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June 9, 1939

On the boat today going to Mount Vernon with the King and Queen, Ickes talked to Harry Hopkins about a cotton loan, through the Export-Import Bank, to Spain, and as a result of this Hopkins wired Jones that he, Hopkins, was absolutely opposed to any loan to Spain and that his vote was NO.

JUN 9 1938

Dear Jesse:

I noticed on the ticker of yesterday morning that the Reconstruction Finance Corporation had sold \$71,000,000 face amount of California Toll Bridge Authority San Francisco Oakland Bay Toll Bridge 4 1/2 bonds to a group of bankers and bond dealers. I want to call your attention to the fact that this sale was consummated in the market at a time when the Treasury was refunding \$427,000,000 of its maturing notes and selling at the same time \$100,000,000 of Home Owners' Loan bonds. I believe that it would be beneficial to all concerned if all financial transactions of the various Federal agencies which affect the bond market could be coordinated through the Treasury. Had I known that your sale was being contemplated I might either have urged you to delay its announcement until early next week or have withdrawn the sale for the present of the new Home Owners' Loan bonds.

I hope that in the future you will bear this in mind and keep the Treasury posted well in advance of any contemplated sales of the obligations owned by the Reconstruction Finance Corporation. I am sure you will realize that this is in the interest of good money market operations.

Sincerely yours,

(Signed) H. Worgenthan Jr.

Secretary of the Treasury

Honorable Jesse Jones,  
Chairman,  
Reconstruction Finance Corporation,  
Washington, D. C.

DWS:KLN

*By hand*

*File to Thompson*

TREASURY DEPARTMENT

4

INTER OFFICE COMMUNICATION

Prepared by: H. G. Murphy  
Assisted by: V. L. Eyre 3

DATE June 9, 1939

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Movements in High-Grade Securities Following the  
Announcement of the June Financing.

SUMMARY

The announcement on last Thursday that the June financing would be confined to an exchange offering and to a new note seems to have taken the market completely by surprise.

The announcement was bullish on Treasury bonds, particularly long-term ones, and the bonds advanced accordingly, the longest-term ones the most sharply (Chart I). The announcement was bearish on rights; and rights declined. The announcement was also intrinsically bearish, however, on the longer maturities of Treasury notes, yet these advanced.

The strength of United States securities was shared to some extent by domestic municipal, but not by other high-grade securities. The average yield of domestic corporate bonds remained unchanged during the week following the announcement (Chart II). The yield on British Consols increased (Chart III).

The June financing evidently came as a surprise to the market. The statement in the Goldsmith Letter of May 27 that "... we think there is slightly better than a 50-50 chance that a cash offering of say \$500 millions of long-term 2-1/2s will be decided upon", seems to have been representative of market opinion. In any event a careful study of the movement of the market by maturity classes through to the close on Wednesday, May 31, (the date of the meeting of the Open Market Committee) shows no evidence of the impact of the forthcoming news.

Treasury Bonds

The decision to confine the financing to refunding only and to confine the exchange offering to a note was naturally bullish on the longer-term market, since it meant that an

expected -- and hence already discounted -- addition to the supply of bonds was not going to occur. All persons who had expected to augment their bond portfolios by cash subscription or by exchange of notes were thus placed on notice that they must either obtain the desired bonds by bidding them away from existing holders or forego the expected increase in their holdings, at least until the next financing date.

The result was naturally a sharp run-up in the long-term bond market, and the average yield on all Treasury bonds with 12 years or more to run until maturity or first call date declined from 2.13 percent at the close on Wednesday to 2.10 percent at the close on Thursday (the date of the announcement). Measured in price, the run-up between Wednesday and Thursday in the longest issue -- the 2-3/4's of 1960-65 -- was 20/32. On Friday and Saturday the bond market continued to advance sharply, the average yield on all long-term Treasury bonds declining another .03 percent to 2.07 percent. During the first three days of the present week the bond market fell back slightly, the long-term average advancing one basis point to 2.08 percent at the close on Wednesday.

The advance in Treasury bonds was not confined to the longer-term maturities, where the constriction of supply relative to expectation had taken place, but ran through the whole market, as is indicated in Chart I showing the changes in the prices and yields of United States securities by maturity classes. The changes in the yields of the bonds in the various maturity classes was, in fact, about the same, as is indicated by the following table:

Changes in the Yields of Treasury  
Bonds by Maturity Classes Between May 31 and June 7

(Percent)

Maturity Class	May 31	June 7	Net change
5 to 10 years	1.11	1.06	-.05
10 to 20 years	1.71	1.67	-.04
Over 20 years	2.24	2.19	-.05

The approximately equal declines in the yields of each of the different maturity classes of securities naturally resulted in a much sharper advance in the prices of the longer-term bonds than in those of the shorter. This is clearly shown in Chart I and in the following table, where the price changes of three specific bonds, one in each maturity class, are tabulated:

Changes in the Prices of Three Selected Treasury Bonds  
(One Short, One Medium, and One Long)  
Between May 31 and June 7  
(Decimals in Thirty-seconds)

Issues	: May 31 :	June 7 :	Net : change
2-3/4's, 1945-47	109.26	110.01	+ .07
2-3/4's, 1951-54	109.00	109.15	+ .15
2-3/4's, 1960-65	107.11	108.01	+ .22

Finally, in comparing the changes in the prices and yields of the various maturity classes of Treasury bonds during the week under review, it should be noted that the yields of the shorter-term bonds normally fluctuate over a wider arc than do those of the longer-term bonds. Interpreted in terms of the normal behavior of the market, therefore, the approximately equal decline in yield of all maturity classes of bonds during the week under review indicated a much greater degree of strength in the long-term bonds than in the short- or medium-term ones.

#### Shorter-term (Negative Yield) Treasury Notes

The "rights" for the new issue naturally declined sharply, since it was clear to the market that a new note could not possibly give the premium which had been hoped for from a long-term bond. The premium on the September notes, therefore, dropped from 1-25/32 at the close on Wednesday to 1-10/32 at

Secretary Morgenthau - 4

the close on Thursday, a decline of 15/32. The December rights likewise dropped by 5/32, and the March and June rights of next year 2/32 each on the suspicion of the market that perhaps future exchange offerings might not be as favorable as those of the recent past. Rights more distant than June 1940 did not join in the decline on Thursday.

During the course of the week following the announcement, however, the decline in rights became somewhat more general, as is indicated by the following table showing the change in the "right value" -- i.e., the excess of the price over a zero yield to maturity -- for all note issues selling at a negative yield on May 31:

Changes Between May 31 and June 7 in the "Right Values" of Treasury Notes Selling on a Negative Yield Basis on May 31

(Decimals in Thirty-seconds)

Issues	: May 31 :	June 7 :	Net change
1-3/8's, December 15, 1939	1.04	.29	-.07
1-5/8's, March 15, 1940	.26	.21	-.05
1-1/2's, June 15, 1940	.20	.13	-.07
1-1/2's, December 15, 1940	.06	.04	-.02
1-1/2's, March 15, 1941	.04	.02	-.02
1-3/8's, June 15, 1941	.01	.00	-.01

The "rights" for the new issue are, of course, omitted from the above tabulation because after the announcement on Thursday their price depended upon the market's estimate of the value of a new 5 year note rather than upon its expectation of Treasury policy at future financing dates.

Longer-Term (Positive Yield) Treasury Notes

The changes just described in the two preceding sections are in line with logical expectation. An expected -- and hence already discounted -- addition to the supply of Treasury

bonds did not occur and, therefore, the price of the outstanding supply rose. The expectations of the market with respect to the value of the current "rights" were not realized, and, consequently, the price of the current "rights" issue fell sharply, and the prices of other issues fell somewhat less sharply, discounting the possibility of future disappointments.

The movement during the week in the longer-term note market, however, was contrary to logical expectation. Here an unexpected expansion in the supply of longer-term notes had to be allowed for, while an expected contraction in the total supply of notes did not take place. These data, taken by themselves, would seem to indicate that the longer-term note market should have been weak. Actually, it was strong. The longest-term note now outstanding -- the 1-1/8's, due December 15, 1943 -- actually advanced 3/32 in price and declined .02 percent in yield between the close on May 31 and the close on June 7. The new note, quoted at the close on June 7 on a when-issued basis to yield 0.51 percent, is a little weak, however -- based upon the precedent of the past several years -- compared with the longest issues of Treasury notes now outstanding.

#### Other High-Grade Securities Markets

The domestic municipal bond market shared to some extent the strength in United States securities. This was not true, however, of high-grade corporate securities. The Treasury average of the yield of high-grade corporation bonds (inclusive of rails) remained at 2.94 percent on June 7, unchanged from May 31, so that the entire decline in the yield of the average of long-term Treasury bonds during the week went to increase the differential to a new high for recent years at 0.86 percent (Chart II).

British Government securities declined somewhat during the past week, the yield on the 2-1/2 percent Consols increasing from 3.57 percent on May 31 to 3.60 percent on June 7 (the latter figure being adjusted for the June 1 interest date so as to be comparable with the former). As a result of the weakness in Consols, on the one hand, and the strength in United States Treasury bonds, on the other, the spread between their yields increased by .08 percent during the week ended Wednesday, June 7, .05 percent of the increase being due to the strength in Treasury bonds and .03 percent to the weakness in Consols (Chart III).

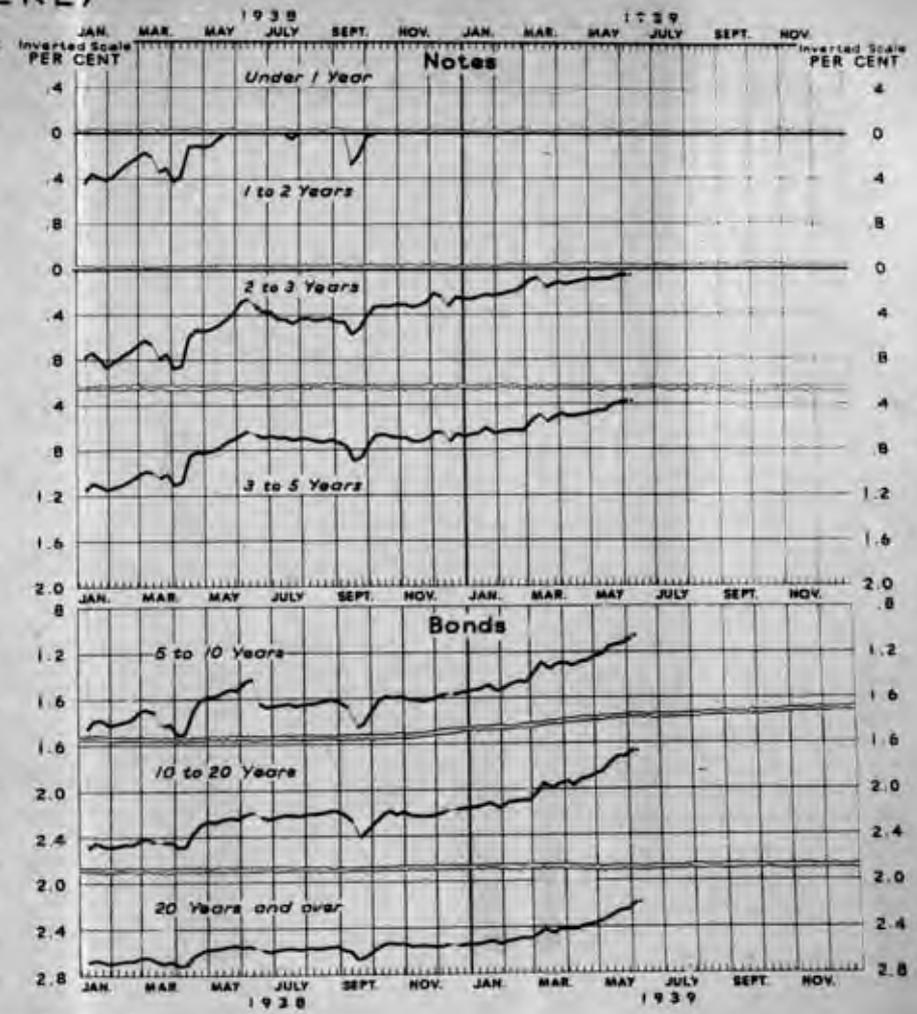
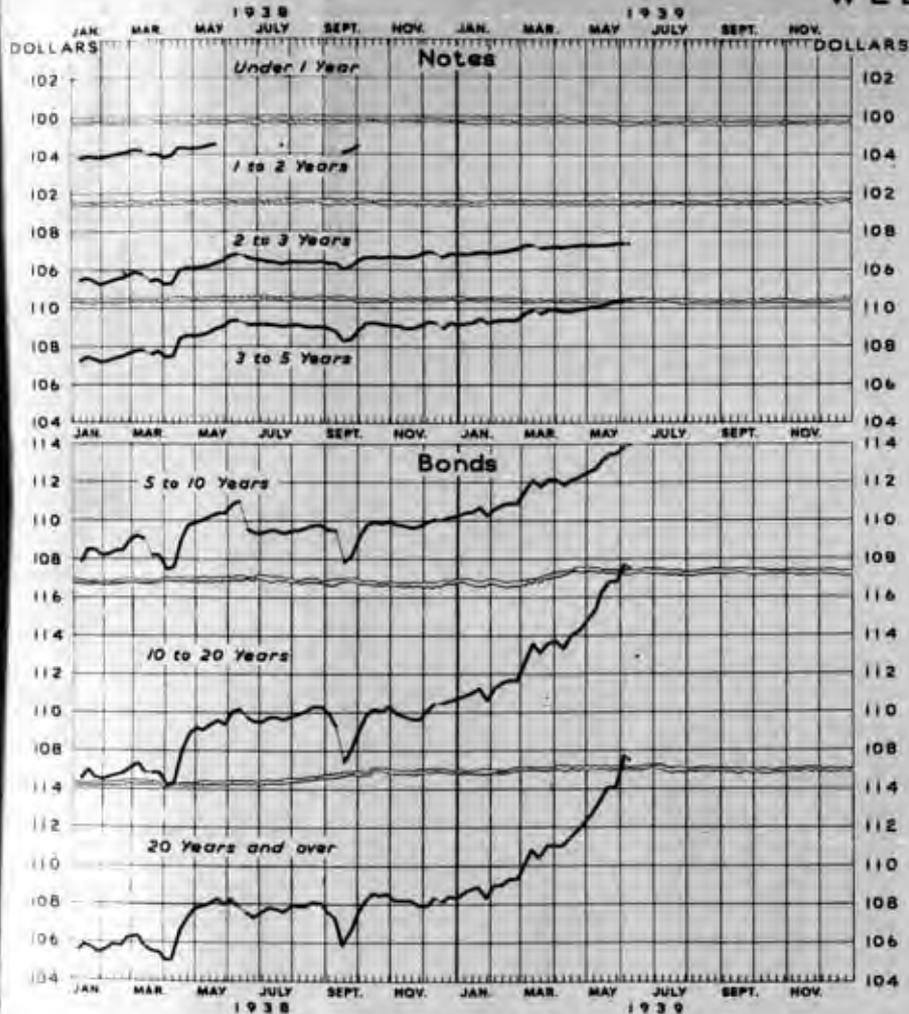
Attachments.

Chart I

# U.S. SECURITIES BY MATURITY CLASSES

Price Fluctuations Yield Fluctuations

## WEEKLY\*



\*Breaks in the lines indicate the dropping or adding of issues in a maturity class.  
 Note: Based on Saturday quotations; latest figures shown are for June 7.

## Chart II

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY  
AND AVERAGE OF HIGH GRADE CORPORATE BONDS

Yields Based on Saturday Quotations

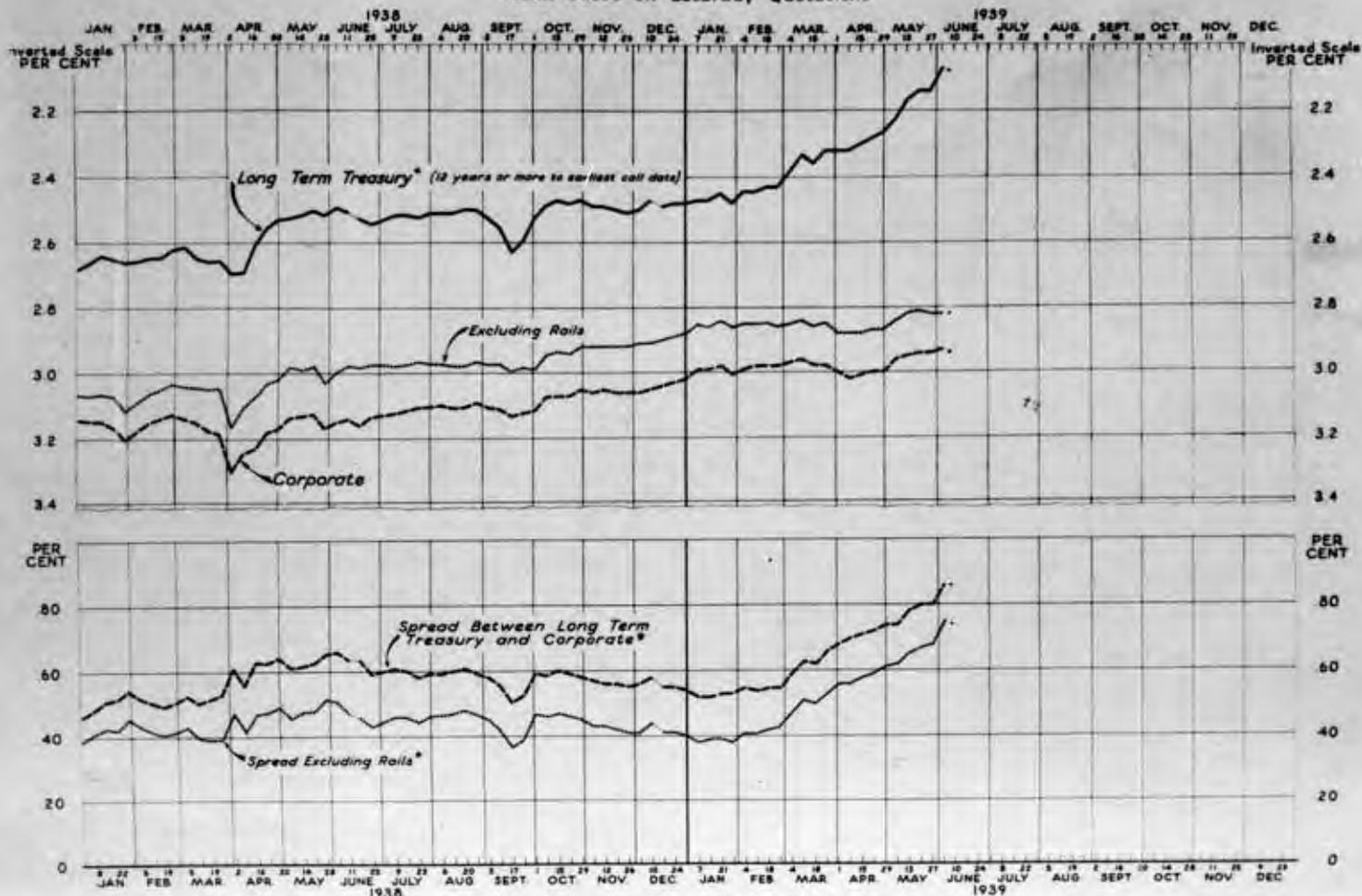
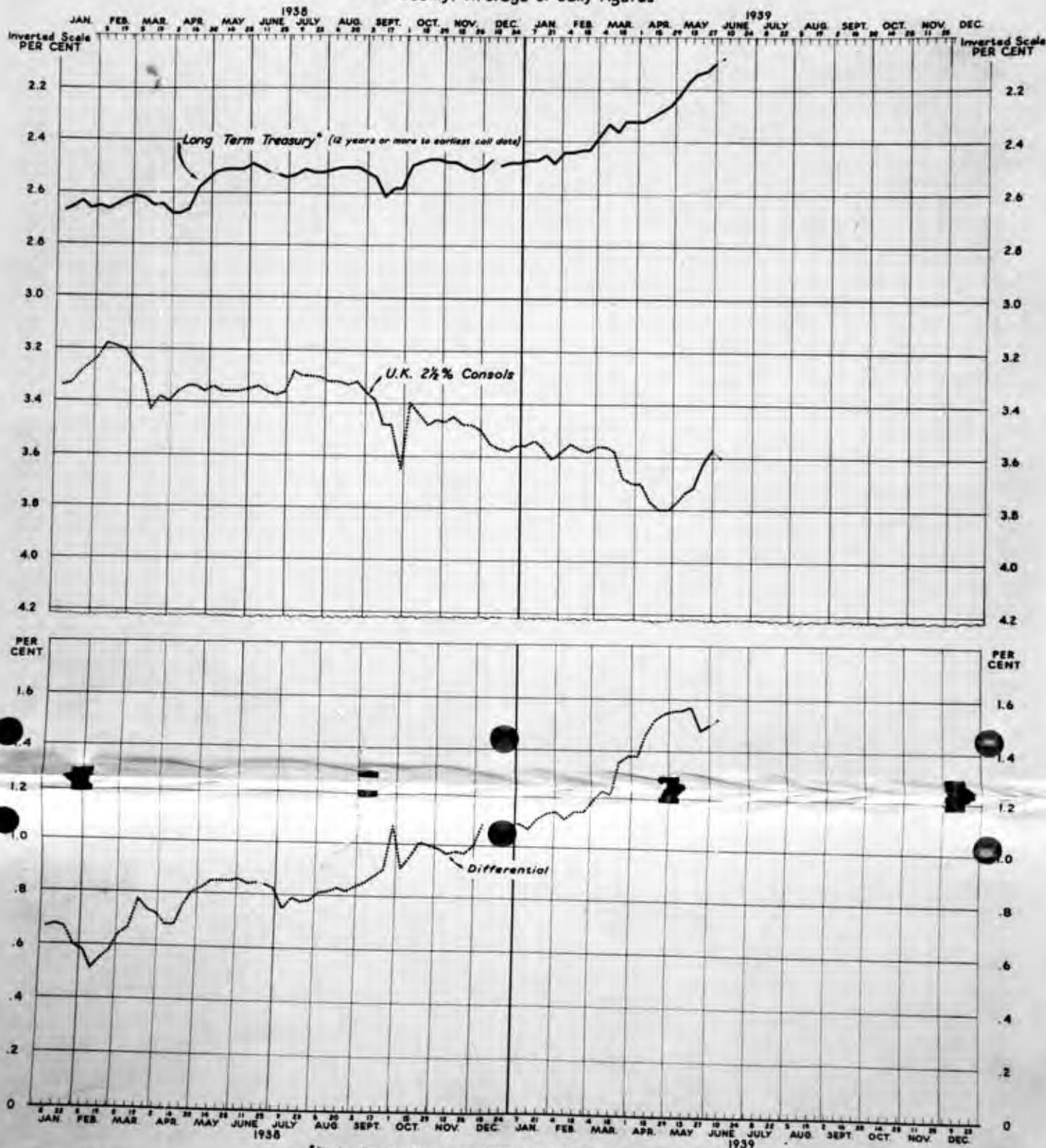


Chart III

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY  
BONDS AND U.K. 2½% CONSOLS

Weekly. Average of Daily Figures



June 9, 1939.  
9:30 A.M.

Present: Mrs. Klotz  
Mr. Bell  
Mr. Lochhead  
Mr. Gibbons  
Mr. Graves  
Dr. Haas  
Dr. White  
Mr. Duffield  
Mr. Gaston  
Mr. Hanes

H.M.Jr: Dan?

Bell: Here's a statement showing available funds on July one for Public Works and estimated expenditures. (Hands statement to Secretary Morgenthau). That's a rough attempt - taking them out of the budget. We added below the expenditures of the Army and Navy which were in effect heavy industry as far as we could go.

H.M.Jr: Reading from statement. Let me see - July one available. Estimated expenditures for the fiscal year. That's already voted?

Bell: Not already voted, no sir, that's in the budget.

H.M.Jr: What is the first column?

Bell: Funds available which is what is estimated in the budget to be made available.

H.M.Jr: They are voted for the fiscal year?

Bell: '40.

H.M.Jr: It does not say that.

Bell: Well July '39. These are the funds that will be available on July one next. The second column is the expenditures to be made out of those funds for the fiscal year 1940. The three billion we will spend. That includes WPA.

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Mr. McHugh

**FUNDS AVAILABLE ON JULY 1, 1939, FOR PUBLIC  
WORKS AND ESTIMATED EXPENDITURES FOR  
THE FISCAL YEAR 1940**

(In millions of dollars)

	<u>Available July 1, 1939</u>	<u>Estimated expenditures fiscal year 1940</u>
General public works program .....	65	53
Rural Electrification Administration ....	65	43
U. S. Maritime Commission .....	165	80
Army .....	116	63
Navy .....	67	43
Works Progress Administration .....	1,677	1,477
Public Works Administration .....	575	330
Public buildings .....	116	62
Good roads .....	365	212
Reclamation projects .....	88	65
Tennessee Valley Authority .....	47	40
Rivers and harbors and flood control .....	325	170
	<hr/> 3,481	<hr/> 2,667
Army (aviation, ordnance, etc.) .....	310	164
Navy (ship construction, aviation, ordnance, etc.) .....	432	326

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Note: Secretary Morgenthau then read down the columns.

Bell: Funds available for Aviation and Ordnance are considered as heavy industry.

Dr.White: What are the leading factors on that 380 million?

Bell: They enter into a contract to complete a project in say 15 months.....

Dr.White: How much could that 380 million be reduced.

Bell: I don't know. Many times they run into difficulties with labor - they have a strike. The particular agencies would be more optimistic about that.

H.M.Jr: Well that's - you add to that 742 for the Army and Navy. He thinks they will spend 500 million but he estimates they will spend next year two billion six hundred eighty seven.

Dr.White: Should this be confidential?

H.M.Jr: Inside the Treasury. (To Bell) Right?

Bell: Yes.

H.M.Jr: (To Mrs. Klotz) If Sumner Welles wants to see me Tuesday - O.K.

H.M.Jr: Anything else, Dan? Where is my letter to Jesse Jones?

Bell: I'll have it down here in a few minutes.

Lochhead: Exchanges have been quiet. Some talk about mobilization yesterday so they are settling down again.

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H.M.Jr: English still gaining?

Lochhead: Not these last few days.

Dr. White: Nothing.

Dr. Haas: Nothing this morning.

Duffield: When you were before the House Committee on the Stabilization Fund you said you would make public that balance sheet every three months. If we put it in the bulletin, the question comes up whether you want to put it in the bulletin that comes out the end of July.

Bell: I would make the March 31st figures available in the July book. That is in accordance with your statement.

Gaston: I think so.

Duffield: That's all right.

H.M.Jr: What else have you got?

Duffield: That's all.

Gaston: Nothing.

Dr. White: One point on the Mead bill - we talked a good deal about it and seemed to agree that if the rate of interest should be raised from four per cent to five per cent it would be very desirable because at four per cent there may be all kinds of difficulties placed in the path of operation. Would you consider that?

H.M.Jr: You mean it is too low?

Dr. White: Yes. Trying to get results. I talked with Ed Foley about it.

H.M.Jr: Did anything happen about the Mead bill? What effect do you think it would have on the interest rate?

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- Hanes: I haven't talked much about the interest rate. I don't think that is important.
- Lochhead: On this type loan it would not matter to the borrower. The borrower is used to paying one per cent.
- Gaston: But it would to the bank.
- Dr. White: You are giving a pretty good reason to the banks not to take it. They are going to say if we start in giving these loans to you - I will not mind giving them to you and to you but sooner or later I have to lower my rates on all of my customers and rather than lose that percentage on the rest of the customers I will lower it to you. At five per cent they are getting a better deal and there would be more arguments on their part to refuse to give a loan that seems reasonable. They won't have as much loss that they now have at 6%. Their concern is getting the loan - not so much the rate.
- Hanes: I haven't even heard this discussed. The banks can collect four or five per cent on commercial. Little mills down south can borrow much cheaper from the Discount Banks.
- Dr. White: Of the 21 billion in loans outstanding a very substantial portion is above four per cent. I talked to a man last week who works in one of the banks in the locality. He said in the last six months they have begun to lower, on their usual customers around town. It is only to the very best of them that they have reduced their rate. I don't know how typical that is.
- Gaston: It is a matter of fact and the best place to get the facts is the Comptroller's office.
- Duffield: In the Federal Reserve Board.
- H.M.Jr: Get it.
- Dr. White: That didn't apply to this year.
- H.M.Jr: (To Duffield) Well, Gene, get it - ask Delano. What are they doing? I don't know.

- Lochhead: Mr. Morgenthau, when you are looking into contracts that are being handled by Finance Corporations, they are going to have to give that much attention to it that they have to get a broker service charge out of it. I would rather make them make loans at 5% and make a service charge on the loans. It cannot be handled on a straight interest rate. If a man has good credit, where a line of credit has been passed, you get a cheap interest rate. However, if a man is going into a bank where they have to do investigating, then it is advisable to talk about two or three or even four per cent service charge. It is a case of servicing these new type loans.
- H.M.Jr: Anything new on the Mead bill?
- Mr. Foley: No, I don't think they had that meeting to rewrite the bill yet. I don't know why a flexible provision making the loans that Harry has mentioned, so far as rate of interest is concerned, would not be a desirable thing. If the need was such, after the bill was passed, that these loans should be made at 5% then the regulations could be put out that way. If it wasn't necessary, it could be fixed at four or even five per cent but I think in the interest of flexibility it would be wise to have that in the bill.
- H.M.Jr: Gene, how did we do that in Farm Credit? Is there anything on such loans?
- Note: Before Duffield could answer the above questions Mr. Hanes made the following statement.
- Hanes: There is a limit on the PCA - a maximum.
- H.M.Jr: How much?
- Hanes: I think it is 6 - I can find out.
- H.M.Jr: (To Duffield) Gene, supposing you find out what our banks are charging. If there are any reports in the Comptroller's office, let's get the facts. The only experience I had was when I got that fellow a loan on Deisel engines. He got it but the company charged him 16%.
- Dr. White: The evidence before the TNEC - they are getting rates from 10 up but they are finance companies.

- H.M.Jr: He finally got it but it cost him 16%.
- Haas: I will check this and give it to Gene. I think the important point - I agree with Harry - is to put it on the basis we will make some loans. You take Commercial Credit - GMAC - they advertise 6% but it is really 12%.
- H.M.Jr: It is an interesting point but I would like to have some facts. You comb the town, Gene.
- Foley: They continued the hearing on this movie case yesterday. Counsel only was there.
- H.M.Jr: Male or female?  
(Laughter)
- Foley: I think that both were there. They are going to meet at 10:30 on Tuesday and I think the individuals are to be present at that time. There has been no substantial change.
- The Straus Housing Bill passed the Senate yesterday.
- H.M.Jr: Does it pass with the objectionable features in it that the local authorities can do the things without the plans?
- Foley: I think so. It was reported out by the Committee - no substantial changes.
- H.M.Jr: Can't we put a little pressure on the Director of the Budget?
- Bell: I left it with him yesterday and he said he would take it up with the President the first thing.
- H.M.Jr: We talked about it so long. I want to make an effort to get those particular things out. When did it go to the House?
- Foley: Stégall has not started his hearings yet. They expect he will get started soon now.
- H.M.Jr: Incidentally, I had a word with the Speaker last night. I told him about my worries - no tax bill. He said, "Don't you worry, Henry, I am going to pass it next week."

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Klotz: He's optimistic.

H.M.Jr: When does the Stabilization Fund come up on the calendar?

Foley: That will probably come up next week.

H.M.Jr: How about my asking Senator Barkley?

Foley: That's all right.

Note: At this point Secretary Morgenthau told the operator to get him Senator Barkley. Senator Barkley apparently was not to be contacted because no call came thru from him when the meeting adjourned at 10 a.m.

H.M.Jr: Jesse took me aside last night and told me about all these social meetings. He had the Spanish Ambassador for one hour. Jesse tells him, "What am I going to do. The State Department says yes and the Treasury says no. I don't know what to do". He is not going to put that loan through as long as I am sitting here.

Lochhead: There is a meeting of the Export-Import Bank. I presume they will bring that up and I am giving the same position I have.

H.M.Jr: I will bet anybody money that he may finance it but he won't do it through the Export-Import.

Lochhead: That will still go through the Export-Import. It is no different. They are simply using an agent instead of doing it direct.

H.M.Jr: When will I get the answer from the President on this complaint on Italy?

Foley: Today. We are working on it.

H.M.Jr: I won't be able to see it. I will get that Tuesday.

Anybody got anything? I will go down the river and won't get back before five.

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Haas: You are leaving to-day for the farm?  
H.M.Jr: Yes.  
Gason: You will be in the office again to-day?  
H.M.Jr: Yes.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

DATE: June 9, 5 p.m., 1939

NO.: 463

See Embassy's despatch No. 581 of February 16, 1939.

Although the present agreement expires on July 1, the negotiations for the renewal and extension of the German-Swiss clearing agreement begun on April 17 are at a standstill. The Swiss, however, are quite confident that they will be able before long to persuade Germany to accept their conditions, by reason of Germany's need of imports and the free exchange which Swiss trade provides. Germany has to date refused the Swiss proposal of slightly reducing the ratio of free exchange paid hitherto to the Reichsbank which averaged one million point eight Swiss francs per month during the last part of 1938 and the first months of 1939. The Swiss trade arrangement, after that of Holland, according to Swiss calculations, provides the greatest increment of unobligated free exchange to the Reich and under the Swiss proposals any increase of German imports to Switzerland will automatically increase the free exchange surplus available to the Germans. However, there is  
little

-2-

little chance of Germany's increasing its exports to Switzerland in the near future, according to the Swiss Ambassador.; in order to unblock some 60 million francs of Swiss funds tied up in Germany as a result of Germany's excess of purchases over sales to Switzerland, Swiss exports will have to be forcibly reduced for a while.

The principal reasons given for the decline in German sales to Switzerland are the Reich's shortage of raw materials which Switzerland needs and the boycott. For example, in recent months, Switzerland has not been able to obtain anything like its customary supplies of German and Czechoslovak malt and hops and Austrian lumber.

The Swiss, in addition to limiting the <sup>amount?</sup> (?) of free exchange to be made available to the Reich, are also insisting that German imports from Switzerland be spread over the whole range of Swiss production instead of being concentrated on raw and semi-raw materials which are of special interest to German armament and military industries of a quasi nature.

It is expected that the trade and payments with the protectorate will be governed by separate provisions in the proposed treaty and it is contemplated that the arrangement with the protectorate will be a payments agreement

-3-

agreement instead of on the clearing basis under which trade between Germany and Switzerland has been carried on.

Repeated to Treasury as No. 34 from Heath, and inform Commerce.

KIRK

KA:DJW

RECEIVED

JUN 18 1939

TREASURY DEPARTMENT  
Office of the Director  
Internal Security - R-1000

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris  
 DATE: June 9, 4 p.m., 1939  
 NO.: 1098

## FOR THE TREASURY DEPARTMENT.

Today a semi-official notice was published which indicates the following conversion subscriptions to the 5% 1939 loan issued May 15: National Defense Bonds 1,500,000,000; 3 1/2% Treasury Bonds 1,000,000,000 francs; eighteen month bonds issued by the National Defense Board 1,000,000,000; and six months and one year Treasury Bonds 1,000,000,000.

Again there was no heavy trading on the exchange market. A moderate amount of sterling at 176.74 was obtained by the fund. There is almost no change in continental currencies. ~~Rentes~~ Rentes were fractionally lower and the security market was irregular.

WILSON

EA:DJW

RECEIVED

JUN 10 1939

TREASURY DEPARTMENT  
 RECEIVED JUN 10 1939  
 UNITED STATES DEPARTMENT OF THE TREASURY

CJ

GRAY

LONDON

Dated June 9, 1939

Received 2:38 p.m.

Secretary of State,  
Washington.

812, June 9, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. In a written reply to a question asked in the House of Commons as to what action His Majesty's Government proposes to take to enable its view to be reflected in the financial policy of the Bank of England in its foreign relations, the Financial Secretary of the Treasury stated that "the financial policy of the Bank of England in its relations with foreign central banks is always guided, so far as political questions are concerned, by the views of His Majesty's Government".

Two. The Treasury bill rate today was 14 shillings 5.23 pence as compared with 13 shillings 1.65 pence last week in spite of the larger funds in the hands of the clearing banks as reflected in the Bank of England's statement reported in my 805, June 8, 6 p.m.

The stock exchange was again weak. The foreign exchange market was quiet but sterling was rather offered.

The

-2- #812, June 9, 6 p.m., from London

The British fund did not apparently deal in either spot or forward dollars but gave its support to sterling by furnishing about 115 of the 125 bars of gold dealt in at the fixing. Only ████ three bars were married. The Bank of France bought a small amount of sterling.

KENNEDY

WWC

RECEIVED

JUN 10 1953

TREASURY DEPARTMENT  
Office of the Secretary  
General Assistant to the Secretary



DEPARTMENT OF STATE  
WASHINGTON

June 10, 1939

In reply refer to  
EA 661.6231/203

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of paraphrases of telegrams no. 446 and no. 447 from the American Embassy in Berlin, dated June 6, 1939, which have reference to Soviet-German trade.

Enclosures:

1. From Berlin, no. 446,  
June 6, 1939.
2. From Berlin, no. 447,  
June 6, 1939.

## PARAPHRASE OF TELEGRAM RECEIVED

From: American Embassy, Berlin

No.: 446

Date: June 6, 1939, 10 a.m.

