carefully for you.

HMJr: And I take it it's among the first order of business for you.

M: Yeah. I've got everything whipping into shape in fine order.

HMJr: Yeah.

M: We've got the resignation of that Judge Thomas yesterday.

HMJr: I congratulate you.

M: And we got another man under.....

HMJr: You can't -- I don't effervesce like this, but the contrasts of the previous Attorney General and yourself is so marked, that I've got somebody that I like to think is motivated -- well I'm motivated the way you are, and we like to do what's right.

M: Well, it's.....

HMJr: When I get support, and I've never had that since I've never had that since I've been here, legally, outside of my own shop.

M: Henry, I hate to see our Government take a -- anything but a strong and forceful view towards what these marauders are doing in Europe.

HMJr: That's right. Well, we're doing our bit. I guess we stuck another pin in the -- in the people yesterday over at the State Department. They -- they love me

- 5 -

no more. I asked Mr. Hull to tell me to whom did Manchuria belong, because we are accepting goods that they made in Manchuria -- and what was the difference between -- the relationship between Manchuria and Japan and Czechoslovakia and Germany. And please to advise me.

M: Yeah.

HMJr: See?

M: Yeah.

HMJr: Am I right?

M: Sure.

HMJr: What?

M: Certainly.

HMJr: After eight years or nine years they ought to know to whom does Manchuria belong. It's that kind of thing, don't you think so?

M: I'd bring it all right up to date.

HMJr: Well, I'm trying to.

M: Everywhere, in all directions -- Italy, Manchuria, and everywhere.

HMJr: O. K.

M: All your property. All right, Henry.

HMJr: Thank you.

M: Good bye.

April 13, 1939
9:08 a.m.

Harold
Ickes:

Hello.

HMJr:

Hello, Harold.

I:

Yes, Henry.

HMJr:

Can I sell you a few German munitions this morning?
Or a little helium?

I:

Oh yes, anything; I'm in the market for anything
that's reasonable. What's your price?

HMJr:

To you?

I:

Yeah.

HMJr:

Oh, about a million aeking marks.

I:

Well, that's all right.

HMJr:

(Laughter)

I:

What I wonder -- what I've been wondering about was
our friend over in Philadelphia.

HMJr:

Oh! For the first time since -- this is for you only --
for the first time since I've been Secretary of the
Treasury I have written a letter to the Attorney
General, forwarding him the Moe Annenberg case and
recommending criminal prosecution.

I:

Yeah.

HMJr:

It went over two days ago.

I:

I see.

HMJr:

And it's the first time I've ever done it. I mean,
it's always gone through the Bureau, you know.

I:

Yeah.

HMJr:

And it's over there now with Frank, and Frank is
hiring the best attorneys in America to assist him
on the case and he's -- he's personally following
it.

I:

He's going through with it?

HMJr: Oh -- you mean Annenberg?

I: No, Frank.

HMJr: Oh, Frank Murphy?

I: Yeah.

HMJr: Oh, yes. He's all excited about it. He's -- he's talking of really going out -- even and trying it himself.

I: Good!

HMJr: Oh, he's all excited and pepped up. He's.....

I: That Grand Jury is in session, you know.

HMJr: They fired seven political appointees out of the office out there in Chicago.

I: Well, yes. That's -- that's the good thing that resulted from dear old "ham" Lewis' death. It gave him a chance to clean up that office which -- needed it badly.

HMJr: They did it before. Give him -- give Frank credit. He did that.....

I: I knew they were going to.

HMJr: He did it ten days ago.

I: Well, I'm awfully glad.

HMJr: And -- now that after it's signed and sealed we've got, I think, a hundred per cent case. Frank's all pepped up; he's organizing a special staff just to handle that.

I: Yeah.

HMJr: And on the Skidmore case we haven't yet been able to put it in the package and send it over, but we will in a few days.

I: Yeah, well I think they want the big case first, don't they?

WMJr: Well, we were ready first.

I: Yeah.

WMJr: But.....

I: What's your guess as to when it will go out to the Jury?

WMJr: I think this month.

I: What?

WMJr: I think this month.

I: Oh, I hope so.

WMJr: I think this month.

I: That's fine.

WMJr: But I'm on written record recommending criminal prosecution and Frank is tickled to death.....

I: Yeah.

WMJr:and just -- and personally is handling it.

I: Well, one good thing about Frank, he -- by gad, you know, if we had had somebody clicking like that over there the last five years we'd be in a whole lot better shape.

WMJr: Harold, he just hung up, and I said, "Maybe," -- Frank Murphy did -- and I said, "Maybe you think I effervesce like this always." I said, "I don't, Frank, because I haven't had a chance to do this in six years."

I: No, I should say not.

WMJr: I just told him that.

I: Homer -- Homer is -- aw -- hell, never got anywhere.

WMJr: Yeah.

I: Good. All right.

HMJr: No, that -- that is on its way -- and I -- I don't --
I take it he's going to do it in April Grand Jury,
but.....

I: Yeah.

HMJr: But he's just as keen on that as you and I.

I: Good! Fine!

HMJr: Good bye.

I: Good bye.

April 13, 1939
9:13 a.m.

HMJr: Hello.

Operator: Dr. Flexner at Princeton.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Dr. Flexner: Hello.

HMJr: Dr. Flexner, may I first apologize for -- for not answering the call.

F: Oh, it's perfectly all right.

HMJr: But from two o'clock until a quarter of eight I was in too much.....

F: Yes, I knew that -- I understand that.

HMJr: Yes.

F: Now, Mr. Morgenthau.

HMJr: Yes.

F: . When I got back to Princeton yesterday about noon I saw Stewart and Reifler and they would prefer very much to come down to Washington to talk with you at your convenience.

HMJr: Well, I'd like them here Saturday morning.

F: Saturday morning?

HMJr: Yeah.

F: All right. I'll -- neither of them, of course -- I think what I'd better do is to call -- hello?

HMJr: Hello.

F: I -- I'll call Reifler right away and tell him and he'll communicate with Stewart and then with you.

- 2 -

HMJr: Yeah, if they could both be here Saturday morning, because both Dr.....

F: At what time?

HMJr: Oh, if they could be at my office at -- by nine-thirty.

F: I see. All right, I'll communicate with them.

HMJr: Thank you.

F: Right away, and be delighted to do it.

HMJr: Thank you.

F: Thank you. Good bye.

April 13, 1939.
11:00 A. M.

MEETING OF INTERDEPARTMENTAL BANKING COMMITTEE

270

PRESENT: Mr. Hanes
Mr. Duffield
Mr. Eccles
Mr. Crowley
Mr. Ransom
Mr. Jones
Mr. Delano
Mr. Bell

H.M.Jr: There is one advantage at least - you people can't accuse me of coming into this meeting having made up my mind. I haven't talked to anybody and I never came less prepared, so I haven't the slightest idea - maybe Mr. Delano is going to say, "Please, Mr. Morgen-thau, transfer me out of the Treasury." So I don't know.....

Delano: Well, I've made a great many blunders and mistakes in my life, but I don't think I'll ask for that.

Kieley: Mr. Jones will be a few minutes late. He suggests you start.

Duffield: You had Mr. Eccles here once.

H.M.Jr: He's coming back again.

Delano: Let's see - Mr. Eccles and Mr. Jones?

(Ransom comes in)

Ransom: Hello.

H.M.Jr: How are you?

Ransom: Just fine, thank you. Hello, Preston. Hello, Gene.

H.M.Jr: I said I never came to a meeting less prepared than I have for this one.

Ransom: You haven't much on me, sir.

Duffield: You wrote a whole report on this subject.

Ransom: Oh well, yes and no, Gene.

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

Ransom: Where is the Chairman of our Board, if anywhere?

H.M.Jr:

He was here at 10:30 and left; said he's going to get some air and come back.

Of course, the immediate thing is the Brown bill, and what I'd like to talk about while I have you here - do we want any banking legislation, and if such, what? I mean not just the Brown bill. And then - I mean that's - I'd like to approach it from the whole standpoint. Do you fellows who are in the banking business in one way or the other - do you think we ought to have some sort of banking legislation, or should we want the Committee to investigate, and so forth, and so forth. I am in the position where I would like to just sit back and listen.

Want to start?

Ransom:

You starting with me?

H.M.Jr:

I'd be delighted to have you start on me.

Ransom:

Well, speaking for myself, I have had the feeling for some time that we needed a very thoroughgoing study of the whole problem, which I think we have pretty well covered in the Board's annual report. I would personally much prefer to see the conclusions reached after a very thoroughgoing Congressional investigation, not a casual superficial one by any means. I would like to feel that it is not hurried in time and that all of us would have an opportunity to.....

(Eccles comes in)

Eccles:

Who comes here oftener than I do?

Ransom:

Good morning, Marriner.

.....present our views to such a committee or committees as Congress might designate for that purpose, feeling that as the result of that we would all of us have the benefit of the views of one another and the views of students of these problems that are interested, and of the various Congressmen and Senators who have by introducing bills indicated a real interest in the problem or problems which are involved. That would be my own personal preference.

I think in the absence of a response on the part of Congress to such a program as that, we are confronted with the dilemma of having to answer not only a request for an opinion on the Brown bill, but requests from Congress on a great many other bills which lie in the same field. And I have found it very difficult

in my own thinking to separate these questions one from the other in a manner which enables me satisfactorily to say that this is a bad proposal or this is a good one, without relating one to the other and taking it in something of an orderly sequence.

I would like to feel that all of you gentlemen who have equal responsibility and equal interest, all of you who I know are working toward the same public interest, which is the only thing any of us are trying to serve, would feel that that would be a satisfactory method of dealing with the problem as a whole.

Now, may I interrupt the reporter to say to Marriner that the Secretary asked that - said that he was not himself prepared to discuss the subject, which is the Brown bill, but that he would like to have the views of all of us on, first, do we want banking legislation, if so what kind; secondly, do we think the matter can be approached through the general Congressional consideration of all of these problems as allied matters. And I was addressing my reply to that. That is correct, isn't it?

H.M.Jr: Absolutely.

Henson: That's all.

H.M.Jr: Well, just to - before we go - to be specific, has the Board made up its mind how they are going to answer a request for an opinion on the Brown bill?

Eccles: No.

H.M.Jr: Do you think that it would be sensible if we could get an agreement to send them a joint letter, or do you think we each ought to answer separately?

Eccles: I think we may have difficulty getting together unless the answer was merely one of suggesting that we were not in favor of piecemeal legislation and that we thought that this should be considered along with all other bills relating to this whole question of money and banking. Now, I think we may get together on that kind of a letter, but it seems to me, on the other hand, that we may have difficulty, in my opinion, on any other kind of a program, if it was one of either criticism of the Brown bill or the offering of alternatives. If you neither undertake to criticize it nor

undertake to offer alternatives, then it seems to me it may be easy to merely get together, if it's along the line of being opposed to piecemeal legislation as such, and suggesting a general consideration of the whole field, the whole subject, which I have felt, as you know, since I talked to you last Fall - you have known I felt that there were a great many problems and they couldn't be considered in a vacuum separate and apart, but the whole thing had to be considered as one.

H.W.Jr: I see.

(Mr. Jones comes in)

H.W.Jr: Hello, Jesse.

Jones: Mr. Secretary. How are you, sir?

H.W.Jr: Hello. Glad to see you.

Jesse, what I said to these gentlemen before you came in was that I have never come to a meeting less prepared; I've had no preparation. And the question I want to decide on was, one, should we consider whether we want any banking legislation at all, and if so what, and then particularly the Brown bill, see? Now, we were just at that point, see?

Ransom: Do you mind suggesting to him that other alternative that you suggested to us, the possibility of the study by Congress of the whole problem rather than an effort to solve it in any piecemeal doses.

Crowley: Well now, as far as Federal Deposit is concerned, we are perfectly willing to agree that there will be no legislation. However, being around legislation a little while, I know that it's a great habit of people in legislation - when they can't get what they want, they want study. Now, if we are going to have a delay in this thing, all I want to understand is that there is going to be no more of these balloons going up that place any other agency on the defensive. Now, if we are going to have a peace treaty here, let's have one that goes all the way; let's have no more letters to Congress or anything else.

