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No

DEPARTMENT OF STATE  
WASHINGTON

*Final report 11.30 AM 4/22/39*

April 22, 1939.

✓ The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses three copies of telegram No. 93 of April 21 from the American Consulate, Geneva, transmitting an inquiry from the Secretariat of the League of Nations as to whether Mr. Merle Cochran could be allowed to attend the session of the International Committee on Loan Contracts at Geneva May 10 to May 13.

An indication as to whether there is objection from the point of view of the Treasury Department to Mr. Cochran's participating in the meeting is requested.

Enclosure:

No. 93, April 21  
from Geneva.

RECEIVED

10:45 am

APR 22 1939

TREASURY DEPARTMENT  
Office of the Secretary  
Technical Assistant to the Secretary

*22*

RFP

GRAY

Geneva

Dated April 21, 1939

Rec'd 2:31 p.m.

Secretary of State

Washington

93, April 21, 5 p.m.

In view of the inability of Reuben Clark to attend the next which will be the final session of the International Loan Contracts Committee on May 10, or even on a postponed date and in view of the interest understood to have been expressed by the United States in the Committee's final report which must be adopted promptly to allow printing for distribution to the assembly, the Secretariat has requested the Consulate to ask whether Merle Cochran could be spared to attend from May 10 to May 13.

BUCKNELL

DDM:HTM

RECEIVED

APR 22 1939

INTERNATIONAL LOAN CONTRACTS COMMITTEE  
SECRETARIAT  
WASHINGTON, D. C.

RFP

PLAIN

London

Dated April 22, 1939

Rec'd 8:30 a.m.

Secretary of State

Washington

540, April 22, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The Chancellor of the Exchequer's statement reported in my 537, April 21, 7 p.m., has provoked a good deal of discussion in the city as to the interpretation, in terms of practical procedure, to be placed thereon. In these circumstances the comment by the City Editor of the TIMES may be of interest: "The city has taken due notice of the Chancellor of the Exchequer's statement in the House of Commons that 'the good sense of investors will indicate to them that the export of capital at the present time when the requirements for national defence are so great would be deleterious to the national interests', it is fully appreciated that if British investors were to start transferring funds to New York on any appreciable scale the present restrictions which apply only to the purchase of securities for re-sale would have to be considerably extended. It would be virtually impossible for any such extensions to be made by law without inevitable interference with legitimate business. In consequence

RFP -2- #540, April 22, 1 p.m. from London

consequence there has for many months past been a ~~cer-~~tain general reluctance to make any considerable fresh net investment in Wall Street and undoubtedly the Chancellor's statement will act as a further deterrent. The incentive for the British investor to put any substantial amount of funds into Wall Street is in any case not very strong. It is generally felt--especially in view of the 'cash and carry' amendment of the United States Neutrality Act--that in the event of war all private dollar security holdings would be taken over by the Government immediately. In consequence there is no inclination to feel that investment in Wall Street is a worthwhile war hedge. A limited number of individuals have of course endeavoured to make American holdings secure by carefully covering their tracks but this has only been done on a very small scale and no doubt in the event of war the threat of suitably grave penalties would secure disclosure. Any method of securing disclosure in such circumstances would meet with the approval of the city as a whole as well as that of the general public."

2. The foreign exchange market was very inactive this morning, 71 bars were sold at gold fixing of which 56 were married and the British fund bought a few.

3. McCutcheon

RFP -3- #540, April 22, 1 p.m. from London

3. McCutcheon of the S.E.C., at present in London, would be grateful if the information in paragraph 1 of my 537, April 21, 7 p.m. and paragraph 1 of this telegram were made available to Purcell of the S.E.C.

KENNEDY

HPD

RECEIVED

APR 23 1950

TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY  
WASHINGTON, D. C.

PAP

GRAY

BERLIN

Dated April 22, 1939

Rec'd 9:40 a.m.

Secretary of State

Washington

273, April 22, 1 p.m.

No. 19 FOR TREASURY FROM HEATH

Department's 93 of April 19, 4 p.m. Yesterday the Berlin Stock Exchange opened well with various chemical, electrical and machine shares registering advances of one point and up. The volume of trading, however, was still small, the advance was largely ascribed to the local impression that a certain relaxation of tension in the international situation was occurring. Toward the close, however, a part of the gains made in the opening were lost but quotations were still above the low level of Tuesday and Wednesday. In contrast to other issues Hamburg American and North German Lloyd shares declined one fourth per cent.

RECEIVED GEIST

DDM:WWC

APR 23 1939

RECEIVED DEPARTMENT OF THE TREASURY

PAP

GRAY

PARIS

Dated April 22, 1939

Rec'd 10:10 a.m.

Secretary of State

Washington

804, April 22, noon (SECTION ONE)

FROM COCHRAN

An official communique published in the press of this morning lists 39 decrees approved in a Council of Ministers yesterday and indicates that the measures envisaged will be accompanied by "the creation of two year arm bills" to make it possible to carry out the armament program imposed by the international situation.

The official text of these measures is not yet available but according to apparently reliable press accounts they provide notably for a 1% sales tax, for certain fiscal relief, strict supervision over the profits of armament industries, and limitation of such profits to not more than 10%, the facilitating of the installation in France of enterprises constituted by foreigners when of national interest, maintenance of the 60 hour working week in industries supplying armament, adoption of the 45 hour week in public administrations and also if

necessary

PAP -2- 804, April 22, noon from Paris

necessary in private industry.

(END SECTION ONE)

BULLITT

KLP

PARTIAL PARAPHRASE, SECTION TWO, TELEGRAM NO. 804  
OF APRIL 22, 1939, FROM PARIS.

Minister of Finance Reynaud in a radio broadcast, last evening, called upon the nation to make all sacrifices necessary "to win the peace". He reviewed the favorable results of his financial and economic program and announced that the effort in the way of armaments decided upon by the Government would cost fifteen billion francs, which the Government would have to raise. He pointed with satisfaction to the favor enjoyed by the French currency and said that three tons of gold was yesterday added to the hundreds already received during the past five months and that he had just decided to transfer five billions from the stabilization fund to the Bank of France. He announced that in spite of the additional taxation levied since last November the industrial production of France had increased by twelve per cent.

The Bank of France has gained more sterling in quiet trading this morning. There is less pressure on the belga, as Belgian economists and writers deny devaluation rumors. Members of the Paris Bankers Association have been warned by the Association to scrutinize carefully new Reichsbank notes being sent abroad. New notes have such limitations as to utilization that they are almost fraudulent.

END OF MESSAGE.

APR 22 1939

BULLITT.

10 ✓

Return to Room 236

April 22, 1939.

*WJH*

Dear Mr. Sproul:

For the Secretary I am acknowledging your letter dated April 21, 1939.

I am sure Mr. Morgenthau will be most interested in studying your report covering corporate financing for the past week.

Sincerely yours,

✓  
H. S. Klotz,  
Private Secretary.

Mr. Allan Sproul,  
First Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

cc to HF

GWF/dbs

pls file all  
3 pieces of  
of 4/22/39

**RECONSTRUCTION FINANCE CORPORATION**  
**WASHINGTON**

OSSE H. JONES  
MAN OF THE BOARD

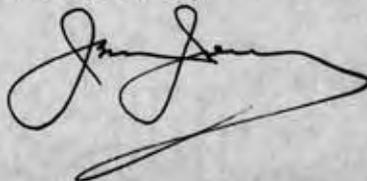
April 22, 1959

Dear Henry:

Your letter of the 21st received  
and noted.

I shall be glad to defer to your  
suggestion, and to join you in discussing the  
situation with the President and Mr. Hull at your  
and their convenience.

Sincerely yours,



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

RECEIVED  
APR 23 1959

April 21, 1939

Dear Mr. Jones:

I was glad to receive your letter of April 17 and the memorandum of your General Counsel of the same date agreeing with the conclusions reached in Mr. Foley's memorandum of April 15 in so far as they relate to the power of the RFC to make certain loans. I understand that Mr. Foley has sent to Mr. Hamilton a copy of the Attorney General's opinion concurring in this view.

As to your suggestion that amendments to the Johnson and Neutrality Acts be asked for to permit banks and private persons to make loans directly to foreign governments and agencies acting on their behalf, I think nothing should be attempted in this direction before you and I talk to the President <sup>and Mr. Hull</sup> about it. My offhand reaction is that this is not the propitious time to ask Congress for such legislation.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary

Hon. Jesse H. Jones,  
Chairman,

Reconstruction Finance Corporation.

EHF:alm 4-21-39

**RECONSTRUCTION FINANCE CORPORATION**  
**WASHINGTON**

ESSE H. JONES  
CHAIRMAN OF THE BOARD

April 17, 1939.

Dear Mr. Secretary:

I beg to inclose a memorandum from our general counsel, discussing Mr. Foley's memorandum to you of April 15th regarding the authority of the RFC to make loans on American securities owned by foreign subjects, which securities may be taken over by the foreign governments in the event of war.

Our general counsel concurs with yours that the RFC has such authority, provided the loans are made to domestic corporations set up for that purpose. But for the Johnson Act and the Neutrality Act the banks could make such loans directly to the foreign governments. Would it not be better to ask for amendments to these Acts to permit them to do so?

Banks need the loans and they could be made on a sound and properly secured basis, whether to a foreign government, or to a corporation set up in this country for the purpose of borrowing on such securities.

Sincerely yours,

  
Chairman.

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

April 17, 1939

MEMORANDUM TO THE CHAIRMAN:

Reference is made to the memorandum of Mr. E. H. Foley, Jr., Acting General Counsel of the Treasury Department, relative to the program for lending on or purchasing American securities owned by foreign subjects which may be taken over by the foreign governments in the event of war.

It is my opinion that this Corporation has the requisite statutory authority to assist in such a program by making loans to a corporation to be set up in this country for that purpose.

*Claude E. Hamilton, Jr.*  
Claude E. Hamilton, Jr.  
General Counsel

16

Rec'd. from State Dept.

No. 175

Rangoon, Burma, April 22, 1939.

CONFIDENTIAL

SUBJECT: Yunnan-Burma road and proposed railway.

THE HONORABLE

THE SECRETARY OF STATE,  
WASHINGTON, D.C.*Confidential*

SIR:

I have the honor to report that H. G. Maux, the French public works engineer who is attached to the Government of China as a civil engineer of the League of Nations, arrived in Rangoon on April 14th after another trip of inspection over the Yunnan-Burma highway. He left here on April 17th. His first inspection was made last November (despatch no. 129, of December 1, 1938). He is reported to have stated that he found the road considerably improved in various ways, but that the danger of landslides and washouts during the rainy season still existed; that most of the Chinese engineers in charge of present road work were from the Shanghai area, where they had much experience in road-surfacing, but that their experience did not extend to the maintenance of roads in mountainous country during heavy rains. He is said to have expressed the opinion that if great efforts were made during the next few weeks to provide drainage designed to prevent landslides and the washing away of sections of road, the highway might be kept in condition for traffic.

-3-

French Trade Commissioner Sees Road.

Jean Saillens, French Trade Commissioner at Shanghai, reached Rangoon on April 15th after traveling by car over the Yunnan-Burma road. He also traveled by car from Chungking to Yunnanfu, and over other highways in China. He called at the Consulate on April 15th. The French official was impressed by the number of men now working on the highway in China. "They are like ants, there are so many", he said. He described the condition of the road from the Salween River to the Burma border as generally poor, with numerous places where damage might easily result during the rains.

Work on Proposed Railways in China.

M. Saillens confirmed reports that earthwork was being done on routes of proposed railways both north and south of Yunnanfu, and also between Chungking and Chengtu, and between Nanning and the frontier of Indochina. The Chinese felt, he said, that if they could show sections of completed roadbed it might help them to obtain the capital required to build the lines. But he declared that both British and French interests were reluctant to supply money for railroad construction in China at present, and that even if capital were available the great problem of getting in rails, bridge steel, ties, and other materials and rolling stock would remain. If entire dependence had to be placed on the Yunnan-Burma road and the French railway from Haiphong to Yunnanfu, years would be required for the transportation of supplies, he asserted. He

-3-

said that a railway from Yunnanfu to Suifu, on the Yangtze River, would open up rich territory, and would be of importance even if the Yangtze were open, as it would carry freight to and from the river, but that it was believed improbable that a Yunnanfu-Burma railway could be made to pay. The economic possibilities would be greater, however, if there was rail connection with the Yangtze River.

Respectfully yours,

Austin C. Brady  
American Consul

**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  
ASB/ep

A true copy of  
the signed original

MAILED  
TREASURY DEPARTMENT  
Office of the Secretary  
of the Treasury

April 22, 1939

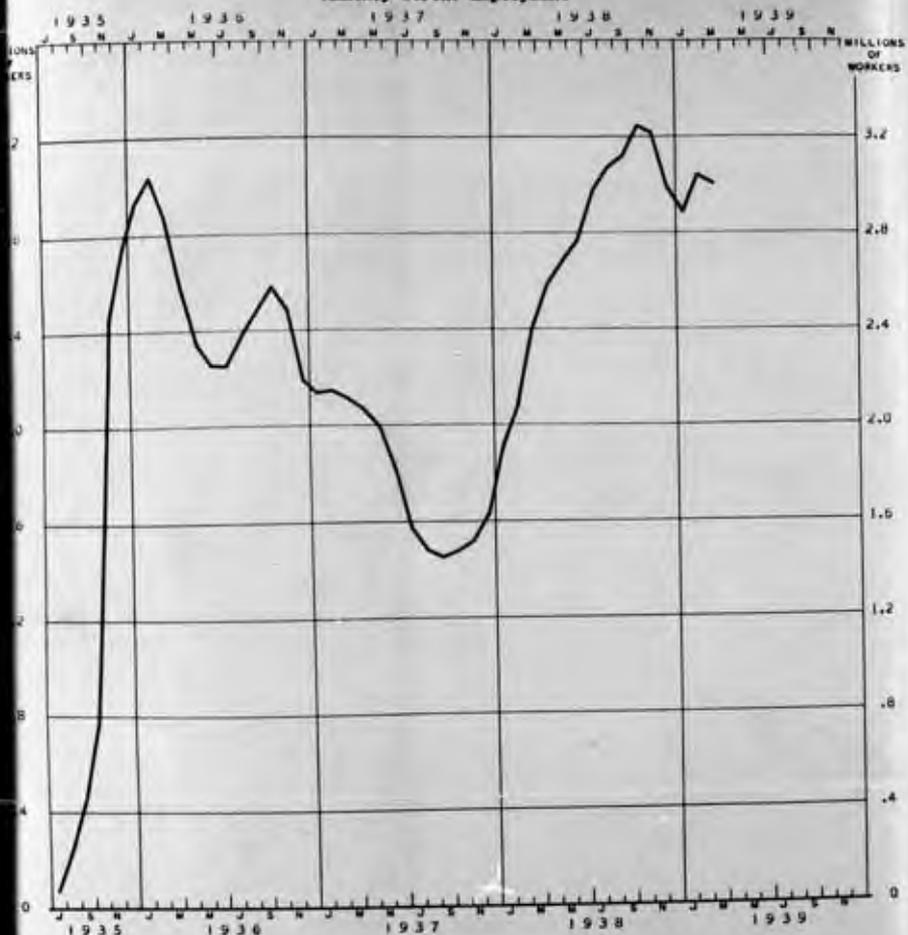
To: The Secretary  
From: Miss Lonigan *et al.*

*WPA*  
The total number of WPA workers  
on April 15, 1939 is 2,756,254.

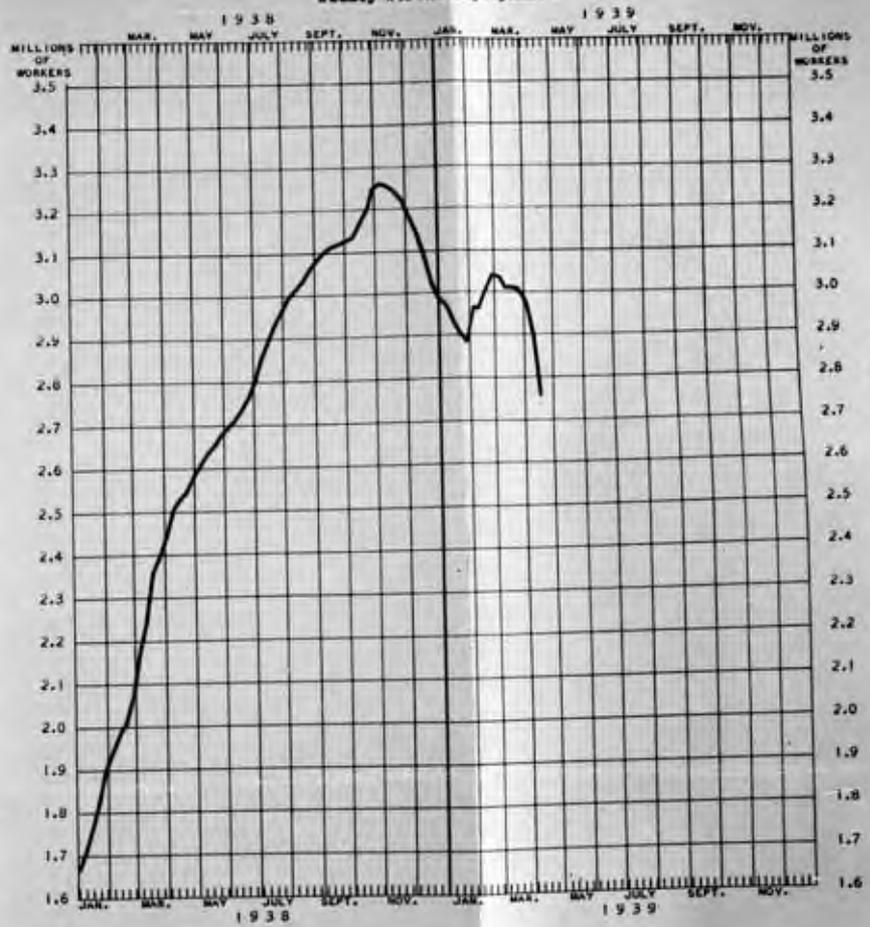
The decrease from April 8 to  
April 15 was 145,699 workers.

WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed  
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

## WORKS PROGRESS ADMINISTRATION

Number of Workers Employed - Monthly  
United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216
December	2,986
1939	
January	2,883
February	3,043
March	3,007 <sup>a/</sup>

Source: Works Progress Administration

<sup>a/</sup> ConfidentialMonthly figures are weekly figures for the  
latest week of the monthThey include certified and non-certified  
workers.

WORKS PROGRESS ADMINISTRATION  
 Number of Workers Employed - Weekly  
 United States

23

Week ending 1938	Number of Workers (In thousands)
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,993
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,137
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,258
November 19	3,244
November 26	3,216
December 3	3,185
December 10	3,139
December 17	3,083
December 24	3,021
December 31	2,986
1939	
January 7	2,967
January 14	2,927
January 21	2,898
January 28	2,883
February 4	2,966
February 11	2,964
February 18	3,010
February 25	3,043
March 4	3,034
March 11	3,009
March 18	3,012
March 25	3,007
April 1	2,976
April 8	2,901
April 15	2,756 <sup>a/</sup>

Source: Works Progress Administration  
a/ Confidential.

April 24, 1939.

Dear Mr. President:

It occurred to me that you might wish to send a letter to Chairman Somers congratulating him on the passage of the monetary bill by the House. I am attaching a suggested draft.

Sincerely yours,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury.

The President,

The White House.

April 24, 1939.

My dear Mr. Somers:

Please accept my hearty thanks for the fine work you did in accomplishing the passage by the House of the bill to extend the monetary powers.

I watched the consideration of the bill in your Committee with a great deal of interest and it seemed to me that the manner in which it was considered was a model of excellent deliberative work. I congratulate you on a good statesmanlike job.

Sincerely,

(Signed) E. Morganthau, Jr.

The Honorable Andrew L. Somers,  
Chairman, Committee on Coinage, Weights  
and Measures,  
House of Representatives.

7/3/9  
4

April 24, 1939.

My dear Mr. Rayburn:

I was greatly pleased by the passage in the House on Friday of the bill to extend the President's monetary powers. I believe the action to be fully sound and in the public interest. I want to express to you my appreciation and thanks both for the result and for the fairness with which the matter was considered and decided.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Sam Rayburn,  
Majority Leader,  
House of Representatives.

April 24, 1939.

My dear Mr. Somers:

The passage on Friday by the House of the bill extending the President's monetary powers is not only a victory for the administration in a sincere effort to advance the public interest but is a personal triumph for you. I offer you my congratulations and my thanks.

The result, I know, could not have been achieved but for the intelligent and aggressive effort you put forth in behalf of the bill in the hearings before your Committee which I was privileged to attend. I admired the business-like efficiency with which you conducted the proceedings and at the same time the complete fairness that you displayed toward all those who had questions to ask and legitimate opinions to express.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Andrew L. Somers,  
Chairman, Committee on Coinage, Weights and  
Measures,  
House of Representatives.

TREASURY DEPARTMENT

28

INTER OFFICE COMMUNICATION

DATE April 24, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: United States Exports to Greater Germany

The compilation of United States exports to Greater Germany, which includes Austria and Czechoslovakia, of cotton, petroleum and copper for April 1939 is given below.

Our exports in April 1939 to the area which is now Greater Germany are only 40 percent of what they were in April 1938. Exports of cotton were down 60 percent and exports of copper were down 80 percent. Exports of petroleum, however, were only down 25 percent.

Value of U. S. Exports  
to Germany, Austria and Czechoslovakia

(In thousands of dollars)

	<u>April 1938</u>	<u>March 1939</u>	<u>April 1939</u>
Cotton, unmanufactured	2,649	2,089	1,051
Petroleum and products	1,859	1,250	1,317
Copper	1,669	741	321
All other commodities	5,649	3,257	2,237
Total	11,825	7,337	4,926

Memorandum of Conference Held in the  
Office of the Secretary at 3 p.m., April 24, 1939.

Present: Secretary Morgenthau  
Mr. Gray, Retired President of the Union Pacific Railroad  
Mr. Willard, President of the Baltimore & Ohio Railroad  
Mr. Dan Bell  
Mr. McReynolds

The Secretary explained that his reason for asking Messrs. Gray and Willard to confer with him was to solicit their assistance in the preparation of such emergency plans as might be considered necessary to take care of the railroad transportation problem in the event of a European war. The Secretary explained that the intention was not for the Federal Government to again take over the management of the railroads as it did during the World War, but to establish such controls in the industry itself as to meet the transportation needs in such an emergency.

Mr. Gray explained that he would necessarily be away for the next week and it was agreed that both Mr. Gray and Mr. Willard would return in two weeks, which is May 8th, at the same hour, with a proposal for consideration to meet any situation that might arise.

\* \* \*

## GROUP MEETING

April 24, 1939.  
9:30 A. M.

Present: Mr. Hanes  
Mr. Bell  
Mr. Gaston  
Mr. McReynolds  
Mr. Lochhead  
Mr. Graves  
Mr. Haas  
Mr. White  
Mr. Foley  
Mr. Duffield

H.M.Jr: George, if you would prepare letters to the people that Larry Seltzer saw last Monday, I'd be glad to write them a letter of appreciation for seeing Larry. See?

Haas: I think that would be very gracious and.....

H.M.Jr: And I suggest Larry go out next Monday, a week from today. And I think by that time we'll know which way the automobile industry is going. What?

Haas: That will be excellent.

H.M.Jr: And Herbert, I want to write the Speaker, Sam Rayburn and Somers letters of appreciation for getting the bill through - particularly to Somers. Ed, is there anybody else up there besides the Speaker, Rayburn and Somers?

Foley: No, I think on the House side that's enough.

H.M.Jr: All right. And then would you write a letter for the President to Somers, thanking Somers? What?

Gaston: Yes.

H.M.Jr: Have you got a speech for me to make before Dr. Parran today?

Gaston: I asked him to send up some memoranda.

- 2 -

H.M.Jr: Not a thing here. I think we'll kill it.

Gaston: What time is it?

H.M.Jr: 12:00 o'clock. I'm not going to take the time.

Gaston: Won't need more than a couple hundred words.

H.M.Jr: No, I.....

Gaston: I can get hold of something.

H.M.Jr: There's nothing here. I can't do it. It's been here since the twelfth - too bad.

McR: They are going to be down there for several days. Doc told me you could come any day they were there.

H.M.Jr: I can go tomorrow morning; I can go at 9:30 tomorrow.

Gaston: Uh-huh. Shall I call him?

McR: Be just as good.

H.M.Jr: He's busting. But there isn't a thing on it.

Now, Harry, have you got a memorandum for the 10:30 meeting with Mr. Welles?

White: Well, you were going to allow fifteen minutes.

H.M.Jr: Oh yes.

White: You'll need, I think, more than fifteen minutes, because there are four different things to cover.

H.M.Jr: I've got to work with Mac right after this meeting - those three men, plus Hanes, on reorganization.

White: We'll have something for you.

H.M.Jr: What?

White: We'll have something. But Welles called up Saturday to want to say that he had been waiting for that memorandum on Argentine and where was it?

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- H.M.Jr: Well, that's - I don't like that anyway. The thing we don't know - we're waiting to hear from the financial attache.
- White: That's what I thought. And my memorandum was not shaped for him.
- H.M.Jr: We're waiting to hear from the financial attache. There's a little poker playing there. I'm just going to hold my cards and let the other fellow bet first.
- White: I think that's desirable on Argentine. But I'll have something.
- Did you see that letter - I presume you did - for the President to the Ambassador to Colombia in answer to the Ambassador's letter?
- H.M.Jr: I didn't read it.
- White: That raises an important question.
- H.M.Jr: Listen, I've been doing my homework here just as well as some other people do it in their office.
- White: Well, we'll have fifteen minutes anyway.
- H.M.Jr: It won't take me fifteen minutes with these people. You got your stuff ready, Mac?
- McR: Yes.
- H.M.Jr: Yes.
- White: Then there is Chile and there is Nicaragua. But you can take of those four whatever you want and postpone the others.
- H.M.Jr: Which one did they ask for?
- White: Well, Saturday they put pressure on for Argentina, and it was our understanding that that was the least pressure-ful.

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- H.M.Jr: What they're doing is this. This fellow comes in, you see, and he doesn't tell Espil what he's here for and he asks Espil to put the pressure on Welles to tell me what he wants. And I'm waiting to hear from their adviser and I'm not going to move until the financial representative - the next move is from him. And when he submits a memorandum to me, then I'll give it to Welles.
- White: It's definitely not in the stage where you can make any contribution.
- H.M.Jr: In other words, I'm not out selling anything. I want them to come and ask me. They waited for six years. Welles said for six years they promised him a trade treaty. I'm not going to spoil it now at this stage. They've messed it up for six years.
- White: Something a little fishy about their turning that over to us anyway but I have that down in another memorandum.
- H.M.Jr: On the Argentine?
- White: I think so.
- H.M.Jr: But the only thing, as I see it - I see Filipe Espil at dinner and I say something to him about it and he doesn't know a thing, and the Treasury representative hadn't told him anything. He's trying to find out what it is.
- John?
- Hanes: You asked us to get this data ready for you to take to the White House.
- H.M.Jr: What? I forgot.
- Hanes: On the bills now pending before Congress.....
- H.M.Jr: On banking?
- Hanes: .....covering banking.
- H.M.Jr: Yes.

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- Hanes: And Gene Duffield has the original. I've got the duplicate. Better take the original.
- Duffield: There it is.
- Hanes: Also do you want to - that's a letter from the Comptroller of the Currency turning back a million and twenty-five thousand dollars in his fund to the Treasury of the United States. That's a letter addressed to you explaining what that is.
- H.M.Jr: Does that stop the emergency banking thing?
- Hanes: Those are funds that were actually paid in by the banks when they collected funds from the banks themselves to defray expenses, and they've got a million twenty-five thousand dollars to their credit which they can't use for any other purpose, so they want to turn it back to the Treasury. You asked them to turn it back to you by letter and said you would make proper disposition of it.
- Bell: The President made the allotments originally and there's a question in Delano's mind whether the President should know about the amounts being turned back and if we should get his O. K. on the bottom of the letter. It isn't absolutely necessary. You can say "O. K." and the money will go back in the Treasury.
- H.M.Jr: Silly to bother the President.
- Bell: He just questioned it.
- H.M.Jr: What do I do? I think it's so silly.
- Bell: I'll put a warrant in.
- H.M.Jr: With all the stuff I've got, to take it up with the President today - I mean after all it isn't Delano that accomplished the saving.
- Bell: It's a matter that he found there when he went into office. But it should be attended to.
- Hanes: You said you also wanted before you let this letter go forward to Senator Wagner on the Brown bill -

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you also wanted to clear that with the President. That's the same thing. So you'll hold that until you come back from clearing it with him.

H.M.Jr: And what's this?

Duffield: That's the original letter.

Hanes: The original letter we're going to write from the Treasury in case you clear that with him. And here are the banking bills which you wanted.

H.M.Jr: Wouldn't this be the best thing to take to the President? You just give that to Mrs. Klotz to hold.

Hanes: She can hold that until you're ready - until you talk to the President, and if it's O. K., you can send it on.

H.M.Jr: I see. And these are the various things.

Hanes: That's all the bills that Gene says are now before Congress having to do with banking, even remotely. There are several of them that very remotely.....

Duffield: I wanted your opinion as to whether they ought to stay on the list.

Hanes: I think so. They have some remote connection. You can point out the ones that are really vital, without going into much detail.

Bell: Does that list include the Home Owners Loan?

Duffield: No.

H.M.Jr: What about Home Owners Loan?

Duffield: Is that banking legislation?

Bell: Well, Eccles said it was in his report.

H.M.Jr: What about Home Owners Loan?

Bell: They have this year the same amendments they had in last year - Federal Home Loan Bank System - always been that fight about it.

- H.M.Jr: Well now, what I'm saying to the President is, does he want any of these ten things?
- Hanes: We're afraid that we might send a note down to Congress saying we didn't want any banking legislation and find out he's going to send a message on one of them. We thought you didn't want to be in that position.
- H.M.Jr: Do you mind if I do it this way, just take that?
- Hanes: And leave that one here.
- H.M.Jr: Let me take this. Why not let Gene hold on to all of that? See, Gene? Hold on to everything, and let me just take that to the President.
- (To Mrs. Klotz) That to the White House at lunch.
- That's perfect. I mean I'll just let him look at that, you see.
- What else have you got?
- Hanes: I've got one or two little things I want to clear with you after this meeting - a few minutes.
- Gaston: I suppose you noticed Brookings got out a communication on taxes this morning. They sent us a full copy of the study, by a man named McGee.
- H.M.Jr: Will you turn it right away over to Blough this morning?
- Gaston: I turned it over to him Saturday.
- H.M.Jr: Wonderful. I think it's helpful, don't you, John?
- Hanes: Yes, I do. I think it's very good, too.
- H.M.Jr: I think it's helpful.
- What else, Herbert?
- Gaston: I don't know of anything else.
- H.M.Jr: I wish you'd find out who is the prominent official that says the President gave us a green light on

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our tax bill. I'd like to kiss him on both cheeks.

Gaston: You'd like to confirm it, would you?

H.M.Jr: Tell him I want to thank him. Did you (Hanes) see it?

Hanes: No, I didn't see it. Herbert told me about it.

H.M.Jr: It's wonderful. I'd like to go around and thank him. Did us a big favor.

Harry?

White: Three matters of minor importance. We are keeping track of the exports to Germany and the April figures show a rather sharp curtailment but no curtailment in cotton.

H.M.Jr: That's very interesting.

White: So that the one item we were afraid would be hurt mostly by the countervailing duty gives no such indication as yet.

H.M.Jr: Could you get that to Mrs. Klotz by five minutes of one?

White: Yes, we have it.

H.M.Jr: What?

White: Yes, we have that on a piece of paper.

The second item is just an amusing bit. One of the consequences of sending the fleet - ordering the fleet to the Pacific has apparently been a sharp depreciation in the value of the bogus notes which Japan is issuing in China; there's a twenty percent depreciation in their value.

H.M.Jr: Give me a note on that to take, too, will you please?

White: Yes.

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And the third item: you may have noticed in the cables from Great Britain that the British Treasury has restricted purchases of American securities for purposes of resale, through its informal channels.

H.M.Jr: I didn't know that. I'd like a note on that also. Where do you get that from?

White: One of the recent cables.

H.M.Jr: Give me a note on it. Make these notes terribly terse. I mean boil it down to the irreducible minimum, will you please?

White: Yes.

(H.M.Jr. looks at charts handed him by Haas)

Haas: That Reuter's index is the only.....

H.M.Jr: What?

Haas: That Reuter's index, if that's what you're looking at - quite interesting development.

H.M.Jr: Anything else, Harry?

White: Just one other bit. We examined the movements of the securities in Berlin and Rome to see whether there was any preliminary notice. There was in Munich and there wasn't in the last episode. I have a little chart, a smaller one than that, just over those periods, if you're going to take it up at all. But I don't think it's very helpful to depend on that for any prognostication.

H.M.Jr: The President asked me to give him the German exports and imports for the last four months.

White: Our exports to Germany, or total exports.....

H.M.Jr: No, German exports and imports.

White: I'll give you the last figures that are available.

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H.M.Jr: He's anxious to have it.

And the President wants us to get behind this Panama treaty and get the thing cleaned up - this pending - some treaty - and we're not paying them the interest.

Bell: Two hundred fifty thousand dollars a year.

H.M.Jr: Yes.

Bell: Canal rights.

H.M.Jr: Do you know about it?

Bell: I know what it is, yes. That's the old gold question.

H.M.Jr: Will you and Ed Foley get busy on it, find out where it is, and give me a report on it tomorrow. Mr. Hull said it is very embarrassing to us and they would like to have that thing pushed and cleaned up. Find out what the trouble is.

McR: They just refused to take the money, didn't they?

H.M.Jr: Well, Bell and Foley, get busy, huh?

White: The information from Mexico that you asked for some time ago we're still pushing. They cabled again. They got some totals, didn't get what we asked for. They're even beginning to be annoyed in the Department of Commerce. It's almost a month now since we asked, sent a cable for immediate information.

H.M.Jr: Annoyed at us?

White: No, no, annoyed at the service they're getting from their own representatives.

H.M.Jr: O. K., what else?

White: That's all.

H.M.Jr: George?

Haas: A few things here. That first figure is interesting.

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H.M.Jr: Which figure?

Haas: At the top.

(Haas explains chart to H.M.Jr in low tone)

That's all I have.

Duffield: I just received after the meeting had started the last of the letters on the Brown bill. You remember you wanted that circulated. This one is from Chairman Eccles and says that, of course, they cannot concur because of their previous position and "we hope that at the proper time the Board will have the Treasury's support for its recommendation for an over-all Congressional study of the problems in this field."

H.M.Jr: Well, when I get what the President's reaction is, I'll sit down with you people who are following banking for me and we'll have Preston Delano in and we'll have a little chin-chin, see? What? And I'm doubtful if I'll reach it today unless you fellows say I've got to do it today. What? O. K., Johnny?

Hanes: Yes.

H.M.Jr: All right?

Duffield: I just wanted you to know the letter has been all around and this is the only objection.

White: I take it that his suggestion includes an investigation which is far more comprehensive than just the particular consolidation of banking.....

Duffield: That's right.

White: I mean that Eccles is referring to his recommendation of which this consolidation of banking is only a small part.

H.M.Jr: In order to get that bill through, what promises the Treasury made God only knows. I don't know what Larry did.

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Foley: Only a couple little jobs, so far.

McR: Haven't given any of those yet.

Duffield: That's all.

H.M.Jr: Well, as I say, I'll come back and then we'll have a little meeting, Johnny, on the banking thing.

Hanes: Yes.

Foley: I have a memorandum from Johnson to you about his conversation with Tannenberg on Friday, and I thought you might want to talk to the President about it.

H.M.Jr: I've got too many things.

Foley: Might have some bearing as to what Hitler says on the 28th.

H.M.Jr: Oh, that's a different story.  
(To Mrs. Klotz) For the President at lunch.

Foley: And here is a T.D. to suspend the countervailing duty order in so far as normal tourist purchases are concerned and also give the Commissioner of Customs power from time to time, as he clarifies his thinking, .....

H.M.Jr: You'll have to sit down with me on that.

Gibbons: Mr. Secretary, they told me you wanted to sign that. I wanted to sign it as Acting Secretary on Saturday. Had somebody talked to you about it? Johnson said you wanted somebody to sign it.

H.M.Jr: No, it's absolutely.....

McR: He wants to sign everything involving countervailing duties. That's the instruction.

Gibbons: Well, I wasn't sure.

H.M.Jr: Let's get this thing straight now. Mac, will you please repeat what my instructions were to you, which I got as a request from Sumner Welles. Let's get one thing.....

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- McR: Sumner Welles was here. The boss told him everything involving countervailing - any order involving countervailing duties was not to be promulgated.....
- H.M.Jr: New.
- McR: Yes - .....except over his approval, his signature, with his personal knowledge. And I transmitted that - I called Johnson about it.
- H.M.Jr: Now, repeat it once more, what Mr. Welles asked me.
- McR: That no new orders involving countervailing duties were to be promulgated except over the signature of the Secretary of the Treasury personally.
- H.M.Jr: And why?
- McR: (Hesitates).
- H.M.Jr: On account of the European situation.
- McR: Yes, on account of the European situation. Now, Johnson came back and said it had been their practice to transmit to the State Department announcement of the intention to issue countervailing duty orders, and asked whether they should go ahead with that practice before the Secretary knew anything about it, and I told him "Yes" and then I asked the boss and he said "No." I called him back, and so he now understands that they are not even to notify the State Department of the intention to issue countervailing orders except after the consultation with the Secretary personally. And Johnson says that's all right with him.
- H.M.Jr: And my agreement with Welles, in order to help them out from now until the end of the week, is that we will sit tight as far as anything goes in starting new countervailing duties in Europe, until we see what happens on the 28th. I thought it was a very reasonable request and I said, "Of course I'll play ball."
- Gibbons: Well, anticipating you were going to sign this, .....

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H.M.Jr: This has got nothing to do with that.

Gibbons: .....this particular letter, I sent a telegram to the Collector of Customs in New York on Saturday.

H.M.Jr: It's got nothing to do with this, Steve.

Gibbons: I know what you're talking about now, but I mean they anticipated you'd sign this particular letter and Johnson and I sent a telegram.

H.M.Jr: On what?

Gibbons: On this particular letter, saying that anybody coming in, any tourist or anybody buying anything - that we're not to hold their stuff and put a penalty on. It's a minor matter, but I simply wanted to tell them.

Foley: Just facilitate the administration of the order, Mr. Secretary.

H.M.Jr: O. K.

Foley: It's not terribly important. All it does is exempt tourist purchases and it gives the Commissioner the authority to make further exemptions where he is satisfied that the bounty-barter business wasn't employed in the procurement of the German articles. But it doesn't provide anything immediate for that, and the Commissioner in New York wants to let the order apply for two or three weeks so he can see how the goods flow in and what evidence he ought to have to satisfy himself that the barter transaction hasn't been employed.

H.M.Jr: Well, the last time you brought this up to me was either Thursday or Friday and you said that - what's the Commissioner's name in New York?

Gibbons: Durning.

H.M.Jr: That Durning didn't want to do it, he wanted to make the people put up the money. I said I didn't want to bother with it and whatever Johnson felt and you people felt.....

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Foley: This has been initialed all the way through; this is Johnson's suggestion.

H.M.Jr: This has got nothing to do with what Mr. Welles asked me.

Gibbons: Johnson apparently thought it had because he wouldn't let me sign it on Saturday. I said "Why bother the Secretary on this?" He said "No, he asked - he wants to sign this himself."

McR: Just an abundance of precaution.

H.M.Jr: Well, will you sign it today?

Gibbons: Yes, I'll sign it. We sent that telegram out in lieu of it.

H.M.Jr: All right, you sign it.

Gibbons: I didn't know why - that's the first I ever heard what Mac just repeated.

H.M.Jr: Well, I am pretty crowded these days and I tell Mac these things and it's up to him to see they're carried out.

Gibbons: But you can't keep track.....

H.M.Jr: Nothing has happened.

Gibbons: It's only a detail.

H.M.Jr: Got anything else?

Gibbons: I have nothing.

White: That gold.....

Foley: I have one other thing, Mr. Secretary.

H.M.Jr: Oh, I'm sorry.

Foley: I have here a galley of the brief of the multiple currency gold cases that were before the Court. When the question first came up, Mr. Oliphant and

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Bob Jackson decided that the Government wouldn't file a brief because it had no direct interest. These are obligations entered into by private persons where the payment was to be made in gold or in the equivalent of the unrevalued dollar in guilders. The Court took the cases under consideration for about two months and then set them down for reargument tomorrow. I got word from Felix Frankfurter's secretary that he hoped the Government wouldn't do what it did before and not give the Court some assistance and would indicate what the Government really wanted.

Now we have this brief prepared, which comes to the conclusion that the joint resolution applies and that payment should not be made in the guilder equivalent of the unrevalued dollar. The question is, should we file it?

H.M.Jr: Well, I think it's - I would ask Mr. Frank Murphy's advice.

Foley: Well, it's Bob Jackson, really, you see.

H.M.Jr: Well, what does Bob say?

Foley: Bob is entirely in agreement with whatever we want to do in the matter. He didn't want it argued and I don't think it should be argued. I think we ought to submit the brief for the Court's guidance. I think the Court is going to hold that the resolution applies. I think if we don't file a brief we may find that the Court's holding may embarrass us. I think our position is much better if we state what we think the law is to the Court and let the Court come to its own conclusion.

H.M.Jr: And so you recommend.....?

Foley: I recommend it.

H.M.Jr: Well, I accept your recommendation.

Anything else?

Foley: Nothing.

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- Lochhead: The foreign markets are all quiet this morning.
- I have two things. The Venezuelan Embassy inquired from State Department on Saturday as to what we intended to do about our money and security markets in case of the outbreak of war. What are we going to do, follow a policy of telling all these South American - just give them general information?
- H.M.Jr: Well - I mean, after all, if Germany and Italy want to plant a question with Venezuela and find out that way, I don't think I'd tell them anything. I mean that's the old game. They plant it with some other country, have them ask us. We'll say they should believe everything they read in the papers.
- Gaston: Even a newspaperman will sometimes do that, plant a question with a little Embassy.
- H.M.Jr: Sure.
- Lochhead: Second question. The Geneva Conference says that in view of the inability of Reuben Clark to attend the next meeting of the International Loan Committee on May 10, and the fact that it is understood that the United States is interested in this report, they want to know whether Merle Cochran could be spared to attend from May 10 to 13.
- H.M.Jr: Definitely not.
- Lochhead: We have always taken that stand; we don't have our people attend anything.....
- H.M.Jr: I've taken the position that nobody connected with the Treasury can attend a meeting that has to do with the collection of private loans, you see. This is a meeting that has to do with the collection, and we've argued - we've fought this with the State Department for five years. They've always wanted somebody and I've said no, that we won't have anybody that is assigned to the Treasury attend a meeting that has to do with the collection of private loans. We've maintained that position. This is the same thing. I want you (Hanes) to know about it. We've kept it clean out. We've tried to collect

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Government loans. We've been a hundred percent unsuccessful. They've tried to collect private loans. They've been a hundred percent unsuccessful. I draw that line. You see, it is logical.