I have been informed by a source which is in close connection with German trade negotiations that in a short time Germany will probably resume commercial negotiations with Russia. My informant added that he did not expect any important results from these negotiations. He stated that during the last two years Germany and Russia had both expressed an interest in the restoration of trade between the two countries but that there had been no important results. He stated that as a matter of fact most of the raw materials which Germany wished to import from Russia (including petroleum products and manganese) were the products which Russia needed for her own military and industrial development, and that in addition, during the past two years Russia had not been willing to furnish any considerable amounts of materials which might be used either directly or indirectly to increase German military strength. My informant said also that Germany is equally reluctant to furnish Russia with war material or machine tools and other products which would help Russia to build up its munitions industry.

KIRK

EA:EB

## PARAPHRASE OF TELEGRAM RECEIVED

From: American Embassy, Berlin

No.: 447

Date: June 6, 1939, 11 a.m.

I recently had a conversation with the Soviet Chargé d'Affaires with reference to trade negotiations between Germany and the Soviet Union based on the reference to these negotiations which was contained in Molotov's speech. The Chargé refrained from stating whether or not negotiations had actually been resumed, but he remarked that German press attacks against Russia had ceased and that the Soviet would not be opposed to discussing the question of the improvement of trade with Germany, with particular reference to the possibility of the purchase by Russia of German machinery. The Chargé conveyed the impression that Schnurer, who, at the time Soviet-German trade negotiations were interrupted several months ago, was on his way to Moscow, could be expected to proceed to Moscow for consultation in the near future; the Chargé was non-committal on this point. However, there was no (repeat no) question, he stated, of a German trade commission going to Moscow from Berlin.

KIRK

EA:EB

June 10, 1939

To: The Secretary

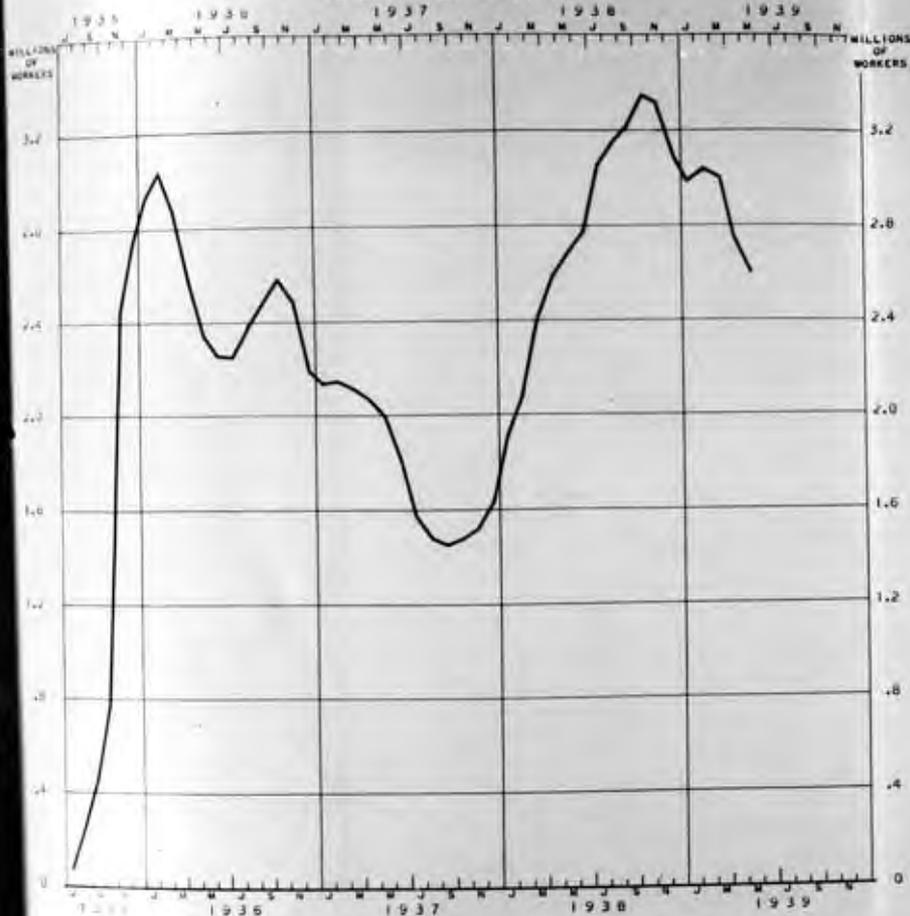
From: Miss Lonigan E. L.

The total number of WPA workers on  
May 31, 1939, is 2,598,285.

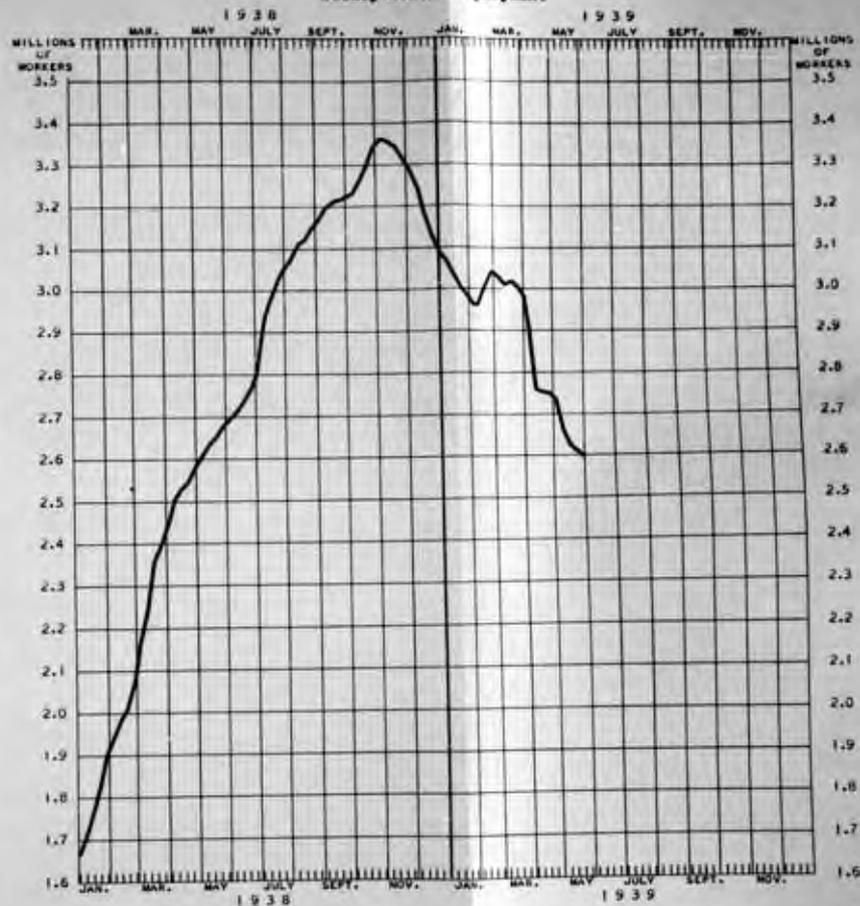
The decrease from the week ending  
May 24 to the week ending May 31 was 10,457  
workers.

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 - Weekly  
 United States

Week ending 1938	Number of Workers (In thousands)
August 6	3,077
August 13	3,101
August 20	3,124
August 27	3,153
September 3	3,171
September 10	3,197
September 17	3,210
September 24	3,219
October 1	3,228
October 8	3,224
October 15	3,266
October 22	3,300
October 29	3,346
November 5	3,364
November 12	3,359
November 19	3,345
November 26	3,319
December 3	3,287
December 10	3,241
December 17	3,186
December 24	3,124
December 31	3,094
1939	
January 7	3,070
January 14	3,030
January 21	3,001
January 28	2,986
February 4	2,966
February 11	2,966
February 18	3,011
February 25	3,043
March 4	3,032
March 11	3,009
March 18	3,015
March 25	3,009
April 1	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,734
May 10	2,660
May 17	2,622
May 24	2,609
May 31	2,598 <sup>a/</sup>

Source: Works Progress Administration  
<sup>a/</sup> Confidential

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	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	3,009
April	2,751
May	2,598 <sup>a/</sup>

Source: Works Progress Administration.

<sup>a/</sup> Confidential.

Monthly figures are weekly figures for the  
 latest week of the month.

They include certified and non-certified workers.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 10, 1939

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

For your information!

The Procurement Division today is awarding a contract for the purchase of 5,800,000 barrels of cement for the Shasta Dam to the Permanente Corporation of California. The bid of this company was \$1,500,000 lower than the next bidder. Certain protests against this award were made to the Department and to the Comptroller General's Office. The bases of these protests have all been submitted by the Procurement Division either to the Labor Department or to the Comptroller General and all of them have been overruled by these offices. The Bureau of Reclamation has recommended the making of this award.

E. H. Foley



## TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON

June 10, 1939

MEMORANDUM TO THE SECRETARY:

On May 1 bids were opened for cement to be used by the Reclamation Service in the construction of Shasta Dam, California. The proposal on which quotations were received provided for

Schedule 1, 1,400,000 barrels to be delivered during the calendar year 1940.

Schedule 2 provided for 5,800,000 barrels to be delivered through the calendar years 1940 to 1944. (This item includes quantity covered by Schedule 1).

Schedule 3 provided for the total quantity of 5,800,000 barrels with varying delivery requirements.

Bids were submitted by the following:

- The Permanente Corporation,  
Oakland, California (Schedule 2 only)
- California Portland Cement Company,  
Los Angeles, California (Schedule 1 only)
- Riverside Cement Company,  
Los Angeles, California (Schedule 1 only)
- Beaver Portland Cement Company, et al.  
San Francisco, California (All Schedules)

Award of contract under this proposal has been delayed up to this time on account of questions which have been raised by those concerns competing with the Permanente Corporation. The substance of their contention was that the Permanente Corporation was not actually producing cement, that it had no plant with which to produce cement, that it would be physically impossible for that Corporation to erect such a plant in time to begin deliveries of cement in March 1940 (when the first delivery is required under this proposal), that it did not comply with the Walsh-Healey provisions requiring that a bidder shall be a regular dealer or manufacturer of the commodity bid on, and other questions with respect to sufficiency of bond, ability to meet specifications, and the probability that residents in the area in which the Permanente Corporation proposed to erect a mill would stop, through legal processes, the erection of such a plant.

- 2 -

All of these questions have been disposed of. The Department of Labor has held that there will be compliance with the terms of the Walsh-Healey Act, and the Comptroller General, to whom all of these questions were submitted on May 24, has held that the award may properly be made to the Permanente Corporation.

The Commissioner of Reclamation has been in constant touch with the Procurement Division and is thoroughly in accord with the decision that the award shall be made to the Permanente Corporation.

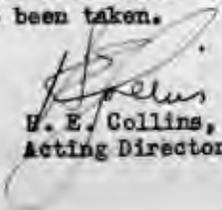
Mr. Thomas A. Manning, Jr., of the General Counsel's Office, has been in constant consultation with the Procurement Division and is likewise in accord with the decision to make the award to the Permanente Corporation.

Representatives of the Beaver Portland Cement Company, et al (which includes Beaver and 5 California cement companies) have appeared at the Procurement Division on several occasions, and it is understood have also appeared at the Bureau of Reclamation in the Interior Department, to submit oral arguments in support of written statements contending that the award should not properly be made to the Permanente Corporation.

The net result of making this award to the Permanente Corporation is a saving to the Government of approximately \$1,500,000. The combined bid of the 6 companies (Beaver et al) on Item 2, which covers 5,800,000 barrels to be delivered throughout the 5-year period of construction of Shasta Dam, would have amounted to approximately \$12,500,000, as compared to a total cost under the Permanente Corporation bid of approximately \$11,000,000. These figures include the bid price per barrel at the point of production and the cost of transportation from those points to the site of construction of the dam.

Efforts were made to stop the erection of a cement plant by the Permanente Corporation. However, a telegram was received on June 9 from the Clerk of the Board of Supervisors of Santa Clara County to the effect that after a two day hearing, the Board has unanimously reaffirmed a previous decision of the Planning Commission of that County and of the Board of Supervisors in granting a permit to the Permanente Corporation for the construction of its plant.

As the numerous questions that have arisen in connection with this proposal have all been resolved in favor of the Permanente Corporation, and as the Secretary of the Interior has formally approved the recommendation of the Commissioner of Reclamation, that an award be made to Permanente, formal notification has been given that Corporation by wire today of the award of contract to it, and notification has also been given the Bureau of Reclamation that that action has been taken.

  
H. E. Collins,  
Acting Director.

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE  
Saturday, June 10, 1939.

Press Service  
No. 17-85

The Director of Procurement today announced the award of a contract to the Permanente Corporation of California for 5,800,000 barrels of low-heat portland cement for the Central Valley project in California, which will include Shasta Dam and other construction. The contract calls for delivery of the cement at a net cost to the Government of \$1.901016 per barrel, or a total of \$11,025,892.80. Delivery is to be made during the calendar years 1940 to 1944.

Bids on the proposal were opened May 1 but some of the participants protested that the low bidder was not at that time a producer of cement and had no plant with which to produce it. The Comptroller General of the United States, in a letter to the Secretary of the Treasury on June 2, 1939, held that an award might properly be made to the Permanente Corporation at a saving to the Government of approximately \$1,500,000.

The Division of Public Contracts of the Department of Labor also gave its approval to the award after determining that the low bidder controlled sufficient raw materials deposits to produce the amount of cement required in the specifications and that it proposed to construct the necessary plant facilities.

The Commissioner of Reclamation, under whose direction the dam will be constructed, recommended the five-year contract and his action was approved by the Secretary of the Interior.

C. E. McGUIRE  
COSMOS CLUB  
WASHINGTON, D. C.

June 10, 1939.

Dear Mr. Wallace:

I am taking advantage of the invitation you extended to me several times, to get into touch with you when I had something important I wanted to say to you. I have not availed myself previously of the invitation simply because I felt I ought not to disturb you, or any person holding a post such as you hold, unless I had a matter of major importance.

On June 3, there was published a synopsis of the report of the special commission sent to British Guiana under the auspices of the British Government and the President's Advisory Committee on Political Refugees. Perhaps you saw a reference to it.

More than three years ago, I approached the Refugee Economic Corporation, then recently established for the purpose of assisting overseas refugees, to recommend that the Corporation study the possibilities of large-scale settlement in Venezuela. I had already spent some time in Caracas at the invitation of President Lopez Contreras, and I knew that the opportunities for refugee settlement existed, and that Venezuela was well disposed towards fugitives from European racial and religious persecution. From time to time thereafter, I assisted individual Europeans to go to Venezuela (and to a few other countries). By the end of 1937, it was clear to me from the volume of my own correspondence and the mounting number of pitiful cases brought to me, that the problem was soon going to get outside the power

of individual or even committee machinery to handle. By that time, the Berlin Consulate General was piled high with visa correspondence and desk work, so that even governmental machinery was becoming entangled.

In the early months of 1938, therefore, I began to look for a formula that would make possible the development of international official cooperation on a large scale. I knew that the longer the racial persecution would continue, the more difficult it would go to work out any formula, because hostile feeling here in the United States would be aroused, as obviously had been intended by the persecutors, who deliberately hoped that the competition for daily bread on the part of the refugees would cause alarm among people in France, England and elsewhere who might otherwise be sympathetic in principle with the refugees. If the persecutions went on very long, therefore, official action would be difficult because of internal opposition.

The formula upon which I settled was as follows:

Let the Government of the United States ask the Government of France and Great Britain whether they would be prepared to consider (1) relinquishing their sovereignty over British and French Guiana, and (2) paying to the Government of the Netherlands an agreed sum as a consideration for a similar relinquishment of sovereignty by that Government over Dutch Guiana (Surinam), provided the Congress of the United States would cancel eighty percent of the British and French War Debt.

Assuming acceptance of the offer all round, let the three Guianas be constituted a single sovereign State, one of the republics of the Western Hemisphere, its territorial integrity to be guaranteed by the other American States in due course. For ten years after its

establishment, this new State would be under the strict supervision of an International Commission comprising representatives of the three assenting powers, and of the two neighbors, Brazil and Venezuela, and of Argentina, Peru, Colombia, and the United States. Under this Commission would be an Administrator General, selected from Scandinavia, Canada, or some other country not involved politically, and qualified for the arduous responsibility certain to rest upon him.

The new State would be intended in the first instance as a home for refugees of Jewish blood, whether or not of the Hebrew faith. Other political refugees would be received, in accordance with general principles of admissibility, based upon the best practice in the field of immigration control. The problem of handling adherents of subversive doctrine would have to be faced squarely.

A vast amount of organizing work would need to be accomplished. The report to which the beginning of this letter alludes vindicates my belief that millions of Europeans could be comfortably settled in the plateau country of the Guianas. Apart from the coastal strip, the vast area of the three colonies - larger than post-war France - could support a white population with ample food supply, and a tolerable standard of living. The space is there; and the raw materials. Nor is there any crowding of indigenous population to be feared. There are apparently not a half million people now in all three colonies.

My proposal also contemplated the application of the same rate of cancellation of War Debt to the indebtedness of Italy, Rumania, Poland and the other debtor countries in return for their necessary materials - cement, steel products, electrical installations, and a thousand other things needed to put the new nation on its feet.

Jews and other European refugees would not all feel enthusiastic about life on a primitive frontier. But the younger generation, surely, would soon feel that they should put up with any difficulty inherent in colonial life in order to escape the terrorism of Europe. I have always felt that what is called the "Jewish question" is a consequence of certain characteristics that have their roots in an age-long inferiority complex, macerated into the social and group consciousness of a sensitive frontier people deprived of their political personality twenty five centuries ago. That inferiority complex is far less discernible among the Turanian stock converted to the Hebrew Faith in the middle ages - the so-called Khazars from whom are descended in the main the Jews of Russia, Rumania, Poland and Hungary, - than among the genuinely Semitic stock whose religious intensity has left so enduring an impress upon racial stocks as remote as the Turanian Jew, and the Mediterranean or Alpine Christian. Just as the recovery of Irish independence in the last twenty years has rather quickly diminished the inferiority complex that had long prevailed among the Irish and their kinfolk over the world, so the evolution of a sovereign State predominantly Jewish in race and in faith would go a long way to temper and soften a protective aggressiveness which political disfranchisement has tended to aggravate.

The establishment of such a State would contribute greatly to relax the pressure in Palestine; and the present regime in London, genuinely apprehensive of the menace of Moslem antipathy towards British rule, will welcome anything capable of relaxing that pressure.

In the other American countries there would be varying degrees of satisfaction. Generally speaking, all of them would feel some

relief at the prospect of escaping the necessity of making provision for immigrants likely to become potential competitors with existing enterprises.

It would cost a very great sum, in goods, and in labor, to take this tremendous program through even its initial stages. The Committee's experts estimated that about three million dollars would cover the cost for two years of an initial "CCC" camp of 5000 young men and women; the cost of transferring one million - the number the experts felt may eventually be settled in the area which the British Government is prepared to set aside for them - would, of course, be fantastic if measured in terms of dollars spent by private agencies.

But measured in terms of the frozen intergovernmental debts of unhappy origin and equally unhappy consequences, the cost of moving enough of the population of Central Europe to lay the foundation of a State to which eventually other millions might migrate would not be unmanageable.

I was in the United States Treasury when this country entered the war. A week after the first credit to Great Britain and France, I began to worry about the consequences of the enormous borrowing I saw ahead. I gave to Secretary McAdoo a memorandum suggesting that in whatever instrument might bring the war to an end, there be special provision for an International Debt Commission to take entire charge of all the intergovernmental debts between the belligerents on both sides, so as to get them out of the way with as little damage as possible to the mechanism of exchange. Mr. McAdoo remarked that it was "all very interesting but premature". The twenty years since the historical record how much better it was not to deal with "premature"

time.

The War Debts are uncollectable except in goods. They are a terrible liability to the economic freedom of this country. The people of the country will be able to resign themselves to the wiping out of the debts. They need only to be told the truth. This country reacted to the use of the Boxer Indemnity for educational purposes with a virtually unanimous expression of approval; and while the circumstances are different, the reaction would be much the same. There is still much latent idealism in our people. The direct and effective help to the victims of persecution conferred by our country in calling into existence a sovereign State dedicated to racial and religious freedom would appeal to them.

Courageous and forthright explanation that the debts are uncollectable could come from the President alone; and could best come in a message to Congress asking for power to make proposals such as I have suggested. A year or two from now, sentiment may have developed to such a point that Congress would find it hard to agree readily. At present that is not the case. Next Winter we shall be too near the Presidential campaign to have such a matter brought up. In March, 1932, Mr. Hoover declined to have any public discussion of a proposal that war debts be reduced pari passu for ten years with an annual reduction of 5 percent in all armament appropriations, because he did "not want the issue thrown into the campaign". I know what took place, for I had gone to London, Paris, and Rome, and had unequivocal assurances from the highest authorities that the proposal, if made by Washington, would at once be accepted; and my report was submitted to President Hoover by Senator Borah.

You are perhaps wondering why I come to you with this. I should now tell you that I took it up heretofore only with Dr. L. S. Brown (in July, 1938), and Mr. Daniel Bell, then Acting Director of the Budget (October 1, 1938). Mr. Bell discussed it with the Secretary of the Treasury. In November, Mr. Morgenthau discussed it with the President. Mr. Bell told me that the President seemed interested. Presumably it was referred to Mr. Myron Taylor. Meanwhile, my suggestions to the Refugee Economic Corporation and others led to the decision of the British Government to explore the possibilities in British Guiana.

The War Debt issue, so far as negotiations are concerned, lies with the Treasury. But so far as the general economic consequences of the War Debts are concerned, every other officer of government charged with responsibility for formulating policy has a warrant for discussion and action.

If, after reflecting on these matters, you came to the conclusion that a great contribution to world peace and the restoration of confidence in the future would be made by some such plan as is here set forth, and that American agriculture could not fail to be one of the beneficiaries of this change for the better, would you not be willing to make the issue your own, discuss it with the President and see whether the proposal cannot be given careful consideration by him, and appropriate action taken before Congress adjourns?

The Christian Churches in this country, no less than those of the Jewish Faith, would certainly think the deed one of wisdom and steadfast courage. I think that I can at least say for a number of the Catholic Hierarchy that they would throw all their weight behind such a plan.

This letter is long. I do not expect you to acknowledge it, much less to discuss the proposal. I would, of course, like some indication that it has reached your hands. But I have no desire to be known as the author of the proposal. I have talked in this letter about what I said, and did, and so on, merely to show that the idea does have a history; and, as I wrote to Mr. Bell, last October, I am quite anxious to drop out of the matter if only it can be taken up by those competent to develop it.

Yours faithfully,

*Constance E. Squire*

Honorable Henry G. Wallace,  
Washington.

June 15, 1939.

My dear Mr. Secretary:

It was good of you to let me read the enclosed letter from Constantine E. McGuire. I have gone through it very carefully and am returning it with many thanks.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of Agriculture.

GEF:lmf

June 16, 1939.

My dear Mr. Secretary:

It was good of you to let me read the enclosed letter from Constantine E. McGuire. I have gone through it very carefully and am returning it with many thanks.

Sincerely,

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The Honorable,

The Secretary of Agriculture.

GET:lmf

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GEV:lmf

C. E. McGUIRE  
COSMOS CLUB  
WASHINGTON, D. C.

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Assuming acceptance of the offer all round, let the three Guianas be constituted a single sovereign State, one of the republics of the Western Hemisphere, its territorial integrity to be guaranteed by the other American States in due course. For ten years after its

establishment, this new State would be under the strict supervision of an International Commission comprising representatives of the three occasional powers, and of the two neighbors, Brazil and Venezuela, and of Argentina, Peru, Colombia, and the United States. Under this Commission would be an Administrator General, selected from Scandinavia, Canada, or some other country not involved politically, and qualified for the arduous responsibility certain to rest upon him.

The new State would be intended in the first instance as a home for refugees of Jewish blood, whether or not of the Hebrew faith. Other political refugees would be received, in accordance with general principles of admissibility, based upon the best practice in the field of immigration control. The problem of handling adherents of subversive doctrine would have to be faced squarely.

A vast amount of organizing work would need to be accomplished. The report to which the beginning of this letter alludes vindicates my belief that millions of Europeans could be comfortably settled in the plateau country of the Guianas. Apart from the coastal strip, the vast area of the three colonies - larger than post-war France - could support a white population with ample food supply, and a tolerable standard of living. The space is there; and the raw materials. There is there any crowding of indigenous population to be feared. There are apparently not a half million people now in all three colonies.

My proposal also contemplated the application of the same rate of cancellation of War Debt to the indebtedness of Italy, Belgium, Poland and the other debtor countries in return for their delivery of materials - cement, steel products, electrical installations, and a thousand other things needed to put the new nation on its feet.

Jews and other European refugees would not all feel enthusiastic about life on a primitive frontier. But the younger generation, surely, would soon feel that they should put up with any difficulty inherent in colonial life in order to escape the terrorism of Europe. I have always felt that what is called the "Jewish question" is a consequence of certain characteristics that have their roots in an age-long inferiority complex, macerated into the social and group consciousness of a sensitive frontier people deprived of their political personality twenty five centuries ago. That inferiority complex is far less discernible among the Turanian stock converted to the Hebrew Faith in the middle ages - the so-called Khazars from whom are descended in the main the Jews of Russia, Rumania, Poland and Hungary,- than among the genuinely Semitic stock whose religious intensity has left so enduring an impress upon racial stocks as remote as the Turanian Jew, and the Mediterranean or Alpine Christian. Just as the recovery of Irish independence in the last twenty years has rather quickly diminished the inferiority complex that had long prevailed among the Irish and their kindfolk over the world, so the evolution of a sovereign State predominantly Jewish in race and in faith would go a long way to temper and soften a protective aggressiveness which political disfranchisement has tended to aggravate.

The establishment of such a State would contribute greatly to relax the pressure in Palestine; and the present regime in London, genuinely apprehensive of the menace of Moslem antipathy towards British rule, will welcome anything capable of relaxing that pressure.

In the other American countries there would be varying degrees of satisfaction. Generally speaking, all of them would feel some

relief at the prospect of escaping the necessity of making provision for emigrants likely to become potential competitors with existing enterprises.

It would cost a very great sum, in goods, and in labor, to take this tremendous program through even its initial stages. The Committee's experts estimated that about three million dollars would cover the cost for two years of an initial "CCC" camp of 5000 young men and women; the cost of transferring one million - the number the experts felt may eventually be settled in the area which the British Government is prepared to set aside for them - would, of course, be fantastic if measured in terms of dollars spent by private agencies.

But measured in terms of the frozen intergovernmental debts of unhappy origin and equally unhappy consequences, the cost of moving enough of the population of Central Europe to lay the foundation of a State to which eventually other millions might migrate would not be unmanageable.

I was in the United States Treasury when this country entered the war. A week after the first credit to Great Britain and France, I began to worry about the consequences of the enormous borrowing I saw ahead. I gave to Secretary McAdoo a memorandum suggesting that in whatever instrument might bring the war to an end, there be special provision for an International Debt Commission to take entire charge of all the intergovernmental debts between the belligerents on both sides, so as to get them out of the way with as little damage as possible to the mechanism of exchange. Mr. McAdoo remarked that it was "all very interesting but premature". The twenty years since the Armistice record how much better it was not to deal with "premature"

The War Debts are uncollectable except in goods. They are a terrible liability to the economic freedom of this country. The people of the country will be able to resign themselves to the wiping out of the debts. They need only to be told the truth. This country reacted to the use of the Boxer Indemnity for educational purposes with a virtually unanimous expression of approval; and while the circumstances are different, the reaction would be much the same. There is still much latent idealism in our people. The direct and effective help to the victims of persecution conferred by our country in calling into existence a sovereign State dedicated to racial and religious freedom would appeal to them.

Courageous and forthright explanation that the debts are uncollectable could come from the President alone; and could best come in a message to Congress asking for power to make proposals such as I have suggested. A year or two from now, sentiment may have developed to such a point that Congress would find it hard to agree readily. At present that is not the case. Next Winter we shall be too near the Presidential campaign to have such a matter brought up. In March, 1932, Mr. Hoover declined to have any public discussion of a proposal that war debts be reduced pari passu for ten years with an annual reduction of 5 percent in all armament appropriations, because he did "not want the issue thrown into the campaign". I know what took place, for I had gone to London, Paris, and Rome, and had unequivocal assurances from the highest authorities that the proposal, if made by Washington, would at once be accepted; and my report was submitted to President Hoover by Senator Borah.

You are perhaps wondering why I come to you with this. I should now tell you that I took it up heretofore only with Dr. L. S. Brown (in July, 1938), and Mr. Daniel Bell, then Acting Director of the Budget (October 1, 1938). Mr. Bell discussed it with the Secretary of the Treasury. In November, Mr. Morgenthau discussed it with the President. Mr. Bell told me that the President seemed interested. Presumably it was referred to Mr. Myron Taylor. Meanwhile, my suggestions to the Refugee Economic Corporation and others led to the decision of the British Government to explore the possibilities in British Guiana.

The War Debt issue, so far as negotiations are concerned, lies with the Treasury. But so far as the general economic consequences of the War Debts are concerned, every other officer of government charged with responsibility for formulating policy has a warrant for discussion and action.

If, after reflecting on these matters, you came to the conclusion that a great contribution to world peace and the restoration of confidence in the future would be made by some such plan as is here set forth, and that American agriculture could not fail to be one of the beneficiaries of this change for the better, would you not be willing to make the issue your own, discuss it with the President and see whether the proposal cannot be given careful consideration by him, and appropriate action taken before Congress adjourns?

The Christian Churches in this country, no less than those of the Jewish Faith, would certainly think the deed one of wisdom and steadfast courage. I think that I can at least say for a number of the Catholic Hierarchy that they would throw all their weight behind such a plan.

This letter is long. I do not expect you to acknowledge much less to discuss the proposal. I would, of course, like some indication that it has reached your hands. But I have no desire to be known as the author of the proposal. I have talked in this letter about what I said, and did, and so on, merely to show that the idea does have a history; and, as I wrote to Mr. Bell, last October, I am quite anxious to drop out of the matter if only it can be taken up by those competent to develop it.

Yours faithfully,

*Constance E. Moore*

Respectable Henry C. Wallace,  
Washington.

## TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE

June 12, 1939

TO Secretary Morgenthau  
FROM W. R. Johnson

Dr. Feis of the State Department telephoned me Saturday morning stating that the Italians had agreed to discuss countervailing duty matters with our Treasury representatives, and that I would hear from Mr. Ballerini, Commercial Counselor of the Italian Embassy today (Monday). Dr. Feis stressed the importance of the matter and said the State Department hoped that it would be worked out in a satisfactory manner. He asked whether the willingness of the Italians to discuss matters would operate to hold the case in its present status. I replied that it seemed likely that discussions could add little or nothing to our information concerning the silk bounties and would not seem likely, therefore, to justify any considerable delay with respect to that part of the case, but, with respect to the cotton, wool and leather bounties, I could not say whether the discussions would develop information that would justify further consideration at some length.

Mr. Ballerini telephoned to me from New York this morning and stated that his government hoped our Treasury representatives would come to Rome to discuss the countervailing duty matters with the appropriate Italian officials. I suggested that, in view of the past attitude of Italian officials who objected to our customs investigations in Italy, it would be desirable to have something in writing from the Italian Embassy asking that our representatives go to Rome.

Mr. Ballerini has claimed that the procedures by reason of which we propose to apply countervailing duties to cotton, wool and leather goods from Italy are against the policy of the Italian government, and that he believes measures taken recently have been successful in stamping out such procedures. It may well be, therefore, that discussions between the Treasury's representatives and Italian authorities would be fruitful of real information with respect to the last-mentioned commodities.

In the present state of affairs, the propriety of a countervailing duty order against Italian silk goods as heretofore submitted to you seems clear. We are satisfied that subsidy practices apply to some shipments of cotton, wool and leather goods, and we have been able to estimate broadly the probable amounts of the subsidies in some cases where special information has been available. We should publish a countervailing duty order if similar procedures still obtain, but it will be extremely difficult to

- 2 -

ascertain or estimate the net amount of countervailing duties accruing on particular importations unless our agents can make investigations in Italy. I believe it desirable, therefore, that one or more representatives go from our Paris office to Rome under instructions to investigate the present status of subsidy procedures and to attempt to make arrangements for future investigations.

*W. R. Johnson*

APPROVED:

*H. M. Nathan* June 15, 1939  
Secretary of the Treasury

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Monday, June 12, 1939.

Press Service  
No. 17-86

Secretary of the Treasury Morgenthau today announced that reports from the Federal Reserve banks indicate that \$415,619,500 of Treasury Notes of Series D-1939, maturing September 15, 1939, have been exchanged for 3/4 percent Treasury Notes of Series A-1944.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received and Allotted</u>
Boston	\$ 9,906,500
New York	268,216,700
Philadelphia	4,485,800
Cleveland	7,101,900
Richmond	3,461,700
Atlanta	1,412,500
Chicago	96,736,700
St. Louis	9,845,900
Minneapolis	2,824,000
Kansas City	5,088,200
Dallas	2,310,600
San Francisco	4,076,300
Treasury	152,700
Total	\$ 415,619,500

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 12, 1939

TO Secretary Morgenthau  
FROM W. H. Hadley

Review of the Government MarketWeek ending June 10, 1939

After hitting an all-time high on Monday, June 5, the market for Treasury bonds turned easier and for the next four days moved steadily lower, cancelling about one-half the gains made in the previous week when the Treasury announcement of no new cash was made. Lack of buying interest accompanied by the appearance of offerings, plus what might be called a technical reaction to the steady upward climb, appeared to be the forces causing this turn-down in prices. In addition, fairly sizeable dealer holdings and threats of future profit-taking are tending to bring about further easiness in the market. Friday, Saturday and today, Monday, the market has given indications of unsteadiness with general movements during each day through a range of about  $1/4$  point. There appears to be a general reluctance of investors to buy at this time, while selling activity predominates.

For the week as a whole, Treasury bond prices were off an average of  $1/2$  point in the long issues, about  $1/4$  point in the intermediate issues, while the short group was unchanged to  $1/8$  point lower. Short Treasury notes on a no-yield basis were off 2 to  $7/32$ nds while the longer notes were unchanged. Guaranteed issues were off to  $1/4$  point, with the exception of the shortest issues which showed gains of 1 to  $3/32$ nds.

New Notes

The new offering of 3/4% 5-year notes was well received in the market and turn-ins on subscriptions amounted to \$416 million out of \$427, about 97%. This issue opened on Monday at 101.19 bid but moved steadily lower during the week to close at 101.2. Because the new HOLO 1-1/2% bonds appeared more attractive to the market than this direct note, there was considerable amount of selling of 'rights' in order to buy the new HOLO bond.

Dealers' Portfolios

There was a net decrease of \$11 million in dealers' total holdings over the week. However, there was a substantial increase in Treasury bond holdings which at one time reached a total of \$61 million. Holdings of guaranteed issues although continuing large are being gradually reduced. HOLO holdings were diminished \$25 million during the week. However, portfolios as a whole are comparatively large in view of the fact that with the current easiness in the market dealers are reluctant to take on any more securities.

(In millions)

	Week ended June 3	Week ended June 10	Net Change
Treasury bonds	47.3	55.8	+ 8.5
Treasury notes (1 year)	20.6	25.1	+ 4.5
Treasury notes (1-5 yrs.)	20.7	25.0	+ 5.3
Treasury bills	-	-	-
H.O.L.O. bonds	49.1	25.8	-23.3
F.F.M.C. bonds	5.8	0.9	- 5.9
	<u>144.5</u>	<u>133.6</u>	<u>-10.9</u>

Treasury bond issues and Treasury notes accounted for the greater part of the volume last week, although trading in HOLO issues was sub-

stantial. Total volume averaged about \$230 million daily compared with \$200 million last week. Treasury bond volume averaged about \$130 million daily, Treasury note volume was about \$65 million daily, while HOLC volume totaled about \$30 million daily.

#### New Security Issues

The new security market was quite active last week. Three corporate issues totaling \$35 million were offered. Two issues of 30-year medium and high grade bonds were well received and immediately quoted at premiums ranging from 1 to 3 points above the offering price. However, a \$10 million 15-year debenture of Houston Oil of Texas, rated only RA, moved very slowly and was quoted about 1/2 to 3/4 point below the offering price throughout the week. In the municipal field a sale of \$71 million California Toll Bridge Authority bonds by the RFC to syndicate and subsequently to the market was unusually successful. These bonds were sold out of syndicate within two hours after offering at prices ranging from 1-1/2 to 2 points above the syndicate offering and 3-1/2 to 4 points above the successful syndicate bid to the RFC.

#### Corporate Bond Market

Corporate bond market was generally firm last week. High grade issues moved up small fractions to new high levels while second grade bonds, although still below the peak of March 1939, continued their upward trend. The yield spread between high grade and second grade issues has been narrowing steadily and is now only 1.95% compared with 2.22% on April 11 when the market reached a low point. This spread tends to decrease with improving market and business sentiment because at such

times investors feel less hesitant in buying second grade bonds.

Treasury Investment Accounts

There were no transactions for Treasury investment accounts this week. However, as reported last week, a total of \$38,500,000 new HOLC 1-1/2% bonds have been sold in the market, leaving \$61,500,000 yet to be sold of the original \$100 million authorization.