Now, Marriner says that if we are going to have agreement, we've got to have a surrender to the Federal Reserve's viewpoint that a complete study

H.M.Jr: Now.....

Crowley: Wait a minute - I've had this thing in my craw a long time.

H.M.Jr: Wait - I just was going to say I hadn't heard him say it today.

Crowley: Well, what he said is that he wanted a letter to Congress to make a study; that's what he and Ronald both say.

Now, I have no objection to a study, providing there is no propoganda spread before the study is made; that the study is a study made by Congress. There have been charts spread.....

H.M.Jr: You want us to sprout wings, huh?

Crowley: There have been charts spread all over the country showing the duplication of examination that in our judgment do not represent the true duplications that exist. Now, all those things have the effect of hurting the banking supervisory authorities. It gives the bankers an excuse to complain wherever the supervisors or examiners criticize them. Now, if we're going to get together here, I'm for getting together, but I'm not for getting together and letting our powder get wet and letting the other fellows' powder get dry.

H.M.Jr: Well, I'm only a Chairman, so - this is the Committee, and in this case I happen to be innocent.

Ransom: Leo's powder doesn't sound very dry to me - or wet.

Crowley: I don't want any powder.

H.M.Jr: I haven't got any powder. As I said before you came in, maybe Delano would come in here and say, "By God, the one thing I want is to get out of the Treasury."

I haven't even got any powder.

Jones: I can't imagine who Leo is talking about.

Ransom: Maybe he is talking about me, Jesse, because I am

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the only man that I know that's prepared a chart.

Crowley: You had a lot to do with that chart, Ronald.

Ransom: I certainly did.

H.M.Jr: Are you through for the minute?

Crowley: I'm through for the minute.

H.M.Jr: Let me just see - we got kind of talking here in fables. What do you (Crowley) recommend?

Crowley: There isn't a thing that the Federal Deposit Insurance wants. As far as we are concerned, we don't want the Comptroller's office, we don't want anybody else's office. We are perfectly content. We are satisfied with the cooperation we are getting. But we don't want the other fellow to go out and use any propoganda to try to trespass on something that Federal Deposit has got.

H.M.Jr: Well, I want to say here for the Comptroller's office - somebody there said they were the only people that had confidence in the President; they didn't ask to be exempted from the Reorganization Bill; so they are the only people who are vulnerable.

Ransom: Might I add for the record that neither did we ask to be exempted.

H.M.Jr: God, you fellows are sensitive.

Ransom: In fact, I would very much have preferred personally to have seen the Comptroller's office included with us if we were to be exempted, so that we would all be exempted.

Eccles: Or none exempted - either all or none.

Crowley: We were glad to be included.

Bell: You didn't take any steps to have it eliminated from the bill.

Eccles: What?

Bell: You didn't take any steps to have it eliminated from the bill, did you - the exemption.

Eccles: We were exempted. You mean we didn't take any steps
.....

Bell:to have the exemption lifted, eliminated from the bill.

Eccles: We didn't do anything.

Jones: Marriner, I just want to say that I'm the only man that's entitled to a second question because I'm hard of hearing.

Eccles: That's all right.

Ransom: That explains it. I have never known why Jesse was a little deaf before.

Jones: At times.

H.M.Jr: Good meeting.

Delano: "No spika da English," huh?

H.M.Jr: Johnny, how do you feel? You've been looking after the Comptroller for me.

Hanes: Well, I haven't crystallized any viewpoint, Henry. I'm inclined to agree with what Ronald said. I don't think that - I have talked at length with Preston about this thing - I don't think he is - at least he wasn't the last time I talked to him - ready to make any direct recommendation. I certainly am not ready.

I hate this piecemeal business. The Brown bill I am heartily opposed to. I hate this piecemeal sort of thing. We are going to end up with a hodgepodge not satisfactory to anybody. And so I'd like to - I hope we report unfavorably on the Brown bill and do everything we can to kill it. I don't want to see the Comptroller's office moved over to the Federal Deposit Insurance Corporation right at this moment. If anything were going to be done with the Comptroller's office - I don't say I would like this, but I'd say if anything were going to be done with it at all, I'd like to see it made an autonomous body and set off apart and by itself, an independent agency. Now, that.....

Delano: I would like to correct any impression, Johnny, that that comes from me.

Hanes: I didn't say it came from you. I am speaking for myself.

Eccles: What a meeting!

Hanes: Everybody is so damned sensitive. I am not talking about anybody. I am talking about myself now, that I believe in the freedom of expression.....

Jones: I'm awfully hard of hearing, because I didn't hear you indicate he had suggested it.

Hanes: He must have a guilty conscience.

Delano: I think I'll have to say something now.

Hanes: We're going to make him say something.

Delano: Have to say something now.

Hanes: But I'm not ready to subscribe to the Brown bill and I hope we can enlist the support of the other agencies in the fight on it. I don't believe the banking fraternity is ready for the Brown bill.

Delano: I feel very strongly, Mr. Secretary, that the Brown bill would be a very grave error at this time.

Jones: Who is the author of the Brown bill?

Delano: Prentiss Brown.

Jones: No, but I mean the author of it.

(Hearty laughter)

H.M.Jr: This is the first good laugh I've had for a long time.

Hanes: I'll try a balloon, as Leo calls it. I'll try a balloon. I'll say, "Leo Crowley."

Crowley: You're balloon didn't go off that time.

Hanes: I don't know who is the author of it.

Bell: You want to know the silent sponsor?

Hanson: The ghost writer.

Crowley: If you're not so very timid, Jesse, you could ask Prentiss.

Jones: I wouldn't hesitate.

H.M.Jr: Where are you (Delano) on this? You are hiding.

Delano: Well, I am the abolishee, and I have the nervous reactions that go with that position. But I feel very strongly, Mr. Secretary, that the national bankers feel that they are entitled to a strong Comptroller's office. I know that definitely, and I do know definitely that they do not want it disturbed, do not want it moved.

I feel the same way about it. I feel any legislation at this particular time would be most unfortunate; any legislation would be most unfortunate. I don't think that Congress is in the frame of mind to approach the thing dispassionately or to - I think with these momentous world events here that this thing had better simmer through at least the summer. I don't think we should have any legislation. I think the Brown bill - I entirely agree with Mr. Hanes - I think the Brown bill should be killed, out away.

Ransom: Might I be permitted to add, Mr. Secretary, to what these two gentlemen have said. It seems to me in the light of everything that is occurring here and in the rest of the world, that bank examination is relatively an unimportant problem. On the other hand, I think it is tremendously important that all of us do whatever lies within our power to be sure that we have the strongest possible banking system to meet whatever income may come upon it as a result of these rather extraordinary conditions. So that it seems to me that the Brown bill cuts off an awful small slice of the cake, and therefore for that reason and because I don't think that is the best solution of the problem, I personally would not favor the provisions of the Brown bill, if you would like a statement to that effect.

E.W.Jr: Well, I mean I'm just taking what you are giving me, that's all, and like it.

Crowley: As far as legislation being piecemeal, isn't all legislation piecemeal? Are you going to go up there and write a piece of monetary and banking legislation that would be all-inclusive? I never knew of any legislation that was ever all-inclusive, but it is - and I am perfectly - don't get me wrong - I am perfectly willing to leave the Brown bill in the hopper, providing that there is no other bill that goes in there that does anything else.

But you're talking about bank examination being very unimportant now; it's only less than sixty days ago that it was all damn important, according to your own Federal Reserve Board.

Ransom: It is important, but it is relatively unimportant.

H.K.Jr: Jesse?

Jones: Well, I think I can talk probably more intelligently on the Brown bill than the rest of you, because I haven't read it and don't know what is in it. Is it to abolish your office or put you in the FDIC? Is that it?

Delano: Uh-huh.

Jones: Is that all?

Delano: To transfer the functions of the Comptroller of the Currency - abolish the office, transfer the functions to the FDIC; that's roughly it.

Ransom: And take away the examining functions of the Federal Reserve System also.

Jones: Huh?

Ransom: Take away the examining functions of the Federal Reserve System.

Jones: Well, I don't think it makes a great deal of difference what we might conclude. It is doubtful if you will get any banking legislation at this session of Congress.

H.K.Jr: Well, you remember, Jesse - you have a good memory - I don't know if it was last year or the year before, but you remember Carter Glass asked us were we going to recommend any banking legislation, and we told him was it last year or the year before?

Coates: It was last year.

H.K.Jr: We told him that we would not, and then we stuck to it and it pleased the old gentleman very much. Now, for instance, we're talking of suggestions made to me that I talk to Carter Glass and try to get him to introduce the Bank Holding Bill, see, and one of the things I had in mind was, to make my own

course simpler - if you people would say, "Well now, let's have no banking legislation; we are opposed to any banking legislation," or "We think the way the Federal Reserve does that we should have a Commission which will study the banking situation." Of course, they included monetary matters and joint responsibility between the Treasury and the Federal Reserve, and so forth. See?

Now, we are all busy and I don't like to get you fellows together.....

James: I wonder about the desirability of any more study and committees - I mean so far as the country is concerned.

W.H.H.Jr: Well, you've got the advocates here.

W.H.H.: Yes. Well, it's a pretty long story to give you the - what has happened to the Reserve System, where we are; and we are not seeking any power at all, and all we'd like to do is to have Congress understand just what the situation is, inasmuch as we are an agent of Congress and they expect a hell of a lot that we haven't any power to deal with at all.

James: Well, have they asked you for anything?

W.H.H.: Well, we've got numerous requests for reports, of course, on various bills. And in connection with that, for instance, they are largely of a monetary nature; they want to give to the Federal Reserve the powers to control and fix prices and expect us to be responsible for maintaining economic stability. And it is merely in attempting to reply to that that you get into this whole field of money and credit, and it is a difficult thing to say where one stops and the other starts.

The gold that has come in and the silver purchases created an excess reserve situation - it isn't doing any harm today, that's true, except that it may be in substantial part responsible for the very high Government bond market.

James: Well, have you any specific recommendations?

W.H.H.: No.

W.H.H.Jr: Well.....

Jones: Well then, how could Congress develop any if those of us in charge of these agencies don't have them?

Eccles: Well, we have some. I mean we haven't as a Board - I have some very definite recommendations that I would be prepared to make individually, but I wouldn't want to go up and act individually; I would prefer that the Board - but as a Board we haven't got any cut-and-dried program that we are prepared at this time to go up before Congress and say, "This is what we recommend." If a committee was going to be appointed, then certainly I would make an effort to get the Board to agree to some program, and if it couldn't agree as a Board, then the individuals would have to express their own views. But so far as having any bill or any cut-and-dried program, we haven't got one at this time.

And we have no - what was said in our annual report and what was said in the report the other day - it wasn't certainly in criticism of anyone, and it isn't our idea or our desire to make any fight or effort to get for ourselves certain powers.

As far as the way I feel about this thing, as to the Federal Reserve, if it were the wish of Congress that the Federal Reserve be taken over as a Government-owned institution, I personally wouldn't have any particular objection - if that is what Congress wants. But it's a question of trying to find out what is expected of us.

Jones: Well, Marriner, I haven't heard of Congress wanting anything.

Eccles: You haven't what?

Jones: I haven't heard of Congress wanting anything.

Ransom: May I interrupt you to say that we have before us now for the expression of our opinion some twenty or twenty-five bills which run the whole circle from left to right in concept of the Federal Reserve system and of the whole banking field. Now, some of those bills.....

Jones: What do you do with them?

Ransom: We have to reply to them, Jesse.

Jones: You make a reply.

Ransom:

Yes. We are in this situation.....

Eccles:

We can't avoid it, and then we are called on, pressure is put on us.....

Ransom:

We are in this dilemma. If I were attempting to answer the Brown bill, I could say, "I don't think that is the best solution of this problem," but if I were an intelligent member of Congress, and there are plenty of them up there, I would say, "Well, what do you think is the best answer to this?" And the whole field is then wide open.

Now, I think there is a fundamental difference in approach to the whole question. It is whether you approach it with a series of questions or whether you approach it with a series of answers. Speaking for myself, I think the way to approach it is by a series of questions, to raise these questions and ask that in due course of time they be resolved so that the Federal Reserve System will not have imposed upon it an impossible mandate which it could not ever satisfactorily discharge, and that we do know where Congress thinks we stand in this general scheme of things. That is why I say examination is but a small part of the whole.