Hanes: Sure.

H.M.Jr: What?

Hanes: Sure.

Gibbons: (Nods nothing).

H.M.Jr: Harold?

Graves: I'm told that the Skidmore Case will be ready to go over to the Department of Justice today. Mr. Mac tells me that you'd like that transmitted by letter that you will sign. I'll see that it's done.

H.M.Jr: I'd like it to come up to me through the Under-secretary. I feel that I'm going to follow the same method, Johnny, if you agree; that I'll write a personal letter to the Attorney General handing him over the Skidmore Case, particularly since he's asked me about it, you see - recommending criminal prosecution - the way I did in the Annenberg Case.

Graves: As a matter of fact, as I understand it, there is no recommendation contemplated by the people in Revenue beyond asking that this be taken before a Grand Jury for investigation.

H.M.Jr: Well, I don't want to go beyond whatever they do, but whatever they recommend, I just want to back it up. There isn't any recommendation?

Graves: For that.

Foley: The distinction is between a Grand Jury investigation and criminal prosecution, Mr. Secretary. In this case they have had some difficulty getting the evidence and they feel that by developing the case before a Grand Jury with the subpoena power they will be able to compel witnesses to appear and testify, and make out a case.

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H.M.Jr: Maybe we had better let it go the way the Attorney General asked. He asked that it go directly to Morris. Do you think I should write a letter or not?

Foley: I think in view of the Attorney General's interest you might follow the same procedure you did in the other case.

H.M.Jr: But how about recommending criminal prosecution?

Foley: We simply recommend Grand Jury investigation.

H.M.Jr: Well then, let it go the regular way.

Gaston: Mr. Secretary, didn't the Attorney General specifically ask that you send him whatever recommendation you had to make on the Skidmore Case, that you send it directly to him? I think he referred to the Skidmore Case - that he'd like to have something on it.

H.M.Jr: No, what he said Thursday or Friday was, "Please hurry up on the case." It was not in shape. "Please have whoever was looking after it send it directly to Mr. Morris."

Graves: They're in shape to have it go over today.

H.M.Jr: Let it go directly to Morris. Check, Johnny?

Hanes: That's right.

Graves: I supposed you'd heard that the Attorney General was receiving the lawyers for Annenberg tomorrow.

H.M.Jr: It's out of our hands.

Graves: Except that our people have been invited to attend that conference and there will be three or four Treasury people at that conference.

H.M.Jr: Well, you'd better go yourself.

Graves: Very well.

H.M.Jr: Are you (Foley) going?

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- Foley: Well, I'm not clear as to how the invitation for the conference has come. I understand that Mr. Irely is the fellow that was told by Justice about the conference.
- Graves: That's right.
- Foley: I talked to Phil Wenchel. I think that either one of us ought to be there, if not both of us.
- H.M.Jr: Well, let's call up whoever is the right-hand man of the Attorney General and let's get these lines straightened out and say that if he wants Treasury people to attend the conference, would he please address a letter to me saying who he wants.
- Foley: That's right.
- H.M.Jr: See? Let's get these - the lines.....  
Don't you think so, John? It's too important to have a few people drift over. What?
- Hanes: I agree with you.
- H.M.Jr: See? I'll tell you something on it afterwards, too.
- Graves: The arrangement has been made for Mr. Madden and Mr. Riley Campbell from Chicago to be here for the purpose of.....
- H.M.Jr: Well, I still say I think when Treasury people are invited to go to another department - I think the request ought to come to this office. Then we can take a look at it.
- McR: I'm not so sure. Your offer to the Attorney General in the Annenberg Case was to furnish them every cooperation that we could possibly furnish in connection with the case, and the Assistant Attorney General in charge of prosecuting the case has asked, in pursuance of that, that certain individuals who are working on that case participate in a conference that is going to be held in the Attorney General's office.
- H.M.Jr: You don't think.....

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McR: I don't think it's necessary that the Attorney General, in view of that background, should ask you for.....

H.M.Jr: All right. Will you handle it so.....

McR: I'll call them. I'll call Kemp. But I think it is a little gratuitous asking the Attorney General to make a formal request on you, in view of the fact that you have already cleared the cooperation on it.

H.M.Jr: Well, will you.....

McR: I'll call them.

H.M.Jr: All right. Anything else, Harold?

Graves: Nothing.

H.M.Jr: Well then, would it be necessary for Harold to go?

McR: I don't think it's necessary.

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

Dan?

Bell: I have two letters addressed to Jesse Jones. One approves the suggested change from April 10 to May 10 of the annual meeting of stockholders of Commodity Credit. And the other one is a reply to his letter of February 24 asking you to approve minutes of the stockholders' meeting, raising the salaries of the officers.

H.M.Jr: And.....

Bell: We're telling him that we feel that's a duty of the Board of Directors elected by the stockholders, and furthermore that they have had increases during the past year and their salaries would seem to be commensurate with their duties; anyway, to bring it up after July 1.

McR: I'm not at all sure that they.....

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Bell: I want to mail out this week the usual notices on the Home Owners Loan financing. And it will not be released, see, until Monday, but in order.....

H.M.Jr: Forwarding those things?

Bell: Yes. This goes to the bank to be held in a confidential envelope to be released by you Monday by wire.

H.M.Jr: But it doesn't commit Hanes and me to anything.

Bell: Doesn't commit anybody. The only thing in it is the last paragraph where you say that the holders of those securities may be offered the opportunity of exchanging them for other securities. That's all.

(H.M.Jr. signs three documents handed him by Bell)

No, they raised their General Counsel over at Commodity Credit to eighty-five hundred dollars not too long ago. We think he can wait six months until he has another raise. He's had a thousand dollar raise this year. We think that's pretty good, don't you think so? Bell and McReynolds think so.

Bell: Well, anyway, it's up to the Board of Directors to decide that.

H.M.Jr: A little high-handed. They wanted the stockholders to fix the salaries instead of the Board of Directors, and you (Hanes) and I are the stockholders.

Hanes: You don't deal by proxy?

H.M.Jr: No. Afraid the SEC would slap something on us.

Mac?

McR: I have nothing.

H.M.Jr: Mac, this thing came to my office in regard to Mr. Brumer - B-r-u-m-e-r. Well, neither Mrs. Klotz nor I have any interest in Mr. Brumer, and if Mr. Frank Dow would do whatever he thinks is

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proper under the circumstances, why, Mrs. Klotz and I would be delighted for it to go through the regular channels.

McR: In view of the background on it, I just refused to let it go until you had seen it.

H.M.Jr: I appreciate it, but neither of us have any interest in it.

McR: O. K.

H.M.Jr: Now, at 10:30, White will be here and Foley will be here and Lochhead will be here.

White: 10:15, you mean.

H.M.Jr: At 10:15.

Now, I want McReynolds, Bell, Graves and Hanes, please.

April 24, 1939  
1:05 p.m.

HMJr: Hello.  
Operator: Mr. Welles is still with the Secretary.  
HMJr: Well, I'll talk to him after lunch.  
O: All right.

2:32 p.m.

HMJr: Hello.  
Operator: Mr. Welles is at lunch.  
HMJr: A hard man to get. Keep after him, will you?  
O: All right.  
HMJr: Up until three o'clock.  
O: All right.

2:52 p.m.

HMJr: Hello.  
Sumner  
Welles: Hello, Henry.  
HMJr: Hello, Sumner.  
W: I tried to reach you but you were out.  
HMJr: Yes, and I tried to reach you.  
W: Sorry.  
HMJr: We're even.  
W: I spoke with Secretary Hull.  
HMJr: Yes.

- 2 -

W: And he says he's entirely agreeable to what you suggest. He understands, of course, that there is no commitment implied; that it's simply a statement as to what the legal facts are.

HMJr: That's all.

W: And on that basis he's entirely in accord.

HMJr: Well then, I'll put in a call for Butterworth and tell him just -- along the lines that I told you.

W: Yes.

HMJr: And tell him that if it gets out I'll deny -- deny it vociferately.

W: Yeah. All right.

HMJr: I'm much obliged.

W: Not at all.

HMJr: I thought that sort of cleared the atmosphere this morning.

W: I thought it was very helpful indeed.

HMJr: And our boys can go to work now and we can next week.

W: All right.

HMJr: I -- well, I was going to talk about Europe, but there's no use. WE'll wait now.

W: What's that?

HMJr: NOthing I'm just -- every time I talk to anybody I always say, "Well, and how long oh, Lord, how long"?

W: Yeah. I feel very much the same way.

HMJr: Yeah. Well, thank you very much.

W: Not at all, Henry. Good bye.

April 24, 1939  
4:23 p.m.

55

HMJr: Hello.  
Wm. Walton  
Butterworth: Hello.

HMJr: Hello.

B:

HMJr: Hello.

B: Hello. Butterworth speaking, Mr. Secretary.

HMJr: Where are you?

B: I'm at my house.

HMJr: All right. I just got those regulations this minute.  
I haven't had a chance to look them over.

B: Yes, sir.

HMJr: But what I did call you about is this, and I'll try to  
talk a little bit in riddles.

You remember about a week ago -- in fact, it was on the--  
you got it a week ago today.....

B: Yes.

HMJr: You received a cable in which we gave you an opinion  
of the Counsel of the Treasury.

B: That's right.

HMJr: And we said we would later on get the opinion of.....

B: Of the higher -- higher man.

HMJr: Right! Well now, we got it.

B: Yes.

HMJr: And it's favorable.

B: Yes.

HMJr: Now, you can give that by word of mouth.....

- 2 -

B: Yes.

HMJr: .....to the British Treasury.

B: Yes.

HMJr: But with the understanding, on account of our own domestic situation, that if it should get out.....

B: Yes.

HMJr: .....I would have to deny it.

B: Right!

HMJr: You see?

B: I understand.

HMJr: Now is that clear?

B: That's entirely clear.

HMJr: And I should think from their standpoint, on account of our legislative situation -- do you understand?

B: I understand completely.

HMJr: I would have to deny it.

B: I understand.

HMJr: But that's for them, and of course, we are simply letting them know what the legal status is.

B: That's right.

HMJr: Without making any commitments.

B: That's right.

HMJr: You get that.

B: I do.

HMJr: Now, do you think that'll be satisfactory to them?

B: I think so.

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HMJr: I should think so. And you understand just how I want it handled?

B: I do indeed.

HMJr: Fine!

B: Now, where do we go from there -- anyplace? Or do we just stand marking time?

HMJr: We -- we mark time.

B: Right!

HMJr: All right. I -- I haven't had a chance to read these yet, you see?

B: I understand.

HMJr: I mean, it just came this second.

B: Yes.

HMJr: But -- anything in your mind that we should do?

B: No, 'not a thing.

HMJr: Uh-huh.

B: I am preparing -- I am preparing a report on the various British assets.

HMJr: The various what?

B: British assets.

HMJr: Oh, yes.

B: And -- and how it looks from here.

HMJr: I see.

B: Which I hope to get off this week.

HMJr: I see.

B: Things are moving here a little bit. Sir John Simon brings in his budget tomorrow.

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HMJr: Yes.

B: Everyone thinks it's going to be -- ah -- not a historic budget.

HMJr: What kind of a budget?

B: Not a historic budget.

HMJr: Yes.

B: But my own hunch, between ourselves .....

HMJr: Yes.

B: .....and if I may say so, it's very much between ourselves.....

HMJr: Yes.

B: .....is that conscription in this country is not very far off.

HMJr: Well, we got word it was to come Wednesday.

B: Well, that's probably right.

HMJr: What?

B: I think that sounds good.

HMJr: Yes. The second man told me that.....

B: Yes.

HMJr: .....in your department.

B: Yes.

HMJr: What?

B: Yes, sir.

HMJr: Am I about right?

B: That's right.

HMJr: Yes. Well, because I -- it isn't up to me to interpret it, fortunately.

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B: Yes. Well now, I think that tomorrow's budget will lay possibly some of the foundation for it.

HMJr: I see.

B: Because the -- the popular political cry is, "Conscription of wealth if you are going to have conscription of man-power."

HMJr: Uh-huh.

B: What conscription of wealth means, no one knows.

HMJr: I see. Well that's very interesting.

B: Now, sir, I take it by the word "favorable" you mean all there stands the same.

HMJr: I don't -- I don't follow you.

B: You used the word "favorable" when you were talking a few minutes ago about the -- the opinion.

HMJr: Well, we submitted what we thought was the.....

B: I see.

HMJr: And the -- their answer was "Yes".

B: I see.

HMJr: That -- that our legal interpretation was correct.

B: Good!

HMJr: And we have a formal opinion to that effect.

B: Good! Thank you so much.

HMJr: Is that -- does that make it clear?

B: Absolutely!

HMJr: We have a formal opinion that what our Treasury people -- the way they interpret it, the -- well, I might as well say -- the Attorney General has given us a formal opinion concurring.

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B: I see, sir.

HMJr: See? So that clears that up.

B: Good! Thank you so much.

HMJr: All right. Good night.

B: Good night, sir.

April 24, 1939

10:30 a. m.

Present:

Mr. Welles )  
 Dr. Feis ) State Department  
 Mr. Callado )  
 Mr. Briggs )  
  
 Mr. Pierson RFC  
  
 Mr. Bell  
 Mr. Lochhead  
 Dr. White  
 Mr. Foley  
 Mr. Phil Young

HM, Jr: Is Jesse coming?

Mr. Pierson: I think he is out of town.

HM, Jr: Mr. Welles just said he is in New York.

All right, Mr. Welles. Would you mind leading the forum?

Mr. Welles: At your request. I will at least announce the purpose of the meeting.

The President of Nicaragua is making an official visit here on the 5th and 6th of May. When he arrives here he is going to make certain specific requests of the Government for assistance of a financial character and along other lines and it seemed to us very necessary to have concurrence with the Secretary of the Treasury and some of the other agencies in certain definite decisions that would have to be made before he arrives here so when he does get here we will know exactly what can be done and talk more intelligently than under present conditions. That's point A.

Point B is to try to reach some agreement on the policy that should be followed with regard to

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other similar requests for assistance which are coming in from other South American countries along the general lines of the agreement reached between Brazil and us sometime ago.

If agreeable to you, we might first take up the Nicaraguan question and I think it might be helpful to all of us to have stated, as succinctly as possible, the request that the Nicaraguan Government has made and what the opinion of some of those who have been discussing it are as to what could be done.

Dr. Feis?

Dr. Feis: I think on Nicaragua, Mr. Briggs or Mr. Callado could give a more reliable account.

Mr. Briggs: The first thing they will want to discuss will be the question of canalization of the San Juan River for small draft ships up Lake Nicaragua. That is tied in with the general question of the Bryan-Chamorro Treaty and the option we have to build a canal there. We are not apparently interested in building a canal at the present time and President Samoza will probably ask if we can assist in the canalization of the River. The War Department, at our request, is making a statement of about how much will be involved and they have not yet been able to let us know. It will undoubtedly amount to something like \$5,000,000 to \$15,000,000.

HM, Jr: May I interrupt you? Are you going to list the various things they want and after that talk about how we can help them?

Mr. Welles: That seems to be the best way.

As I recall it, with regard to this canalization project, we have told them that we would be glad to furnish the services of engineers of the United States in order to make a study on the spot. I don't see how any estimate can be reached until the men have gone down there and found out what the locale is.

Mr. Briggs: It may not be necessary to have engineers go if they can correlate the information in the Sultan report.

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The second item that they will be interested in is financial assistance to the National Bank of Nicaragua. They have a relatively small debt at the present time and they will probably want to talk about a comparatively small sum for assistance to the Bank perhaps coupled with some sort of advisory assistance on our part. Other items which have been mentioned will be a request for revocation in the sugar duty, perhaps the establishment of a helium monopoly company, and possible establishment of an agricultural experiment station having in mind the rubber possibilities of the country and possibly the purchase of a ship for service on Lake Nicaragua.

Mr. Welles: The points that would come up appropriately for discussion this morning would be the possibility of some kind of financing, through the Export-Import Bank, for the canalization project and, second, if assistance could be given to the National Bank of Nicaragua.

Mr. Briggs: And possibly roads also. It is possible they will make a request for some assistance for highways, particularly if it is found that the canal project could not be undertaken for one reason or another.

Mr. Welles: How does the highway project tie in with the Pan-American Highway? Lateral roads?

Mr. Briggs: Yes, lateral roads; feeder roads rather than the Pan-American Highway itself.

HM, Jr: Do you want to talk with Warren Pierson first on roads?

Mr. Welles: On the canalization project, which is the first on the list, there seems to be, as far as I can make it out, an increasing feeling on the part of both the Army and Navy and also on the Hill, that more consideration should be given by this Government to the construction of the Nicaraguan canal sometime in the future. The canalization of the Nicaragua River is an intrinsic part of that, if it takes place.

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From the standpoint of this Government, there seems to me some material advantage in the construction of that work, but until some estimate can be prepared by the War Department of how much will be involved, I don't see how we can go much further on that point. Any estimate of what they are thinking?

Mr. Briggs: \$5,000,000 to \$15,000,000 is the preliminary estimate on it. The Nicaraguans themselves have not given us information that we could use for a complete study yet because we don't know exactly how large the ships are that they want to move up there. Another large item of expense would be a dam across the Lake if that should become necessary if we do the canalization. We do understand from preliminary talks with the Army engineers that the Nicaraguans think small vessels will probably be of little practical use in connection with ocean canalization by this Government at a later date.

Mr. Welles: The remaining point of discussion is the type of assistance that might be considered to the Bank of Nicaragua.

Dr. Feis: Before we go on to that, I should think, although I don't know whether Warren Pierson agrees with me, that the question would have to be presented as to whether there is any prospect of this canalization yielding economic result. If it isn't, if it is purely a military thing, I don't know that the Bank could undertake it unless, before we could undertake it, we are going to have to go to Congress for more money. Well, perhaps, when we went to Congress for more money we could then quite definitely tell Congress that we might use a little of this for this purpose if it is found suitable. Then we would be in the clear if the thing did not justify itself on any commercial basis.

Mr. Pierson: Of course, the underlying question is as to the financial ability of Nicaragua to repay any part of these obligations. At the present time, Mr. Secretary, they have failed to meet ordinary commercial obligations and have entered into an arrangement to take them up over a period of eight years.

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HM, Jr: I don't think it is nice of you at all to bring that up! You are a wet blanket!

Mr. Pierson: It's just my own feeling. In Nicaragua you have to look at the thing at a political rather than an economic angle.

Mr. Welles: Yes.

Dr. Feis: So if we have to -- since we could not do it anyway without going to Congress for more money -- wouldn't the thing to do be to tell the Committee quite that?

Mr. Welles: That seems to be very clear. If there is any consideration to be given by Congress to canalization it should be solely on that basis.

HM, Jr: And Congress should be consulted. I would say that that is the simple answer.

Mr. Welles: And that it would not be an appropriate matter for the Bank to take up, but Congress should take it up.

HM, Jr: I think Mr. Pierson is right. It's political and not commercial.

Dr. Feis: If Congress wanted us to do it through the Bank we could, provided there was full understanding.

Mr. Welles: The inclination would be the other way -- not to have the Bank take it as commercial.

HM, Jr: I think it is setting a bad precedent.

Mr. Welles: Yes.

Well, on the next matter: assistance to the Bank of Nicaragua. It seems to me there is one which is more appropriate for consideration. Has that been taken up by your office at all?

Mr. Pierson: No, Mr. Secretary. It has not.

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HM, Jr: What do they want?

Mr. Collado: No actual amount. Small exchange fund for evening out primarily their seasonal fluctuation and some other incidental fluctuation.

Dr. White: Judging from past experience, it's a very bad risk.

Mr. Collado: They have operated quite successfully in the past with American managers and quite badly with Nicaraguan.

Dr. White: Their currency depreciated from \$1.00 to 20¢ over a few years.

HM, Jr: Anybody know what the assets of the Bank are?

Dr. White: We have. They have about, less than half a million in gold and about a million in obligations, approximately one million. Very small amounts.

HM, Jr: How important is this thing?

Mr. Welles: I think it is important. Very important. One of the reasons that Nicaragua has fallen so far behind many of the other Central American Republics is that operation of its own finances and operations of the Bank of Nicaragua has been singularly defective. If any way could be devised for the kind of assistance we have in mind to help Brazil and some other countries, it seems to be the rather basic point of policy. With competent advice from Americans we would select for it and some measure of assistance to get them running again, I think the whole economy of the country would be materially improved.

HM, Jr: Do you think we would follow the formula of going to Congress and asking for specific authorization from the United States Treasury to the Nicaraguan Treasury?

Mr. Welles: If that is what they require, yes. I am not sufficiently familiar with the details of the

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situation to pass judgment and I think that's one of the things that should be ventilated this morning.

Mr. Collado: There are certain phases of this Nicaraguan situation which are better than might be expected. The external debt of Nicaragua is very small, only about \$2,000,000 and has been reduced according to a plan of settlement during the past two years. That's a very small debt, even on a per capita basis. Also over the past year their exchange situation has shown some improvement. It was very bad in 1937 and the very beginning of 1938 and has leveled out. They made an arrangement with the National Foreign Trade Council to issue notes for the arrears and they are carrying those out satisfactorily. They have met the first two payments on that. There is some reason to believe that they are picking up a bit. I would think the amount of such a fund might be not more than half a million because the Bank has regularly operated on a small basis.

HM, Jr: Would Nicaragua send somebody up who will particularly talk on the Bank end? Who will talk for them on that?

Mr. Welles: During the time of his visit they are going to have their Minister of Foreign Affairs and I doubt if he would be competent to talk at all. The man most familiar with the situation is Edwards who was here with you for a short time and who was acting as President of their Bank under contract for a year and a half and while he was, their situation improved very materially.

HM, Jr: What would you suggest?

Mr. Welles: If we could decide on what general lines of policy we think it desirable for us to follow, this morning, we then could try and work out details on that basis. As I see it, the question is this: whether we want to pursue a completely negative policy and do nothing, or whether we want to try to avail ourselves of this opportunity to give them a hand so they can improve their situation.

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HM, Jr: Talking for the Treasury, I am heartily in favor of taking an aggressive attitude to be helpful and we will go just as far as anybody will let us go.

Mr. Welles: It's on that basis, I think, we might discuss it on general lines.

HM, Jr: Fine! We will go just as far as we will be permitted to go.

Mr. Welles: Point number one would be anything we could do for their National Bank, predicated on their contracting for the services of some competent American experts that we can get for them during the transition period, at least; the second question would be whether a relatively small amount, in order to help them get through their present exchange difficulties and shorten the period in which they can pay off what is owing, might be desirable or whether we would want to go into the other proposition -- that is, the same type of gold loan to them as capital for their National Bank under the new form of operations.

HM, Jr: When does he get here?

Mr. Welles: The 5th.

Mr. Briggs: Gets to Washington the 5th.

HM, Jr: It would be easier for us, if you thought well of it, if he were asked to bring somebody along to talk on the financial aspects, because he will be busy with you on all these other things and if he had somebody here who could be detailed to the Treasury we will run two rings instead of one.

Mr. Welles: You are perfectly correct and it would be the logical thing to do, but he does not have anybody.

Mr. Collado: They are having quite a lot of difficulty with their foreign advisers. Mr. Genie the auditor, has resigned and the report came in

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Saturday that two of the other American branch managers are also getting out, but that is unconfirmed and they don't seem to have very many people in Nicaragua to leave running the Bank if one comes up here.

HM, Jr: You mean they have to watch each other? Couldn't you, between now and Wednesday, work out someone the State Department thinks could come? There must be somebody.

Mr. Welles: I think they really are coming here with the idea of getting our advice, for us to tell them what to do, and I don't think there is anybody they have who could contribute to our discussions here.

HM, Jr: You think we make up a program for them and submit it?

Mr. Welles: Exactly!

Dr. White: Don't they have anybody who is familiar with the current operations of the Bank that might be able to answer some questions that might arise? He might not be competent to set forth the program, but at least able to answer some questions

Mr. Welles: Who was the number two man to Edwards when he was down there?

Mr. Collado: Genie really was. He's in the United States at the present time and can be reached in New York. He's been the auditor and is the man who had an office in New York so many years. The National Bank of Nicaragua, over a number of years, has come in, in the spring after the coffee season, and gotten a gold loan from the Federal every year practically.

Dr. Feis: Who did the Foreign Trade Council negotiate with?

Mr. Collado: With Edwards.

HM, Jr: Do you want to settle that now or settle the other? Wants to talk to Edwards?

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Mr. Welles: We had better call in Edwards over in the Department of State and get some information from him that apparently we don't have and then perhaps we in the Department could formulate tentatively some program and check it up with your people here.

HM, Jr: All right. We will make Archie Loch-head the focal point and we will move when you people have something. Get in touch with Archie. Is that the idea?

Mr. Welles: Fine! We will do that.

HM, Jr: In the meantime, we will study it. Have you anything to contribute, Warren?

Mr. Pierson: I don't think so. We have a lot of general data.

HM, Jr: Will you get together with our boys?

Dr. White: We have a lot of material. It's not satisfactory. We have whatever there is. The State Department must have much more current material than we have. We have had to depend on published sources.

HM, Jr: My wife and I are going up to Dutchess County the night of Wednesday and we don't get back until the following Tuesday, so just keep that in mind. The President goes the 26th and we go the same time he goes. I am available and I could work up there and will work up there.

Mr. Welles: The main point you have already settled: that there is something, with reasonable security, we can do. We will work towards that.

HM, Jr: We will go as far as we are permitted. I am all for it.

Dr. White: The amounts involved are so small that decisive matters are entirely political, from our point of view.

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HM, Jr: It does not make much difference to Warren Pierson if it is one million or ten, if there is nothing back of it. It's the principle back of it. If it is going to be political alone ....

Mr. Pierson: I would like to have it left that way. We could do a small amount in connection with exchange which we might be able to justify on the basis of the record over the last six months, but it would not be much.

HM, Jr: How much uncommitted have you of your capital?

Mr. Pierson: Only \$5,000,000. So that general question will have to be settled before we can do much.

Mr. Welles: That was one of the points I was anxious to take up. So far as Nicaragua, we will go ahead along those lines.

The next point on the agenda will be Paraguay. The situation in Paraguay is briefly this: they have been through a devastating period as a result of the war. The man who is Minister here in Washington was the hero of the war and will be the next President. He will be elected on the 30th of this month.

HM, Jr: One of those South American Democracies!

Mr. Welles: (Facetiously) I don't like that slur. He is a man of very great popularity and deserves it. He is the candidate of the only organized party in the country and even his political opponents are going to vote for him.

HM, Jr: (Facetiously) I did not know you were so sensitive!

Mr. Welles: He is going to be inaugurated in August. His country has been practically under the

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economic and financial control of Argentina for a considerable number of years. One of his great objectives is to try to make Paraguay not dependent solely upon Argentina. Everything today passes through Argentina to get there. He wants to open up an outlet through Paraguay, both by railroad and highway, to the southern part of Brazil so as to have access to Brazilian ports at the South. If that could be done, I think the country can be developed rapidly.

His inclination is very strongly towards the United States, both for political reasons as well as for others. One of the fundamental points in his program obviously is material reconstruction. What he wants to do is to get as much agricultural machinery as he can from the United States, from our exporters, and in that connection such facilitation from the Export-Import as may be available to our manufacturers.

Second, he wants to build a highway to open up the country in the way I have indicated. A rough estimate for that, I understand, is \$3,500,000.

And finally he also is anxious, if possible, to get some kind of adjustment for the National Bank of Paraguay as has been suggested for the new Central Bank of Brazil. Due to the future, I think all those would be advantageous to us.

If we don't do it, I think undoubtedly farm machinery, agricultural machinery and implements, are going to go into Paraguay either from Great Britain or Germany on credit terms which are slightly advantageous, whereas if you make the move now we probably would get a market we could retain in future years, at least make it sufficiently interesting to look into. I know he and Mr. Pierson have talked on general lines in the past and that is one of the things I wanted to have an opportunity to take up this morning. That is, capitalization of the Bank.

Mr. Pierson: As a matter of interest, Irigoyen came in about a month and a half ago and asked if we

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were going to give any help to Paraguay; said his Government had asked him to inquire. I told him we had not. I had a letter last week from J. G. White, engineer, commenting on a press release that said an application for \$3,500,000 had been made to the Bank for loans for a highway and he said the road would cost at least four times that much and the eastern part of the road would be very difficult to justify economically, but the western half of it was necessary. As I see it, from their standpoint the Brazilian portion of it would be the last one that they would recommend building. I suppose they mean to go down the Paraguay River; would not overcome the matter you raised regarding Argentina.

Mr. Welles: No. It would be a first step in that direction. The other half could be taken up later.

HM, Jr: May I interrupt? I have a thought which might facilitate things on the Hill -- they are so worried we will finance a war in Europe -- the possibility of organizing another Export-Import Bank distinctly for South America. I think the chance of getting that through the Hill if we went up and they knew we wanted to create a North and South American Export-Import and we need another \$100,000,000, and they knew that money is not going to go anywhere except to both North and South America -- the feeling is they don't want us to finance something in Europe, but I think the feeling is all on doing it on this Continent.

Mr. Welles: The present Bank, is it set up to do business with South America?

Mr. Pierson: This is the Russian Bank! Of course Congress could restrict the use of new funds.

Dr. Feis: Might be simpler to have Congress just designate an additional appropriation solely for use in Latin America.

HM, Jr: I am just thinking.

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Mr. Welles: It is a very good thought.

HM, Jr: Sounds better. And go there and ask Congress -- we want \$100,000,000 for business for North and South America. Same management and everything.

Dr. White: The amount is pretty small.

HM, Jr: I think we could get another \$100,000,000 for the present Export-Import with the feeling the way it is. I am just throwing it out for consideration. I think we would have a good chance.

Mr. Welles: I think it is a very good chance.

HM, Jr: Call it the North and South American. Sounds much better.

Mr. Pierson: Mr. Fish would like to introduce that bill.

Mr. Welles: It's good publicity and I think it is very expedient. I thought Mr. Jones' idea would be to get certain specific recommendations and then submit those to the Congress as the reason for asking for additional capital. But that would not conflict at all with what the Secretary of the Treasury has just suggested.

HM, Jr: I would throw that in the pot for a suggestion.

Mr. Welles: I think it is very important.

Dr. Feis: The District of Columbia taxes the capital stock of the Export-Import Bank and if a new Bank was formed, its capital would also be subject to taxes. To avoid that, any new funds provided for North and South America might be given to the present Bank for that particular purpose and thus avoid further taxes.

Mr. Bell: Is the second Export-Import Bank abolished?

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Mr. Pierson: Yes.

Mr. Bell: I thought it would save Herbert's suggestion of taxes.

HM, Jr.: Aren't those Federal taxes?

Mr. Bell: No. They would be District of Columbia taxes.

HM, Jr.: What's the matter with all you fellows? Why shouldn't we get in a few taxes?

Mr. Pierson: We have never been able to convince the District of Columbia we should not pay on our initial capitalization.

HM, Jr.: I was sorry to interrupt, but I did think your hands are tied right now.

Mr. Welles: I think it is a very helpful right now. There is a certain element of urgency in the question because General Estigarribia has got to get these things agreed to more or less in principle before he returns. The Department is going to give him, within the next two or three days, certain formulated suggestions as to the best way for him to approach these matters with you and my thought is, after he talks them up with you, if you feel able to go along with him that he should be put in the hands of some group, a reputable construction company, who could undertake to do the construction down there.

Mr. Pierson: He has been working very closely with a local group, people from Washington, who just have the idea but are not engineers.

Mr. Welles: That concerned me a little when I heard about it.

Mr. Pierson: I don't think much of the set-up.

Mr. Welles: Neither do I and I spoke to him about it Thursday and he told me he had made no commitment to any group and that there was nothing definite of any kind and he was far more anxious to get

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it into the hands of a group we thought reputable, but I thought if it came up through your Department you would steer him the right way.

Dr. Feis: Preliminary thought that has been shaping up, as far as the road and connected developments would go, to use a set-up similar to the Haitian set-up, but also, at the same time, the construction company that might be selected send its men down. Mr. Jones thought he would like a small group of men from R.F.C. to go with them. On talking further, it looks as though ~~we~~<sup>that</sup> would retard the thing unnecessarily, but have them go simultaneously and have them get there shortly after this fellow took office so he would have their services.

Mr. Welles: Better for them to get there before he could take office, while he is President-elect, and then put it through afterwards.

Dr. Feis: Easy to justify all around and the Haitian method seemed to be the effective method.

Mr. Pierson: Then he wanted some sanitary work in the Asuncion district. I was there and I can testify that they needed it very much.

Mr. Welles: Have you taken up with him at all the question of agricultural machinery?

Mr. Pierson: No. He has never brought that up.

Mr. Welles: That is something he has very much in mind. Something very helpful to our exporters.

Mr. Pierson: Yes.

Mr. Briggs: There has been some discussion. An agricultural economist, who is also a road man, is going down there; probably a representative of the Bureau of Public Roads. And General Estigarribia is very much interested in that. The Department of Agriculture, I think, will be able to find such a man quite soon.

Mr. Pierson: I just read in the Bank of London's

South American Banks report that there are American agricultural experts there now.

Mr. Briggs: One man, Dr. Preston, Wallace's assistant, was there for about a month and is about to let us have his report.

Mr. Pierson: We could do that on the Haitian plan very readily, Mr. Secretary.

Mr. Welles: The next and final specific question would be the Chilean problem we are up against.

Dr. Feis: Did you dispose of the question of assistance to the Paraguayan Bank?

Mr. Welles: Only in very general terms. I don't see how the Treasury Department could consider that at all. We have some very specific knowledge of what the situation of the Bank is.

Dr. Feis: I agree.

Mr. Collado: Mr. Insfran came in on Thursday and we had a lengthy discussion with him. He used to be in charge of the Exchange Department of the Bank. What he has in mind would be to have a fund, a revolving fund, which once a year they would settle. They have a system they call expropriating exchange. You have to sell a percentage of your exchange to the Bank at a rate which they set, an official rate, and this nets them over \$2,000,000 a year and his idea is he would like a revolving credit of \$2,000,000 and these funds would be allocated to maintaining that fund. They draw against it and then put the expropriated exchange back to that credit.

Mr. Welles: Isn't that a method that really would be handled by the Export-Import?

HM, Jr: That's very much the same as the Brazilian method. They take 30% of the exchange. Very much the same.

Mr. Collado: He mentioned specifically what

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they wanted it for, to purchase agricultural implements in this country and part of that could be accomplished, I think, by straight financing of the exports rather than through the Bank itself.

Mr. Pierson: We could work that out.

Mr. Welles: That seems clearly something the Bank could work out.

Let us take up the Chilean matter.

Dr. Feig: The Chilean matter runs into more money. More a matter of technical economic judgment in these matters. You have had the Popular Front Government assume office sometime back, representing elements running all the way from distinctly Conservative-Liberal type to quite markedly the Radical type. When they first entered office, the character of their general political philosophy plus their economic needs, which were very real and actual, gave rise to their great apprehension as to how they would deal with American enterprise down there. There is probably no country in the world in which American enterprise, relatively, plays as important a part as Chile. You have big copper companies, nitrates, oil, certain others. And in that situation there has intervened the Chilean earthquake, which gave them certain new construction problems. We have been following it with great care and the Chilean Government has been in conversation, negotiation, with all American groups and our Ambassador down there. Shortly after they took office there were high expectations of immediate financial assistance from this country, but it has been brought home to them that until the trend of their policy was apparent and their treatment of American enterprise immediately defined and also their economic plans made somewhat clearer, we could not reach the point of actual performance. But the thing has been developing along rather reassuring lines. They have reached an agreement with the copper companies in the form of increasing their income taxes rather than various other forms which were oppressively more uncertain and negotiating out with

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the other companies. They have so far restored the pressure to end payments on the dollar debt, which they resumed about two years ago, although it is probable that a piece of legislation will pass the Chilean congress authorizing the President to suspend. One day it is on the books, the next day it is out of the law, but finally when the law is finally passed it will be in there, but the Minister of Finance says he has no intention of acting on it.

In addition to that, there is an exchange situation. The nature of Chile's exports -- copper, nitrate, etc. -- have meant they have had to enter into these extensive payments and clearance arrangements; have been forced into it to hold their European markets. What has been rather remarkable has been the extent to which they have managed to keep part of the proceeds of the sale of copper and of nitrate free, in free dollar exchange. They have maintained their position better than could have been anticipated, but despite that fact their supplies of free exchange have become increasingly limited. As a consequence, they have not only had to bar American goods on a large scale, but have fallen behind on delivery of exchange to the extent of four or five millions. That's the general background.

The proposals likely to shape up here: firstly, some advances to assist them in reconstruction. Then later some advances or loans for economic development. Thirdly, assistance in clearing up their exchange situation. Now, as to the last, it is possible to take the view that that situation should be permitted to clear itself up. It means clamping down increasingly more on current American imports from the United States and using that gradually to pay for frozen exchange indebtedness. It means loss of market, at least temporary loss of market. It means in a sense that we are not willing to do for them what we have done for Brazil.

But there is a great deal to be said for letting that work out rather than going in and undertaking an unfreezing arrangement for them. However,

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that is a matter on which judgments differ. Our Consular force thinks we ought to do it. On the other two -- reconstruction, that will come along fairly promptly; the economic development will probably not be coming along for some months because their own plans of what they want to do in the way of economic development have not been yet definitely settled. The eagerness they had to put the Finance Minister on the boat at once -- about once a week they wanted to put the Finance Minister on the boat, and once a week we told the Ambassador to keep talking, keep talking. That has died for the moment, so we have a little time.

That's about all of it.

HM, Jr.: Nothing very imminent then?

Dr. Feis: Yes. Chile, on the political angle of that, Mr. Welles will probably want to supplement what I say.

Mr. Welles: The question is imminent.

Dr. Feis: Yes, it is.

Mr. Welles: We have to indicate pretty soon whether we will give any consideration to their desire for help. The Germans have made very sweeping proposals to them and proposals have also come from other European countries. If the German proposals are accepted, it means that American companies will be very definitely kept out of the field, which would be a very profitable field, I think, for the construction of certain plants, rolling stock of railroads, etc.

Dr. Feis: There has been one great risk, one great fear we have had, even while we have been holding them off. There is almost a perfect spot if Germany and Italy would come along and simply say -- to begin with, German, Italy and Japan take a very large part of the copper, a substantial part of the nitrate. We have been afraid they would say we will take virtually all of it for blocked currencies; we take blocked currencies for all capital goods and

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everything else you have got; in which case the American management would probably gradually be weakened in their control of the companies and we certainly would pass out of the Chilean market and picture. So far they have been reassuring in the way they have been resisting all such tendencies.

Mr. Welles: Their resistance has been due in part to their political sympathies.

HM, Jr: Where can we be helpful?

Mr. Welles: The proposal, as I see it, is whether the Chilean Minister of Finance should not be invited to come to the United States. I think it is very desirable that he should be invited to come to the United States and as quickly as possible, but not until we know definitely what we are prepared to do to be of help.

Dr. White: I think it is desirable for him to come up, but do I understand if they were to make some sort of reasonable settlement on their outstanding debt ~~minus~~, the rest of the obstacle would be rather minor?

Dr. Feig: The debt, at present, creates no problem. They are paying on it and even though the Congress should give their President the power to suspend, he would not.

Dr. White: The Immediate debt practice is not an obstacle?

Mr. Welles: I think that is something that can be considered divorced from this problem.

HM, Jr: Could you follow this form, as you did in Brazil? Send a cable down -- in this proposed visit, what are the things you want to take up? And get the Minister of Finance to say what he wants.

Mr. Welles: We have that, more or less.

Dr. Feig: Yes; more or less.

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First we should decide whether we will help them unfreeze those \$4,000,000 or \$5,000,000 exchange. If we want to for our own sake, all right, but Chile doesn't care. On the rest we would have to say to him that as soon as the Minister of Finance believes he has a plan, either of reconstruction or economic development in sufficiently clear form for discussion, then he should come up.

Mr. Welles: Let me put it this way and see if you agree. We have had some very general suggestions as to what they want. Suppose we now decide we have come to the point that we will sand down word that we will be very happy to welcome him here and talk over matters with him and do everything we can, but, as a preliminary to that, we do require from him further clarification, greater precision, of what he wants us to do.

HM, Jr.: We have never gone that far. I accept your suggestion.

Mr. Welles: That's agreeable to you?

HM, Jr.: Yes. And I would get it off right away.

Mr. Pierson: I have one minor matter I would like to bring up. Case of the Santo Domingo Republic. Wants finances with which to build a legation in Washington and he has been pressing me very hard for it recently.

Mr. Welles: I turned him over to you six months ago and I leave him in good hands!

Mr. Lochhead: The only point is, we have discussed in this room what we can do to help these countries and we have no approval from Congress.

HM, Jr.: I have the answer on that.

Mr. Lochhead: Seems we have to get some approval on that.

HM, Jr.: That gives whoever is going to go up

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on the Hill -- here is the proposed business. We have six countries in South America who want to do business and these are the various proposals. Does Congress think it is worth while? We paint a dramatic picture. We can't move until you help us. Then Mr. Jones and Warren Pierson goes up on the Hill and say we have got to move in on here. Will Congress give us the authority?

Mr. Welles: I think so. I think the first thing is to get the proposals boiled down so we can know what we can and can't do.

Mr. Lochhead: I notice the Guaranty is very much in favor of using some of our gold for South America.

Mr. Pierson: They did not know then that the allotment on the other matter had been cut down.

Mr. Welles: Tie that up with the Secretary's suggestion to create a new Bank for South American and North American business.

Dr. Feis: If the President, Mr. Hull and Mr. Morgenthau and Mr. Jones and Mr. Pierson could decide on that, we could go ahead in two weeks.

Mr. Welles: First of all, we haven't the proposals.

HM, Jr: That's right. We need something for ammunition. The meeting here is fine, but we could not hold a meeting like that on the Hill. Personally I wouldn't mind being on the spot with Chile and going up on the Hill and beg Congress to do something for us because copper and nitrate mines are about to be transferred.

Mr. Welles: Good talk!

HM, Jr: We need something like that.

Mr. Welles: That's right. We need something in black and white.

Mr. Pierson: Have you any mention on Cuba, be-

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cause the Ambassador was in to see me and wanted to know whether we were ready to go ahead.

Mr. Welles: Not until they pass legislation to take care of our creditors.