Federal Reserve System Account

In addition to the replacement of \$33,300,000 maturing Treasury bills, the System sold \$5,500,000 Treasury bonds of 1958/63 and bought in replacement \$5,500,000 intermediate bonds on Monday, June 5, when the market appeared strong. There was also a switch between bill maturities of \$2,125,000. The System's holdings of \$70,466,000 September 1939 Treasury notes were exchanged for the Treasury offering of new 3/4% notes.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 12, 1939

TO Secretary Morgenthau  
FROM Mr. Haas *HAAS*  
Subject: The Business Situation,  
Week ending June 10, 1939.

Conclusions

(1) Business continues to improve, with the past week seeing a further increase in steel production, continued heavy buying of textile products, a further gain in stock prices, and an increased volume of forward buying in the wholesale markets. The Public Works program is coming more prominently into the business picture, raising heavy construction awards to a new high since early March, and raising structural steel orders to a new high for the year.

(2) The automobile industry promises strong support to industrial activity during the second half of the year. The basic demand for automobiles continues above production, retail sales during May remained at a high level, and stocks of new cars have been reduced to approximately normal.

(3) Some uncertainty is again becoming evident in the foreign picture. Stock prices in London and Paris declined last week, and commodity prices have shown a weakening tendency, first noticeable in a flattening in Reuter's index several weeks ago. Such movements on several earlier occasions have preceded political disturbances abroad.

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The present position of business

Although the Memorial Day holiday has affected various business indices and somewhat obscured the actual business trend, a continued expansion of activity has been evident in several lines. The rate of steel operations last week

Secretary Morgenthau - 2

was again raised, reaching the highest level in two months at 54.2 per cent of capacity, against 52.2 per cent the previous week. New orders reported by the U. S. Steel Corporation for the week ended June 1 were affected only slightly by the holiday, holding at 50 per cent of capacity, which compares with the previous week's figure of 53 per cent.

In Chart 1 (upper section) we show a comparison of U. S. Steel orders with the rate of operations in the industry. If the independent companies are booking new orders at the same per cent of their capacity as U. S. Steel, the current rate of operations in the industry appears closely geared to the volume of orders. There seems good evidence, however, that the independent companies are receiving orders in greater volume than U. S. Steel. They specialize more heavily in automobile steel products, which were largely responsible for the recent upturn in orders. They have been running in recent months at a higher rate than U. S. Steel (lower section of chart); and they stepped up activity last month a week earlier than U. S. Steel.

In view of these facts, the steel situation appears stronger than shown by U. S. Steel orders alone, and a backlog of orders is apparently being built up that will tend to sustain operations during the summer. While opinion in the industry is that little, if any, further increase in steel activity can be looked for at present, preliminary data show that operations in the Youngstown district are scheduled for a further 1-point increase this week.

In addition to the steel orders from automobile makers, for which specifications are expected to expand materially over the next several weeks, railroad demand for steel shows signs of reviving. The Government shipbuilding program, now gaining momentum, will also take a substantial quantity of steel. The Public Works program is hitting its stride in actual demand for construction materials, and structural steel orders last week reached a new high for the year. The combined demand from these and other sources promises to sustain steel activity through the summer months, when a seasonal slackening usually occurs.

Secretary Morgenthau - 3

#### Automobile outlook favorable

The outlook for the automobile industry -- the leading consumer of steel in recent years -- has been further improved by a reduction in new car stocks to approximately normal, owing to a very substantial deficit in production as compared with sales during May. (See Chart 2.) Confidential reports from General Motors Corporation show a decline in factory and dealer stocks of new cars from 196,576 at the end of April to 181,015 at the end of May. The latter figure is sufficient to equal sales for 3.8 10-day periods, at the rate prevailing during the last period of May, which compares with a figure of 3.4 last year.

Retail sales of automobiles in recent weeks have apparently exceeded expectations, but the well-sustained volume is in line with indications provided by our index of "basic demand" for automobiles, which continues in excess of production. The sales outlook seems to assure a good reception of 1940 models, and a high rate of automobile production next fall.

#### Price trends show greater uncertainty

Recent evidence of a weakening tendency in security and commodity prices may indicate some new uncertainty in the European political outlook. While stock prices at New York last week continued their advance to slightly higher levels, prices on the London and Paris exchanges turned downward (See Chart 3) and government bonds in those countries also weakened. Sensitive commodity prices have also reflected a change in sentiment, at least for the time being, first evident in the flattening out of Reuter's index several weeks ago. (See Chart 4.)

On several occasions in the past year, an increasing political tension has been first reflected in sensitive commodity prices, as indicated by the weekly data in Chart 4. The German invasion of Austria in March, 1938, was anticipated by a decline in commodity prices that began in the futures markets two weeks earlier. The long period of tension which preceded the Munich crisis last September was accompanied by a decline in commodity prices that began in July. The seizure of Czechoslovakia in March this year was preceded by a downturn in sensitive commodity prices beginning two weeks earlier. While the present instance may not foreshadow a repetition of such events, the coincident downturns in stock, bond, and commodity prices abroad, with nothing in the business picture to account for them, directs suspicion toward the political horizon.

Secretary Morgenthau - 4

#### Wholesale buying increases

A sharp expansion in wholesale activity last week, according to the current Dun and Bradstreet report, gives evidence of a marked change in the attitude of stores in anticipating needs. Forward buying increased in volume, and was more liberal than in several months. The recent heavy volume of consumer buying, which has reduced distributors' stocks sharply, is cited as an important influence.

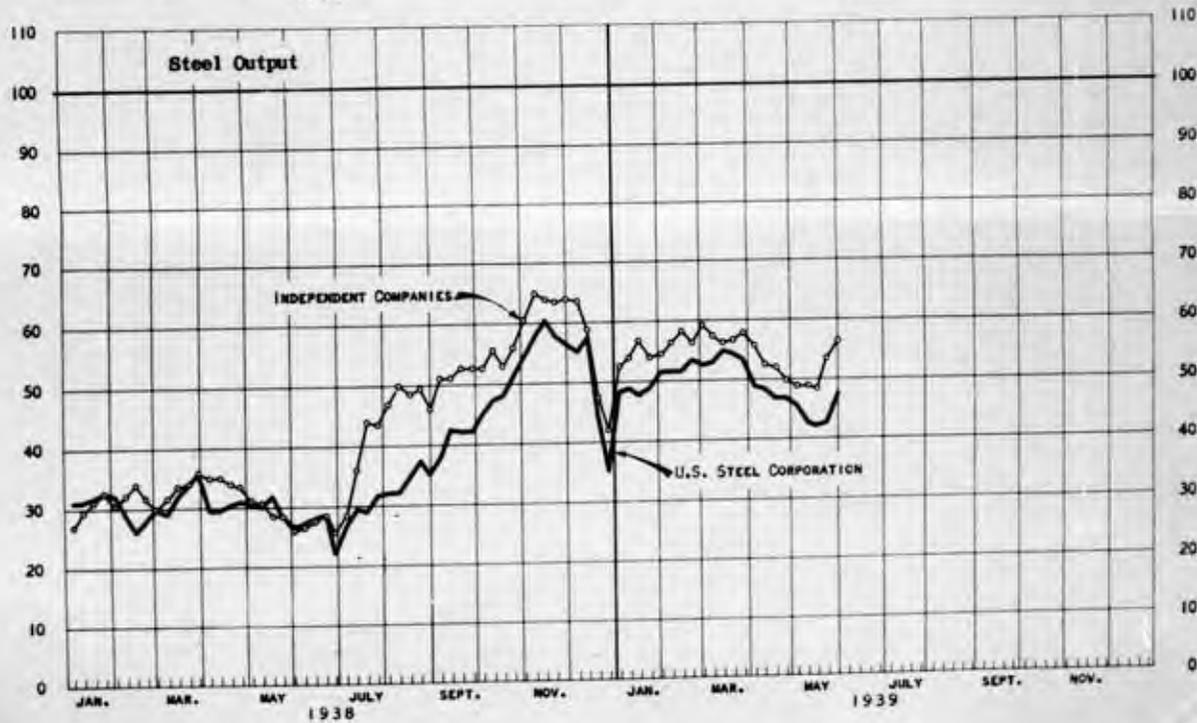
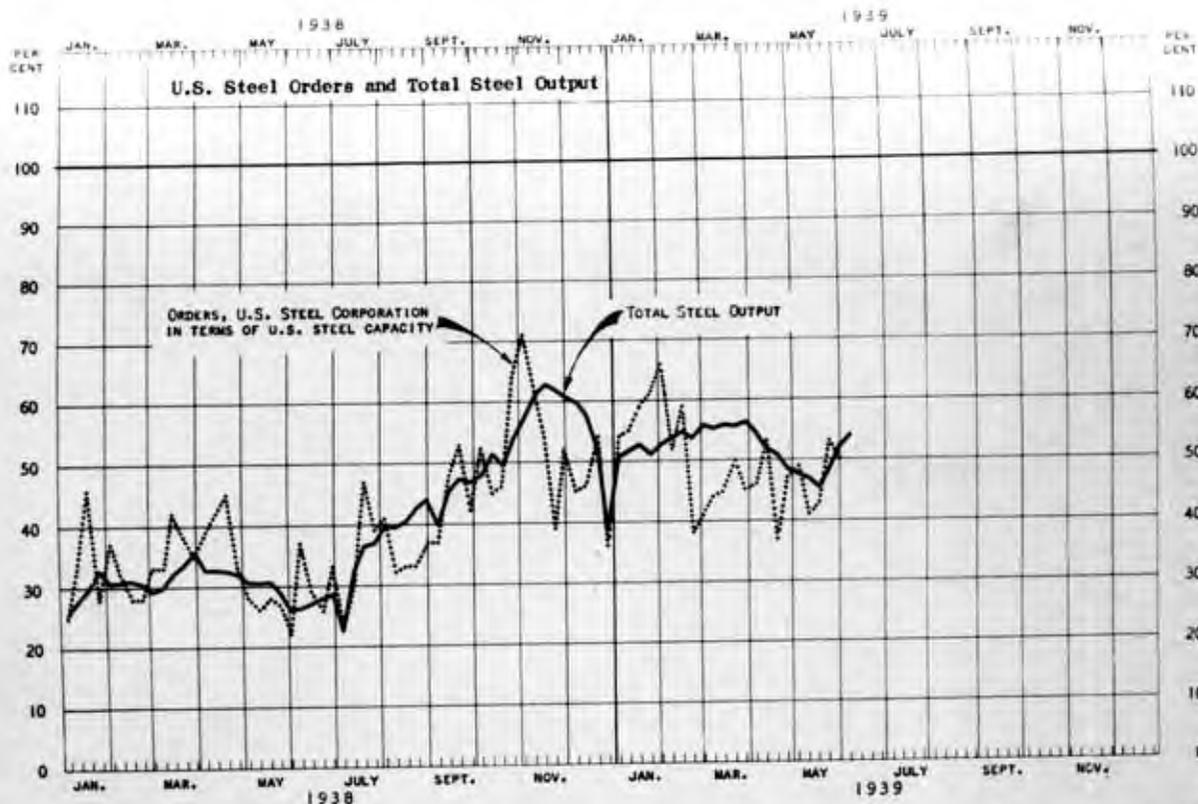
Sales of cotton textiles have continued the broad advance begun two weeks ago, resulting in a considerable further reduction in mill stocks of cotton goods. Price gains of the previous week on a broad list of products were maintained, and in some instances new high levels for the past several months were established. A cooperative agreement on the part of cotton mills to curtail production of print cloths by 25 per cent over the next several months, entered into before the recent expansion in textile buying, has been cited as a bullish factor in the cloth markets. The strong revival of demand, however, will increase the difficulty of carrying out such an agreement.

#### Current business news

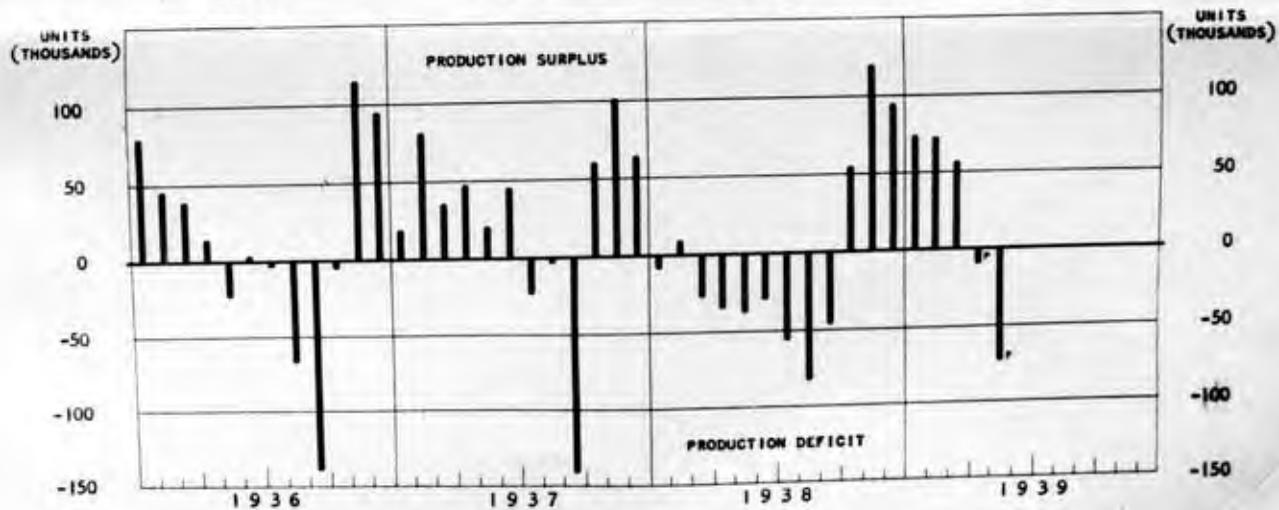
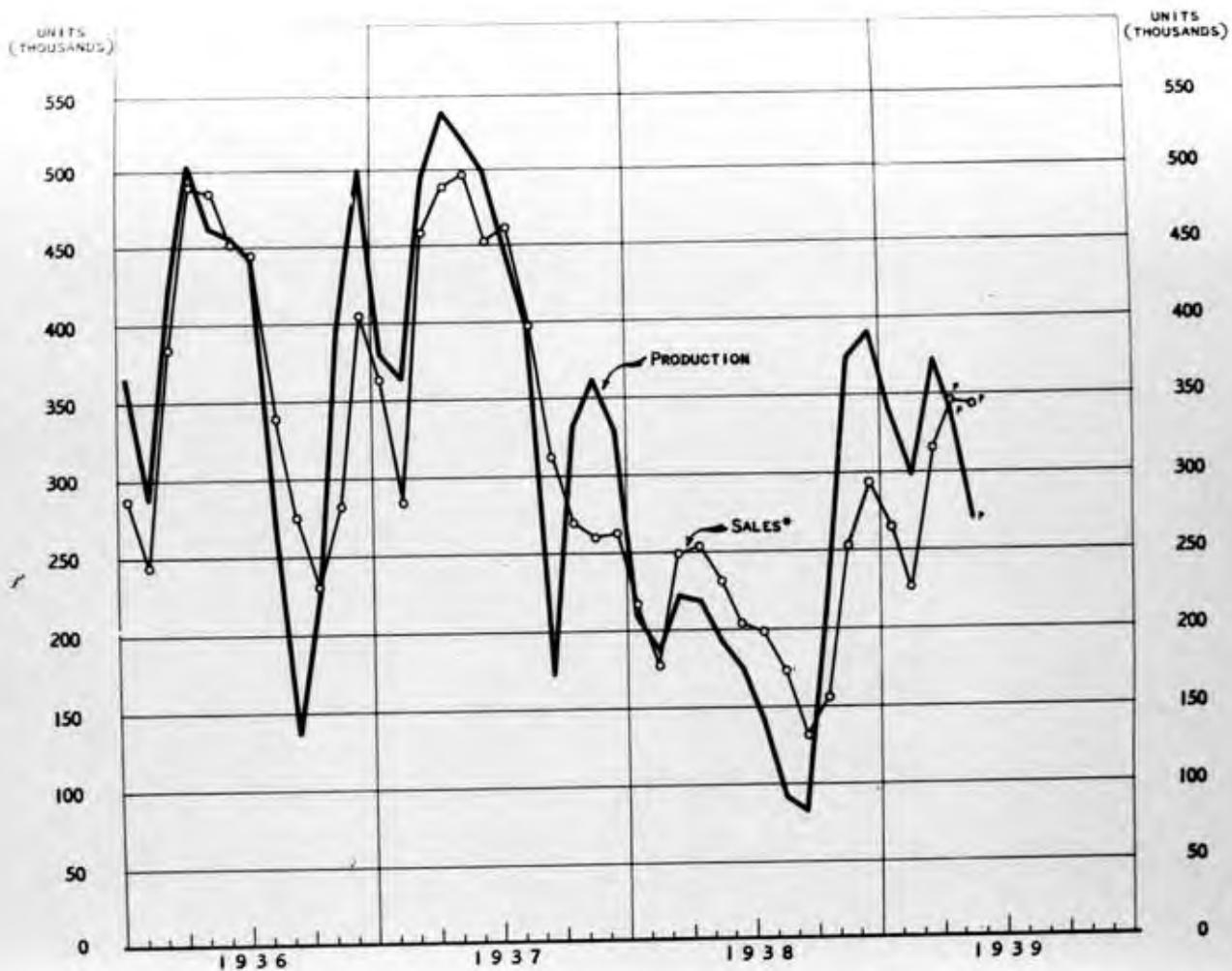
Owing to the Memorial Day holiday coming on Tuesday, which meant that in many instances Monday was also a semi-holiday, seasonally adjusted indexes were generally lower during the week ended June 3. The New York Times index for that week dropped 1.6 points to 86.0, with all components lower except steel production. During the following week, preliminary data show substantial upturns in automobile and steel production. Automobile production at 65,265 units, was double the figure of the week before, when strikes and the holiday caused a drastic curtailment.

Engineering construction awards for the week ended June 8 were fourth highest of the year, and reflected a high volume of private as well as public awards. Private awards were 102 per cent higher than in the corresponding week of 1938, primarily because of a large volume of industrial building. Public awards, which are about three times as large as private, were 73 per cent above a year ago.

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

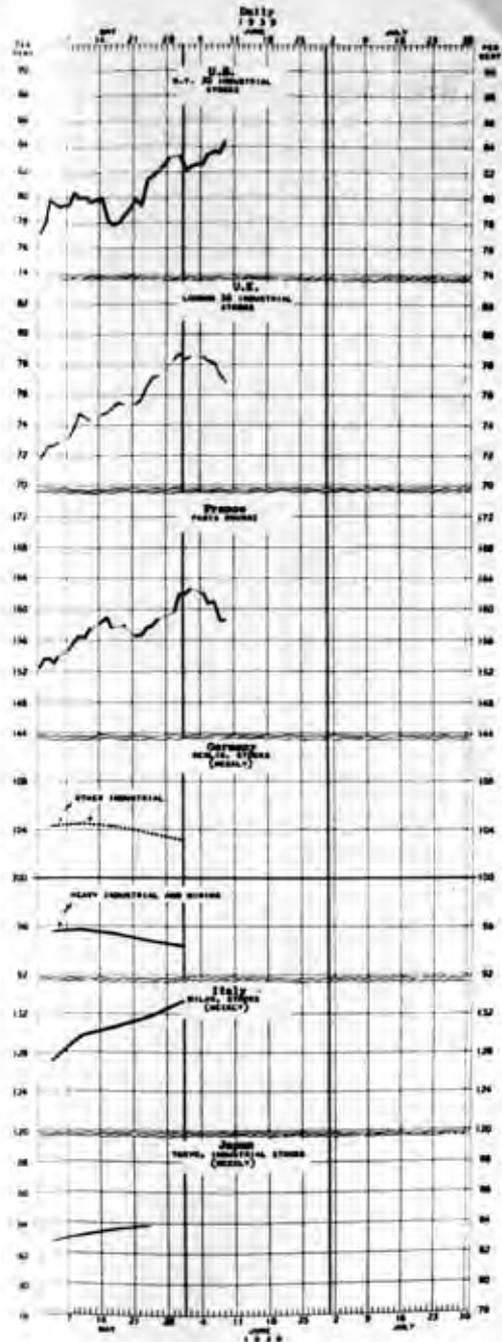
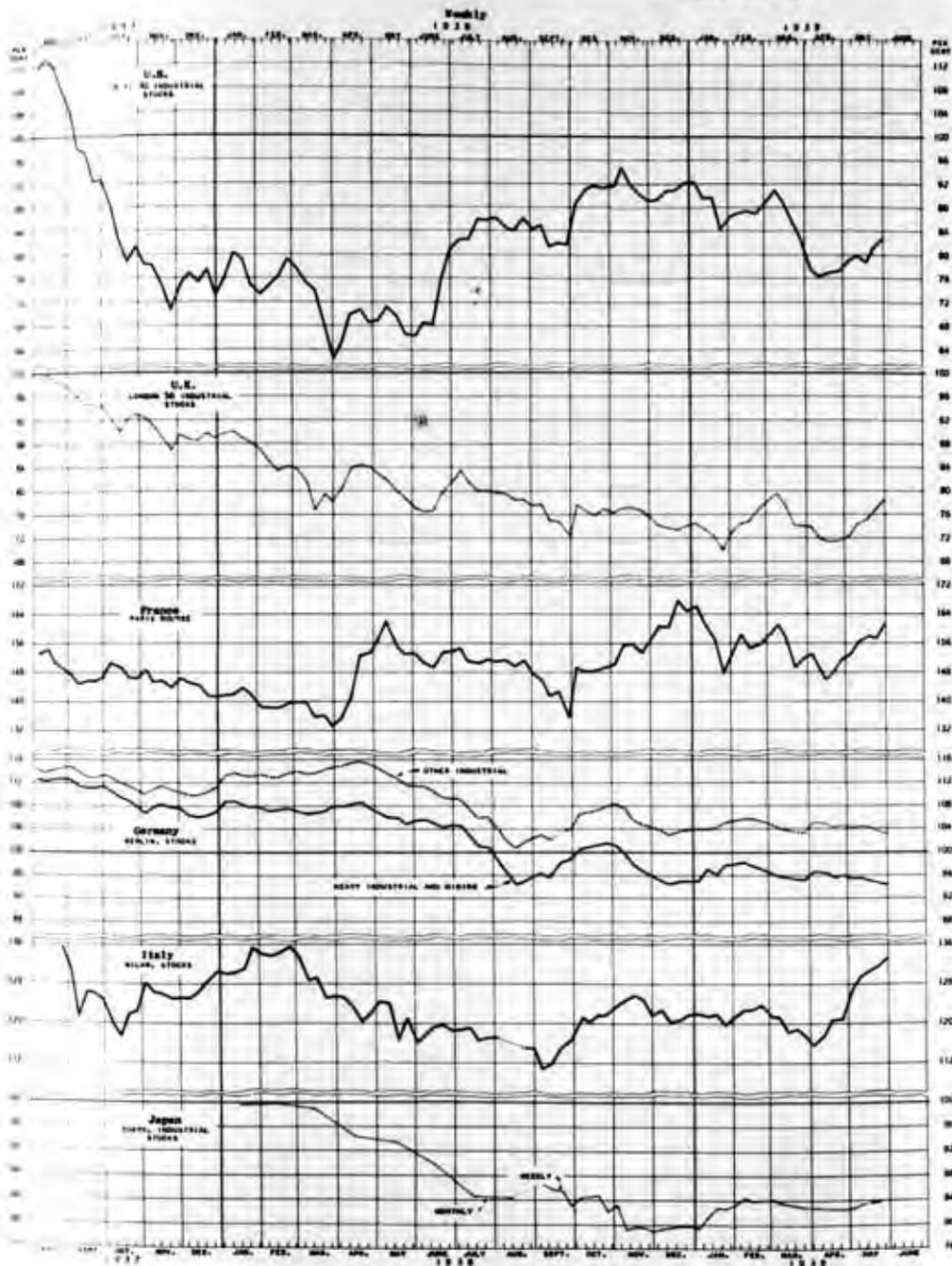


# MONTHLY AUTOMOBILE PRODUCTION AND SALES\*



\*NEW AUTO REGISTRATIONS IN U.S. PLUS EXPORTS

INDICES OF FOREIGN AND DOMESTIC SECURITY PRICES  
August 1926 - 1927

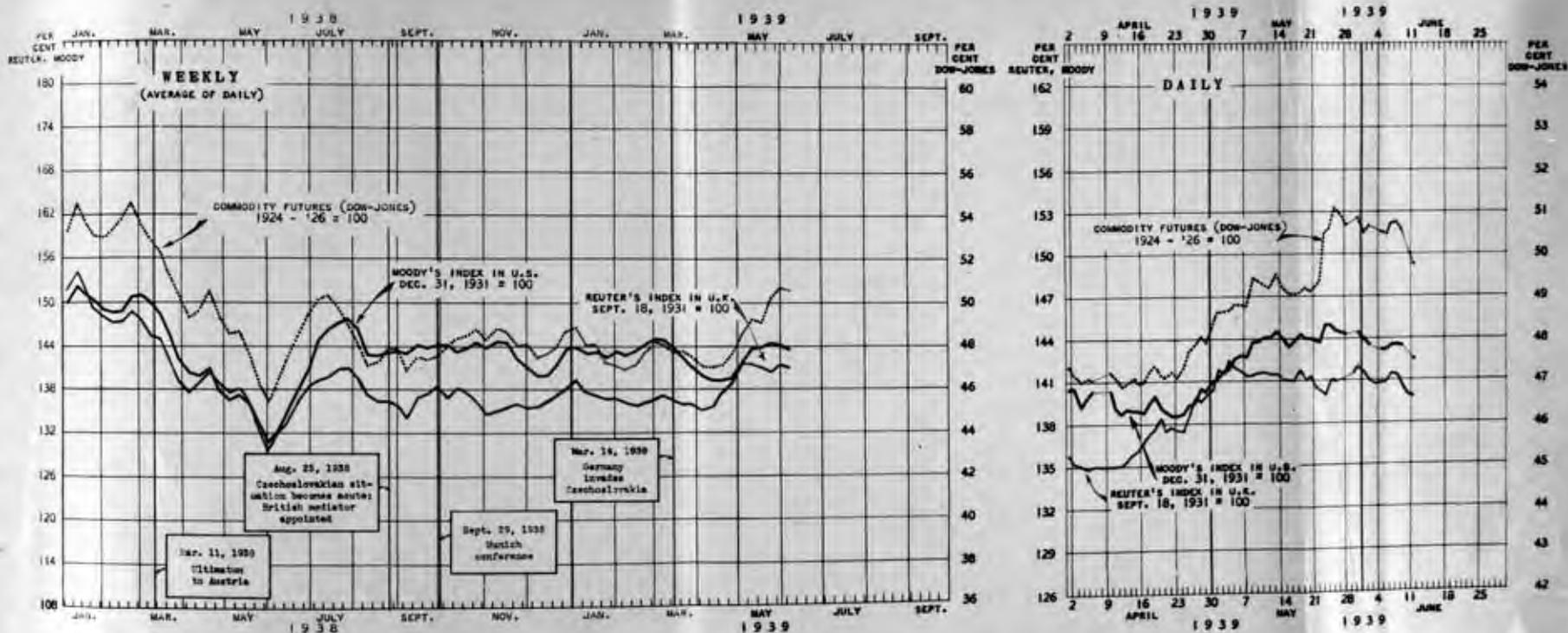


Office of the Secretary of the Treasury  
Bureau of Research and Statistics

\*ALL IND. STOCKS, DEC. 31, 1927 = 100

\*HEAVY INDUSTRIAL STOCKS - 1927 = 100

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



June 12, 1939

FOR THE SECRETARY:

Interest Rates Charged by Banks

1. Reports made to the Federal Reserve Board by 92 banks in 19 large cities covering new commercial loans made during September 1-15, 1938 and March 16-31, 1939 show that:

a. The average interest rates charged on commercial loans made during March 16-31 were 2.23% in New York City, 3.02% in seven northern and eastern cities and 3.80% in 11 southern and western cities. These March averages were from  $\frac{1}{2}$ % to  $\frac{1}{4}$ % higher than the averages reported for September 1-15, 1938; the Federal Reserve attributes this rise to seasonal factors.

b. Although 40% of the money loaned by banks outside New York City is loaned at rates under 3%, 70% of the borrowers pay rates of 5% or more, indicating that the more numerous small commercial borrowers pay considerably higher rates than the borrowers of large sums.

c. Of the loans made by the banks outside New York City, those made at 3%-4% averaged about \$20,000, those made at 4%-5% averaged about \$13,000, those made at 5%-6% averaged \$6,000, those made at 6%-7% averaged \$2,500 and those made at 7% or more averaged \$1,000.

(These are the only statistics available which show interest rates on strictly commercial loans, including commercial loans for capital purposes. The figures given in the following paragraphs are for all loans, commercial, agricultural, personal, mortgage, etc.)

2. Federal Deposit Insurance Corporation computations show that:

a. During 1938, 72.7% of the insured banks realized earnings on their total loans and discounts at rates from 5% to 8%. Fifteen percent of the insured banks showed earnings on loans and discounts at rates higher than 8%.

- 2 -

b. On the basis of 1938 figures for insured banks not Federal Reserve members, the rates earned on loans and discounts decreased as the size of the bank or the size of the bank's community increased. Although these figures indicate that small banks in small centers charge the highest rates, this fact may be due to the greater proportion of personal, mortgage and similar high-interest loans in the small banks.

c. Figures for insured banks not Federal Reserve members during 1936, indicate that the rates earned on loans and discounts decreased as the number of banks in the community increased.

3. The Comptroller of the Currency computes the average interest earned on loans during 1938 by all commercial banks at 4.38%.

4. The Comptroller's Office picked at random 300 "country" banks and compiled the highest, lowest, and "usual" rates of interest charged as shown on the examiners' reports. The range of rates thus shown is for all types of loans, not merely commercial loans, and the meaning of the figures is further reduced by the fact that the examiner merely goes on the banker's word with no very careful definition of terms such as "usual rate of interest." This compilation shows, however, that:

a. The "average usual rate" charged by these 300 banks was 6.53%.

b. The highest rates reported varied from 6% in the New York and Philadelphia areas to 12% in the San Francisco area, averaging 7.54% for the 300 banks.

c. The lowest rates reported varied upward from  $\frac{1}{2}$ %, averaging 4.14% for the 300 banks.

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5. Rates of interest charged by various Farm Credit agencies are as follows:

a. The Federal Land Banks' maximum base rate is  $4\frac{1}{2}$ % on loans made through National Farm Loan Associations and 5% on direct loans, but Congress has temporarily reduced each of these base rates by 1%.

b. The maximum base rate for Land Bank Commissioner loans is 5% which has been reduced to 4% for a temporary period.

c. The maximum discount rate at the Federal Intermediate Credit banks is  $1\frac{1}{2}\%$ .

d. The maximum Production Credit Association rate is  $4\frac{1}{2}\%$ .

e. Rates now being charged by banks for co-operatives are 4% for physical facility loans,  $1\frac{1}{2}\%$  for commodity loans and  $2\frac{1}{2}\%$  for merchandising and operating capital loans.

f. Emergency crop and feed loans are being made at 4%.

ESD

TABLE I

## INTEREST RATES CHARGED ON COMMERCIAL LOANS BY BANKS IN 19 CITIES

(Per cent per annum)

	New reports, 1/			Old reports 1/		
	September 1-15, 1938	March 10-31, 1939	Change	September 1938	February 1939	Change
New York City	2.01	2.23	+ .22	1.70	1.70	-
Western and Southern cit- ies: Average 2/	2.74	3.02	+ .28	2.74	2.69	-.05
Chicago	2.44	2.76	+ .32	2.58	2.59	+ .01
Denver	2.25	2.71	+ .46	2.49	2.51	+ .02
Philadelphia	3.69	3.67	-.01	3.07	2.50	-.57
Detroit	3.15	2.45	-.70	2.94	2.79	-.15
Cleveland	3.06	3.26	+ .20	3.40	3.53	+ .13
Indianapolis	3.21	4.35	+1.14	3.41	3.55	+ .14
Pittsburgh	2.61	3.36	+ .75	2.32	2.76	+ .44
II Northern and Western cities: Average 2/	3.25	3.80	+ .55	3.26	3.26	-
San Francisco	3.35	3.65	+ .30	3.29	3.29	-
Los Angeles	3.49	4.31	+ .82	4.20	3.90	-.30
Portland	2.69	2.98	+ .29	2.53	2.65	+ .12
Seattle	2.76	3.51	+ .75	2.24	2.24	-
Portland	3.15	3.54	+ .39	3.55	4.09	+ .54
Albany	3.17	3.94	+ .77	3.63	3.65	+ .02
San Francisco	2.76	3.20	+ .44	3.07	3.07	-
San Francisco	3.62	4.72	+1.10	3.49	3.74	+ .25
San Francisco	1.91	2.76	+ .85	1.50	1.50	-
San Francisco	4.75	4.80	+ .05	4.62	4.31	-.31
San Francisco	5.10	3.61	+ .51	2.23	2.37	+ .14

1/ Report form (F. R. 467) was substituted in March 1939 for the old form (109).

2/ The same rates used for each city in computing the averages are unchanged throughout

- 4 -

TABLE II

AMOUNT AND AVERAGE SIZE OF COMMERCIAL LOANS MADE AT VARIOUS RATES  
BY BANKS IN 19 CITIES, SEPTEMBER 1938 AND MARCH 1939

(In thousands of dollars)

Interest rate 1/	New York City		7 other Northern and Eastern cities		11 Southern and Western cities	
	September 1-15, 1938	March 16-31, 1939	September 1-15, 1938	March 16-31, 1939	September 1-15, 1938	March 16-31, 1939
Amount of loans						
Total	89,610	82,035	62,432	111,875	63,593	91,495
Less than 1 per cent	592	-	730	337	364	967
1 - 2 per cent	59,380	44,143	30,270	35,359	15,952	14,310
2 - 3 per cent	16,656	15,710	7,255	20,632	9,203	10,083
3 - 4 per cent	5,771	13,670	7,522	16,904	9,426	11,899
4 - 5 per cent	5,036	6,117	8,280	21,458	9,332	22,100
5 - 6 per cent	1,180	1,608	5,028	9,652	10,921	17,101
6 - 7 per cent	995	787	3,292	7,438	7,700	13,902
7 per cent and over	-	-	55	95	693	1,133
Average size of loans						
Total	43	52	16	16	8	7
Less than 1 per cent	296	-	365	13	46	12
1 - 2 per cent	88	178	180	150	55	80
2 - 3 per cent	54	39	26	52	24	40
3 - 4 per cent	21	51	22	24	19	19
4 - 5 per cent	18	19	13	17	10	13
5 - 6 per cent	5	7	6	8	6	6
6 - 7 per cent	3	3	2	2	3	3
7 per cent and over	-	-	1	3	1	1

1/ Rates include the lower per cent shown but not the upper.

AMOUNT AND NUMBER OF COMMERCIAL LOANS MADE AT VARIOUS RATES OF INTEREST BY BANKS IN 19 LEADING CITIES, SEPTEMBER 1938 AND MARCH 1939

Interest rate 1/	New York City		7 other Northern and Eastern cities 2/		11 Southern and Western cities 2/	
	Number	Amount (In thousands of dollars)	Number	Amount (In thousands of dollars)	Number	Amount (In thousands of dollars)
	September 1-15, 1938					
Total	8,098	29,310	8,810	62,452	7,596	63,593
less than 1 percent	2	592	2	730	8	364
2 percent	675	59,530	168	50,270	245	15,952
3 percent	308	15,656	224	7,255	377	9,203
4 percent	273	8,771	346	7,522	505	9,423
5 percent	273	8,036	520	8,230	953	9,332
6 percent	260	1,180	794	5,023	1,711	10,921
7 percent	303	995	1,559	3,232	2,778	7,700
8 percent and over	-	-	37	55	1,019	693
	March 16-31, 1939					
Total	1,470	82,035	6,894	111,375	12,203	91,495
less than 1 percent	-	-	26	387	31	967
2 percent	243	44,143	125	39,359	180	14,310
3 percent	223	15,710	200	20,632	254	10,035
4 percent	266	13,670	715	16,904	615	11,899
5 percent	316	6,117	1,233	21,453	1,733	22,100
6 percent	243	1,803	1,143	2,652	2,701	17,101
7 percent	269	787	3,054	7,433	4,780	13,902
8 percent and over	-	-	27	35	1,859	1,123

1/ Rates include the lower percent shown but not the upper.

2/ Cities included: Northern and Eastern - Chicago, Boston, Philadelphia, Detroit, Cleveland, Buffalo, and Pittsburgh.  
 Southern and Western - San Francisco, Los Angeles, St. Louis, Minneapolis, New York, New Orleans, Kansas City, Dallas, Richmond, Seattle, and Atlanta.