Now, if I may, Mr. Secretary, answer Mr. Jones' question.....

H.M. Jr:

Why not?

Ransom:

.....as to the advisability of any general study at this time. I think if that study were approached in anything like a hurried or vindictive manner, which it wouldn't be - no possible reason - but approached as an objective consideration of this whole field, that we might ultimately hope to get a sounder banking system. I can't see any objection in the public interest to that. Now, as a matter of fact.....

Jones:

Will the gentleman yield just a minute for a question? Who is it contemplated would make the study?

Ransom:

A committee of Congress.

Jones:

A committee of Congress.

Ransom:

Either committees or a joint committee.

Jones:

Now go ahead.

Ransom:

Now, before that committee, in the course of time, should be presented the views of all of us and of a great many other people who may know more about it than any of us know. And out of that, you, I, or anyone else ought to be able to crystallize our own final thinking as to what was the best answer, and thereby help that committee and in time help Congress find a solution. Now, there is no difference, in the way I see it, in such a committee as that approaching the subject and our problem right here now and today in relation to the Brown bill. We are asked for our opinion, and no intelligent, informed man can answer what he thinks of the Brown bill without saying what he thinks about this and this and this, clear down the line, until the whole field is open for consideration.

Hanes:

Ronald, if you are going to have an investigation, isn't it a more practical approach to it if we take these agencies and each of us appoint one man and let us sit down and crystallize and get together and work out a program among ourselves rather than having a Congressional investigation, which I never have - of course, I am not in favor of any of them; anyway, I have never seen any good come out of any of them, as I remember. But that's a pretty broad statement.

Ransom:

I think it's too broad a statement.

Hanes:

Yes, but nevertheless I think you've got intelligent people in all of these departments who know the practical side of this thing, and I refuse to believe that we aren't tolerant enough of one another's viewpoint to get together for some constructive approach and then go to Congress and say, "Here is our recommendation."

Ransom:

I came on this Board in February of '36, and most of you men who are around this table are probably in a state of complete boredom with me, because during all that rather long time I have consistently advocated just exactly what you and I are advocating, and I have raised the question repeatedly why three or four or five intelligent men, interested in serving the public, couldn't sit down and work out a program; but in three and a quarter years on the Board I have come to despair of that as a solution of it; why, I don't know.

- H.M.Jr: May I just talk a minute on that? Last year we sat around after - what was it, two or three months - and we did work out a more uniform method of examining banks between Federal and State agencies, didn't we, and that is in effect now. Now, just how far did that go, Leo, as far as Federal and State banks go - examinations?
- Crowley: I think there are some thirty-seven or thirty-eight States using it.
- H.M.Jr: Are using what? Just take a minute.....
- Crowley: The complete examination forms.
- H.M.Jr: I mean - and the form as between the Comptroller and the State banks is.....
- Crowley: The form between the Comptroller and the FDIC is identical; there is a little difference between the form of the Federal Reserve and the Comptroller and the FDIC.
- H.M.Jr: But how about as between.....
- Crowley: But practically speaking, we are not far apart.
- H.M.Jr: But as between the Comptroller, FDIC, and the State Superintendents?
- Crowley: We are all pretty well in agreement.
- H.M.Jr: Well, I mean there is an example of what can be done.
- Jones: It's a pretty big step, too.
- H.M.Jr: And we had the devil's own time; I never worked so hard on anything in my life.
- Eccles: You and me too.
- H.M.Jr: But I did it.
- Ransom: Much blood was sweated.
- H.M.Jr: Well, you're asking about the - nothing is accomplished under democracy without doing a lot of sweating. But we did do it and there was a concrete problem.

Now, talking for the Treasury, I have been all - I have appeared on the Hill four or five times on this monetary business. We are sitting here now thinking about what would happen in case of war as far as the various markets are concerned, places where people buy and sell. And if you ask me today, do I need any additional legislation or do I know of any agency who is charged with the responsibility of supervising markets that need additional legislation, the answer is, "No, the only thing we need is to have a meeting of minds and decide what we should recommend to the administration, as to what we think should be done." Now, it's damn hard work. But the.....

Downey: Mr. Secretary.....

H.H.Jr: Could I just say one more thing, Leo? Do you mind?

Downey: No.

H.H.Jr: I didn't study that report, but I did see the lines on the chart of the various overlapping of bank examination agencies, and from a very cursory glance, if you don't mind my saying so, I thought that chart was unfair, and I don't think in the report there was any reference to the damn hard work all of us did last year toward getting uniform bank examination.

Downey: Yes, there was, Mr. Secretary.

H.H.Jr: Well, was there?

Downey: Yes.

H.H.Jr: Well, in the chart I say - that's the only chart I did see - it blinded me, with so many lines crossing each other; I couldn't go any further.

But I think we are all interested in at this time keeping the country on an even keel and getting it going a damn sight better than it is going now, and I don't know what good purpose could be served if we applied a can-opener to the banking situation. Mr. Eccles says he has some things definitely in mind. I am not familiar with them; if I were, maybe I could treat them better. But there are so many things to do, and the way I feel - I have that sign over my radio there, "Does it contribute to recovery?" And that is the test I still apply; and I wonder if there is anything we can do in connection with banking matters that would contribute to recovery. Now, that's what I would like to ask.

I would like to ask Mr. Jones - he is, I should say, less - I should say he is more nearly neutral than anybody else, and I just.....

Jones:

Do you want.....

H.M.Jr:

I just want to ask you a question: Is there something that we, with all the vast responsibilities we've got, can do to help contribute to recovery at this time, as far as bank legislation is concerned? Is there something we need?

Jones:

No, I think the main thing we need is cooperation among ourselves.

H.M.Jr:

Amen.

Jones:

Following the discussion of the Brown bill just a little, I think if we had any legislation - I doubt if we ought to have any or if we can get any - but, dealing with the Brown bill, I agree that it would probably be better if the Comptroller was made an independent agency something like Johnny suggests; that he be ex-officio a member of the FDIC Board; that you designate a member of your staff as ex-officio member of that Board; and that a member of the Federal Reserve Board be ex-officio member of the FDIC Board; and that the Federal Reserve and FDIC be required to accept the findings of the Comptroller of the Currency as to solvency of banks, with only a right of examination when some circumstance points to the fact that we are not satisfied with it - I mean the FDIC Board not satisfied with it or if this Board here (Federal Reserve Board) feels it is not satisfied, or if you (H.M.Jr.) feel - if your representative felt he was not satisfied, then have by agreement a special examination of that bank. I would confine it, just get it down to the least possible number of examinations, and let that be - and as far as national banks are concerned, let that be with the Comptroller of the Currency. I think that would be a simplification that would be helpful to all of us; I mean to the whole banking situation.

I doubt if you could get any such legislation or any other legislation at this session. I don't think it is necessary to advise against the Brown bill, or desirable. My answer to it would be that if we just this Committee, whatever you call it.....

- H.S.Jr: Call it the Interdepartmental Committee on Banking.
- Jones: Say, "This committee has no recommendations to make for banking legislation." That would be about all. But that doesn't - the point I'm making is that that doesn't defend the Brown bill or the Brown - the man who put it in, or the adherents of it, if you just say you have no recommendations for bank legislation.
- Balano: Would you be willing to add, Jesse, that in a meeting of this committee is not a proper time for any banking legislation to be considered?
- Jones: I would just say you have no recommendations. That gives it.
- H.M.Jr: Or would you put it the other way around, that we are not going to recommend anything?
- Jones: What I mean is that if you've got none to recommend, why, Congress is going to accept that as - that no bill will be passed; that's my opinion.
- Eccles: Well, the Board I don't think would do that. In the first place, we have already made our record. We made an annual report up there and we made a report the other day.
- Jones: You didn't recommend any legislation.
- Eccles: That's right.
- Jones: That's what I'm talking about.
- Eccles: We didn't recommend any, and I think we've got to stand on the reports that we have made, which were to the effect that we favored a.....
- Jones: A study.
- Eccles:a plan of a committee to study this whole field. Now, that doesn't necessarily say - why do we want the thing studied? The purpose of studying it is to get legislation. And therefore we can't come out and say - we have said, "We think you should study this thing so as to formulate a legislative program," and we can't come out and say that we don't favor any legislation.

H.M.Jr: At this session?

Eccles: Well, I.....

Delano: That's the thing.

H.M.Jr: At this session.

Delano: You can say, "At this time."

Eccles: As a practical matter, I know damn well that no such committee should develop legislation, and I don't think we need to say that a committee should make this study and then say we don't favor any legislation. That just wouldn't be consistent. I think the Board would insist upon standing upon the record. I think they will say that this thing has already been discussed and considered and they've made the record.

Jones: You mean the record now or the one you're going to make next week?

Eccles: We're not going to make any next week. I mean the record we've got now. Now, if Congress should tell a committee - I mean should appoint a committee.....

Jones: Now, how is that going to be done? What is going to be the mechanics of this committee of Congress?

Eccles: Well, you've all kinds of committees investigating all kinds of projects. When the Federal Reserve was originally set up, it was set up as a result of a committee of Congress that was appointed to study the whole subject.

Jones: Don't you think you have enough investigations going on now?

Hanes: Too many.

Eccles: Well, you always have them. - you've got your Monopoly Committee and.....

Jones: Take a vacation, take a vacation.

Eccles: You can't. After all, the damned economy keeps on going; the responsibilities change.

Jones: Take a vacation.

Eccles: So far as the Reserve System is concerned, it's about as impotent as it could be.

Crowley: Mr. Secretary, let me say as far as we are concerned that since October the relationship between the Comptroller's office and Federal Deposit Insurance has been - we haven't had a bit of trouble, we have cooperated. And as far as the Fed is concerned,.....

H.M.Jr: Excuse me - did something happen in October?

Crowley: I think so. But I think that all of your men will say - and as far as the Fed is concerned, their men have worked and cooperated. Now, you don't have trouble between the chief examiners or the examiners or the technical staff of these three agencies. It's just right within the directors themselves that you have this difference of opinion.

Jones: Prima donnas you mean?

Crowley: That's right, the prima donnas. And the staff themselves and the Federal Reserve banks out in the twelve districts all cooperate with all of us, and I don't know of any trouble. And I don't think you have had any complaint about the cooperation from our office with your twelve Federal Reserve banks. The whole difference of opinion is right here.

Ransom: Is there a difference of opinion?

Crowley: Well, we might as well be truthful about the thing. Everyone seems to be jockeying for a position. What's the use of all of us ducking the thing?

Ransom: Let me say, Mr. Secretary, I am not jockeying for any position at all and I have no conclusion whatsoever as to where the examining function should rest. I have a very definite personal feeling that after seventy-five years of continuous and excellent service.....

H.M.Jr: On your part?

Ransom: On my part.that the Comptroller's office should not casually be thrown to the wastebasket.

Talano: Thank you very much.

Ransom: I just feel that in itself is something for which any man familiar with American banking can raise his voice and raise it pretty damn loud. Now, where it finally comes to rest is a question that I think you and the Comptroller and Mr. Eccles and Mr. Crowley and Mr. Jones might, as I said to you before, find

out and conclude. But as to taking a thing that is seventy-five years old and casually brushing it aside, that doesn't seem to me to be very orderly procedure.

H.M.Jr: Well, may I interrupt a minute? You fellows are all busy. Let's get this. I have been asked, do I favor the Federal Reserve plan of having a Congressional committee study the banking and monetary situation of this country, and I would like to get a yes or no recommendation.

Jones: My vote is no, with all due respect to the members of the Board that made the suggestion.

H.M.Jr: All right, let's.....

Jones: That is based upon the fact, I'd like to say -

H.M.Jr: Please.

Jones: - based upon the fact I think the country is better off without it.

H.M.Jr: Just let's get this down. I've got to take a position. Johnny and I do. How do you (Delano) feel?

Delano: Well, I don't see objection to a study, Mr. Secretary.

H.M.Jr: Yes. At this session? Bring in a report this session?

Delano: No, not this session. I'm opposed to any legislation at this session, or any study that will crystallize in legislation at this session.

H.M.Jr: Johnny?