HM, Jr: I think this is fine. What I would like to do is, I would like to do this about once a week until we know where we are at. It has been most useful to me.

Mr. Welles: When you have time, when you get back a week from tomorrow, we will get in touch with you.

HM, Jr: Want to set it tentatively for three o'clock Tuesday evening?

Mr. Welles: Yes.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

*JWC* 85

DATE April 24, 1939.

TO Secretary Morgenthau  
FROM Mr. White  
Subject: What are the prospects for increased exports  
in 1939 and 1940?

SUMMARY

It is our conclusion that the value of United States exports in 1939 and in 1940 will be no higher than the 1938 figure and may actually be less. It is expected that the rise in February and March will not be continued and that exports will level off during the next few months.

I. The trend of our exports was downward from the end of 1937 through January 1939. Since June 1938, exports have been running 15 percent lower in value than a year earlier. About half of the decline in value represents a decrease in volume and about half, a decrease in prices received. In February and March 1939, our exports rose, both absolutely and on a seasonally adjusted basis.

II. There are numerous factors making for a decline in United States exports in the next two years and some making for an increase. Developments tending to depress the level of our exports are:

1. There is every indication that the drive towards self-sufficiency by many countries and regions will continue. This striving for self-sufficiency which takes the form of development of synthetic substitutes as well as the development of domestic sources of supply may be expected to press most heavily against our exports of cotton, grains, textiles, leather and foodstuffs.

2. There is no prospect for a marked improvement in business activity in any region of the world important for United States trade, with the possible exception of Canada.

3. Countries which have reached the peak of armament production will contract their total imports unless credit is extended to them. Germany, Italy and Japan have reached this stage and their chances of getting loans are not good.

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Prepared by Miss Kistler

4. War fears which have hung over the world markets, especially heavily since March, result in postponing investments and orders for foreign goods from week to week, thereby slowly weakening that section of the foreign economy which makes peace-time goods. Only if war orders to the United States become much larger can these fears of war help our export position.

5. The continued flow of capital to the United States decreases gold assets of foreign countries and promotes additional restrictions on imports. It may later result in currency depreciation abroad, which has an unfavorable influence on United States exports. Capital flows, in addition, worsen business activity in the foreign countries losing the funds because the capital exports on the whole take the form of gold and not goods.

6. Spread of German and Italian domination in Europe takes the form both of territorial aggrandizement and of the increase of barter trade. Europe takes 42 percent of the total United States exports and although their program may not seriously worsen this market in the next two years, it does serve to reduce it.

Expansion of Germany and Italy will adversely affect United States exports by cutting down the markets open to us and to other peaceful countries. The elimination of third countries from a part of the European market will later tend to cut down United States exports in the remaining open markets. The effect of totalitarian domination is not adequately shown by figures relating to the German share of world trade because these figures overlook the shrinkage in the total of world trade which results from military and economic aggression and the effect of these methods in retarding the revival of world trade.

7. Japanese aggression makes our prospects for exports to Asia little better than in Europe. So far the needs of the Japanese war machine and the effort to develop heavy industries in Japan have bolstered United States exports to the Far East. In the next two years the increasing difficulty of Japan's paying for imports and increasing self-sufficiency of Japanese controlled regions should cut down United States exports. Our markets in China have been virtually wiped out in areas under Japanese domination, and the prospects of increased exports to Chinese controlled areas depends entirely upon the extension of loans to China.

8. The narrowing of markets elsewhere should increase the competition for Latin American markets.

Secretary Morgenthau - 3

9. It is reported that England has already built up a stock of foodstuffs and this buying need not be repeated in 1939 and 1940 unless there is war.

10. Should our purchases of foreign silver diminish or cease, our exports would further decline.

III. The main factors tending to increase United States exports in the next two years are the following:

1. In the second stage of an armament program, peacetime imports by the arming country usually drop, though less than armament imports rise. In the next two years more European countries should reach this stage and although imports of foodstuffs and consumer goods will decline, the reduction will probably be more than compensated for by increased imports of armament goods. The United States will undoubtedly receive a share of this possibly expanded market, but this share will not result in a large percentage increase in our total exports. Goods important for armaments constituted about 25 percent of the total value of our exports in 1937 and 1938, but for most such commodities the peaceful uses still predominate.

In the next two years a number of countries will probably initiate armament programs; England and France have already announced an intensification of their programs.

2. Recovery here and increase in imports by the United States will increase foreigners' ability to pay for our exports. If business activity in the United States rises during the next two years, it will be an important factor in the expansion of our export trade, and correspondingly, a decline in business activity will be a depressing factor to our exports.

3. The Trade Agreements with England and Canada which went into effect January 1, 1939, should increase the export of some commodities during 1939.

IV. Commodities for which we can expect declines in our exports.

The outlook is for substantially smaller exports of grains, iron and steel mill products, consumer goods and commodities used in consumer goods industries.

Near average crops abroad and rising stocks of foodstuffs indicate decreased exports from the United States of grains and tobacco. Political uncertainty and rearming abroad make

unlikely any increase in our foreign sales of consumer goods and consumer goods equipment. The subsidy to cotton exports may offset to some extent the decline in cotton exports which otherwise seem likely to continue as a result of such factors as the shift of cotton manufacturing from the United Kingdom, hitherto our best customer for cotton, the extension of the bilateral system of trading, the use of artificial fibers, and the shift to short staple cotton.

V. Commodities for which we may expect a substantial increase in exports.

Commodities used in armaments, such as aircraft, precision machinery, petroleum and petroleum products, may exceed the 1938 value of exports. In the case of aircraft, a doubling of our exports is possible, but our exports of aircraft in 1938 amounted to only \$68 millions out of total exports of \$3,094 millions. Such a spectacular increase is not likely for any other important category.

VI. In the event of a general European war we expect our total exports to rise greatly.

In the first two years of the World War, United States exports increased by \$2 billions. The increase was not pronounced in the first few months of the World War, but this lag would probably be less today. The exports to belligerent nations may be restricted by legislation, but in any case increasing shares of the markets of nonbelligerents would pass to the United States.

Foodstuffs, raw cotton, wool, petroleum, chemicals, automobiles, aircraft, railroad equipment, iron and steel mill products, and machinery used in armament industries would all face a booming export market in war time (unless restricted by legislation) and would account for practically all of the increase in exports. Peace-time exports to the war areas would drop, but this decline would be offset, in part at least, by increased exports of these items to the non-belligerent countries. The items in this category are automobiles, radios, refrigerators, agricultural equipment and the simpler types of consumer goods machinery.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 24, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Review of the Government Market

Week ending April 22, 1939

The government market was firm throughout the past week and showed slight gains. Prices are now at all-time highs. Although activity was limited, there was a little insurance company, savings and commercial bank buying. Prices on Treasury bonds, for all but the four shortest issues, were up 1 to 5/32nds generally. The four shortest issues were down 1 to 3/32nds. The decline of these latter issues reflects amortization of premium rather than any weakness. Treasury notes were practically unchanged although the two longest issues and the "rights" of September, 1939 were up 3/32nds. Guaranteed issues were unchanged to 4/32nds better, with the exception of the H. O. L. C. 2-3/4s callable August, 1939 which were off 5/32nds. Adjustments in this issue were apparently in anticipation of any exchange offering.

Dealers' Portfolios

Dealers' portfolios were practically unchanged, except for an increase of about \$9 million in H. O. L. C. issues and a decline of about \$5 million in shortest Treasury notes. The increase in H. O. L. C. issues reflects picking up of "rights" by the dealers.

Dealers' Portfolio  
(in millions)

	<u>Week ended</u> <u>April 15</u>	<u>Week ended</u> <u>April 22</u>	<u>Net Change</u>
Treasury bonds	20.1	21.9	+ 1.8
Treasury notes (1 year)	26.7	21.9	- 4.8
Treasury notes (1-5 yrs.)	20.1	21.6	+ 1.5
Treasury bills	9.9	10.1	+ 0.2
H. O. L. C. bonds	13.4	22.7	+ 9.3
F. F. M. C. bonds	<u>6.8</u>	<u>5.6</u>	<u>- 1.2</u>
	97.0	103.8	+ 6.8

Volume was about \$125 million daily, of which about \$80 million was in Treasury bonds.

New Security Issues

There were no new corporate bond issues last week. However, today, Monday, April 24, an offering of about \$62 million long term bonds by Gatineau Power, a Canadian concern, was moving slowly in the market. \$52 million of this issue is being offered in the American market.

Corporate Bond Market

Corporate bond market was rather irregular during the past week and dull. Price changes were only slight but most averages recorded small net gains. Lack of activity reflects hesitancy of the market to make any sizeable commitments before Chancellor Hitler's reply to the President's message.

Treasury Investment Accounts

Including sales today (Monday, April 24) \$15 million 3-1/4% Treasury bonds of 1941 were sold in the market. \$7,500,000 were for account of Postal Savings and \$7,500,000 for account of Federal Deposit Insurance Corporation. The balance of this issue held in Treasury accounts now totals \$9 million, of which \$5 million is held by Postal Savings and \$4 million by Federal Deposit Insurance Corporation.

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In addition to the \$14 million Special 2's sold for Federal Deposit Insurance Corporation (reported last week) there were investments of \$3 million for Postal Savings in Special 2's and of \$1 million in Special 2's for Government Life Insurance Fund. Treasury accounts now hold \$208,300,000 of Special 2's as follows:

Postal Savings . . .	\$ 91,000,000
F. D. I. C. . . .	101,000,000
Gov't. Life . . .	<u>16,300,000</u>
	\$208,300,000

Federal Reserve System Account

Transactions for the Federal Reserve System account consisted of replacement of \$26,500,000 maturing Treasury bills with the new issue and the purchase of \$8,500,000 bills in anticipation of this week's maturity. In addition, there was a swap between bill issues of \$2 million. The maturity for this week is about \$46 million.

April 24, 1939

The Secretary showed these two memoranda to the President today.

1. T. V. Soong reports to us (in Cable of April 20, 1939) that bogus Federal Reserve notes in North China depreciated 20 percent since announcement of United States fleet transfer to Pacific.
2. Our exports of unmanufactured cotton to Greater Germany in April are running almost as high as they were in the previous few months.
3. Statement made by British Chancellor Exchequer (in Cable of April 21, 1939):

".....The purchase of foreign securities for re-sale is already regulated by the Foreign Transactions Advisory Committee and I am glad of this opportunity of expressing my hope that no such purchases will be made for investment either..."

Though hardly more than an observation, in effect the announcement is regarded as another step in the direction of restrictions of British purchases of American securities.

## Germany - Foreign Trade

Four Months - Dec. 1938 - March 1939

(In millions of Reichsmarks)

	Exports	Imports	Balance
1938 - December	479	486	- 7
1939 - January	441	472	- 31
February	411	472	- 61
March	481	504	- 23
Total - 4 months	1812	1934	-122

(Our Consul in Germany reports that German import statistics do not include all war material imported.)

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 24, 1939

TO Secretary Morgenthau  
FROM Mr. White

Subject: Why does the State Department appear eager to have the Treasury handle the financial assistance to the Argentine?

The following suggest themselves as possible explanations:

1. Argentina is not in default in any of her external debts and hence the Treasury can "safely" participate in the negotiations for credit.
2. The Export-Import Bank is not in a position to extend any substantial credits to Argentina because of the \$100 million limitation.
3. The State Department is apparently of two minds with respect to financial assistance to Argentina.
  - (a) The Trade Agreements Division is eager to consummate a trade agreement with Argentina, but practically the only concession of any significance which Argentina can grant to us is equitable treatment with regard to the allocation of exchange. Any credit arrangement made with Argentina to strengthen her exchange would naturally include improved exchange treatment for American exporters and hence leave little justification for a trade agreement.
  - (b) The incentive in Argentina for a trade agreement comes from the pressure of those groups which feel that relations with the United States should be improved. A credit arrangement would be just as effective in achieving this objective as the kind of trade agreement which is possible -- which would therefore reduce the pressure for a trade agreement.
4. The chief thing that Argentina wants from us is the removal of our prohibition on her exports of beef and cattle to the United States (the Sanitary Convention). Anybody that takes this job on his hands is going to arouse the strenuous opposition of the most powerful political group in the United States.

4-24-39

The Colombian External Debt

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Summary

1. The total external debt outstanding, including debts of the Republic, Departments, Municipalities and Banks, is equal to approximately \$175 million in long-term and about \$18 million in short-term. The approximate cost of annual service on the long-term debt is \$18 million. Colombia has been in practically complete default on this debt since the end of 1934 (including interest payments, sinking fund and principal).

2. Of the \$194 million of external debt, the external debt of the National Government is \$76 million, \$18 million of which is short-term.

Of the \$57 million long-term debt, \$51 millions are dollar loans and \$6 million sterling loans.

Of the \$18 million short-term debt, \$16 millions are dollar loans and \$2 millions French franc loans.

The approximate cost of the annual servicing of the long-term national debt is 4 million in dollars and 1 million in pounds sterling.

3. In addition to this national debt, there are outstanding Departmental, Municipal and Bank debts not guaranteed by the National Government (with the exception of \$10 million and 1 million pounds sterling which are guaranteed), amounting approximately to \$118 million, which includes about \$10 million sterling loans, the remainder being dollar loans.

4. The last year in which the Colombian Government was servicing her debt completely was in 1931.

1932 - Sinking fund payments suspended in February.

1933 - In April 1933 the Government announced it was compelled to suspend all remittances on account of the external debt.

1933 - In June 1933 Government announced that it would pay coupons falling due between April 24, 1933 and January 1, 1934 on bonds of the Republic or guaranteed by the Republic

## The Colombian External Debt - 2 -

on the basis of one-third in cash and two-thirds in Deferred Interest Certificates. The Certificates limited to a nominal amount bear no interest and were payable on October 1, 1937.

1933 - In October the Government again suspended service of the foreign debt. The Government was authorized to issue Funding Certificates bearing interest at 4 percent, redeemable on or before January 1, 1946 to effect the interest service of the external debt up to January 1, 1935 inclusive. Up to June 30, 1938 the amounts of certificates issued for the years 1933 and 1934 were as follows:

1934 certificates - English (4 percent)	£ 82,262
1933 certificates - American (no interest)	\$ 59,644
1934 certificates - American (4 percent)	\$3,043,310

1935-1938 - Default on interest and sinking fund of external debt.

## Colombian External Debt

(as of June 30, 1938)

	: Amount : Issued	: Balance : Outstanding	: Approximate : Cost of Annual : Service
<u>National Debt</u>			
In sterling	£ 5,227,538	£ 1,390,860	£ 180,000
In dollars	\$60,000,000	\$51,223,500	\$ 4,213,500
<u>Departmental Debt (Not guaranteed by Republic)</u>			
In dollars	\$67,550,000	\$59,888,000	\$ 6,098,400
<u>Municipalities (Not guaranteed by Republic)</u>			
In dollars	\$26,085,000	\$22,149,900	\$ 2,432,000
<u>Banks <sup>1/</sup></u>			
In dollars	\$38,114,000	\$22,709,000	\$ 3,515,400
In sterling	£ 3,400,000	£ 2,892,900	£ 267,500
<u>Grand Total</u>			
In dollars	\$232,298,429	\$176,104,072	\$18,362,550
<u>Short-term National Debt</u>			
In dollars		\$16,192,890	
In French francs		(frs)75,590,340	
<hr/>			
<sup>1/</sup> 10,000,000 of dollar debt and £1,000,000 of sterling debt guaranteed by Republic.			

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Prepared by Lawrence H. Seltzer

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 24, 1939

TO Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: HOLC Financing -- Preliminary

I. Recommendations

We recommend that:

1. Holders of the \$325 millions of 1-1/2 percent bonds maturing June 1, 1939, be offered a 1-year bond for 40 percent of their holdings and a 2-year bond for 60 percent of their holdings.

2. A refunding bond issue, maturing in 10 years or thereabouts, and callable after 5 years or thereabouts, be offered early in May to the holders of the \$905 millions of 2-3/4 percent bonds of 1939-49 which become callable on August 1 of this year.

3. Instead of using the \$150 millions that the HOLC has on deposit with the Treasury for reducing the amount of the refunding bond offerings, announcement be made that these funds or a portion thereof will be used to redeem any bonds not exchanged. In addition, it would be prudent, in connection with the refunding of the 2-3/4 percent issue, to announce that the Secretary reserves the right to sell for cash an amount of the refunding bonds equal to the amount of the 2-3/4's not turned in for exchange.

II. The June 1 Maturity

The June 1 maturity of \$325 millions is held mainly by large institutions. Three-quarters of the issue is held in \$100,000 pieces. The bonds are selling at a premium of about 6/32 above a no-yield basis.

We are informed by Mr. Francis X. Pavesich, Financial Advisor to the HOLC, that the Corporation anticipates that at least \$125 millions will become available for HOLC bond retirements during the next twelve months and close to

Secretary Morgenthau - 2

\$200 millions during the next ensuing twelve months. It appears, therefore, that a 1-year and a 2-year bond issue in approximately these respective amounts would meet the Corporation's convenience. To avoid difficulties in relative pricing, these two issues could be offered jointly to the holders of the June bonds, in the fixed proportions of 40 percent and 60 percent, respectively, of the 1-year and 2-year bonds in exchange for the June bonds. This would mean \$130 millions of 1-year bonds and \$195 millions of 2-year bonds in the event of a 100-percent exchange.

At the moment, it appears that a 1-year HOLC bond could be sold with a coupon of  $3/8$  percent, and that a 2-year issue could be sold with a coupon of  $5/8$  percent. There is little doubt, in view of the scarcity of short-term securities, that, barring unsettling international developments, these issues would be extremely attractive to holders of the maturing June bonds.

The HOLC has about \$150 millions on deposit with the Treasury which is available for partial repayment of the June or August bonds. The use of these funds for reducing the size of the June bond refunding is not recommended, however, because (1) 1- and 2-year money can be borrowed at very favorable interest rates, (2) the Corporation will be able to retire these short-term issues from principal repayments to be received during the next two years, and (3) there is a possibility that a sizeable amount of the August bonds may not be tendered in exchange for a new issue, and will have to be redeemed in cash. This is discussed below.

### III. Cash Redemption Requirements may be Relatively Heavy in Connection with Refunding of HOLC 2-3/4's of 1939-49

In contrast with the June maturity, the \$905 millions of HOLC 2-3/4's that become callable on August 1 are rather widely distributed. Although banks, governmental corporations, and insurance companies own about \$2.4 billions of the \$2.9 billions aggregate amount of HOLC bonds outstanding, it is altogether likely that the holdings of individuals are largely concentrated in the August issue and in the 3's of 1944-52. These issues were distributed directly in

Secretary Morgenthau - 3

exchange for mortgages. On March 31, 1939, the August bonds were outstanding in 907,000 separate pieces, as compared with less than 23,000 pieces for the June issue of roughly one-third the size. Institutional and large individual investors commonly exchange small denomination bonds, when acquired, for a smaller number of large denominations.

Our previous experience with widely distributed issues has been that a sizeable proportion of such issues is not turned in in response to exchange offerings. Thus, even in the case of the Fourth Liberty Loan bonds, about 15 percent of the principal amount did not respond to the successive exchange offers. In the case of the HOLC 4's, about half of the original issue was exchanged over a period for fully guaranteed 3's, but 24 percent of the remaining half failed to accept an exchange offer on June 1, 1935, of 4-year 1-1/2's.

In the case of the August bonds also, the original amount has been reduced by refunding -- by \$400 millions. The prospects are that the proportion of hold-outs in an exchange offering for the August issue will be smaller than was the case in 1935, because there is a greater concentration of holdings in the larger denominations of the bonds. Thus, if the percentage of hold-outs for each denomination of bonds were to be the same in the refunding of the August issue as was the case in 1935, the amount of bonds not exchanged would approximate \$175 millions, or about 19 percent of the issue.

Nevertheless, in view of the size of this figure, it seems clear that the \$150 millions of HOLC funds available for bond retirements should not be used to reduce the amount of the formal refunding offering, but should be reserved instead for the redemption in cash of unconverted bonds.

In addition, particularly in view of the unsettled international situation, it would be prudent for the Secretary to include in his announcement a notice that he reserves the right to sell for cash an amount of the refunding bonds equal to part or all the amount of the 2-3/4's not turned in for exchange. This was done in connection with the HOLC refunding of June 1, 1935, and \$80 millions of the refunding bonds were sold without public offering through the Federal Reserve Bank of New York.

Secretary Morgenthau - 4

IV. Maturity of Refunding Issue  
For 2-3/4's of 1939-49

By statute, no HOLC bonds may be issued with a maturity date later than 1952. In reflection of the fact that the Corporation is essentially a liquidating organization, and is daily in receipt from its debtors of principal repayments which become available for the retirement of its own debt, the existing HOLC debt structure properly permits bonds to be called for redemption in every year between now and 1952, as may be seen from the following list of the outstanding HOLC obligations:

1-1/2's of 6/1/39	\$325 millions
2-3/4's of 8/1/39-49	905 millions
2-1/4's of 7/1/42-44	879 millions
3's of 5/1/44-52	779 millions

The refunding of the issue that becomes callable August 1 is motivated solely by the desirability of realizing the substantial savings in interest costs that are now possible, rather than by any dissatisfaction with the maturity itself.

Barring action by Congress to reduce the interest charges and extend the amortization period for HOLC mortgages, it would appear that relatively large amounts of funds will become available for bond retirements in the middle and late 1940's. The portion representing principal repayments in the monthly payments being made by the Corporation's debtors is becoming larger year by year, and by the middle 1940's, a large proportion of the Corporation's mortgages will have been reduced to such levels, relative to the underlying properties, that they should be easily transferable to non-Government purchasers, such as banks, insurance companies, building and loan associations, etc. Motive for such transference will arise for many a mortgagor from his ability at that time to borrow an additional few hundred dollars in cash on the same mortgage from a private lender.

Further, as may be seen from the appended summary cash income and outgo statement for the Corporation for the period January 1, 1937 through February 28, 1939, the present volume of principal repayments is very substantial. Were

Secretary Morgenthau - 5

it not for purchases of shares in building and loan associations, advances to debtors, and outlays made on acquired properties, the sums currently available for debt retirement would be very much greater than they actually are.

It is to be presumed -- and certainly to be hoped -- that the Corporation's weakest mortgages have already been foreclosed; and that additional sums for bond retirements will be realized during the next few years from the down payments and monthly principal instalments received in connection with the sale of part of the \$556 millions of properties held by the Corporation on March 31, 1939.

It would appear, therefore, that the Corporation's needs would be met by a refunding issue maturing in 9 or 10 years, but callable well in advance thereof -- at the end of 5 or 6 years. A coupon rate of between 1-1/2 and 1-3/4 percent, depending upon the precise maturity and call period, would appear to be indicated for such a security by the present market.

Although it is improbable that it will be desired to redeem the new issue at the end of five years, in view of the fact that a 3 percent issue amounting to \$779 millions will become callable on May 1, 1944, the market appears to attach an irrational value to early call dates, and this is an argument for making the new issue callable at the end of five years instead of six or seven years. Otherwise, a somewhat later first call date would be satisfactory, for, in addition to the HOLC bond issue that becomes callable on May 1, 1944, there is an FFMC 3 percent issue in the amount of \$835 millions that becomes callable on May 15, 1944, and a direct Treasury issue in the amount of \$1,519 millions -- the 3-1/4's of 1944-46 -- which becomes callable on April 15, 1944.

The August bonds are now selling at a premium of 1-28/32. The 2-3/4 percent interest coupon between now and August 1 is worth about 24/32, indicating a "rights" value of about 1-4/32. If the exchange is made as of May 15, the bond holders will be asked to give up their 2-3/4 percent interest coupon two and a half months early, and this sacrifice amounts to about 18/32. In other words, in the pricing of the new issue, an extra premium of about 18/32, by way of interest overlap or otherwise, should be allowed to cover this sacrifice.

Attachment

Cash Income and Outgo of the  
Home Owners' Loan Corporation

January 1, 1937, through February 28, 1939

(Millions of dollars)

Cash Income

Principal repayments	356
Interest payments	256
Property income	36
Dividends from building and loan associations	15
Sale of building and loan shares	2
Cash receipts from sale of property	<u>23</u>
Total	688
	==

Cash Outgo

Administrative and general expense	68
Bond interest	164
Property expense	30
Miscellaneous expense	7
Purchase of shares in building and loan associations	90
Advances to debtors	48
Capital debits to property	79
Increase in cash holdings	24
Bonds retired	112
Increase in bond retirement funds	<u>66</u>
Total	688
	==

Treasury Department, Division of Research and Statistics.  
April 19, 1939.

Source: Compiled from the monthly statements of the HOLC  
and from information obtained from Mr. Francis X.  
Pavesich, Financial Advisor thereof.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 24, 1939

TO Secretary Morgenthau  
FROM Mr. Haas *EA*  
Subject: The Business Situation,  
Week ending April 22, 1939.

Conclusions

(1) Continued firmness in the underlying business trend, in the face of European developments and the bituminous coal strike, has been apparent this week. U. S. Steel orders have increased to the best level since February, carrying them above the current level of steel output, and automobile production has risen to a new high for the year. Stock prices have moderately strengthened, and sensitive commodity prices have been firmer.

(2) Domestic business appears to be in a relatively strong position to meet any shock from abroad, due to the conservative production policy which industry has followed during the past six months or more, which has apparently held production below the level of consumer buying.

(3) A degree of optimism is added to this week's upturn in steel orders by the fact that it has been due largely to increased buying of structural steel and tin plate, both of which seem likely to be maintained. New orders for railroad equipment have also increased.

(4) The bituminous coal strike has caused a substantial decline in business activity and consumer purchasing power in the areas immediately affected, and is beginning to affect activity in dependent industries. Combined with the slowing up of steel and automobile production during April, it will be a factor in reducing the FRB index for this month to several points below the preliminary March figure of 98.

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Developments in the business situation

Aside from the possible effects of an extended coal strike, increasing evidence indicates that the domestic business situation is in a strong position to meet any shock to which it may be subjected from abroad. Unlike the situation in 1914, when war broke out almost without warning, business activity has for a year or more been under the deterrent of war possibilities. The fact that goods are continuing to move into consumption in greater volume than they are being produced, according to our estimates, indicates the degree of conservatism which industry has been following in its production policies, and serves as a strong source of future stability.

One result of this conditioning of business to war scares has been to hold industrial orders relatively stable during the recent period of war tension. While steel and textile orders during March were disappointing, partly due to other causes, the over-all effect has been no more than a levelling out of our combined weekly index of new orders in place of the usual seasonal gain. (See Chart 1.)

During the past week an encouraging upturn in steel orders has developed. Data reported by the U. S. Steel Corporation show a rise in new orders to the equivalent of 53 per cent of capacity, from 46 per cent last week. This is higher than any other figure since February, and compares with a current operating rate of 50.9 per cent for the industry.

In Chart 2, it will be noted that steel activity during March was maintained by the relatively high level of orders booked during January and early February, and that the decline in activity in recent weeks apparently reflected a running down of unfilled orders. If this week's upturn in new orders is sustained, it should result in some improvement in the rate of steel operations. Since this improvement would come at a time when the seasonal trend is downward, it would tend to raise the adjusted indexes of business activity.

Structural steel orders improve

Some reason for expecting a well-sustained level of steel orders is seen in a recent improvement in orders for structural steel, which has featured the steel business done during the past two weeks. This seems to indicate that the large volume

Secretary Morgenthau - 3

of public works contracts let during the winter (See Chart 3) are beginning to show up in actual orders for steel. If this is the case, they may also be affecting new orders for cement, lumber, and other construction materials.

Structural steel orders were relatively low through March of this year, as Chart 3 indicates, and have begun to improve only during the past few weeks, as shown in the lower section of the chart.

A second reason for expecting steel orders to be relatively well maintained is the recent improvement in orders for tin plate, used in tin can production. Demand from this important section of the industry had been low for some time, partly because of previous over-stocking. Tin plate production, in response to the increased orders, has risen to 63 per cent of capacity.

#### Increased railroad buying

Railroad equipment orders have improved in recent weeks, somewhat contrary to the seasonal trend, which usually reaches a peak during the early winter. Included in the orders reported this week is a \$3,000,000 contract for 1,000 freight cars placed by the Great Northern Railway, the first large freight-equipment purchase by this road in several years. The Baldwin Locomotive Company announces that first quarter bookings amounted to \$21,600,000 in comparison with \$8,800,000 in the same period last year.

Net operating incomes of Class I railroads, which were well sustained during the first quarter of the year at more than 20 per cent above last year's level, will be unfavorably affected by the coal strike during April. Increased freight rates which went into effect on April 1 last year will also affect the year-to-year comparisons.

#### The freight car situation

The question has been raised as to the adequacy of our present supply of freight cars in a war emergency. Data reported monthly by the Association of American Railroads provide the basis for a study of the freight car situation presented in Chart 4.

While the number of freight cars owned by American railroads has declined markedly since 1924, as shown in the lower section of the chart, various developments have contributed toward making the smaller number of cars more effective, while an increase in other forms of transportation has reduced the relative volume of railroad freight. As shown in the middle section of the chart, the volume of freight carried by railroads has declined steadily over a period of years in relation to the FRB index of industrial production.

We estimate that currently a level of industrial production equal to the 1929 average would bring the railroads about 12 per cent less freight haulage than in 1929. Furthermore, due to various improvements in operating efficiency, the same volume of railway freight can now be handled with fewer cars than in 1929.

The average speed of freight trains, for example, has been increased from 13.2 miles per hour (elapsed speed) in 1929 to 16.1 miles in 1937; the average capacity of cars from 46.3 tons to 49.2 tons; the average freight haul has been lengthened from 182 miles to 198 miles; and increased speed in loading and unloading has reduced the idle time of freight cars. As a result, the daily transportation service of the average freight car has been stepped up from 582 ton-miles in 1929 to 625 ton-miles in 1937, an increase of 7.4 per cent.

In the upper section of Chart 4 we compare the average number of cars reported as idle each year since 1917 with the volume of freight handled. The number of idle cars reached a minimum, corresponding with an acute car shortage, during 1917, 1918, and 1920. An expansion in the number of freight cars during the early 1920's prevented car shortages during the later business boom, and none has since developed. With present equipment, a war emergency would have to develop a demand for cars exceeding that of the peak months of 1937 before a shortage could be expected to develop.

Coal strike clouds immediate outlook

The bituminous coal strike has assumed a position more important perhaps than the European war threat in the immediate business outlook. Coming unexpectedly, since no one had looked for any serious hitch in negotiations for a new labor contract, there had been no advance stocking of coal as in previous strikes, hence industry is likely to be quickly affected if the strike is extended.

Secretary Morgenthau - 5

Although industrial plants generally are reported to be protected for the next few weeks, some factories have had to shut down because of a coal shortage. The Carnegie-Illinois Steel Corporation, most important subsidiary of U. S. Steel, has been forced to close five blast furnaces. The major steel companies must take drastic measures to conserve coal if the strike is prolonged another two weeks, according to the Iron Age.

The strike has caused a substantial decline in business activity and consumer purchasing power in the areas immediately affected, West Virginia being the chief sufferer. The Journal of Commerce estimates that at least 1,000,000 persons are out of work as a result of the strike, and that some \$40,000,000 of weekly payrolls have thus been halted, about equal to total W.P.A. expenditures at the present rate.

#### Current business news

Sensitive commodity prices have been firm during the past week, and Reuter's index of British prices has shown a continued strong upturn. The rise in prices in Great Britain has been attributed in part to increased demand incident to building up war reserves, with heavy European demand reported for wheat and sugar. A less promising new crop outlook in Europe has also been a factor.

Wholesale commodity prices in the United States, as measured by the BLS all-commodity index, have declined somewhat further, the index reaching 75.8 during the week ending April 15, a new low for the past five years. Being heavily weighted with finished products, this index is slow to respond to price influences.

A contra-seasonal increase in farm income during March strengthens the outlook for a well-maintained level of consumer buying. While income from crop sales was lower than in March last year, an increase in Government benefit payments overcame this deficit.

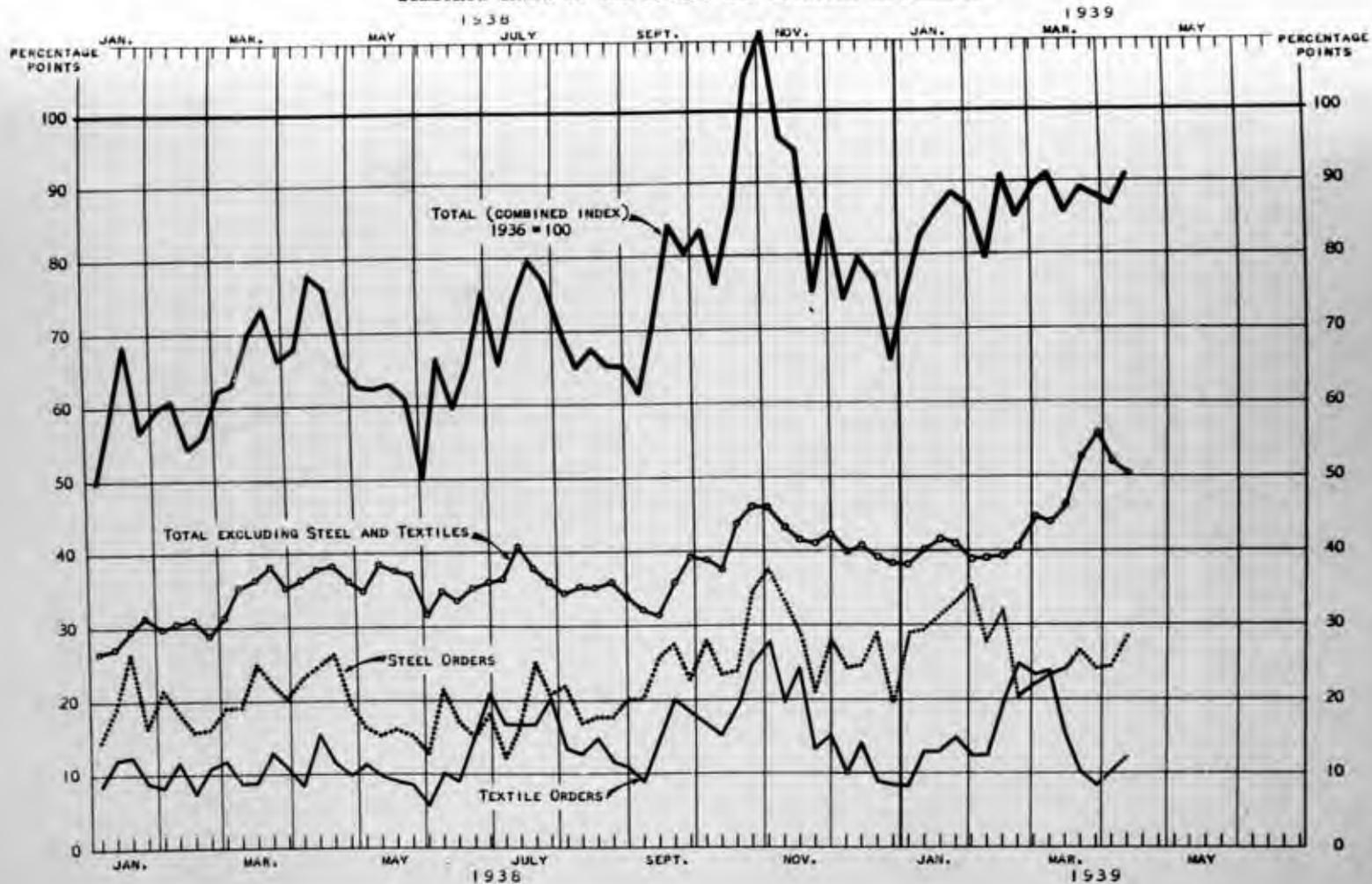
The New York Times index, shown in Chart 5 in comparison with sensitive commodity prices and sterling exchange, continued its decline during the week ended April 15. Downturns in the steel and electric power indexes, with changes negligible in other series, accounted for the drop of .9 point to 86.0 for the combined index.

Residential construction contracts, as reflected in the F. W. Dodge figures for the first half of April, apparently show some effect of the war scare. While the decline in daily average residential awards from \$4,638,000 in March to \$4,096,000 for the April 1-15 period is not serious nor conclusive, in view of the wide fluctuations in such figures, the fact that the seasonal trend at this time should be upwards adds some importance to the current decline.

Total construction awards, on the other hand, show an increase to \$12,659,000 (daily average) for the first half of April, comparing with \$11,136,000 for the month of March.

Automobile production took a contra-seasonal upturn this week to a new high for the year, largely because of a stepping up of operations to a 5-day week at the Plymouth and Dodge plants of Chrysler Corporation. The output of 90,280 units compares with 88,050 last week.