1938

Insured Commercial Banks

<u>Banks with earnings on loans of:</u>	Not members of F. R. System		Members of F. R. System		Total	
	<u>Number</u>	<u>Per Cent</u>	<u>Number</u>	<u>Per Cent</u>	<u>Number</u>	<u>Per Cent</u>
Less than 4 per cent	103	1.4	286	4.6	389	2.9
4 to 5 per cent	559	7.8	694	11.1	1253	9.3
5 to 6 per cent	2077	28.8	2223	35.5	4300	31.9
6 to 7 per cent	2042	28.3	1655	26.5	3697	27.4
7 to 8 per cent	1138	15.8	666	10.6	1804	13.4
8 to 9 per cent	581	8.3	347	5.5	928	6.9
9 to 10 per cent	298	4.1	175	2.8	473	3.5
10 to 11 per cent	164	2.3	95	1.5	259	1.9
11 to 12 per cent	102	1.4	49	.8	151	1.1
12 or more	<u>145</u>	<u>2.0</u>	<u>66</u>	<u>1.1</u>	<u>211</u>	<u>1.6</u>
Total	7209	100.0	6256	100.0	13465	100.0

INSURED COMMERCIAL BANKS NOT MEMBERS OF THE FEDERAL RESERVE SYSTEM

1938

Interest and discount on loans per \$100 of total loans:

All Banks, \$5.91

Banks in centers with population of:

Less than 250.....	\$6.51
250 to 500.....	6.68
500 to 1,000.....	6.54
1,000 to 2,500.....	6.42
2,500 to 5,000.....	5.96
5,000 to 10,000.....	6.00
10,000 to 25,000.....	5.62
25,000 to 50,000.....	5.61
50,000 or more.....	5.45

Banks with deposits of:

\$100,000 or less.....	\$7.98
\$100,000 to \$250,000.....	7.20
\$250,000 to \$500,000.....	6.72
\$500,000 to \$1,000,000.....	6.29
\$1,000,000 to \$2,000,000.....	5.88
\$2,000,000 to \$5,000,000.....	5.55
\$5,000,000 to \$10,000,000.....	5.32
\$10,000,000 to \$50,000,000.....	5.10
More than \$50,000,000.....	4.68

INSURED COMMERCIAL BANKS NOT MEMBERS OF THE FEDERAL RESERVE SYSTEM

1936

Interest and discount on loans per \$100 of total loans:

All Banks, \$5.96

Banks in centers with:

1 banking office.....	\$6.55
2 banking offices.....	6.22
3 banking offices.....	5.88
4 banking offices.....	5.78
5 banking offices.....	5.97
6 banking offices.....	5.01
7 banking offices.....	5.91
8 banking offices.....	5.72
9 or more banking offices.	5.31

June 10, 1938

MEMORANDUM FOR MR. OPHAM:

The average rate of interest received by banks may be more clearly portrayed by obtaining the actual amount of interest in dollars collected, as compared to total loans. It is, of course, not possible to obtain the figure for average loans, but the following schedule, which shows the total loans carried on the books of the three groups of banks as of December 31, 1938 and the interest collected by these banks during the year 1938, will give a reasonably true picture of the average rate of interest received:

	<u>Loans as of</u> <u>December 31, 1938</u>	<u>Interest rec'd.</u> <u>for Year, 1938</u>	<u>Rate</u>
7,307 State Insured Non-Member Banks	\$ 2,816,553,000	\$ 160,000,000	5.68%
1,114 State F. R. Member Banks	4,738,279,000	171,502,000	3.60%
<u>5,230 National Banks</u>	<u>8,489,120,000</u>	<u>372,203,000</u>	<u>4.38%</u>
13,651 Total Commercial Banks	\$16,044,057,000	\$ 703,705,000	4.38%

Highest	Lowest	Average of Highest	Average of Lowest	Average of Usual Rate
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Tenth Federal Reserve District

10%	3/4%	9 1/3%	4 1/2%	8 2/5%
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Eleventh Federal Reserve District

10%	3/4%	9.92%	3.85%	2.4%
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Twelfth Federal Reserve District

12%	1%	9.23%	4.66%	7.04%
-----	----	-------	-------	-------

12%	0.50%	7.54%	4.14%	6.53%
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Paraphrase of telegram dated June 12, 1939 from  
American Ambassador, Rio de Janeiro.

Secretary of State,  
Washington.

German firms last Thursday and Friday bought around 23,000 tons of Sao Paulo cotton causing a sudden shortage of export bills of free exchange, to which has been attributed the weakening of the milreis on Saturday last. Formerly most of these sales were made in free exchange. A premium of more than five percent above existing prices was paid by the Germans, who obtained most of the unsold crop. The Bank of Brazil endeavoring to prevent further sales in blocked currency now, today set the buying price for German compensation marks at 5.650 milreis, the former price being 5.700.

A further reduction in the price of the milreis is feared by banking contacts, since the seasonal sale of this cotton in free exchange has nearly ended and export bills in the future will be mostly limited to coffee, an uncertain factor because large overproduction has brought about an unfavorable trend in prices. This downward movement of coffee prices has given rise to reports that measures may be taken by the Government to stabilize coffee prices.

The

- 2 -

The Bank of Brazil's exchange position is weakening and complications may be expected if coffee prices do not improve or there is no reduction in import trade.

Twenty milreis are now being paid by the banks for export bills and they are selling at 20.100 milreis to pay for import bills.

Notify Commerce.

CAFFERY.

RECEIVED

APR 13 1938

TREASURY DEPARTMENT  
Office of the Secretary  
Foreign Economic Control

FS

GRAY

London

Dated June 12, 1939

Rec'd 3:15 p.m.

Secretary of State,  
Washington.

821, June 12, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

Uncertainty about the international situation has somewhat increased with the prolongation of the Russian negotiations and developments in Danzig. Consequently the London Stock Exchange was weak today and war loan for example declined  $5/16$  to  $94 \frac{7}{16}$ . However, sterling was inclined to be bid in the terms of dollars and the rate which opened  $4.68 \frac{5}{16}$  closed  $7/16$ . Of the 104 bars sold at gold fixing 7 were married and a few were supplied by the British fund.

KLP:GW

KENNEDY

RECEIVED

JUN 13 1939

TREASURY DEPARTMENT  
RECEIVED JUN 13 1939  
U.S. DEPARTMENT OF THE TREASURY

KLP

GRAY

Paris

Dated June 12, 1939.

Rec'd. 2:24 p.m.

Secretary of State,  
Washington.

1113, June 12, 6 p.m.

FOR THE TREASURY

Little business was transacted on the exchange market. The fund obtained a small amount of dollars through Chase. Continental currencies were slightly weaker. On the security market rates improved slightly after a weak opening. Other securities were almost unchanged.

Recent requests to introduce additional gold mining shares on the Paris Stock Exchange have not been approved according to the financial press. It is said that the French authorities in justification of their refusal point to the example set by London in discouraging the purchase of American shares and it is added that the French authorities remain opposed to increasing facilities for capital to leave the country.

(END SECTION ONE)

WILSON

CSB

CJ

GRAY

PARIS

Dated June 12, 1939

Rec'd 2:34 p.m.

Secretary of State,  
Washington.

1113, June 12, 6 p.m. (SECTION TWO).

The financial press is urging the French Government to block sufficient of the Spanish gold held here to indemnify the Government for the cost of maintaining Spanish refugees and to indemnify French citizens for losses caused by the Spanish civil war.

On the whole the tone of the French press has been moderate and cautious with respect to the B I S matter and has not supported the extreme views expressed by AGENCE ECONOMIC, see my telegram No. 1047 of June 1. As an example in the first instance Gaston JEZE, Professor of Public Finance and Public Law at the University of Paris, recently expressed the opinion in L'ERE NOUVELLE that it would have been difficult for the B I S to have acted otherwise under its existing statutes and that this institution had been unjustly attacked. In his view it was absurd to demand its suppression.

WILSON

CSB

CJ

GRAY

PARIS

Dated JUNE 12, 1939

Rec'd 3:08 p.m.

Secretary of State,  
Washington.

1113, JUNE 12, 6 p.m. (SECTION THREE)

Nevertheless he considers that provisions of the statutes for arbitration could have been utilized. The bulletin quotidien of the SOCIETE D'ETUDES ET D'INFORMATIONS ECONOMIQUES expresses the view that such a politically neutral organization, possessing a technical experience of ten years, could render important services in a general economic and financial settlement, and that it would be possible to improvise such an organization.  
(END OF MESSAGE)

WILSON

CSB

RECEIVED

JUN 12 1939

SECRETARY OF STATE  
OFFICE OF THE SECRETARY  
TREASURY DEPARTMENT

JR

GRAY

Paris

Dated June 13, 1939

Rec'd 2:40 p.m.

Secretary of State,  
Washington.

1123, June 13, 8 p.m.

FOR THE TREASURY.

According to the French press no official communique was issued after the monthly meeting of the board of the B.I.S. yesterday. However statements from "authorized quarters" are quoted to the effect that while lively discussion took place between the Governors of the Central Banks and the members of the Board on the subject of the Czech gold transfer the Board held that it was a normal transaction falling within the competence of the management and therefore it did not officially examine the question. The correspondent of AGENCE ECONOMIQUE at Basel understands that the gold was transferred soon after the occupation of Prague but that the public only learned of the transaction later following "an indiscretion". JOURNEE INDUSTRIELLE also carries similar information and adds that the request for transfer was made by the office itself of the depositing bank, which signed the note of deposit, and that furthermore

when

-2- #1123, June 13, 8 p.m., from Paris.

when the request was made the National Bank of Czechoslovakia was still officially in existence.

A more cheerful tone prevailed on the exchange and security markets today and trading was on a larger scale. Exchange quotations varied little except as concerns the belga which weakened on fair sized offers of that currency. Rentes and variable revenue securities made fractional gains.

WILSON

CSB

RECEIVED

JUN 14 1938

TRUSTEE DEPARTMENT  
Office of the Secretary  
Federal Reserve Bank of New York

FS

GRAY

London

Dated June 13, 1939

Rec'd 2:15 p.m.

Secretary of State,  
Washington.

823, June 13, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. Asked in the House of Commons this afternoon whether he would consider the advisability of promoting legislation to convert the Bank of England from a privately owned body into a state institution, providing for the appointment of the governor and the deputy governor by the Government and setting up an advisory council representing the Government, industry, commerce, labor and the deposit banks, the Chancellor of the Exchequer replied, "No sir". Asked further whether he did not think that recent events have shown the great importance of closer association between the Government and the Bank of England in fact as well as in theory and whether it is not the case that legislation on these lines has been recommended by members of all parties, Simon answered, "My answer to the original question is still no".

Two.

FS 2-No. 823, June 13, 6 p.m. from London

Two. Today the London security markets were again weak. For example, war loan lost 1/16 to close at 94 3/8. In the foreign exchange market the dollar was offered even before gold fixing but the amount of business is illustrated by the fact that the largest dollar brokers had not done a deal by 11:15 a.m. The British fund took a few dollars at 4.86 9/16. Gold was fixed at parity and of the 212 bars sold 34 were married, the British fund supplying a few. The belga was notably weak.

CSB

KENNEDY

RECEIVED

JUN 14 1950

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

June 13, 1939

FOR THE SECRETARY:

Subject: Loans to Small Business

I am attaching an excerpt from a report made to Secretary Hopkins on March 27 by Grosvenor Jones, Chief of the Finance Division of the Bureau of Foreign and Domestic Commerce. This report was intended for delivery to the President at Warm Springs in April, but Mr. Jones thinks it never reached him.

This excerpt is significant, I believe, because it shows one of the sore spots in the Government's present system of making business loans -- a sore spot which, if the Commerce Department mail is any indication, causes most of the vocal complaints about lack of business credit.

The excerpt indicates that small retailers are the most frequent complainants about Government aid to business at the present time and that they have received comparatively little help from the RFC (less than 3% of the RFC business loans). The RFC, according to the excerpt, ascribes this deficiency to the fact that a chattel mortgage on retail goods open for sale is not a "practical" security in most States. Therefore, the unfilled credit demand which results in the most vocal protests is caused by an inadequacy in the legal machinery.

I have talked with the Treasury lawyers and get the impression that this difficulty is not insurmountable.

- 2 -

The loans probably could be made in some other form than as chattel mortgage loans if necessary. I suggest that much of the demand for credit might be met if the RFC liberalized its practice of its own volition or was given a Congressional mandate (perhaps in the Mead Bill) to do so.

ESD

## EXCERPT

taken from

a

Memorandum to Secretary Hopkins  
by the Finance Division,  
Bureau of Foreign and Domestic Commerce,  
March 27, 1939.

\* \* \* \*

(a) Department of Commerce correspondence -- The great bulk, perhaps 3 out of 4, of the letters received by this Department have come from small retailers, located for the most part in the smaller cities and towns. Apparently the suddenness of the recession in 1937 and its unexpected duration caught many of these retailers with increased inventories which they either could not move readily or which they had to reduce at a loss. It is evident that their working capital position has been impaired for the reasons just stated and generally also because their accounts receivable have piled up.

From the sketchy information given in their letters, it would appear that most of the smaller retailers have few or no assets other than the goods on their shelves plus some slow accounts receivable. Some evidently owned their own homes since they referred to loans from the FHA. (Reference to home ownership, however, was seldom made.)

Of the letters received by the Department, few came from small manufacturers, such letters being greatly outnumbered by letters from flour and feed merchants, and dealers in lumber, building materials, and coal.

- 2 -

Except in the few instances where the writers furnished financial statements, it was impossible to determine, on the basis of the information furnished, how credit-worthy these inquirers might be. But the writers of this report got the impression that comparatively few of the Department's correspondents could qualify for a loan from the RFC. In a number of instances, in fact, they had applied to the RFC and complained bitterly that their applications had been rejected. In this connection it has already been observed that loans by the RFC to retail trades during its entire existence up to December 31, 1938, totaled only \$10,760,000 -- a negligible amount. The reason for this situation lies largely in the fact that many retailers have only the goods on their shelves and slow accounts receivable to offer as security. Furthermore, if they are to continue in business, they must be allowed to continue sales out of their stock, replenishing it with new goods. But, according to a comprehensive study<sup>1/</sup> by the Legal Division of the RFC, there are only 8 States where a chattel mortgage on fluctuating stocks of goods exposed for sale constitutes an acceptable security device from a practical point of view. In 9 States such a mortgage is absolutely invalid, and in all the others, including the District of Columbia, the steps necessary in

<sup>1/</sup> This study was intended for the Corporation's own use and presumably should not be given publicity.

- 3 -

order to maintain a valid and effective lien are too complicated and expensive (or too uncertain) to be practicable. The effect of the law in most states is, therefore, to deprive retailers of the principal security they have to offer.

\* \* \* \*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 13, 1939.

TO Secretary Morgenthau  
FROM Mr. Foley

For your information.

Further hearings were held today by the Subcommittee of the Senate Committee on Banking and Currency which is considering the Mead Bill.

Mr. Edward E. Brown, a member of the Federal Advisory Council of the Federal Reserve System and President of the First National Bank of Chicago, recommended that the proposed legislation be not enacted. It is his belief that there are virtually no small or medium sized business enterprises which today cannot obtain either short or long term credits if they can give reasonable assurance of repaying them. He stated that within the past five years commercial banks have developed the practice of making term loans, i. e., loans for relatively long periods, and in addition of renewing short term loans.

He stated that the bill does not differentiate between risk or proprietary capital, which commercial banks are in no event justified in extending, and ordinary commercial bank credit which is their legitimate concern but approaches the problem of furnishing business enterprises with proprietary capital as though it were ordinary commercial bank credit. He conceded that small and medium sized business enterprises have some difficulty at the present time in obtaining proprietary capital but asserted that this does not fall within the province of our commercial banking system.

Mr. Brown emphasized that under the bill as now drafted there is no requirement that there be a reasonable assurance that the borrower will be able

- 2 -

to repay the loan when due. He cited an example of a bad loan which his bank had made to a Texas oil refinery which the bank could renew and by insuring it, under the provisions of the bill, emerge from the transaction with a loss of 10 per cent rather than a much greater loss. He also expressed the view that the Mead Bill, by helping inefficient enterprises to obtain credit, would enable them to compete with sound enterprises and would thus keep sound enterprises from expanding.

Howard A. Loeb, Chairman of the Tradesman's National Bank and Trust Company of Philadelphia, and Walter W. Smith, President of the First National Bank of St. Louis, both of whom are members of the Federal Advisory Council, testified against the bill. Their testimony was similar to that of Mr. Brown. Both stated that there are now adequate credit facilities for small and medium sized business enterprises and emphasized the difference between risk capital and ordinary commerce bank credit.

There was inserted in the record a resolution of the Federal Advisory Council, which was submitted to the Board of Governors of the Federal Reserve System, recommending that the Mead Bill be not enacted.

Hearings will be resumed on Thursday morning, at which time several representatives of the American Bankers Association will testify.

*F.N.Fh.*

TREASURY DEPARTMENT

101

INTER OFFICE COMMUNICATION

DATE June 13, 1939

TO Secretary Morgenthau  
FROM A. Lochhead

Re: Paraguay

(1) The Export-Import Bank is to grant a credit of \$500,000 to the Central Bank of Paraguay to provide seasonable exchange. This credit expires in 1941 but may be liquidated over a period of three years.

(2) The Export-Import Bank agrees to supply funds for building of a road in Paraguay, these funds to be used for equipment, materials, and essential services. No amount is mentioned, but it is understood that the Export-Import Bank will go up to \$3,000,000 for this project. All transactions under this credit must be approved by the chief engineer and cleared through the Export-Import Bank.

(3) In connection with these credits it is understood that the Paraguayans will request the services of a tax expert and a Treasury accountant.

## DIVISION OF THE AMERICAN REPUBLICS

Mr. Lochhead:

The copies I promised you.  
The press release will include  
but 3 letters - exchange with  
secretary & Pierson to Estigarribia.  
The two annexes to Pierson's letter  
will not be published.

The letter from Estigarribia  
to Pierson re bank export will, of  
course, not be published, it was  
prepared at their own suggestion.

EJC

TRANSLATION

LEGATION OF PARAGUAY  
WASHINGTON, D.C.

Excellency:

I have the honor to inform Your Excellency that on June 17 next I will leave by aeroplane to return to my country, where I must arrive by the end of the month because of matters related to the coming constitutional change of Government which will take place August 15 next. I truly regret that my stay in the United States must be relatively very short. The extraordinary progress of this country in all matters is a perpetual source of education for all the other new countries of our continent and we all have a great deal to learn here. But above all, the cordial hospitality and the friendly understanding which His Excellency the President of the United States as well as Your Excellency have consistently shown me have been for me a cause of satisfaction which I can never forget. They reveal to me how sincere and effective is the determination

His Excellency

Gordell Hall,

Secretary of State of the United States.

-3-

tion of His Excellency President Roosevelt, in close collaboration with Your Excellency, to convert into reality the policy of true cooperation and good will between the American Republics which the Government of the United States so wisely pursues. I carry to my country the most ardent admiration for the notable talents as a statesman of His Excellency the President and for the high qualities of Your Excellency.

The peaceful and successful settlement of the boundary dispute between Paraguay and Bolivia, which was agreed upon by the two parties with the assistance of the six mediatory nations at the Chaco Peace Conference, leaves my country free to devote itself to the constructive task of developing its natural resources. Paraguay knows from bitter experience what sacrifices and what diversion of energies from economic and social progress are imposed by war. It turns from the sword to the ploughshare with deep satisfaction, and as a result of the freely-expressed choice of the Paraguayan people. I realize, as do my fellow citizens,

-3-

citizens, the magnitude of the task which faces us, but we are determined to succeed and to obtain these benefits of modern civilization which will mean happiness and prosperity to the country. The United States already has shown its desire to be of assistance through cooperation in the lending of experts on various subjects, and any further help which it now may be able to offer in the matters set forth below will strengthen and perpetuate these friendly ties which mark the cordial relations so happily existing between the two countries.

## I

In carrying out its desire of encouraging the expansion of production of appropriate non-competitive agricultural products which will complement production in and furnish the United States with necessary and assured sources of supply, the Government of Paraguay greatly appreciates the cooperation which is being extended by the Government of the United States in the study and development of such products. My Government considers that the development of the nation's economy and natural resources and of economic relations

between

-4-

between Paraguay and the United States may further be stimulated by the provision of adequate transportation facilities linking the country with the capital and with the principal routes of communication to foreign nations. In order to make possible this extension and improvement of the transportation facilities of Paraguay and the development of other projects designed to increase the productive capacity of my country and its commerce with the United States, the Government of Paraguay requests the extension of credit facilities for the financing in the United States of equipment, materials and essential services.

## II

The expansion of Paraguayan foreign commerce and economic relations with the United States would be further encouraged by the carrying out by the Government of Paraguay of a policy of meeting promptly commercial obligations to United States nationals and concerns and reducing seasonal and unusual fluctuations in the rate of exchange of the peso. To carry out this policy, credit in United States currency

to

-5-

to the Banco de la Republica del Paraguay would be desirable.

III

Recognizing the valuable contribution which new foreign capital and technical experience may make to the development of Paraguay's natural resources I wish to assure Your Excellency that it is the intention of the Government of Paraguay to accord every appropriate protection and security to encourage such investment by United States citizens.

Before closing, I wish to express to Your Excellency the conviction of the Paraguayan people, and my own, that with the realization of the program outlined above, there will be assured the prompt economic and financial rehabilitation of Paraguay whose progress, through the assistance of the United States, will be yet another factor in the collective security of the Continent to which all Americans aspire.

I take advantage of this opportunity to reiterate to Your Excellency the expression of my personal gratitude to His Excellency the President of the United States as well as to

-4-

to Your Excellency and beg that Your Excellency accept the  
assurances of my highest consideration and esteem.

(SIGNED) José F. Estigarribia

RECEIVED  
MAY 13 1964  
U.S. DEPARTMENT OF STATE  
WASHINGTON, D.C.

June 13, 1939

Excellency:

I have received with pleasure your communication of June 13, 1939 with reference to the possibilities of increased economic cooperation between the United States and Paraguay which I have discussed with you from time to time during the period of your residence in Washington. You also inform me of your early departure for your own country due to the change in Government which is to take place in Paraguay on August 15.

Please accept once again my sincere congratulations on your election to the high office of President of Paraguay, and my assurances of the personal pleasure afforded me by our association during your mission in Washington. Your generous comment with respect to President Roosevelt and myself is very deeply appreciated.

It

His Excellency

General José Félix Estigarribia,  
President-Elect of Paraguay.

-3-

It has been for us a pleasure to have given you the full measure of our assistance and cooperation during your mission, and I wish to take this opportunity to assure their continuance during the period of your Presidency. I am happy to learn of your wholehearted approval of the policy of inter-American cooperation which in the light of sombre developments in other parts of the world takes on added importance.

I appreciate the problems confronting your country as a result of the Chaco war and in connection with the development of its resources and I am sure that our two Governments can cooperate with mutual advantage in solving these problems. The United States is very pleased to have had a part in bringing to a successful conclusion the negotiations at Buenos Aires which culminated in the Treaty of July 31, 1938, between Paraguay and Bolivia, thus bringing to an end a long and costly dispute in a manner which presents to the world a striking proof of the fact that international disputes can be settled by peaceful means.

-3-

I

I am pleased to note the generous appreciation of the Government of Paraguay for the cooperation being extended by my Government in studying and encouraging the expansion of production of appropriate non-competitive agricultural products which will complement production in and furnish the United States with necessary and assured sources of supply. Moreover, the opinion of the Government of Paraguay that the development of the nation's economy and natural resources and of economic relations between Paraguay and the United States may further be stimulated by the provision of adequate transportation facilities appears to me to be well founded. I am informed that the Export-Import Bank has found it possible to assist in the attainment of this objective by arranging the financing in the United States of equipment, materials and essential services for the extension and improvement of the transportation facilities of Paraguay and for the development of other projects designed to increase the productive capacity of your country.

-4-

## II

My Government is pleased to note that it is the desire of the Government of Paraguay to encourage the expansion of Paraguayan foreign commerce and economic relations with the United States by carrying out a policy of meeting promptly commercial obligations to United States nationals and concerns and reducing seasonal and unusual fluctuations in the rate of exchange of the peso. I am further informed that the Export-Import Bank has agreed to assist in the carrying out of this policy by the extension to the Banco de la Republica del Paraguay of a credit. A communication in regard to these matters has been addressed to you by the President of the Export-Import Bank.

## III

I also have noted with gratification the assurance that it is the intention of the Government of Paraguay to accord every appropriate protection and security to encourage the investment of capital and technical experience of United States citizens in the development of Paraguay's natural resources.

-5-

It is the sincere hope of my Government that the arrangements outlined in the foregoing paragraphs will be carried through successfully, that they will result in genuine advantages to both countries, and will furnish another example of the mutually profitable cooperation possible among the American republics.

Accept, Excellency, the renewed assurances of my highest consideration.

RECEIVED  
21  
MAY 15 1900  
DEPARTMENT OF STATE  
WASHINGTON, D. C.

June 13, 1939

My dear General Estigarribia:

I have the honor to refer to your communication of this date to the Secretary of State of the United States.

The Export-Import Bank of Washington will undertake either directly or through United States commercial banks to provide credits for the Banco de la Republica del Paraguay in order to assist it in the attainment of the expressed policy of the Government of Paraguay of stimulating the expansion of Paraguayan foreign commerce and economic relations with the United States by meeting promptly commercial obligations to United States nationals and concerns and reducing seasonal and unusual fluctuations in the rate of exchange of the peso. The total amount of such credits shall not exceed \$500,000 at any one time, and such credits are to be utilized from time to time as required prior to June 30, 1941.

To permit the Banco de la Republica del Paraguay ample opportunity to liquidate its obligations under the credit, it is proposed that each availment thereunder shall be payable in equal quarterly installments during

-2-

a period not exceeding thirty-six months, and the rate of interest shall be 3.0% per annum. Details and other conditions of the transaction will hereafter be arranged between the Export-Import Bank and the Banco de la Republica del Paraguay, but it shall be understood that all obligations under this arrangement shall be liquidated on or before June 30, 1944. Availments under the line of credit shall have the approval of the Banco de la Republica del Paraguay and the Export-Import Bank.

In order to aid in the extension and improvement of the transportation facilities of Paraguay and in the development of other projects designed to increase the productive capacity of the Paraguayan people and their commerce with the United States, the Export-Import Bank will cooperate with United States manufacturers and exporters and with the Government of Paraguay in arranging for the financing in the United States of equipment, materials, and essential services.

We understand that individual expenditures under the construction program shall follow examination of the feasibility and utility of particular projects and the certification as to their necessity by the Government of Paraguay and the Export-Import Bank.

-3-

To permit the improvements under consideration to be carried forward as rapidly as is consistent with sound financial policy, it is contemplated that the credits will take the form of discounting, under conditions to be agreed upon by the Government of Paraguay and the Export-Import Bank, of serial notes to be issued from time to time by the Government of Paraguay bearing interest at the rate of 5% per annum and maturing over a period of seven years.

During the time the Export-Import Bank is in position to assist in providing or arranging for these credits, and to the extent that its funds may be available for this purpose, it will be pleased to cooperate as indicated above with the Government of Paraguay.

Sincerely yours,

President

His Excellency

General José Félix Estigarribia,  
President-Elect of Paraguay.

RA:KCC:MJC 6-12-39

RECEIVED  
OFFICE OF THE  
DIRECTOR OF THE  
BUREAU OF THE  
CUSTOMS AND  
EXCISES

1939 JUN 15 10 30 AM

RECEIVED

Conditions of Credit for Construction ProgramSupervision

The Government of Paraguay, in agreement with the Export-Import Bank, shall appoint a Chief Engineer and such other engineering and technical assistants as he may deem necessary. The salaries and reasonable traveling expenses of such persons and their families shall be paid by the Government of Paraguay, and included in the cost of construction.

Projects

The Chief Engineer and his staff shall immediately make surveys to locate the route of a main highway from Asunción to the East, and shall as soon as is practicable thereafter undertake the construction of this highway as far as Villa Rica. It is envisaged that this highway as far as Villa Rica will be constructed at a total cost of not exceeding \$5,000,000, and that actual construction will take about two years.

The Chief Engineer and his staff shall also undertake studies of other useful public improvements, including sanitation for the City of Asunción and the eventual extension of the main highway towards the Brazilian border.

-2-

border. Upon the basis of such studies the Government of Paraguay and the Export-Import Bank shall take under consideration the carrying out of such additional projects.

#### Financing of Expenditures

In order to cooperate with the Government of Paraguay in the execution of the construction program, the Export-Import Bank will, until June 30, 1941 and thereafter in the event that the Congress will extend the Bank as an agency of the United States, arrange to finance in the United States the purchases of materials and equipment and the securing of essential services necessary for such construction.

#### United States Purchases

All purchases of United States equipment and materials shall be authorized and made by the Chief Engineer in agreement with the Government of Paraguay and the Export-Import Bank.

In those cases involving substantial purchases from individual United States firms, the latter will be expected to participate in the extension of credits in such amounts as shall be determined by the Export-Import Bank.

PAYSON

-3-

Payment

Payment for purchases of materials and equipment and the securing of essential construction services to be financed in the United States shall be made by the Government of Paraguay once a month by duly authorized dollar notes of the Government of Paraguay, payable in New York in semi-annual instalments over a period of seven years from date, which notes shall bear interest at the rate of 5% per annum. The following amortization schedule is suggested:

First year	None
Second year	None
Third year	20%
Fourth year	20%
Fifth year	20%
Sixth year	20%
Seventh year	20%

Interest shall be payable semi-annually, commencing six months from the date of each note.

Enabling Legislation

The Government of Paraguay shall adopt appropriate legislation authorizing the issuance and delivery of all notes required to finance in the United States purchases of materials and equipment and the securing of essential construction services.

Such

-4-

Such legislation shall exempt said notes and any payments of interest or amortization thereupon from payment of any taxes or dues levied by the Republic of Paraguay or any political sub-division thereof.

#### Issuance and Certification of Notes

Each note, in order to be eligible for discount shall bear the certificate of the Chief Engineer or his nominee that it was issued to enable the Paraguayan Government to carry forward the construction of a project approved as indicated above.

#### Procedure

In order to permit prompt payment for equipment, materials, and services used in connection with the proposed program of the Paraguayan Government, the Export-Import Bank will discount or cause to be discounted notes of the Paraguayan Government certified as indicated above, upon their delivery to the Export-Import Bank or to such other institution as may be approved by the Export-Import Bank.

#### Freight

Insofar as is possible materials and equipment shall

be

-5-

be shipped to Paraguay in United States flag vessels.  
The Government of Paraguay shall do all in its power to  
arrange for the economical transportation of such  
materials and equipment from the mouth of the River Plate  
to Paraguay.

RECEIVED  
JUN 13 1938  
TECHNICAL DEPARTMENT  
Office of the Secretary  
General of the United States

Conditions of Credit to the Banco de la  
Republica del Paraguay

PURPOSE

To provide dollar exchange with which to meet obligations due United States firms and nationals, especially during periods between the harvesting of major export crops.

AMOUNT

The total amount of such credits currently extended shall not exceed \$500,000 at any one time, and such credits are to be utilized from time to time as required prior to June 30, 1941. The Export-Import Bank is prepared to consider the extension of additional credits if such additional credits should appear to the Government of Paraguay and to the Export-Import Bank to be useful and desirable in order to assist the Banco de la Republica del Paraguay to attain the expressed aims of the Government of Paraguay of stimulating the expansion of Paraguayan foreign commerce and economic relations with the United States by meeting promptly commercial obligations to United States nationals and concerns and reducing seasonal and unusual fluctuations in the rate of exchange of the peso.

-2-

Form of Credits

Each availment shall be represented by a draft at three months' sight upon the Export-Import Bank or approved commercial bank, which draft may be liquidated by payments in cash and new drafts for the balance over a period not exceeding 36 months.

Acceptance Commission and Discount

Acceptance commission and discount shall total 3.6% per annum, or 0.9% flat quarterly.

Approval

All availments shall have the prior agreement of the Banco de la Republica del Paraguay and the Export-Import Bank.

Information

The Export-Import Bank shall be kept fully and currently informed regarding all matters affecting the international financial position of the Banco de la Republica del Paraguay and of the Government of Paraguay.

124

June 13, 1939.

My dear Mr. Pierson:

Reference is made to your communication of this date regarding arrangements for credits to the Banco de la Republica del Paraguay and for public works purposes.

It is my opinion that it would be highly desirable for the Banco de la Republica del Paraguay to secure the services of a competent United States technical expert on international financial matters for the period during which the above-mentioned credit to that Bank is extended, in order to assist that institution in the attainment of the policy of the Government of Paraguay of stimulating the expansion of Paraguayan foreign commerce and economic relations with the United States by meeting promptly commercial obligations to United States nationals and concerns and reducing seasonal and unusual fluctuations in the rate of exchange of the peso. I should be deeply grateful if you could recommend a suitable person for this post.

Sincerely yours,

The Honorable  
Warren Lee Pierson,  
President, Export-Import Bank  
of Washington.

RECEIVED  
JUN 13 1939  
THE EXPORT-IMPORT BANK  
WASHINGTON, D. C.

June 13, 1939  
5:04 p.m.

HMJr: Hello.  
Sumner  
Welles: Hello.

HMJr: Yes, Sumner.

W: Henry, I didn't have a chance to ask you at the White House. The National Geographic Society and the University of Virginia are a little perturbed because you haven't yet signed the order for that Coast Guard cutter for that expedition.

HMJr: It cleared my desk last week.

W: It did?

HMJr: Yeah, but I'll check up on it.

W: Well, I -- I'm sorry to bother you, but they wanted to -- to get under way and they were afraid.....

HMJr: Well, I.....

W: .....that something might have turned up.

HMJr: I don't know. I'll see that it goes out, wherever it is, tonight. But it cleared my desk last week.

W: I see. Thank you very much indeed.

HMJr: O. K.

W: Good bye. Did you get the memorandum all right?  
(Secretary hung up without hearing Welles' question.)

June 13, 1939

After the ceremonies in the office of the Secretary of State, this morning, when the agreement to furnish credits to the Paraguan Government was signed, I spoke to Hull and asked him what he would advise my doing about Berle's talking on fiscal and monetary matters without consulting me.

Hull said that he had known nothing about Berle's statement on the Hill in advance. He said, "You know, the President only consults me on domestic matters. There are people like Berle and Bullitt who are closer to the White House than I am." He said that he would talk to Berle and tell him that I was displeased at his discussing fiscal matters without first consulting with me and that he would ask Berle to come over and see me.

Welles asked me to stay behind. He seemed very much annoyed that I could not see him at three o'clock today. However, he let me read a memorandum from Feis on the proposed meeting of Treasury representatives at Guatemala in November of this year (copy attached hereto) and I approved it.

June 8, 1938.

Mr. Welles:

I have devoted a good deal of attention to the effort to devise an agenda for the prospective informal meeting of treasury representatives at Guatemala in November. I have also exchanged views and suggestions with others both inside and outside of the Government.

The conclusions which seem to me indicated are these:

(1) This meeting will presumably be the first of a series. Among its objects therefore would certainly be to foster mutual confidence between the individuals in the different treasuries and also to bring together for the first time representatives in technical fields in which they have common training and common interests. It therefore would be quite suitable to have an agenda for this meeting which is primarily, if not solely one designed just as a basis for discussion by which the representatives present can make their views and ideas known to each other, rather than an agenda looking towards the intensive study of very specific proposals.

On these grounds I should think it would be suitable if the Committee stated that the meeting would be given

over

- 2 -

over to a review by those attending "of the decade 1929-1939" in regard to the experiences and policies of their countries in

- (a) monetary policy
- (b) exchange policy
- (c) banking policy
- (d) ~~\_\_\_\_\_~~

Each government might be asked to provide before the meeting a brief memorandum dealing with its country's experience.

The meeting could then possibly divide into <sup>three</sup> four round tables on each of the preceding subjects, with an informal method of discussion.

These discussions would presumably serve the purposes alluded to above and in addition be inspired by the object of trying to define possibilities of collaboration. When and as such possibilities define themselves, they could be made the subject for future consideration at future meetings.

Accordingly, I suggest some such agenda and procedure as this.

(2) The effort has been made to see whether there was not some collaborative step in this field that might be brought

- 3 -

brought forward with a view towards organizing immediate collaborative action. I regret to say, however, that discussions in this field have produced no suggestion of this kind of certain enough usefulness and practicability to put forward as a definite and separate agenda item.

Rather than try to push forward at once with specific proposals, I think ~~it would~~ be a better method to see whether these discussions themselves do not produce some ideas or projects of a feasible character. Any ideas or projects so developed will have a standing and force behind them in treasury circles that would be lacking in a proposal simply brought down by us and put before the conference.

June 13, 1939.  
11:35 A. M.

MEETING OF FISCAL AND MONETARY  
ADVISORY BOARD

Present: Mr. Eccles  
Mr. Delano  
Mr. Smith  
Mr. Bell  
Mr. Haas  
Mr. White  
Mr. Currie  
Mr. Duffield  
Mr. Foley  
Mr. Hanes  
Mr. Gaston

H.M.Jr: Where are we, Marriner?

Eccles: We didn't even get started. We've only been here five minutes and we haven't....

H.M.Jr: Haven't solved anything?

Eccles: Haven't solved a thing as far as I'm concerned.

H.M.Jr: Well, why don't we do it this way? Let somebody else start. Have you (Delano) got a program?

Delano: No. I offered a small contribution to this committee's work, but I don't think it got very far.

White: The general idea was incorporated - I mean many of the ideas here are patterned after it.

H.M.Jr: Have you (Eccles) got a program?

Eccles: Well, I've got some things incorporated in here. I didn't undertake to make a separate program, because Currie and White have been working together on this. And of course, I've talked to Currie about my ideas and they've incorporated them, except.... You've got this railroad equipment in here, haven't you?

Currie: Yes.

Eccles: Everything I have is incorporated in this general program, with the exception of this Social Security thing, which of course - on which I know your

- 2 -

position and you know mine. That's the only thing I have that isn't....