Hanes: I am opposed to the report for the same reason that Jesse is, and I am not opposed to a study being started and a real serious one being started by our own agencies - the four of us here.

Jones: Interdepartmental.

Hanes: Interdepartmental study. And I refuse to believe that we can't get together and work out a program, unless we've got some selfish motive, and I don't agree that we have. So I think we can get together and work out a program here that will be a real solution. So I am opposed to any more Congressional investigation. We've got too damn many going on now.

- Crowley: I am opposed to any study at all. I am for sitting around the table and working it out.
- H.M.Jr: Now let me just come back - these people - two of them say we should have an interdepartmental study and no Congressional study. How about you (Jones)?
- Jones: I'm agreeable to that.
- H.M.Jr: Dan?
- Bell: Well, I think it's probably better not to have any Congressional study at this time. I think it is advisable that you get together and cooperate. But, on the other hand, whenever you come to the conclusion that you need banking legislation, I think it is desirable that we have a very intensive study by Congress before they enact legislation. I think the mistakes in the 1935 Banking Act were made by trying to rush it through. I think mistakes were made in that Act, and I think mistakes were made in rushing through the FDIC Act, not deciding then where it's going to be or deciding its relation to other banking agencies. I think the same mistakes will be made now.
- Eccles: If you don't have a study now.
- Bell: Whenever you get ready to have legislation, there should be a proper study by Congressional committees. It took five years to get the Federal Reserve System after the study was made, and every piece of major banking legislation that we have had in the past has taken from two to three years.
- Hanes: Danny, wouldn't that follow automatically when the proposals of this committee - say, for instance, idealistically, we could all agree and here is a program, a, b, c, d, e, and we submit that program to the Banking and Currency Committees of Congress. Wouldn't it naturally follow that a subcommittee would be appointed to hold hearings to go into this very, very exhaustively before they do anything?
- Bell: I think it would. And I think they would have outside people in.
- Hanes: Then we would be crystallized on our viewpoint as to what was the proper procedure and what ought to be done from the practical standpoint.

Bell: I think that would follow, yes, but I think certainly it should be done.

Hanson: As a visitor, Mr. Secretary, may I make one more remark?

H.M.Jr: What do you mean "As a visitor"?

Hanson: I'm not a member of the Committee, but I was just invited to attend.

H.M.Jr: You're elected.

Eccles: You don't think you're going to side-step the responsibility by that little speech. God!

Hanson: Mr. Hanes' approach is just exactly what I most object to.

H.M.Jr: You most object to.....

Hanson: Yes, in the way of banking legislation. It's always been, within my recollection, the policy of some group of men in the government to think that they know all the answers to all the questions, and therefore they cook up a piece of banking legislation, wrap it up in a neat and promising package, and hand it to Congress and get a hell of a fight and the general impression that somebody is trying to put something over on somebody else. Now, for once during my lifetime I would like to feel that, instead of knowing all the answers, we know all the questions, and that we could go to Congress with those questions and ask Congress, which is the final arbiter of the whole problem, to decide in the light of what everybody says, not as the result of a compromise reached around a table, what is really in the public interest.

Now, I don't think Mr. Hanes quite thinks through just exactly where he comes out. He seems to me to come out exactly where Mr. Bell suggests Mr. Eccles came out in the Banking Act of '35. Now, it seems to me.....

Eccles: Didn't come out at all.

Hanson: It seems to me all important banking legislation in this country has been rushed through, in spite of Danny's time element, as the result of some emergency which the country has faced. We are

facing no banking emergency now; we are facing emergencies that relate to a great many other things besides bank examinations in the whole field we are discussing. And I do not know of a more appropriate time than in a quiet period, so far as this field is concerned, for Congress in an orderly way to consider the views of everyone who has any interest in it. And as Johnny says, when you get through wrapping up your nice package, you then have the same hearing you would have had before; and I don't know what the essential difference is except that you start with the answer instead of with the question.

Crowley: Ronald, when you get into that kind of an investigation on the eve of a Presidential election, you are opening up a lot of trouble for yourself.

Manpom: There is always some reason why Congress can't undertake to solve its own problems.

Crowley: Congress likely wants to, but it seems we won't let them.

H.M.Jr: Could we get this? I try to keep these things down to an hour whenever you fellows come here. Could you - well, at least, could we agree that this committee has no recommendation to make for banking legislation at this Congress?

Eccles: Well, the committee as such has never made recommendations, has it? I mean we're an informal.....

Jones: Even so, suppose we haven't. Assume that we haven't.

Eccles: I mean individually.....

H.M.Jr: I made a recommendation in writing for the first time a few days ago to the Attorney General; I never made one before.

Jones: I think that's what you ought to do. I've got this thought, if I could just have a minute.

H.M.Jr: Two minutes, three minutes.

Jones: This administration has been here six years and we should have accomplished what you are thinking about by now, within the six years. We are going into another administration.....

- Ransom: May I ask you gentlemen how you propose for the President to terminate the banking holiday which still exists? I don't think he has.....
- Jones: Already terminated.
- Ransom: Are you going to leave that executive order all undisposed of?
- Jones: I didn't know it was there. I'll bet there are not twenty people in the banks.....
- Ransom: Every bank has on its wall a license from the Secretary of the Treasury under which it is operating. Have you ever read that license?
- Jones: Never have.
- Ransom: Might be enlightening.
- Jones: Well, I'm not afraid of it; I don't care what it is.
- Ransom: I'm not afraid of this either.
- Jones: Nor any other - as long as they run the bank right.
- Malles: We have very different responsibilities - very different, it seems to me from the other agencies: the Comptroller of the Currency or the FDIC or the RFC, for that matter; that is, we are looked upon by the public, by Congress and a lot of bankers, to do certain things that we just haven't the power to do; as a central banking mechanism, we simply do not have the power to function as a central bank. You take the - and this is no criticism of the Treasury at all; but due to the extraordinary situation that has developed in the last few years, with this huge gold inflow that has come in here, the silver purchase program, and a most unusual monetary situation - that has completely changed the whole function of the Reserve System, and we are pretty largely a mechanical set-up and that's about all. Now, I'm not objecting to that. All I'd like to do is to get the division, or to find out what objectives we've got to pursue, what are our objectives, what is expected of the Federal Reserve System, just what the devil are we to do? Now, the Comptroller knows; his statute gives him a certain definite job to do. There isn't any question as to just what he is to do with reference

to examination. But we are not in any such position.

Jones:

In other words you are impotent.

Eccles:

We are absolutely just that. And as a result we are being attacked from all sides; innumerable bills are being introduced in both the House and the Senate to make of the Federal - to make a 100 percent reserve set-up and give the Federal Reserve extraordinary power. There are other bills set up for a monetary authority. There are other requirements with reference to abolishing the Federal Reserve System, and so forth. Now, you've got that group of bills of that sort, and we are just constantly harassed with reference to views on all of these questions. And as a central bank we are looked upon in a very different light than merely the banking agencies that deal with the question of examination, and it gets into the monetary field. And it isn't that there is any disagreement between the Secretary and me, as the press tends to point out. I am not jealous of the prerogatives of the Treasury in this field. All I would like to do is to have the responsibility placed where it can be carried out. We are in a spot over there where we just don't know where the hell we are, to be frank about it, and what we can do. And it may well be that the Treasury should have the stock of the Reserve System. That is true in nearly every other country. And perhaps it should have far greater responsibility and authority with reference to central banking. It wouldn't be unusual; it's the condition largely throughout the world today.

All I am trying to do is to try to get an adjudication of this thing. I'm sick and tired of sitting over there, on the spot, and having the apparent responsibility that we have, when the whole darn situation is changed and we are not up to date at all, our authority is not in any degree in accordance with the situation that exists today. Now, that's the way I feel about it and now we have told Congress that. I mean that's the reason for this report.

And the Secretary - last November I talked to the President and I came over here and had lunch with you (H.M.Jr.), you remember, and discussed it so that there wasn't anything at all that was done

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that wasn't already discussed with reference to the question of making a report at that time. And at that time I didn't know whether the Board would make a report on this subject, and it was later decided that this report would be made. They made the report. Now we have given notice to Congress. I don't give a damn whether there is any legislation. We have discharged our responsibility as an agent of Congress by pointing out to them what we consider to be the situation. Now, if Congress doesn't choose to do anything about it, then as far as I am concerned I am not going to go and try to stir them to do something about it.

But I am not going to say to Congress, "We have changed our minds now and we don't think we should have a committee to study this thing and we don't think we should have legislation," because I do think they should have a committee and I do think we need legislation to clarify it, whether we get it now, next year, or some other time; that's another matter. Whether Congress does that or not, we have discharged our responsibility by making this report, and it is now up to Congress. And if they want to know what we think, we will say, "We do think we ought to have a committee and we do think we ought to have legislation at such time as you have a sufficient opportunity to study this whole problem and take into account every aspect of it."

Crowley: Marriner, you don't stop with just sending up your report; you sent your letter this week asking them to have this study.

Hooles: I know we did.

Crowley: When you send up your report you have fulfilled your obligation, but you don't stop with that.

Hooles: The reason for this report this week was due to the - to a reply that we made on this price situation. We were pressed on the question of a price situation. We made a reply on it on which we got very great criticism; several speeches were made, one particularly in the House by this fellow Voorhis, on the ground we were not constructive, that all we did was just simply say we couldn't do anything, that that was about all we said in

that report. And so as more or less of a supplement to that thing, to make it appear that we weren't just trying to side-step responsibility and trying to say there wasn't anything we could do about the problem,.....

Ransom:

And also in part, Marriner, for the purpose of trying to avoid the very embarrassing dilemma of making a report on the Brown bill as a piece of piecemeal legislation. Now, I am told by one of the Senators on the committee in the Senate that he expects to ask for the views of everyone who is interested in this whole question. He expects to have hearings very promptly on the Brown bill, and he expects those hearings to go very far afield. Now, we can come in and say we don't think there should be legislation, that this is not the appropriate time, or give a completely noncommittal answer, which Jesse suggests, and I think we would still be called upon by that committee to express our views on all of the questions.

Jones:

Tell it to the committee.

Ransom:

We are right up against it, as a matter of fact.

H.S., Jr:

May I just say that - I've got somebody from the Canadian legation out there - with the help of the people in the Treasury we will prepare a letter stating where we stand on banking legislation for this year. After we have got it, Duffield will circulate it, and we will state our position where we are as to banking legislation for this session and then send it over to you (Eccles) and send it to Mr. Crowley and Mr. Jones, so each of you can make your comments.

Jones:

Each of us can make our comments.

H.S., Jr:

Each of you can make your comments, and we'll keep circulating it; if you (Eccles) don't mind, I'll send it to your people last - then you people take a look at it last - because you have already expressed yourself. Duffield will ride everybody until we get something. Maybe we can get together or maybe we can't, but at least we will make the honest effort, as to banking legislation for this session, which has nothing to do with monetary control, and so forth, see? But I would like to

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put myself on record so that when any bill comes in and we have to answer it, we can simply say, "Here is a form letter. This is the way the Treasury feels." And everybody will know how we feel. And we will stick to that for the balance of the year, barring a war in Europe.

- Ransom: You think that would apply as an answer to the Brown bill, should you be asked?
- H.M.Jr: There will be a form letter that we will send out; we will write something. Is that all right with you, Leo?
- Eccles: This letter would be on banking legislation, but doesn't mean that you object to a study being made with reference to the whole field of monetary and banking which we have raised.
- Jones: He says you can add your comments.
- H.M.Jr: What I'm going to say for myself, I mean - and then the people can take a look at it - "This is the way I feel: That right now I think the thing to keep the eye on the ball is to get business going, and I can't see that there is anything we need in banking legislation to put anybody to work."
- Now that is the way I feel. What?
- Eccles: Yes, that's right.
- H.M.Jr: I mean I can't see anything that anybody can do in the banking legislation, Jesse, that will put one man to work.
- Jones: Mr. Secretary, may I.....
- H.M.Jr: And that - I could talk for ten hours and I wouldn't get any further than that; and if anybody can show me where a piece of banking legislation will give one man a job, why, then I would be interested.
- Delano: I don't think, Mr. Secretary, there is any real fundamental difference of opinion here. I don't believe that as a practical matter Mr. Eccles has any idea that there can be banking legislation at this session.