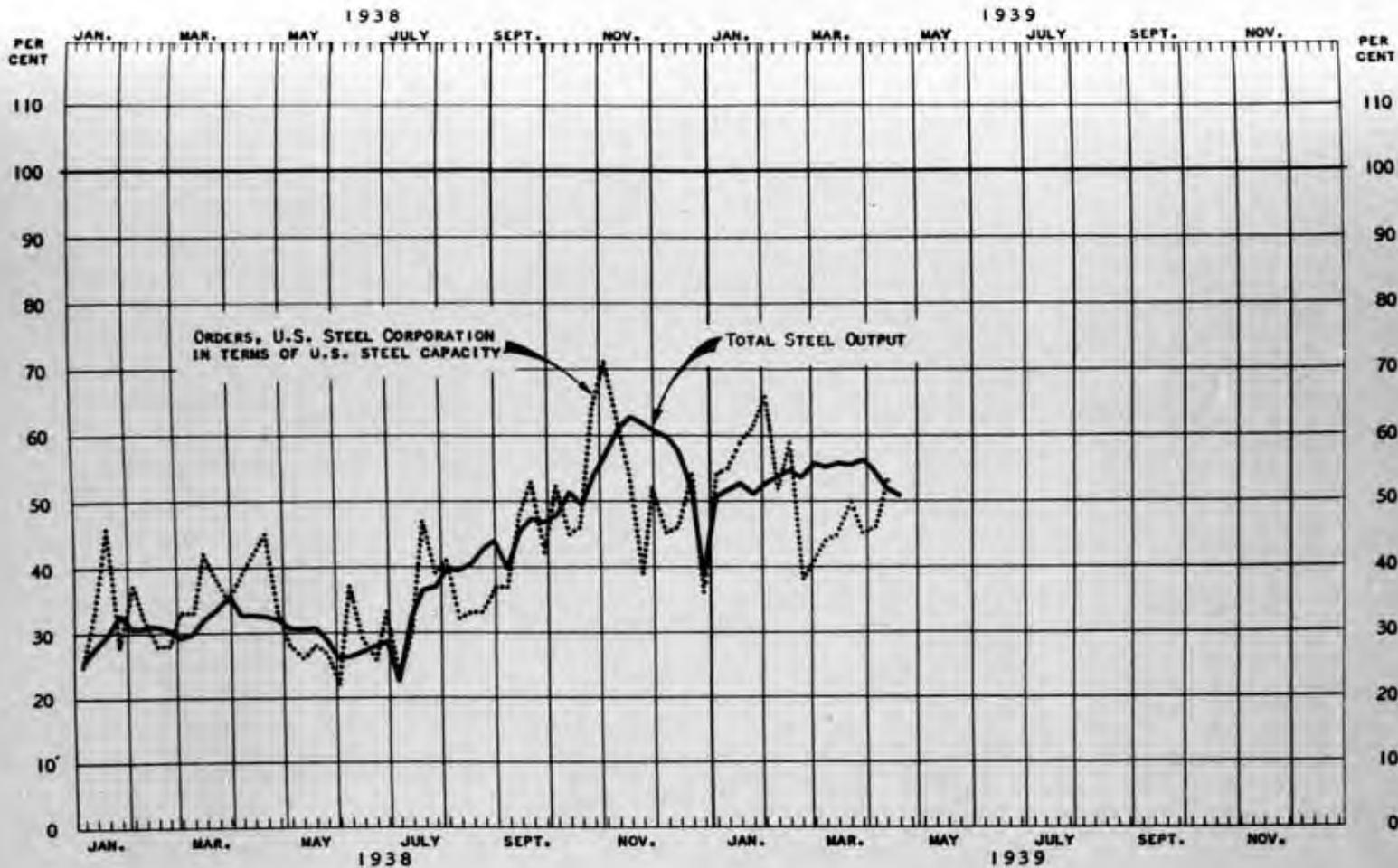
**INDICES OF NEW ORDERS**  
**Combined Index of New Orders and Selected Components**



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Chart 1  
 CONFIDENTIAL

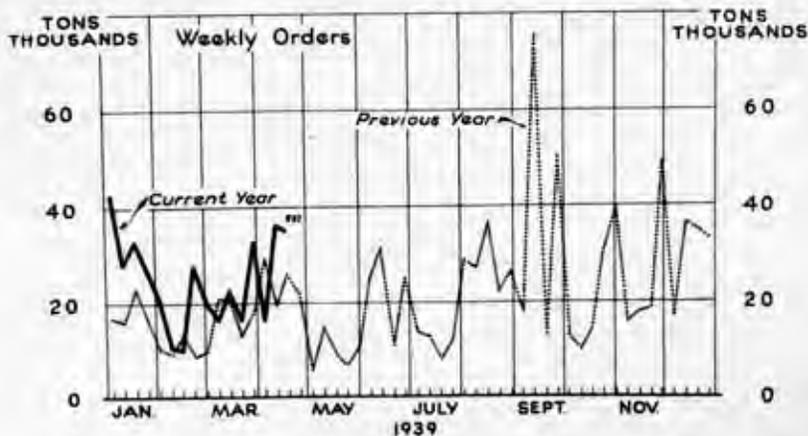
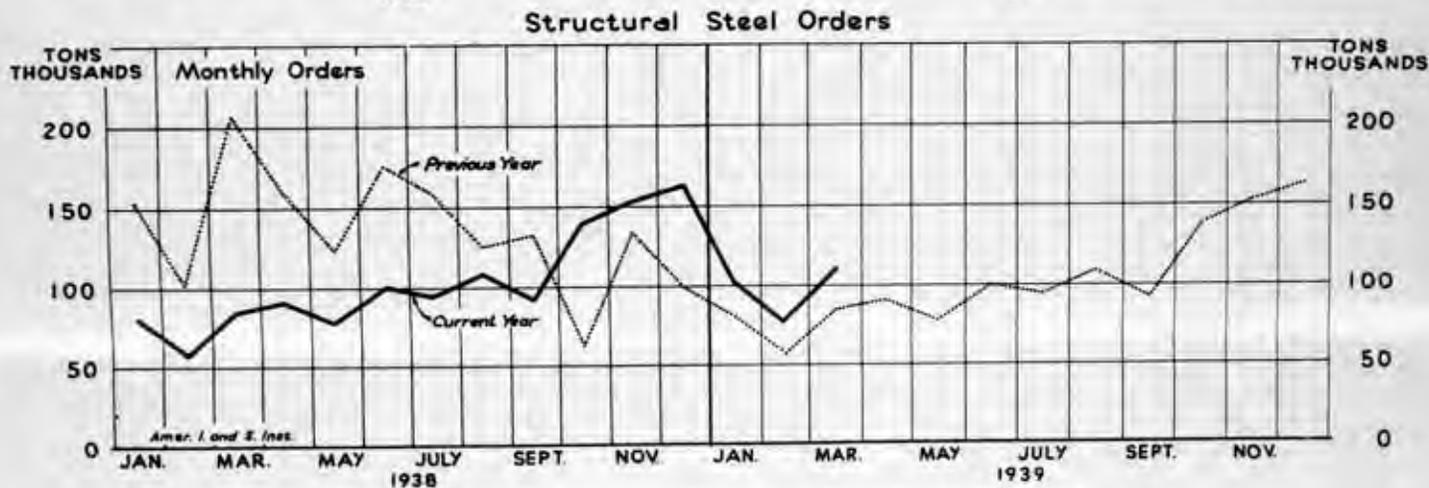
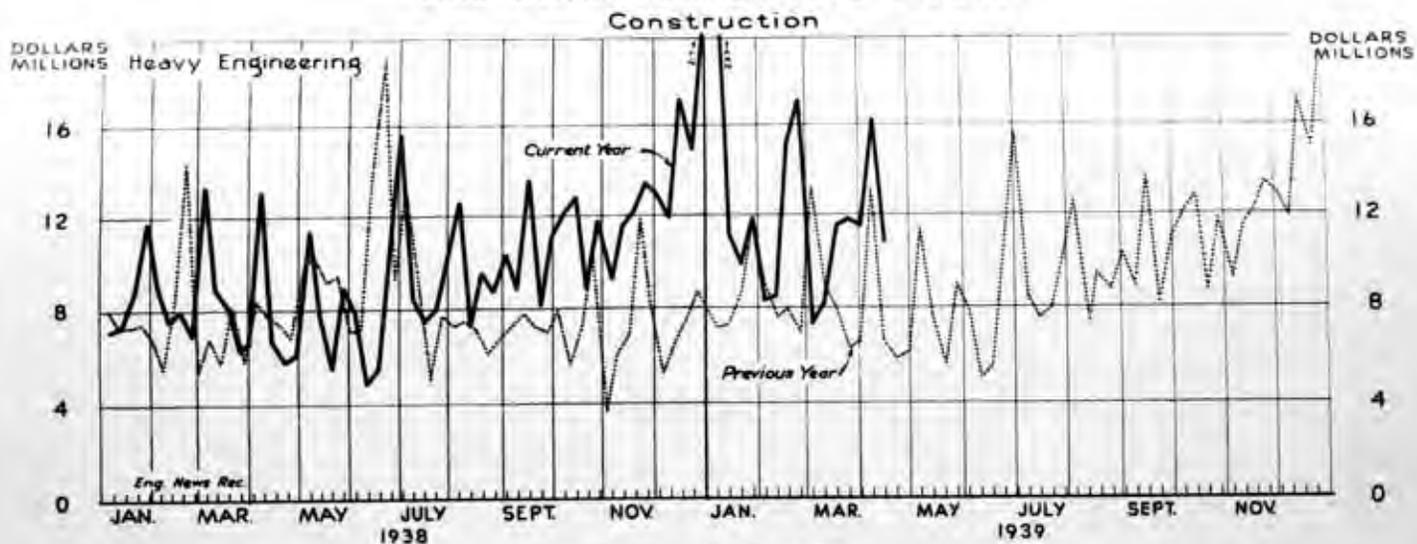
ORDERS AND U.S. STEEL CORPORATION ORDERS  
Expressed in Percent of Capacity



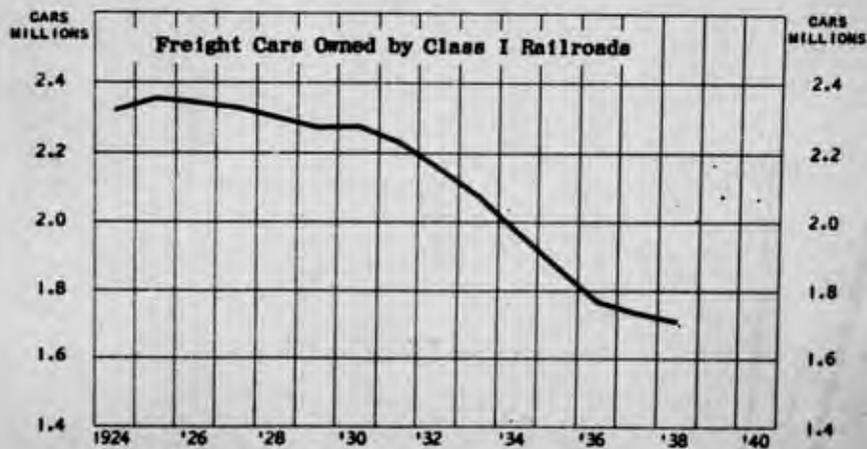
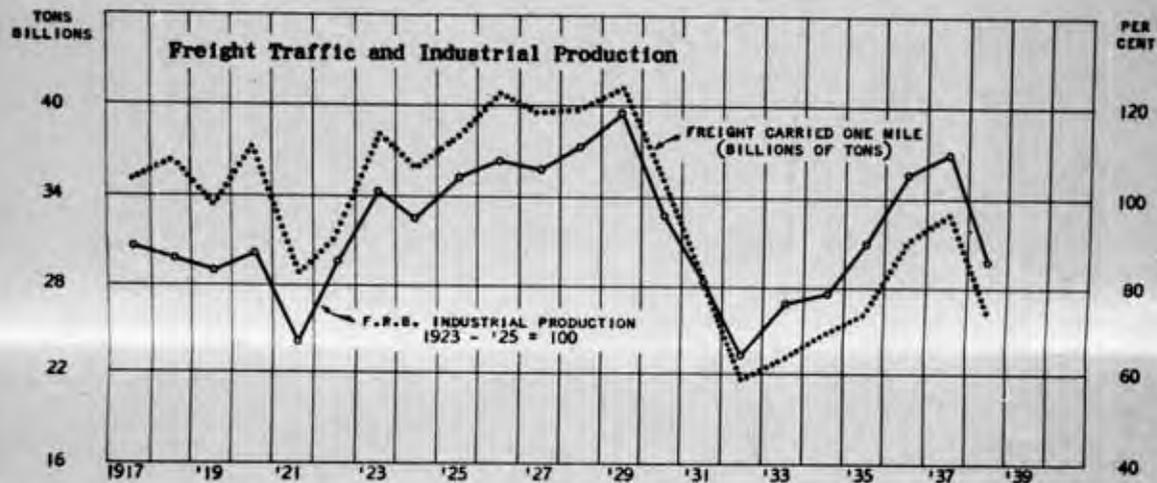
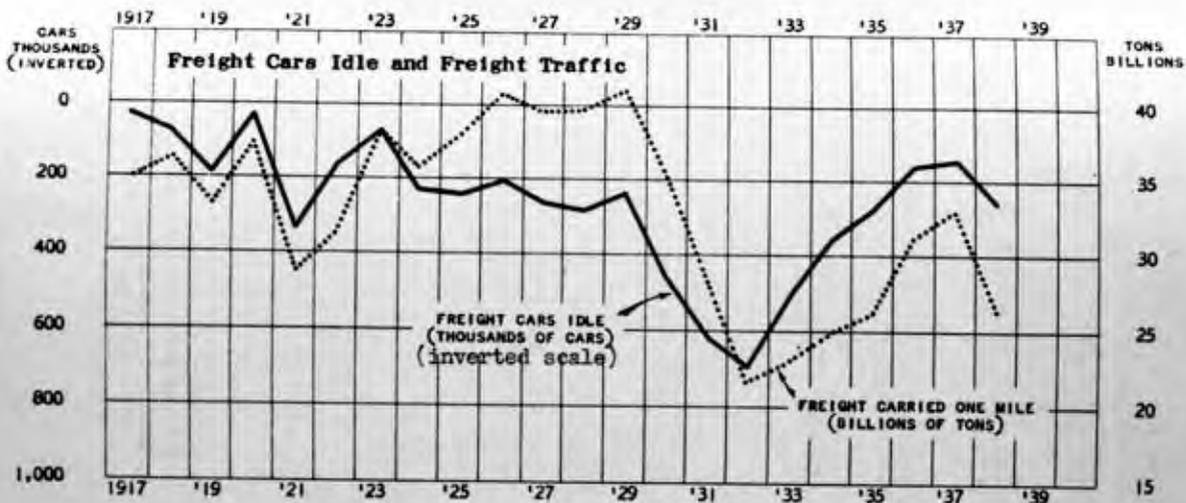
113

Chart 2  
CONFIDENTIAL

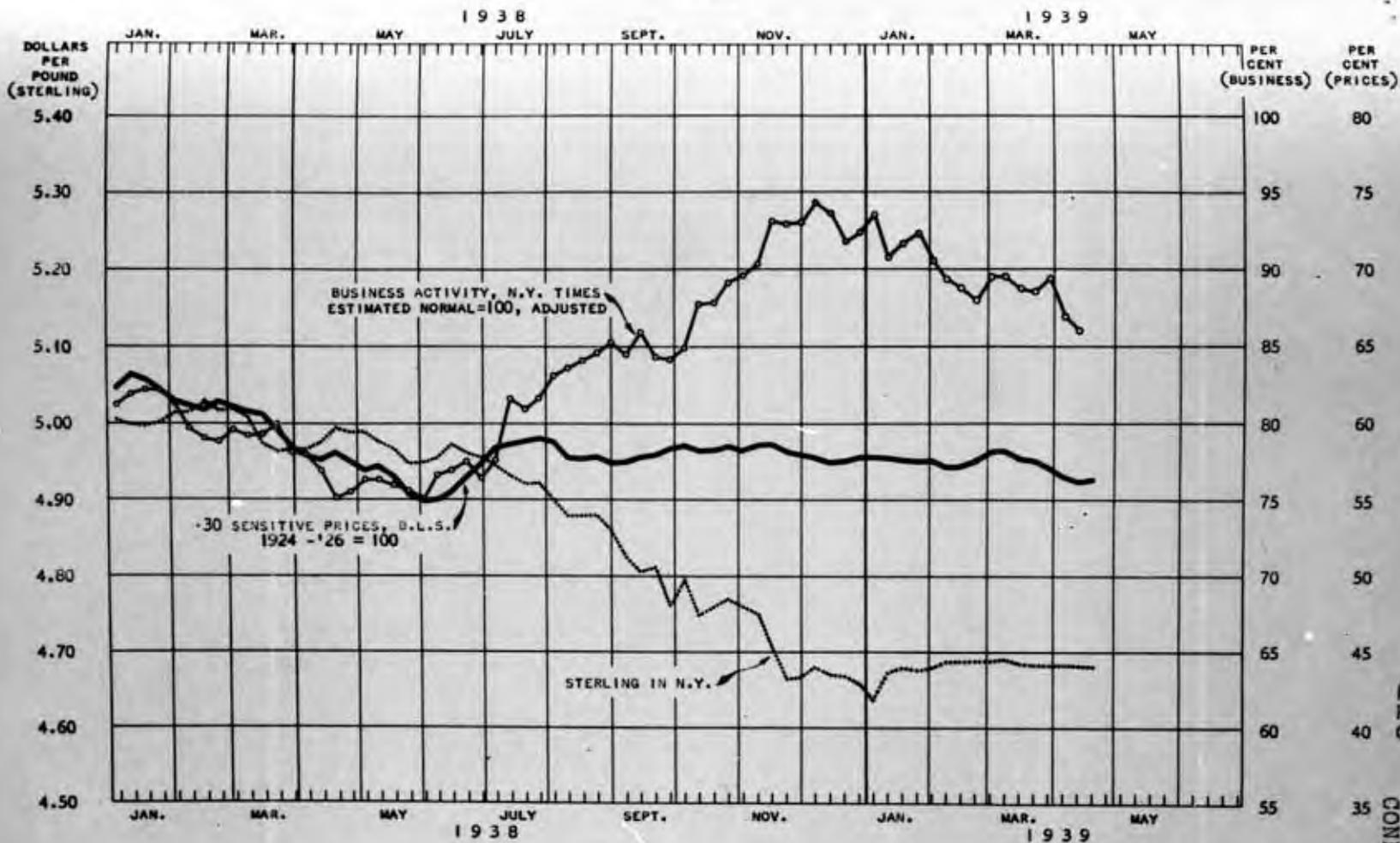
# HEAVY CONSTRUCTION CONTRACTS AND STRUCTURAL STEEL ORDERS



FREIGHT CARS IDLE, FREIGHT TRAFFIC  
AND INDUSTRIAL PRODUCTION



ACTIVITY AND STERLING EXCHANGE  
Weekly



116  
Chart 5  
CONFIDENTIAL

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: April 24, 1939, 11 a.m.

NO.: 278

The Embassy has received reliable information that the German Embassy in London has been informed by Chamberlain that Great Britain is prepared to release to the Reich most of the Czech gold reserve which was on deposit in London; it is also understood that he informed the German Embassy that they will also release private Czech funds and credits now blocked in England.

This news is surprising to Reich officials who look on it with somewhat amused disdain. They interpret it as indication that Chamberlain is still inclined to gestures of "appeasement" and a belief that financial enticements can be used to buy off the Reich.

It is requested that appropriate portions of the foregoing be repeated to Treasury as Heath's No. 20.

GEIST.

RECEIVED

APR 24 1939

THE AMERICAN EMBASSY  
BERLIN

EA:LWW

PAP

TELEGRAM SENT

GRAY

April 24, 1939

1 p.m.

AMERICAN CONSUL

GENEVA. (SWITZERLAND)

45.

Your 93, April 21, 5 p.m.

Other duties preclude Cochran's attendance.

HULL  
(HF)

FA:FL:LWW

RECEIVED

APR 25 1939

THE ARMY DEPARTMENT  
OFFICE OF THE SECRETARY  
WASHINGTON, D. C.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: April 24, 4 p.m., 1933

NO.: 812

FROM COCHRAN.

The following increases in interests rates effective April 24 have been announced by Journal Officiel of France: two-year national defense bonds issued by the amortization fund from 3.25 to 3.50%; eighteen months bonds issued by the Autonomous National Defense Board from 3. to 3.50%; one-year Ordinary Treasury bonds from 2.50 to 2.75%; seventy-five and one hundred and five-day ordinary Treasury bonds from 1.50 to 1.75%; six months ordinary Treasury bonds from 2 to 2.25%.

The Paris market today interpreted the foregoing announcement to indicate that subscriptions to French Government paper have been recently slumping and forward French francs became slightly more offered as a consequence. Reynaud's decrees, however, have had a good reaction in France and have been favorably reflected in European financial newspapers.

As a result of the more cheerful international atmosphere French control is today continuing to gain both sterling and dollars, Chase having the order for dollars. The recovery of the Belga today was due partly to short covering

-2-

covering and partly to the realization that with Gutt as Minister, the Belgian Government even if it gains special powers this week is unlikely to resort to any type of manipulation of an aggressive nature.

Keynes' articles suggesting some sort of control of British capital movements ha<sup>ve</sup> been criticized by the French financial press. The French press reminds the British that their advice given the French to adhere to liberty of exchange has been successfully followed and recommends that this principle be adhered to by the British themselves.

Preliminary discussions are taking place in Paris between Gibson Rovensky, Tiarks, et al, with regard to German standstill agreement.

END MESSAGE

BULLITT

EA:DJW

121

Draft following  
New York City meeting

April 30, 1939 - Fishkill Farms.

122

When I appeared before this Committee on March 24, I said that the Treasury would soon be ready to submit for your consideration its suggestions for changes in the tax system. Your Chairman, Representative Doughton, together with Senator Harrison, has expressed a desire to receive our views in time for possible action at this session of Congress.

In formulating our suggestions for a fiscal program we have taken account of the fact that we are now in the midst of a world situation which imposes on this government a special responsibility. (~~In Europe the democratic form of government is suffering reverse after reverse.~~ It is therefore especially important that we safeguard our democratic institutions, <sup>and to</sup> ~~not only to~~ preserve our own freedom here and now, <sup>1</sup> ~~but also to be a positive influence for other nations and for later generations.~~ We must demonstrate

- 2 -

that a democratic government has the power and the flexibility to survive prolonged crisis and chaotic world conditions and yet emerge with the strength of its free institutions unimpaired.

Preservation of our democratic form of government requires, in my opinion, a fiscal program which has a four-fold objective: (1) The promotion of free enterprise and private investment; (2) the attainment of full business recovery; (3) the placing of our public finances in a sound and unassailable position, and (4) an equitable distribution of tax burdens and an equitable distribution of the national income.

Successful operation of democracy demands that all four objectives be solidly linked together. When we consider any specific change in our fiscal program we must satisfy ourselves that the change makes for a better and not a worse distribution of tax burdens and of national

- 3 -

income; that the change promotes and does not retard business recovery, and that the change makes it easier and not more difficult to establish a balanced relationship between revenue and expenditures.

Full attainment of these objectives is made more difficult by a new and ominous development in world affairs -- the armament race now gripping the important nations of the world. Great Britain in the coming fiscal year is spending \$3 billion on armaments, or almost 50 percent of its national budget; France is devoting over 40 percent of its governmental expenditure to the same purpose; Italy, 50 percent; Germany, probably 60 percent; Japan, over 70 percent. These huge expenditures are being financed largely by borrowing. The race is becoming more intense and there is no end in sight.

For us the danger is that these developments may mean increased cost for national defense, monetary instability.

abroad, disruption of our foreign commerce, and perhaps other unsettlements which we cannot accurately measure. It is against this background that we must reexamine our fiscal program. No major problem facing this government today can be properly solved without full consideration of the position of this country in relation to the present international crisis. The unmistakable implication of this international situation is that we must immediately act to place our fiscal house in order and to redouble our efforts to attain full recovery. High national income and a sound fiscal position are essential to adequate national defense.

A fundamental objective of sound finance is clearly a balanced budget. There is, of course, no good reason why taxes must exactly balance expenditures each year any more than each month, each week or each day. There are periods during which sound fiscal policy calls for an excess

- 5 -

of outgo over income. In a depression it is inevitable that there will be deficits. Revenues decline at the same time that the Federal Government is called upon to undertake inescapable social <sup>and economic</sup> burdens ~~and economic and financial adjustments.~~

(Furthermore, when private investment falls drastically the government is justified in taking action to prevent our economy from crumbling for want of purchasing power, investment and employment.) However, we cannot face an endless succession of governmental deficits and survive as a democratic people. The proper sequel to deficits in emergencies is surpluses during years of prosperity.

I wish to be completely realistic about our fiscal problem. To have attempted to obtain a balanced budget before the time was ripe for such action might only have plunged the country more deeply into depression and jeopardized the very objectives we are striving to achieve.

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A.

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But it is equally dangerous to postpone indefinitely the reduction and elimination of deficits. If the deficits are long continued the depressive effects of uncertainty tend to make recovery more difficult.

The acid test of good government is the attainment of a balanced relationship between revenues and expenditures at the appropriate moment and without impairing the processes and the objectives of democratic government. The principles underlying the program and the program itself should be at all times clear to the people so that business may make its long-term commitments without vague fears of future disruptive tax changes or other fiscal adjustments. ff.

The time has come when, in order to help to recapture the vigor of private capital expansion, we should clearly point out the road we intend to travel through these difficulties toward a sound fiscal policy. We should now take

- 7 -

the steps in this direction.

I suggest as a first step that the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate meet each session as a Joint Committee on Fiscal Policy to consider the over-all aspects of the expenditure and revenue programs. At the present time machinery is lacking for the development and execution of such a plan. The Budget Act of 1921 set up the procedure for the orderly formulation by the executive of fiscal proposals and for their submittal to the Congress as a unified budget. No procedure has been set up in Congress for considering revenues and expenditures together as two inter-related sides of a single problem either in regard to the budget or to the numerous proposals for expenditures outside the budget. (Frequently ~~the key to accomplishing what we all want lies in the invention of new machinery.~~ I believe this is a point at

- 8 -

~~which new machinery would be definitely helpful in achieving a realistic fiscal plan looking forward to an early balancing of the budget.~~ This innovation would, in my opinion, strengthen the democratic processes of government. By providing for unified legislative consideration of all appropriation and revenue measures it would centralize the responsibility within Congress for the management of the government's finances and permit a more intelligent coordination between the executive and the legislative branches of the government in the disposition of the budget.

This Joint Committee might be a funnel through which all appropriations and revenue policies should go so that Congress could scrutinize each of them in the light of what the country can afford. Such a Joint Committee would enable Congress to accept or reject each revenue or expenditure proposal on the basis of a fundamental, consistent fiscal policy. This Committee should have continuous life

and should be actively studying fiscal problems between sessions of Congress as well as during the sessions. The Treasury Department would, of course, cooperate fully in such studies to the extent that the committee desired. I understand that a method similar to this Joint Committee suggestion has been in successful use in the State of Wisconsin for a quarter of a century and that Sweden goes even further by combining both revenue and appropriation legislation in a finance act which is voted at the end of the session.

Thus far I have dealt with the fiscal policy of the Federal Government alone. We must remember, however, that if we had the best plans conceivable for Federal taxation and spending, we still would have touched only half of the tax problem which confronts the nation. More than 50 percent of the total tax revenues of the country are collected by State and local governments.

- 10 -

We have talked about removing injurious Federal-State tax conflicts for the past five years, and our predecessors talked about the same problem. It is now time to act. I recommend that Congress create a small, temporary national commission to report to Congress, perhaps within two years, on the most desirable intergovernmental fiscal policy. Such a commission should be made up of men of ability who enjoy the highest possible public confidence, who are familiar with the fiscal problems of Federal, State and local governments, but who will represent the public at large rather than any governmental unit.

As the result of this Commission's work, we should be able to achieve an ordered relationship between the Federal fiscal system and the State and local fiscal systems. Overlapping taxes have grown in number and size as both Federal and State Governments have sought new revenue. Grants-in-aid are being demanded of the Federal Government in increasing

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amounts. The results of our anarchic fiscal situation are increasingly unsatisfactory to both the State Governments and the Federal Government, and are becoming intolerable to many taxpayers. The new Commission should plan the necessary remedial measures.

I pass now to suggestions with respect to some specific taxes.

The general objective of safeguarding our institutions of free enterprise and private investment requires that any proposed change in our tax system be directed towards decreasing impediments to private investment and increasing the level of business activity.

But we must not lose sight of the other objectives, namely, the attainment of a balance between income and outgo, and equity in the distribution of tax burdens and the national income. If tax revision were to take the form only of tax

reductions the uncertainty of business with respect to our fiscal program would be accentuated. The result would be to injure and not help business. We must take no step which the public may interpret as moving away from the objective of a balanced budget. For these reasons it is necessary that any tax reductions undertaken must be accompanied by compensating tax increases elsewhere.

In the present world situation it is desirable to increase our revenue from taxes which do not interfere with the incentives to private investment and yet contribute to the objectives of a reduction in deficits and greater equity. I wish to emphasize that it is my opinion that under no circumstances must we weaken the revenue producing capacity of our tax structure. I regard this as the cornerstone of any program of tax revision. We should endeavor to increase the revenue producing capacity of our tax system by removing

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the impediments to private investment and by increasing the part played in our fiscal system by taxes which yield correspondingly higher revenues with an increasing national income.

With this in mind I suggest to Congress that it examine the tax system with a view to adjusting those features which may be obstacles to business enterprise. Treasury studies indicate that the following are changes which may fall in this category:

1. Interest on future issues of government obligations -- Federal, State, and local -- should be made fully taxable. The Treasury Department has frequently recommended this action and I wish to repeat the recommendation here.

2. Allowance could be made for business losses to be carried forward and offset against income in the two or three succeeding years. At the present time our failure to recognize any relationship between losses in some years and incomes in others, places an especially heavy burden on business expansion and on other businesses with fluctuating incomes.

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3. Corporations could be allowed to deduct capital losses from their ordinary income, thus avoiding taxation of corporations having deficits, and removing hindrances to investment in securities of new enterprises.

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4. Somewhat greater deduction of capital losses could be allowed individuals.

Too much attention has been paid to tax relief for capital gains and not enough to tax relief for capital losses.

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5. The capital stock and profits excess taxes could be eliminated. The capital stock tax is not based on the actual value of a company nor is the excess profits tax actually a tax on excess profits. The corporation tax system would be greatly simplified, its justice measurably increased and the burden on new and uncertain enterprise diminished, if all corporation taxes were consolidated into a single flat tax on corporate incomes with some concession in rate to corporations having less than perhaps \$25,000.

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6. The top rates in the individual surtax schedule could be lowered. However, I do not believe that this step should be taken until the Treasury's recommendation with regard to tax exempt securities is adopted and perhaps not until capital gains are taxed more equitably.

I shall not discuss in detail any of the six features just mentioned. If you are interested in further information, my staff and I are prepared to furnish it and will be happy to work with you to the extent you may desire.

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Most of the tax changes that I have mentioned will substantially reduce the revenue-producing capacity of the system. If these or other similar changes are adopted ways must be found of replacing the lost revenue. Such revenue sources should be equitable and should have the least harmful effects on business. I suggest the following possibilities:

1. The corporation income tax rate could be increased. This would be appropriate to replace the revenue lost due to adjustments in taxes on corporations.

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2. Increases could be made in the individual income tax rates, particularly in the middle surtax brackets. Such increases would affect the taxes on incomes in the higher brackets as well.

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3. Increases could be made in the middle brackets of the estate and gift taxes, accompanied by a reduction in the exemption for such taxes and elimination of the \$40,000 insurance allowance for the estate tax. A desirable change that would increase the revenue for the future and that would increase equity and reduce avoidance of the estate tax by means of gifts, would be to combine the estate and gift taxes into one integrated tax with one rate schedule and one exemption.

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4. A special privilege of the present law is the allowance of excessive deductions for depletion of oil and gas wells and certain mines. As the Treasury has often pointed out, a substantial amount of revenue can be recovered by closing this loophole. In suggesting this change I am fully aware that it will be opposed by powerful vested interests, despite its obvious equity.

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I think we should continually have in mind that as a general principle of fairness, we ought to increase the proportionate part played by direct taxes that can take account of individual differences in the power to support government. The chief examples of such taxes are the individual income and estate and gift taxes. The Federal reliance on such taxes should be especially great since State and local governments are not able to use them nearly as effectively as is the Federal Government. We should endeavor eventually to eliminate from our Federal tax system the manufacturer excises and other miscellaneous excise taxes that tend to be shifted directly to consumers, with the exception of liquor, tobacco and perhaps other taxes for the retention of which there are special considerations. However, in view of the present revenue needs of the government, it is important that the excise taxes be continued at this time.

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There are many other tax changes of perhaps less importance that should be made in the interests of increased revenue, equity, or simplicity. We shall be glad to submit recommendations along these lines whenever you wish to receive them.

There are perhaps three alternative programs for tax legislation at this session of Congress:

(1) If Congress wishes to delay a program of tax adjustment until a later session, only the minimum necessary legislation might be passed to extend the life of the expiring excise taxes and continuing the corporation income tax rate structure which expires at the end of this year.

(2) Tax changes might be undertaken at the present session of Congress and an act passed making them applicable beginning with the present year.

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(3) Revisions might be completed at the present session and an act passed making them applicable beginning with next year.

In this statement I have discussed a new procedure for formulating Federal fiscal policy suggesting a joint Congressional committee as a means to this end. Secondly, I have stressed the need for a commission to study Federal-State fiscal relations in order to put into effect reforms on which we all agree. Third, I have outlined alternative programs for proceeding with Federal tax legislation.

Mr. Blough's  
final draft

The sheets which appear to be backwards 151  
are in explanation of the text of this draft,  
and were sent to the Secretary in this fashion.

CGH

April 24, 1939

MEMORANDUM FOR THE SECRETARY:

The attached draft of the statement is a revision of the draft of April 21st. In making this revision I have had the benefit of the comments of Mr. Magill, Mr. Viner and Mr. Shoup.

In his comments, Mr. Magill stressed the desirability of a firm presentation of recommendations for increased taxes if the expenditure program cannot be sufficiently reduced. I have given some effect to his suggestion, but perhaps not as much as you will wish.

The explanatory sheets are in preliminary form. We shall be glad to revise them to remedy the deficiencies you find.

RB/cgh

April 24, 1939.

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. Your Chairman, Representative Doughton, together with Senator Harrison, has expressed a desire to receive our recommendations in time for consideration at this session of Congress.

In my statement today I desire to place chief emphasis on the role of fiscal policy in business recovery.

We must rely upon the private enterprise of our country to produce most of our national income and to provide most of our employment. We have all the physical essentials of economic prosperity -- resources, labor, capital, managerial ability, and a vast domestic market. Although our progress from the bottom of the depression has been great, we are still in a period of incomplete business recovery with an inadequate national income and a large volume of unemployment. An important

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contributing factor has undoubtedly been the international economic and political situation. Reduced world trade and fear of war are a drag on our industrial enterprise. Unfortunately, however, the international situation is largely beyond our control. We must find such solution as we can in our own domestic economy.

It is highly important that we increase national income and decrease unemployment. Not only our material well-being is at stake -- the future of our system of government rests largely on the success with which we solve our economic problems. As Secretary of the Treasury, I want to discharge my duty and leave no stone unturned in the fiscal field that might contribute to complete recovery and continued prosperity.

As I said in November 1937, "The basic need of today is to foster the full application of the driving force of private capital." One of the obstacles to long-term commitments in private enterprise seems to be an uncertainty over the general fiscal policy of the government. Almost everyone believes that the budget must be balanced

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eventually, and, moreover, evidently believes that it cannot be done without cutting the expenditure program, or, if this fails, increasing tax rates. So long as there is no firm indication of when or how the balance is to be achieved, investors will be uncertain what taxes will be imposed or what expenditures will be decreased, and consequently their own business plans remain uncertain.

There is, to be sure, no inherent reason why taxes must exactly balance expenditures each year any more than each month or each week. In periods of temporary depression it is inevitable that there will be deficits. Revenues decline and expenditures increase too rapidly to make possible immediate achievement of a balance by tax increases. Relief must be given to human needs caused by the depression. In such times, furthermore, it may be justifiable deliberately to incur a fiscal deficit for the sake of the stimulus which the spending of newly created money may give to business activity.

If the deficit is long-continued, however, the depressive effects of uncertainty increasingly tend

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to nullify the stimulus of the spending. Furthermore, a necessary sequel to deficits in depression is that in years of very active business an excess of taxes above current expenditures should be collected and applied to reducing the public debt. In this way the government can be prepared for the strain of new emergencies without the burden of high taxes for debt service.

Fiscal deficits are thus defensible only if they are part of a program which envisages substantial surpluses within a few years and which is announced in enough detail to remove major uncertainties and fears concerning fiscal policy.

I wish to be completely realistic about this matter of fiscal policy. Balancing the budget this year or next appears to be impossible. Without attempting to forecast what action Congress will take, I think it is abundantly clear that the appropriations will be vastly in excess of anticipated revenues. Furthermore, the formulation and adoption of a financial plan pointing clearly to a balanced budget in later years will not be easy. Although the existing tax system is a powerful one and in

ESTIMATED EXPENDITURES FOR FISCAL YEARS 1939  
AND 1940 AND ACTUAL EXPENDITURES FOR FISCAL YEAR  
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years of high business activity may produce sufficient revenue to meet expenditures, there is no reasonable prospect that it will enable us to reduce the public debt substantially in such years. Consequently, if higher taxes are to be avoided, the total of expenditures must be substantially lowered.

If we are to reach the goal in this way, we must force ourselves to realize how difficult will be the task of getting a net reduction in expenditures. One-half of our total expenditures are for national defense, relief and recovery. A large and growing part of these expenditures is made necessary by forces outside our power to control. I refer to the armaments race abroad and its inevitable reaction on our own expenditures for defense. The German national government has been devoting from 40 to 60 percent of its total outlays in the last few years to armaments. Great Britain has recently departed from a long-established tradition of annually balanced budgets and in the fiscal year 1940 is spending £580 million on armaments, most of which is to be borrowed money. Forty-three percent of the French national budget in 1939 is for the same kind of expenditure. In Italy, 50 percent of the 1939 national budget is to be devoted to this purpose.

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It is not easy to grasp at once the full implications of these facts for our own budget. While we fortunately need not go to such extremes, we cannot avoid going part way; and that in turn means that we must stint ourselves on other expenditures if we are to maintain fiscal sanity. We are in the position of a family whose house is suddenly threatened by a hurricane. The efforts and financial resources of the family must first of all be devoted to strengthening the shelter against the storm for which they are not responsible and which they cannot control. As a result, many of the luxuries of life must be foregone for the time being, and there may have to be curtailment of what are normally considered necessities. The alternative is one that, I take it, we cannot consider; fiscal irresponsibility, and a failure to look beyond the next month or next year.

The minimum needs for recovery and relief depend on business conditions. Expenditures for these purposes can decline as recovery proceeds. On the other hand, even in such a period we must expect a perfectly understandable pressure for a number of other worthy expenditures having nothing to do with national defense or relief.

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Finally, it is desirable to keep in touch with reality by reminding ourselves that any chance of budget balancing over the long term through expenditure reduction involves a reduction on the order, not of a few hundred million dollars a year but of more -- perhaps appreciably more -- than a billion dollars a year.

I emphasize these points, not to indicate any feeling that a sound fiscal goal through reduction of the expenditure total is beyond our reach, but to emphasize my belief that a definite policy and firm resolution to give effect to it are necessary.

There is only one sound alternative to reduced expenditures -- increased taxes. The points at which any such increases might in my opinion best be made, will be indicated in a later portion of my statement dealing specifically with taxation. I should like to make it clear, however, that I think the preferable way to attain our general fiscal aim is through a reduction in the total of expenditures rather than through an increase in taxation, and that the time has arrived to take the first steps in this direction. Every proposed

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expenditure, without exception, should be scrutinized with the general fiscal policy in mind.

Mere talk of such scrutiny, of a definite policy and a firm resolution, is not in itself likely to give our economy the reassurance it needs. The real encouragement will come when a plan has been adopted that the community recognizes to be realistic. The Congress will know what mechanism is best suited to the development of such a plan. As far as I know, the committees charged with considering appropriations and revenues work independently of each other.

I know from conversations with many of you that the lack of consultation makes it difficult to bring about the objective that both you and I desire. A method that might well be of assistance would be for the Ways and Means and Appropriations Committees of this House, and the Finance and Appropriations Committees of the Senate to meet each session as a Joint Committee on Fiscal Policy to consider the overall aspects of the expenditures and revenue programs. In this way each expenditure proposal could be compared with all others in the light of the total resources available. I understand that a method similar to this joint-committee suggestion has been in successful use in

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the State of Wisconsin for a quarter of a century; and that Sweden goes even further by combining revenue and appropriation legislation in the finance act, which is voted at the end of the session.

Thus far I have been dealing with the fiscal policy of the Federal Government alone. There is, however, another highly important problem which concerns both the Federal and the State Governments. We should bear in mind that more than half the total of tax revenues is collected by State and local governments. There is no unity or ordered relationship between the Federal fiscal system and the State and local fiscal systems. Overlapping taxes have grown in number and size as both Federal and State Governments have sought new revenue. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results of our anarchic fiscal situation have become increasingly unsatisfactory to both the State Governments and the Federal Government, and are becoming intolerable to many taxpayers.

There has been much consideration of how order can be introduced into the Federal-State fiscal picture.

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The Treasury Department has been studying aspects of the problem for several years. It is, however, a problem of such great scope that special methods will be required for substantial accomplishment. We have had talks and proposals; it is now time to act. The suggestion for getting action that, in my opinion, holds most promise, is for Congress to create a small, temporary national commission similar to the British Royal Commissions that have done so much to promote fundamental reforms. Such a 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, perhaps in two years. I recommend that Congress create such a commission at this session.

I pass now from the problems of general fiscal policy to those of taxation.

Some people say that the way to stimulate business is to cut taxes. That would be an easy and popular

thing to do and I should like to be able to agree with it, but I must instead condemn it with all my strength. A country that is facing the deficit that we face and that has been passing through a series of deficits, as we have, should not even consider such a move. Its adoption would convince everyone that there was no intention of ever balancing the budget.

This does not mean that no changes should be made in the present tax system. On the contrary, there appear to be at least three general ways in which obstacles to business enterprise might be removed by shifts in tax burdens that would not reduce revenues and would be fundamentally sound.

(1) The first way is to make the chances for profit in new and therefore venturesome undertakings greater than they now are. Our present tax system, especially in the income tax, contains features which operate against new enterprise, and which, at the same time, are inequitable. In my opinion the following changes should be made.

Tax-exempt securities

Present law. At present the interest on State and local obligations is exempt from the corporation income tax and from the individual normal income tax and surtax. The interest on Federal obligations is in part similarly exempt and in part exempt only from the corporation income tax and the individual normal tax.

Recommendation. Enact legislation providing for full Federal taxation of the interest on Federal, State, and local obligations issued in the future and conferring power on the States to tax interest on Federal obligations issued in the future.

Reasons for change. The exemption of interest on government obligations from the income tax is incompatible with the principle of ability to pay. It provides a tax-free haven to persons in the higher income brackets, and consequently they are less likely to invest their capital in private enterprise. Further, to the extent that the higher income classes avoid their share of taxes by holding tax-exempt securities, persons with smaller incomes must be taxed higher to make up the revenue loss. The elimination of tax exemption would make the tax system more equitable and stimulate investment in risky enterprises by those best able to bear such risks.

Example. A married man with no children or other dependents with an income of \$1,000,000, half of which is derived from tax-exempt interest, is at present taxed at an effective rate of 30.4 percent, whereas if all his income were taxable, the effective rate would be 67.9 percent. For an individual with net income from other sources of \$500,000 an investment in fully tax-exempt securities at 3 percent results in the same net yield as taxable securities bearing an interest rate of 10.71 percent.

Revenue effects. For years following the complete retirement of tax-exempt securities the additional annual income tax revenue to the Federal Government is estimated from \$179,000,000 to \$337,000,000. The annual increase in interest costs to the Federal Government and Federal instrumentalities is estimated from \$19,000,000 to \$50,000,000 and to the State and local governments from \$40,000,000 to \$105,000,000. It is difficult to estimate the increased revenue to State and local governments. For the immediate future there will be little additional revenue or interest cost for either Federal or State and Local governments.

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Interest on future issues of government obligations, Federal, State, and local, should be made fully taxable under the income tax. The Treasury Department has frequently recommended this action.

Carry-forward of business losses

Present law. Individuals and corporations are now taxed on their annual incomes without being allowed a deduction for business losses sustained in prior years. During the period 1921-1932 taxpayers were allowed to offset current income with prior year losses.

Recommendation. Allow net losses of business, both individual and corporate, to be offset against the income of the succeeding year, and any loss not thus absorbed to be carried forward and offset against the income of the following two years.

Reason for change. The taxation of business income on a yearly basis may result in taxes being imposed on businesses which over a period of years have no net income. Types of business with irregular incomes pay higher taxes than those with regular incomes. The allowance of a net loss carry-over helps to eliminate this discrimination. It would tend to stimulate new enterprise and the capital goods industries, both of which characteristically have variable incomes.

Example. A corporation that loses \$50,000 in each of three years and in the fourth makes \$150,000 obviously has no income for the whole four-year period. Yet under the present law, because losses cannot be carried forward, the income tax will be from \$24,750 to \$28,500, depending upon the amount of dividends paid out. If losses could be carried forward, no tax would be levied.

Revenue effects. If individuals were allowed to carry forward business losses for three years, it is estimated that the loss in revenue would amount to from \$7,500,000 to \$10,800,000 and for corporations the loss would be from \$17,800,000 to \$167,200,000 depending upon the level of business conditions assumed and the pattern of income in the prior years.

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Allowance should be made for business losses to be carried forward and offset against income in future years.

The limitation on deduction of corporate capital losses

Present law. Under the present law any excess of corporate capital losses over capital gains can be deducted from ordinary income only to the extent of \$2,000. Prior to 1934 corporations were permitted to deduct capital losses from ordinary income without limitation.

Recommendation. Allow corporate capital losses to be deducted in full from ordinary income.

Reason for change. The failure to offset net capital losses fully against ordinary income may result in imposing a high income tax on corporations with a very low income or even with a deficit. If corporations were allowed to deduct their net capital losses from other income without limitation, they would be less cautious in investing in securities of other corporations and in undertaking expansion of their own plants.

Example. A corporation that has ordinary income of \$1,000,000 and net capital losses of \$5,000,000 is nevertheless required under the present law to pay a tax of from \$164,670 to \$189,620, depending upon the amount of dividends paid out. If capital losses could fully offset ordinary income, no tax would be levied.

Revenue effects. If the limitation on the deduction of net capital losses from other income were eliminated it is estimated that on the basis of calendar year 1939 level of business conditions the revenue would be decreased \$68,100,000.

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Corporations should be allowed to deduct  
capital losses from their ordinary income.

Capital losses of individuals

Present law. Short-term losses from assets held not more than 18 months are allowed to offset short-term gains but may not offset ordinary income. Short-term losses in excess of short-term gains may be carried forward to offset such gains of the succeeding year. In computing taxable income two-thirds of the long-term losses are taken into account if the assets are held more than 18 but not more than 24 months, and one-half if the assets are held more than 24 months. The amount of long-term losses taken into account may be fully deducted from net income, or segregated and a tax credit computed at a rate of 30 percent, whichever method results in the greater tax.

Recommendation. Allow short-term losses to offset both short- and long-term gains instead of only short-term gains; allow net short-term losses to be carried forward for three years instead of one year; allow net long-term losses to the extent not offset against ordinary income of the current year to be carried forward for three years; and increase the rate for the computation of the tax credit on long-term losses under the method of segregation from 30 percent to 50 percent, to accord with the corresponding recommendation on capital gains.

Reasons for change. The present capital loss provisions are inequitable and discourage the assumption of business risks. The possibility of manipulating short-term capital losses so as to offset ordinary income by timing the sales of assets laden with loss constitutes a sufficient reason for disallowing short-term capital losses as a deduction from ordinary income. The hardship which this occasions should, however, be ameliorated by allowing short-term losses to be carried forward for more than one year and allowing them to be offset against long-term capital gains. Since capital gains and losses are highly irregular, the taxation of large gains in one year without allowing an offset for both short- and long-term capital losses of preceding years cannot be justified. The allowance of the capital loss carryover, like the allowance of the net loss carry-over, would, by putting the tax more nearly on an average basis, improve its equity.