H.M.Jr: Well, we could give him that as a supplementary....

Eccles: Yes, that's right.

H.M.Jr: Well then, if that is so, may I read this, because I haven't seen this?

Eccles: Well, I haven't until just now.

H.M.Jr: Shall we read it out loud?

Eccles: I think that's the only thing to do, only way to get anywhere. Our problem - it's a question of selection here. We've got a program here that's....

White: That's right.

Eccles: From what the President said when we were over there - he said we ought to confine it, you recall, to three or four, not to exceed five, items; so our problem here is one of selection.

H.M.Jr: Then subsequently at lunch he said he hoped they all would be self-liquidating.

Eccles: Well, that's - yes, that's right. I think that's - the whole thing has been built pretty largely on that basis. In fact, the gist of our discussion over there was to develop a program that could be financed outside the budget.

H.M.Jr: Well, shall we start in with number one and then go down the list?

Eccles: Yes, I think - I'd like to see us start, go right through the thing, just to familiarize ourselves in a general way, then come back and undertake to select and see which we can eliminate.

H.M.Jr: All right. I'll read the thing, if that's agreeable.

"1. Extension of the United States Housing program.

"2. Reduction of FHA maximum interest from five to four percent.

- 3 -

"3. Temporary Dwelling Authority for a four-year private enterprise program involving an appropriation for administration and subsidy costs of five hundred million dollars, if the ten billion dollar program is completed." Ten billion dollars?

Delano: Four-year.

H.M.Jr: What is a four-year....

White: If you'd like - there's a memorandum on each one of these items - some are brief, some are long - the memorandum on that is rather brief, two pages, explaining what that is.

H.M.Jr: Well, what is it, just before we go on; I never heard of it. This is a new one.

White: Yes, this is a new one. It is an attempt to set up a housing authority with the sole objective of achieving a ten billion dollar construction program during the next four years by private enterprise, with special emphasis on low-cost housing. The idea was that from time to time there have been numerous suggestions of things which might be done to promote housing, some requiring special powers, others merely requiring special attention, but each one of the suggestions hitting at one of the obstacles to housing: wage costs, materials costs, transportation costs, questions of coordination of various agencies, et cetera. So what we did was to create this authority, which is part of a comprehensive bill which the legal staff is drawing up, and give it every one of the powers that we could think of that struck at one of the particular points, and with the sole objective of getting the housing done.

Now, they don't interfere with the FHA and they don't interfere with the USHA. Those continue to go on. And the thought was that if we could get an aggressive administrator with imagination enough to overcome these innumerable obstacles, it is quite possible that he could increase expenditures on housing from two to three billion in 1940, if he used these various powers and if he attempted to remove or reduce the opposition to building arising from any one of a great number of causes.

- 4 -

Bell: Explain how he is going to overcome that opposition. I take it that part of this subsidy is one of the means - through NYA and things of that kind - of reducing the cost?

White: Well, yes. There's a list of - he'll make loans to responsible private individuals, corporations, and local governments for the construction of low-cost housing at rates equivalent to the cost of borrowing by the United States Government on similar obligations, with power to amortize the loans over a period of not exceeding fifty years, fifty years or less. And the loans are not to exceed ninety percent of the total cost of construction and the acquisition of land.

That immediately gives them new powers. They can lend money at anywhere from a half percent to two and a half for a similar period of years.

Eccles: This would be only to dwelling authorities, though, George?

White: This particular authority would be able to make loans to almost anybody - I think it's anybody.

Eccles: Well, yes, but of course - you say that doesn't in any way interfere with FHA or with United States Housing. It hits them right square in the middle. I mean it's....

White: Well, one of the objectives here would be that they would have to determine whether USHA or FHA would take care of that particular situation.

H.M.Jr: Whose brain-child is this?

White: This is - I'll claim parenthood to that partially. It's a good idea. I didn't expect it to get in.

(Hearty laughter)

I'll admit its being a good idea. I mean....

Eccles: Well, I....

- 5 -

White: Well, you either want to get housing done or you don't. If you do....

Eccles: I think a couple years ago if we could have done something like this, when we talked about subsidies.... I've talked about subsidies on housing for five years, but we just never got anywhere. We tried to get the Federal Housing amendments - those we did get a year and a half ago. When the President assigned me the job of trying to work on a housing program, the one condition was that it wouldn't cost the Government anything.

White: Well, that's the condition which this presupposes.

Eccles: If you're going to bring into this a big subsidy, it will be something that he up to the present time....

White: There is no subsidy involved here. The five percent is mostly administrative costs and others. The losses are not included.

The approach to this is simple. You can either accept it or rule it out. It was this, that there can be, has been over four billion dollars worth of housing in the course of a year; and we took every power and every suggestion that has been made over the past few years and included that in the authority to be granted this new housing authority, with the expectation that if anybody could get any housing done through any powers and still remain self-liquidating, this authority could do it. If this idea is rejected, then the alternative is very simple. You depend upon the USHA and the FHA to get you the amount of housing that you're going to get, and that will mean two billion or so a year, which is all right.

H.M.Jr: What do you mean here by "and subsidy costs of five hundred million dollars"?

White: Well, there are some subsidy elements in this. They use NYA labor for certain purposes - WPA and NYA both.

H.M.Jr: Just to the extent of five hundred million dollars.

- 6 -

White: Maximum.

Bell: That's exclusive of any losses you'd have on your loans.

White: This is exclusive of losses. The assumption is that the project will be so administered that the losses will not be great. We just pick five hundred million dollars as administrative costs.

Smith: That's over four years.

White: The building program is over four years.

Eccles: We figured a building program out last year, using WPA labor on FHA projects up to the extent....

White: Up to the....

Eccles: ....total of ten percent of the cost of the house. Now, the cost of labor on a house runs around thirty to forty percent, depending on where it is built - the entire labor. Our thought was that ten percent of the cost of the house would equal from a third - from thirty to forty percent, you see, of all the labor on the house, and that that labor would be furnished by the local WPA and would be paid for by them, but it could be used on any private construction program so long as it was a house that didn't exceed in cost, say, six thousand dollars; you didn't want to subsidize high-cost housing.

We worked that out pretty well. I mean we got it....

White: Those powers are in here.

Eccles: The mechanism is under FHA, and that still can be put back in again. And it merely means that instead of WPA labor being used entirely, as it is being used, on the various projects, a lot of it would be directed toward the housing field and it would have real leverage to the extent that that labor would induce more building because of the reduction of the cost. It would act as a real stimulant.

White: What you're doing - excuse me.

- 7 -

- Smith: I was going to say, you are assuming that you're going to get around your labor union difficulties, is that right? You're assuming there's going to be sufficient power to resolve the problem.
- Eccles: That's why we didn't get anywhere last year. We had it worked out with WPA, and the doggone unions upset the apple cart. We just didn't get it.
- White: That's one of half a dozen more ideas. Sure, you can tie these on to any one of the existing agencies. I think what might be said is this: if you want to make an attempt to get more housing than the FHA and the USHA will give you, this is probably the way to do it, because this includes every possible power that has been thought of, and if you can't do it through this agency, then it simply can't be done, because they have every power and every authority. And the assumption is that they will have only one objective, and the further assumption is that the administrator will be a miracle or almost a miracle, and get it done. But if you drop this, it means that you're not going to talk any more about housing, beyond the FHA and the USHA, which is already in the fire, with the exception of the reduction of interest which you have already considered.
- Eccles: I think you've got to confine it to those - it's too late to try to set up something new. I think you've got to confine it to those, and attempt to reduce the interest on FHA; if possible, bring in this subsidy, using the existing set-up.
- I think that if you undertake to set up an entirely new housing authority, it would - well, it would just terribly delay the whole thing. I don't think you could do it.
- White: I don't agree that it's too late, but it's all right; we'll just pass that.
- H.M.Jr: Well, do you want to say anything, want to pass on number three now?
- Delano: Well....

- 8 -

H.M.Jr: Would you like to think about it?

Delano: I think I see the difficulties of it. I think a broad enabling act would be a helpful thing. Take the matter of wages. I am familiar with how wages in the building trades have been fixed. They have only been fixed on the assumption that a carpenter must be paid high wages per hour because he is idle a good many days and weeks during the year. It has been generally admitted by labor men that I have talked with that if wages could be put on a monthly or annual basis, a very much lower rate per hour would result.

I agree with Dr. White that if you could, without too much disturbance, get a general enabling act of this kind - we probably wouldn't get going, I'll admit, before 1940, but it would be an awful good thing to do.

H.M.Jr: I mean is there something - is this something we want to take over to the President? I mean I don't want to take something over that he's just going to throw up his hands and say, "It's impossible."

Delano: I think it is probably too big a chunk.

H.M.Jr: I mean to - in whatever the month is - what we've got left. What?

Eccles: Well, he said the other day that anything that was done - it had to be an amendment or an adjustment, it couldn't be something completely new. That was practically what he said.

H.M.Jr: That's right.

Eccles: And if we had a program where you could expand or enlarge existing programs, that he thought that something of that sort would be feasible; but if it was throwing into the hopper something revolutionary or new, that it was just too late to do it.

H.M.Jr: I agree with you.

Eccles: He said that the other day.

- 9 -

- Bell: How about expanding USHA for a small part....
- H.M.Jr: Excuse me?
- Bell: I say if you're going to do something like number 3, how about expanding United States Housing Authority and giving them a little more authority to function along this line?
- White: They've got their hands full to spend the money they're getting, with their administration, with their limitations.
- H.M.Jr: Is it agreeable to you to leave 3 out?
- Eccles: Well, we're coming back to these, aren't we?
- H.M.Jr: Yes.
- Eccles: Why not go through then and come back?
- H.M.Jr: I just wanted to understand 3, because....
- Smith: Something ought to be done with the housing situation that is not being done now. It is just a question of how, and whether this suggestion is too big to be thrown in.
- Eccles: If we could just get through this to get a general picture, then as you come back it seems to me it would be much easier to eliminate certain parts of a program - if you're familiar in a general way with what all the suggestions are.
- H.M.Jr: "4. Expansion of Farm Tenancy Program, self-liquidating portion alone; in addition to present program of 165 million, of which 110 million are self-liquidating."
- He's evidently upped us on this. They evidently think they can do more, is that it?
- White: Yes, they have quite a comprehensive program which is explained under 4, in which this portion, 530 million, is additional self-liquidating - all self-liquidating, presumably.

- 10 -

H.M.Jr: "5. Loans to farmers and cooperative groups for purposes of soil conservation (terracing, drainage, forestation and prevention of soil erosion) - loans at one percent interest amortized over twenty years - (project being explored by the Department of Agriculture)"

They don't know whether it can or can not be?

White: They just gave us a preliminary memorandum about ten minutes before we came in here. They didn't have much chance, they want to do more work on it. They do think it is an excellent project; won't insure the amounts involved. There is some element of subsidy in here, obviously, because it's one percent interest amortized over twenty years.

H.M.Jr: "6. Expansion of Rural Electrification Program."

That looks like the same thing it was last time.

White: Yes, except they upped it - in going over it, they increased it.

H.M.Jr: As to what they could spend? That's what it was before.

White: No, before the 110 included the 40; now this is in addition.

H.M.Jr: "Rural Telephone Administration."

White: That's new, which they've worked out.

Bell: Doesn't mean much in 1940.

White: No.

H.M.Jr: "8. Non-Federal Public Works Program made possible with the assistance of annual grants in form of half the servicing charges."

Now, what's that?

White: Well, that's Mr. Eccles' program. There is a long memorandum on it.

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- H.M.Jr: What you mentioned the other day?
- Eccles: Yes, this is the Public Works Program along the same idea as United States Housing Authority; instead of giving in cash the fifty percent or forty-five percent grant, as we have been doing, the project would be financed and the Federal Government would give the grant in the form of interest, say three percent per year, over a fifty-year life. For instance, if it's a school building or a hospital, the payment would be made annually over the life of it. For instance, you could get a billion dollars in that way in public works, on which the municipalities would finance themselves.
- Bell: We could advance to them the interest.
- Eccles: You'd advance to them each year an amount which would equal over the life of it a fifty percent subsidy, just like United States Housing Authority, see; which would mean that it would be twenty, twenty-five million a year, depending of course upon the length of time. If these were ten-year projects, certainly twenty to twenty-five million a year would cover a billion dollars worth of work. If they were longer projects, it might run up as high as thirty million a year.
- Currie: The average maturity, Governor, on those things, is about twenty-six years.
- Eccles: It would be somewhere between two and three percent on a billion dollars, which would be between twenty and thirty million dollars a year over a long period of time. And they'd go to the capital market and finance the whole project privately, and all the Government would do is subsidize each year an amount which over the life of it would equal forty or fifty percent of the cost.
- Bell: This would be your schools, hospitals, so forth.
- Eccles: That's right - water systems - purely public, non-competitive, of course. I certainly wouldn't want to include private property in there; you should include only the purely - the projects that would be entirely non-competitive in there.

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Now, the WPA people - we've got a long memorandum; I won't go into that now - but I think that it has the merit from the budget standpoint of letting the WPA, who have, what is it, Currie - they must have a couple billion, nearly, of projects, don't they?

Currie: They have a billion and three quarters, and they closed the date early and there's been an increase since then, so it would be sufficient....

Bell: PWA.

Currie: Yes, Public Works.

Eccles: They can't possibly get from Congress for this purpose - if they get five hundred million, they'll do well, and that will all come in the budget. The idea of this was to make it possible for them to take all of these projects that can meet the requirements and - they could start immediately so that the Public Works Administration could just keep this thing going for some little time. Well, that's that.

H.M.Jr: Harry, where is the book you gave me last time? Who has that?

White: It's the same cover. I took the inside out and I....

H.M.Jr: Well, I'd like to have it intact the way it was last time.

White: All right.

H.M.Jr: Will you?

White: Yes. I thought you might. But I needed the cover, so ....

H.M.Jr: I'm glad to see you're economical-minded - on covers.

White: Can't be economical on the inside, so we have to be on the outside.

Bell: Smith is going to have a balanced budget, first thing he knows. Everything be taken out of the budget, have a balanced budget.

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Haas: Won't have anything in the budget. Incorporate the salaries.

Smith: That has a lot of merit.

H.M.Jr: Yours is eight. Does that include nine, too?

White: Now, this raises - another way of handling it or an additional way is to have loans made rather than grants - loans made for a smaller number of projects, non-federal projects, hospitals or school houses or what-not, instead of involving a subsidy. You might get a smaller number that would be willing to build if they could borrow at the rates of interest comparable to what the Government can borrow. We just lumped them together.

Eccles: That would mean the Federal Government would be making the entire loan.

White: No, they'd make the loan to the municipality; it would be self-liquidating in that sense.

Eccles: Yes, I know the Government would make the loan. The difficulty there is, where a municipality can go into the market today and borrow money, when it's entirely a tax-free security - municipalities today are borrowing at less rates than the Government.

White: Some of them.

Eccles: Yes, I mean the high-grade ones. So it would seem to me that if it's a case where the Government has got to loan to them, it would be....

White: Much smaller amount.

Eccles: Almost negligible. Either that, or they'd be loaning to a municipality that had no credit.

White: You see, this also includes loans to others than municipalities or States. It could include loans to public corporations, non-profit organizations. How much that would amount to, I don't know, but you might get fifty, one hundred, two hundred million dollars of building out of it.

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You see, the principle we followed here was to put down every idea with the expectation that you can throw out most of it.

H.M.Jr: Shall we go ahead with ten?

Reeles: All right.

H.M.Jr: "Federal Works Program which can be treated as self-liquidating only if service charges are financed by special tax."

White: A word about that. There are programs already carefully worked out - for example, the National Resources Committee, as you may have seen, has a very elaborate, carefully worked out program for water conservation which calls for expenditure during the first year, I think, of two hundred million of a nine hundred million dollar program, et cetera. Now, that program can in no sense be self-liquidating if the test of self-liquidating is what it customarily is: the ability to collect a special revenue. Since all the projects which are envisaged under this benefit the whole people, then you might take the position, though it would be a departure from your customary practice, of saying that these are self-liquidating - but they are self-liquidating in the sense that everybody benefits, and therefore we'll collect a special toll from everybody, some special tax; we can find an area that can be taxed and set aside for that. It could become self-liquidating. If you don't do that, they are not self-liquidating and they have to go out of the program.

Reeles: Is that number 10?

White: That's number 10.

Reeles: Well, what projects would you have in mind, Harry?

White: Well, for example, this water conservation project which, as I say, calls for nine hundred million dollars over a period, I think, of three years, I'm not sure. And then there are other Federal projects  
....

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Bell: Flood control.

White: Huh?

Bell: Flood control.

White: Flood control.

Bell: Write off or take in consideration the losses annually from floods; it benefits the people to that extent.

White: So does soil erosion, so does reforestation, so does sewage.

H.M.Jr: You're (Bell) catching the spirit.

White: He's coming right along.

Currie: The National Resources Committee has two programs, one a non-federal drainage basin program, the other a Federal drainage basin program which would cut across interstate lines.

Eccles: In other words, this is the type of program which is theoretically self-liquidating, but you don't collect the funds to liquidate it.

White: That's right. It's a regular public works program.

Eccles: Of course, you can argue that in the whole field of public spending.

White: That's right.

Eccles: That if you don't spend, the national income drops; therefore, you'd better spend, because the national income goes up more than you spend; therefore, it's self-liquidating.

White: You could take that position, but that's a more extreme position. You can take any reasonable position and if you push it to its extreme, it becomes - it can assume a ridiculous aspect.

Eccles: I was thinking that this would be a very difficult type of program to sell on the basis of self-liquidation.

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White: Well, if you don't, it's out. I mean the only justification of putting it in is that it is - the only way you could get it in.

Smith: Difficult practically to set up.

White: I wonder. We estimated that the amount of current revenue that would be required would be in the neighborhood of fifty million dollars a year from - well, let's say seventy-five million, if you want to be conservative. Now, at seventy-five million dollars, you can find several places at which you could impose a tax which is a new tax, which would be akin to the defense tax or other types of specially labeled taxes which other countries adopt purely for purposes of convenience.

Eccles: This program - how long would it take to really get it....

White: Apparently it is all ready, large portions of it are all ready, except for pushing the button. They've been ready for three years. I've got the reports in my office - very elaborate; everything's been done now.

Eccles: Who would be the administrator of this type of program?

White: The way the lawyers have set it up, they've set it up under Federal Public Works Agency.

H.M.Jr: (On phone) Where is Foley?

White: If Foley isn't there, we could have Mr. Kades. He's worked on all these.

Eccles: This would be done by Public Works Administration?

White: By the new agency which they're going to create; be done under them.

Eccles: Yes, but then....

H.M.Jr: (On phone) Hello. - Why isn't he in here?

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Why didn't you (Duffield) have Foley here?

Duffield: I called him. I thought he was coming down the hall.

H.M.Jr: All right.

Shall we go ahead?

Eccles: I suggest we go through it.

H.M.Jr: I'm glad you're here today, Marriner, because you understand these things better than I do.

Eccles: Huh?

H.M.Jr: I'm glad you're here.

Eccles: I haven't been over this thing.

Smith: This particular project is still Greek to me, but I think we might as well go on. I'd like to come back to it later.

H.M.Jr: "11. Federal Toll Authority (self-liquidating toll roads, canals, bridge projects)." Oughtn't you to have sort of a word like "self-liquidating" and "self-liquidated"?

White: Most of these are going to be liquidated, so I thought we'd better save it; these are supposed to be all in part or in whole self-liquidating.

H.M.Jr: Well, I mean number 11 - is that self-liquidating or are you going to have a special tax?

White: No, that's mostly supposed to be self-liquidating. On these projects there will be a man with a tin can standing at each end and collecting.

Bell: And a dog?

H.M.Jr: Harry, will his eyes be open or shut?

Haas: Just on Sundays he opens his eyes.

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White: When people behave.

H.M.Jr: All right, I just....

White: But that's not all self-liquidating. Their claim is that these toll projects are, and they have a - much to my surprise, they've got a report (it's at least that thick) which they gave the Congress last year....

Currie: This year.

Duffield: This year.

White: ....this year - the early part of it - and I don't think examination will justify the conclusion that they are wholly self-liquidating, but they are in part self-liquidating; how much, I don't know.

Duffield: They've got some percentages.

H.M.Jr: All right. Any questions? I mean are you willing to go on, forget this?

Eccles: I suggest we go on and come back.

H.M.Jr: "Extension of short-term and long-term loans for the purpose of promoting foreign trade." I take it that would be Export-Import Bank.

White: That would be either a newly created bank or additional authority.

(Foley comes in)

H.M.Jr: Why have you been trying to duck this meeting? We're having a good time.

Foley: I've been having a good time with Tom K. Smith. I wasn't ducking it. I didn't know you wanted me.

Duffield: He didn't take my invitation as legal and binding.

H.M.Jr: "13. Recreation camps and hostels (partly self-liquidating)."

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White: That's a good project from the point of view....

H.M.Jr: I think you're using "self-liquidating" like the word "savings." I think we'll have to get degrees.

White: This one was self-liquidating in its operating expenses, not in its original appropriation. One could make quite a case for that on social grounds, political grounds.

H.M.Jr: Well, that's one thing I know a little about. I was once Conservation Commissioner of New York, had all the State parks under me.

"14. Railroad equipment program: (a) Loans to railroads by RFC for purchase of equipment; or (b) Federal Corporation to purchase and lease equipment to the railroads.

"15. Government acquisition, control and operation of bankrupt railroads (being investigated)." Five billion dollars. It's a good thing I've got a strong heart.

White: Most of that - of the three billion estimate there - two billion would be for the purchase and the other billion would be for the expenditures.

Eccles: Rehabilitation.

White: Rehabilitation, modernization.

H.M.Jr: This comes under the heading of self-liquidation.

White: Oh yes, railroads - take them over at the price they would likely pay out as self-liquidating.

Bell: Put them as an asset on the books.

White: If you pay a reasonable price.

Eccles: I imagine you'd set up a railroad corporation.

White: That's right. Railroad authority.

Eccles: Railroad authority. You may have to pay deficits, like the Canadian national railroads, like your

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Post Office Department, occasionally. At least for the purpose of your set-up, they'd be self-liquidating; to the extent that they didn't balance out each year, you'd have to appropriate enough to meet the difference. That would vary, no doubt, depending upon the general conditions.

Bell: We operated them during the War, which was supposed to be very prosperous times, and in about twenty months they cost us about a billion and three-quarters.

White: No, no, no! That episode - the war episode and the conclusions drawn popularly, and those which should have been drawn from a careful examination, are very different, Danny.

Bell: Well, it cost us a billion and three-quarters.

White: I know, but you examine that - I'd be very glad to submit a memorandum on our war experience with railways. An enormous amount has been written. No such simple conclusion on that. All sorts of things can be said on that. I shouldn't want that used as an illustration, without further examination, that this needs to be a failure.

H.M.Jr: Dan at least lived through it, anyway.

White: That may be.

Bell: The Treasury lost the money, I know that.

Beland: Mr. Secretary, as I see the point of that, if the plan that was being talked of went through, there would be, I would say, bonds issued, but they would have behind them collateral that was fully worth - if the purchases were frugally made, I think you'd be getting your money's worth.

H.M.Jr: Well, the thing I want to keep in mind when we go back to this thing again is that the thing - first, using the "self-liquidating" - the words, as I understand them, mean something that if you put a thousand dollars in, you get a thousand dollars back, plus your interest, and....

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Eccles: The....

H.M.Jr: May I just - one second, Marriner - and then I think we want to take something over that we know - what I like to feel is that there is a seventy-five percent chance that you can get it through at this Congress.

And then also I think we want to do things that will reassure people and encourage them to put their own money to work and not scare them to death. I mean I think that that is as important as anything. I think there's been so many things to scare people and so little to encourage them; they've never had a chance to put their own money to work.

"B. Projects...." - did you want to say something, Marriner?

Eccles: No, no, I didn't.

H.M.Jr: We're going back over all of them.

Eccles: That's right.

H.M.Jr: Mr. Smith?

Smith: (Nods nothing).

H.M.Jr: "B. Projects which are not self-liquidating:

"16. Rapid expansion of the Food Stamp Plan for distributing surplus commodities to all communities and extension to cover more commodities, including cotton textiles, clothing and dairy projects."

Eccles: What that would involve, as I understand it, would be an increase in appropriations for that purpose.

H.M.Jr: Now, can I have Bell's original memorandum on this question of how much could be spent in the next fiscal year - the one he gave me? I asked you to keep it for me.

White: Isn't it in that book - first part of the book.

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H.M.Jr: No, Bell's memorandum, his original memorandum.

White: I'll bring it right in.

H.M.Jr: And then, while we're on that, can you (Bell) tell me how much - how in the present bill the two hundred and some odd million dollars is being made available for Wallace's set-up? Oh, here it is:

"The present appropriation asked for (113 million added to 90 million dollars otherwise available) will leave 100 million dollars available for Food Stamp Plan for the fiscal year 1940. This program asks for 150 million dollars more. The 250 million dollars which would then be available for the Food Stamp Plan would take care of the bulk of the eligible persons now receiving some form of public assistance."

But what about - isn't there the 113 - isn't it 213?

Bell: 203. Ninety million dollars in the budget represents 30 percent of the customs receipts, and there has been added by the Senate 113 million dollars, making a total of 203 million. Now, that can be used for three purposes: one, to encourage the exportation of agricultural commodities and products thereof by the payment of benefits in connection with exportation of these products or payment of indemnities; and, two, the encouragement of domestic consumption by diverting these products, either by payments of benefits or indemnities, from the normal channels of trade and commerce. And that's your relief program.

H.M.Jr: How much is in that, Dan?

Bell: Well, 203 million dollars can be used for those purposes. A large part of it has been used for two, to encourage domestic consumption by diverting these products from the normal channels of trade. In other words, they'll take some sort of fruit, say, prunes and things like that, and take it out of the normal channels of trade and maybe make alcohol out of the prunes; it will be sold as alcohol rather than prunes.

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- H.M.Jr: Isn't it divided? How much is the subsidy for each? I mean isn't it so much for cotton, so much for wheat?
- Bell: No, it's not in the budget.
- H.M.Jr: Isn't there some agreement that Wallace has on the Hill?
- Smith: I don't know.
- Bell: Not that I know of. There has been some of this used, you remember, where they sold some wheat abroad.
- H.M.Jr: Well, I got the distinct impression that he has some agreement in the bill that he can't use more than twenty-five percent for cotton and twenty-five percent for wheat, that the commodities are earmarked.
- Bell: No, I didn't get that.
- H.M.Jr: Could you have it for me by 4:00 o'clock this afternoon?
- Bell: Yes.
- H.M.Jr: I mean there's something in the bill which says he has to spend so much for cotton and has to spend so much for wheat, so forth and so on.
- Eccles: In this number 16, does this contemplate an additional 150 million appropriation for the purpose of expanding this Food Stamp Plan, beyond what they now have?
- Currie: That would be my reading of this. This program asks for 150 million more.
- Bell: In other words, that would be 350 million dollars available for agricultural commodities.
- Eccles: But for the food, now - as I understand it, now, Milo Perkins said the other day - it seemed to me they had 60 some odd million available for this

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particular purpose, and if the plan works successfully, they certainly could use a lot more money.

H.M.Jr: He said he had a hundred million available if the bill passed.

Eccles: Well, I don't know, he....

Bell: He's earmarking half of the 200 million dollars for that.

Eccles: I got the impression that there is 60 some odd million that they are figuring is available for that particular part of the program, and certainly they ought to have more if this Rochester demonstration works well.

H.M.Jr: Well, supposing Dan gets us up a memorandum and has it ready for this afternoon, because I don't understand it. What?

Bell: All right. I don't know how it's to be divided. I'm just giving you totals.

H.M.Jr: I think he has some of it earmarked.

Eccles: Certainly this is another 150 million above what he's got. Now, where did you get this, from them? Did Perkins feel they could use this?

White: Oh yes. Yes, that's what he said - they could use....

Eccles: Another 150. Well then, I'd rely a good deal on what he says on it.

H.M.Jr: What I was trying to do for myself was - I was trying to - want to be practical, and I think that the President would be in a much stronger position if he was going to say, "We've got a hundred million or two hundred million dollars available and we're going to use that to - instead of using that to subsidize dumping commodities abroad, we're going to use that to feed our own people." And that's why I want to bring that to your attention, because I think he is on very sound ground on any amount of money he wants to use, within reason, to feed and clothe our own people. I was just talking to

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Mr. Hull and he is terrifically upset on this thing, using this money for subsidies; and after five years on one policy, I don't see how we can let our own people go hungry while we are subsidizing dumping of food and clothing abroad.

Eccles: We are certainly on much stronger ground to subsidize local distribution. That's certain.

Bell: I'll have it under each for you.

White: Milo Perkins has a paragraph on that point here, if you want it read - on how much is available.

H.M.Jr: Please.

Bell: He read that.

White: Did you read that? If Congress passes....

H.M.Jr: It doesn't - there is some - Harry, some place I think Bell will find out there is a commitment on the part of Agriculture to use up to a certain percentage for certain commodities, see, and that's what I want to find out.

White: He says 103 is needed to carry out the cotton export subsidy and the peanut diversion program - 103 million.

H.M.Jr: Where is that?

White: That's under 16, page 2.

H.M.Jr: Sixteen, page 2.

Eccles: What is the total available?

White: He says - this is what he has to say: "If Congress passes the 113 million dollar appropriation for the purposes of Section 32 now before the Conference Committee, in addition to the 90 million dollars otherwise available, about a hundred million dollars of the total 203 will be available for distributing food to the needy." They'd have a total, in other words, of 203, of which one hundred would be used

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for this purpose, and the rest is allocated for other purposes.

Bell: Peanut export.

White: Yes.

Eccles: That would be cotton subsidy.

White: Cotton and peanut diversion.

Currie: That would give them 190?

White: No, no.

H.M.Jr: Did he say in addition to 90? Well, he'll work it out and we'll give you copies.

Eccles: I think he's got it there.

Bell: I'll send it around.

H.M.Jr: It isn't quite the way I want it, because.....

Eccles: You've got 90 million - that is really what you've got now, and if any additional money is to be used under this stamp program, it would have to be appropriated unless you divert the cotton subsidy and the peanut subsidy to the stamp plan program.

White: Which they claim they can't do, because it's already allocated.

Eccles: Already tied up in the bill. Can't use it. Seems to me they're going to need that plus this, too. I don't think we need to worry about having a shortage. If you have the export subsidy, plus all the domestic subsidy you're going to get, certainly 90 million plus 150 million domestic, plus what you've got for the export, isn't going to be excessive when you take into account the products that we've got. We can use both of them.

H.M.Jr: All right, gentlemen?

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"Expansion on a nation-wide basis of the self-help cooperatives, now successfully operated in Washington, D. C., Richmond, and many western States." Two hundred and a hundred.

"Farm Tenancy program involving direct relief to the extremely low income groups and medical and dental care for these families, and camps for migratory farm laborers." Ought to put a footnote: "Read 'Grapes of Wrath.'"

"The above program of expenditures and investments totals roughly twenty-five billion dollars and covers from one to four years of operation, depending upon the item. Of this twenty-five billion dollar program, about eight billion dollars can be expended during the calendar year 1940.

"These sums are not all employment-creating expenditures. Of the eight billion dollars additional expenditures called for under this program for 1940, from four to five billion dollars would be expended directly or indirectly on additional employment. That would mean an absorption of from two to three million unemployed and, both direct and indirect, from four to six million persons during 1940.

"We believe that this program, if adopted in its entirety, would insure an increase in the national income of ten billion dollars during the calendar year 1940."

What is your pleasure, gentlemen? How would you like to approach this thing?

Eccles:

I'd like to start at the beginning, take them one at a time here, and put those that we can decide on - that we know are comparatively - well, that we feel would fit into the present picture, that are merely additions to what we have - and then put question marks after some of the others.

H.M.Jr:

Well, I'd like to ask - I don't know what your plans are; we'll go as far as we can. I'm going over to lunch with the Paraguayans, if that's what they're called, at the White House at 1:00. Would

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it be possible for you people to come back, if we don't get through here, say, at 4:00 o'clock?

Eccles: Come back at 4:00?

H.M.Jr: Yes.

Eccles: It would be for me.

H.M.Jr: What? I mean we go as long as we can, until a quarter of.

Eccles: We certainly are not going to get through - I think we are going to have to spend the rest of the day at this if we're going to go to the White House tomorrow.

H.M.Jr: I have nothing tomorrow until - let's....

Eccles: The difficulty is, after we get through, to put this in shape and write it up. We ought to try to get this pretty well finished today, if we can do it, because after all these fellows have got to get this in shape to take over there.

H.M.Jr: Most likely we'll take some things the way they are, and certain things will just be pulled out.

White: Wouldn't take long.

H.M.Jr: Just pull them out.

White: Pull them out and revamp it.

Eccles: You'd need fifteen minutes anyway, wouldn't you?

White: Fifteen or twenty.

H.M.Jr: Well, let's start with - let's go for fifteen minutes and then if it's agreeable, if you people could come back at 4:00 o'clock.

Eccles: What is the present situation on extension of the United States Housing Program? Aren't they asking....

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Smith: Passed the Senate.

Eccles: So there's nothing to be done on that. They are getting - they've asked for what is it, four hundred or five?

Currie: Eight hundred.

Eccles: And has it been cut?

Currie: No.

Eccles: They're getting everything they asked for.

Currie: Plus an additional authorization for the subsidy up to seventy million.

Bell: Seventy-three million.

Foley: To take care of the additional borrowing.

H.M.Jr: There is one thing I understand is in which you don't mention. There is an amendment put on for them to do rural housing.

Currie: That's why they got the eight hundred million, I understand.

H.M.Jr: What can they do on rural housing? Does anybody know? Does anybody know what the language is?

Foley: I can get it.

H.M.Jr: Could we have it by 4:00 o'clock?

Foley: Yes, sir.

Eccles: Can't do anything on rural housing. How can they get housing authorities in....

Currie: In the counties.

Foley: Counties.

H.M.Jr: Yes.

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- Eccles: From the standpoint of getting expenditures, it's meaningless - largely a political sop, isn't it?
- Smith: I'm not so sure. If you consider the development in the peripheries of cities - that's out in the counties, you see.
- Eccles: That isn't what they're thinking of.
- Currie: You have county authorities, Governor, you see.
- Eccles: It's all right if it's for that purpose. I see. In other words, what it is is this suburban area around cities where they need the housing authority - county housing authorities, in other words. Well, that might....
- Bell: This eight hundred million is the one that is now under consideration, and not in addition to.
- White: I didn't know whether you wanted to include it. At the time we first started, it wasn't certain. But it could be taken out now, since it is not an additional portion of the program at this stage, I take it. In fact, I think it should be taken out, since the proposal is through and it is really not part of ....
- Duffield: It's not through, it's got the House to go through.
- Eccles: Why not just cross this one off, because that's already being taken care of.
- H.M.Jr: I wouldn't, if you don't mind.
- Eccles: Make no mention....
- H.M.Jr: It isn't by the House yet.
- Foley: House.
- Eccles: What I mean is, it's in the program up there.
- H.M.Jr: Well....

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- Smith: It isn't cleared with the President either.
- H.M.Jr: No. My letter hasn't cleared with the President.
- Smith: I'm still holding that on my desk.
- H.M.Jr: No, Marriner, he's still, as far as I know, and I guess as far as you (Smith) know - he's opposed to it.
- Smith: We wrote a non-committal letter on it.
- Eccles: The President is opposed? Well then, let's put it in.
- H.M.Jr: Definitely.
- Eccles: I thought Straus had cleared that with him.
- H.M.Jr: Am I. - I don't want to....
- Smith: I think that's right. We are in a state of confusion about it, just waiting until the President says what he wants to do.
- Eccles: Why should this Committee get into it, because if we are limited to three or four items....
- H.M.Jr: This won't hurt. If you don't mind, for - here are two members that want to get a clearance.
- Eccles: Well, you're favorable to it.
- H.M.Jr: Yes.
- Eccles: I'm favorable to it, too, but my thought was that it is likely to go through. If it is a question of the President not being sold on it and I can be helpful, I'll be glad to help sell. But I thought he was already more or less sold, so let's use our ammunition for....
- Smith: The point really, I think, is this, that we have a non-committal report on it; that, since it's a part of this consideration, we want to do something more than that.

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- H.M.Jr: Yes.
- Smith: He asked for a non-committal report - to let it go.
- H.M.Jr: Well, I want to be - you say, are we for it? Yes, but there are certain things that we object to, as to national banks being able to loan on the local authority's bonds. With that exception - is that right?
- Foley: Yes.
- H.M.Jr: - ....we are for it.
- Foley: Underwriting it....
- Eccles: In other words, you....
- Foley: ....beyond ten percent. They want to eliminate the ten percent and make it exactly the same as obligations of the....
- Eccles: Of the Government.
- Foley: ....of the Government and the public bodies, States, municipalities.
- Eccles: In other words, banks now can distribute municipals and Governments.
- Foley: Yes, without restrictions.
- Eccles: That's right. They can go into the field of underwriting.
- Foley: That's right. And they want to - unless the law is changed so far as these obligations are concerned, they'd be limited to 10 percent.
- Eccles: And you want to take....
- Foley: Straus wants to take it out and we don't think it ought to be taken out.
- Eccles: Why?