Eccles: No, I don't; never have had.

Delano: I think he is trying to make consistent a position requesting Congress to make a study; as a practical matter, that study would extend over some months.

Eccles: Some years, possibly.

Delano: Possibly years.

Eccles: We have made our record.

April 13

11:00

300

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 12, 1939

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4-13

TO Mr. Deffield
FROM Mr. Murphy H24
Subject: The Bank-Supervisory and Monetary Functions of the Federal Government

At the present time the function of bank supervision is divided between the Federal and State Governments, and the functions exercised by the Federal Government, in turn, are divided between the Comptroller of the Currency, the Federal Reserve System, the Federal Deposit Insurance Corporation, and, to a lesser extent, the Reconstruction Finance Corporation. The monetary functions of the Federal Government are divided between the Treasury and the Federal Reserve System.

The present distribution of authority and function has been the product of a gradual evolution, and is scarcely that which would be established today if we were to set up our machinery anew.

The powers of bank examination and supervision are not easily separable. The power of examination in itself is merely that of ascertaining facts, while the weight to be given to these facts and the action to be taken in accordance with them is a function of the supervisory authority. The supervisory authority must, therefore, pass upon the examining one, and if the standards of the latter are not acceptable to it, it will try, if it is able, to "examine the examiner". At best, this leads to duplication, and at worst to conflict and confusion.

The supervisory power of the Federal Government with respect to different classes of banks varies widely, and there are corresponding variations in the sanctions applicable by the several present Federal bank examining and supervisory agencies to enforce their ideas of good banking practices. The Comptroller of the Currency holds the power of life and death for national banks. His ultimate sanction is the appointment of a receiver. The Federal Reserve System, on the other hand, can only expel an erring bank from the System. Under present circumstances, this is a relatively weak sanction. Between these two stands the Federal Deposit Insurance Corporation. Its sanction is the termination of insurance. For most banks, under present conditions, this is practically as effective as the power of closure.

Mr. Duffield - 2

A multiplicity of bank supervisory agencies is liable to result in a multiplicity of standards. We have seen by our experience of last year how hard it is to get independent agencies to agree upon a common rule of examination. It may prove equally difficult to have such a rule interpreted in a uniform manner. The Federal Reserve System, for example, in line with its principal function, tends to be preoccupied with the monetary aspects of bank supervision, while the Federal Deposit Insurance Corporation tends to emphasize the necessity of protecting the solvency of individual banks.

On the monetary side, the division of authority between the Treasury and the Federal Reserve System naturally results in conflict and friction. This conflict is very difficult to resolve, however, for two reasons. First, a considerable amount of monetary authority is implicit in any event in the performance of the fiscal operations of the Treasury, so that cooperation between the Treasury and the monetary authority would be necessary, even if the Treasury were stripped of its formal monetary powers. Second, there is a widespread reluctance to shift monetary powers from the Treasury to the Federal Reserve System because the latter is not a responsible division of our democratic form of government.

Furthermore, neither the Treasury nor the Federal Reserve System, nor the two between them, have adequate authority to cope with the existing excess reserve situation. This situation is serious, both because our present fear of it inhibits us from taking monetary steps which would be very helpful for the stimulation of business recovery, and because, in the event of full recovery, the existing body of excess reserves could provide the basis for a drastic inflation. In the event of the outbreak of a world war, and even more so in the event of our participation in it, we might suddenly be confronted with the latter alternative. To handle the problem of excess reserves adequately will require the erection of new monetary machinery, which, in turn, will have to be assigned a locus.

A good case may be made, either for combining all bank-supervisory and monetary powers in a single branch of government, or for combining the bank-supervisory powers in one branch and the monetary powers in another — provided, of course, that the agency or agencies in which such powers were concentrated were entirely responsible to the Government at Washington. It is difficult, however, to make a logical case for the present system, in which some of the bank-supervisory and some of the monetary powers are combined in one agency (the Federal Reserve System), only partly responsible to the democratic government, while part of the bank-supervisory powers are assigned to another branch (the Federal Deposit Insurance Corporation), and the remainder of the bank-supervisory and monetary powers are held by a third branch and one of its quasi-autonomous bureaus (the Treasury and the Comptroller of the Currency).

It is unlikely that a fundamental improvement of the situation will be made by piecemeal legislation enacted without careful preparatory study. The Brown Bill, transferring most of the bank-supervisory functions of the Comptroller of the Currency and the Federal Reserve System to the Federal Deposit Insurance Corporation, while at the same time transferring, in effect, a large part of the Federal Deposit Insurance Corporation's examining power to State banking authorities, would probably, on the whole, effect an improvement in the present situation, but in view of its contemplated reduction in the total coverage of Federal examinations^e even this is doubtful.

While the problem of coordinating the bank-supervisory functions of the Federal Government is of great importance, the monetary problems, particularly that of providing adequate machinery to cope with the excess reserve situation, are, on the whole, more pressing, and the solution adopted for them may determine the framework in which that for the bank-supervisory problems is to be found. The two problems, however, are so closely related that they can most profitably be studied together. It is recommended, consequently, that the Treasury oppose the Brown Bill, but favor an exhaustive study of the whole subject of monetary and banking policy, with a view to comprehensive legislation covering both the monetary and bank-supervisory problems.

* At the present time all insured banks are examined by some Federal authority.

April 12, 1939.

FOR THE SECRETARY:

You will recall that you asked for some material on the Brown bill to study tonight. Attached to this memorandum are (1) a statement by Henry Murphy urging consolidation of monetary as well as banking authority, after a thorough study by Congress, *but* opposing the Brown bill; (2) a summary of the Brown bill, and (3) a summary of the statement which the Federal Reserve Board has made on this subject.

In addition, I have talked to both Mr. McReynolds and Mr. Gaston, who believe that consolidation of the bank examining agencies is a hollow gesture as long as there is the underlying division of supervisory authority between Federal and State banking agencies. They oppose the Brown bill, but were prevented by a lack of time from writing a memorandum for inclusion with these other documents.

I understand Mr. Foley is preparing a statement at my request taking substantially the same position as Mr. Gaston and Mr. McReynolds.

I have kept the Comptroller informed of what was being done but have assumed that you would request his opinion direct from him instead of through this symposium.

ESD

4/13

Digest of S. 2045 (Brown Bill). To transfer to the Federal Deposit Insurance Corporation all Federal bank-examining functions, and for other purposes.

1. The Bill would amend the Federal Reserve Act, effective October 1, 1939, to transfer to the Federal Deposit Insurance Corporation all functions now exercised by the Board of Governors of the Federal Reserve System, the Federal Reserve banks, and the Comptroller of the Currency, with respect to the examination of member banks of the Federal Reserve System, national banks, and District of Columbia banks, (whether open or closed), and affiliates and holding company affiliates of such banks.
2. The Bill would likewise transfer to the Federal Deposit Insurance Corporation all other functions exercised by the Comptroller of the Currency "with respect to open or closed national banks and District banks (including the chartering thereof) and with respect to member banks".
3. The Federal Deposit Insurance Corporation is authorized in its discretion to accept the examinations made by State examiners of State banks, in lieu of examinations made by the Corporation.
4. The personnel of the Bureau of the Comptroller of the Currency and of the Board of Governors of the Federal Reserve System, whose duties are transferred to the Federal Deposit Insurance Corporation, are likewise transferred, and provision is made for the protection of their compensation, pension and retirement rights. Provision is also made for the transfer of all funds in the hands of the Comptroller of the Currency derived from assessments on banks, and all funds held in trust by the Comptroller of the Currency or the Board of Governors of the Federal Reserve System with respect to any of the functions transferred.
5. The Federal Deposit Insurance Corporation is directed to consolidate the various branch offices from which examinations of banks are now made and to commission all examiners transferred from the Bureau of the Comptroller of the Currency and the Federal Reserve System.
6. The function of the Comptroller of the Currency to assess banks for the expense of examinations is vested in the Federal Deposit Insurance Corporation, but the Federal Deposit Insurance Corporation is directed to pay from the funds of the Corporation the expense of one examination a year of each member, national, and District bank. The authority of the Board of Governors of the Federal Reserve System to assess member banks for the expense of examination is repealed.
7. The Comptroller of the Currency in office on the effective date of the Bill is to continue to be a director of the Federal Deposit Insurance Corporation until the expiration of his term of office as Comptroller of the

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Currency. When this office of director becomes vacant it is to be filled by Presidential appointment and the person appointed is to have the same duties and compensation as in the case of the other two appointive directors. If the office of the Comptroller of the Currency becomes vacant all authority of the Comptroller of the Currency or the Acting Comptroller of the Currency to function as a director of the Federal Deposit Insurance Corporation is to terminate.

8. The Bill does not abolish the office of the Comptroller of the Currency, although most of the functions of the office are transferred to the Federal Deposit Insurance Corporation. A few functions do not appear to be transferred, such as, those relating to issue and retirement of Federal reserve notes, supervision of District of Columbia credit unions and supervision of District of Columbia building and loan associations. One provision of the Bill prescribes that the Federal Deposit Insurance Corporation shall furnish reports of examination of any national bank or District bank to the Comptroller of the Currency, although for what purposes is not clear.

**MEMORANDUM RE: POSITION TAKEN BY BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM IN 1938 REPORT.**

Very briefly, the points made by the Board of Governors in its 1938 report with reference to the general banking and credit situation are as follows:

- A. The banking system is composed of about 15,000 banks, one third of which are national banks, and the rest state banks. All national banks and about 10 per cent of state banks are members of the Federal Reserve System. About 90 per cent are insured by the F.D.I.C.
- B. This grouping of banks results in their being subject to different laws and jurisdictions. For instance, state member banks are subject to state laws, Federal laws connected with the F.D.I.C., and other Federal laws applicable to members of the Federal Reserve System.
- C. This difference in laws and jurisdiction leads to competitive disadvantages for one group of banks as compared with the others. It also results in banks being subject to a number of different supervisory authorities and diverse regulations issued and enforced by such authorities.
- D. The objective of all banking agencies is a sound banking condition and an unimpeded flow of necessary credit. This objective can best be achieved by harmonizing general credit policies with policies pursued in the examination and supervision of the banks. Some coordination has been brought about on bank examination procedure by agreement among different agencies. However, the Board points out that "different points of approach to the problem by the different agencies inevitably lead to differences in emphasis in the interpretation of principles of policy".
- E. The Board recommends a study of the fundamental question "as to what should be the relationship between the administration of national credit policies and of bank examination and supervision".

NOTE: The Board of Governors reiterated its position in a statement transmitted on April 9, 1939 to the Committees on Banking and Currency of the Senate and House recommending a congressional study of monetary measures and objectives in which it was said: " * * * the effectiveness of our banking and monetary mechanism is weakened by the fact that there is no clear division of responsibility, no definite determination of authority over money and credit within the Federal Government itself, and that there is conflict of jurisdiction and supervision over the banks through which, in the existing system, monetary and credit powers must operate. * * *"

April 13, 1939

12:20 p. m.

Present:

Dr. Feis
Dr. Riddell (Canadian Legation)

HM, Jr: The reason that I asked you to come in was this: in confidence, what we are trying to do is to get ready to meet any eventuality of the various markets when they buy and sell things.

Dr. R: Uhm.

HM, Jr: We sincerely hope that nothing will happen, but we think it would be foolhardy not to be ready. Again, confidentially, we have taken this matter up with the members of the Tripartite Agreement and I would like for the Administration to take this up with your Government. I happen to know and have met and am an admirer of the Under-Secretary, Mr. Clark, and if it would be possible for him to hop on a train or a plane and come down tomorrow or Saturday I would like very much to go over with him and tell him what we have in mind; what we think could be done with the various companies working together.

Dr. R: All right, I will do that. I will get in touch with him.

HM, Jr: Of course, your Government might want to send someone else, but the reason I mentioned Clark is because I have met him. Maybe the British Treasury would want to send someone else.

Dr. Feis: You mean the Canadian Treasury.

HM, Jr: What did I say?

Dr. Feis: You said the British.

HM, Jr: Oh, yes. Canadian. I thought maybe

-2-

I had said the United States Treasury. Well, let him know.

Dr. Feis: Can you phone up this afternoon?