Example. A married man with no dependents receiving \$750,000 ordinary income and \$250,000 long-term capital gains is now required to pay \$526,594 income tax. If two years ago he had net short-term capital losses of \$500,000 and net long-term capital losses in excess of ordinary income of \$250,000, under the present law he would still be required to pay the same amount of tax, because such losses are not taken into account in the computation of his current year's tax liability. Under the recommendations, on the other hand, his short-term capital losses of two years ago could offset his current long-term capital gains, and the long-term capital losses of two years ago could reduce the ordinary income from \$750,000 to \$500,000, resulting in a tax of \$304,144 and leaving \$250,000 of short-term capital losses to be carried forward.

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Somewhat greater deduction of capital losses, perhaps in the carry-forward provisions, should be allowed individuals.

## Repeal of capital stock and excess-profits taxes

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Present law. At present the capital stock tax is based upon a declared value which the taxpayer may revise every three years. The declared value may be any figure the taxpayer desires to make it regardless of the actual value of the stock. The excess-profits tax applies to profits in excess of 10 percent of the declared value.

Recommendation. Repeal the capital stock and excess-profits taxes -- the capital stock tax effective for years beginning after June 30, 1939, and the excess-profits tax effective for the first income tax year ending after June 30, 1940.

Reason for change. The capital stock and excess-profits taxes are highly uncertain and inequitable. These taxes depend upon the amount of profit actually realized during each year of a three-year period and the taxpayer's ability to forecast these profits accurately at the beginning of the period. Forecasts of profits are especially difficult to make in the case of new businesses and businesses with unstable incomes. The repeal of these taxes would be stimulating to such businesses, because it would remove the unduly high tax burdens resulting from erroneous forecasts.

Example. A corporation with incomes of \$1,000,000, \$2,000,000, and \$500,000, respectively, in each of three years, declaring a capital stock value of \$10,000,000, is under the present law required to pay capital stock and excess-profits taxes of \$120,000 for the three years. If the value declared had been \$7,500,000, the taxes would have been \$165,000, and if the value declared had been \$12,500,000, the taxes would have been \$90,000. The closer the declared value is to ten times average earnings, the lower are the combined capital stock and excess-profits taxes. Any substantial departures from such a declared value result in higher taxes.

Revenue effects. If the capital stock tax and excess profits taxes are repealed, it is estimated on the basis of calendar year 1939 business conditions that the revenue would be reduced \$122,400,000.

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Tax penalties on the issuance of capital stock as compared to the issuance of bonds should be removed through elimination of the capital stock and excess profits taxes

Provision for a substantial dividend credit to individuals

Present law. Under the present law dividends received by individuals are subjected to both normal tax and surtax. Prior to 1936 they were subject only to surtaxes.

Recommendation. Preferably allow a tax credit against the individual income tax amounting to a percentage, perhaps 10 percent, of dividends received. If the resulting loss of revenue is too great to make this possible, at least exempt dividends that are received by individuals from the normal tax, as before 1936.

Reason for change. The present procedure in effect results in double taxation of the same income, since the income is taxed once to the corporation when earned and again to the individual when distributed as dividends. The resulting burden upon the low-income-class investor is relatively great since the burden of the corporate tax is the same on him as on the investor with a large income. Financing through stock is discouraged as compared to financing through bonds and other forms of borrowing since interest is allowed as a deduction to the corporation for income tax purposes and dividends are not. The recommendation would reduce, although it would not eliminate, double taxation effects.

Example. At the present time corporate profits paid as dividends to persons with low taxable incomes bear a minimum tax burden of approximately 20 percent (including the corporation tax). This effective income tax rate is not paid by individuals on interest or other types of income until their net taxable incomes exceed approximately \$55,000. (Specific example of effects of changes on different income levels is in course of preparation.)

Revenue effects. Revenue effects of a 10 percent tax credit are not yet available. It is estimated that on the basis of calendar year 1939 business conditions the exemption of dividends from normal tax would result in a loss of revenue of \$105,500,000.

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and by provision for a substantial dividend  
credit to individuals.

### Reduction in top surtax rates

Present law. The maximum surtax rate is now 75 percent on net incomes in excess of \$5,000,000. Under the 1932 Act it was 55 percent on incomes in excess of \$1,000,000, and under the 1926 Act, effective for the period through 1931, it was 20 percent on incomes in excess of \$100,000.

Recommendation. Reduce the upper surtax rates to a maximum of 60 percent, leaving the maximum combined normal and surtax rate at 64 percent.

Reason for change. The present top bracket rates are too high. Disregarding State taxes, the taxpayer is left with as little as twenty-one cents out of his highest dollar of income. If State taxes are taken into account, even less is left. The high rates tend to discourage the assumption of business risks, to bring about the hoarding of savings or the purchase of tax-exempt securities, and to depress the economy. If the surtax rates were reduced to a maximum of 60 percent, wealthy individuals would be encouraged to assume certain business risks which with the present high rates do not appear to be worthwhile. There is no particular reason for setting the maximum at 60 percent.

Revenue effects. If the top bracket surtax rate is limited to 60 percent and all other provisions in present law remain unchanged, it is estimated on the basis of calendar year 1939 business that the revenue from the individual income tax would be reduced \$11.5 million.

The top rates in the individual surtax schedule should be reduced. I shall not discuss these features in detail. If you are interested in further information concerning them, or any other aspects of this statement, my staff and I are prepared to furnish it and will be happy to work with you to the extent you may desire.

(2) A second way in which to make our tax laws less of an obstacle to investment and business expansion is to avoid taxation of a kind that may impair a business firm's working capital — a result that may occur when the firm is operating at a loss or is trying to make good a cash drain caused by recent losses. Some of the changes previously mentioned would operate in this direction, namely, elimination of the capital stock tax; allowance of a business loss carry-over to future years; and increase in the deductibility of capital losses by corporations and of capital losses in general.

Present law. Under the present law several corporation taxes are imposed: a capital stock tax, an excess-profits tax, an undistributed profits tax, and the ordinary income tax. The income tax itself is complex. A flat rate, together with what in effect is a tax on undistributed profits, is imposed on corporations with incomes over \$25,000. Graduated rates are imposed on corporations with incomes of \$25,000 and less. Further, several classes of corporations, irrespective of their size, are subject to flat income tax rates.

Recommendation. Substitute for the capital stock tax, excess-profits tax, and the corporation income tax (which in the 1938 law includes a tax on undistributed profits in the form of a credit for dividends paid) a single corporation tax on net income. If other previously recommended changes in corporation taxes are made to permit loss carry-over and deduction of capital losses from ordinary income, the rates of such a tax would need to be approximately 18 percent on net incomes under \$10,000, 19 percent on net incomes of \$10,000 to \$25,000, 21 percent on net incomes of \$25,000 to \$50,000, and 22 percent on net incomes of \$50,000 and over, in order to replace the revenues of the existing corporation tax structure.

Reasons for change. The present system of corporate taxes is complex, discouraging to enterprise, and inequitable. The capital stock and excess-profits taxes have been discussed previously. The undistributed profits tax component has added substantially to the complexity of the corporation income tax. At the present rate it is ineffective and there seems no possibility of securing passage of an effective tax, while the hostility to it is very great. If all corporate taxes are consolidated into a single tax on net income, the taxes on new business, on business with unstable incomes, and on business with no income would be substantially reduced. The increases would, in general, fall on the larger and more stable businesses.

Example. A corporation with net income of \$1,000,000 declaring the most favorable value for its capital stock, \$10,000,000, is required under the present law to pay corporate taxes of from \$175,000 to \$200,000, depending upon the distribution of dividends, as against \$218,900 under the proposed single corporation income tax. If the corporation made a less favorable declaration of capital stock value — either higher or lower — the taxes under the present law would be relatively greater. If in the next year this corporation had no net income, it would under the present law still be required to pay a capital stock tax of \$10,000, whereas under the single corporation income tax there would be no tax liability.

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(3) Other changes that would help business are those which lessen the complexity of the tax structure. A highly productive tax system such as ours cannot be very simple if it is to be equitable and not excessively burdensome at any point. However, we can continue to move towards simplicity in both administration and legislation. I believe the current decentralization of the operations of the Bureau of Internal Revenue to permit tax differences to be settled close to the taxpayer's residence is an administrative move in that direction.

A major legislative move in the same direction would be to substitute a single corporation tax on net income for the four different corporation taxes now imposed. These corporation taxes are a capital stock tax and an excess profits tax enacted in 1932, a remnant of the 1936 undistributed profits tax, 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 excess profits. Both depend largely on the ability of management to forecast profits. Whatever the merits of the undistributed profits tax in its form in the present law, it produces nothing but irritation. 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.

In the previous section I have discussed the types of change in the tax system that would remove obstacles to enterprise. Since most of those changes will reduce the revenue-producing power of the system, we must find ways of replacing the lost revenue. Furthermore, if additional taxes should prove to be necessary due to an insufficient reduction in the expenditure program,

## Percentage depletion

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Present law. Percentage depletion is allowed in the present law for oil and gas wells at the rate of  $27\frac{1}{2}$  percent of gross income; for metal mines, 15 percent; for sulphur mines or deposits, 23 percent; and for coal mines, 5 percent. The percentage depletion is limited, however, to 50 percent of the net income computed without allowance for depletion.

Recommendation. Reduce the percentages for depletion by 50 percent, to be  $13\frac{3}{4}$  percent for oil and gas wells,  $7\frac{1}{2}$  percent for metal mines,  $11\frac{1}{2}$  percent for sulphur mines or deposits, and  $2\frac{1}{2}$  percent for coal mines. (Even greater decreases could be justified.)

Reasons for change. The purpose of depletion, like the purpose of depreciation, is to enable the taxpayer to recoup his capital investment in the property tax-free. If, however, the depletion charges are related to gross income rather than cost, it is possible for the taxpayer to continue to take a deduction for depletion long after the full cost of the property has been charged off. So long as the property is producing, the depletion charges continue. Percentage depletion thus provides what is in effect a subsidy to the oil and mineral interests, a privilege not granted to other types of business. This subsidy is not uniform among the different oil and mineral industries or among concerns in any of them. Concerns with low-cost, long-lived properties receive the most benefit. The excessive deductions under percentage depletion are thus inequitable, while they result in a substantial loss in revenue.

Example. If a corporation takes \$5,000,000 depletion allowance for oil and gas properties on the basis of  $27\frac{1}{2}$  percent of gross income, while only 10 percent of gross income is required to return the cost of the properties, the corporation in effect receives a tax subsidy of from \$525,000 to \$604,545, depending upon the amount of dividends distributed. Sample studies indicate that on the average the percentages of gross income necessary to return cost are less than 10 percent, and that in many instances much less than 10 percent would be sufficient.

Revenue effects. If the percentages of gross income allowable for depletion were reduced 50 percent, it is estimated that on the basis of calendar year 1939 business conditions the revenue would be increased \$16,500,000.

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they should be imposed in ways that would be equitable and would have the least harmful effects on business. I present the following brief summary of methods suggested for your consideration.

(1) Certain changes that would increase revenues should be made in any event because of their effects on tax equity. Excessive depletion deductions for oil and gas wells and certain types of mines should be eliminated. As the Treasury has often pointed out, a large amount of revenue can be recovered by closing this loophole.

## Capital gains of individuals

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Present law. Short-term gains from assets held not more than 18 months are fully included in net income and are subject to normal and surtax rates. Long-term gains are included to the extent of  $66\frac{2}{3}$  percent if the asset is held more than 18 but not more than 24 months and 50 percent if the asset is held more than 24 months. The amounts of long-term gain included are subject to the normal and surtax rates or are segregated and taxed at 30 percent, whichever method results in less tax. The maximum rate on long-term capital gains is therefore 20 percent if assets are not held more than 24 months and 15 percent if held longer.

Recommendation. Increase the rates on long-term gains. The maximum rate applicable to such gains would be increased by two-thirds if the flat rate applied to the amounts of gain included were raised from 30 to 50 percent. The net maximum rate on long-term gains would thereby be increased from 20 percent to  $33\frac{1}{3}$  percent if assets were held not longer than 24 months, and from 15 percent to 25 percent if assets were held longer than 24 months. Rates on capital gains received by persons in the lower brackets of income would not be affected.

Reason for change. Income received in the form of capital gains represents an increase in an individual's command over goods and services of the community and should be taxed as income. Somewhat lower rates of tax on long-term capital gains than on other forms of income are justified, since such capital gains may accrue over several years, while for tax purposes they are taxed in the year realized and thus are subjected to higher surtax rates than is the same amount of ordinary income received over the same number of years. However, present differences are excessive. Furthermore, the use of flat maximum rates benefits persons with incomes in the higher brackets, but is of no value to persons with small incomes. The increase in the tax rates on capital gains would help to restore equity in taxation as between those whose incomes are largely capital gains and others whose incomes are in other forms, such as wages, dividends, and interest.

Example. The tax on a married man with no dependents with \$1,000,000 ordinary income is \$679,044. If half his income were from long-term capital gains - \$250,000 from assets held 20 months and \$250,000 from assets held 3 years - his total tax under the present law would be \$391,647. Under the recommended increase in rates on capital gains the tax would be \$449,982.

Revenue effects. If the flat rate applicable to the amounts of long-term gains under the alternative segregated method were increased from 30 percent to 50 percent, it is estimated that on the basis of the capital gains and losses in the calendar year 1939 the increase in revenue would be \$13,100,000.

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The capital gains tax rates on individuals might well be brought closer to the rates on other incomes. This could be done without substantial discouragement to investment, provided the capital loss deductions were made more generous, as previously mentioned.

Present law. Under the present law transfers of property during life are taxed under the gift tax, the gifts made by any one person throughout his life being cumulated for the application of rates. Transfers at death are taxed under the estate tax. The two taxes (except for gifts in contemplation of death) are independent of one another with separate exemptions and rate scales. Although the gift tax rates throughout the scale are three-fourths as high as the estate tax rates, coordination is lacking, because the burden imposed by the two taxes combined depends not only upon the value of the total amount transferred but also upon the extent to which the property is transferred during life. The tax imposed on gifts is on the net value going to the donee, while the tax imposed on estates is on their value before deducting the tax.

Recommendation. Combine the estate and gift taxes into a single transfer tax, with gifts being cumulated, and with the transfer at death being cumulated with the gifts as the final transfer. The net gifts during life would be added to the value of the estate transferred at death, a tentative tax computed on the aggregate, and, in determining the tax on the transfer at death, a credit against the tentative tax allowed on account of gift taxes paid during life. Distribution of the property during life could be encouraged, if desired, by increasing the credit for taxes paid on gifts above their actual amount.

Reason for change. Under the present law it is possible to avoid much of the estate tax by a judicious division of the transfers during life and at death, taking double advantage of the exemptions and low bracket rates of each tax. This advantage is especially great in the case of individuals with large properties. Under a single coordinated transfer tax much of the inequity resulting from the present system of independent transfer taxes would be eliminated and a major loophole for tax avoidance substantially closed. The change is probably constitutional, although no directly applicable case has been decided.

Example. In the case of a property transfer of \$10,000,000 net value (10 percent of which is insurance payable to beneficiaries other than the estate, \$5,000,000 being distributed during life to 3 persons over a period of 5 years), the combined estate and gift taxes under the present law amount to 25.8 percent of the net value transferred, as against 36.8 percent under a coordinated single transfer tax at existing estate tax rates and with no extra credit for taxes paid on gifts. If in computing the tax at death taxes paid on gifts were credited at one-third more than their actual amount, the effective rate of the combined taxes would be 30.5 percent.

Revenue effects. It is estimated that the coordination of the estate and gift taxes under the present estate tax rates, allowing a specific exemption of \$40,000, would in the future increase the revenue by \$23,700,000 to \$70,200,000, depending upon the level of property values. The immediate effect would be to reduce the incentive to make gifts and thus to reduce the revenue from the gift tax.

A desirable change that would increase the revenue for the future is to coordinate the estate and gift taxes into one tax.

(2) The revenue lost owing to adjustments in taxes on corporations could properly be replaced by increases in the corporation income tax rate, while revenue lost due to adjustments in taxes on individuals could be replaced by increases in the individual income tax rates, particularly in the middle surtax brackets.

(3) If additional revenues are needed, the least discouraging effect on business would probably result from further rate increases in the middle brackets of the personal income tax and the estate and gift taxes, accompanied by a reduction in the exemption for estate and gift taxes and elimination of the \$40,000 insurance allowance for the estate tax. In view of present

Recommendation. No specific recommendations are made.

Reason for change. If the revenue system is to be made more equitable by removing certain of the undesirable indirect taxes that now unduly burden the low income classes, and if the income tax itself is to be improved by allowing losses to offset profits and gains and in other ways, so that it will not curb business enterprise, it is necessary to increase the revenue-raising powers of the individual income tax. The top rates are now too high and should be lowered. Consequently, if the individual income tax is to raise more revenue, the middle bracket rates must be increased.

Example. No specific example can be given.

Middle bracket individual income tax rates

Present law. The individual income tax rates under the present law are relatively low on incomes under \$250,000. The effective rate of tax on \$10,000 received by a married man with no dependents is only 4.2 percent; on \$20,000 it is 7.9 percent, on \$40,000, 14.9 percent, on \$100,000, 32.5 percent, and on \$250,000, 51.3 percent.

The existing surtax rate schedule of the income tax is as follows:

Amount of surtax net income	:Rate: per- cent:	Total surtax cumulative:	:	Amount of surtax net income	:Rate: per- cent:	Total surtax cumulative
0 - \$ 4,000	0	0	\$	62,000 - \$ 68,000	39	\$ 14,000
4,000 - 6,000	4	80		68,000 - 74,000	43	16,580
6,000 - 8,000	5	180		74,000 - 80,000	47	19,400
8,000 - 10,000	6	300		80,000 - 90,000	51	24,500
10,000 - 12,000	7	440		90,000 - 100,000	55	30,000
12,000 - 14,000	8	600		100,000 - 150,000	58	59,000
14,000 - 16,000	9	780		150,000 - 200,000	60	89,000
16,000 - 18,000	11	1,000		200,000 - 250,000	62	120,000
18,000 - 20,000	13	1,260		250,000 - 300,000	64	152,000
20,000 - 22,000	15	1,560		300,000 - 400,000	66	218,000
22,000 - 26,000	17	2,240		400,000 - 500,000	68	286,000
26,000 - 32,000	19	3,380		500,000 - 750,000	70	461,000
32,000 - 38,000	21	4,640		750,000 - 1,000,000	72	641,000
38,000 - 44,000	24	6,080		1,000,000 - 2,000,000	73	1,371,000
44,000 - 50,000	27	7,700		2,000,000 - 5,000,000	74	3,591,000
50,000 - 56,000	31	9,560		5,000,000 up	75	
56,000 - 62,000	35	11,660				

The tax and effective rate of tax on a married man with no dependents at various income levels is as follows:

Net income before exemption	: Amount of tax :	: Effective rate :	:	Net Income before exemption	: Amount of tax :	: Effective rate :
\$ 3,000	\$ 8	0.3		\$ 100,000	\$ 32,469	32.5
6,000	116	1.9		250,000	128,294	51.3
10,000	415	4.2		500,000	304,144	60.8
20,000	1,589	7.9		1,000,000	679,044	67.9
40,000	5,979	14.9		5,000,000	3,788,994	75.8

Net estate before exemption	Tax	Effective rate
\$ 50,000	\$ 200	0.4%
100,000	4,200	4.2
400,000	58,600	14.7
1,000,000	211,000	21.1
4,000,000	1,388,800	34.7
10,000,000	4,936,600	49.4
60,000,000	39,334,600	65.6

Recommendation. No specific recommendation.

Reasons for change. The excessive specific exemptions allowed under the present estate and gift taxes limit transfer taxation to a comparatively few large estates. The insurance exclusion discriminates in favor of investment in life insurance as against other desirable forms of investment. The transfer tax, like the individual income tax, is levied at graduated rates and is one of the most important instruments for bringing about an equitable distribution of tax burdens and a more equal distribution of wealth. The role of the transfer taxes should be increased, especially since it is desirable to repeal some of the indirect and other regressive taxes that now are included in the tax system. This would be done if the estate and gift taxes were coordinated, if the exemptions were lowered, if the insurance exclusion were disallowed, and if the middle bracket rates of the single transfer tax were raised substantially above those in the present estate tax.

Example. No specific example can be included.

Exemptions, insurance exclusion, and middle bracket  
rates of the estate and gift taxes

Present law. Under the present law a specific exemption of \$40,000 and an exclusion of \$40,000 for insurance payable to beneficiaries other than the estate are allowed under the estate tax, and a specific exemption of \$40,000 is allowed under the gift tax. The middle bracket estate tax rates are low. The effective estate tax rate on a net estate of \$50,000 is only 6 percent, on a net estate of \$100,000, 9.6 percent, and on a net estate of \$400,000, 16.7 percent.

The estate tax rate schedule is as follows:

(Dollars in thousands)

Net estate	: Bracket :	Cumulative ::	Net estate	: Bracket :	Cumulative
	: rate :	tax ::		: rate :	tax
\$ 0 - \$ 10	2%	-	\$2,000 - \$2,500	38	\$ 557.6
10 - 20	4	.2	2,500 - 3,000	41	747.6
20 - 30	6	.6	3,000 - 3,500	44	952.6
30 - 40	8	1.2	3,500 - 4,000	47	1,172.6
40 - 50	10	2.0	4,000 - 4,500	50	1,407.6
50 - 70	12	3.0	4,500 - 5,000	53	1,657.6
70 - 100	14	5.4	5,000 - 6,000	56	1,922.6
100 - 200	17	9.6	6,000 - 7,000	59	2,482.6
200 - 400	20	26.6	7,000 - 8,000	61	3,072.6
400 - 600	23	66.6	8,000 - 9,000	63	3,682.6
600 - 800	26	112.6	9,000 - 10,000	65	4,312.6
800 - 1,000	29	164.6	10,000 - 20,000	67	4,962.6
1,000 - 1,500	32	222.6	20,000 - 50,000	69	11,662.6
1,500 - 2,000	35	382.6	50,000 -	70	32,362.6

The gift tax rates are three-fourths of the estate tax rates.

The tax and effective rates under existing law for selected sizes of net estate (before exemption) are as follows:

business conditions it would be desirable to postpone for a year or so the economic impact of any such increases in income tax by providing that such increases in rate should not be effective until 1940 or 1941.

This postponement will come almost automatically for the estate tax, owing to the long period of time allowed for payment.

I think we should continually have in mind that as a general principle of fairness, we ought to increase the proportionate part played by direct taxes that can take account of individual differences in the power to support government. The chief examples of such taxes are the individual income and estate and gift taxes. The Federal reliance on such taxes should be especially great since State and local governments are not able to use them nearly as effectively as is the Federal Government. We should endeavor eventually to eliminate from our Federal tax system the manufacturers' excises and other miscellaneous excise taxes that tend to be shifted directly to consumers, with the exception of liquor, tobacco and perhaps

other taxes for the retention of which there are special considerations. However, in view of the present revenue needs of the government, it is important that the excise taxes be continued at this time.

In discussing what revenue sources are most desirable -- or least undesirable -- I have spoken as if we had free choice between good tax measures and bad tax measures. To some extent we do have it, but as we seek more and more revenue, the choice becomes increasingly restricted. Already we have less real choice than we are apt to realize. Any tax, however good, if pressed too far, becomes unduly burdensome or goes beyond the point of maximum revenue, or both. It will be a serious matter if we have employed our taxes so fully that virtually all considerations of fairness and effects on business must give way in order that every feasible tax may be used to its practicable limit.

In this statement I have discussed four matters which seem to me to be of very great importance. The first related to the imperative desirability of planning expenditures to the end that the Federal budget may

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be really balanced within the next few years, and suggested some means for attaining this end. The second related to Federal-State fiscal relations and suggested a commission as the most promising method of solving the complex problems involved. The third suggested changes in taxation that would remove specific burdens on enterprise; while the fourth indicated the possible sources of replacement revenue and of new revenue if it should prove essential.

In closing, I should like to stress that if we are to give businessmen the reassurance necessary to remove obstacles to investment and expansion, it will be necessary to go beyond a few specific measures that may remedy points of local irritation. These are important, but it is even more important to approach the problem of fiscal policy from the broad viewpoint and to lay down a well-defined plan leading towards a balanced budget. Only then will the basic fiscal deterrent to business be removed. Unemployment and lack of investment are doubtless traceable to many things besides fiscal matters, and there can hence be no assurance that a sound

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fiscal policy alone will bring complete recovery,  
but without such a policy the chances for recovery  
are materially lessened.

Changes sometimes suggested but not recommended  
in this statement:

Restoration of consolidated returns.

Elimination of tax on intercorporate dividends.

### Consolidated returns

Present law. Beginning with the Revenue Act of 1934, consolidated returns have been denied all corporations except railroad common carriers. During the period 1932 to 1934 consolidated returns were restricted by imposing a higher corporation income tax rate on the corporations filing such returns. From 1921 to 1932 corporations were permitted to file consolidated returns without any tax penalty. From 1917 through 1921 the Government not merely permitted but required all corporations to file consolidated returns.

Recommendation. Many business men and their associations have recommended the restoration of permission to file consolidated returns. The recommendation is not concurred in, and no recommendation for change is made.

Reasons for recommendation. The determination of the proper corporate entity for income tax purposes presents one of the most difficult of administrative problems. Weighty arguments can be found on both sides of the question whether consolidated returns should be restored.

In favor of consolidated returns are the considerations that corporations must frequently organize subsidiaries for the purpose of meeting a State's legal requirements for doing business within the State; that in the initial years a new branch of a business operating as a subsidiary in a new market territory is likely to encounter substantial sales resistance, eventuating in losses; and that in the case of public utilities services are frequently maintained although a certain portion of the business may be operated at a loss.

Opposition to consolidated returns is founded on several considerations. For one thing corporate structures are frequently unnecessarily complex, so complex that in the administration of the income tax it is extremely difficult to trace effectively the interrelationships between the affiliated groups. It is necessary to draw the line somewhere between relationships that constitute affiliation and those that do not. To be administratively manageable the concept of affiliation must be arbitrary and as such is inequitable. It took many years of litigation to clarify what was meant by "control or ownership of substantially all" the stock by "the same interests." Almost from the outset "substantially all" came to mean 95 percent. Administrative experience during the period when the consolidated return was allowed indicates that it is not feasible by statutory provision alone to cover all the difficult problems that arise in the determination of

consolidated income. The Commissioner must be given extensive discretionary power to decide all moot questions. From the viewpoint of both the Commissioner and the taxpayer, there are obvious disadvantages in such tax procedure.

There is also the argument that a socially sound corporate structure is impaired by holding company relationships, and that such relationships should not be encouraged through tax concessions.

### Intercorporate Dividends

Present law. Under the present law 15 percent of dividends received by corporations are included in corporate taxable income and 85 percent is exempt from tax. Prior to 1936, beginning with dividends received from earnings of 1918, intercorporate dividends were fully exempt.

Recommendation. No change is recommended.

Reasons for Recommendation. The tax on intercorporate dividends is designed to discourage the use of the holding company. In many instances the corporate capital structures are unnecessarily complex, the complexities being unrelated to the corporation's requirements for the purpose of conducting and even expanding its business. While the measure of double taxation results this may be regarded as the price paid for achieving a much needed simplification of corporate capital structures.

April 25, 1939.

MEMORANDUM FOR THE SECRETARY

Comparison of recommendations in the Treasury statement and in the report of the Brookings Institution: "Taxation And Capital Investment" by James D. Magee.

TREASURY STATEMENT

BROOKINGS RECOMMENDATIONS

I. General Fiscal Policy

(1) Balance budget through reduced expenditures; or failing that, through higher taxes.

(2) Revenue-producing power of the tax system should not be reduced.

(3) Establish a commission to study Federal-State fiscal relations.

(1) No definite recommendations, but view pretty obvious that expenditures should be reduced.

(2) Even if a considerable net reduction in tax revenues should result immediately, the gains from the stimulus to private enterprise would in the near future much more than offset probable revenue loss.

(3) No recommendation.

II. Recommendations on Corporation Taxes

(1) Proposed single corporation tax should allow lower rates to corporations with incomes under \$25,000.

(2) No recommendation.

(3) No recommendation.

(1) Small corporations should be allowed a credit of \$3,000.

(2) Consolidated returns should be permitted.

(3) The tax on intercorporate dividends should be abolished.

- 2 -

(4) Eliminate the capital stock and excess profits taxes and replace the revenue by an increase in the corporate income tax rate.

(5) Eliminate the undistributed profits element from the corporation tax.

(6) Losses should be deductible from income for a period of three years.

(7) Capital losses should be deductible from other income.

(4) The elimination of both the capital stock and the excess profits taxes is recommended. If it is deemed necessary to maintain the existing volume of revenues from corporation levies, the result should be gained by an increase in the rate on corporation income.

(5) The complete abolition of the undistributed profits tax is suggested.

(6) Operating losses should be deductible from income for a period of two years.

(7) Capital gains and losses should be disregarded in calculating the tax; however, if Congress insists on taxing capital gains as income, capital losses should be deductible.

### III. Personal Income Taxes

(1) The surtax rates in the upper brackets should be reduced.

(2) If higher taxes are necessary, increase the rates in middle brackets.

(3) The normal income tax on corporate dividends should be eliminated. Additional dividend credit to individuals might well be provided.

(4) The tax rates on capital gains should be increased and the deductibility of capital losses should be increased.

(1) The surtax rates in the upper brackets should be substantially reduced.

(2) No recommendation.

(3) The normal income tax on corporate dividends should be eliminated.

(4) Capital gains and losses should be disregarded; however, if capital gains continue to be taxed, deductions for capital losses should be allowed.

(5) Losses should be deducted from income over a three-year period.

(5) No recommendation, but recommendation for corporations (two-year carry-forward) probably is intended to apply.

(6) (Earlier statement by Mr. Hanes.) The Federal income tax should apply to State employees, and Federal employees should be subject to State income taxes.

(6) The Federal income tax should be made to apply to employees of the State Governments, and Federal employees should similarly be subject to State income taxes.

#### IV. Miscellaneous Income Tax Provisions

(1) Reduce substantially percentage depletion for oil wells and mines.

(1) No recommendation.

(2) No recommendation.

(2) Variation of depreciation charges should be allowed from the average rate which is deemed desirable. The percentage should be permitted to vary in relation to the volume of business.

(3) (Earlier statement by Mr. Hanes.) Eliminate tax exemption of Government securities for future issues.

(3) No definite recommendation, but, in general, removal of tax exemption for future issues is favored.

#### V. Estate and Gift Taxes

(1) Coordinate estate and gift taxes into one tax.

(1) No recommendation.

(2) If additional revenues are needed, increase rates in middle brackets. Lower exemption and eliminate insurance allowance.

(2) No change suggested.

#### VI. Excise Taxes

(1) Continue them for the present, but it is hoped eventually to eliminate most of them.

(1) It is stated that no recommendation is made for their modification.

VII. Social Security TaxesContained in Social Security Statement:

(1) A contingency reserve should replace the large reserve previously planned.

(2) Four alternative rate plans were offered to Congress. In none of these would rates go below the present one percent.

(3) Establish a trust fund to administer reserve.

(1) The old-age annuities should be financed on a pay-as-you-go basis rather than by the accumulation of a huge reserve.

(2) The rates for the old-age annuities should be temporarily reduced from 1 percent to  $\frac{1}{2}$  of 1 percent and be subsequently increased only as benefit payments necessitate.

(3) A modest contingent reserve should be invested in outstanding Government bonds at current rates and the financial administration of the system should be segregated from the fiscal operations of the Treasury.

Roy Blough  
4/25/39

April 25, 1939.

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- 2 -

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(7) Capital losses should be deductible from other income.

(4) The elimination of both the capital stock and the excess profits taxes is recommended. If it is deemed necessary to maintain the existing volume of revenues from corporation levies, the result should be gained by an increase in the rate on corporation income.

(5) The complete abolition of the undistributed profits tax is suggested.

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(2) If higher taxes are necessary, increase the rates in middle brackets.

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(4) The tax rates on capital gains should be increased and the deductibility of capital losses should be increased.

(1) The surtax rates in the upper brackets should be substantially reduced.

(2) No recommendation.

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(4) Capital gains and losses should be disregarded; however, if capital gains continue to be taxed, deductions for capital losses should be allowed.

- 3 -

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(1) No recommendation.

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**VII. Social Security Taxes****Contained in Social Security  
Statements:**

- (1) A contingency reserve should replace the large reserve previously planned.
  - (2) Four alternative rate plans were offered to Congress. In none of these would rates go below the present one percent.
  - (3) Establish a trust fund to administer reserve.
- (1) The old-age annuities should be financed on a pay-as-you-go basis rather than by the accumulation of a huge reserve.
  - (2) The rates for the old-age annuities should be temporarily reduced from 1 percent to  $\frac{2}{3}$  of 1 percent and be subsequently increased only as benefit payments necessitate.
  - (3) A modest contingent reserve should be invested in outstanding Government bonds at current rates and the financial administration of the system should be segregated from the fiscal operations of the Treasury.

April 25, 1939

Mr. Chen saw the Secretary today and gave him the attached memoranda.

(Copies of the memoranda were given to Mr. Lochhead and Dr. White.)

April 22, 1939.

Telegram received from Generalissimo Chiang Kai-Shek  
and Dr. H. H. Kung, Chungking, China, to Mr. K. P. Chen

We both deeply appreciate Secretary Morgenthau's interest and concern in the improvement of transportation in the Southwest of China. Please convey to Secretary Morgenthau our thanks. We welcome his suggestion that American experts be sent to China to assist in the improvement of our transportation system. The Ministry of Finance will transmit to you a draft plan regarding this matter

April 2, 1939

Telegram from Dr. H. H. Kung  
to Mr. K. P. Chen

Your telegram of 28th of March received. Suggestions about improvement of our highway transportation system by Secretary Morgenthau are most welcome, and please convey my appreciation of his interest of same.

The following are the present conditions of the highways in the Western Provinces:

(1) The carrying capacity of Indo-China Railway is about 90,000 tons a year, that is about 250 tons a day. The Railway Administration cannot allot all this space to the Chinese Government. They have to carry other merchandise and passengers, so therefore the carrying capacity for the Chinese Government goods is rather limited.

(2) The Burma road was constructed in a hurry by inexperienced labor, so the foundation of the road and certain parts of bridge construction is not satisfactory. New funds have been appropriated to make the necessary repairs, and the Ministry of Communications is in full charge of such repairs. We are making every possible improvement on this road, and I hope that within a short period the work of repair will be completed.

We have plans for the installation of systems for operation and maintenance. It is hoped that the leading truck manufacturers in America will cooperate to install repair shops and service stations.

As to the management of this motor traffic, the Executive Yuan has already organized a Transportation Commission to take charge of all the details, such as the handling of motor trucks and making reports for the despatchers of such cars.

We know there are shortcomings and hope that you will do your best to assist us.

I am deeply grateful for Secretary Morgenthau's concern and please assure him that we will endeavor to carry out his recommendation.

Your message has already been transmitted to General Chiang Kai-Shek. It is not necessary to repeat again.

April 14, 1939

## MEMORANDUM

After receipt of this telegram I spent sometime with a technical expert of road transportation in New York, and discussed with him the whole problem of installation of a system of operation and maintenance.

It is very difficult to interest the leading manufacturers of motor trucks in America to install such services around the highways in China, because in their selling of trucks no provision has been made for such expense, and we cannot expect them to render such service gratis. So in order to solve this problem, we should establish our own organization with a staff of experts to insure smooth transportation in China. The plan is as follows:

A transportation department to be as follows:--Personal and authority in order given--General Manager; General Accountant; Supply Agent; Superintendent of Operations with authority over the following: driver foreman, driver training school instructors, despatcher, caravan bosses, general operations accounting clerk, warehouse foremen. This to complete the operating authority.

A superintendent of maintenance under General Manager with authority over the following: maintenance accounting, shop foremen, mechanics, and other technical automotive group, machinery and equipment of maintenance division.

A truck assembly group under authority of General Manager operating at Rangoon and Haiphong for assembly of trucks.

With the installation of this system it will be possible to move tonnage from seaports to interior of China at all points that are connected by highway. Without a coordinated plan of operation, the movement of material will be haphazard and will have no uniform speed or assurance of delivery. A plan must be necessary to avoid confusion and delay.

It is necessary to have four or five key men, who have had complete experience in systems of transportation, and who can instruct local Chinese personnel to install this system and gradually take it over and continue its operation. This technical group will be necessary for approximately a year to eighteen months to train the men, repair and maintain highways, if necessary, build warehouses, repair shops, such necessary road stations, barracks for the men, arrange methods for preparation and distribution of food and necessary supplies to keep caravans on proper schedules.

If this personnel is taken from America, the cost will be approximately \$2500 to \$3000 a month, because men of this character and with the necessary knowledge already have good connections in America, and a high salary is necessary in order that these men can afford to break their present American connections and install this service for the Chinese people.

It is suggested that a preliminary study of highway problems be made at once by sending a technical expert from New York to China. He is ready and can leave immediately.

April 25, 1939  
3:57 p.m.

HMJr: Hello.  
Roy  
Blough: Hello.  
HMJr: Blough.....  
B: Yes.  
HMJr: Have you got a pencil?  
B: Yes, sir.  
HMJr: The President asked me to get him the following figures and you can give them to me tomorrow. From 1914, '18, '29 and '38.  
B: Yes.  
HMJr: '14, '18, '29 and '38 -- he wants to know what is the percentage of corporation taxes paid by corporations in proportion to their income, but only federal. In other words, they're paying 22 per cent of their total income now goes to federal taxes, and what was it in '29, '18 and '14. See?  
B: The per cent of federal corporation taxes.....  
HMJr: In relation to their income.  
B: .....to corporation income paid by corporations on income of 1914, 1918, 1929 and 1938.  
HMJr: Is that -- is that obtainable?  
B: Yes. You want to include capital stock, excess-profits.....  
HMJr: What he said, total corporation taxes.  
B: Well, there's -- it's obtainable all right so long as we exclude what I think should be excluded; mainly any liquor taxes, gasoline taxes, and so on, which are paid by corporations.  
HMJr: Just corporation taxes.  
B: He wouldn't want them, of course.

HMJr: No.

B: All right, I'll have someone get right at it.

HMJr: Yes.

B: And get it in to you in the morning.

HMJr: Thank you.

B: May I ask if you have any particular points in the statement or the explanatory material you want us to work on?

HMJr: Not yet, but I will tomorrow.

B: All right.

HMJr: Thank you.

B: Thank you.

April 25, 1939  
4:15 p.m.

HMJr: Hello.

Operator: Go ahead.

Jerome  
Frank: Hello.

HMJr: Jerome Frank?

F: Yes, Mr. Secretary.

HMJr: Good evening. I talked to the President on a tentative basis -- this is confidential.

F: Yes.

HMJr: About the possibility of making Phil Young Assistant Secretary.

F: Yes.

HMJr: And he said to ask you and Bill Douglas what you thought of him.

F: Yes.

HMJr: So I would like to know what you think of him.

F: Well, my acquaintance with him has been limited, but everything that -- all my experience indicates that he's a thoroughly honest, capable, efficient young man of complete integrity, and considerable intelligence.

HMJr: Yes. And his heart's in the right place?

F: I'm sure.

HMJr: What?

F: I'm sure it is.

HMJr: It is?

F: Now, that, however, is based on a very limited acquaintance. Bill's acquaintance is much longer.

HMJr: Whose is?

F: Bill Douglas.

HMJr: Well, he said he didn't -- I put in a call for him.

F: Yes.

HMJr: And I'm going to talk to him next.

F: Yes, his judgment would be a riper one than mine.

HMJr: But everything you know is O.K.?

F: Yes, sir.

HMJr: Well that's fine. I appreciate that.

F: All right.

HMJr: You know we've reached a stalemate on our relationship here with the Bank of America.

F: You have?

HMJr: Yeah.

F: I'm not surprised.

HMJr: And -- well, we -- we were just stalemated. I don't know what we'll do, but.....

F: Would you like sometime to have an up-to-date report on what's happened over here?

HMJr: Yes, I would.

F: Supposing I get that together and bring it over some day.

HMJr: I'd appreciate it.

F: All right.

HMJr: Thank you.

THIRTY-SEVENTH ANNUAL CONFERENCE  
of  
STATE AND TERRITORIAL HEALTH OFFICERS  
with the  
PUBLIC HEALTH SERVICE  
Washington, D.C.  
Tuesday, April 25, 1939, 9:30 A.M.  
Surgeon General Parran in the Chair

CHAIRMAN PARRAN: The Conference will please come to order. We have the great pleasure this morning of having with us the Secretary of the Treasury, who is our boss. I prefer to think of him as the Secretary of Health. (Applause). As a matter of fact, in recurrent discussions concerning the organizations and considering the very great importance of public health in the department in which it is now lodged, it has occurred to me that some of us should suggest to the President that the fiscal functions of the Treasury Department be transferred elsewhere and that it remain as a Department of Health under the present head. (Applause). It gives me a great deal of pleasure to present to you the Hon. Henry Morgenthau, Jr., Secretary of the Treasury.

(The audience rose and greeted Mr. Morgenthau with applause.)

SECRETARY MORGENTHAU: Dr. Parran, ladies and gentlemen:

I think Tom Parran's suggestion about that transfer is the most sensible one I have heard yet. My own health would improve greatly if we could make those transfers. I know that I would have a far more enjoyable life if I could look only at some of the interests

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involved in Public Health. I really think the thing I regret the most during the five and a half years that I have been in the Treasury is that I have been able to give so little of my own time to Public Health matters. Not that I could help much, because under the able leadership of Dr. Cumming and now of Dr. Parran, Public Health has blossomed the way it should and I am sure it will continue to do so.

But financing the New Deal is not a part-time job. (Laughter). It takes a lot of time and a lot of thought to do it. Though the Vice President calls me "Old Moneybags" I think my contribution has been that twenty-four hours a day, three hundred and sixty-five days a year, I have tried to see that nobody interfered with Public Health from the outside, and I think that effort has been a hundred per cent successful. As to the job of getting money, I looked it up yesterday and found that in 1933 Public Health had an appropriation of \$11,000,000, and that this year they are receiving a total of \$33,000,000, so we have made three blades of grass grow where only one grew before. (Applause) (Laughter).

I have interested myself with Dr. Parran during the past year in the question of nutrition, and we have worked for about twelve months with the people over in the Department of Agriculture, but are very conscious of the fact that at least a third of the Nation does not get enough to eat, and some studies made here in the District particularly impressed me when we found that the average relief family

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was getting about a dollar and a half a week for food, and when they got increased money, a very small proportion of that went for food. Therefore, we are looking with great hope to this experiment with two kinds of food tickets which is to be started in Rochester shortly. The Treasury is spending a good deal of time to see that the mechanics of it are correct, and I am glad that they are trying it out in one city rather than all cities at the same time. It has great possibilities. As long as we have these tremendous excess quantities of food and cotton, it seems to me that somewhere, somehow, we ought to be able to solve this most difficult riddle, and I am hoping that the food ticket system will be very successful.