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- Foley: Because these obligations aren't the equivalent of Governments.
- Eccles: Well, they're as good as municipals.
- Foley: No, they're not.
- Eccles: Huh?
- Foley: No, sir.
- Currie: Their interest is guaranteed - sinking fund.
- Foley: It isn't guaranteed, that's the difference.
- Eccles: It isn't guaranteed, but the practical effect of it....
- H.M.Jr: Marriner, excuse me, if you want to - we've been on this for about five months, and if you'd like to have - between now and 4:00 if you'd like Foley to come over and explain our position, we'd be delighted to.
- Eccles: I think these other things are very much more important from my point of view, so I'm....
- H.M.Jr: I mean everybody in the Treasury is in agreement on that particular thing. We don't want it. But we'd be more than pleased to have somebody come over.
- Foley: He doesn't need it anyway.
- H.M.Jr: He can't do business on that basis. But I'd like to leave this eight hundred million dollars in, wouldn't you, Smith?
- Smith: Yes.
- H.M.Jr: How about you, Mr. Delano?
- Delano: All right with me.
- H.M.Jr: Well then, we've agreed on one thing.
- "2. Reduction of FHA maximum interest from five to four percent."

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- Eccles: I'd like to suggest on that that that reduction be made not only on houses costing less than six thousand dollars. Why make the exception? I'd just simply say the interest rate....
- White: That's already been out out.
- Eccles: You cut that out - that the interest rate be reduced. Now, that can be done without legislation. McDonald, the administrator, has the power to do this. You don't need any legislation on this.
- H.M.Jr: Need a subsidy to do it?
- Eccles: No, don't need a subsidy.
- Currie: No charge in the budget.
- H.M.Jr: Does he want to do it?
- Eccles: Well, I don't know. There is this: naturally, the banks and the financial institutions that are taking FHA mortgages - they kicked like hell when we knocked out the half of one percent service charge last year. They said that "this is expensive financing" and that they wouldn't enter the field. Well, we knocked it out and it didn't make a particle of difference. Now, with the excess funds they have, the fact they are paying no interest on demand deposits and that they are paying no more than two on time deposits, on savings, and in most instances they are paying a good deal less than that - with the present tremendous competition to get these mortgages, I think that he could change the top from five percent, put a top of four percent.
- Gaston: You think they'd still make the loans, huh?
- Eccles: I was going to show you how they'd make it. This is the way I'd make sure they'd make it. We'd set up a mortgage association. We have the RFC Mortgage Association, which stands ready to buy FHA mortgages, but they buy FHA mortgages on the basis of - what is it, four and a quarter, four and a half?
- Currie: Four and a quarter.

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- Eccles: All right, they buy them at four and a quarter percent, you see. Now, this mortgage association should now stand ready to buy them at three and a quarter percent. In other words, it would mean then that if a banking institution with surplus funds, and they all have surplus funds, wouldn't loan on this basis, see, then your building and loan and your mortgage associations and others would make the loans and turn them over to the RFC mortgage company. Well, that in itself would tend to cause all of the approved institutions to loan at that rate. We saw the way this....
- Bell: Don't see why they don't loan it at five.
- Eccles: They are loaning it at five.
- Bell: Why is there a big boom in housing if you expect a two billion dollar increase in housing by decreasing rates from five to four? Why is there a boom at five?
- Eccles: There is a good one.
- Bell: I don't get the incentive.
- White: One percent - smaller carrying cost on the part of the prospective builder.
- Eccles: There's a lot of people that would borrow and build houses both for rent and occupancy if the monthly payments were reduced to the extent that this would amount to.
- H.M.Jr: Let me ask you, whose hide does the one percent come out of?
- Eccles: Comes out of the lending institution.
- Bell: Bankers.
- Eccles: Banks and insurance companies. Now, a five percent rate at the present money market is too high a rate for a guaranteed mortgage.
- Gaston: Would it affect existing contracts, Marriner?

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- Eccles: No.
- Gaston: Wouldn't affect existing contracts.
- Eccles: No, those are already made. All it would do - we have already reduced it from five and a half to five a year ago; now, since that time, interest rates have dropped. You take Government bond rates - all kinds of rates have dropped except FHA mortgage rates.
- Currie: Except that on a voluntary basis some of the New York banks are now making FHA loans at four and a quarter.
- Eccles: That's on the large projects; that's on the large limited dividend projects.
- Currie: No, I think on the straight FHA stuff - two or three banks.
- Eccles: Well, there is a little of it, but throughout the country as a whole they're getting five percent.
- White: Wagner raised an objection something like this in the conversation. He said they'd be most reluctant to permit some people to borrow at four percent - makes a lot of difference when you total it in the total cost of the house - whereas others have paid five, merely because they borrowed last year. I'm merely giving the other side of that.
- Eccles: Of course, if they borrowed - made private loans five years ago, some of them are still paying seven. You can't....
- H.M.Jr: Well, Marriner, if this was a matter which was voluntary - I mean if a man was in business and he was charging five, wouldn't the way he would do - he might drop it a quarter of a percent at a time; he wouldn't slash one percent. I mean it would be - if you were in a bank, if you were back in your own banking business, you wouldn't slash one percent.
- Eccles: Just depends on what competition is.
- H.M.Jr: You don't know what one quarter would do. Or they might take two off.

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- Eccles: I don't think that a quarter is any particular inducement. Now a four percent rate for housing - you take the interest rate in Sweden, it's three percent, has been for some time, and they've got far less idle funds than we've got.
- H.M.Jr: But you can't compare Sweden....
- Eccles: I'm not talking about getting that low.
- H.M.Jr: I mean to talk - put myself on record without having talked to Stewart McDonald - I mean if you wanted to put it in, make it this sort of language, that we feel that during the past year interest rates have dropped, and therefore FHA could well afford to drop its interest rate, and not specify the amount and show the direction. And you certainly want to give him a chance to argue about it.
- Eccles: Well, of course, the difficulty is this RFC mortgage company holding up the rate at four and a half percent, four and a quarter, that they are paying for these mortgages; and then they are financing it - they are selling debentures....
- H.M.Jr: Well then, there is another fellow - you don't want us to put the President in a position that he's going to order Jesse Jones or McDonald to do something, without giving them a hearing.
- Eccles: We haven't had time. What we've got to do is talk to the President about it. It seems to me we want to stimulate housing. Harry's got a program in number 3. When I say we ought to take USHA and FHA and do whatever we can do to get more housing through those two agencies - housing is tremendously important.
- H.M.Jr: Well, how is housing going now?
- Eccles: Just fair. It could be double what it is.
- Currie: I think they estimate about a billion eight for this year, Mr. Secretary.

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- H.M.Jr: As against what last year?
- Currie: As against one billion four.
- H.M.Jr: FHA?
- Currie: No, total residential construction.
- H.M.Jr: Again I say - just think it over - we could indicate that we think with interest rates dropping, that FHA and RFC might well drop their charges, without specifying the amount.
- White: Then if you're asked orally how much, you could say what you think.
- H.M.Jr: Show the trend.
- Eccles: This five to four is more than I suggested. The boys wrote it this way. I suggested from five to four and a half. I think I agree with you that a one percent drop....
- H.M.Jr: Listen, if you....
- Eccles: This drop isn't....
- Gaston: Now maybe we can trade.
- H.M.Jr: Marriner, if you can't keep track of the hall room boys, how can you expect me to?
- Eccles: They dropped this another half.
- Bell: Well, Harry is willing to trade, aren't you, Harry?
- Eccles: Isn't that right? Didn't you slip another half in there?
- White: Either a quarter or a half.
- Currie: My recollection was that it was four and a quarter and I think we dropped it a quarter.
- Eccles: No, it was four and a half.

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- H.M.Jr: Well, I again suggest no specified amount.
- Eccles: That makes a tremendous difference. You see, there is more than 10 percent in the interest payment.
- H.M.Jr: I again suggest thinking it over - to indicate that with lower interest rates, and so forth, that - that FHA ought to keep abreast of the time, and therefore....
- Eccles: That's right.
- H.M.Jr: Well, using language like that. You don't know how much. What?
- Currie: I think as a matter of fact they'd be sympathetic to that. I've talked to them.
- H.M.Jr: Using the words - that they should keep abreast with the money market. What? Doesn't that make sense, Johnny?
- Hanes: Yes, I think so.
- H.M.Jr: I don't know, maybe they should drop it two percent. I don't know - or a quarter, an eighth.
- Bell: Cut out the amount.
- H.M.Jr: Yes. All right, Smith?
- Smith: (Nods approval).
- Eccles: I'd say less than a half would be....
- H.M.Jr: Be willing to say that they should keep abreast of the money market?
- Eccles: Well, of course, it's a difficult thing to do that, to know just....
- White: Well, it could be stated that....
- Eccles: All they could do is put a top. They don't put any bottom. They put a maximum amount that a lending

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institution can charge, and as long as they are permitting them to charge five percent, there are a great many of them that are charging the five. But they would charge the four and a half if that's all they could charge, and make the loans in exactly the same way.

- White: The language might be somewhat like this: "Some reduction of FHA maximum interest may be called for in view of the lower rates of interest and in order to stimulate further borrowing. In order to make this effective, appropriate changes should be made in the RFC mortgage practice."
- Foley: Why not suggest to the President that he designate the Governor and yourself and Jesse Jones and McDonald to look into it and make a recommendation?
- H.M.Jr: I wouldn't give him - I'd draw his attention to the fact - we are willing to draw his attention to the fact that FHA, if the facts are correct, has not kept abreast with the money market, we feel so forth and so on can be done. Now, with a new set-up, all he'd have to do would be to send for Jones and tell him that. I don't think - I mean I question - I don't want to suggest a committee unless the President wants one. It just makes it that - if he thinks well of it, he can say, "Jones, under the new set-up, this is what I think I want."
- Gaston: State it just the way Marriner did. Ask for four percent and compromise with Jesse on four and a half.
- Eccles: That's with Stewart.
- Gaston: Jesse will be the big boss of the outfit, presumably, after July 1.
- H.M.Jr: Sure. Well, gentlemen, if it's agreeable, I'd like to stop here and then resume at 4:00 o'clock - can I do that - because I've got to go over to lunch at the White House.
- Eccles: All right.

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- H.M.Jr: And I think we'll start at number 4 after lunch.
- Delano: Number 3.
- H.M.Jr: No - well, I thought - if you people want to discuss 3 - I thought I'd start at four.
- White: Three was put in as a general educational program.
- Haas: Health program.
- H.M.Jr: That's the spirit. I mean we've got....
- Eccles: Number 2 may be worth while expanding - not only getting the interest rate lower, which is terribly important, but I think we may also think of the possibility of....
- White: Extending the amortization.
- Eccles: No, expanding that program by using WPA labor on these little - on small - on houses of six thousand or less. In other words, give a subsidy in the form of labor.
- White: We'll try to work something out, see what it looks like.
- Eccles: That doesn't involve a budget expenditure at all, because you're going to have your WPA labor and if you can divert that into housing and use it as a leverage, you'll get a lot more housing.
- Currie: That would require a change in the WPA legislation, because now they can only perform work for public bodies. That's what we ran into last year. They could do the service right up to the land - all the servicing.
- Eccles: You could permit them to use WPA labor on private housing that didn't exceed so much in cost as appraised by FHA, see?
- Currie: Yes.
- Eccles: Permit it to be done.
- H.M.Jr: Would you all come back at 4:00.

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June 13, 1959

My dear Mr. President:

I am inclosing herewith an  
up-to-the-minute progress report from  
John Hanes in connection with the tax  
bill.

Yours sincerely,

The President,  
The White House.

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The White House.

first copy; later  
revised 6-13-39

This is as it went  
to President; later  
corrected but

June 15, 1939

Secretary Morgenthau

Mr. Hanes

corrected copy  
not sent to Pres.

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The subcommittee of the Ways and Means Committee on Internal Revenue taxation at its meetings on Monday, June 12, 1939 made the following decisions with respect to matters to be included in the revenue bill:

1. Net Loss Carry-over.

- a. It was agreed (in the absence of objection) that losses should be carried over from 1939 to 1940, to be first used for computation of income for the year 1940.
- b. It was agreed (in the absence of objection) that a net operating loss may be carried over from one year to the two succeeding years. (Mr. O'Donnell estimated loss of revenue from a two year carry-over from business years like 1939, of \$23.6 million).
- c. As a part of its consideration of the matter, it was understood by the Committee that capital losses would be excluded in computing net operating losses.
- d. It was agreed in the absence of objection that personal holding companies should not be allowed this new operating loss carry-over.

2. Capital Stock and Excess Profits Tax.

- a. It was agreed (in the absence of objection) that the undistributed profits tax should not be extended beyond 1939 (Revenue loss estimated by Mr. O'Donnell at \$17.5 million) and that the rate on corporations above \$25,000 should be 16% (revenue increase with proposal in b. below estimated by Mr. O'Donnell at \$45 million assuming banks and insurance companies to be included in general treatment).

- b. As to corporations under \$25,000, it was agreed (in the absence of objection) that the rates in the present law with respect to these corporations should be continued.
- c. It was first agreed tentatively (in the absence of objection) that the dividing line between large and small corporations should be upon net income and not upon normal tax net income. On further consideration it was agreed that the dividing line should be on normal tax net income which is net income less interest on partially exempt Federal obligations and less the credit for intercorporate dividends.
- d. It was agreed that banks, China and Trade Act companies, insurance companies and corporations in possessions shall be treated like other corporations as to rates and that mutual investment companies shall be taxed at a flat 18% regardless of the size of income with the same credit for distributed income which these companies now receive.
- e. It was agreed (in the absence of objection) that foreign corporations engaged in trade or business within the United States are to be taxed at 18%, instead of 19% as in the present law.
- f. It was agreed (in the absence of objection) that the present provisions taxing foreign corporations not engaged in trade or business in the United States shall be continued. They are now taxed at 18% upon withholding income except dividends and at 10% upon dividends.
- g. It was agreed (in the absence of objection) that the special treatment given under present law to corporations in bankruptcy or receivership, joint stock land banks and rental housing corporations shall be eliminated so that these corporations will be treated like all others.
8. Elimination of the \$2,000 limitation on corporate capital losses.
- a. It was agreed (in the absence of objection) that there shall be no limit on deduction of long term losses by

corporations (Mr. O'Donnell estimated revenue loss at \$49 million).

- b. It was agreed (in the absence of objection) that there shall be a limitation on the deductibility of short-term losses so that they can only be applied against short-term gains for the taxable year with a one-year carry-over for use against short-term gains in the next year. (Mr. O'Donnell estimated revenue loss at \$1.4 million).
4. It was apparently agreed by the Subcommittee that all of the foregoing proposals shall first become operative for taxable years commencing in 1940.
5. Mr. O'Donnell estimated the net revenue loss from all of the foregoing proposals at \$15.7 million.
6. It was agreed by vote that the excise taxes and postal rate provisions shall be extended for two years.
7. Hendler case

It was agreed (by vote) that a provision to eliminate the problems created by the Hendler case relating to assumption of indebtedness in corporate reorganizations shall be included in the bill.

8. Kashland & Cowran cases

It was agreed (in the absence of objection) that a provision to eliminate the problems created by the Kashland and Cowran cases relating to the taxation of stock dividends, shall be included in the bill.

Treasury Department  
Office of the Under Secretary

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To:

From:

Please prepare answer  
for Mr. Hanes' signature

Please prepare memorandum for

Please reply direct

For your information

Memo:

Corrected  
copy (not  
sent to President)

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 13, 1939

TO Secretary Morgenthau  
FROM Mr. Hanes

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1. Net Loss Carry-over.

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- c. As a part of its consideration of the matter, it was understood by the Committee that capital losses would be excluded in computing net operating losses.
- d. It was agreed in the absence of objection that personal holding companies should not be allowed this new operating loss carry-over.

2. Capital Stock and Excess Profits Tax.

It was agreed (in the absence of objection) to allow redeclaration of value upward in 1939 and 1940. (Mr. O'Donnell estimated revenue loss at \$4 million).

3. Corporation Tax.

- a. It was agreed (in the absence of objection) that the undistributed profits tax should not be extended beyond 1939 (Revenue loss estimated by

Mr. O'Donnell at \$17.5 million) and that the rate on corporations above \$25,000 should be 18% (revenue increase with proposal in b. below estimated by Mr. O'Donnell at \$65 million assuming banks and insurance companies to be included in general treatment).

- b. As to corporations under \$25,000, it was agreed (in the absence of objection) that the rates in the present law with respect to these corporations should be continued.
- c. It was first agreed tentatively (in the absence of objection) that the dividing line between large and small corporations should be upon net income and not upon normal tax net income. On further consideration it was agreed that the dividing line should be on normal tax net income which is net income less interest on partially exempt Federal obligations and less the credit for intercorporate dividends.
- d. It was agreed that banks, China Trade Act companies, insurance companies and corporations in possessions shall be treated like other corporations as to rates and that mutual investment companies shall be taxed at a flat 13% regardless of the size of income with the same credit for distributed income which these companies now receive.
- e. It was agreed (in the absence of objection) that foreign corporations engaged in trade or business within the United States are to be taxed at 18%, instead of 19% as in the present law.
- f. It was agreed (in the absence of objection) that the present provisions taxing foreign corporations not engaged in trade or business in the United States shall be continued. They are now taxed at 15% upon withholding income except dividends and at 10% upon dividends.
- g. It was agreed (in the absence of objection) that the special treatment given under present law to corporations in bankruptcy or receivership, joint stock land banks and rental housing corporations shall be eliminated so that these corporations will be treated like all others.

4. Elimination of the \$2,000 Limitation on Corporate Capital Losses.

- a. It was agreed (in the absence of objection) that there shall be no limit on deduction of long-term losses by corporations. (Mr. O'Donnell estimated revenue loss at \$49 million.)
- b. It was agreed (in the absence of objection) that there shall be a limitation on the deductibility of short-term losses so that they can only be applied against short-term gains for the taxable year with a one-year carry-over for use against short-term gains in the next year. (Mr. O'Donnell estimated revenue loss at \$1.4 million.)

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9. Koshland & Gowran cases

It was agreed (in the absence of objection) that a provision to eliminate the problems created by the Koshland and Gowran cases relating to the taxation of stock dividends, shall be included in the bill.

MEETING OF FISCAL AND MONETARY  
ADVISORY BOARD

June 13, 1939.  
4:00 P. M.

Present: Mr. Eccles  
Mr. Delano  
Mr. Smith  
Mr. Gaston  
Mr. Foley  
Mr. Bell  
Mr. White  
Mr. Duffield  
Mr. Haas  
Mr. Currie

H.M.Jr: Can I read this from Mr. Bell to me and see if it makes - if I can understand it.

Bell: If you want me to, I'll explain it. You don't have.... You can keep that; I've got a carbon.

H.M.Jr: Want to give them copies?

Bell: Yes.

The first three paragraphs are just an explanation of what they are doing. The table shows in the first column what is allowed in the budget, in the second column what is allowed in the budget and added by the Senate, and in the third column what is in the budget, what is added by the Senate, and the 150 million program in Harry's memorandum - in the third column. Those three items, plus 100 million for the cotton program which is mentioned in the memorandum in the back of the book, but isn't mentioned in the summary memorandum. And I'll explain it to you.

If they get only the 90 million dollars which is in the budget, they'll use 57 million 500 thousand for distribution of surplus products, which will include the stamp plan; they'll use 22½ million for export subsidy, which will be largely on wheat flour; and they'll use 10 million dollars as a diversion program for peanuts and prunes, et cetera.

Now, if they get the 90 million in the budget plus the 113 million which has been added by the Senate,

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they'll spend 95 million for this distribution of surplus commodities, 93 million for export subsidy, which will include wheat flour, lard and cotton.

H.M.Jr: Where are you reading from there?

Bell: Second column there.

H.M.Jr: I've got the ninety.

Bell: That's in the note.

H.M.Jr: I see.

Bell: And five million dollars will be an experiment on the stamp plan for distribution of cotton.

H.M.Jr: Five million.

Bell: Five million. That's an experiment. And ten million will be the diversion program.

Now, if they get the amount in the budget and the amount added by the Senate, plus 150 million shown in Harry's memorandum, under number 3 column, they'll use 225 million for distribution of surplus commodities, 93 million for export subsidy, same as the year before, and they spend twenty-five million for the cotton program - that is, the distribution of cotton goods under the stamp plan - and ten million for subsidy - or I mean diversion.

Now, if they get the extra hundred million for your cotton textiles, why, they would raise the distribution of surplus commodities by twenty-five million and add to the export of cotton, or the export subsidy on cotton, making that 133 million, and allowing 60 million for cotton textile distribution and 10 million for diversion, making 453. But they feel that the 353 program is the most practical of the lot.

H.M.Jr: What's that program, number 3?

Bell: Three, yes. They feel that they've got to go very slowly on the distribution of cotton textiles by the stamp plan and they would prefer number 3, I think, to number 4.

- 3 -

- H.M.Jr: But number 2 is the way it's in the bill now?
- Bell: Number 2 is what's in the budget plus what's in the bill as added by the Senate.
- H.M.Jr: And the 113 is added by the Senate, and 93 of it is export subsidy.
- Bell: That's right, yes, sir.
- Haas: Hasn't passed the House.
- Bell: No, that's still in conference. And you were right about 25 percent on commodities.
- H.M.Jr: I was right on that?
- Bell: That was added last year, and applies beginning with the fiscal year 1940, doesn't apply to '39.
- (H.M.Jr. gives Miss Chauncey his recovery program book to be changed)
- H.M.Jr: Does anybody want to ask Mr. Bell about this memorandum?
- Eccles: Number 3 fits in with the memorandum this morning, calling for the 150.
- Bell: That's right, yes.
- H.M.Jr: Everybody got a copy of this? Now, momentarily, I'm without a copy, so does anybody want to ask anything about this?
- White: Then that really should be 250 instead of 150 there, in the summary, if the textiles are to be included.
- Bell: No, I don't think so. I think that they added that afterwards. There was a separate memorandum in your book.
- White: I say if you're going to include textiles, this should be 250.
- Bell: That's right.

- 4 -

- White: It says "including cotton textiles, clothing, and dairy..." So it really should be 250 additional, which is really a total of 350.
- Bell: That's right, yes.
- Eccles: On the number 3 column, Harry, it provides 150 million for an extension of the stamp plan, is that right?
- Bell: Yes, that's right - of the stamp plan. But they say that if you want to add cotton textiles that you should put in another hundred million dollars. But it's questionable in their mind whether they can spend the whole hundred million dollars.
- Eccles: But you figure 25 million for distribution of cotton under 3, but you spend 60 million under 4.
- Bell: But you shift it from the stamp plan up to export subsidy. I don't think they are very strong for number 4. They don't talk like it.
- Eccles: Takes a hundred million more money.
- Bell: Yes, but they are not so certain they can be successful with a program as large as that in '40. '40 is on us now.
- H.M.Jr: All right on this? I haven't got my book, but I can remember enough.
- White: You can use this carbon if you want to.
- H.M.Jr: Well, who wants to discuss number 3? I mean which of you three gentlemen would care to discuss number 3, in the light of - I mean wanting to recommend it to the President at this session? Put it on that basis.
- Eccles: You mean the number 3 we looked at this morning?
- H.M.Jr: Does anybody think we ought to recommend it to the President?
- Eccles: I think it ought to be out.
- H.M.Jr: Out?

- 5 -

Smith: I think so.

H.M.Jr: Mr. Delano? Number 3?

Delano: Out.

H.M.Jr: Out.

Smith: That is on the basis that there is very little time to work out a more comprehensive scheme, and what is to be done in housing should be done by amendments to existing acts. Is that right? Or are you just giving up the idea of doing anything?

H.M.Jr: No, no. I mean explain that you don't give up. I think it was a year ago or two years ago that we sat around here for a couple months trying to set up what we called a Price Board on everything that goes into housing. What did we call it, Price Control Board?

White: Price Control.

H.M.Jr: And I've never given up the thought that we ought to have something like that, the way the English have. No, this isn't giving - this is - it's just shelving it as far as this session is concerned.

Smith: But I'm still not....

White: That was one of the powers granted to this Committee, in the explanation. One of the powers was for the creation of a permanent committee for the purpose of keeping constant surveillance over items entering into building costs, to prevent unjust increases and to initiate whatever steps are possible in the law to prevent such increase. We took everyone of those things....

Smith: I perhaps haven't made myself clear. I'll commence at the shelving. Are we dismissing any recommendation to the President on housing aside from number 2, or are we going to suggest that there might be some amendments to the existing housing legislation?

H.M.Jr: Talking for myself, I'm taking it - the question that I'm raising is, should we dismiss what is in number 3

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and content ourselves with 1 and 2?

Eccles:

Well, I feel very strongly that we should. I don't think that it is practical at this stage to set up number 3. If we had set up number 3 several years ago, in preference to possibly 1 and 2, and covered the whole field of housing, that would have been one thing, but we didn't do it. And now to bring in another - a new administrator, a new organization, even though it may be under the proposed lending organization that's been set up in the reorganization program, still it's a - it's an entirely new department to do a function that hasn't yet been done. And I don't think that - I think that it would involve too much controversy and you would have a good deal of conflict between this type of a set-up and FHA and the United States Housing Authority, until they were worked out. And God! I think we've got enough trouble now.

H.M.Jr:

Well, I'd like to make this program so tasty that the President will take it and fight for it. Now, it's got to be very attractive, the whole thing that we are putting up to him, and I think in this sort of thing that we raise in 3 - I think he just would throw up his hands as far as this session goes. But, to answer Mr. Smith, that doesn't close the door that this shouldn't be explored fully between now and next January. Does that answer your question?

Smith:

Well, I think so, with the possible question that I had in mind, because I am not familiar with these statutes, as to whether there was anything in there that might be plugged, we'll say, in 1 and 2 at this time by amendments of those acts. And I wouldn't know the answer to that. The boys have explored it.

Bell:

I think Harry's answer to it was that he didn't think the administration now administering number 1 could take on that additional function. Is that right, Harry?

White:

That's what I feel, and also the lawyers who were drafting a bill to include these and other powers .... They incidentally felt rather enthusiastic about it, and O'Connell, who follows the housing

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situation pretty carefully, says that USHA takes care of the lowest rental group and the FHA have above the two thousand dollar income, and that the housing to service a large part of the population between a thousand dollars and two thousand dollars income is not taken care of by either.

H.M.Jr:

What group?

White:

Between the thousand and two thousand dollar income groups.

And then they thought there ought to be some agency which would attempt to get tax reduction from localities. They also thought that what they would do would be to go into a community where they think housing is necessary, of one type or another, and draw the plans in the greatest detail and figure out the cost and the rental, and then publicize, advertise this kind of a project, with this kind of a yield, under this kind of a cost, and give private enterprise three months or six months to bid on it; and then if nobody bids on it, they would go in and do the work, setting up sort of sample communities all over, indicating that the thing could pay.

Then they also wanted to operate with the Interstate - have a committee operating with the Interstate Commerce Commission to see if they couldn't get a reduction in some of the transportation costs on some buildings.

The general intent was to have a committee whose sole intent was to get housing, irrespective of how and where, with no other alternative or purpose, and with all the possible powers that could be granted them; and the thought was that with such a group under the proper administration, with new powers and new wrinkles that could be developed as they went along, they could get results, whereas the present organization will not get any more results than they are contemplating.

Eccles:

It would bring up immediately the whole question of the Government going into competition in the field of private enterprise. It would raise a lot of those questions.

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H.M.Jr: It's too....

Eccles: Too involved.

H.M.Jr: The thing I'm trying to think of - that I want to take to the President things that in the last six years we have tried and made a success of and that we can do more of.

White: Well, this is a pretty drastic proposal.

H.M.Jr: Now, I sat around - don't want to argue too much about this thing - every time we touched on this thing, somebody would whisper, "Look out now; now look out for labor on this thing...." And - I mean we sat around here - I don't know why they were so worried, but they were. I don't think we've got time to digest this for the President - number 3. Certainly Eccles, who followed the housing thing so closely, feels that way.

Is it agreeable to leave it out for the time being?

Smith: My questions are answered.

H.M.Jr: Is that all right with you, Mr. Delano?

Delano: Yes.

K.M.Jr: All right? She's out.

"4. Expansion of Farm Tenancy Program, self-liquidating portion alone (in addition to present program of 165 million, of which 110 millions are self-liquidating)."

White: That's a bad name for it. We needed a name. It really is rehabilitation loans. In the explanation of that particular item, the breakdown is as follows. Can I give it very briefly, what that amounts to?

H.M.Jr: Please.

White: "1. For rehabilitation loans to approximately 400,000 low-income farm families who are known to be eligible and in need of assistance, 200 million dollars.

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"2. For loans to approximately 200,000 farm families for minor repairs and improvements to farm homes and buildings, 100 million dollars.

"3. For loans to associations for the purchase of land and development of farms and homes for approximately 20,000 low-income farm families...."

H.M.Jr: What do you mean by associations?

White: I imagine it means cooperative farmers' groups.

Bell: Is that a resettlement program?

Currie: Yes.

White: This third one.

Currie: That particular one, I believe, has to do with purchasing these very large plantations.

White: Oh yes, I remember. They've bought plantations and they have put on one plantation a large number of farms, and they call them associations.

Bell: They buy a large area of land and then divide it up into twenty-acre or forty-acre plots, build a house or a barn.

Eccles: This may have real value as a social project on a long-range program, but it seems to me that for our particular purpose now it isn't going to - it isn't going to be that type of investment or expenditure that's going to give any material stimulus. It isn't going to have the same multiplier, in other words, in giving employment that some other expenditures would have.

Another feature about it that seems to me to argue against a further increase of it is that it would tend to increase, if anything, agricultural production. It's going to put a lot of these farm tenants in a place where they can be productive, and it's productive in what?: in the production of cotton and other farm products. That's one of the effects

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it has. It would be like attempting to finance irrigation projects to bring more land under cultivation. It seems to me that to go beyond - now we have here at present 165 million already in the program, of which 110 are self-liquidating. The proposal to bring in this additional amount - at least another 530 million - that's a substantial sum, it seems to me, for what we're going to get out of it by way of stimulation of the national income, which we are thinking of primarily - of increasing employment and increasing the national income.

White:

I don't know why you have that feeling about this. There is a certain portion of it - I don't know, but probably offhand a fourth - which will represent payment for land, and that fourth will be non-employment-creating in the first instance, as you indicate. But the remainder of it goes to very low income groups and will have the same effect as expenditures in any other direction.

Before that is turned down, I should be inclined, if you have time, to listen to Baldwin, who sponsors this program. He can make a pretty good case for it.

H.M.Jr:

Well, might I say this, because I know this will be pleasing to the President; that that part of this farm security program which buys farms and sells them to the farmers on a forty-year basis - that that would be put into a corporation and that corporation would be permitted to sell bonds against the land, you see?

White:

That's what they've worked out on this.

H.M.Jr:

Yes, but just as to the land itself - I mean whatever - a tenant farm corporation.

Bell:

Farm tenancy.

Eccles:

But the loans for equipment and building would also go into that corporation.

H.M.Jr:

No.

Eccles:

Why not?

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- H.M.Jr: Would it?
- Bell: (Nods yes).
- H.M.Jr: Would it?
- Bell: I think so. They buy the equipment, buy a mule....
- Eccles: There may be some losses, but the losses would be determined each year when you appraised the assets, and you go to Congress.
- H.M.Jr: The way you do with Commodity Credit.
- White: That's the way this was worked out in detail - just the proposal.
- H.M.Jr: I know that would be pleasing to him, and I'd much rather organize it - I don't know how the rest of you feel - I'd much rather organize that kind of a self-liquidating, self-financing corporation and have to defend it, than I would a lot of other suggestions.
- Eccles: Why not do it in this way? If you're going to set up this self-financing corporation....
- H.M.Jr: That's the word: self-financing.
- Eccles: And it would naturally come - it is in Agriculture now, isn't it, Harry?
- White: Yes. They have a - I've forgotten it - they've got a name for it.
- Currie: Farm Home Corporation.
- Bell: It's the Farm Security Administration that handles it. They have authority to set up a corporation.
- White: They have set up a corporation in the Bankhead Bill.
- Eccles: Set up a corporation to issue up to 500 million of securities for these purposes, and the law would specify the broad purposes of the corporation. Now, that doesn't necessarily mean that next year they're going to issue 500 million. The point would be

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that that's the limit. If they use that, they've got to go back to Congress. They may be five years doing it.

E.M.Jr: I think they've presented it in its worst way. But that's what I had in mind and that's an original thought we had last week, and I think that will stand on its own feet. It's a great social need, and I think it's important.

Eccles: That would mean that the present 160 million....

E.M.Jr: Would come out of the budget.

Eccles: ....would come out and would go into this corporation, and any additional amount - the point would be, it seems to me, to point out to Congress that there ought to be 500 million over a period of time, which is not an excessive amount of authority to grant for this purpose.

E.M.Jr: And any deficit during the year we would send to Congress once a year.

Eccles: Since the loans are uncollectible.

White: Now, they have a good deal of detail on this. They are reorganizing it better now, while they have more time, but they did say definitely that the estimate that they have here - that they could spend that much in the calendar year 1940 - is predicated upon the assumption that they would be able to begin making their plans by October 1. If they can not have - if that is not true, then they have to wait, they claim, for most of these, for a good deal of it, until the next crop year, so it would become effective in '41.

H.M.Jr: Harry, if you would take what Mr. Eccles suggested and make it a 500 million dollar corporation; and what do you - I think in all of these things - a five-year life?

Eccles: Well, you could make....

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- White: Each one is different here.
- Eccles: Why couldn't you make - what you've got to do is to have a capital stock in this thing, and if you made a capital stock of, say, a hundred million for your corporation, with an authority to sell debentures up to five times that capital, and you'd go back to Congress at such time as you had exhausted your power to sell debentures or at such time as the losses had absorbed the capital - each year you'd report to Congress and have them appropriate the deficit that was created in the capital and keep it the hundred million, so you've got your revolving fund of 500 million.
- Currie: Is it necessary to start it out with the hundred million capitalization, because that's a direct charge on the budget. Did you do that in Commodity Credit?
- Bell: Yes.
- H.M.Jr: Yes.
- Eccles: Well, you've already got in the budget 165 million, so this would be 65 million less than you've got now in the budget.
- Haas: It's really unnecessary while you guarantee the securities. It's a fiction you carry over from private finance.
- Eccles: If you don't guarantee the securities, you're going to pay at least one percent more for your money. And for all practical purposes the Government has got to be back of it anyway.
- Haas: I think that's all right, but, having guaranteed the securities, why do you need a capital stock cushion?
- H.M.Jr: You don't.
- Eccles: RFC has got a capital stock.
- Haas: It's a fiction that you use in private finance.

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- H.N.Jr: George is right. I mean you can get along....
- Foley: If you're going to adopt this Commodity Credit principle, sir, you've got to have that capital stock cushion. Otherwise, you can't follow that principle.
- White: Is that an integral part of the principle?
- Foley: Sure it is.
- White: Why?
- Foley: You've got to have unimpaired capital. You've got to start with capital.
- Eccles: You rebuild it back.
- Foley: If not, you've got no cushion and you've got no reserve that you've got to keep undiminished.
- Haas: Each year you make up a deficit.
- Foley: You'd be guaranteeing the debentures and then making up the losses.
- Gaston: You'd be operating in an insolvent condition.
- Foley: That isn't the same as Commodity Credit. You've got to have a capital.
- Eccles: Isn't the same as HOLC or Federal Farm Mortgage. Each one has a capital, and the capital may not have to be more than a ten-for-one - one-tenth or it may even be a twentieth. It doesn't necessarily need to be a hundred million but you certainly, it seems to me, should have a capital so that at the end of each year your losses are not likely to exceed that capital. Otherwise you've got a guaranteed debenture where it is really impaired, and you haven't got assets back of it. And you should always be in a position....
- White: If you had 25 million, it would be ample.
- Haas: As long as you have it guaranteed, the collateral behind it isn't the significant thing. That's the point I'm making.

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- Eccles: Publicly, though, people would say that these guaranteed debentures haven't got assets back of them. You want to be in the position always of saying that these guaranteed debentures are always fully and adequately supported by self-liquidating assets.
- H.M.Jr: Well, may I adjudicate this. Following the principle that I'm trying to - the one that I myself am following - that we only do those things which have proved successful, let's take the Commodity Credit principle.
- Foley: That's the way we set up these two corporations, as much of this as we have been able to draft.
- H.M.Jr: I mean that's what I'm - so we don't have to go to the President tomorrow and try to sell him something new. Is that agreeable to you?
- Delano: Yes.
- H.M.Jr: Mr. Smith?
- Smith: (Nods yes).
- H.M.Jr: On that basis it would be a 500 million dollar corporation.
- But I'd like to see listed what they are going to do for the tenant farmers under that.
- White: The first five which they've got listed, I take it, is what you have in mind - the first five they've got listed in it. I can either repeat them or you can find them in there.
- H.M.Jr: Repeat them.
- White: The first one is rehabilitation loans to approximately 400,000 low-income farm families who are known to be eligible and in need of assistance. And if you like, they've got a paragraph on that, explaining that.
- Well then, number 2 would be for loans to approximately 200,000 farm families for minor repairs

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and improvements to farm homes and buildings.

Number 3 would be for loans to associations for the purchase of land and development of farms and homes for approximately 20,000 low-income farm families.

Number 4 would be for loans to approximately 20,000 farm tenants to enable them to purchase the farms upon which they are tenants.