Dr. R: Oh, yes! Yes.

HM, Jr: We consider it very important. We are not seeing ghosts, but we do read the newspapers.

Dr. R: Yes.

HM, Jr: And it seems, as we say, foolhardy not to be ready to meet the situation, and what we are trying to do is make plans so we can keep our markets open. That's what we would like to do.

Dr. R: Well, I will be very glad to see that that gets through.

HM, Jr: Thank you ever so much.

* * * * *

Dr. Feis: Henry, it occurs to me, I don't know what went on at the press conference, if Herbert could send us a copy of the minutes.

HM, Jr: I can send you something much better. Dow-Jones handled the thing beautifully. I sent it to the White House.

Dr. Feis: Then McDermott can keep his remarks in line.

HM, Jr: I talked completely off the record. This is what we are doing. These are our objectives. I don't want you to mention war. We talked about emergencies, general philosophy. They handled it beautifully.

April 13, 1939
1:52 p.m.

HMJr: Hello.

Operator: Secretary Woodring.

HMJr: Hello.
Harry
Woodring: Henry?

HMJr: Yes, Harry.

W: Next Monday, the seventeenth, at one o'clock at the Mayflower I'm going to have a very small luncheon for Roy Roberts and Henry Haskill of the Kansas City Star and William Allen White, and Frank Murphy and Henry Wallace, some of the boys are coming. And I'd like to have you join us.

HMJr: On the seventeenth?

W: That's next Monday.

HMJr: Oh well, I -- usually the President has me for lunch, Harry.

W: On -- at that time.

HMJr: On Monday. I -- I always lunch with the President on Monday.

W: On Mondays.

HMJr: I'm terribly sorry.

W: Well, I'd like to have you and if you find you can come, why -- and that you're not going to be with him, why give me a ring and -- it's just a small informal luncheon and we'd be glad to have you.

HMJr: That's terribly nice, and if, for some reason, he calls it off, I'll let you know.

W: O. K.

HMJr: Thank you for thinking of me.

W: Good bye.

April 13, 1939
2:13 p.m.

HMJr: Hello.

Operator: Mr. Cochran. Go ahead.
H. Merle
Cochran: Hello.

HMJr: Hello, Merle?

C: Yes.

HMJr: What have you got to say.

C: I've gotten in touch with several of the people.....

HMJr: Yes.

C: This morning I saw the Ambassadors and showed him the message and reported our conversation of last night.

HMJr: Yes.

C: Then I made an appointment with the French Ministry; then I telephoned the National Bank of Switzerland.....

HMJr: Yeah.

C:at Zurich and read the message to Pfenninger.

HMJr: Yes.

C: That's the message of inquiry.

HMJr: Who is Pfenninger?

C: Yes.

HMJr: Who is he?

C: He's the first assistant to Bachmann.

HMJr: I see.

C: And now Bachmann is no longer on the managers board.....

HMJr: Yeah.

C:so I had to get Pfenninger.

HMJr: Uh-huh.

- 2 -

C: And he said he would take the matter immediately up with the members of the board of management.

HMJr: Yes.

C: And now they were leaving this afternoon -- the two of them who are in Zurich -- were leaving for Bern where they are to have a meeting tomorrow of the three members of -- all three. One of them lives in Bern, you see, -- the two officers of the bank.

HMJr: Yeah.

C: So they are to have a board meeting there tomorrow.....

HMJr: Yeah.

C: Consider this, and then they'll take it up with the Ministry of Finance of Switzerland.

HMJr: Uh-huh.

C: Hello?

HMJr: Yes.

C: They'll take it up with the Ministry of Finance in Switzerland and they'll phone me an answer as soon as possible.

HMJr: Yes.

C: Probably tomorrow afternoon.

HMJr: O. K.

C: Then at eleven -- thirty I went over and saw Rueff.

HMJr: Yeah.

C: We both went in to see Reynaud.

HMJr: Yes.

C: Referred to a conversation of some weeks ago....

HMJr: Yes.

C: He said the position was the same.

HMJr: Yeah.

C: Paris is still gaining gold and want to do everything that will keep it coming in.

HMJr: Yeah.

C: And not risk anything that might stop it.

HMJr: Uh-huh.

C: And now, I've already prepared a cablegram which is -- on it -- is coded partly now.....

HMJr: Yeah.

C:giving his whole conversation. Do you want me to summarize it?

HMJr: Oh, I can wait.

C: But the main thing is this, he -- he said that in war times the United States might be considered a long distance from Europe and that France would -- might be the most popular place of currency refuge. So he expects a flow of currency -- of gold to come into this country.

HMJr: Well.....

C: A point he made to my chief some weeks ago too.

HMJr: Ah.....

C: Then.....

HMJr: I hope, for his sake, he's right.

C: Yes. Then he asked.....

HMJr: Why don't they stop shipping all the gold over here if -- if that's so.

C: Yeah, it would save a lot of trouble.

HMJr: Yeah.

C: Anyway, he said -- he asked if I had taken this matter up with the British.

- HMJr: Yes.
- C: He asked me that twice, and I said that I'd had no contact with the British on this subject, and that I understood my colleague in London would see them.
- HMJr: Yeah. That's right.
- G: And that's as far as I went. And in answer to the Minister's question -- he asked if I was going to telephone Butterworth on this, and I said, "No," that if he had any report to make he would make it directly to you.
- HMJr: That's right.
- C: I told him I was simply to transmit your message to the financial authorities in the four continental countries and make the replies on them to you.
- HMJr: I see.
- C: And he said that he definitely favored the idea of consultation; he wants to keep us informed on his plans, and he said, "Let's consider this the first consultation now."
- HMJr: Oh! That's all right.
- C: So he proceeded to talk a while and he said that the plans were generally along the lines of last September.
- HMJr: Uh-huh.
- C: That they wanted to keep free from foreign exchange control. On the other hand, he said that the -- expressed the heavy burden -- which the present -- the French war plans are imposing upon the Treasury.
- HMJr: Yeah.
- C: And he's going to take some measures within the next two weeks.....
- HMJr: Yeah.
- C:which will bring this situation immediately before the public and cause them to foot the bill.
- HMJr: Uh-huh.

- 5 -

- C: And no moratorium is envisaged. They would not anticipate any banking holiday, and American travelers would get all the money they wanted on their checks and letters of credit.
- HMJr: I see.
- C: He appreciated our bringing this up and referred to the strong bonds between our treasuries, and so on.
- HMJr: Uh-huh.
- C: And Rueff said that if they had anything more formal to give me they would phone me this afternoon.
- HMJr: I see.
- C: They haven't done that so I'm sending the message giving this expanded, that I've given you now.
- HMJr: Good!
- C: There's just one thing -- at -- just a few minutes ago they brought me in a message which the Ambassador had sent at three p.m. under number 717.
- HMJr: 77.....
- C: 717.
- HMJr: Yeah.
- C: At three p.m. today.
- HMJr: Yeah.
- C: I had showed him your message and discussed the thing this morning, and this message which they showed me said that he had seen Reynaud today and that Reynaud had told him about his plans for tightening up here -- saving money, and so on; and mentioned -- got on this subject of what they would do in case of war.
- HMJr: Yes.
- C: And he said that -- well, I think that -- -- anyway he got the suspicion that some friends of ours across, you know.....
- HMJr: Yeah.

- 8 -

C:had in mind a system that would envisage exchange control and a lot of restrictions.

HMJr: Uh-huh.

C: And he doesn't want that.

HMJr: Uh-huh.

C: But you'd better see that message then.

HMJr: I'll get it.

C: And.....

HMJr: I'll get it.

C: Then I didn't hear anything more from them.

HMJr: What's that?

C: I say, Rueff did not call me up, so I presumed there was nothing any more formal that he wanted to give me.

HMJr: That's all right.

C: And I talked to Governor Janssen of the National Bank of Belgium.

HMJr: Yeah.

C: His immediate reaction was favorable. He said he -- he liked the idea.

HMJr: Right.

C: Then he talked with the Minister of Finance,

HMJr: Yes.

C: And called me back later in the afternoon, and he asked the same question that they had asked here -- whether I had taken the matter up with the British, and I gave the same reply.

HMJr: Yeah.

C: And when I told him this was just a precautionary step he said that he was still optimistic.

HMJr: Uh-huh.

C: Then he told me -- then I got Tripp.

HMJr: Yes.

C: Of -- up at Amsterdam.

HMJr: Yeah.

C: He said that he will take the matter up at once with his Government and give me an answer as soon as possible by telephone.

HMJr: Good!

C: You see, he had to go to the Hague for that.

HMJr: I see.

C: And he emphasized that in his opinion.....

HMJr: Yeah.

C:nothing should appear in the press in regard to any consultation that might be envisaged or consummated.

HMJr: Yeah.

C: He stated that the political significance thereof might prove embarrassing to such countries as his.

HMJr: Might prove embarrassing?

C: Yes, I mean, because they are going to be neutral and independent, they don't want anything that might have some sort of a political character.

HMJr: I see.

C: Or could be interpreted that way.

HMJr: I see -- I understand. Well, we've -- we're not -- we can take care of that.

C: Yes. And Janssen -- when Janssen called me back later he said that he had seen the Belgian Finance Minister and that the latter had stated unofficially that his first reaction was also favorable.

HMJr: Yes.

C: But he would have to see the Prime Minister, and either he or someone in the bank would call me back tomorrow.

HMJr: Good!

C: And talking in sort of an explanatory way, Janssen said, "Now let's be careful and not have any misunderstanding." He says, "Remember Belgium is following a policy of independence and consequently must be very careful."

HMJr: Right.

C: He said the people there were calm and are taking but are taking it seriously.

HMJr: Right.

C: He was in a group of twelve that met with the King yesterday.

HMJr: I see.

C: On ----- just this sort of thing.

HMJr: Uh-huh.

C: And he said that they don't want to appear too anxious, and are not. He said if their optimism should be wrong, they would still hope to remain out of the conflict, at least for some time.

HMJr: Well, of course, from our standpoint, both France and Holland would be important.

C: Yes. Oh, yes. Very.

HMJr: Yeah.

C: I'm -- I'm sure -- well, I think very much that Tripp will like the idea, because naturally he would want to know what the British and ourselves are doing.

HMJr: Why sure.

C: Particularly us.

HMJr: Sure.

C: But his -- his only nervousness is on that political side.

HMJr: I can understand that.

C: Janssen has the same and I'm sure the Swiss would have the same.

HMJr: I -- I'm entirely sympathetic. I can understand.

C: Surely. Well then, the message is going in and I'll have the word from the Dutch and perhaps a confirmation from the Belgians in the morning.

HMJr: Right.

C: And I ought to hear from the Swiss in the evening.

HMJr: Right.

C: So shall I just put / ^{that in} a cable then?

HMJr: Yes.

C: All right.

HMJr: Now, how do you feel today?

C: I haven't seen what was given out. We had a conference this afternoon -- by the two Prime Ministers -- I've been working on this, so I don't know the latest news of Chamberlain or Daladier's speech.

HMJr: O. K.

C: But there -- the statement. But the market here was -- was better.

HMJr: Yeah.

C: They gained some gold, the ^{and securities were} up a little bit. I still -- I'm still optimistic.

HMJr: Still optimistic?

C: Absolutely.

- 100 -

HMJr: All right.

C: I -- I haven't seen the statement so I don't know what's in that.

HMJr: All right.

C:

HMJr: All right. Thank you.

C: But there's -- there's no need to -- to telephone?

HMJr: No.

C: No.

HMJr: No, I think you've covered a lot of ground in twenty hours.

C: All right. Well, I -- I had this all written up in a memo so I'll keep you.....

HMJr: That's right.

C:informed later then.

HMJr: Thank you.

C: And the only thing, watch for that message 717.

HMJr: We'll get it. Archie will get it for me.

C: Good.

HMJr: Right.

C: All right, sir.

HMJr: Thank you. Good bye.

April 13, 1939
3:20 p.m.