Coming down to Dr. Parran, he was State Health Commissioner of New York. As Conservation Commissioner, I asked him how the sewer known as Niagara River was coming on. He tells me they now have an appropriation of \$22,000,000 and are going to correct it. I was always very much interested in stream pollution. I remember a story the President likes to tell about trying to fix up a water supply for Hyde Park. They finally had everything ready except for one particular manure pile that the stream ran through, and even the Governor of the State of New York could not get that farmer to remove that manure pile, and it used to make our local health officer miserable. I think we are way behind countries like England, on stream pollution, and there is much to be done in that field.

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I think these conferences are fine. I, for one, would like to see as much of the vast power that we have here placed in states and localities where people are actually inquiring about it. It is impossible for anybody's brain to be big enough or clever enough to manage all of these things. In the Treasury, for example, take the Internal Revenue Department; we have completely decentralized it, so that the man who has tax troubles can settle them in his own home town and does not have to go to the expense of hiring a high-priced Washington lawyer to fix them for him. I am sure this Conference will be successful, as all of the others have been. I see by the papers that they will possibly take Public Health away from the Treasury. If they do, it will be with my deep regret, but I feel that the Public Health work that the Treasury is connected with is one of the most useful functions in the Treasury. But wherever it is, I assure you it will always have my interest and support. Thank you. (Applause).

CHAIRMAN PARRAN: Thank you very much, Mr. Secretary. I should like to say to you that on previous occasions I have told this Conference of State Health Officers of your very active interest in promoting the work of the Public Health Service. They know of your efforts, joined with ours, to secure the passage of the Venereal Disease Control Act. They know of your interest in seeing that the National Cancer Institute Act was passed; they know that due solely to your personal interest, we see rising in the vista a group of buildings which will constitute the finest research institute

April 25, 1939  
4:55 p.m.

Operator: Go ahead.  
Bill  
Douglas: Hello.  
HMJr: Hello.  
D: Hello, Henry.  
HMJr: How are you?  
D: Fine.  
HMJr: How do I address you?  
D: As "Bill".  
HMJr: (Laughter).  
D: That's the preferable designation.  
HMJr: I see.  
D: I hate these fellows that-everytime you come in over here a couple guys bow and scrape, you know, and butter you all up. I don't like it.  
HMJr: What I'm calling you about is this. I just wanted/<sup>this</sup>room cleared a minute.  
D: Yeah.  
HMJr: I talked to the President today, confidentially, about the possibility of giving Phil Young Assistant Secretary -- (line disturbance) Hello?  
Operator: Operator.  
HMJr: Hello.  
O: Yes, sir.  
HMJr: I was cut off.  
O: Oh, I'm sorry I'll get him right back.  
HMJr: Your system isn't so good over there.  
Douglas: (Laughter).

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HMJr: Maybe J. Edgar Hoover is listening.

D: O. K.

HMJr: Now I talked to the President today about Phil Young.

D: Yeah.

HMJr: As a possible Assistant Secretary of the Treasury.

D: Yeah.

HMJr: And he said to call you and Jerry Frank up.

D: Yeah. I don't -- I hardly know him well enough to -- to have an honest judgment.

HMJr: Uh-huh.

D: To give you as a friend. I know that -- that -- I think that Johnny has thought highly of him.

HMJr: Yeah.

D: And I think he's been in a position to know.

HMJr: Yeah.

D: I just have not -- I'm not trying to be cagey.

HMJr: No.

D: Because I never am with you.

HMJr: No.

D: But I have never been thrown closely enough in contact with him on intimate work to have an informed judgment.

HMJr: Uh-huh.

D: And I really can't give you anything that's -- that's worth while. If I was -- if it was put to me as an original proposition, I'd want to stop and make an investigation and check with a lot of people.

HMJr: Uh-huh.

- D: That's how little I -- I know who he is, of course. When I see him I know him, but I just haven't got enough judgment based on actual contacts and work with him.
- HMJr: But you don't know anything that would be good or bad?
- D: That's right.
- HMJr: Frank, what he knew of him, gave him a very good send-off.
- D: Yeah.
- HMJr: But he said he thought that you knew him more intimately.
- D: Well, I don't know him more intimately. I mean, I don't know him intimately enough to give you a real honest opinion.
- HMJr: I see.
- D: I don't know anything bad about him; nothing unfavorable about him, and everything that I've heard about him has been good.
- HMJr: Uh-huh.
- D: But I -- I just don't like to make recommendations based on that kind of a record.
- HMJr: I see.
- D: But I can -- I can check in -- check in around.....
- HMJr: I wish you would, if you don't mind.
- D: I'm seeing one of my ex-colleagues, Healy, in just a few minutes and I'll ask him.
- HMJr: Well, I'd appreciate it.
- D: Yeah.
- HMJr: And I told the President from now on I'm not going to tell him, I'm going to appoint people. He takes Calvin Magruder right out from under my nose.

D: He takes who?

HMJr: Calvin Magruder.

D: Say! Yeah, he did, didn't he?

HMJr: Yeah.

D: Well that was a good appointment.

HMJr: Very good.

D: Yeah.

HMJr: Well, if you don't mind sort of asking, I'd appreciate it and let me know.

D: Sure, I'll give you a buzz back.

HMJr: Thank you so much.

D: You're welcome. Good bye.

April 25, 1939

This is what I am telling Bell today it is  
O.K. for him to sell.



TREASURY DEPARTMENT

WASHINGTON

April 25, 1939.

TO THE SECRETARY:

New York has disposed of all of the 1941 bonds in the Postal Savings and Federal Deposit Insurance Corporation accounts.

We have other short-term securities in these two accounts as follows:

(In thousands of dollars)

	Postal Savings	Federal Deposit	Prices close Yesterday	
1-1/2% Treas. notes 1940 . . .	-	\$3,750	102-11/32	OK
1-5/8% " " " . . .	-	514	102-10/32	OK
1-1/8% " " 1943 . . .	-	17,488	102-7/32	OK
3-3/8% " bonds 1940-43. .	\$5,928	8,958	104-13/32	OK
3-3/8% " " 1941-43. .	8,875	9,753	106-11/32	OK
2-3/4% H.O.L.C. " 1939-49. .	1/20,272	-	101-25/32	OK
2-1/4% " " 1942-44. .	20,000	-	104-28/32	OK

1/ Will probably be called.

The Treasury notes amounting to \$4,264,000 held for account of the Federal Deposit Insurance Corporation are selling on a negative yield basis. The 1943 notes held in this account are selling on a basis to yield approximately 5/8 of 1 per cent.

I suggest that we authorize the sale of Treasury notes of 1940 and all of the 3-3/8% bonds of 1940-43.

*swfB*

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE APR 25 1939

TO Secretary Morgenthau

FROM Mr. Foley

Re: General Treaty signed by the United States and  
Panama, March 2, 1936.

With respect to your request for a report on the status of the treaty between the United States and Panama containing provisions for the payment of certain annuities under Article XIV of the Convention of 1903 between the United States and Panama, the following is submitted:

The Panama Canal Treaty of 1903 between the United States and Panama provides for the annual payment by the United States to Panama of \$250,000 in gold coin of the United States. Beginning with 1934, Panama refused to accept the annual tender of \$250,000 made by the United States and has taken the position that by reason of the devaluation of the dollar, it is entitled to an annual payment of \$430,000.

By a General Treaty signed by the United States and Panama on March 2, 1936, it was agreed in Article VII that

"Beginning with the annuity payable in 1934 the payments under Article XIV of the Convention of November 18, 1903, between the United States of America and the Republic of Panama, shall be four hundred and thirty thousand Balboas (B/430,000.00) as defined by the agreement embodied in an exchange of notes of this date. The United States of America may discharge its obligation with respect to any such payment, upon payment in any coin or currency, provided the amount so paid is the equivalent of four hundred and thirty thousand Balboas (B/430,000.00) as so defined."

The dollar and the Balboa are at a parity at the rate of one dollar for one Balboa.

- 2 -

This treaty containing the above-quoted provision has been ratified by Panama and is now pending before the Senate Committee on Foreign Relations and has been pending before this Committee since 1936. The treaty was favorably reported out of Committee on June 15, 1938; however, Congress adjourned without any further action being taken on this matter.

On June 14, 1938 the State Department submitted to the Treasury a draft of a bill entitled "Joint Resolution to Provide for a Temporary Higher Rate of Annual Payment by the United States to the Republic of Panama Than is Contemplated by the Convention of November 18, 1903". The proposed Joint Resolution provided for the payment to Panama of the amount specified in the General Treaty of March 2, 1936 for the years 1934 to 1938, inclusive. The Treasury informed the State Department that since this Resolution did not give the United States the safeguards present in the treaty with Panama it would tend to weaken the United States in its defense of the "gold litigation". Accordingly, the State Department decided not to press the passage of the Resolution.

*E. N. H.*

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: April 25, 1939, 2 p.m.

NO.: 282

No. 21. FOR TREASURY FROM HEATH.

The foreign trade figures for March brought a small measure of relief to the Reich Economics Ministry since exports from greater Germany increased some 70,000,000 marks to 480.5 million marks while imports increased from(?) 32.7 million marks to 504.2 million marks. The passive balance of trade in March was therefore only 23.7 million marks as compared with 60. million marks in February. Gold exports decreased from 31.4 million in February to 11.2 million marks in March. On the other hand for the first time in many months there were considerable imports of gold in March - 36 million marks, presumably derived from the Czech reserve.

While the decline in foreign trade and the heavy adverse trade balance were somewhat checked in March the foreign exchange stringency remains extremely acute and hence the report that a part of the Czech gold deposited in London and private Czech funds blocked there would be released by Chamberlain came as a welcome surprise to the exchange authority of the Reich.

To

- 2 -

To illustrate the stringency of exchange, an important manufacturer who needed foreign exchange to pay for copper and other materials had to stop work on an army contract because he could not obtain the foreign exchange. A source which is reliable and well-informed insists that it is not true that Germany has accumulated a large war reserve of copper; German stocks of copper, according to this source, do not exceed 30,000 tons or less than two months needs at the rate it is consumed at present. One single plant had reserve stocks of nearly this amount in the year 1914.

There is increasing strength and bitterness on the part of the opposition to the 30 percent retroactive surtax on increased income during 1938. It is possible that this tax will be reduced for certain classes of taxpayers. It was quite surprising that, despite the complete press censorship, there have been appearing critical newspaper articles showing that in certain individual cases a 30 percent surtax would take up by far the larger part of pecuniary increase of earnings in 1938.

However, if increased taxes or compulsory saving do not "mop up" the increased buying power resulting from expanding government expenditures, it seems inevitable that, despite price controls, there is bound to occur an

intensification

- 3 -

intensification of the commodity inflation which has been particularly noticeable during the past few months. There are no present signs that there is effective planning on the part of the Government to cut down expenditures for military and other purposes, so that more consumption goods can be put out to match the public's greater buying power.

To measure the increase in prices during the past few months is extremely difficult if not impossible. There has been a fair amount of success on the part of the price control in keeping the inflationary tendency from affecting the price of necessitous commodities. There have been disguised increases in the case of several such articles, however; lower quality merchandise has had higher quality prices, and there are increasing shortages of certain food-stuffs and materials.

Here the best opinion is that there will be a continuation of spotty price increases, disguised and outright, but that the rate will not be such as to bring forth effective public discontent in the near future, unless an outlet should be provided by some unforeseen event.

END OF MESSAGE.

RECEIVED

GEIST.

EA:LWW

U.S. GOVERNMENT  
 PRINTING OFFICE  
 WASHINGTON, D. C.

JR

PLAIN

London

Dated April 25, 1939

Rec'd 2:08 p.m.

Secretary of State,  
Washington.

RUSH.

556, April 25, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The Chancellor of the Exchequer made today in the House of Commons his speech on the budget for the financial year which began on April 1.

The total expenditure will amount to pounds 1,322,444,000 of which pounds 630 million is for war preparation, pounds 380 million of which is to be borrowed. This leaves a total of pounds 942,444,000 which is to be raised from revenue.

The total ordinary revenue on the basis of existing taxation rates was estimated at pounds 918,330,000 as compared with actual receipts in 1938-39 of pounds 927,285,000. New taxes and increases in existing taxes were estimated to bring in pounds 24,270,000 making the total estimated revenue pounds 942,600,000 which

gives

-2- #556, April 25, 7 p.m., from London.

gives a surplus, after deduction of expenditure, of pounds 156,000.

Throughout his speech Simon emphasized that arms expenditure "governs the whole of our finances" and pointed out that the total for this item had increased from pounds 265 million in 1937-8 to pounds 400 million in 1938-9 and to pounds 630 million in 1939-40.

The pounds 630 million for arms expenditure is pounds 50 million more than the pounds 580 million announced in February, pounds 30 million of which is to be added to the pounds 350 million then announced as the sum to be borrowed.

The increases in taxation which are designed to yield some pounds 24 million are as follows:

(A) An increase in the horsepower on private automobiles from 15S. per horsepower to 25S. beginning January 1, <sup>to pounds</sup> /yield/ 8  $\frac{1}{2}$  million in the current fiscal year and pounds 11  $\frac{1}{2}$  million in a full year.

(B) The imposition of a surcharge on surtax payers of 5 per cent on incomes up to pounds 8,000 and 10 per cent over that figure, to yield pounds 4 million during the current year and pounds 5 million in a full year.

(C) A

-3- #556, April 25, 7 p.m., from London.

(C) A surcharge on estate duties of 10 per cent on estates over pounds 50,000 to yield pounds 3 million during the current year and pounds 5 million in a full year.

(D) Customs and excise tax increases on sugar and tobacco, a new excise tax on photographic plates and films, a reduction in the "live theatre" entertainments tax and the repeal of medicine taxes will net an increase in revenue from customs and excise of pounds 11,020,000 in the current year and pounds 12,445,000 in a full year.

2. To avoid duplication, the Commercial Attache asks that the factual information contained in the above section numbered 1 of this telegram be supplied to the Department of Commerce.

CONFIDENTIAL.

3. In the circumstances the House of Commons seemed to receive the Chancellor of the Exchequer's budget favorably and the increases in taxation were accepted with a fatalistic good grace. Given the fact that the standard rate of income tax now stands at 5S. 6D. in the pound and that surtax rates have never been decreased from the 1931 crisis level, the increases in estate duties, surtax and horsepower tax on private automobiles give the appearance

-4- #556, April 25, 7 p.m., from London.

appearance as being designed as a backdrop against which compulsory service can be pushed forward.

Incidentally, the total Government expenditure including borrowed funds constitutes about 26.4 per cent of the estimated British national income, while the expenditure on war preparations equals 12.6 per cent of the national income, as compared with 21.4 per cent and 8 per cent respectively last year, and 17.4 per cent and 5 per cent in 1937-8.

Both in his remarks and in his estimates Simon took a cautious view of the economic outlook in Great Britain and completely ignored the Keynesian theory that the extent of armament expenditure would be such as to create 'inflationary full employment. Simon merely said that there were "good grounds for expecting further business recovery" if no setback due to international political developments occurred. Likewise, in his estimates of revenue to be derived from stamp and estate taxation (without taking into consideration the additional surcharge) he budgeted to receive the same amount as accrued during the past year.

Simon repeated in the same words the statement which has been made in every previous budget in recent years, namely

-8- #556, April 25, 7 p.m., from London.

namely that "The Exchange Equalization Fund continues to show a profit."

KENNEDY

ALC

RECEIVED

APR 26 1950

THE TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 25, 1939, 6 p.m.

NO.: 822

Apparently no sterling was acquired by the French control, but on a rather quiet market some dollars were acquired. More bids for florin, Swiss franc and belga. Rentes and shares here did not have much turnover. There seems to be an air of waiting for such events as the speech by Hitler, Belgian action on special powers, and the British budget announcement. Flight of capital to the United States has diminished, meanwhile.

BULLITT.

EA:LWW

RECEIVED

APR 26 1939

THE STATE DEPARTMENT  
U. S. DEPARTMENT OF STATE  
WASHINGTON, D. C.

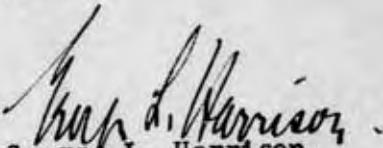
FEDERAL RESERVE BANK  
OF NEW YORK

April 26, 1939.

Dear Mr. Secretary:

I enclose for your information copy of a personal and confidential letter received by me from Mr. Ivar Rooth, Governor, Sveriges Riksbank, which I think you will be interested in reading.

Sincerely yours,

  
George L. Harrison,  
President.

Hon. Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D. C.

Enc.

TREASURY DEPARTMENT

1939 APR 29 AM 8 57

OFFICE  
SECRETARY OF TREASURY

C O P Y

SVERIGES RIKSBANK

PERSONAL & CONFIDENTIAL

STOCKHOLM, 12th April, 1939.

Mr. George L. Harrison,  
President,

Federal Reserve Bank of New York,  
New York, N.Y.

Dear Mr. President,

Many events have happened in the world since I wrote to you on December 20th and they have led to some changes in the Sveriges Riksbank's holdings of foreign exchange and of gold.

As far as our foreign exchange holdings are concerned we have throughout the whole period been selling foreign exchange not only to the Swedish market but also to the neighbouring countries. These have, thus, repatriated part of the capital which found its way from them to Sweden during the crisis last autumn. It has, as a matter of fact, happened only once during this period that the market here sold a more considerable amount of foreign exchange to us, viz. a few days ago, when we had to take up £50,000 from one seller.

Partly because of these sales and partly as a result of conversions of pounds into dollars or gold our sterling assets have continued to decrease. Our dollar balances on the other hand have still grown, as will be seen from the following table.

	<u>Dec. 21st</u>	<u>April 5th</u>
Sight deposits abt.	\$75.636.000	\$88.901.000
Fixed " "	\$14.750.000	\$11.200.000
Bills etc. " "	\$ 6.797.000	\$ 7.235.000
Total " "	\$97.183.000	\$107.336.000

The increase in our dollar balances thus amounts to about \$10 million since last December.

Our total gold reserve has also continued to grow, although not at the same rate as before. Most of our gold purchases were made in London. In January, however, we bought, as you will remember, from the BIS gold held in New York equivalent to \$1 million. In addition to these purchases, there is, of course, as previously a regular but not very considerable domestic supply of gold from the Boliden Mining Company. This gold has gone to increase our holdings in Sweden.

Besides that gold which was bought from the BIS, gold equivalent to approximately \$3.8 million was transferred for our account from London to New York, as advised in my Bank's letter of January 27th. After these transactions have been made, gold held in New York thus totals, say, \$84 million, as compared with about \$79.2 million in December.

As the political situation appears very grave at present it seems likely that we shall follow the policy of the last few months and further increase our dollar assets.

With kind regards,

I remain, dear Mr. President,

Faithfully yours,

(signed) Ivar Rooth.

May 1, 1939.

Dear Mr. Harrison:

Your letter of April 26th, and the enclosed copy of one which you received from Sweden, reached the office just after the Secretary had left the city. He will be back at his desk tomorrow and it will at once be brought to his attention. I am acknowledging it in his absence.

Sincerely yours,

H. S. Klets,  
Private Secretary.

Mr. George L. Harrison,  
President, Federal Reserve Bank  
of New York,  
New York, New York.

GXF/abs

May 1, 1939.

Dear Mr. Harrison:

Your letter of April 28th, and the enclosed copy of one which you received from Sweden, reached the office just after the Secretary had left the city. He will be back at his desk tomorrow and it will at once be brought to his attention. I am acknowledging it in his absence.

Sincerely yours,

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Private Secretary.

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President, Federal Reserve Bank  
of New York,  
New York, New York.

GYF/dbs

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Private Secretary.

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GKF/abs

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Sincerely yours,

H. S. Klets,  
Private Secretary.

Mr. George L. Harrison,  
President, Federal Reserve Bank  
of New York,  
New York, New York.

GYF/abs

FEDERAL RESERVE BANK  
OF NEW YORK

245

## OFFICE CORRESPONDENCE

DATE April 23, 1938.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF ENGLAND.

Mr. Bolton called at 9:30 this morning. He had a question to ask, he said, with reference to packing and shipping of our gold: The gold turnover in London was going on at present on a fantastic scale. They were shipping their own gold and our gold and also that of many other people. To avoid delay could he be given general permission, when instructed to ship our gold, in case of need, to substitute their own gold already packed and make necessary adjustments afterwards? He did not propose to do that every time he was asked to ship our gold but if he could be assured of that facility in case of need it would help them considerably as it would save them much time. I replied that I thought that was perfectly all right. (I have since checked with Mr. Lochhead who agrees)

There was nothing he could tell me on the general situation. They were determined to wait either for the worse or for an improvement. The only thing of real importance was the announcement at this moment being made on the floor of the Commons that conscription was going to be introduced in England. The slightly increased demand in the London market for dollars this morning he thought could reasonably be ascribed to the budget message.

I reminded Bolton of his recent promise to check into the amount of foreign money in the London market and let me know by how much they estimated the total had been reduced. Bolton renewed his promise. I next referred to the recent announcement of the British

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 26, 1939.TO CONFIDENTIAL FILESSUBJECT TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

2

government that they were ready to cover all war risk commitments between the United Kingdom and the United States and inquired whether, in case of loss, the British government would pay in sterling or in dollars. That was the subject of some discussion in Lloyds, Bolton replied; the present government's point of view was that all outward risks should be written in sterling. Then there would be no question of the government being responsible for large dollar amounts. He would keep me posted on further developments. Was our government taking any steps as regard insurance risks in case of war? I replied I did not know but I did not think so.

I referred to our recent telephone conversation in which he had made the statement that as a result of the British government's assuming all war risks at unchanged rates the gold point between London and New York remained unchanged at 34.76 1/4. We did not quite figure it that way, I said. Actually insurance charges were a little higher now because the old rates had covered the riot risk whereas this riot risk was not included in the 6 1/4% now quoted. In addition the discount of 9 1/2% formerly allowed was no longer granted under present conditions. As a result we calculated the gold point to be 34.75 3/4 rather than 34.76 1/4. Would he please look into this and if he found our calculations correct would he please bear in mind that the figure of 34.76 1/4 at which we were renewing our weekly orders was only a maximum figure which we were hesitant to change

FEDERAL RESERVE BANK  
OF NEW YORK

247

## OFFICE CORRESPONDENCE

DATE April 28, 1959.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

3

every time there was a minor change in insurance or shipping charges! Incidentally, I said our banks here also calculated the gold point at 84.75 3/4 and they for some time now have been giving their buying orders to London on that basis.

LWK:KW

JR

PLAIN

London

Dated April 26, 1939

Rec'd 1:50 p.m.

Secretary of State

Washington.

563, April 26, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The city like the House of Commons has accepted the budget with a fatalistic good grace. A year or two ago its borrowing and taxation provisions would have caused tremendous repercussions but time and circumstances have wrought such a change that today the London Stock Exchange on balance closed higher rather than lower although war loan lost 5/16 ending at 91 9/16. The London press reaction, allowing for partisan political predilections, was also favorable and is fairly represented by the following quotation:

"This is an honest-to-goodness budget, which should satisfy the markets as much as any budget imposing new taxation could be expected to do".

As indicated in my 566, April 25, 7 p.m., the budget has also served as a backdrop against which conscription can be pushed forward and the Prime Minister announced in the House of Commons this afternoon that a bill will

shortly

-2- #563, April 26, 6 p.m., from London.

shortly be introduced which among other things will give powers to call up for the military training all men between the ages of 20 and 21.

2. Although there was some covering of Belgium francs the demand for dollars on balance continued and was particularly noticeable in the afternoon but as in recent days the volume was not large. 154 bars were sold at gold fixing of which 137 were married and the Bank of England supplied a few. There were small dealings after fixing.

KENNEDY

HPD

RECEIVED

APR 26 1940

U.S. DEPARTMENT OF THE TREASURY  
OFFICE OF THE ASSISTANT SECRETARY  
FOR INTERNATIONAL AFFAIRS

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 26, 1939, 6 p.m.

NO.: 830

FROM COCHRAN.

At 12 noon today I visited the Bank of France, and by that hour neither sterling nor dollars had been received or yielded by the French control. According to my friend, the failure to gain foreign exchange was due to alleged internal political differences in France. He said that traders always hear such rumors before the press does, and the advance confidential information or gossip is therefore reflected in trading. The definite forecast for British conscription he attributed as being responsible for the improvement of the florin, Swiss franc and belga yesterday and today. As Reynaud announced in his broadcast, the stabilization fund sold five billion francs of gold to the Bank of France. Thus the Finance Ministry will not have to lend further francs to the fund for the purchase of gold - some time ago the fund's own franc resources had been fully converted into gold and the fund followed the practice of borrowing francs from the Treasury to take care of acquisitions in the future - and will have released to the Treasury those francs that have already been loaned within the five billion total.

Officials

- 2 -

Officials of the Ministry of Finance and the Bank of France are now holding discussions with regard to the possibility of a French domestic loan. Three year bonds are favored by the Treasury people. Technicians at the Bank of France do not want to see the Treasury at this time risk failure for a four or five billion franc loan, particularly since about five times this amount will have to be borrowed for the year. It is the opinion of these technicians that the biggest problem in French finances just now is to persuade people to turn in to the Bank of France some 30 or 40 billion francs of notes which are in excess of normal currency needs and which constitute hoarding.

It is their feeling that there might be a disposition on the part of holders of these notes to change them gradually to short term or even up to two year Treasury paper, or to that of the various French Caisses which are authorized to issue public loans. However, it is thought that the holders are not likely to invest in bonds of three years or longer, since the people are still nervous about the international outlook and are not yet faced with actual warfare and inspired by resultant patriotic fervor.

Some fear that so many exceptions are being made by Treasury officials to the one percent armaments tax

that

- 3 -

that not so much revenue will be produced from it as was expected.

This morning I saw Rovensky of the Chase Bank, together with Schmidt, the local manager. The preliminary conversations on the standstill arrangements which have been going on in Paris are now completed, Rovensky said, and next Wednesday they are to be resumed in Berlin. He did not mention that any particular difficulties had come up.

The belga was particularly strong this afternoon in view of the favorable outlook for the Belgian Government to get special powers in the vote tonight; a contributing factor also is the Government's platform of balancing the budget and keeping the present belga level.

The Swiss franc and florin continue strong. The Comptoir was a large purchaser of the Swiss franc yesterday and today, it is presumed for some client such as Nestle.

END OF MESSAGE.

BULLITT.

EA:LWW

RECEIVED  
MAY 21 1940  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

## GROUP MEETING

April 26, 1939.  
9:30 A. M.

Present: Mr. Hanes  
Mr. Gaston  
Mr. White  
Mr. Gibbons  
Mr. Lockhead  
Mr. Haas  
Mr. Foley  
Mr. Bell  
Mr. Graves  
Mr. McReynolds  
Mrs. Klotz

H.M.Jr: One thing for the Treasury, triple-confidential. Mr. Murphy talked to me this morning and said that he had a very careful opinion from the Solicitor General on this question of the Munitions Board, and that the Solicitor General ruled that what the State Department has been doing is legal. And he said that if you (Foley) will come over there, he'll let you see a copy or will give you a copy.

And I told him that as far as the Treasury was concerned we were very much bothered about these Drew Pearson things. I said as long as I have been here I have never planted an unfavorable story against a presidential appointee, and he'd have to look some place else. And I said if he'd ask me, I might make a suggestion that it came out of his own shop, which surprised him very much. But I think as far as we were concerned - I said that we don't do that kind of thing here; and if he'd look - or he'd want to ask me - I might tell him one or two people in his own place that were close to the Attorney General - I mean to the State Department.

Foley: Well, he's been awful sore at Pearson because Pearson has been riding him pretty hard.

H.M.Jr: Well, I've only seen one thing.

Foley: Only that thing once. But he's talked about Frank Murphy being a bottle-neck, spending all his time riding with girls out in the park.

- 2 -

H.M.Jr: I can think of a lot of things, but riding in the park with girls - that's a new one.

Klotz: I love that.

McR: Some kind of a neck, but not a bottle-neck.

H.M.Jr: That's a new one I've got to add to my vocabulary. That's something new. I guess I'm just getting old.

Foley: Well, there have been - Pearson has been riding him pretty hard.

H.M.Jr: What he didn't like was that Pearson said that the girls liked him and then he got this look that went over the top of their heads. Did you see that one?

Foley: Yes.

Gibbons: Wonder he doesn't print what Murphy's sister said about him.

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

Foley: I can tell you some more about that after the meeting, if you want.

H.M.Jr: I don't want it today - I mean not after this meeting - but we'll.....

But the point I made to him is this. He said, "Now, of course, if you want something else.....," so forth, and I said, "No, Frank, I don't want to do anything at all as far as Germany is concerned unless you're a hundred and one percent sure legally. And if you've got a good sound opinion that what they're doing is proper, as far as I'm concerned that ends it. And I don't want - I'm finished, see?"

Foley: Well, I don't think it's the Solicitor General. I think it's Golden Bell, the Assistant Solicitor General.

H.M.Jr: Well, he said the opinion is in the Solicitor General's office. But I mean my position has been

- 3 -

that anything that affects Germany.....

The Attorney General says, "I've got a good sound opinion that what the Munitions Board is doing, selling munitions to Germany, is all right." Incidentally, it's thirty thousand dollars in two years. As far as I'm concerned, it's closed. See? I mean I don't want to press it. There are too many other important things.

Foley: Well, I think we ought to go over and talk to him. I think maybe we can straighten him out.

Bell: Bottle-neck.

Foley: I was talking to Ben Cohen about it. Mrs. Ickes called me yesterday and told me that she apparently had found out somehow.....

H.M.Jr: What did Jane have to say?

Foley: Jane said she understood the opinion was the other way, unfavorable.

H.M.Jr: Yes.

Foley: She got it from Tom Corcoran. I called Ben and Ben said Tom hadn't gone into it at all, that Tom didn't know the legal points, hadn't given it any consideration; and Ben had only found out about it the night before from Tom.

H.M.Jr: Now, listen, you take - in this case, would you mind taking instructions?

Foley: Of course not. I always take instructions.

H.M.Jr: The Attorney General has invited a Treasury representative to go over and read it. He tells me as Secretary of the Treasury that he is satisfied that this is a sound opinion and what the State Department is doing is legal. On account of the position which I have always taken towards Germany, that I won't do anything unless I'm a hundred and one percent sure, as far as I'm concerned and my office is concerned, the matter is closed. See? Now, would you please follow that?

- 4 -

Foley: Yes sir.

H.M.Jr: And if somebody else wants him to do something, that's their business, but I don't want any part of it.

Now, I've been able for - I'd just as lief say this in front of everybody, and I mean that's why I'm Secretary of the Treasury when I sit here for a hundred thirty million people; and what I do as a Jew is my own business; but I never mix the two. I am entirely free from any criticism, and I'd like to keep it that way. Let's do it that way.

Hanes: Do you want to bring up the letter from the Securities and Exchange Commission asking us to look over the proposed drafts of letters to the national securities exchanges? I think this is a subject that the Counsel ought to look over and give you advice on. They're asking us to examine the letters and report back to them as to form and substance. Is it all right to turn this over to the General Counsel?

H.M.Jr: Please.

Hanes: All right.

H.M.Jr: What else?

Hanes: That's all.

Gaston: The Comptroller has turned over to me his letter to you on the subject of that million dollars. It's been initialed, I think, all around. Shall I turn it over to Mr. McReynolds or somebody for preparing a letter.....

H.M.Jr: I gave it once to Bell.

Bell: Original letter?

Gaston: Letter to the Secretary. Originally wrote it to the President, and it was sent back to be rewritten. I have it on my desk now.

- 5 -

McR: The boss approved it the other day.

Bell: I gave it to Mr. Bartelt to put through a warrant.

Gaston: Gave it to him to put through a warrant.

Bell: Give it back to me. I'll take care of it.

Gaston: It's on my desk. I imagine we may want some little story about it. Think it's worthwhile?

McR: (Nods no).

Bell: We've had a lot of money returned to the Treasury.

McR: A million dollars, but we've been watching it for the last five years. It couldn't get away. Now it's getting back to the Treasury and everybody ought to be happy.

Gaston: Maybe the public would be happy to know about it.

Bell: I think it's quite routine.

Gaston: You think it is?

Bell: Yes.

H.M.Jr: All right?

Gaston: All right.

H.M.Jr: That's the purpose of 9:30 meetings, so the left pocket knows what the right pocket is doing.

Duffield: I have several of those banking bills, including Mr. Delano's letter on the Brown bill. I suppose there's nothing we can do with them, is there?

H.M.Jr: Yes, I've got the thing right here from the President. I had a chance, but it was just a question of finding enough hours in the day.

I'd like you (Hanes) and Basil Harris to have lunch with me today, if you will.

- 6 -

Let's make the banking group tentatively, if I can do it, for 2:30. You (Duffield) get the banking group together. And I've got this stuff here from the President. I gave him that, you see. Now we've cleared everybody, including.....

Hanes: Preston.

H.M.Jr: Yes. Will you (Mrs. Klotz) put it down for 2:30.

Duffield: That's all I have.

Lochhead: The market is just marking time waiting for the Friday speech. It is a good deal less nervous than it was last week. We haven't had any gold engagements for the last two days.

H.M.Jr: Just one second.

Lochhead: The main thing is that there haven't been any gold engagements for the last two days. It shows that although they are nervous, they are not doing very much.

H.M.Jr: (To Kieley) Is it the Argentine at 10:00?

Kieley: Yes.

H.M.Jr: And Finland?

Kieley: 2:30.

H.M.Jr: Argentine at 10:00 and Finland at 2:30.

Well, we'll make it 2:45, the banking thing - 2:45.

Hanes: All right.

H.M.Jr: Banking, 2:45.

Haas: I have nothing this morning.

White: Do you want something on Finland? We have something.

H.M.Jr: (Nods no).

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- White: Just going to listen.
- H.M.Jr: Well, I don't know. He's asking to see me. I think I know what he has.
- White: Have you given a thought about that Chinese matter? They called me up several times.
- H.M.Jr: I can't, Harry, they'll just have to - I can't do it - I mean just physically impossible.
- (To Mrs. Klotz) All of this was given to me yesterday by K. P. Chen, and this one on top is particularly important. Just keep it in the file. Or do you (White) want it back? Send copies to Lochhead and White.
- Foley: I have two memos here, one on the conference in the Attorney General's office on the Moe Annenberg case.
- H.M.Jr: Oh yes, he called me on that.
- Foley: The other is on the Panama treaty which you asked for.
- H.M.Jr: Just a second, let me glance at this. O. K. Anything else?
- Foley: We have decided to - Mr. Jackson and I - to file a brief in that multiple currency case. I cleared it with Hackworth of the State Department and have a memorandum from them saying they see no objection to filing the brief. I was afraid perhaps they might protest because they might think it might have some bearing on future defaults in Latin America. But I called the point to Hackworth's attention and he gave me a memorandum yesterday afternoon that they saw no reason why they had any interest, why the brief should not be filed.
- So Bob Jackson and I decided last night that was the thing to do and we're going to file it today.
- H.M.Jr: Harold?
- Graves: Would you like me to tell you of my talk with Congressman Havenner? Well, he tells a long,

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complicated story, but the gist of it is that for many years there has been a controversy in San Francisco over the issue of public ownership of the power and light facilities for the city. The thing is coming to a vote in the municipal election the 19th of May again. It's always been defeated in the past, and the Congressman says it's opposed as a result of the influence of the Pacific Power and Light Company, which has the franchise out there at this time. He says that the belief is that this company has paid over a period of years - paid graft to the officials of the government of San Francisco, and he's been told by the Federal Bureau of Investigation that the Bureau of Internal Revenue might develop the facts about those graft payments in the course of an income tax investigation from the returns of this company. Of course, what he wanted was to develop that information and have it before the 19th of May. I told him that that would be out of the question, that even if we could make an investigation in that period, we couldn't make public the result of any such investigation and the only thing we could do would be to pursue these supposed graft payments into the hands of the persons who got them to see that they had been returned on his income.

H.M.Jr: That's just what I told them. I mean if the company has done it and then they reported it, as far as they're concerned it's none of our business. But if the fellows they paid it to didn't report it, then it's a case. That's what I told them just as a horseback opinion.

Graves: You're quite right.

H.M.Jr: Incidentally.....

Graves: I told him that if you approved and wanted it done, we could make in the usual course an investigation of the returns of that company and that if we found payments going into the hands of the persons who had not returned the money as income, we would proceed in the usual way against those persons, but couldn't in any event do anything by the 19th of May.

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- H.M.Jr: Here comes a Congressman and implies that these people have made illegal - not illegal - have made payments to people, and raises a question whether they have or have not reported it. So I would do it the usual way and let it proceed with the usual speed. That's all.
- Graves: Very well.
- H.M.Jr: But you can't go in and audit over night a thing like that, where it takes - if you did it in a year, you'd be lucky.
- Graves: That's right, but if you approve, I'll ask the people at the Bureau to get out those returns. They can make a preliminary examination of them, see if there appears to be any basis upon which they could make further investigation.
- H.M.Jr: Let me ask Mr. Hanes if he agrees.
- Hanes: Yes, that's all right.
- H.M.Jr: Just look at it, see if there is anything to it.
- Hanes: I agree.
- H.M.Jr: I mean we're not going to get out and make a stump speech about it. O. K., Johnny?
- Hanes: Yes sir.
- Graves: All right.
- Gibbons: In connection with this German countervailing duty, the United States Government will accept the statement of another government where there has been countervailing duties that the government has stopped it. There have been some countervailing duties, I understand, against the Netherlands. The Netherlands have now come in to the State Department and said they have stopped this procedure and will guarantee it will not recur, and the State Department sent it over to Johnson yesterday. Now, the Germans are talking along the same lines, so if we do anything for the Netherlands Government and don't take the same action on the German Government, it might be.....

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H.M.Jr: Well, I'd have to get all the papers on that. I wouldn't.....

Gibbons: We might hear something about it.

H.M.Jr: O. K. All right, Steve.

Gibbons: Only there's a difference, as I told Johnson, of about two months between the request of the Netherlands and the German request. We would take it up in usual order two months hence.

Bell: Here are two investment telegrams. I called New York last night so they got the instructions.

(H.M.Jr. signs telegrams handed to him by Bell)

Those are the two letters - one to the President in reply to his memorandum on the Lee bill; and you wrote on the memorandum that nothing further is to be done, but I added to that: except that he should advise the Budget as to what should be done with it. That's the letter to the President.

H.M.Jr: For me to sign?

Bell: Yes, to the President.

H.M.Jr: Will you do this for me, prepare a letter for me to write to the President enclosing the kind of a letter that I'd like him to write to the lending agencies which would continue our arrangement that they can't sell any securities or borrow any money without getting the approval of the Secretary of the Treasury. The President said yesterday that he doesn't have to have it in the law but he would continue to give us that authority, which he said he wants to have. So prepare a letter for me to write to him and for him to send to these people. Be time enough next week to have the letter. See what I mean?

Bell: Yes. But we understood our executive order would go in the next batch. Writing a letter could be undone the next day, you know.

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- McR: If we get it in the executive order it will stick. And Townsend told Danny and me they would fix this up in the next series of orders.
- Bell: That's much better.
- H.M.Jr: Herbert, would you write a letter for me to the President in which I want to say that, while a year ago I recommended that all Treasury agencies should be - Treasury police agencies should be consolidated, that I changed my mind in view of the fact that each day it comes more and more to light that organizations like the Gestapo in Germany and the OGPU in Russia are the principal bulwarks for the maintenance of their governments; and I don't want to do anything which might some day lead towards one Federal police agency in this government, and rather than consolidate the Treasury police forces, that if necessary I'd make - I'd divide each one in half and make two out of them. I'd rather go in that direction if I had to go in any direction, see? I'd like to sign that before I go.
- Gaston: All right. I think - there are other points I imagine you could bring up.
- H.M.Jr: What?
- Gaston: Well, the question of personnel and staffing of the organization.
- H.M.Jr: No.
- McR: No, just the principle. Just the principle.
- H.M.Jr: No.
- Gaston: I don't think much of the principle. That's the reason why I was looking for some other reason.
- Haas: I agree with you.
- H.M.Jr: What, George?
- Haas: I think - I agree with you a hundred percent.
- Gibbons: I think that's good.

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H.M.Jr: I mean if you don't mind, this is.....

Gaston: All right.

H.M.Jr: .....one of the - I'm sorry that I had to do it twice in the same meeting. But I mean I got Mac, you see, and I told Mac we were going to plant a rose garden out here and he told me that yellow roses are much hardier, bloom earlier, last longer, and cost less than red roses, see; but I don't like yellow roses, I like red roses, and how the hell're you going to argue with a fellow like that?

MoR: Incidentally, the bids on your roses are out.

Klotz: The bids are out.

H.M.Jr: Now, how're you going to argue with a fellow like that? That's the way I feel about this thing. It's a matter of emotion and not a matter of reason, see? And as I say, if we're going to have red roses..... Which way are you?

Klotz: I'm wriggling.

H.M.Jr: Mrs. Klotz has been arguing on that. You've changed?

Klotz: Oh, a hundred percent.

Bell: Me too. I have to look at them from up there.

Klotz: He's speaking of the other thing.

H.M.Jr: But you see this, George, don't you?

Haas: Uh-huh.

Gaston: I was thinking of an argument that the President wouldn't think weak.

H.M.Jr: He won't think this weak.

I told the President, just to show you what kind of a fellow he is - I said, "You know, Mr. President, I want to tell you about Neumann, who is just out of Bashau and Grenvalt, which are the worst camps in Germany which nobody knows about. This boy is

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just out. He's 23 years old, a Catholic boy from Vienna. I saw him last week at Amherst. I'm going to tell it to you emotionally." When I finished, he said, "I don't mind, but all you've done is just make me sick."

I mean here's a boy - the only thing he did was that he went to Geneva to study in the summertime, and therefore he was an international spy; therefore, they slapped him into prison. That boy was from two prisons - escaped. They stood on the parade ground during the whole first night and twenty-five died in their tracks, and the camp doctor had to stop it next day before they called it off. Sixty men died in their tracks. The boys in charge, the secret police, the S. S. police - the average age is from 16 to 20, and the officers from 20 to 24.

It's the new generation. And this other camp - the interesting thing which nobody knew - the President didn't know it - that a third of the population of this camp - a third of the population are German officers and S. S. police - a third of them.

Gibbons: How did he escape?

H.M.Jr: He didn't escape. They released him. They haven't got room enough to keep them. He bribed his way out - not out of the camp, but out of Germany. The entire Catholic family - the only thing they had was that he went to Geneva in the summer to study, and therefore he was an international spy. As nice a boy as you'd ever want to meet, talked perfect English.