H.M.Jr: Now, Harry, may I make this suggestion. In presenting this, let's put it differently - I mean the way they did on the food tickets, that there were 18 to 20 million people who can be reached through food tickets. Now, there are 400,000 people who can be reached, there are 20,000, so forth; not definitely "We are going to reach them," because the chances are nine out of ten we won't, but the potential customers, your field - "The field is this." You see what I mean?

Eccles: How many is that total?

White: There is one other item for providing needed water facilities for arid and semi-arid territories.

Currie: So far that's 640 families.

White: 640,000 families.

Currie: 640,000 families.

Eccles: So you have two million people that it's designed to reach.

H.M.Jr: That this 500 million dollar corporation - the population - the need of this kind of assistance, is for a million and a half, two million people; now, we are proposing with a 500 million dollar corporation....

White: "To be used for the following purposes."

Currie: You can use a higher multiplier there, because farm families are bigger than our families.

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- H.M.Jr: You can say what the field is, because we're not going to meet it all, any more than we've given a job to everybody.
- Eccles: This is a credit corporation, a corporation for the purpose of extending a certain type of assistance or credit. It certainly is marginal or border-line credit, of course. As I understand it, we would expect there to be substantial losses that would only be a charge against the budget as they occurred from year to year. A lot of this would be taken where you couldn't get any security. There would be practically no security. It would be an advance, and rather than a WPA - I mean a....
- White: They say they take second mortgages even, which of course aren't worth much.
- Bell: Chattel mortgages.
- Currie: Milo Perkins thinks the farm tenancy loans will pay out in full, and the rural rehabilitation loans, on the basis of their experience in recent years - 70 percent would be conservative.
- Eccles: It's a question of relief or this. If you give relief, it's all gone.
- H.M.Jr: To give you an example, half the State of North Dakota is uninhabitable at the present time. It's a question of moving the people. If you had this land or you could buy land for them and move them, not have these terrible camps with people living in this squalor - this thing would be to reach the very bottom rung of the ladder on the farms.
- Eccles: Well, your southern tenant farmer is a similar problem.
- H.M.Jr: Or look at your thing in Southern California. It's something too terrible.
- White: There is part of this problem which doubtless you are familiar with but they stress, the men who were over here. They have a marvelous educational training organization built up now - it took them a long time to build it up - in which they go to these farms

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and show them how to develop truck gardens and how to take care of proper farming practice. And they say they are having astounding results. These people are terrifically ignorant of the most elementary kind of agriculture. Most of them are underfed because they don't - the tenant farmers don't have little garden plots for their own use. They acquire them, put them in, show them how to operate them.

Eccles: Well, I'm for the thing; I'm very favorable to it as a permanent program. But I doubt if there's a possibility of getting out 400 million and doing a good job of it, and therefore I think that....

White: Well, they say they've done an awful lot of preparatory work.

Eccles: Well, I'm favorable to setting it up along the line that the Secretary suggests, so that whatever they can do next year in a proper way - it's available. But as I say, I wouldn't figure that they are going to handle 400 million. I don't think they'll get anywhere near that out.

H.M.Jr: Well, I approach it from a little different angle than White and Currie, and I'm not being sarcastic; I mean it sincerely. They're thinking in terms of what is the maximum we can get out. I am thinking that here's a class of people - we've spent hundreds of millions of dollars trying to find out how to serve them; now we have learned a process and this is the best thing we have been able to do. Rather than discontinue it, I am suggesting this thing so we can continue on a more or less permanent basis and let it stand on its own feet. There is no question as to the need. We have spent hundreds of millions of dollars learning how to do it. Now we've done it, learned how to do it, fairly well; there's a good organization over there. I'd like to see it continue, whether they get out 50 million, 100 million, 200 million; that's up to the organization. But that particular group who will be taken care of - now, I'm interested in taking care of the group in a way that is sound, and how much goes out is incidental.

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- Eccles: You're thinking of it as a real social problem and not as merely a recovery measure; as more or less of a permanent social problem which can contribute toward recovery.
- H.M.Jr: I'm going back to - what I'm trying to do here is, with the help of you gentlemen, to bring to the President's attention our pledge of the New Deal that we're going to take care of the lower third. Now, here is an enormous group we have made a start on, and I'd like to see it continue. That's the whole thing. I'm not taking the dollar velocity or anything else. I mean here is an enormous group. Well, I don't think we can afford to forget about them. I mean instead of being telephoned and telegraphed that you've got a thousand, fifteen hundred people on that road - where was it, in Arkansas or Mississippi?
- Eccles: Arkansas.
- H.M.Jr: And then everybody scatters around trying to find a place to put them. And then - you know - I mean....
- Eccles: Missouri, wasn't it? Near St. Louis.
- H.M.Jr: It was terrible.
- Eccles: As I understand it, we're going to suggest a setting up of a corporation of, say, 50 million of capital, which would be permitted to issue debentures of ten times that, which would be 500 million, for this purpose. Now, the 50 million then - whereas now in the budget you have 165 million, you would then only have the 50 million of the original capital in the budget this year.
- White: With one qualification. They say the administrative expenses are very high, so the administrative expenses on this sum, I think, amounts to almost 25 million dollars. So I take it that that would be taken care of in the budget; so the budget might be reduced from 165 possibly to 75, 50 of which would go for the capital and the rest might go for administrative expenses.

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Bell: Administrative expenses are part of your losses.

H.M.Jr: I think you better, as long as you've got it there - you'd better make it a hundred million dollars.

White: And have their administrative expenses be treated as current losses to be replenished next year if Congress so sees fit.

Eccles: Out of the hundred million.

White: Out of the hundred million.

H.M.Jr: But the beauty of this is, each year you can take an inventory and the public knows what you're doing.

Am I going too fast? Mr. Delano?

Delano: No.

Smith: No.

H.M.Jr: But this.... All right, Marriner?

Eccles: Yes, I'm....

H.M.Jr: Johnny, you want to say something?

Hanes: No, nothing.

H.M.Jr: Herbert?

Gaston: No, I think it's a good thing regardless of whether there is an economic effect from it.

H.M.Jr: I think so. All right, that's O. K., then. I've been trying to be....

Now, this next thing, is that new?

White: Yes, that's new. I just got a couple paragraphs on it. I don't know anything about it except the fact that it is supposed to be - there are a lot of farm lands which are being destroyed by virtue of lack of terracing and lack of conservation practice.

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H.M.Jr: Harry, we've got a whole program on that.

White: They claim that these individual farmers and counties, if they could borrow....

H.M.Jr: How much have we got in that?

Bell: 500 million dollars. The whole program is a soil conservation program, part of which is terracing and prevention of soil erosion.

White: Does that apply to individual farms, or does....

Bell: A man signs a contract. He signs it to do certain things on his farm, not only to put manure on it and a fence, but also to prevent washing away.

White: This is what he says. I don't know whether that replaces this.

Bell: We also have a Soil Conservation Division which is an educational thing.

White: Well, this is what he says.

H.M.Jr: But you've got....

Bell: An educational program.

H.M.Jr: Who is "he"?

White: Wilson of Agriculture.

Gaston: M. L.

H.M.Jr: That isn't the man. They've got a man over there....

Gaston: Bennett.

H.M.Jr: Bennett is the fellow.

White: I suppose they got it from him.

H.M.Jr: They've got a program.

White: This is what he says about it. He says, "All such Federal assistance...." - which he enumerates above

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when he refers to the same things you do - "...is predicated upon the assumption that local districts will be responsible for and finance a major share of various types of work necessary to agricultural stability and conservation; and that there are some localities which are not able to do so because they haven't got the money." And he wants to loan them....

- H.M.Jr: Not on a self-financing, self-liquidating basis. I don't think it measures up to it. How much did we spend....
- White: It says "profit projects carefully selected and carefully conceived, which would be self-liquidating; a hundred million would be feasible for the year 1940."
- Bell: Soil Conservation Service has 25 million dollars that they use on sort of an educational basis. They go around and establish a demonstration project in each county, and the farmers are supposed to come there and get their education as how to prevent soil erosion, how to conserve their soil; go back and do their own work. That's the Soil Conservation educational program. And then they have the three-A program, which also includes soil conservation as part of the benefit payments.
- White: I certainly don't know anything about it. I don't think it should be disposed of without a chance of somebody who does know something about it defending it.
- H.M.Jr: I know something about it. Bell knows something about it. They've got a program. It can't stand on its own feet.
- White: O. K.
- Gaston: That's an alternative they could use if they are willing to make their soil conservation program a soil conservation program instead of a rural benefit program, a subsidy program, which it is now. They could organize local corporations, public authorities to undertake on a really large scale soil erosion prevention and flood prevention work, and then they

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cause the farmers who get these benefit checks to assign their checks to this corporation for service on this corporation's securities. And they could also get soil conservation accomplished, but they are treating them now almost entirely as subsidy payments to farmers, as a reward for following their program. It isn't a soil conservation program.

Goules: That's right.

H.M.Jr: But in the hour the President gives us tomorrow we can't....

Eccles: Well, this seems to me to have other possible complications. Now, here's a case of loans at one percent interest to be paid over 20 years. Now, I can hear a lot of real press and Congressional reaction again: "Here's a hundred million of subsidized interest, a one percent program." The farmers have already got - most of the farms are mortgaged to insurance companies or Federal Farm - the land banks. And I feel like the Secretary does on this one, that it might have some real value, but to include it as part of a limited program - there are others, I think, that are more important.

H.M.Jr: Well, Gaston said it; but you've got to change that whole system over there and we haven't got - you haven't got time. And again, that doesn't say that between now and the first of January the Soil Conservation program shouldn't be revamped, but you can't do it in an hour.

Smith: Can't we say "out" and go ahead?

H.M.Jr: Out.

Eccles: I'm willing to say it's out.

H.M.Jr: Mr. Delano?

Delano: (Nods agreement).

H.M.Jr: Six. Now, on six, are you going to give us a corporation, self-liquidating, self-financing corporation?

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- White: Yes, they already have one worked out. Now, if you'd like the breakdown of what the 110 million is for, I've got it here.
- H.M.Jr: Yes.
- White: According to them, 72 million dollars of the 110 is for loans for line construction, and the terms are as follows: self-liquidating within a period of 25 years; interest rates approximately  $2\frac{1}{2}$  percent, on that 72 million.
- Then they have two million for loans for construction of generating plants and equipment, and the terms are similar:  $2\frac{1}{2}$  percent.
- H.M.Jr: Is that something new that they're doing?
- White: This is something in addition to what they are doing, but it is an expansion, I understand, rather than....
- H.M.Jr: I mean would the cry come up that we are competing with private power plants?
- Gaston: That's such a small amount; they must be remote localities which haven't any line service and they are building little generating plants to take care of it.
- White: This is what they say about that particular point which we have raised. They buy the equipment from the power companies and they don't go to any area which public utilities are serving. This is supposed to be supplemental. They don't want to use the word "non-competitive" because there has been some question as to whether they are competing with a public utility in the sense that the public utility says, "We intend to go into this area sometime in the future."
- Bell: Isn't there a prohibition in their Act, present Act?
- White: Yes, and the Supreme Court decision....
- Gaston: Territory now served.

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- Eccles: You mean a prohibition as to what?
- White: Of being competing. They can't compete.
- Gaston: Running parallel lines to existing lines.
- Eccles: This is already - there is already a corporation.
- H.M.Jr: No.
- White: No, they just changed this year. This year is the last year in which they are getting an appropriation. They are shifting over. If they get this program, they will shift over to a new set-up.
- H.M.Jr: In this case, what do they need, a capital of 25 million or 50 million?
- White: If you want to handle it the same way as the others, they'll need some small amount of capital and the rest in borrowing capacity.
- H.M.Jr: 25 million?
- White: If it would be on the same proportion of ten-to-one, they would only need 10 million.
- Eccles: This program calls for 110 million.
- White: Yes, ten times one.
- Foley: I thought all they needed was just additional money.
- White: Not if they want to borrow so it wouldn't appear in the budget.
- Bell: What they originally planned was to take their loans that they have on the books and use them as capital, some 60 million, wasn't it, Gene?
- Duffield: I've forgotten.
- Bell: Use that as the basis of capital and borrow the money on their own.

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- Eccles: Harry, you've got 110 million which is called for now, and they've already got 40 million in the present budget program, so that would give you 160 million. In other words instead of the 40 million in the present program, that would be added to this program and this program would call for 160 million. What you could do then is to set up a corporation, say, of - instead of 160, say, set up a corporation of 50 million giving it the right to sell debentures for this purpose.
- H.M.Jr: Up to a hundred million.
- Eccles: Up to - well, you possibly need more than a hundred.
- Currie: Two hundred.
- Foley: Five times.
- H.M.Jr: What? Too much.
- Eccles: Well, if it's a 50 million corporation, say you give it up to 250 million before you needed to go back to Congress. This calls for 160 now for this next year. My point is, instead of fixing it for what you need for one year, you might say, "We'll set up a corporation of 50 million and we can sell five times." There's 250 million. That will take care of the next year, maybe the following year. Your idea is to reduce it....
- H.M.Jr: I'm just asking Dan. Dan said - what do you think? You said 60 million....
- Bell: As I recall - we worked on that financing bill - they had on their books about 55, 60 million dollars worth of loans, and we were going to use that as a basis of their capital and we were going to allow them to borrow about five times that.
- H.M.Jr: Well, there you are.
- Eccles: That's 300 million.
- Bell: That would be 250 borrowed and 50 million capital.

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H.M.Jr: 250.

Eccles: I suggested a 50 capital and the 250 borrowing limit, which is....

H.M.Jr: That's all right with me, because they're doing it now; they're doing it very well, too.

White: One of the items they have here, it seems to me, is one I heard you speak of favorably in your community. It would be a half million for the construction of cold storage locker plants.

H.M.Jr: Yes.

White: The interest rate here is one percent, but the period to which it is supposed to be self-liquidating is a seven-year period. In other words, what they've done here is adjust the interest rate to the period of amortization.

H.M.Jr: Harry, I'm not going to go into this one percent. It's got to pay the interest rate that the traffic will bear. I mean don't put anything - we're not doing one percent now. Put in the market rate.

White: The market rate, or whatever it costs us to borrow?

H.M.Jr: Yes.

White: It's not....

Bell: Two and a half is the other.

White: Don't you borrow seven years for one percent?

Eccles: Why should you put in the law that it's got to be loaned at this price? Why not - if it's a guaranteed debenture, then the market will determine it, if it's a ten-year loan or twenty-year loan or five-year loan.

H.M.Jr: How do I know when the Federal Reserve is going to sell out their portfolio?

Eccles: Better watch out, we'll fix the rate.

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- H.M.Jr: I mean it's - no, don't fix the rate, because that gets into an entirely new field, and I don't want to, Harry.
- White: Yes, we'll leave the rate out, then.
- Eccles: Well, if they can sell the debentures and they are guaranteed, you don't have to fix the rate.
- H.M.Jr: Will you listen closely. Don't put anything in here - because we're going very fast - anything that's new. I'm going to rely on you and Currie, see? Don't put anything in here that we haven't done before. That's for me, because I've got to put my name to it. So I'll rely on you two fellows. I mean if there is something new, please put it in red ink, because we're going awfully fast.
- White: Yes. That's their program, but we'll try to....
- H.M.Jr: But I've got to sign this thing, so I'm asking you two fellows to do the writing....
- White: If we have any doubts, we'll call it to your attention.
- H.M.Jr: In red ink.
- Currie: In terms of financing the set-up of these things?
- H.M.Jr: Anything.
- Currie: Part of this program, as I understand it, is new. This locker storage plant - is that new?
- White: They said they have done some small amount.
- H.M.Jr: I think the G.L.F. of New York is doing that - Ed Babcock. They have these cooperative lockers. The community builds a hundred lockers - sort of a cold storage plant divided up in a hundred units. A fellow has one, pays so much rental per year; he takes a fowl or pig, sticks it in there. It's worked out beautifully.
- Gaston: Frozen storage.

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- H.M.Jr: Frozen storage - farmers' cooperative. Really ought to be over in the Cooperative Section of Farm Credit. That's where it belongs, but they don't have it. And it's been tested in Ohio and New York and it's worked beautifully.
- Gaston: Put fresh peas and beans and things like that in there.
- H.M.Jr: It's a cooperative organization - limited dividends.
- White: Is it all right to leave that in there?
- H.M.Jr: Yes, but I don't want to run into this one percent, half of one percent stuff. Do you, Marriner?
- Eccles: Huh?
- H.M.Jr: Neither do you. You don't want to get into that one percent business.
- Eccles: No, I think if you put that in the legislation, that sort of thing will immediately cause an unnecessary rumpus, and it just isn't important, it isn't worth while to raise the point. You can loan it at whatever you want; fix your corporation so they're going to finance on the market, and then leave it up to the administrator to loan at such terms as he wants to loan at. That's the way to handle it. If he gets a case where he wants to loan some of these people at one, two or three percent, let him do it. I wouldn't write that stuff in the law.
- White: Some of these are partly self-liquidating. I have in mind farm rehabilitation. Some of their estimates were based on the low interest rates of one and one and a half. But since we can say wholly or partly self-liquidating, you don't have to say anything about rates of interest.
- Eccles: There's only one place I'd like to fix the interest rate, and that's on this equipment thing. The reason for that is, if you don't fix the rate at a certain point, the RFC, if you're going to adopt that program - they'll want four percent, and the net result is you'll wonder why you don't get any business.

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- Poley: You run that risk whenever you have that set-up; it needs to be flexible. It's a management problem.
- H.M.Jr: All right, Smith, so far?  
Rural telephone is new, isn't it, Harry?
- White: The rural telephone they say they have never tried.
- H.M.Jr: Then it's out.
- Eccles: Let's leave it out if they've never tried it.
- H.M.Jr: Let the next Administration do that.
- Eccles: I think it's small in the picture.
- Smith: They'll be surprised that there is something that hasn't been done.
- White: They have a memo on it. It's new.
- H.M.Jr: Now, Marriner, you'll have to carry 8 and 9, because that's your baby, isn't it?
- Eccles: Well, 9 - I don't get this 9 one here.
- White: Well....
- Eccles: Harry, just where do you get that?
- Gaston: It's just 8 - the same thing in another way.
- White: Both an alternative and supplemental way. I thought possibly 8 was out, in which case I thought maybe 9 might be the second best. 9 might supplement it. This may be a small amount; it concededly is small, and possibly not worth that way of handling it - the kind of loan that might be made at low rates of interest that will not be made any other way. They would be made as grants. But that's if you wanted them wholly self-liquidating.
- Eccles: That's pretty - I think we could leave it out. Nobody

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seems to know how much there is. I think it would be negligible. It would possibly complicate the program, for the amount that's involved. You didn't find out, Currie, when you talked to the WPA people, that there was any substantial amount that would come under 9?

Currie: P. W. A.

Foley: P. W. A.

Eccles: Yes, P. W. A.

Currie: I think perhaps what Harry had in mind there - I'm not sure exactly what Harry....

White: It's self-liquidating if you wanted self-liquidating projects. They would not be self-liquidating projects if you're going to subsidize half the servicing charges.

Foley: What it is, Governor, is a substitute or a supplement for yours. I mean it's a combination of your idea, except that it's designed for projects that will pay the whole debt service.

White: And maybe some besides.

Eccles: I see. In other words, it's a public....

Foley: If they want to put a bridge across the lower part of the bay there in Manhattan, from Manhattan over to Brooklyn, and they can't get the loan at a rate that they could afford to undertake the project at, you see, in the open market, then they could come to the corporation and the corporation would assume the risk until after the project was completed and in operation and had a proven record of earnings, before the bonds were dumped. Sure, you've got....

Eccles: The RFC can do it now.

Foley: The RFC can do it now. But this would be in the Public Works Agency instead of the lending agency. You'd have it under a coordinated head.

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- Currie: This would mean you'd have to set up a new authority to make loans.
- Foley: That's right, it would be in the Public Works Agency instead of in the lending agency. The RFC has got that power now.
- Scyles: I think....
- Foley: But they don't exercise it now.
- Scyles: I'd be afraid to propose setting up in the Public Works a lending authority.
- Foley: You've got your housing in there.
- Scyles: Yes, I know.
- Foley: That's where it belongs, for public works.
- Scyles: But you take - that's something new again.
- Foley: Of course, your PWA agency is a lending agency. That's going right in there.
- Scyles: The PWA is a very different....
- Foley: That's exactly what PWA has been doing right straight along.
- Scyles: The set-up we've been proposing here, of course, is that they would approve of the projects and the local community would finance them entirely outside, depending upon the annual appropriation of the Government to service the loans, like the United States Housing Authority, we'll say.
- White: This certainly provides sort of a catch basin for certain types of loans and investments that couldn't be taken care of through any one of the agencies that are set up. That may amount to a hundred, fifty, two hundred million.
- Scyles: I'd like to know more about the prospect, what need, what demand there is for it, whether it's a substantial demand and there are a lot of projects

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that otherwise there is no mechanism to develop. Now, I know in the other field there is a lot of them. And before I want to propose this as a part of it, I would like to know more about what the real need is, what the prospects are.

Smith: What do you mean here by low rates of interest in that connection?

White: Well, we thought here of rates of interest which are comparable to the cost to the Government.

Smith: I see. That's what I thought you meant, but I wasn't sure - that it wasn't fixed.

White: No. I was thinking, instead of the RFC rates, you see, to have the rates comparable to the cost of borrowing.

Smith: In 8, the local units would sell their own securities for that, and the Federal Government....

Haas: ....would pay all the interest. Service on the interest rate makes them self-liquidating.

Foley: What 9 is is merely an alternate for 8. I mean if you're not going to be as generous as 8, then, by gosh, you ought to do something, and number 9 will do it.

Smith: I thought it was a supplement rather than an alternative.

Foley: I think it's an alternate.

Smith: Do you?

Foley: Yes.

Currie: Could you accomplish that if you had very low rates of interest from the RFC?

Foley: I would certainly say there's no reason for 9 if you adopted 8. But I thought if you didn't get away with 8, then you ought to have a second line of defense, and that's 9. There is a need for 9 and there are projects that can be financed under 9, if you're not going to do 8, or if you're not going to make grants.

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- Eccles: Well, yes, but I think that what we want to do is to talk of a program and not talk of an alternate. Now, I think when we go to the President on this program, let's not confuse him by saying that "Here's a program, here's an alternate, here's another alternate." I think you've got to simply say, "Here is a program," and then get that under consideration. If the thing goes to Congress, then you may have to adopt or accept alternates, but I think for our purpose - I don't think you want to confuse the thing with alternates.
- White: If it has raised so much question in your mind, it will do at least as much in the President's mind, if he stays with it that long, so it might as well go out.
- Smith: You'd have 8 in and 9 out, is that it?
- Eccles: You don't need 9 if you get 8. I'm assuming we're going to get 8.
- Foley: And if you don't get 8, my point is, apply for 9.
- Eccles: That's right.
- Foley: But I agree with you, you ought to make up your mind what you're going to propose and then eliminate the other one.
- Eccles: I think 8 is better than 9.
- Foley: If you can get it.
- Eccles: What?
- Foley: Yes, if you can get it. You'll do more work under 8, much more; cost you more money.
- H.M.Jr: Could I make a suggestion? It seems to me that out of 8, 9 or 10, if we're going to do any we ought to do one of the three, but not all three.
- Eccles: Well, personally, 8 is the one I've had in mind all the time; 9 is merely an alternate program if you can't get 8. As far as 10 is concerned, I think

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that really has got to be out. I don't think 10 is very practical right now.

H.M.Jr: Personally, I'm not for any of them.

Eccles: Huh?

H.M.Jr: I'm not for any of them, because I don't think any of them come under the self-financing, self-liquidating....

Foley: 9 does. That's why I put it in there. I'm responsible for 9, because I thought maybe you might go along with 9 if you wouldn't go along with 8.

H.M.Jr: Are you looking at Eccles or at me?

Foley: I'm looking at you.

H.M.Jr: Why do you look at him and talk at me?

Foley: I thought I was looking at you and talking to you.

White: I'll take him to an eye doctor.

H.M.Jr: All right.

Eccles: 8 is self-liquidating in the same sense that 1 is.

H.M.Jr: Well now, if you said 9 is for my benefit - remember?

Foley: I'm looking at you.

H.M.Jr: Why do you think it will please me - 9?

Foley: Because it is purely self-liquidating. It means that without any subsidy whatsoever the corporation would buy obligations of non-federal bodies that would pay out from sources other than taxation, and whatever cost there is to the Federal Government would be returned to the Federal Government over the life of those projects that it has financed.

H.M.Jr: All right. Then....

Eccles: There won't be any projects. The number of projects under that....

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H.M.Jr: Give me an example.

Foley: Let's say they want to build a bridge - the bridge that Bob Moses is talking about up in New York.

H.M.Jr: You've got your - what's the matter with your Federal Toll Authority?

Foley: Because the Federal Government wouldn't build that. The Triborough Bridge Authority would build it. Let's say he went to the bankers in New York and they said six percent. Let's say the bridge wouldn't pay out if he had to pay six. He could come to this Authority, and you'd loan him the money at three and a half or four. You'd borrow the money at two and a half, too, and you'd have a completely self-liquidating project, because the Federal Government would get it all back.

H.M.Jr: Can't the RFC do just exactly that?

Foley: Yes, they've got that power. But this would be in the Public Works Agency, not in the lending agency.

H.M.Jr: But the RFC has that power now. That's what they're doing. We just sold last week seventy-odd million....

Foley: But they didn't buy them. Those came from PWA.

Eccles: They financed the San Francisco Bridge.

Foley: They did that when they had a self-liquidating program, before it was turned over from PWA.

H.M.Jr: They still have that authority though.

Foley: It was taken away from them, given back by Senator Glass a couple of years ago.

H.M.Jr: What I'm willing to do is this. I'm willing to put in a paragraph directing the President's attention to the fact that the RFC still has that authority. He can direct them to do this sort of thing. I'm perfectly willing to do that. See? I'm perfectly willing to do that.

Eccles: You've got no public works program, have you?

H.M.Jr: Yes, we have.

Eccles: Where is it?

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- H.M.Jr: Well, we've got about four billion dollars from the first of July on.
- Eccles: Huh?
- H.M.Jr: We've got four billion dollars on the books.
- Eccles: No, what I mean is the Public Works Administration.
- H.M.Jr: No, but we have four billion dollars to spend from the first of July on.
- Bell: PWA has no new program, if that's what you mean, in the picture now.
- Eccles: That's exactly what I mean. For instance, last year up to - they gave a dead-line of when the projects were to be in. As I understand it, they have something close to two billion dollars of projects that they have no funds with which to make grants to cover. There is a bill introduced up in Congress now that - what do they call it?
- Currie: Stearns bill.
- Eccles: Stearns bill, for 500 million additional funds for PWA to make grants. Now, what I've got in mind here is to continue the Public Works Administration, but instead of on a basis of making grants of fifty percent or forty-five percent each year - I mean on each project at the time....
- H.M.Jr: I know your program.
- Eccles: ....it is to do with this just the same as we propose to do on United States Housing Authority.
- H.M.Jr: Well, Marriner, as of tonight I can't cross that bridge; and there may be other people on the Committee that can, but I can't. But I am more than willing to put in a paragraph directing the President's attention to the fact that the RFC can buy non-federal obligations of public works, and that he can direct the new head of the Public Works Agency to do that sort of business.
- Foley: No, the lending agency, Mr. Secretary. It isn't the Public Works Agency, it's the lending agency.
- H.M.Jr: Yes. But he can direct the RFC to do just that sort of thing if he wishes.

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- White: That is, at a rate of interest which would be lower than what they customarily charge. They are charging four and a half percent.
- H.M.Jr: Put that in. Put that in.
- Foley: That's all right.
- H.M.Jr: I mean just drawing his attention to the fact that.... You know - may I just take one minute, Marriner - when I started this thing about a month or two ago, I reviewed all the powers that we have, and we aren't using them and we have so many of them. And this is one of them. I mean when you get all through and done on this lending business, you'll find Jesse Jones has got the power to do almost anything in this thing, if the President directs him to do it.
- Bell: Nobody will go to Jesse Jones as long as they can get a fifty percent grant or loan from PWA.
- Eccles: Of course they wouldn't.
- Bell: That's the reason he's done no business.
- H.M.Jr: That's the reason I'm not for it.
- Smith: I think it's a little inconsistent to suggest, if I may say so, now that we're going on with our reorganization - to suggest that RFC go into public works. I think we'll get a kickback on that one with the President.
- Foley: I don't follow that. The RFC is a credit agency and as long as it has power to make loans, and you're talking about 100 percent loans, if they are for public works or for anything else, as long as it is part of your recovery program, I don't see why it is inconsistent to talk about the lending agency doing it as distinguished from the Public Works Agency. I think you've got to use all your faucets, got to turn on the water every place.
- H.M.Jr: You don't think I'm being consistent from here on?
- Smith: What I'm thinking of here is confusing the administration. Are you thinking of the Public Works Agency looking into the question of the security back of the loan, or will the RFC do that?

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- Foley: The RFC would do it.
- Smith: Here your Public Works gets into supervision of engineering and checks on engineering.
- Foley: I think the Secretary's suggestion of calling the President's attention to the fact that the RFC has this power - PWA or your other public works agencies would have nothing to do with it. The RFC would do it exactly as they did it before there was a PWA, in 1933. They've got their engineers, their financial men, and they've got the facilities, if they'll only do it.
- Gaston: Straight investment banking function.
- Foley: Straight investment banking function. If the President directs them to do it at three and a half percent, that will be some help.
- Smith: I think I misunderstood what you were driving at there.
- Eccles: Just let me make one brief statement on this, then I'm through.
- Smith: Before you make that - then what you're saying will apply to 9; in other words, the RFC could work 9.
- Gaston: Yes, yes.
- Eccles: Now, what I would like to say is this, that where a project is sound financially, in the money market today there is no problem in going to the market. Every bank and investment institution is out seeking all kinds of municipal types of securities, and where there is any assurance of repayment, where they are sound at all, they can finance them on a very low rate. Now, there is this difference between the project where they've got to borrow a hundred percent of the cost and pay that back with interest at - say it's a two or two and a half or three percent interest rate, even - low as it is, there is a very great difference between that type of project and a community that needs a hospital or a sewer system or a water system or a school house or something else, where they can get a 50 percent grant. There is an

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inducement whereby you get the community to go out and to borrow under this plan all the funds for these various public works, and annually, while the community is enjoying the benefit of those works, the Government is contributing the interest, other servicing of it, which over the life of it would prove to be a subsidy of one half of one percent. But instead of the Government dumping it all in the pot right now, the one half of one percent coming in the budget, it comes out of the budget as the community enjoys the benefit of the expenditure. It's like an installment plan; that's what it amounts to. There's a great difference in stimulation. Under the one plan you'll get real stimulation of public works with very little effect on the budget. Under the other plan you'll get very little stimulation of public works. It's just a question of whether you want real stimulation of public works.

- Foley: But, Governor, your idea is an out and out subsidy public works program, and I thought we were talking about self-liquidating....
- Eccles: So is United States Housing Authority, and we just approved 800 million for that. That's exactly the same.
- Currie: Even more. There's more of a subsidy.
- Gaston: That's not a new one, Marriner.
- Eccles: What?
- Gaston: That's not a new one.
- Eccles: Neither is this. We've been doing this right along.
- Currie: I'd like to say a word, Mr. Secretary, on the ground you mentioned in connection with agriculture. That is, in the States and municipalities about 71 percent of their total public works construction all through the twenties was in highways and school buildings. Now, the urgency for those has passed largely; the growth factor has gone over that. What's happened

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since then has been a decline in the assessed valuation. And we have had an increase in the social services, and what they really need badly today - the States and municipalities - are hospitals, sanitation systems, things like that. But it's not as urgent as these other things are, and they will be postponed unless you give them a real inducement to continue that program. Now, if we don't do anything now, by next summer the present PWA program is going to slump very drastically, by the second quarter of next year, and there will be nothing coming along to take the place of that. And the States will begin to retire their debt again and act as a drag on recovery.

- H.M.Jr: What I'm willing to do, as of tonight, is to say - I'm willing to direct the President's attention to the fact that through the RFC - he can direct the RFC to make these at - buy these things, lend them the money at any interest rate that he wishes. Now, I know what Mr. Eccles wants.
- Eccles: That's a hundred percent.
- H.M.Jr: Mr. Eccles wants them to have Congress do it, which needs legislation. What I'm talking about doesn't. He wants Congress to - as I understand it, to say that they'll appropriate money, take half the charges.
- Foley: That's right - annually.
- H.M.Jr: Annually. Now, I frankly haven't got time to sell myself that one, see?
- Gaston: There are some types of projects where that would be more justifiable than in the case of others: such things as hospitals and sanitation. You could justify it on the ground of the use of the whole population, not simply the local residents. You have general public use. You could justify an annual grant for the support of it.
- H.M.Jr: But, Herbert - I mean personally - that doesn't mean Mr. Delano, Mr. Eccles, Mr. Smith can't do it - but I can't take it over, I don't want to take a new device over.

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- Currie: It's not new from the point of USHA. We are doing it more so in USHA.
- H.M.Jr: But, Currie, again approaching it from two different principles, I've accepted FHA - not FHA, United States Housing, because we're giving people a room at five dollars a month, and nobody else is doing that. That program is under way.
- Currie: Would you do this, Mr. Secretary, if you confined the projects to hospitals and sanitation? You see, there is an acute deficiency in this country now - there's a 400 thousand deficiency in hospital beds alone in general hospitals.
- H.M.Jr: I'm sunk, I'm sunk if, as I say - I'm only myself, don't want to be anybody else.
- Eccles: Let's do this. Let's get those things we can agree to as a program, and then these others, if some of us want to suggest these as additions....
- H.M.Jr: All right.
- Eccles: ....to the things that we agree on, that's all right. Let's just have it that way. Just put it in as a supplement to it.
- H.M.Jr: That's all right.
- Smith: Let me call your attention to the fact that 9 fits into the RFC loaning scheme. Is that right?
- Eccles: That's right.
- Smith: Do we leave that in?
- Foley: The Secretary suggested a paragraph....
- H.M.Jr: I thought we were going to leave 8, 9, 10 and come back to it.
- Eccles: I think we can pass them as far as I'm concerned. As I understand it, all you're going to do on 9 - you're going to substitute for 9 a statement to the effect that the RFC can make these loans - 100 percent loans at any rate they want to make them.

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Foley: Sure.

Eccles: That's all you're going to do for that.

Foley: That's right.

Smith: Nothing will come of it.

Eccles: Instead of WPA doing it.

H.M.Jr: Well, do I understand we'll come back to 8, 9, 10 again? Is that all right, Mr. Delano?

Delano: All right.

H.M.Jr: Let's go back.

We've all agreed on 11, haven't we - toll authority?

Foley: We've got that drafted.

H.M.Jr: That's the self-financing, self-liquidating corporation.

Eccles: But that's a new project, that's a new set-up.

White: That's a new set-up.

Eccles: Needs legislation.

White: I think the amount is a little bit high if you're going to require, as that bill at present requires, that the Commissioner of Roads go on record as stating that they are completely self-financing.

H.M.Jr: That's right.

White: If that's the case, I think that 300 better be reduced to 200.

Bell: Make it 50.

White: Huh?

Bell: Make it 50.

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- White: Yes, I think so.
- Bell: I don't care what you do with the bill. I don't think they can spend 100 million the first year.
- White: On a strictly self-financing - particularly if a man has to go on record as saying it's self-financing, and he breaks the law if it isn't.
- Bell: Didn't do it in either '35 or '37 when they had four or five hundred million in cash.
- Eccles: Well, they've got a lot of information now. I think they are better prepared.
- H.M.Jr: Let's not kid ourselves. It either is or isn't. If it is not self-financing, self-liquidating....
- Eccles: I think I agree that 300, Dan, perhaps is certainly high. But 50 is a little low.
- White: We'll make it 200, anyway.
- H.M.Jr: There's no argument on 12, is there? I mean that's just....
- Eccles: Was that - would that go through the Export-Import?
- H.M.Jr: And RFC.
- Eccles: In other words, you'd extend the power of the Export-Import. That's limited now to a hundred million, isn't it?
- H.M.Jr: Yes and no.
- Eccles: Well, doesn't Congress think it's a hundred million?
- H.M.Jr: Yes.
- Eccles: Well, for all practical purposes, then, it is, because if that's the intent of Congress....
- H.M.Jr: You can draw the President's attention to the fact that it isn't - I mean....

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Eccles: I think we ought to ask the Export-Import Bank to increase the authority and then there could be no question about it, because this would be a hot subject and certainly unless Congress authorized the increase there may be some....

H.M.Jr: I'd be delighted if it could be done that way.

Eccles: The only safe way it can be done.

Well, we'll draw the President's attention to the fact that we think there is a field to lend up to 300 million dollars, and Congress should direct the Export-Import Bank to do it. Isn't that the idea?

Eccles: We'll authorize the Export-Import Bank to loan up to 300 million or up to 500 million.

H.M.Jr: Is there any argument about that?

Now, on 13, as Conservation Commissioner I know that the only self-liquidating thing about a recreation camp is the toilet. I mean I'm for them, and I've built them, and I'm crazy for them, and we've got the finest recreation camp in New York State, and I've been in every one of them.

Bell: Slot machines in them.

H.M.Jr: No, but that's not self-liquidating.

White: It was merely supposed to pay its way after the initial expenditure.

Bell: I take it you were thinking of the national park projects, where they charge entrance fees and their hotels are operated by them as concessions, so forth.

White: That's right. They just pay operating expenses.

Gaston: Put in enough slot machines and you could make them pay.