321

HMJr: Hello.
W. R. Johnson: Yes, sir.
HMJr: Johnson.
J: Yes, sir.
HMJr: I have an inquiry confidentially from Mr. Hopkins as to -- are the Germans dumping wood pulp in the United States or are they not?
J: There is a prima facie case that they -- that they are.
HMJr: Yeah. Well, when will you fellows be ready?
J: We will have to make a foreign investigation that may take some time.
HMJr: How long?
J: I would rather our men would work on the countervailing duty case first.
HMJr: I see.
J: And.....
HMJr: You have it in mind?
J: Yes, sir. We're sending over a request for the foreign investigation.
HMJr: O. K.
J: Yes, sir.
HMJr: Thank you.
J: All right, sir.

April 13, 1939
3:30 p.m.

HMJr: Hello.

Operator: Dr. Riddell.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Walter A.
Riddell: Good afternoon.

HMJr: Good afternoon.

R: I've been in touch with Ottawa.

HMJr: Yes.

R: And they could -- could send Mr. Towers down.

HMJr: Yes.

R: Mr. Towers is of the bank of Canada.

HMJr: Right.

R: And the other man -- unfortunately the budget is before the House and they couldn't send any of the senior officers.

HMJr: Well, listen, Mr. Towers would do admirably.

R: Yes. Well then -- then they want to -- they wondered if -- just about on what lines he would be and anything they could do to more or less prepare the ground before he came.

HMJr: No. I know Mr. Towers and he doesn't have to prepare himself, and he's got a direct telephone from the Federal Reserve of New York to his Bank and if he needs any information he could get it in five minutes.

R: Yes, all right.

HMJr: I think the best thing would be let him come on down.

R: All right. And he said he could come Saturday.

HMJr: He'd be here Saturday.
R: Be here Saturday morning.
HMJr: That'll be fine.
R: All right.
HMJr: You phone me when he gets here.
R: Yes.
HMJr: No, he doesn't -- he doesn't need any preparation.
I mean.....
R: Yes, all right.
HMJr: Yes.
R: I can tell him that.
HMJr: Yes.
R: All right.
HMJr: And if he doesn't.....
R: That clears the whole matter up.
HMJr: Right.
R: Thank you ever so much. Good bye.

JR

GRAY

London

Dated April 13, 1939

Rec'd 2:09 p.m.

Secretary of State,
Washington.

473, April 13, 2 p.m.

FOR TREASURY FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

As instructed I presented to the British Treasury the memorandum this morning. The British Treasury stated that a formal reply would be forthcoming in due course but they said informally that they felt that the answer would of course welcome the suggestion of consultative exchange of view. At the same time they referred to the fact that the broad outlines of their immediate procedure upon the outbreak of a war had already been communicated to me as reported in my 428, March 31, 6 p.m.

After emphasizing that they were speaking personally and informally they remarked that the matter of bank deposits and earmarked gold seemed to them to fall into a somewhat different category from the question of marketing securities; that in the event of a war they would expect to use the available dollar funds for purchasing

-2- #473, April 13, 2 p.m., from London.

purchasing American proclivity and as regards earmarked gold they hoped they could assume that the United States would continue to give dollars in exchange for such gold which likewise they would use for purchases in the United States.

They went on to say that they themselves had had in mind the question of approaching the American monetary authorities on the problem of dealing with the holdings of American securities; that naturally they would wish to obtain fund from the American securities to be taken over from British residents and that there seemed only two possible methods (1) to sell them and (2) to borrow against them. On balance they were to prefer the latter procedure but the question arose as to whether it would conflict with existing American legislation: if the British Government as such could not legally borrow against such American securities, could "a straw man" do so? Accordingly, the British Treasury asked me informally to ascertain whether we had in mind any given procedure to meet such a contingency, or whether we would or would not prefer them to raise this question in their answer to the memorandum.

KENNEDY

DDM:HTM



DEPARTMENT OF STATE
WASHINGTON

April 13, 1939.

My dear Mr. Secretary:

I enclose for your confidential information one copy of telegram No. 473 of April 13 from the American Embassy, London, transmitting a message from Mr. Butterworth.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

From London,
No. 473, April 13.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

JR

PLAIN

London

Dated April 13, 1939

Rec'd 2:54 p.m.

Secretary of State,
Washington.

475, April 13, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Prime Minister's speech in the House of Commons this afternoon was received in the city too late to effect decidedly the London stock exchange which has been inactive all day but it did stimulate the demand for dollars in the late afternoon. As in past days the British fund operated steadily and has held the rate at 4.68-1/16. The city's first reaction to the Prime Minister's speech has not been favorable and several British bankers with whom I talked used the word "uninspiring". The implications of a commitment to Rumania have as yet not sunk in.

Incidentally Lloyds announced raises in war risk shipping rates the extent of which is of interest--
Mediterranean 5S. to 35., Black Sea 5S. to pounds 2;
Baltic 10S. to 30S.

The war risk rate to the United States on gold has also gone up to 5S., and therefore the gold price will be affected

-2- #475, April 13, 6 p.m., from London.

affected tomorrow. 237 bars of gold were dealt in at fixing of which 163 were married and 11 supplied by the British fund. After fixing the price increased by 1/2D. to 148S. 6-1/2D. The British fund not giving gold after fixing.

KENNEDY

WWC

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APR 13 1930

THE TREASURY DEPARTMENT
Office of the Secretary
Financial Assistant to the Secretary

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 717

DATE: April 13, 1939, 3 p.m.

STRICTLY CONFIDENTIAL. FOR THE SECRETARY.

In the course of a short conversation today at my house, I was told by the Minister of Finance that it was his understanding that there had been submitted by the British Government to the dominions a financial policy to be put into effect in case of war which would involve exchange control and a series of measures which suggested strongly measures which the totalitarian states have put into effect.

It was his belief that this policy under contemplation by the British was completely wrong. It was his opinion that the sacrifices necessary to preserve open markets and free exchanges should be imposed by France and Great Britain on their ^{taxpayers and} ~~taxpayers and~~ ~~English pensioners.~~ He said that he told Daladier today that he wished to have a Cabinet meeting arranged for next Tuesday or Wednesday for the purpose of adopting decree laws which would be put into force in the event of war and which would preserve the freedom of the ^{and the freedom of the exchange of France.} ~~markets/~~ ~~of the~~ ~~markets~~ ~~and of France.~~

It was his intention to cut most severely all French expenditures except those necessary for war.

He

-20-

He intended especially to cut contingency expenditures. It was his intention to dismiss unnecessary state employees and to still further increase the hours of labor. There were, for example, 100,000 employees on the state railways who should be dismissed immediately. On the basis of a reasonable working day, the duties of these employees could be fulfilled by other employees of the state railways. Besides, he would cut the pensions of all war veterans except those so mutilated in the World War that they were unable to support themselves.

I was also told by the Minister of Finance that he intended in addition to levy a general sales tax, which he would call a military sales tax, on all sales of all articles. He believed that all circles in France would accept it with the accompaniment of the word "military".

It was added by M. Reynaud that any sort of a round table discussion of policy to be pursued in the event of war would be welcomed by him. He said he hoped the United States would be in favor of the policy which he intended to carry out rather than the policy which the British were contemplating.

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BULLITT

EA:EB

APR 11 1945
RECEIVED
GENERAL OFFICE
UNITED STATES DEPARTMENT OF STATE

April 13, 1939

3:30 pm

Present:

Kr. Knoke
Mr. Foley
Mr. Bernstein
Mr. Lochhead
Dr. White

HM, Jr: Where are you in relation to the Attorney General?

Mr. Bernstein: We carried on discussions with him until a quarter of one last night.

HM, Jr: With the Attorney General?

Mr. Bernstein: With his staff. Then we were back over there this morning.

Their feeling, at the present time, is this: they can't say there isn't the power and they don't feel sure there is the power. They think it turns on the situation that exists at the time you want to exercise the power. They were going to present that plus the memorandum we prepared last night to the Attorney General. Their feeling was it would turn out on the situation as to how it was used.

HM, Jr: What do they object to?

Mr. Bernstein: Only the report section; foreign owned assets here.

HM, Jr: That's important.

Dr. White: It's more important than the other for this particular purpose.

HM, Jr: How do you feel after sleeping on it during the night?

-2-

Mr. Bernstein: Well, I am convinced that we have the power. Mr. Oliphant and I worked on this very carefully last fall and we felt although it isn't expressly in the law, it is clearly implicit in the law.

HM, Jr: We are meeting again at 4 o'clock -- the Fed of New York and Washington at four o'clock.

oOo-oOo

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: April 13, 6 p.m.

NO.: 721

FROM; COCHRAN

On a small but steady scale French control continued to gain sterling today. Sufficient cheer entered the market this afternoon, as a result of the outlook for official statements of French and British Prime Ministers, to bring about a rise in French shares and rentes. Lazard's started to sell dollars. The Swiss franc was officially traded against sterling today. A decline of nearly two billion francs in deposits with coverage 63.75 versus .15 was shown in statement of the Bank of France as of April 6.

BULLITT

RECEIVED

APR 14 1935

THE AMERICAN EMBASSY
 APR 14 1935
 RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED**FROM:** American Embassy, Paris, France**DATE:** April 13, 1939, 7 p.m.**NO.:** 722**FROM COCHRAN.**

With reference to telegram No. 261 of April 12 from the Department, I consulted with the Ambassador and then made an appointment at the French Finance Ministry.

I had a telephone conversation with Pfenniger of the Swiss National Bank at Zurich at a quarter of eleven, and gave him the inquiry from the Treasury. Pfenniger said that he would at once see the members of the Board of Management of the Bank in regard to the matter. My message had arrived opportunely, since Messrs. Weber, Schnerf, and Bachmann were all leaving for Bern this afternoon to attend a meeting of the Board of the National Bank. Pfenniger did not think it would be possible to get a reply before the Bern meeting, in which the third manager, Mr. Rossi (who resides in Bern) would take part, and until a position had been agreed upon by the Bank officials and the Swiss Finance Ministry consulted. Pfenniger said that as soon as a decision was reached he would telephone me, but thought this would be Friday afternoon at the earliest.

Rueff received me at half-past eleven. I gave Rueff a copy of the message and explained the circumstances

under

- 3 -

under which I had received it, making it clear that we were not indicating any expectation of immediate conflict, but that we were merely considering precautions somewhat along the lines of the talk we had had together two weeks ago. After this Rueff went in to see the Finance Minister Reynaud, and a few minutes later asked me to join them. Mention was made by Minister Reynaud of the fact that even this morning France was still gaining gold, and naturally he did not want to do anything that would cause this movement to stop. It was his belief that should a war come, the strongest European currency would be the French franc, and that France would continue to get funds. The United States would be considered a long distance from Europe during war times, and the most popular place of currency refuge would be in France. I was asked by Minister Reynaud whether the British had been contacted on this matter. I said that I personally had not done so, but I understood that my London colleague would see the British about it. He asked me whether I was going to telephone to Butterworth about it, and I answered that I had no plans to do so as Butterworth would report directly to Washington in the premises. My instructions were simply to transmit to the financial authorities in the four continental countries the message from Secretary Morgenthau,

- 3 -

and to forward to Secretary Morgenthau the replies from these countries.

The idea of consultation was definitely favored by Minister Reynaud, and he said he wanted to keep the United States informed about his plans and decisions, and that we might look on the present interview as a first consultation. My request of a few days ago for information was referred to. The Minister confirmed what he had told me then, i.e., that the Finance Ministry does not have any definite plans in mind for any new arrangements other than those developed last September during the crisis at that time. The comment was made by Rueff that as a result of experience small perfections would be made. The Minister repeated his remarks about capital returning to his country, and added that since this was the situation, in the future he would favor the policy pursued in the past - maintaining freedom from exchange control. Reynaud stressed the heavy burden on the Treasury from present French war plans. In strict confidence he told me that within the next fortnight he expects measures to be taken to make the country squarely face the situation and take care of the expenses.

Reynaud said that in case there is a war, French plans envisaged no moratorium; they would try to keep
the

- 4 -

the banks open without even a banking holiday for one day. As for the stock and commodity markets, he was not so emphatic about keeping them open. He said that he had no plans for closing them, and that it would be in conflict with his hopes of keeping business going to keep these markets shut for very long, and that it should be possible to avoid various sorts of moratoria. As was done last autumn by special decree (which I reported then) certain exceptions would be made in favor of French combatants. I received assurances from Minister Reynaud that American travelers and residents in his country would receive all the dollars and foreign exchange they needed on their letters of credit, travelers' checks, and so forth.