And when police can do that kind of thing, I don't want to - I want to keep just as far away from it as I can.

Bell: You recall that you and Dr. Miller were to make a committee to dispose of certain securities for the Library of Congress trust fund, when those securities reached certain prices on the market. I wrote him a letter last week outlining these securities and their prices. They have about reached those prices now, so that you might authorize their sale.

H.M.Jr: All right.

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Bell: That authorizes their sale.

That's relieving you of signing twelve letters to the Federal Reserve Banks, every time you sign.

(H.M.Jr. shakes hands with Bell)

H.M.Jr: That's efficiency.

I'd like McReynolds, Bell, Graves, Gaston and Hanes to stay a minute, please.

Wednesday, April 26, 1939

Senor Don Felipe A. Espil, Argentina Ambassador to the United States, and Senor Don C. Alonso Irigoyen, Financial Counselor, called on Secretary Morgenthau at 10 A.M. this morning. Mr. Lochhead was also present.

Mr. Espil stated that he had been interested in the informal conversations carried on between the Secretary and Mr. Irigoyen, and later with Mr. Irigoyen and Mr. Lochhead, regarding possible financial assistance which the United States might be able to extend to the Argentina Treasury. He did feel, however, that the Treaty between Argentina and the United States, which was being discussed in the State Department, was the important point under consideration at the present time, and for psychological reasons he did not think that any other negotiations should be entered into.

Mr. Espil thought that if any financial mission from Argentina was to come up to the United States to visit the U. S. Treasury, it might be misinterpreted in the public mind in Argentina, and he was not in favor of any such mission, for the present at least. He again repeated that the Trade Treaty was the main point under discussion between Argentina and the United States and every effort should be made to concentrate on this one objective and no other discussion should be allowed to interrupt.

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Wednesday, April 26, 1939

Mr. Morgenthau, in a friendly fashion, took occasion to differ with Mr. Espil in his views that financial negotiations between the Treasuries would not be helpful. Mr. Morgenthau thought that Argentina's chief difficulty at the moment was their loss of exchange and thought that the foreign exchange problems of Argentina might be greatly assisted by a discussion of the problems by Treasury experts.

Mr. Espil stated that the question of advances against gold for the furnishing of dollar exchange to Argentina, secured by gold, would not be acceptable to Argentina as the gold cover for such transactions would have to be shipped out of Argentina and to this country. If the gold had to be physically removed from Argentina he thought the effect would be bad on the Argentina public.

The Secretary reminded Ambassador Espil that he was endeavoring to do everything possible to promote close relationship between Argentina and the United States, and it was because the wish was in his heart rather than in his head that he was discussing this subject even after Mr. Espil indicated that he did not think it feasible at the moment.

Mr. Morgenthau stated that he would be willing to consider the possibility of leaving gold security in Argentina instead of removing it to the United States.

Mr. Espil suggested that Mr. Irigoyen discuss these subjects in an exploratory and informal manner with Mr. Lochhead, and if anything

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Wednesday, April 26, 1939

developed from the conversations which might be interesting to the Argentina Government he would consider placing it before his Government.

Mr. Espil asked whether Mr. Morgenthau would speak to Mr. Roosevelt to influence him regarding the Argentina Treaty, but Mr. Morgenthau stated that he would speak to neither Mr. President nor Mr. Hull regarding the Treaty, as the Treaty did not come under the jurisdiction of the Treasury Department and the Secretary felt that there were enough problems to be solved in the Treasury without going outside.

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April 26, 1938

Placed in Book 121, pages 79 A-B

April 26, 1939.

MEMORANDUM FOR THE SECRETARY

The attached table on "Percent of corporation tax liabilities to statutory net income for the years 1914, 1918, 1929 and 1938" is in response to your request of yesterday.

If you desire further explanation of how these figures were arrived at, we shall, of course, be pleased to submit a more detailed statement.

*Roy Blough*

Attachment

Percent of Federal corporation tax liabilities to statutory net income for the years 1914, 1918, 1929, and 1938

(Corporations with net income)

Year	:	Percent
1914	:	1.0
1918	:	38.7
1929	:	10.2
1938 (Estimated)	:	19.8

The taxes include the corporation income tax, the war and excess-profits taxes, and the capital stock tax. The income is statutory net income, excluding intercorporate dividends.

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RB:fmh  
4-26-39

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April 26, 1939  
8:57 a.m.

Operator: Go ahead, please.

HMJr: Hello.

Frank  
Murphy: Hello, Henry.

HMJr: How are you, Frank?

M: Pretty good.

HMJr: Frank....

M: Yeah.

HMJr: Have you got something, or is this in answer to my call?

M: Well, both.

HMJr: All right. Do you want to shoot first?

M: Yeah. The -- there's a very careful opinion -- informally prepared by the Solicitor General's office. I've gone through it.

HMJr: Yeah.

M: And I consider it sound.

HMJr: Yes.

M: We could throw it overboard and decide otherwise, but it supports the State Department's views.

HMJr: I see.

M: On this munitions matter that the State Department has no other alternative but to have done what it did.

HMJr: Uh-huh.

M: It's a very carefully studied and explored opinion, because I -- I was very anxious to see if we could work it out the other way.

HMJr: Right.

M: That is, the principle.

HMJr: Uh-huh.

M: Now, this Drew Pearson, because I have worked it out this way has been very unpleasant.

HMJr: Well, how did he.....

M: And I get caught in a jam between the State Department and the Treasury and.....

HMJr: No -- no -- no -- wait -- wait a minute.

M: .....taking it out very unpleasantly on me.

HMJr: No. Now, wait a minute. I don't know where Drew Pearson has his pipe lines, see? But as far as I know it certainly isn't to me, and I don't think it's to anybody else here, see?

M: Yeah.

HMJr: But you can't ever get caught in a jam with me when you give me an honest opinion.

M: Oh, I'm sure of that, Henry, but what I.....

HMJr: I know.

M: Somebody steams this stuff up.

HMJr: Yeah, I -- I'm pretty sure where it is, and it's -- it's another Cabinet officer.

M: Uh-huh.

HMJr: See? And.....

M: Is that so?

HMJr: Oh, yes.

M: He steams it up.....

HMJr: Because I was amazed to find out how much he knew. He knew all the details, and when I pressed him, he said, "Well, somebody got drunk the other night and talked." Well, I don't know, but I just want you to know --

you don't know me terribly well, see? But in the six years that I have been here I have never given any newspaper man a story about or unfavorable to a Presidential appointee.

M: Oh, I'm sure of that.

HMJr: And I want you to know that.

M: Yes, well I'm sure of that, Henry. That isn't what I meant. I meant that somebody.....

HMJr: Yeah, I know -- I know all about it.

M: And a man endeavors to do a conscientious and painstaking job and as a consequence of it gets pilloried in a column. It's a pretty bad thing, isn't it?

HMJr: Well, if you had been here as long as I have and had as many people stick daggers in your back as I have and make your back have as many scars as mine has -- but I've been all through it but I've never played the columnist game and I don't talk to them, but what I -- what I would say to you is this: I talked to the President about this at lunch yesterday, you see -- this question about an opinion on this Munitions Board, and I said, "Is it all right to speak to Frank Murphy?" And he said, "Yes," and that's why I called you.

M: Yes.

HMJr: And he said to tell Frank to have it ready, whatever he's going to do, so in case I should want to see the President on the 28th or 29th it would be ready.

M: Well, it's all ready now.

HMJr: But if it's what you say it is, and that is what the State Department is doing is proper, then as far as I'm concerned, I'm going to drop it.

M: Yeah, I think that you ought to get a copy of this.

HMJr: Well.....

M: Or have one of your men come over and go over it carefully with our men.

HMJr: Well, is it all right with you if I have Foley?

M: Yes, sure.

HMJr: And I'll have Foley -- now, we're talking -- you know that -- you see, there's a couple of fellows -- I mean, maybe you know -- give opinions in your own office who were there before you were.

M: Yeah.

HMJr: Who are pretty close to the State Department. I don't know whether you know that or not.

M: NO.

HMJr: What?

M: No, I'm not familiar with that.

HMJr: Well, sometime when I -- if you want to know -- if you ask me I'll tell you; and I -- I'm fairly sure -- I never can be sure -- that that stuff which you refer to is not coming out of the Treasury, and it certainly isn't coming out of my office.

M: Yeah.

HMJr: But there are a couple of fellows which we think are very close to the State Department.

M: Over in the Solicitor General's office.

HMJr: Well, he's an opinion fellow.

M: Yeah.

HMJr: See? And if you -- sometime when we sit down, I'll tell you all I know anyway.

M: All right, Henry. What did you have in mind?

HMJr: Just this, the President said, "Call up Frank and tell him that -- to have it ready -- if he has an opinion, so that if he (the President) wanted to use it Friday or Saturday, it would be there."

M: Yeah.

- HMJr: But I wouldn't bend the law for anything on that.
- M: Yeah.
- HMJr: So as far as I'm concerned, it's -- it's a closed book.
- M: Yeah.
- HMJr: But I will ask -- I will ask -- but everything that we've done here that has anything to do with the President has got to be a hundred and one per cent legal.
- M: Yeah.
- HMJr: See?
- M: Yeah, I -- of course, if it were a large problem of some kind we could perhaps recognize some conditions at present, or that are facing us, that would alter it, but apparently there isn't any problem about it any way because only 33 thousand dollars worth of munitions have gone there in two years.
- HMJr: Now in the case of -- of countervailing duties, the first secretary of the German Embassy was in, saw our Customs people, agreed that they were dumping, agreed to what we had done -- that they had read the Attorney General's opinion and what we had done was entirely legal, and now they are taking the attitude - "Won't you revise it so we can do business on a cash basis"?
- M: Yeah.
- HMJr: And we followed their imports from this country very closely. They are buying just as much cotton as they ever did.
- M: Well, that's good.
- HMJr: Now, instead of you and I having to apologize -- having them say -- well, we're being unneutral.....
- M: Yeah.
- HMJr: .....the Germans say what you did was legal and proper and can't they help us out.
- M: Yeah.

- HMJr: Now, I'm not going to be in any jam because Drew Pearson writes a column -- to hell with him!
- M: No -- no, we've got to follow the law. I'm sorry that he or anybody is disappointed, but we've got to keep ourselves.....
- HMJr: If you want to know -- because I'm never going to volunteer about another fellow's shop but -- I -- I mean, if you don't know, I think I can.....
- M: Well, I'd never guess it for a moment, Henry, so don't think that was in my mind.
- HMJr: Yes.
- M: Or the secretary, you know, called up one day in a rage.
- HMJr: Yeah.
- M: Secretary Hull.
- HMJr: Yeah.
- M: And very sore.
- HMJr: Yeah. Well, of course.....
- M: You know that, don't you?
- HMJr: Well, you told me that and the President and I didn't know when -- I guess I'd forgotten -- that a year ago, you see, Hull lost his temper at Pearson at a press conference on this very subject, and I had completely forgotten about it. And he said, "Well, it isn't anything personal. All these things are too big, you know." I mean, Hull most likely thought I was trying to do him a personal injury, which is the furthest thing from my mind.
- M: No, I don't -- I can't say that he felt that.
- HMJr: Oh!
- M: He -- he did say that he thought it was being steamed up in the Treasury Department.
- HMJr: Yeah.

M: Well, that's over in Iokes Department too -- he mentioned something there, and then.....

HMJr: Yeah.

M: He was very critical about it. He was very angry.

HMJr: Yeah.

M: He didn't say anything that would reflect on you at all.

HMJr: Well.....

M: And he was very angry; it was very obvious. He felt he hadn't been treated altogether right.

HMJr: I see. Well.....

M: No, Henry, we had Annenberg in.

HMJr: Did you?

M: And meanwhile I had given instructions to speed everything up. He wants to, through his Counsel there -- yesterday -- I haven't talked with him, I just opened it up, and I don't know how it concluded, but he wants to, I suppose, settle his case.

HMJr: Yeah.

M: So we're giving him a chance to -- see what he's got to say, that's all.

HMJr: I see.

M: But we'll go steaming right ahead.

HMJr: I see.

M: I think that these people now all know that they can't handle their cases down here in Washington.

HMJr: I -- I think they'd.....

M: And -- they -- they're desperate. They -- they want to engage everybody -- lawyers at Chicago and in Detroit.

HMJr: I see.

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M: McAdoo from out on the coast.

HMJr: No!

M: Oh yes, he wants to get into it, between you and me.

HMJr: Well, I heard Max Gardner -- they approached Max Gardner I hear.

M: Yes, they've had Cummings and some of his old friends. But none -- none of it is going to count any. Nothing can help them.

HMJr: Now. -- Well, I'm glad to hear that -- they should be treated in a -- whatever the .....

M: Do exactly the right thing, nothing else.

HMJr: Now Frank, on Skidmore -- that went over Monday, I think.....

M: Oh.

HMJr: .....to your man, Morris.

M: Yeah.

HMJr: Just the way you asked.

M: All right.

HMJr: It was -- it was over there Monday.

M: How about that west coast.....

HMJr: Well, I've -- I .....

M: Did you get anywhere with that?

HMJr: I tell you what I've done. I put the best man I've got on that thing in the Treasury, and that's Harold Graves.

M: Yeah.

HMJr: And I've put him on it and -- because they told me it would take two or three months and I've given him ten days to see what he can develop.

M: All right.

HMJr: But I've got the very best man we have in the Treasury on that, personally, Harold Graves.

M: Yeah. All right, Henry.

HMJr: I want you to meet him sometime.

M: I'd like to.

HMJr: Now, may I have one other minute?

M: Yeah.

HMJr: A year ago I was for consolidating the Treasury enforcement agencies. I have completely reversed myself and I want them, instead of being in six places, I'd like to have them in twelve places of the Treasury.

M: Yeah.

HMJr: And the reason is I'd like -- as far as the Treasury is concerned -- I want you to know this -- keep it just as far in as many places as possible to avoid the possible danger of some day being consolidated into a federal police.

M: Yes.

HMJr: And as far as the Treasury is concerned, we've got it in six places and I'm writing the President a letter that -- please not to change it. My reason is that I want to do all I can to keep it moving in the direction of an Ogpu or Gestapo.

M: Yes.

HMJr: And I just wanted you to know how I feel.

M: Yes.

HMJr: That I have reversed myself, and.....

M: Well, I don't know much about it, but it would seem to me that that's wise.

HMJr: I think so. I -- we're getting along pretty well. We've got a coordinating committee in the Treasury, they meet and they work very well together, but you know that the next President might --if it was all in

one place here; he could very well pick it up and take your outfit and the postoffice and throw them all into one place.

M: All right.

HMJr: What?

M: All right, Henry.

HMJr: Well, I want you to know that as far as we're concerned, our own work -- I don't want any consolidation.

M: O. K.

HMJr: Thank you so much.

M: All right, good bye.

April 26, 1939  
10:47 a.m.

HMJr: Hello.

Operator: Justice Douglas. Go ahead.

HMJr: Hello.

Bill  
Douglas: Hello, Henry.

HMJr: How are you?

D: Fine. As to Phil Young, I made that check that I.....

HMJr: Please.

D: .....said I would. Now, I didn't get very much satisfaction because, you see, over there he was pretty far down the ladder.

HMJr: Uh-huh.

D: And didn't come under the direct supervision of any member of the Commission.

HMJr: I see.

D: But what I got was, therefore, not very satisfactory because no one knew him very well.

HMJr: I see.

D: There was the feeling that for that kind of a position he was pretty far down the ladder.

HMJr: Uh-huh.

D: In other words, that while he was a nice fellow, there was some hesitation to endorse him for anything as responsible as that.

HMJr: I see.

D: No reflection on his character, but lack of information that he had the real stuff.

HMJr: Uh-huh.

D: You see?

- 2 -

- HMJr: But nothing -- then what you are telling me is purely negative?
- D: Yes, purely negative and evidence of some surprise that he'd be considered for a very responsible post.
- HMJr: Well, I'm just desperate over here, that's the answer.
- D: Yeah.
- HMJr: And what I'm thinking of is really an assistant secretary of a corporation, a fellow who just signs the mail.
- D: Yeah.
- HMJr: Now, I know if he puts his name to something at least...
- D: Yeah.
- HMJr: .....he's going to sign and he's on the level.
- D: Oh, sure. There's no question about the.....
- HMJr: And that he'll stay until the end if I offer it to him.
- D: Yeah.
- HMJr: But I'm not going to ask his advice on fiscal matters.
- D: Yeah. Well, there's no question but what in terms of integrity and loyalty and what not, the reaction is extremely favorable.
- HMJr: Well, and the little contact that I've had with him, I think he's got a first class brain.
- D: Yeah.
- HMJr: But I -- I realize perfectly, but damn it all, to get people to say, "Well, we'll stay here from now until the fourth of March next," and are not out looking for jobs and keeping me upset every minute -- I just can't find them, Bill.
- D: Yeah, it's tough.
- HMJr: I just can't find them. God, I've looked hard enough.

D: Yeah.

HMJr: And -- so I -- I've gotten down to this level.

D: Yeah.

HMJr: I -- I'm doing it with my eyes open.

D: Sure.

HMJr: But if anybody can tell me where I can find a really, able, high class, outstanding fellow, I'll walk across the continent to get him.

D: Yeah. Well, the dope that I have is really negative in character and it's nothing -- it's no registration of any complaint or criticism of the fellow at all.

HMJr: Well, Jerry Frank -- I talked to Jerry, and he said he -- while he didn't know him, he said everything he knew about him was good.

D: Yeah. Yeah.

HMJr: But that he didn't know him intimately.

D: Yeah. Well, I'm sorry I can't get -- get you something more satisfactory. I checked back to the fellow that he was working under.

HMJr: Yeah.

D: But he -- Young was, oh, was a dozen or more men under the chief, you see.

HMJr: I see.

D: Who was reporting to the Commissioner.

HMJr: Oh yes. That far down.

D: He's pretty far down so he didn't.....

HMJr: Who was his chief?

D: His immediate chief was Dave Schenker.

HMJr: Oh yes.

- 4 -

D: And Dave Bohenger reported to Haley.

HMJr: Oh yes, so it's that far down.

D: Haley was the fellow I talked to.

HMJr: I get you. I'm ever so much obliged.

D: O. K. Henry.

HMJr: Good bye.

TO: MISS CHAUNCEY

290

I have reported orally to the Secretary about this matter.

You might, however, wish to have the attached memorandum for your files.

From: MR. GRAVES 4/26/39

## TREASURY DEPARTMENT

WASHINGTON

April 26, 1939.

MEMORANDUM FOR THE SECRETARY:

In accordance with your request, I conferred yesterday afternoon with Congressman Havenner, of San Francisco.

The Congressman stated that on May 19 there was to be a municipal election in San Francisco at which there would be submitted to the voters a proposition to authorize the issuance of municipal bonds for the purpose of establishing a municipally-owned power and light service.

He said that similar elections had been proposed or held in prior years, but that the proposition had always been defeated, due largely to the influence of the Pacific Gas and Electric Company, which holds the franchise to furnish power and light to the City of San Francisco.

He said that under the California law the Pacific Gas and Electric Company was required to file annually with the State Railway Commission, performing the functions of a public utilities board, a statement showing its expenditures for political purposes, and that these annual statements were matters of public record and subject to inspection by any interested person.

He said it was believed that the Pacific Gas and Electric Company had made substantial payments in the nature of graft to municipal officials, and other public officers, for the purpose of influencing their attitude toward municipal operation of power and light facilities; and that he had been advised by agents of the Federal Bureau of Investigation that the Bureau of Internal Revenue would be able, by an examination of the income tax returns of the power and light company, to determine whether such payments had actually been made and to whom.

He said that it would be of great advantage in connection with the forthcoming election to have a disclosure of any such graft payments, and the object of his visit was to ascertain whether the Department would be willing to undertake an investigation along the lines indicated.

I told the Congressman that under the law information developed through the investigation of income tax returns was required to be held confidential; that even if the Department could complete the investigation requested before May 19, the date of the election, which

Memorandum for the Secretary--2.

ordinarily would be difficult, if not impossible, the Department could not make public the results of the investigation.

I informed the Congressman further, however, that it would be practicable to make an investigation along the lines of his request, determine if possible what graft payments had been made, if any, and to whom, examine the returns of the persons receiving such payments in order to ascertain whether the amounts paid had been returned by them as income, and proceed against these persons for fraudulent evasion of income tax in the event it should transpire that the payments had not been reported as income.

I pointed out also that should it develop, upon investigation, that municipal officials were involved in the evasion of income taxes in the manner suggested, prosecution would undoubtedly be recommended by this Department and instituted by the Department of Justice, and that prosecution, if undertaken, would undoubtedly be given full publicity, but that this was the only way in which results of any investigation made by the Department could be given to the public.

I told the Congressman further that, subject to your approval, an examination of the returns of the Pacific Gas and Electric Company would be made and that should such an examination indicate the advisability of proceeding with an investigation to trace supposed unlawful transactions, this would be ordered.

If this course of action meets with your approval, I will ask the proper officers of the Bureau of Internal Revenue to proceed accordingly.

GRAVES.

# TREASURY DEPARTMENT

293

## INTER OFFICE COMMUNICATION

DATE

April 26, 1939.

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

Re: Moe Annenberg Tax Case

At about 11:15 yesterday morning, a conference took place in the office of Assistant Attorney General Morris at which there were present the Attorney General (at the beginning), Mr. Morris, Mr. Sellar, Mr. Crouter, and Mr. Burns of the Department of Justice; Mr. Riley Campbell, Mr. Klaus and Mr. Madden of the Treasury Department; Moe Annenberg, his son, Walter Annenberg, his ex-son-in-law, Stanley Kahn, and his attorneys, Mr. Kirkland, Mr. Green, Mr. Nance, Mr. Hodson and Mr. Chaffetz.

The conference opened with a statement by the Attorney General the substance of which was that this was an informal proceeding requested by the taxpayer and granted as a matter of justice; that the Attorney General had asked the Treasury to be represented, but that the responsibility was with the Department of Justice; that the issue was whether there was guilty knowledge on the taxpayer's part or whether there was only a mistake. That it was quite likely that, if the case went to a Grand Jury, there would simultaneously be presented other matters concerning Annenberg in which the Department of Justice was interested. The Attorney General left the room, and thereupon Mr. Kirkland made a statement on behalf of Annenberg in which he asserted that an examination by him had disclosed additional income heretofore undisclosed on which taxes might be due the Government, but that there was no guilty knowledge on the part of the taxpayer, that

he had relied entirely upon his accountants. He went into a long discussion of the growth of the Annenberg business, and then, upon questioning by him, Annenberg covered his life from his birth to date. The upshot of the examination is that Annenberg claims to be ignorant of the accounting and run by his employees although he assumes responsibility for the filing of the income tax returns; he states that he has hardly been in Chicago since 1921, thus excluding any basis of the Statute of Limitation; he explains the making of returns of the run-down-sheet income in his wife's name by asserting he made her a gift of the business under undisclosed circumstances, (which Kirkland says, in his own opinion does not amount to a legal gift, but, he says, was so considered by Annenberg); that he has not disclosed other sources of income than the property held by his holding companies; that he makes no explanation of the break-up of his surtax liability through dummy stockholding in his holding company known as the Cecelia Company; and that on several crucial items his statements of the facts are in direct contradiction to the facts known to our agents.

Kirkland has said that he has present in Washington the two auditors who are claimed to be responsible for any shortcomings in the accounting (Messrs. Kruse and Haffner) as well as the managers of his wire business (the Ragens, father and son). He proposes this morning, at 10 o'clock, to examine Walter Annenberg as he did the father and will submit the others to questioning by the Government. A conference is to be held by the Government men in Mr. Morris' office at 9:30 to determine the course of the questioning. It would seem, that very little need to be asked in order to satisfy the conscience of the Government officers that a criminal case exists and that no adequate explanation has been made which would exculpate Annenberg.

F. J. H.

4/26'39

295

Miss Chauncey:

Delivered to Sec'y

at 9:30 meeting today.

McG

April 26, 1939.

Secretary Morgenthau

L. H. Foley, Jr.

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## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 26, 1939, 9 a.m.

NO.: 825

FROM COCHRAN.

STRICTLY CONFIDENTIAL AND NOT TO BE REPEATED TO  
BERLIN.

Yesterday evening for an hour Puhl, Acting Vice President of the Reichsbank who is in Paris for informal standstill discussions, visited with me. Puhl told me that since he had come to Paris he had received telephone requests regarding data on economic and financial matters, which Hitler was asking the Reichsbank to give him for use in his speech on Friday. That such information was being sought was looked on as a good sign by Puhl, and he expects that the speech will leave the door open for peace plans.

Puhl referred to the conscription by Great Britain in the absence of war, and looked on it as a very significant event in view of that country's liberal traditions. He did not think this would have any violent repercussions in Germany, and expressed the view that it might really hasten a world move to check rearming. He also said, incidentally, that it might be a step toward effacing class distinction in the great "democracy"

of

- 2 -

of Great Britain.

My friend said that he had had a long talk with Hitler the day before Hitler's birthday, and found the leader quite calm and collected. As when I saw him in Basel the last time, he insisted that no one should question Hitler's sanity, and that no one should underestimate his intelligence. Puhl pointed out to Hitler the transformation of the German economic situation, including that of foodstuffs, and Hitler understood it thoroughly and admitted that the situation was "pretty bad"; however, he thought for the present it was better to carry on with it, until it was possible to clear up certain political problems of the Reich.

I made mention of the American press story of yesterday, stating that certain exceptions were to be made under the American countervailing duty imposed on goods coming from Germany. Puhl minimized the importance of such exceptions, considering the magnitude of the problems between the two countries. He told me that although more serious steps had been suggested, such as not paying the April 15 coupon of the Dawes loan, after the countervailing duty order was made known, the Reichsbank had successfully recommended against any such steps, preferring not  
to add

- 3 -

to add to the already existing hard feelings. He expressed regret at the lack of contact and conversations between the Germans and Americans. He ventured the idea that if ambassadors are ever needed, surely they should be on the job and not hiding behind the mother government's skirts when it is necessary to thresh out some disagreeable problems.

I jokingly remarked to Puhl about his making life miserable for himself through the intricate system of control of exchange and trading which he had assisted in building up as the Reichsbank's foreign exchange expert. Good naturedly he confessed that it was unfortunate that the Germans with their superior intelligence had worked out such a complicated system that in the opinion of stupid foreigners it was either a mystic mechanism destined to replace normal world exchange and commercial methods, or that such foreigners were so suspicious of it because they did not understand the working (and weakness) thereof that they simply refused to do business in that manner.

My visitor frankly but secret admitted that until the German currency was readjusted to a proper level and the exchange control system scrapped, the trading problem could not be really solved. He would be delighted to see this system go, after his painful experience with it these several years. If the Germans had known that

the

- 4 -

the British were going to leave gold in September of 1931, he said, Germany would have resorted to a similar procedure and would never have put into operation exchange control in Germany a few weeks prior to the British action. It has been difficult since that time to make a change, and on this emergency system it has been possible for them to effect Germany's rearmament and expansion. Some time and effort will be required to discard the system, but Puhl looks forward to such an accomplishment.

The standstill conversations are rather routine, Puhl said. He only wished that no more serious problems than this faced the Reichsbank. He told me that Funk was taking quite an interest in the bank, finding in it a calm and orderly haven as compared with the hectic atmosphere around the Ministry of Economics with its shock concealing task.

Puhl said that Funk would go to the annual meeting of the BIS in May, especially since he would have a chance then to see the governors of the central banks of the smaller countries, who only come to this yearly meeting.

END OF MESSAGE.

EA:LWW

RECEIVED

BULLITT.

APR 25 1931

RECEIVED  
APR 25 1931  
BULLITT

~~MA~~

LONDON, W. 1.

April 27, 1939.

My dear Mr. Secretary:

An American boat carrying an official pouch is leaving tomorrow so I am writing today to confirm the fact that I carried out the instructions you gave me on Monday night, April 24, over the telephone. I informed Phillips and Waley of the British Treasury the next day of the fact that the Attorney General concurred in the informal opinion of the Treasury Counsel contained in telegram No. 263 of April 16, 8 p.m. At the same time I emphasized the strictly confidential character of this information and very particularly stressed that it was conveyed to the British Treasury merely to make clear the legal status without in any way involving any commitment on the part of the United States Government.

Phillips

The Honorable

Henry Morgenthau, Jr.,

The Secretary of the Treasury,

Washington, D.C.

-2-

Phillips expressed, on behalf of the British Treasury, appreciation for this information and asked me what, in my opinion, constituted the next step. I merely said that I did not feel that there was any further step that the United States could appropriately take at this time. But I did take this opportunity to refer to Phillips' statement that the American figures of British holdings of American securities were "wide of the mark", (reported in my No. 483, April 14, 7 p.m.), and added that if, in the ordinary course of exchanging statistical data, he could supply figures which would show British holdings exclusive of those of foreigners operating through London it would be of interest, for we had always wanted to break-down our capital movements statistical data in this respect.

Respectfully yours,

W. L. Butler

The Honorable

Henry Morgenthau, Jr.,

The Secretary of the Treasury,

Washington, D.C.

ATTACHMENT  
9:30  
1939 MAY 9 AM 9 09  
OFFICE  
SECRETARY OF TREASURY

4-27-39

The President,

The White House,

Dear Mr. President:

A year ago I recommended to you that all investigative or police agencies in the Treasury Department be consolidated into a single organization of Treasury Agents.

I have now come to a different opinion and desire to withdraw my recommendation. This reversal of my position is due entirely to my observation of events in Europe, where nationwide police and spy organizations are the chief instruments through which the most hateful tyranny and oppression are maintained. I think we ought to avoid by all possible means the danger of duplicating anything like those conditions in this country. Therefore, I am opposed to Federal police consolidation even within one department.

To this I should add that the degree of consultation and coordination which we have been able to establish under present law between the investigative agencies of the Treasury Department is, in my opinion, proving adequate to eliminate overlapping of effort and to produce coordinated action when that is necessary. I don't think further consolidation would produce any such gains in efficiency as would warrant the risk of future tyranny.

Sincerely yours,

Secretary of the Treasury.

HEG/mah

(Written in H.M., Jr.'s handwriting: April 27th 1939  
delivered at Hyde Park by auto at about 6.30 pm)

THE WHITE HOUSE  
WASHINGTON

May 1, 1939.

MEMORANDUM FOR

H. V., JR.

I received your letter of April 27, 1939, advising me that you are reversing your position in regard to the consolidation of investigative or police agencies in the Treasury Department into a single organization.

The difficulty with this is two-fold.

First of all, the reversal of your recommendation comes at a moment when our Reorganization Plan No. 2 is about to go to Congress.

Second, this whole administrative recommendation has been given to the newspapers, thus placing me in a position of great embarrassment.

F. D. R.

April 21, 1939

List of Pending Banking Legislation

1. Senator Prentiss Brown's bill to transfer the examining and supervisory functions of the Comptroller's Office and the examining functions of the Federal Reserve Board to the Federal Deposit Insurance Corporation.

2. Senator Wagner's resolution and other similar resolutions authorizing an investigation to determine a monetary and banking policy for the Government.

3. Various bills to eliminate or regulate bank holding companies.

4. A bill to increase the Federal Deposit Insurance Corporation insurance limit on each deposit from \$5,000 to \$10,000.

5. Various bills to provide financing of small businesses by the Government.

6. Bills subjecting bond issue trust indentures to Securities and Exchange Commission supervision.

7. A bill to postpone from February 1, 1939 to February 1, 1944 the date after which a director of a Federal Reserve member bank may not be a director of more than one other bank.

8. A bill to extend until 1942 the date on which officers and directors of member banks must have repaid any loans received from their own banks.

9. A bill to allow establishment of branch bank offices by national banks under the same capital-requirement terms as apply to State banks.

10. A bill transferring to the Treasury deposits in national banks which have been dormant for ten years or longer.

orig to Secy  
on Jan

308

April 27, 1939

To: The Secretary

From: Mr. Hanes

At your request I saw the Minister from Finland yesterday. He told me that he had had some informal discussions with you concerning the possibility of a loan to his country by this government.

He stated that his reasons for making this inquiry were that in case of war it would be necessary for Finland to mobilize in order to maintain her neutrality. This mobilization would require a lot of money and, therefore, Finland would need help from the outside.

The Minister was careful to point out that this was in no way official, but that he was indulging in what he termed "loud thinking." I told him that the first question to be decided was one of policy and that the decision would have to be made by the President. I also told him that I would refer the matter to you in order that you might get some indication as to what the attitude of the Administration would be in regard to this situation before you return to Washington next Tuesday.

(Initialed) J.W.H.

JWH:JR

4-27-39 309

The President,

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Dear Mr. President:

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I have now come to a different opinion and desire to withdraw my recommendation. This reversal of my position is due entirely to my observation of events in Europe, where nation-wide police and spy organizations are the chief instruments through which the most hateful tyranny and oppression are maintained. I think we ought to avoid by all possible means the danger of duplicating anything like those conditions in this country. Therefore, I am opposed to Federal police consolidation even within one department.

To this I should add that the degree of consultation and coordination which we have been able to establish under present law between the investigative agencies of the Treasury Department is, in my opinion, proving adequate to eliminate overlapping of effort and to produce coordinated action when that is necessary. I don't think further consolidation would produce any such gains in efficiency as would warrant the risk of future tyranny.

Sincerely yours,

Secretary of the Treasury.

HBO/nah

April 27, 1939

310

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Sincerely yours,

Secretary of the Treasury.

HEG/mah

*April 27<sup>th</sup> / 1937*  
*at Hyde Park*  
*delivered by auto at about 6.30 P.M.*

*MS*

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Sincerely yours,

Secretary of the Treasury.

HEG/mah

AC

PLAIN

London

Dated April 27, 1939

Rec'd 1:55 p.m.

Secretary of State  
Washington

569, April 27, 6 p.m.

FOR TREASURY FROM BUTTERWORTH

1. In the course of a statement in the House of Commons today the Prime Minister said: "We do not desire to deprive armament firms of a reasonable profit but what we do feel is that it is repugnant to the general sense that the profits should be unreasonably swollen. The practical method of limiting the profit is one that has required a great deal of study and there are obvious difficulties to be overcome. But the Chancellor of the Exchequer and his officers are now giving particular attention to the devising of the best plan to achieve that purpose and it is hoped that definite proposals will be laid before Parliament at a very early date. I said yesterday something about profits in war time. We are not now at war. I hope we never shall be. If war should come, the Government has stated plainly their view as to the impropriety in wartime of such increases in fortunes made out of conditions created by the war as were seen in the

AC - 2 - #569, April 27, 6 p.m., from London

in the course of the last war. The view of the Government is that if war should ever come again we feel that the taxes on the very wealthy, which are already very high, must be further and substantially increased. We feel that profiteering in war time, if it can be established, should be subjected to special penalties. The Government intend that a system shall be introduced to deal with all profits arising out of war. The best method of grappling with this matter would be a levy on wartime increases such as was examined by the select committee of 1920 but was not proceeded with."

2. The city welcomed the announcement regarding conscription, but the London Stock Exchange was inclined to be weak because Hitler is to speak tomorrow. It is noteworthy that war loan lost 7/16, closing at 91 1/8. The foreign exchange market continues inactive with the British control giving some dollars. The feature of the market was the bidding for guilders due apparently to buying by Mendelssohn for loan repayment due May 1. 188 bars were sold at parity price at gold fixing of which 173 were married and the British fund took the remainder. Inasmuch as Rothschild was the only buyer of the married gold the presumption is that the British fund acquired all the fixing gold.

KENNEDY

KLP

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 27, 1939, 5 p.m.

NO.: 834

FROM COCHRAN.

Continued recovery of belga was feature of trading today. The reasons for this were the voting of special powers to the Government, and the denunciation of devaluation by Finance Minister Gutt, and announcement that by means of savings and new taxes it is planned to wipe out the 650 million franc deficit. As yet there is no evidence that the National Bank of Belgium is making an effort to stop the rise by offering belgas on the market. Shorts are having to pay dearly to cover as a result.

The florin is also quite strong today.

This afternoon the French control began to gain a little sterling, and there was also improvement in the forward franc. The April 20 statement of the Bank of France showed the Minister of Finance's transfer of 5 billion francs of gold to the Bank of France from the stabilization fund. Coverage was 63.73 versus 62.35.

In today's press it is reported that the Swiss Bank Corporation of Basel is contemplating the establishment of an agency in New York City. It is reported that the conversion of the Egyptian National Bank into a Central Bank has been put off.

BULLITT.

EA:LWW

RECEIVED

316

REB

OFFICE

TREASURY DEPARTMENT  
OFFICE OF THE ASSISTANT SECRETARY  
FOR ECONOMIC AFFAIRS

GRAY

Paris

Dated April 27, 1939

Rec'd 3:09 p. m.

Secretary of State,  
Washington.

834, April 27, 5 p. m. (SECTION TWO)

French Deputy de Beaumont of Indo-China has addressed letter to Premier Daladier stating that when Parliament reconvenes he will propose a bill to reopen war debt negotiations with the United States in answer to President Roosevelt's efforts toward peace. The press quotes the letter: "In spite of immense sacrifices France has just been called on again to make, to guarantee her own independence and to defend the liberty of a threatened world, we can find means to give the United States of America, in one form or another, the legitimate satisfaction which they have awaited from us for six years. Certain economic advantages, particularly in our immense empire where so many mineral and agricultural resources still await exploitation, could provide our associates of yesterday, our friends of today, just compensation for the heavy sacrifices which they have made in defending the liberty of peoples."

(END OF MESSAGE)

BULLITT

KLP

APR 28 1939

Dear Ganson:

The Secretary has handed me your letter of April 21 and draft copies of letters to Commissioner Healy and the Investment Bankers Conference. The Treasury has no suggestions to offer either as to the form or substance of the proposed letters.

I do not think it necessary at this time to bring the letters to the attention of the President.

Sincerely yours,

(Signed) John W. Hanes

John W. Hanes  
Under Secretary of the Treasury

Mr. Ganson Furell,  
Director, Trading & Exchange Division,  
Securities & Exchange Commission,  
Washington, D. C.

EEV/ahn 4-26-39

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

TRADING AND EXCHANGE DIVISION

April 21, 1939

My dear Mr. Secretary:

*James K.*  
At Commissioner Frank's suggestion, I am sending you herewith draft copies of the following proposed letters:

- (1) A letter to be addressed by the President to the Chairman or Acting Chairman of this Commission;
- (2) A letter proposed to be addressed by the Commission, in response to the suggestion contained in the President's letter, to various leaders in the over-the-counter securities markets.

The purpose of these two letters is to place the authority of the President behind attempts which this Commission might desire to make to close or restrict our over-the-counter markets in the event that our national securities exchanges have already been closed with the approval of the President. As we have previously stated to you, of course it is our hope that, in the event of a crisis, matters may be so arranged that it will be unnecessary to place restrictions on either type of market.

Would you be good enough to examine these letters and to give us your opinion with respect both to their form and substance and also as to whether drafts should be submitted to the President in order that he may express his approval or disapproval and be familiar with the proposed correspondence.

Respectfully yours,

*Ganson Purcell*  
Ganson Purcell,  
Director.

The Honorable,  
The Secretary of the Treasury,  
Washington, D. C.

DRAFT

319

April 18, 1939

Commissioner Robert E. Healy,  
Acting Chairman,  
Securities and Exchange Commission,  
Washington, D. C.

My dear Commissioner:

In view of the unsettled condition of international affairs resulting from the outbreak of hostilities in Europe, and the recent action taken in temporarily closing our national securities exchanges, I urgently request that your Commission take appropriate steps to place effective restrictions upon transactions in securities in our over-the-counter markets.

I suggest that organizations of over-the-counter brokers and dealers and other leading representatives of the industry be called upon to cooperate by prohibiting transactions over-the-counter in securities listed on our national securities exchanges and to take such other and further measures as may be deemed necessary and desirable.

Yours sincerely,

April 18, 1939

Investment Bankers Conference,  
1010 Vermont Avenue,  
Washington, D. C.

Gentlemen:

I am this day in receipt of the following communication from the President:

"In view of the unsettled condition of international affairs resulting from the outbreak of hostilities in Europe, and the recent action taken in temporarily closing our national securities exchanges, I urgently request that your Commission take appropriate steps to place effective restrictions upon transactions in securities in our over-the-counter markets.

"I suggest that organizations of over-the-counter brokers and dealers and other leading representatives of the industry be called upon to cooperate by prohibiting transactions over-the-counter in securities listed on our national securities exchanges and to take such other and further measures as may be deemed necessary and desirable."

Pursuant to the President's request I am calling a conference to be composed of representatives of associations of over-the-counter brokers and dealers to take place in the Washington office of the Commission on \_\_\_\_\_ 1939. I trust that you will arrange to have representatives of your organization attend this conference.

Pending this conference the Commission requests that you instruct your members to refrain from effecting any transactions whatsoever in any security registered under the Securities Exchange Act of 1934 or admitted to unlisted trading privileges on any national securities exchange. The Commission also requests that your members be instructed to limit their transactions in other securities to bona fide cash purchases and sales for nationals of the United States of America.

I would appreciate your advising me whether your representatives will attend the conference on \_\_\_\_\_ 1939.

Very truly yours,

Robert E. Healy,  
Acting Chairman

April 28, 1939

FOR THE SECRETARY:

I had lunch today with Ben Cohen to discuss a bill which he had drafted to provide insurance by the Reconstruction Finance Corporation of loans to small business. I believe his intention is to suggest that Senator Meade substitute the proposed bill for the bill which Senator Meade has already introduced. He did not ask me to speak for the Treasury, but I made plain, of course, that I did not represent anybody except myself. I expressed a personal opinion that insurance of loans by the Government would be better than outright lending if anything was to be done in this field. Beyond this I made only some technical suggestions about the bill.

ESD

C O P Y

PARAPHRASE

322

SANTIAGO *Chile*

Dated April 28, 1939

Rec'd 8:40 p.m.

Secretary of State

Washington

73, April 28, 5 p.m.

Department's telegram No. 64, April 25, 1 p.m.

I brought the substance of the Department's telegram No. 64, April 25, 1 p.m. to the attention of the Under Secretary of Foreign Affairs and Commerce. We agreed that it would be advisable if I had another talk with the Finance Minister and extended to him an invitation to go to Washington for the purpose mentioned in the Department's telegram. Following the successful passage of the reconstruction bill the Minister of Finance was in a much more optimistic mood. He was grateful for the invitation and he assured me that he intends to prepare more specific plans to place before us and to have probably one or more officials proceed to Washington when these plans have been completed which he hopes will not be later than the middle of May. He is of the opinion that it would not be advisable for him to proceed for the present since his presence will be required in Santiago and also his visit might create comment. However, he might proceed later after the preliminaries have been concluded.

The

- 2 -

The Minister of Finance at the same time, as did the Under Secretary for Commerce, requested me to assure the Department that while the authorization to use the funds allocated for debt service remains in the law just enacted, the Government has no intention of availing itself of this power. He intimates that the clause having been reinserted it was not possible for political reasons to delete it.

ARMOUR

TREASURY DEPARTMENT

324

INTER OFFICE COMMUNICATION

DATE April 28, 1939

TO Secretary Morgenthau  
FROM W. H. Hadley

Government Securities Sold During April

For delivery during April, 1939 a total of \$37,463,700 bonds and notes were sold. In addition, \$5,787,000 bonds were sold today for delivery May 1. This last amount will not appear in the April figures, however, when this amount is included total sale transactions for April (deliveries and commitments) amount to \$43,250,700.

The breakdown of the \$43,250,700 sales, of which \$18,477,000 was for Postal Savings and \$24,773,700 was for Federal Deposit Insurance Corporation, is given below according to issues and accounts.

Breakdown by Issues

1-5/8%	Treasury Notes 3/15/40 . . .	\$ 513,700	
1-1/2%	" " 6/15/40 . . .	<u>3,750,000</u>	
	Total Notes . . . . .		\$ 4,263,700
3-1/4%	Treasury Bonds of 1941 . . .	\$24,106,000	
3-3/8%	" " 1940-43 . . .	<u>14,881,000*</u>	
	Total Bonds . . . . .		\$38,987,000
	Total Sales * . . . . .		\$43,250,700 *

\* Includes \$5,787,000 bonds sold for delivery May 1.

Breakdown by AccountsFor account of Postal Savings (\$18,477,000)

<u>Issues</u>	<u>Amount</u>	<u>Price Range</u>
3-1/4% Treas. bonds of 1941	\$12,549,000	106.30 - 106.28
3-3/8% " " " 1940-43	<u>5,928,000</u>	104.13 - 104.12
Total	\$18,477,000	

For account of F. D. I. C. (\$24,773,700)

<u>Issues</u>	<u>Amount</u>	<u>Price Range</u>
1-5/8% Treas. notes of 3/15/40	\$ 513,700	102.9 - 102.10
1-1/2% " " " 6/15/40	3,750,000	102.10 - 102.11
3-1/4% Treas. bonds of 1941	11,557,000	106.30 - 106.28
3-3/8% " " " 1940-43	<u>8,953,000</u>	104.13 - 104.12
Total	\$24,773,700	

At a conference at 3 P.M. on April 28, 1939, attended by Mr. Bewley of the British Embassy, and Messrs. Foley, Lochhead and Bernstein, the following questions were discussed with respect to the draft of regulations relative to foreign exchange control, etc., submitted to us by the British. We made it clear that the questions we asked were solely for the purpose of understanding more fully the actions that the British proposed to take.

Q. Would there be mail censorship?

A. Undoubtedly, since the proposed control would not be made effective without mail censorship.

Q. Would there be penalties for the violation of the regulations?

A. There would undoubtedly be a statute pursuant to which the regulations would be issued, and such statute would provide for penalties.

Bewley did not know what penalties would be imposed.

Q. Did the British propose to obtain reports relative to gold, foreign currencies and other foreign exchange assets belonging to Britishers, as well as the reports referred to in Section 97 (1); and did Britain propose to obtain such reports not only from the owners, but also banks, brokers, custodians, agents, safe deposit companies, etc? Would Britain also obtain reports with respect to all assets in England owned by foreigners, particularly gold and foreign exchange assets, and assets readily convertible into foreign exchange assets?

It was also pointed out that such reports might be desired for the purpose of making effective the form of control and also for the purpose of obtaining information in a number

of areas, which would enable the Government more readily to determine the course it might want to follow.

- A. Bewley thought this was a very interesting matter, and certain types of reports should clearly be obtained, such as those with respect to gold and foreign currencies owned by English residents.
- Q. Did Britain propose to take any action with respect to gold, etc., located in England and owned by foreigners?
- A. England has made a pledge to B.I.S. granting them immunity with respect to all their assets located in Britain. Bewley also thought that Britain had made a pledge not to seize foreign owned gold, but he was not certain of this. The question of what might be done with respect to foreign owned assets was discussed in somewhat general terms.
- Q. To what extent will regulations apply to the colonies and dominions of England?
- A. The present regulations do not at all apply to the colonies or the dominions. The dominions would clearly have to prepare their own regulations. The regulations might be applied in the colonies, but one could not generalize since different treatment might have to be accorded in the various colonies.
- Q. Did the regulations apply to British citizens and nationals who are not residents of England?
- A. The present regulations did not apply unless persons were residents of England.

Q. Was it intended by regulations to prevent the export of British silver coin and silver bullion?

A. Apparently not, because it may have been thought to have been negligible, although there would not seem to be any other reason for prohibiting the export of British bank notes and not prohibiting the export of British silver coin.

Q. Did England intend to prohibit the import of British bank notes?

A. Apparently not.

Q. Was it intended that custodians, etc., of gold and currency, etc., would be required to turn over the property which they hold or would the duty be placed solely on the owners of the gold?

A. The duty apparently is placed only on the owners of the gold, though it might be a good idea to make the custodians, etc., deliver the gold, or at least, not deliver it over to the owner without advising the Government.

Q. What is the meaning of Section 95a (III)?

A. This exception is intended to permit jewelers, dentists, etc., to acquire and retain gold for their businesses.

Q. Does Britain intend to take over all foreign assets belonging to British residents, and not merely gold, foreign currency and securities?

This matter should be considered further.

Bewley said that Britain had never had foreign exchange control; that the exchange control imposed in 1931 was of a very limited nature and was largely voluntary in character. Bewley said

*What the matter is about first of all is really a question of assets of British residents would be questioned*

BB

that all of the foregoing questions were matters well worth considering, and that he would advise us of the answers after he had an opportunity to discuss them with the British Treasury.

E.N.H. M.L. BB

REB

PLAIN

London

Dated April 28, 1939

Rec'd 1:20 p. m.

Secretary of State,  
Washington.

575, April 28, 6 p. m. (SECTION ONE)

FOR TREASURY FROM BUTTERWORTH.

1. The city's first reaction to Hitler's speech was one of relief that it was not irrevocably uncompromising but second thoughts did not bring with them any increased feeling of assurance. However, London Stock Exchange closed higher on balance on the day and war loan gained  $1/4$  to close at  $91 \frac{3}{8}$ . The foreign exchange market continues relatively inactive and the slight rise of the dollar to  $468 \frac{5}{32}$  just before the close has no significance, it being the result of one sale on an idle market. The covering of belgas continues. 151 bars were sold at gold fixing at parity of which 89 were married; the British fund acquired practically all of the gold including the married gold, Rothschilds being the buyer. While awaiting clarification of the insurance position, at least one American bank has been attempting to obtain dollar coverage from New York.

(END SECTION ONE)

KLP

KENNEDY

RECEIVED  
U. S. DEPT. OF THE TREASURY  
Office of the Secretary  
Washington, D. C.

REB

GRAY

London

Dated April 28, 1939

Rec'd 5:05 p. m.

Secretary of State,  
Washington.

575, April 28, 6 p. m. (SECTION TWO)

Two. I lunched with Rucinski, who has just come to London as Financial Counselor to the Polish Embassy and who was last year in the United States negotiating the Polish-American private debt arrangements. Rucinski implied that the Poles were not yet pressing the British for financial assistance but from what I know from other sources, this is only true if the expression "financial assistance" is used in a very technical sense; the Poles are pressing for both war materials and raw materials. Rucinski described the rapid change in Polish opinion and expressed the view that it had hardened decisively against Germany. He said that his Government feared the deteriorating effect of the crisis atmosphere on the economic life of the country almost as much as it did the possibility of war and that in their opinion German pressure was designed to dislocate the economic and financial machinery of its potential opponents. This led him to  
expatiate

REB

2-#575, From London, Apr. 28, 6p.m.  
(Sec. Two)

expatiate on Poland's need for raw materials. In time of war Poland would have to depend for these practically entirely on Russia; in time of peace Poland did not wish to become dependent on any one country. Rucinski then referred to the cotton-copper arrangement with the Export-Import Bank, the Warsaw end of which he said he had handled, and stated that while the Polish Government was not in a position to take greatly increased supplies of cotton at this time, did need a larger supply of metals. I gathered that in due course approaches would be made to the Export-Import Bank in this connection.

(END SECTION TWO)

KENNEDY

NPL

EMB

REB

PLAIN

London

Dated April 28, 1939

Rec'd 5:12 p. m.

Secretary of State,  
Washington.

575, April 28, 6 p. m. (SECTION THREE)

THREE. As of possible interest the following is quoted from an English news letter:

"Italian investigations were carried out in the Albanian capital to ascertain how it was that King Zog, when he fled, was seemingly well supplied with funds although Rome had taken complete steps to insure that no Italian accounts could have been tapped. Now it is said that a certain leading American banking house holds a large account with the Albanian ex-King and that the funds have been paid into it regularly from a German source. The services to be rendered seem also to have been established to the satisfaction, if irritation, of the Italian Government.

The author of this screed tells me in confidence that he had this information from what he termed "a very good source" and that the Chase National in New York was the bank cited.

(END OF MESSAGE)

RECEIVED

APR 29 1939 KENNEDY

NPL  
EMB

DEPARTMENT OF THE TREASURY  
Office of the Secretary  
Federal Reserve Bank of New York

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 28, 1939, 6 p.m.

NO.: 844

FROM COCHRAN.

A little sterling was gained by French control this morning. This afternoon the control yielded some through Credit Lyonnais. Continued strength in Dutch, Swiss and Belgian currencies. The belga rate was permitted to rise further by the Belgian authorities. Evidently the authorities prefer to strangle speculators rather than to gain gold immediately.

The speech which Hitler gave this morning became known during Paris trading, but the Paris market had expected the disagreeable tone thereof, and the immediate reactions were not great.

BULLITT.

EA:LWW

RECEIVED

APR 29 1939  
INVESTING DEPARTMENT  
Office of the Assistant  
General Counsel of the Treasury

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 29, 1939, noon

NO.: 854

FROM COCHRAN.

This morning in unofficial trading the belga continued strong. The Senate had approved the special powers bill. However, the National Bank of Belgium is not permitting imports of gold by private arbitrage. The opinion of one market observer is that the Belgian officials are hoping that the rate can improve to such a point that gold in New York could be earmarked.

A level has been reached by the florin where the Dutch authorities might start to acquire dollars.

French JOURNAL OFFICIEL today announces issue beginning May 1st by autonomous amortization office of 3 year 4% tax free national defense bonds within the present legal maximum amount for national defense bonds with expectation that these will gradually displace the 2 year bonds of this category now in circulation.

Press report from Copenhagen states negotiations are nearing completion for the establishment in Denmark of a shipping cargo war risk insurance institution since reinsurance abroad is becoming increasingly difficult.

RECEIVED

BULLITT.

MAY 1 1939

EA:LWW

THE AMERICAN TRUST AND  
SAVINGS COMPANY  
NEW YORK, N. Y.

CJ

GRAY

BERLIN

Dated April 29, 1939

Received 10:10 a.m.

Secretary of State,  
Washington.

298, April 29, 10 a.m.

NO. 22 FOR TREASURY FROM HEATH.

Hitler's Reichstag speech yesterday was preceded by publication of modification of the new finance plan which constitutes a very considerable capitulation to the growing opposition and discontent over the new 30% surtax on increase of income during the fiscal year 1938-39. The surtax has not only been reduced from 30 to 15% but it now applies only to income in excess of 7200 marks per annum instead of 3000 marks as originally provided. Further 1200 marks instead of 600 marks increased income during 1938 is exempt from the surtax and this exemption is increased 900 marks for each child over the number of one. Moreover, the administrative regulations of the new finance plan published yesterday give the possibility of still further reductions in the surtax by conceding that taxpayers who can prove that their income in 1937 was extremely low will be excused paying

-2- #298, April 29, 10 a.m., from Berlin

paying surtax on increase of income during 1938. In the introductory memorandum to the regulations State Secretary Reinhardt of the Finance Ministry indicated that new reductions and exceptions to the application of the surtax may later be provided. On the one hand the reduction in the tax will be partly offset by canceling the permission previously given to deduct payments of the surtax on 1938 income from the statement of taxable income received during the present fiscal year.

Reinhardt in his memorandum states that with the reductions and modifications "all agricultural and timber enterprises, nearly all laborers, most employees, beginners in the three professions and most workers in trades and crafts will be exempted from the increased income surtax".

In the announcement of the modifications and regulations in the new finance plan no estimate is given as to the amount of additional revenue that the income surtax will provide but at present rates its yield should be relatively unimportant. In the Press material accompanying the regulations it is stated that under the new finance plan the Reich's revenues are expected to increase as much during 1939-1940 as they did in the fiscal year  
just

-3- #298, April 29, 10 a.m., from Berlin

just ended. It is stated that regular tax revenues for the last fiscal year were 17.7 billion reichs-marks of which 300 million marks were derived from Austria as compared with 14 billion marks for the 1937-38 period. The figure of 17.7 billion marks does not include 500 million marks received to date from the punitive levy on the Jewish Community. (END SECTION ONE).

GEIST

CSB

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 298  
FROM THE AMERICAN EMBASSY, BERLIN. APRIL 29, 1939.

The regulations regarding tax certificates which will first be issued on May 2nd are also modified in order to promote exports. It will be recalled (see my despatch number 8 of April 1) that the uninterrupted possession of tax certificates of class one entitled industrial enterprises to increase their annual writeoffs for depreciation of plant and equipment up to 20 percent of the amount of their holdings of class one tax certificates and 25, 30, 35 percent in succeeding years and for concerns 25 percent of whose turnover is for export. This privilege of additional write-off was increased by 10 percent.

The new regulations now provide that if an enterprise exporting 25 percent of its production does not have sufficient equipment to exercise this privilege of additional write-off it may deduct up to 10 percent of its holdings of tax certificates of class one from its statement of taxable income. Further, concerns which do not export 25 percent or more of their production may exercise the privilege of additional write-off or deduction from taxable income of 1 percent of their holdings of tax certificates for each 2 percent increase in exports to a maximum of 10 percent of their holdings of certificates.

These

- 2 -

These preferential provisions for firms engaged in export and import in effect constitute an additional, if indirect, subsidy for German exports.

The new regulations increase the number of government and semi-government enterprises which should pay 40 percent of their orders in tax certificates. In addition to the central government, the party and its subsidiary organizations, the Reich food estate, the Reich Chambers of Commerce and Industry and the Crafts organizations, the German organization of municipalities, public utilities of which the majority of shares is held by the local or national government, religious organizations conceded by the law to have public purpose, are now required to pay partly in certificates.

Reducing the tax on increased income constitutes not only the first real capitulation of the national socialist financial policy to objection on the part of the public, but it is also a defeat to the efforts of the monetary authority of the Reich to "mop up" increased buying power by increased taxes, and thus check inflation. Whether or not the Government will now try to recoup revenues and check the spending of the public through increased indirect taxes is not known.

END MESSAGE.

03V11338  
 0901 1 YUM GEIST.

EA:LWW

TRANSMISSION VERBODEN  
 afkomstig uit de land  
 verkeer met de buitenwereld

April 29, 1939

Mr. Lochhead spoke to Murphy of Secret Service and let him read the report. Mr. Murphy states that reports of this character have been current for the past few years and they are always on the lookout, but never found any evidence.

April 29, 1939

My dear Mr. Messersmith:

On behalf of Secretary Morgenthau, I am acknowledging receipt of your letter of April 26th with which was inclosed a copy of the communication you received from Ambassador Davies.

Mr. Morgenthau appreciated your courtesy in furnishing him with this information.

Sincerely yours,

H. S. Klots,  
Private Secretary

Hon. George S. Messersmith,  
Assistant Secretary of State,  
State Department,  
Washington, D. C.



DEPARTMENT OF STATE  
WASHINGTON

April 26, 1939.

Strictly Confidential

Dear Mr. Secretary:

In accord with my conversation this morning with Mr. Lochhead, I am sending you herewith a copy of a personal and confidential letter which Ambassador Davies at Brussels has addressed to the Under Secretary, Mr. Welles, with respect to the possibility that the German Government may have plans for the counterfeiting of our currency on a broad scale. I believe that you will find this letter of interest. If we can be of any service in this connection, I shall be very glad to have you let me know.

Very sincerely yours,

Enclosure:  
Copy of letter.

The Honorable

The Secretary of the Treasury.

Brussels, April 11, 1939.

Personal and  
Confidential

Dear Sumner:

Mr. Vladimir Slavik, the former Minister of Czechoslovakia, called this morning to tell me about a policy which he suspected the German Government would adopt in the immediate future. He was careful to say that he had absolutely no proof of this but that his opinion was founded upon an intimate knowledge of the German character. His experience in this respect had taught him that however honest the average German may be in his private affairs, he will not hesitate to perpetrate the most reprehensible acts if he believes that by so doing, he can advance his country's welfare.

Briefly, Mr. Slavik is definitely convinced that, owing to the serious shortage of foreign exchange, the German Government will attempt to relieve its  
desperate . . .

The Honorable  
Sumner Welles,  
Under Secretary of State,  
Department of State,  
Washington.

- 2 -

desperate embarrassment by a widespread falsification of the currencies of those countries whose exchange is not yet under Government control, principally the United States and Great Britain, whom Germany considers to be its outstanding enemies. By flooding these countries suddenly with a vast amount of excellent imitations of their paper money, Germany would not only be able to obtain values for counterfeit money but could also throw their commerce and trade into the most serious confusion and occasion far-reaching damage to their industries.

Mr. Slavik told me that it would be entirely possible for the German Government to do this, as it had at its disposal the entire facilities of the Reichsbank and of the first-class chemical and paper-making industries of Germany. He reminded me of the incident which occurred about ten or fifteen years ago, when enormous quantities of fraudulent French paper money were made in Hungary, a portion of which found its way to France before the practice could be stopped. These notes, he said, had been made in some secret places at Budapest, with the knowledge and approval of the then existing . . .

- 3 -

existing German Government. The fact that this fraud proved successful for a time, indicated to him how easy it would be for the present German Government to do the same thing. Although he admitted that the bogus bills would eventually be detected, owing to the fact that the numbers they carry would either duplicate those of existing notes or be those of unissued series, it would be extremely difficult for most persons to tell the true bills from the false, owing to the unsurpassed facilities for imitation which the German Government possesses.

I inquired how such large amounts of false currency could be brought into a foreign country and distributed. He replied that the importation could be made through the regular diplomatic pouches, the Embassy officials distributing the packages to trusted persons through whom they would be placed in circulation. This was the method used by the Hungarian forgers. As to the manner in which Germany could obtain foreign exchange through this fraud, he cited the following example. The holder of the bogus money would approach a British or American merchant, offer him a high price for his merchandise, pay in cash with the false currency and then  
sell . . .

- 4 -

sell the goods quickly at a very reasonable price to some other persons. The latter, of course, would pay with genuine money, which would thereby become the secret property of the German Government.

Although Mr. Slavik's idea may appear to be a trifle far-fetched, I am nevertheless passing it on for such value as it may have. The Treasury Department might wish to be advised of this suspicion. In my opinion, such a practice does not seem beyond the bounds of possibility, in view of Germany's economic position and ruthless political methods. As for Mr. Slavik himself, I have known him for some time. Our relations have always been cordial, and I have no reason to believe that he is a person deserving of suspicion or distrust.

With kind personal regards, I am,

Sincerely yours,

Joseph E. Davies

JED:OW:AFH

THE CENTURY ASSOCIATION  
7 WEST FORTY-THIRD STREET  
NEW YORK

29<sup>th</sup> April 1939

Dear Henry:

I have gone over the latest  
Draft with Shoup and  
Blough, and have given  
them my suggestions. As  
a whole, the document  
seems to be in good  
shape. I would like  
to see emphasized the

is made clear, you can well afford to talk about the possibility of increased income and estate taxes. As a matter of fact, I don't think the budget will ever be balanced otherwise.

The best of luck to you. I shall be in Washington Friday, and may look in on you.

Faithfully yours -  
Roosevelt McGill

plan to balance the budget within, say, a five year period; and the plan to do something (as distinguished from talking about it) about the state-federal fiscal relationships. Both are in the draft, but I should like to see them underlined.

If the first point

April 29<sup>th</sup> 1939

6:00 P.M.

HOPEWELL JUNCTION  
DUTCHESS COUNTY, NEW YORK  
TELEPHONE: BEACON 211

349

Have 3 alternatives plans

1. Extend the nuisance taxes only.
2. Extend nuisance taxes and for 1939 remove certain major tax deterrents and substitute new non deflationary taxes to make up the lost revenue.
3. Extend nuisances taxes and ~~plan~~ pass new tax laws for 1940 which will not have certain certain major tax deterrents in the present law and substitute new non deflationary ~~taxes~~ taxes to make up lost revenue.

HOPEWELL JUNCTION  
DUTCHESS COUNTY, NEW YORK  
TELEPHONE: BEACON 211

1. Future issues of government obligations fully taxable under the income tax.
2. Carry-forward of business losses.  
loss —
3. allow corporate capital losses to be deducted in full from ordinary <sup>income</sup>
4. Capital losses from individuals be broadened.
5. Capital stock and excess profits  
(over)

6. Reduction in top surtax rates.

7. a single corporation tax

Increases revenue can be obtained from:-

1. Coordination of estate & gift taxes
2. Middle bracket individual income tax rates.

---

I have left out "Provision for a substantial dividend credit to individuals as it will cost 105 million and I can't see it will particularly help recovery. Think all examples should be \$100,000 or less instead of in millions

April 29, 1939 351  
9:33 a.m.

Archie  
Lochhead: Hello.

Operator: Just a minute.

(Brief pause)

L: Hello.

H. Merle  
Cochran: Hello, Archie. How are you?

L: Fine, Merle, and I hope you're well.

C: Yes, I'm quite all right.

L: You know the Secretary is up at the farm this weekend with the President.

C: I thought he'd probably be away.

L: Yes.

C: And so I called you because I had a couple of matters which I thought it might be better to let you put up to him informally.

L: All right.

C: .....for me to cable. The first one is this -- do you people or can you provide me with any information in regard to your own American plans or with any instructions on this general subject, you know.....

L: Yes.

C: .....that we talked about, and that you sent me a cable about. The point is this, the French have already asked me what progress we've made and this next weekend I'll be down at Basel where I shall see the representatives of the other countries that we approached, you see?

L: Yes.

C: And I just wondered if there was anything you could give me between now and -- say, next Friday.

L: I see. Well now, Merle, if first of all you approached the five people over there in regard to that and reported it

to us. You remember when we sent the message to you to take up with each one of them.

C: That's right.

L: Your replies have come in and you've noticed yourself, of course, the rather wide divergence of opinion.

C: That's right.

L: Is -- as far as that goes, at the present time it is not likely that we'll take any more active steps to bring them together.

C: I see.

L: First of all, there is--the general idea seems to be against any general conference.

C: That's right.

L: Anything that would be done would be just bilateral-- between each one.

C: Yes.

L: And I don't think that from what you got from any one of them that there's enough definite to work on.

C: No, I -- I agree.

L: So, therefore, we feel that we've opened the question with them.

C: Yes.

L: We've pointed out one of the things that might be important.

C: Yes.

L: And we've got their general views on it.....

C: Good!

L: .....which we're glad to have. They have ours.

C: Yes.

L: And we hope that they will, if anything comes up, that they know that we wouldn't like to see anything done which

- 3 -

would be disorderly.....

C: Yes.

L: .....in our markets, and trust that they will cooperate with -- in whatever way they can.

C: Surely - surely.

L: But I don't think there's anything further that we can do just now.

C: Fine! Well, I -- I'd seen in the press, of course, that you people had been working on major affairs.

L: Well, now then, secondly, as far as what <sup>you</sup> they can say over there, I don't think there's anything definite you can give them.

C: All right.

L: The main thing.....

C: I just wanted you to understand I didn't want to put you on the spot.

L: Yes. Well now, the main thing is -- you can say this, that every effort will be set to keep things normal and orderly.

C: Every effort will be made.....

L: To keep things, and our markets, normal and conduct business in the ordinary manner just as much as possible.

C: I see.

L: We are against any great disturbances or action which would cause any disturbance. In other words, we'd like to keep the markets open, keep them orderly, and keep business going on.

C: You mean, it's something like the sentiment here in this place?

L: That's right. We'll try to keep things going on orderly.

C: Yes.

L: Now on the other hand, there have been, naturally, quite a few discussions as to what might have to be done in

case various emergencies arose.

C: Yes.

L: Now, you know very well that you have to discuss a great many things.....

C: Yes.

L: .....at a time like that, and yet there's not a question of taking any definite plans and action.

C: You -- You've explored all the possibilities.

L: We've explored all the possibilities; we've discussed with all the interested agencies.

C: Yes.

L: And we are all working together with ideas that could be used in case anything did come up.

C: I see.

L: But as far, naturally, you can't make definite plans as to what is going to be done because you don't know what's going to happen, and if it does happen what effect it will have on any particular market.

C: Fine!

L: But we have discussed the -- discussed them naturally.

C: No, I don't think it's wise.....

L: You can't keep the.....

C: .....to -- not to try to draw them together in -- in the view of their dis-similar reactions, and so on.

L: That's right.

C: And since it is so difficult when we don't know what's going to happen.

L: Well, the main thing is there that we hope that if anything comes up that they will have the same thing in mind as we have.

C: Yeah.

- L: That they'll try to prevent, in as far as they can, any disorganization or dumping or anything like that in this market.
- C: That's right.
- L: Because they have a big stake over here.
- C: Yes.
- L: And we -- we, of course, feel that they don't want to jeopardize it any more than we do.
- C: Surely. Well, fine then, that's all then that -- that I need you on -- on that.
- L: I see.
- C: If there's something that you want to wire me if you -- this is quite enough for me.....
- L: Well, I think it's all because it's not very -- you can't put anything definite -- it's not as if we have anything that's just going to go right into effect regardless of -- I mean, if say something broke out, that we're going to slap something right into effect.
- C: Yes.
- L: We have all plans made to watch everything, watch developments and take care of them as they develop.
- C: Yes, fine. Well, this -- this gives me enough to answer any questions asked.
- L: Yes.
- C: Then the other thing was -- was rather personal, Archie.
- L: Yes?
- C: You remember that last fall, just when that Monnet business was up that my wife had a pretty serious sinus attack?
- L: Yes.
- C: Well, I -- I didn't feel like in those circumstances, taking her back to the States and leaving here, you know.
- L: Yes.

- C: And, of course, we had a regular Doctor in New York who was taking care of her before.
- L: Yes.
- C: And I didn't want to pull up and -- and leave just when those things were on.
- L: Yes.
- C: She had the operation here, you know, at the American hospital.
- L: Right.
- C: But it didn't turn out well. She -- she's been in pretty bad health all winter.
- L: Yes.
- C: And I sent her back to New York on April 12th.
- L: April 12th you say, yes.
- C: For -- on the Ille de France.
- L: Yes.
- C: She was examined there by our regular Doctor. You remember I went up to New York....
- L: Yes.
- C: .....last fall before I sailed back here.
- L: Right.
- C: And I found then that he would be in town until June. He's going away sometime in June up in -- in northern Maine.
- L: Yes.
- C: And so I cabled and found he would be there and so I sent her on and she's had x-rays and examinations, and unfortunately they've cabled back that the condition is bad.
- L: I see.

- C: And that they'll have to have one of these rather complicated operations, you know.
- L: Yes.
- C: Double frontal on the outside and all this stuff.
- L: Yes.
- C: And she's quite alone, you see. She has no people.
- L: Yes.
- C: And I have to be with her, and the best plan is to have the operation the last week in May.
- L: Yes.
- C: In -- in New York.
- L: Right.
- C: And -- do you hear?
- L: I hear.
- C: About the 25th.
- L: Yes.
- C: Because she's spending this time now having some dental work done which would have been difficult after the operation, you see?
- L: Yes.
- C: And so she's there and we -- and her friends -- the thing that comes to her just -- and in that event she would cable me, we will let it go until the last week in -- in May, you see?
- L: Yes.
- C: About the 25th. Now, the point is this - when I was with you last December -- November and December -- the point was made that ~~Walton~~ and I ought to come home perhaps twice a year; that is six months instead of annually.
- L: Yes.

- C: Now, the six months will be around pretty soon, and if I came I'd certainly want to be there before the Secretary went away.
- L: Yes.
- C: And this thing makes it urgent that I be there and that we have the operation over.....
- L: Yes.
- C: .....and she has time for recuperation and observation and treatment.....
- L: Yes.
- C: .....before her Doctor goes away in June.
- L: Yes.
- C: The point is just this -- would the Secretary be willing to order me home, that is, in Washington, and then I'd go back to New York and stay there with her during this operation.
- L: I see. Well now, you'd like to be over here say about the 15th of May, something like that?
- C: What's that?
- L: I say, you'd like to be over here, say about the 15th of May?
- C: He said the 5th -- the 25th.
- L: Yes, but I mean the 25th, but you thought maybe if you came over here, say about the middle of May.....
- C: That's right.
- L: .....that would give you time.....
- C: with you people.
- L: And then you could go up to New York.
- C: Then I'd go to New York.
- L: Yes.

- C: And while I'm in New York I could keep in touch with the Federal.
- L: Yes.
- C: If you had any telephoning that you had to have done, well I could do it.
- L: Yes. Well now, I'll tell you, I'll take that up and let -- with the Secretary.
- C: Yes.
- L: And then -- when he is around. Of course, right at the -- things are just a little bit confused at the moment. He may not want to make his answer right away.
- C: I didn't hear that.
- L: I say, with the condition abroad such as it is....
- C: Yes.
- L: .....over this weekend and so forth.
- C: Yes.
- L: With the speech -- Hitler speech still undigested....
- C: Yes.
- L: .....he may possibly want to take some time before he makes up his mind on it.
- C: That's just it.
- L: Yes, but I'll -- I'll let him know about it so that he can have it in mind in plenty of time to make a decision.
- C: I didn't want to surprise you and say -- call you up or send you a cable in ten days and say my wife is to be operated on and I must be there by such a date.
- L: Yes, yes. Well, all right, I think that's a good plan, and I'll make sure to draw it to the Secretary's attention.
- C: Because if -- if he doesn't see his way, I'd have to take leave anyway because I just have to be there.

- L: Yes, yes.
- C: And if it fits in, why naturally I'd be glad to -- to have my way paid home.
- L: Right.
- C: And do a little consulting. There have been so many things up that I -- I should like to be there a few days with him.
- L: Right. I can -- I can realize that and I'll tell -- I'll speak to the Secretary and -- so that he has plenty of time to figure it out.
- C: All right, because you see I'll be going to Basel about next Friday and if he wants to give me a wire, not referring today on this at all, you see.
- L: Yes.
- C: And if he -- if he doesn't, why let me know and I'll just have to take a little leave.....
- L: Yes.
- C: .....around that time.
- L: All right then, I'll do that.
- C: Yes.
- L: Now, if there's any.....
- C: Here's another thing confidentially. My colleague here, Wilson.....
- L: Yes.
- C: .....is going to be made a Minister to Uruguay.
- L: I see.
- C: And so he would probably be leaving here the end of June.
- L: I see. So it would be better for you.....
- C: It would be better for me to get away.
- L: Before that happens.

- C: Yes, that's right.
- L: Yes.
- C: And as soon as possible.
- L: All right then, I'll -- I'll take care of that, Cochran.
- C: But I don't want to impose on you, Archie.
- L: No, not at all, it's just simply that I realize that -- and let the Secretary know so he'll have it in mind and let you know sometime in the near future.
- C: Fine.
- L: Now, one other thing -- how is the general reaction to the Hitler speech now that it's a day old?
- C: What did you say?
- L: What is the general reaction, in your market, to the Hitler speech now that it's a day old?
- C: The -- the currency is all around the border.  
you know. They've kept it moving  
Here -- I mean, they're all practically at the gold import point now.
- L: Yes.
- C: Here trading was quiet this morning. The feeling is that he's not willing to go to war; that he will probably put some more pressure on Poland; that we'll have a troubled atmosphere for some indefinite period.
- L: I see.
- C: No blowup now.
- L: No blowup now, but a continued tension for sometime?
- C: Yeah, that's right. There may be a little flattening out after a while, but that he'll try to negotiate with Poland -- try to negotiate a new treaty and do something on Danzig.
- L: I see.
- C: The British, in the London Times today, suggest there is room for conversation.

- L: Yes.
- C: On the other hand, the French are -- will be pretty stiff and -- and not want any concessions made.
- L: I see.
- C: But the -- the two countries are going to differ a little on that, I believe.
- L: I see.
- C: And we don't look for any blowup -- any aggression. And so my new Italian friends think that if anything at all it would come before autumn.
- L: I see, not before autumn.
- C: After the harvests are in.
- L: I see.
- C: You see their counts a lot.
- L: Yes.
- C: And I still think it will be straightened out, but we'll have and God knows what all, but no war.
- L: I see.
- C: It's the feeling, you know, I've had all along.
- L: Yes. All right, well, thanks a lot, Cochran. I'm glad to have heard from you.
- C: And may I mention just one other thing -- on the sailings -- hello?
- L: Yes.
- C: On the sailings, there's a Manhattan and a Queen Mary both on the 17th, neither one of which would get me there in time for the operation.
- L: I see. Well, I'll check in with that when we get a little bit more definite.

C: Yes. Well, I was just mentioning that.....

L: Yes.

C: If you wanted me there for several days ahead, I ought to come on the Normandie or the Roosevelt.

L: Right!

C: One's the 10th and the other is the 11th.

L: I see. All right then.

C: You can adjust the schedule.

L: I'll -- I'll look them up. When we get to that we'll look over the schedules.

C: Good! Well, I appreciate it a lot, Archie.

L: It's O. K. Merle, and I hope everything goes along all right with your wife.

C: Fine. Thank you a lot.

L: Good bye.

C: Good bye.

L: There's -- hello?

April 29, 1939

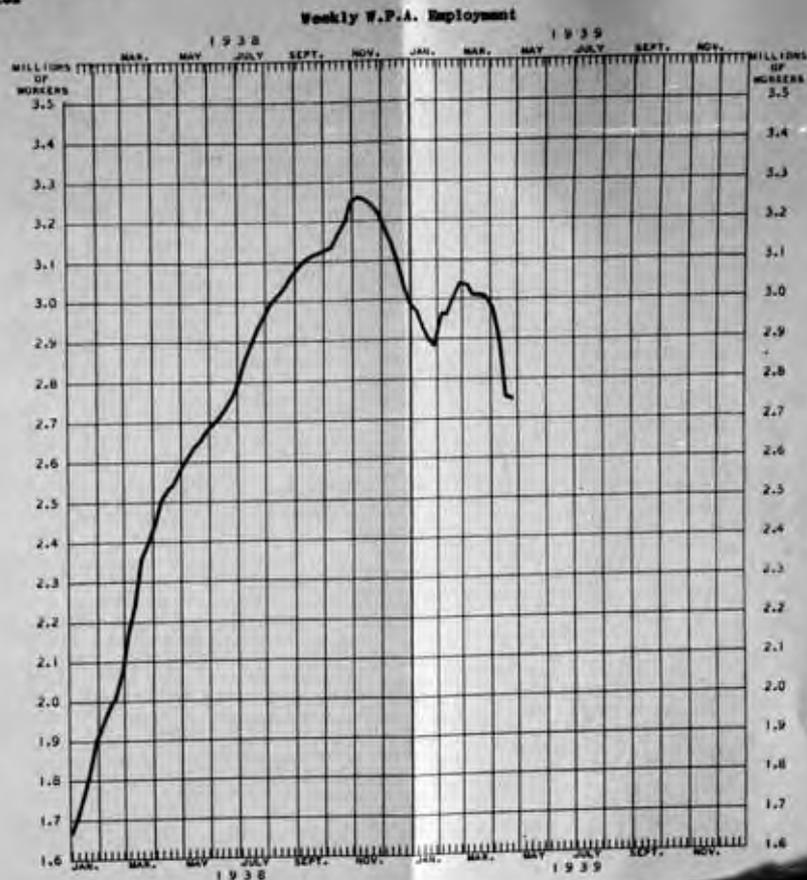
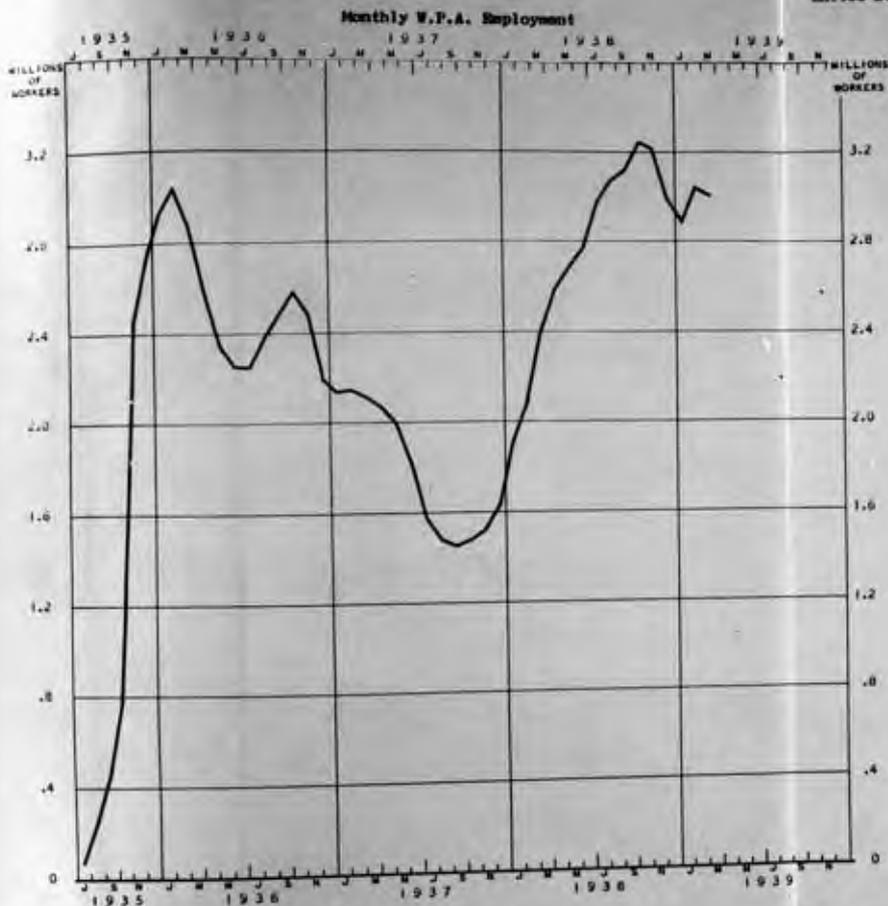
To: The Secretary

From: Miss Lonigan *E. L.*

*BA*  
The total number of WPA workers  
on April 22, 1939 is 2,749,489.

The decrease from April 15 to  
April 22 was 7,714 workers.

WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed  
United States



SOURCE: WORKS PROGRESS ADMINISTRATION

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

2-221-8

WORKS PROGRESS ADMINISTRATION  
 Number of Workers Employed - Weekly  
 United States

366

Week ending 1938	Number of Workers (In thousands)
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,993
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,137
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,258
November 19	3,244
November 26	3,216
December 3	3,185
December 10	3,139
December 17	3,083
December 24	3,021
December 31	2,986
1939	
January 7	2,967
January 14	2,927
January 21	2,898
January 28	2,883
February 4	2,966
February 11	2,964
February 18	3,010
February 25	3,043
March 4	3,034
March 11	3,009
March 18	3,012
March 25	3,007
April 1	2,976
April 8	2,901
April 15	2,757
April 22	2,749 a/

Source: Works Progress Administration  
 a/ Confidential.

WORKS PROGRESS ADMINISTRATION

Number of Workers Employed - Monthly  
United States

367

	Number of workers (In thousands)
<b>1936</b>	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
<b>1937</b>	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
<b>1938</b>	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216
December	2,986
<b>1939</b>	
January	2,883
February	3,043
March	3,007 a/

Source: Works Progress Administration  
a/ Confidential

Monthly figures are weekly figures for  
the latest week of the month

They include certified and non-certified  
workers.

FEDERAL RESERVE BANK  
OF NEW YORK

April 29, 1939.

Dear Mr. Secretary:

Two large corporate flotations successfully marketed this week, and the expiration of the Commonwealth Edison and Eastman Kodak offerings to stockholders, of which undoubtedly very little will be left for the underwriters, concluded an encouraging month of new financing. The two large issues this week were \$52,500,000 of Gatineau Power Company first mortgage 3 3/4s of 1967, at 98 1/4 (postponed from earlier in April), and \$65,000,000 of National Steel Corporation obligations - \$50,000,000 first mortgage 3's of 1965 at 99 and \$15,000,000 of 1/2-2 1/2 per cent serial notes of 1940-49 at 100. All of the first and almost all of the second issue were for refunding.

The National Steel financing was sold out of syndicate the first day, and the bonds are quoted at a small premium. The bonds were given an A rating by Moody's and are the obligations of one of our most profitable steel producing companies, so that their favorable reception is not surprising. Nevertheless, the immediate success of such an offering of corporate bonds with a relatively long maturity - 26 years - and low coupon - 3 per cent - indicates that the heavy pressure of funds for investment is maintaining a strong demand for reasonably secured loans at unprecedentedly low rates of interest.

The Gatineau Power Company operates in Canada, and this bond issue, rated Baa by Moody's, is said to be the largest registered by a Canadian corporation under the Securities Act. The bonds are quoted at a discount of about 1 point in the guaranteed-investment market, and it is reported that some of the issue has yet to be placed. Neither the presence of a moderate discount in the small guaranteed-investment market, nor failure to sell out the issue immediately, however, means that it has been unsuccessful. Issues priced close to the market, or of a grade that has to appeal partly to individuals rather than large institutions, may reasonably be expected to take some time to distribute.

A third issue completing this week's total of \$118,000,000 - \$500,000 of convertible debentures of a small manufacturing company - is reported to have been entirely sold.

Corporate issues in April totaled about \$250,000,000, nearly tripling the average in the first three months of the year. New capital of about \$80,000,000 represented a still greater percentage improvement over the first quarter. The market received favorably issues of common stock, preferred stock debentures, and notes, as well as mortgage bonds, and the ratings on the bonds varied from Aa down to Ba.

In spite of this demonstrated receptivity, new borrowers do not appear to be numerous, and there is as yet no promise that new financing will increase or even maintain the April level of activity. One \$135,000,000 refunding operation for the Pennsylvania Power and Light Company is expected in May, and the Pacific Lighting Company will probably refund some preferred stock, but other large flotations are still indefinite.

Municipal awards this week returned to a low level, under \$5,000,000.

Yours faithfully,



Allan Sproul,  
First Vice President.

Hon. Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Treasury Department,  
Washington, D.C.