Finally, the Finance Minister laid emphasis on the strong bonds of friendship between France and the United States, and our close cooperation in monetary affairs. In view of present circumstances, he naturally was anxious to confer with us on the lines mentioned in this telegram. I said that I would transmit this report to our Secretary of the Treasury, and that I was already getting in touch with the other three countries designated. When I was leaving, it was agreed that Rueff would telephone to me this afternoon if the Ministry, upon
further

further reflection had anything more formal or concrete to give me.

I had a telephone conversation with Governor Janssen of the Belgian National Bank at a quarter after twelve, and read to him the message from Secretary Morgenthau and explained the circumstances. Very quietly Governor Janssen volunteered that he liked the consultation idea. However, until he had consulted the Finance Minister, Gutt, he could not speak officially. I was asked the same question as Reynaud had put to me - whether the British had been contacted in the matter - and I gave the same reply to Janssen as I gave to Reynaud. I said to Governor Janssen that this was a precautionary step, and he indicated that he is still optimistic.

At five o'clock this afternoon Governor Janssen called me back, stating that he had seen the Finance Minister. Minister Gutt stated unofficially that his first reaction was favorable to the idea of consultation, but first he would have to contact the Prime Minister and get official approval for the idea. It would not be possible to do this today, therefore on Friday either Minister Gutt or a Bank officer will telephone me the results.

Janssen

- 6 -

Janssen talked to me as follows, in a strictly personal and unofficial manner -

A policy of independence is followed by Belgium, and therefore great care must be exercised. The situation is taken seriously by the Belgian people as well as by the Government, but they are remaining calm. Yesterday, Janssen said, he was among the twelve officials who met with the King. At the meeting serious views were exchanged but no agitation of any sort was present. The general opinion was that Belgium must not show too much anxiety. Belgium might still remain out of the conflict, at least for some time, even if their guarded optimism should be wrong. Their tendency would be to do as they did last autumn - at that time they had decided to put off as long as they could any decision on moratoria, and so on.

Summarizing, Governor Janssen said, first, unofficially they could state that Belgium was in favor of consultation, provided care with respect to the political situation would be taken; second, any measures for the prevention of panic were favored by Belgium, but fundamentally, such measures as moratoria were opposed.

At 2:25 this afternoon I reached President Trip of the Netherlands Bank by telephone, and read the inquiry
from

- 7 -

from Secretary Morgenthau. President Trip said that he would immediately take up the matter with his Government, and would telephone me an answer as soon as possible. In his opinion, he stressed, the press should be given nothing about any consultation that may be envisaged or consummated in regard to this matter. Such countries as his own, he said, might be very much embarrassed by the political significance thereof, as would ^{some} other adherents to the Tripartite Agreement.

I want to add that I concur entirely in the personal view which President Trip advanced as to the danger of any publicity in this regard.

END OF MESSAGE.

BULLITT.

RECEIVED

NOV 11 1948

EA:LWW

THE TRIPARTITE AGREEMENT
OFFICE OF THE SECRETARY
OF THE TREASURY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: April 13, 8 p.m.

NO.: 723

FROM: COCHRAN

At 8 p.m. Rueff confirmed by telephone the statements which were made to me at the Ministry of Finance this morning. He stated that they much appreciated the continuing consideration and kindness of Secretary Morgenthau. They would welcome suggestions from us with respect to methods of procedure. They would also be glad to have consultations (especially those which would draw in the British). Rueff stated that all meetings and conversations should be strictly confidential whether in Paris or some place else.

BULLITT

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APR 14 1945
TREASURY DEPARTMENT
Office of the Secretary
General
Division of International Finance

4/13/39 (noon) draft embodies

342

Magill-Shoup-Duffield-Blough ideas

Proposed Statement for Secretary Morgenthau to Make
Before Ways & Means Committee - on Tax Legislation

April 13, 1939
(noon)

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, "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 command the attention of the country. Therefore, my appearance here today may possibly 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 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 remember with pleasure.

When I appeared before this Committee on March 24th, I said that the Treasury would soon be ready to submit its recommendations for changes in the tax system. Representative Doughton and Senator Harrison have expressed a desire to receive the recommendations for action at this session.

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Some revenue legislation during this session is a recognized necessity. The income taxes on corporations expire at the end of the calendar year, and excise and sales taxes yielding about \$500 millions expire during the summer. I hope that Congress will not simply extend the expiring levies and adopt the usual technical changes, but will take this opportunity to adopt those few basic reforms that we badly need to make the revenue system fit the needs of the country.

At the present time we stand at a point of incomplete recovery. To get complete recovery we must have willingness to go ahead, and especially willingness to invest in new undertakings. If there are obstacles in the tax system that stand in the way of our going ahead, we should remove them. At the same time we should promote the underlying tax justice that is so necessary to long-run business soundness and public welfare.

An important fiscal obstacle to complete recovery is the fear of the businessman and investor that our tax system is not powerful enough to insure a fully balanced budget over a period of years. As long as that fear exists the man who has saved money or who is in charge of a business enterprise may hesitate to invest because he expects heavier tax rates ahead, and he cannot foresee how they will affect him.

Much of this fear is groundless. The Federal tax system has been greatly strengthened by tax laws passed in 1932 and

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subsequent years. The tax revenue has risen from \$1,900,000,000 in 1932 to an all-time high of \$6,000,000,000 in 1938. With substantial increases in business and the national income, the revenue will go much higher, and with a reasonable reduction in expenditures, should balance the budget in prosperous years.

There is still foundation, however, for the fear that the present tax system may not be sufficiently productive to provide enough revenue to insure a long-run balance. Such a balance involves reducing the public debt in good times as much as it is increased in bad times. In my opinion, nothing would so strengthen business sentiment as a clear prospect of long-run budget balancing and the provision at this session of additional revenue to insure such a prospect.

Some additional revenue will also be required to offset losses from removing restrictive features which I shall later discuss.

We can get the needed revenue from sources which will not hamper business recovery and which will at the same time increase the equity of the tax system. I suggest your consideration of the following:

1. Tax exemption can be eliminated from future issues of government and government guaranteed bonds. The Treasury Department has already recommended this action. Removal of tax exemption will tend to push into new or expanding business enterprises the kind of private capital which can afford to undertake the hazards of business development.

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Furthermore, the taxation of the interest on future government and government guaranteed bonds is one of the most obvious steps towards tax justice. While the revenue yield will be small in early years, it will eventually be quite substantial.

2. Present capital gains and losses provisions of the individual income tax can be improved. A profit from the sale of a stock or a bond or a piece of real estate or any other capital asset is now taxed at a maximum rate of 15 percent if the asset has been held more than two years. Compared with the income tax rates that apply to salaries, interest, dividends, and rents, the rates on these long-term capital gains are very 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 by 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. Perhaps capital losses could be

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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 suggestions made later concerning surtax rates. It would increase the revenue somewhat and fairness among individuals a great deal.

3. Excessive depletion deductions to oil and gas wells and certain types of mines can be eliminated. As the Treasury has often pointed out, a large amount of revenue can be recovered by closing this loophole.

4. Revenues from the estate and gift taxes can be increased. These taxes now produce less than percent of our Federal revenues. The present law allows large fortunes to escape taxation through the loophole of gifts. The present type of gift tax is powerless to prevent such escape. The gift and estate taxes should be coordinated so that from the tax point of view there would be no substantial difference whether a man gave away his estate during his life or at his death. This coordination would in effect consider gifts and the final distribution of the estate at death as a unified series of transfers, with one exemption and one

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rate scale, in place of the two exemptions and two rate scales in the present law. If Congress desires to give some special inducement to gifts made prior to death, this can be accomplished through special credits.

I would like to suggest also that Congress consider increasing the yield of the estate and gift taxes by providing somewhat lower exemptions and higher rates in the lower and middle brackets and by eliminating the present exemption for life insurance.

5. Revenues can be secured also by raising the rates on the now lightly taxed middle income brackets. It would also be desirable to lower the income tax exemptions somewhat to bring into the income tax system a larger percentage of the population.

In addition to assuring businessmen and investors of a sound fiscal situation, Congress can, in my opinion, also help to remove obstacles now standing in the way of investment and business expansion by providing tax allowances at certain strategic points. The following seem to me to be the most important and effective ways to relieve the tax burdens that fall especially hard on new and expanding businesses:

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1. We now have four different taxes applicable to ordinary business corporations: a remnant of the 1936 undistributed profits tax, a capital stock tax and an excess profit tax enacted in 1932, and the ordinary income tax. The capital stock tax is not based on the actual value of a company, nor is the excess profits tax actually a tax on excessive profits. In its emasculated form, the undistributed profits tax is meaningless. The corporation tax system would be greatly simplified, its justice measurably increased and the burden on new and uncertain enterprise diminished, if all four taxes were consolidated into a single flat tax on corporate incomes, with some concession in rate to corporations having less than perhaps \$25,000 net income.

2. In my opinion, we should reinstate the allowance under which the corporation which sustains a net business loss in any one year can carry forward that loss and deduct it from taxable income realized in subsequent years. At present a business which has lost \$50,000 a year for three years and has then netted \$150,000 in the fourth year must pay a normal tax on the full \$150,000, although the plain fact is

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that the business has made no profit at all over the 4-year period. Taxation of income in annual segments is an arbitrary measure of corporation earnings which is made necessary by administrative requirements. However, we should not push this arbitrary basis for measuring income to the extent of refusing to recognize alternating periods of profit and loss. The present system of allowing no carry-over of business losses of corporations for normal tax purposes places the tax system in a position of deterring both new investments and the durable goods industries.

3. The existing provisions for capital losses sustained by corporations are another example of how the existing tax laws discourage new investments. If a corporation suffers a loss on capital assets, this loss can be deducted only against capital gains, if any, which the corporation has made in the same year, plus \$2,000. In many instances, therefore, a corporation does not in practice get any tax allowance for a capital loss, a fact which discriminates against a risk-taking enterprise.

4. Dividends received by individuals should be given a tax allowance comparable to that which was in

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effect prior to 1936. At present corporation income is taxed, and then when the income is paid out as dividends, the stockholder pays the full individual income tax on his dividends with no allowance for the fact that the corporation has already paid a tax on the same earnings. This tax arrangement incidentally encourages corporations to go into debt rather than to sell stock because corporations may deduct interest payments from their taxable income but may not deduct dividends paid. Interest is taxed once, while dividends are taxed twice.

5. During recent years a great deal has been said about the high taxes on individual incomes which reach a peak of 79 percent in the top bracket. These taxes combined with the State and local income taxes in many jurisdictions are said to discourage the ordinary assumption of risk by investors because the tax collector takes so great a share of any income realized from a venture. In view of other features of our present income tax structure, such as the capital gains section of the income tax law and the exemption which is extended to State and Federal securities,

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I cannot honestly agree that the surtaxes on individual incomes are too high. Very large portions of big incomes escape taxation in whole or in part. However, if the measures which I have previously suggested to tighten the capital gains section of the income tax law, to consolidate estate and gift taxes and increase their rates, and to remove tax exemption from future issues of governmental securities, are adopted, it is my opinion that the surtax rates in the top brackets of our income tax should be reduced.

6. We need to make the process of computing and paying taxes a less complicated one. Much effort has been given in the past few years to help the taxpayer through decentralizing administration and in other ways. At the present time one of the most irksome situations that the taxpayer faces arises out of Federal-State-local tax conflicts. Numerous overlapping taxes have grown up, especially during the last ten years as both national and State governments reached out for new revenue sources. I suggest that Congress in this session enact legislation creating a national commission to study this problem. The

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commission should be made up of men having the highest possible level of ability and public confidence and representing not the Federal, State and local governments as such, but the national interest at large. Their function would be to study intergovernmental fiscal policy in its many ramifications and report to Congress within the next two years.

As I pointed out earlier, if we are to accomplish these few fundamental reforms, this year is the one in which to achieve them.

I would not have you infer that if the proposals that I have suggested this morning are adopted, business will at once expand to boom proportions. These measures are not a shot in the arm. Rather, they are like proper care and good food to a patient convalescing after a long illness. They will not cause his recovery overnight but they will, in my opinion, remove obstacles to that recovery.