Hass: Set them right.

Gaston: Yes, set them right.

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- H.M.Jr: I don't think we ought to include this. I mean they are separate things. I mean if we're going to do this, we ought to talk about charging for canal and harbor charges.
- Eccles: I've got "no" written on mine.
- H.M.Jr: O. K., Smith? No?
- Smith: Not very large anyway.
- H.M.Jr: If I'm going too fast for anybody....
- Now, Marriner, on 14 - don't slay me - I'm willing to direct the President's attention to this, and also that the RFC can do it.
- Eccles: Well, I'm afraid there will be lots of opposition to (b).
- H.M.Jr: Well then, we're together.
- Eccles: I think that under (a) there are limitations - Currie, if you'd just take a minute and give the limitations on the RFC's power there - we were discussing it.
- Currie: They have about a hundred million unobligated which they could loan for equipment purposes - the RFC - and they think they could increase that by 50 million more by selling certain securities they now have in the revolving fund and by settling certain stale commitments, which will give them 150 million which is available for equipment purchases. Now, the RFC can fix the term and rate and conditions under which they make these loans, subject to the approval of the ICC.
- Eccles: Yes, but what is the - but Jesse doesn't feel like he should loan a hundred percent at two percent interest rate for fifteen or twenty years without specific Congressional authority. Now, that's the position he takes, that even though he can do it, he doesn't want to do it without that. Now, you take - the only big loan that he's made on equipment, to the Southern Railroad, was at four percent. Well - I mean you can't get any inducement on a loan for fifteen years at four percent interest payments.

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- H.M.Jr: Yes, but the President can direct him if he wishes to.
- Eccles: Well, Jesse doesn't feel - he'd like to know the intention of Congress on that question of the rate and the hundred percent. He feels that he is supposed to make sound....
- H.M.Jr: Well, I agree with him.
- Eccles: And where you loan a hundred percent and you loan longer than ten to twelve years, and where you loan at rates that are a special inducement - that that's not very sound.
- Delano: I think there is another reason why (b) is desirable. Most railroads will not commit themselves on contract bonds when business is poor, and they tend to wait until business rises. Now, what Mr. Currie is after is to help increase the business of the country by getting these purchases made. Furthermore, Jesse Jones under his law can't lend to any company that hasn't got credit. He can only lend to the companies that have credit. Those who have got credit can buy equipment on contract bond anyway.
- Currie: We went over this last December, Mr. Secretary, you remember, and this is the big sector of the economy where you have the worst potential bottleneck. We have the lowest volume of equipment since 1907 - the railroads. Forty-five percent of the freight cars are over twenty-five years old.
- H.M.Jr: But your boss doesn't want to go along with me.
- Eccles: On what?
- H.M.Jr: 14 (b).
- Currie: I was going to say, either you do it through (b) or else in (a) specify very exactly, it seems to me, the terms and conditions under which you can make the loan by legislation. Either do it one or the other way, or you're not going to get any railroad equipment purchases.
- White: Why not recognize the fact that under (a) you'll get little or nothing, and if you do it under (b)

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you'll get as much as you can get?

Eccles:

If you specify a low enough rate and put a time limit in on the thing - I wouldn't leave that open as a permanent program - if you simply say, "The purpose of this is to anticipate equipment requirements, and for a period of one year the RFC, in order to help employment conditions and in order to stimulate industrial activity, will loan for twenty years a hundred percent at an interest rate of, say, two percent" - you might even go so far as to waive the interest payment the first year. Now, if you do something like that you'd get a real stimulation.

White:

I don't think so. The whole psychology of the RFC is not in that direction, and he could no more consider loans that are unsound from his point of view than probably you could fly, no matter what he says or what he does. Let's recognize the fact that you'll not get much out of that way. That may be the end. We may not be able to get much. But at least let's not kid ourselves, as much as we like to kid others.

Eccles:

But we won't get much unless you make a special inducement for a special purpose at this time. The inducement would be that they could better afford to buy and operate new equipment and pay the interest and sinking fund requirements than they can afford to repair currently a lot of this old equipment on which the cost of maintenance and repair is more than the interest and sinking fund on new equipment - would be if the terms are favorable enough.

H.M.Jr:

Well, again talking only for myself, I am more than willing to bring the President's - bring this outlet for capital to the President's attention. We've got a new lending agency - supposed to have one lending agency. I think it should fit somewhere into the RFC. Now, the President can direct these things to be done.

Smith:

As I understand it, there is no argument about the RFC. Am I right on that? The point is that it is merely a question as to whether the RFC has authority to do this sort of thing. Wasn't that the point?

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- Foley: They've got the authority to do it, all right. They haven't got the authority to do (b), and as Governor Eccles says, in order to do (a) in any substantial volume, you ought to have a legislative declaration of intention because Mr. Jones, who is the administrator, says that he doesn't want to risk his money at such low rates of interest, even though he has the power to do it, without some kind of direction.
- Smith: That's just a question of what we mean by authority. But at any rate you're suggesting legislative action.
- Eccles: Need to increase the amount from a hundred million to - you've got a limitation now for this purpose of 100 million dollars, possible maximum of 150, and it seems to me that you might well increase that authority for this particular purpose to 500 million and give direction....
- H.M.Jr: Well, why not put it up on a basis to the President that here is this thing - I understand that this is something he wants to do - and would he like it done through the RFC, or would he like to have it a new self-financing, self-liquidating corporation which would come under the RFC?
- Eccles: I'd prefer (b), but I don't think you can get it. I think as a practical matter, to try to get the - I think you've got some chance of getting (a), but I don't think that you have got a chance of getting legislation that would meet the problem under (b).
- H.M.Jr: I want to say this for Mr. Jones. His position always is, and he's always lived up to his word as far as I'm concerned, that he will do anything that the President tells him to; and he does. Now, this Committee is making recommendations to the President. Now, the President can, if he wants to, direct Mr. Jones - and I've never yet known when Mr. Jones has been told to do something that he hasn't done it - so I mean it isn't always entirely his fault.
- So I think we're doing the right thing when we bring this to the President's attention. Now, if the President wants this done, he'll get it done.

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- Currie: Can we put in a supplementary paragraph, Mr. Secretary, pointing out that if the other parts of the program are successful in accomplishing the desired objective, it will be endangered by the bottleneck that is going to arise in the railroad field, which should be looked into and handled in either of these two ways.
- H.M.Jr: I'm more than willing to bring this to the President's attention and tell him, "Now, you've got this mechanism under the RFC, but we understand that Mr. Jones wants a Congressional declaration before he will do it. Now, you can get it that way or you can get it in an entirely new corporation. Now, which way do you want it, Mr. President?"
- Eccles: That's all right.
- H.M.Jr: What?
- Eccles: That's all right, except that you need more authority even under the RFC. Now for this particular purpose they have 100 million - they have an unused amount of a little over a hundred, and they think by selling certain securities that they can increase it to a total of 150. So that Jones doesn't have authority to loan for this purpose more than 150.
- H.M.Jr: If you get out 150 between now and February 1 next year, it will be wonderful.
- Eccles: You've got to think to the end of next year, not just February 1. I'd like to suggest that we ask for authority to loan up to 500 million for this purpose, increase the present authority up to the 500 million, and suggest that Congress direct him to loan under more favorable terms, which he is willing to do if Congress directs him.
- H.M.Jr: Well, what do you want to do, Smith?
- Smith: I'm perfectly agreeable to following the suggestion you make of bringing this to his attention in the form which you suggested. If legislation is necessary - that's something I don't know anything about. If it's necessary, we'll have to have it if he wants it. Your (Eccles) suggestion is that the authority be extended to 500 million?

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- Eccles: Well, I'm agreeable to what the Secretary says, to bring to the President's attention that there is the need of a railroad equipment program. Now, there's two ways we think you can get it. One way is under (a), by increasing authority to loan up to 500 million and giving direction to the RFC to loan on more favorable terms than they feel they can loan without direction.
- Currie: For a limited period.
- Eccles: That's right, for a limited period only. The other is to set up a corporation that would do the purchasing and lease the equipment to the railroads.
- Now, I'm willing to just present the thing in that way. First, that we recognize the need.
- H.M.Jr: Yes, that's it.
- Smith: Well now, wait a minute. In considering all of these matters here - we have fifteen or a dozen - after all, isn't it true that we merely call these items to his attention as part of the program we are submitting, and in each case when you begin to implement that you may have to go back to further questions for clearance in any event.
- H.M.Jr: I didn't hear what you said, Smith.
- Smith: I mean on a number of questions it may be necessary to have further clearance on just how the thing is to be implemented.
- H.M.Jr: After all, he told us what he wanted was to be ready for the first of July. We're going there on the 14th, so we're two weeks ahead of time.
- Eccles: This is preliminary.
- H.M.Jr: He said he wanted it by the first of July.
- Smith: My point is that I don't think - to me it is at least not important that we call this to the attention of the President with any fine shades of how it is to be done, this way or that way. That will be implemented in further discussion.

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H.M.Jr: Do you two men, the draftsmen understand us now?  
All right, Mr. Delano?

Delano: Yes.

H.M.Jr: I mean the way they've been talking.  
Talking for myself, 15 is out. Anybody want it in?

White: I just thought that might be one way of attacking  
basic problems.

Eccles: Seeing that you insisted on attacking the basic problems.

Gaston: I move we eliminate the word "bankrupt."  
"Defunct."

Haas: Just eliminate it, just make it plain "railroads."

Gaston: Be the same thing in the end.

White: Herbert, you're not confirmed yet. You'd better go  
easy.

H.M.Jr: Yes, I was, at 3:00 o'clock this afternoon.

Gaston: You are confirmed?

H.M.Jr: Yes, I am confirmed.

Gaston: By the Senate? Has to lay over two days.

H.M.Jr: I know it does. Also, a piece of paper has to come  
over from the White House.

Gaston: They've adjourned until Thursday. It's got to be two  
legislative days.

Foley: Got to go easy, Herbert.

H.M.Jr: You're not out of the woods until Friday.

Foley: All right.

H.M.Jr: I think this 15 is a good idea, but it's badly  
timed.

Eccles:

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Foley: Come back to that one.

Smith: It makes more loans to the railroads.

H.M.Jr: Well, we're all right on 16, aren't we?

White: Well, 16, I take it, should be 250 then instead of 150, Danny, right?

Bell: Well, they.... Harry, I think they'd be willing to stand by the 353, which means 150 - they'd rather have that, I think; do a better job with it.

White: You said 250 is all they thought they could handle well this time, which would be 150 - 100 and 150.

Bell: 150 more than they've got in the present bill, that's right. I think your memorandum is all right.

White: But, of course, if you think this should be 250, Danny....

Bell: No, I never raised it. I go the other way.

H.M.Jr: 17 is all right.

White: I'll check up on that and make sure that that's what they've got in mind.

H.M.Jr: 17 is all right? We had that before.  
Now, 18....

White: 18 was new. I mean it wasn't in the last one.

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

White: Would you like me to describe it, or do you want it out?

Bell: That's just the direct relief program of the Farm Security Administration.

H.M.Jr: We don't want to get in on that, do we? I don't want to.

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Bell: It's part of their annual program.

White: What? There's a million families hanging on your words, Danny.

Bell: I say it's part of the annual Farm Security program and they'll use part of the money they've got in the budget for this purpose.

H.M.Jr: It's getting into relief.

Bell: That's right, direct relief. The only thing you've got left is a direct relief program.

H.M.Jr: I think this is something between you (Smith) and the President.

Eccles: Well, you cut out 17.

H.M.Jr: No, 17 is in. The President likes 17.

Eccles: Have you got anything in on that now?

H.M.Jr: 17?

Bell: Three hundred thousand dollars.

H.M.Jr: He says he's going to earmark part of WPA for this.

Eccles: If that's the case, why put this in?

H.M.Jr: I think he'd like it brought to his attention. He's very enthusiastic about this. So is Mrs. Roosevelt.

White: It's almost entirely direct relief, with the exception of 20 million which is akin to relief except that it is construction of labor camps to provide sanitary living facilities for approximately 80,000 migratory farm laborers. The rest of it is direct relief.

Bell: That's direct relief, the same as paying their rent.

H.M.Jr: Mr. Delano, do you want to get in on direct relief to farmers?

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Delano: No, I don't know enough about it.

H.M.Jr: Neither do I.

Smith: I think it ought to be out of this.

H.M.Jr: I think we ought to leave it out of this program. If it is intended to cover it on part of your WPA appropriations, because it is part of the relief, why bring it into this picture?

Eccles: I don't think it belongs here.

Smith: What will it do to increase the national income and provide employment? I don't think it fits - except very indirectly.

Bell: Takes care of some of the unemployed.

H.M.Jr: But this is WPA business.

Bell: Part of the Farm Security direct relief; just increases their present program.

H.M.Jr: Well, as I take it, we don't feel it belongs in here. Now, gentlemen....

White: Well, I have the program as it finally is; I anticipated all your deletions with the exception of one, the rural telephone. I had that in, but the rest of it I had out, and I can give you the total if you like, so you can see what the total amount would be, which I think is important because of this being a program for recovery.

The total program calls for three billion six, of which one billion six can be extended in the calendar year 1940. That's the outside. That's assuming 400 million on farm tenancy, and since you reduced that, it's probably a billion and a half. And of this billion and a half of expenditures called for, about a little less than one billion would be expended directly or indirectly on additional employment. That would mean an absorption of almost a million unemployed, direct and indirect.

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H.M.Jr: Can I have that, please?

White: This isn't final.

H.M.Jr: Now, would this be agreeable to you people, to meet once more tomorrow morning and go over this thing once more? We've been going....

Eccles: O. K. with me. I suggest we meet at 11:30, so that these people have a....

H.M.Jr: Do you mind making it 11:00 o'clock?

Eccles: All right. I was just thinking we should give them a little time.

H.M.Jr: He's got it all. All he's got to do is take out rural telephone.

White: Practically. Do you want those questions of directing the President's attention to be supplementary or do you want it to be in there, or do you want to give it to him orally?

H.M.Jr: Bringing it to his attention?

White: Where you want to, with respect to the railroad equipment.

H.M.Jr: No, I'd like to have it in writing.

White: Write it in.

H.M.Jr: Too important.

You want to say something, Mr. Smith?

Smith: I was just going to raise a question. You were citing some figures a moment ago. Do you mean to say that the significance of your figures really is this, that we have reduced a 23 billion dollar program down to 3 billion?

White: No, you've got your program now so that, estimating on the outside, or approximately, you'll get a million employed, which is 400,000 more than the

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additional unemployed which is going to occur next year, which will leave you probably with only 9½ to 10 million unemployed instead of what you would otherwise have if you didn't have a recovery program.

H.M.Jr: That's putting it in its worst light.

White: Those are the figures. I don't know how you want to put it. I don't mean to be facetious.

Eccles: Harry's not selling the idea.

H.M.Jr: It's a million more than you would get without a program.

White: Exactly.

H.M.Jr: Why not say that without saying it that way: that this will take care of a million people.

White: That's right.

H.M.Jr: That's all I was asking for.

White: I just wanted to indicate how much would be left.

H.M.Jr: Well, I can subtract, too.

Bell: Pretty expensive - thirty-six hundred dollars a man.

White: You can shoot them for a lot less than that.

Bell: Huh?

White: I say you can shoot them for a lot less than that.

H.M.Jr: Can you (Smith) come at 11:00?

Smith: Yes.

H.M.Jr: Marriner? Can you come at 11:00?

Eccles: Yes, 11:00. That's all right with me.

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White: You didn't have the intention of having the bills ready on this.

H.M.Jr: Just one second. Mr. Delano, can you come at 11:00?

Delano: I can't. I've got an appointment with Secretary Ickes that I've been trying to make for over a month. He's given me an appointment at 11:00 o'clock.

H.M.Jr: Let's do it at a time that suits you.

Delano: I can do it certainly by 12:00. Is it necessary for me to be here?

H.M.Jr: No, but it is always helpful. Supposing we do this. Supposing we start - I can't do it at 12:00 - and if there are any changes, we will....

Delano: Make it 11:30 and I'll try to get here.

H.M.Jr: We'll make it 11:30.

Smith: When are we going to see the President?

H.M.Jr: 3:00 o'clock. Make it 11:30 tomorrow. That suits Mr. Delano.

White: Mr. Secretary, is it your thought that the supporting memoranda would have to be altered to fit the preliminary two pages?

H.M.Jr: It will be very helpful if you could.

White: All right.

H.M.Jr: Well now, let's just stop one minute and think. I mean you've got this - I mean, Marriner, just to take a minute, let's philosophize. Is this program, a program which takes care of a million men, worth while?

Eccles: I think a program which takes care of any man is worth while. A million men, of course - it takes care of a million more than would otherwise be taken care of. We do it directly through Government action, and that has a multiplying effect, based upon our past experience, of at least, as far as the national income is concerned....

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- White: We already took that in consideration.
- Bell: Direct and indirect.
- White: Might be plus or minus a couple hundred thousand. May be a million two, may be 800 thousand.
- Eccles: It seems to me - I'd want to question - you talk here of a total amount of expenditure next year of a billion and a half dollars, don't you? Now, that billion and a half ought to have an effect on the national income of at least four to five billion, because this goes directly or pretty largely toward the stimulation of private activity. Now, if it increases the national income by that amount, four billion, as compared with what it would be, it looks to me, Harry, as if that ought to give employment to more than a million additional people.
- White: Well, some of these....
- Eccles: Because if it doesn't - there's four thousand a person.
- White: Well, that's our estimate. Somebody else going through might get a little more. But what I'll do is put the estimates of each individual expenditure and the reasons for it. Then you can alter it as you like.
- H.W.Jr: I think when you consider this talk of Congress adjourning within a month - I think it's a good program. I think the thing that made it look small is those other things which they put in there, those things I couldn't recommend. But I think a program which will give jobs to a million men, won't compete with private enterprise, is a darn good program.
- Eccles: When you talk about that, is that - that's including railroad equipment?
- White: That's excluding railroad equipment. That's excluding public works.
- Eccles: That's right. And what does the - and do you include anything as a result of reduction of interest on the FHA? What do you figure that's going to do by way of stimulation?

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- White: We excluded that.
- Eccles: Well, you see....
- White: Might give another half million.
- H.M.Jr: You're going to direct the President's attention to FHA, you're going to direct his attention to railroad equipment, and you're going to direct his attention that RFC can buy municipal and state obligations.
- Bell: Self-liquidating public works.
- White: Might run us up another million.
- H.M.Jr: We're going to direct his attention to all those - three of those things - aren't you? I think it's a good program, gentlemen. I don't think it's anything to just - I'm more than willing to walk across the street with it and be fairly proud of it.
- Smith: The thing that makes it look a little small is the amount of things that Mr. White put in that he didn't expect to get.
- H.M.Jr: Well, I'm fair - I think, giving him the credit for sincerity - I think it was unfortunate, but the reason I stand behind this is I think we've got really a pretty good program, and I don't think they had to put the other things in to make it taste good.
- White: Just put it in - wanted to put down everything we could think of, give you a chance to consider them.
- Eccles: The only thing that occurs to me about it is that it is unusual that at this late in the session of Congress the President should undertake a program that is designed to further stimulate recovery; and if he does it, then he is doing it in line with the memorandum we gave him the other day - as a matter of fact, we used that as the basis in recognizing what the problem is, and we built a program on a basis of the problem that we recognized, the

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memorandum that we presented to him. Now, of course, the program, if it covers only a million people, it's pretty small in relationship to the gravity and the size of the problem we have presented.

J. FARNELL THOMAS  
7th District N. J.

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COMMITTEE:  
MILITARY AFFAIRS  
CLAIMS  
CONGR.

Congress of the United States

House of Representatives

Washington, D. C.

June 13, 1939

*Letter from  
Hony  
Received  
in mail*

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

Dear Mr. Secretary:

Under date of May 31st I wrote you relative to the claim of Harry Sokol which is being considered by the subcommittee of the Committee on Claims, House of Representatives, and in my letter I made request of you for the entire files in the Eastern Canadian Distillery cases, which files are necessary in order that I may fully and fairly determine the merits of Mr. Sokol's claim.

It is possible that my letter did not reach you and if this is so, I will be glad to furnish you with a copy of it. However, if it was received by you, I will appreciate an early reply, and thanking you in anticipation, I am

Sincerely,



## EXPENDITURES FROM APPROPRIATIONS OR FUNDS

## AVAILABLE FOR AID TO FARMERS

(In millions of dollars)

	Total	1940 (estimated)	1939 (estimated)	1938	1937	1936	1935	1934	1933	1932
Department of Agriculture: Agricultural Adjustment Administration .....	1,904.2	139.0	259.6	54.9	53.1	396.8	711.8	289.0	-	-
Agricultural contract adjustments .....	256.0	.3	.4	3.0	116.8	135.5	-	-	-	-
Soil Conservation and Domestic Allotment Act .....	1,461.3	400.0	400.0	303.8	357.2	.3	-	-	-	-
Price Adjustment Act of 1938 ....	190.0	150.0	40.0	-	-	-	-	-	-	-
Farm Tenant Act .....	60.7	30.8	26.8	3.1	-	-	-	-	-	-
Federal Crop Insurance Act .....	13.0	5.0	8.0	-	-	-	-	-	-	-
Farm Security Administration: Loans .....	843.6	128.0	{ 132.4	66.4	72.6	78.0	-	-	-	-
Other .....			{ 47.5	111.7	137.1	60.0	5.4	2.4	-	-
Total .....	4,728.7	853.1 (1,251.1)	914.7	544.9	736.8	670.6	717.2	291.4	-	-
Farm Credit Administration: Crop Loans .....	97.0	12.8	12.3	3.6	27.4	a/ 1.3	a/ 4.4	b/ 52.4	37.1	61.9
Federal Farm Mortgage Corp. ....	221.0	7.3	8.0	5.7	-	-	-	199.9	.1	-
Federal Land Banks .....	472.5	29.7	29.9	69.8	64.2	60.0	48.0	46.1	b/ .2	125.0
Other .....	541.3	4.6	.1	a/ 7.9	a/ 18.0	b/ 20.4	158.7	222.0	66.0	136.2
Total .....	1,231.8	54.4	50.3	71.2	73.6	38.3	202.3	415.6	103.0	323.1
Commodity Credit Corporation: <sup>b/</sup> Capital stock .....	100.0	-	-	.1	-	97.0	.1	2.8	-	-
Capital impairment .....	273.3	60.0	119.0	94.3	-	-	-	-	-	-
Total .....	373.3	60.0	119.0	94.4	-	97.0	.1	2.8	-	-
Grand total .....	6,433.8	987.5 (1,346.5)	1,084.0	710.5	810.4	805.9	919.6	709.8	103.0	323.1

Agriculture Bill in Senate adds  
\$278M to 1940

a/ Excess of repayments, deduct.  
b/ Exclusive of loans which are not included in the Budget.

MEMORANDUM

June 13, 1939.

Miss Lonigan called on the Secretary at 10 o'clock today. The Secretary told her that he had told Mr. Carmody day before yesterday that the President, Mrs. Roosevelt, Mrs. Morgenthau and he hoped that he (Mr. Carmody) would set up a branch in W P A for self-help cooperatives. I told the Secretary that I had spoken to Mr. Harrington but nothing had happened. The Secretary said he would take the matter up with Mr. Harrington immediately.

The Secretary stated he wanted Miss Lonigan to know what he had done and that it would be entirely proper for her to follow up with W P A to see if she could get any action. Miss Lonigan stated that Mrs. Morgenthau wanted her to go to Morgantown and the Secretary said it would be OK.

McReynolds

Tuesday, June 13, 1939

The Secretary had the following for dinner at his home tonight:

Mr. Isidor Lubin  
Mr. Tommie Corcoran  
Mr. Ben Cohen  
Mr. Leon Henderson  
Mr. Lowell Mellett

TREASURY DEPARTMENT

246

INTER OFFICE COMMUNICATION

DATE June 13, 1939

TO Secretary Morgenthau  
FROM Mr. Haas

Subject: Export sales of wheat and other market data reported by Federal Surplus Commodities Corporation.

June 7: Export sales of Canadian wheat estimated at 500,000 bushels, which included 150,000 bushels to Norway and 60,000 bushels of Durum to Germany.

June 8: "Heavy sales of flour reported from Pacific coast, and sales reported today are the largest yet made on this export flour program."

France has exported about 11,000,000 bushels of wheat and flour, and is offering wheat at 56 cents c.i.f. Liverpool.

June 9: Export sales of flour today were the largest reported in one day since the start of the export flour program, totalling 283,806 barrels, of which about 235,000 barrels went to China. This makes total sales for the past week around 514,000 barrels.

Reported that Greece bought a cargo of Australian wheat.

All wheat deliveries in Liverpool went to new low ground for the season, due to bearish crop news from large sections of the United States and Europe, increased shipments from Australia, and a rather large estimate of the Canadian crop.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 15, 1939.

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

For your information -

Yesterday the Circuit Court of Appeals in the Second Circuit (New York) affirmed the decision in favor of the Federal Reserve Bank of New York and dismissed the action of the British American Tobacco Company.

In 1933, the British American Tobacco Company was required to turn in \$6,500,000 of gold and was paid at the rate of \$20.67 an ounce. The British American Tobacco Company claimed it was entitled to receive \$35.00 an ounce, and sued for the recovery of more than \$4,000,000.

The Court, in dismissing the action, held that the Executive Order of April 5, 1933 and the regulations issued pursuant thereto were valid, and in this respect over-ruled the decision of Judge Woolsey in 1933 holding the April 5 Order invalid.

*F. N. F. L.*

Under and by virtue of the authority vested in me by Executive Order No. 6166 of June 10, 1933, and in order to reduce government expenditures, increase the efficiency of government operations, and eliminate overlapping and duplication of effort, I hereby prescribe the following regulations:

1. As used herein—

(a) The term "agency" means any commission, independent establishment, board, bureau, division, service, or office in the executive branch of the Government, except the War and Navy Departments and the Marine Corps.

(b) The term "supplies" means all tangible personal property including, but not limited to, materials, supplies, articles, facilities, improvements, machinery, equipment, and stores.

(c) The words "procurement of supplies" and "procurement" include all functions relating to or associated with the purchase, rental, warehousing, distribution, and transportation of supplies, and services incidental thereto.

2. The Procurement Division, Treasury Department, shall hereafter undertake the performance of procurement of all supplies for use either at the seat of government or in the field for all existing government agencies and such agencies hereafter created: Provided, that any agency may perform such procurement itself to the extent permitted by the Director of Procurement, until such date as the Director may designate with respect to specific agencies, specific kinds of procurement or specific supplies.

3. The offices of the Procurement Division now existing in the several states shall form the nucleus for the field

activities of a general procurement service.

4. All records and property pertaining to, or utilized in, the procurement of supplies by any agency, and all personnel engaged in the procurement of supplies for any agency, are hereby transferred to the Procurement Division, such transfer to be effective upon such dates as the Director of Procurement may prescribe with respect to specific agencies, specific kinds of procurement, or specific supplies. Such part of the unexpended balances of appropriations or funds, available to any agency for personal services and other expenses, in connection with the procurement of supplies which the Secretary of the Treasury, with the approval of the Director of the Bureau of the Budget, shall transfer to the Procurement Division pursuant to Treasury Department Appropriation Act of 1940 (Pub. 65 - 76th Congress, First Session) and any other law authorizing such transfer, shall be available for the use of the Procurement Division in performing the functions of procurement undertaken pursuant to this order.

5. The Director of Procurement may, with the approval of the Secretary of the Treasury, issue such regulations and instructions as may be necessary to make the provisions of this order effective.

6. The provisions of this order shall not apply to the War and Navy Departments and the Marine Corps.

7. The regulations governing the operation of the Branch of Supply, Procurement Division, approved by the President April 12, 1938, are hereby superseded to the extent that they

are inconsistent with the provisions of this order.

  
Director of Procurement

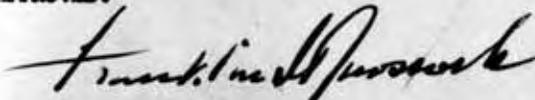
June 1, 1939

APPROVED:

  
Secretary of the Treasury

June 1, 1939

APPROVED:



The White House

June 10, 1939

JUN 13 1939

My dear Mr. President:

I have your letter of June 3, 1939, relative/<sup>to</sup> making a Coast Guard cutter available for the Geophysical Expedition to the Southern Pacific Islands, being organized by the National Geographical Society and the University of Virginia, which you state would meet with your entire approval.

I shall make arrangements in the near future for the detail of a Coast Guard cutter having adequate accommodations and facilities for the scientific party.

Concurrently with the accomplishment of the scientific work it is my intension to have the Coast Guard make a survey in the regions visited of the present and future need of navigational aids and radio facilities requisite to the safety of marine and air commerce.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President

The White House.

*By hand*

*File to Thompson*

June 15, 1949.

The Honorable Key Pittman,  
United States Senate.

My dear Senator:

I beg to acknowledge receipt of your letter of June 11th, on the subject of the acquisition of newly mined silver.

Your letter will have our most serious consideration.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

HEG/mah

UNITED STATES SENATE  
Committee on Foreign Relations

Washington, D.C.,  
June 11, 1939.

C  
O  
P  
Y

My dear Mr. Secretary:

I have the honor to acknowledge receipt of your letter of June 7th in reply to my letter of May 23, 1939.

It should appear that you intend to pursue your customary policy of waiting until the 30th day of June to inform certain mining companies of the United States whether they are going to operate on the 1st day of July or not. Some of them have been hanging on with a slight deficit in hopes the price of silver would be restored to what it was in '37; namely, 77.57¢ an ounce. If it is not restored, these mines on the 1st day of July will close down and discharge their employees who will go on the relief rolls.

I feel it my duty to call together those of the West interested in the mining industry for a conference to determine whether or not it is advisable to offer amendments to the bill extending the President's authority with regard to devaluation of gold.

Sincerely yours,

(Signed) Key Pittman

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

June 13, 1939

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To: The Secretary  
From: Miss Lonigan

The type of information available to show the dollar amount of public works projects in New York State by counties, is as follows:

PWA

1. Project Cost

The total expenditure on projects is not available for the month of March for New York State as a whole. To get it by counties would require complete retabulation of all cards of all individuals employed. This would take at least two days.

Expenditures by counties is available for October. It is not representative because so many of the projects did not get under way until December. Cards are not even punched between October and March.

PWA will give us county figures for October (which are too low) and an estimate for State figures for March, from which we can estimate the March figures for counties if we wish.

2. Federal Projects - Information is not available on PWA Federal projects for March. It is available for October. Federal projects are extremely slow to report. They constitute about one-fourth of the total.

3. Other - We have just begun to collect figures for public works of State and local governments and regular Federal governmental construction.

Summary. By Wednesday morning we expect to have the original data on PWA for October, with ratios by which we can estimate figures by counties for March, but for three-quarters of the projects only, excluding Federal projects.

Duration of PWA Projects

All PWA projects started with funds from the 1938 Act are supposed to be completed by June 1940. Many will be completed earlier.

Projects operating on funds from earlier Acts may extend past June 1940. PWA will give us an estimate of the amount of these by Wednesday or Thursday.

WPA

1. Employment - Figures are now in our office for all up-State counties for the week ending March 25.

2. Expenditures - Figures will be available tomorrow for up-State counties for the quarter ending March 1939. There are no monthly figures.

3. Federal Projects - Projects financed by WPA but operated

by other Federal departments are not available by counties. They are a small item.

Summary. All original data are to be in our possession ready for tabulation by tomorrow.

#### Relief and Welfare

Figures are available by counties, separately for general relief, old age, dependent children and the blind, but the Social Security Board is strongly opposed to totalling the figures because there is an unknown and varying amount of duplication. Also some data are for families, some for individuals.

Figures are being arbitrarily added for our estimates because it is a choice between including duplications, or excluding about one-third of the total. We chose the first bias.

Summary. Number of recipients is now in our possession. The data on funds have not been asked for.

#### Population

If maps are to be made population data are necessary.

General population estimates by counties for 1936 made by the New York State Department of Health are confidential. The number of families (for relief comparisons) and the number of workers (for PWA-WPA comparisons) are available only for 1930.

#### Timing

The number of families on relief and welfare by counties is now available.

The percentage of families on relief in each county (for the Relief Map) will be available tomorrow.

The number of workers on WPA is available now.

The number of workers on PWA is promised for Wednesday.

Expenditures on PWA are promised for Wednesday.

Ratios (for the Works Map) will be available Thursday.

#### Results

The relief figures, with their limitations as stated, will give a fair indication of differences in need between counties except as some county officials have a policy of restricted relief.

The works figures will be relatively dependable, but an understatement. It is my judgment that they cannot be relied on, as they stand, to give a precise measure either of work available by counties, or of the relation of work provided in the county to need in the county. The things left out are too many and too important. They will, however, be useful to indicate where further inquiry may be necessary.

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JUN 13 1939

Secretary Morgenthau

Mr. Foley

For your information

An importer brought an action in the New York State Supreme Court to require the Federal Reserve Bank of New York to certify a different rate of exchange for the Brazilian milreis so that the importer's customs duties might be reduced. Mr. Justice Rosenman dismissed the action saying that a State court has no jurisdiction to compel a Federal instrumentality to perform a Federal function. We cooperated with the counsel for the Federal Reserve Bank and the United States attorney in this case.

(Initialed) E. R. P., Jr.

EB:men  
6/13/39

Secretary Morgenthau

JUN 14 1939

Mr. Foley

For your information

Sometime ago the Federal Trade Commission issued a complaint against the Gold Medal Farms, Inc., a relatively small milk distributor in Buskirk, New York, charging the company with employing coercion, intimidation and threats for the purpose of preventing farmers from joining producer control cooperatives, and with making false, disparaging and scurrilous statements about the Metropolitan Cooperative Milk Producers Bargaining Agency.

Extensive hearings were held and the case is now before the Commission, which is considering whether or not to issue an order directed at the alleged illegal acts of the Gold Medal Farms, Inc. It is my understanding that the Commission has so far been unable to come to an agreement on this matter, some of the Commissioners believing that a cease and desist order should issue and some of the Commissioners taking the opposite view.

Mr. O'Connell has discussed the matter at length with Mr. Kelley, chief counsel for the Commission, who is apparently inclined to agree with those who believe that a cease and desist order should not be issued. It is Mr. Kelley's view that there is some doubt as to the jurisdiction of the Commission to act in the premises because a court might hold that the case does not involve interstate commerce. His more serious doubts, however, arose out of his belief that the testimony in the hearing fails to substantiate the charges made in the complaint and that were an order to be entered and were such an order appealed from by the defendant, a court would in all probability set the order aside as not supported by the proven facts. Mr. Kelley made his file available to Mr. O'Connell and asked him to go into the matter, expressing the wish that he be given the benefit of Mr. O'Connell's judgment as to whether on all the facts, the order should issue.

To my mind there is no real question but that the Commission has jurisdiction in this case and that a court would so hold. On the matter of proof, it is only fair to say that the proof in the case falls far short of being air-tight. On the other hand, as a practical matter, it seems to me that a somewhat less legalistic approach than the one which Mr. Kelley prefers would be proper if the Commission feels that the charges made in the complaint are substantially correct and that the issuance of the order would be economically desirable.

One other factor, which does not appear in the record, is also in point. This, which in my opinion, has a bearing on the reluctance of the Commission to act, is that the Gold Medal Farms, Inc., is a small, independent distributor and the Commission fears that to issue a cease and desist order against it for practices undoubtedly also engaged in from time to time by the large distributors, might lay the Commission open to the charge of playing into the hands of the so-called "Milk Trust". In this connection, the file contains a memorandum which is to the effect that the Commissioner of Agriculture of the State of New York was opposed to having the complaint issued in the first instance because he felt that such an action would be construed as above indicated.

It is my general understanding that those who feel that the Commission should issue a cease and desist order believe that such action will have a certain amount of moral effect by putting the stamp of the Commission's disapproval on the type of practices referred to in the Commission's complaint, but that in so far as the particular case is concerned the practices are not now being indulged in.

Finally, I believe the Commission is split three to two and Mr. Kelley, for one, would welcome any constructive suggestion we may feel at liberty to make in the matter.

(Initialed) E. H. P., Jr.

JFD(G/Law/2a

JUN 14 1939

## MEMORANDUM FOR THE PRESIDENT:

In response to your memorandum for Dano of June 1, 1939, transmitting a copy of a communication addressed to me on May 23, 1939, and also a communication addressed to Miss LeHand on the 24th by Mr. A. E. O'Connell of the O'Connell Packing Company, Portland, Oregon, relative to the tariff classification of canned-meat dog food imported from Argentina, Dano attaches hereto for your signature a reply to Mr. O'Connell which I trust will meet with your approval.

I believe that the Treasury Department's position is adequately set forth in its letter dated May 20, 1939, and one which is being sent under today's date to Mr. O'Connell, copies of which are also attached, and that further explanatory detail is unnecessary.

Dano has no objection to imports of Argentine dog food.

*By hand*

*File to Thompson*

*H.M.Jr.*

My dear Mr. O'Connell:

Your letter of May 24, 1939, addressed to Miss Leland, with respect to the tariff classification of imported canned meat dog foods, has been brought to my attention.

I find that this matter has been carefully considered by the Treasury Department on a strictly impartial basis, and that it has reached the conclusion that the classification for which you are contending cannot, under existing law, be applied to imported merchandise of the character you describe.

I trust you will appreciate that the will of Congress is controlling in matters of this kind and I regret that action by the Treasury Department more favorable to you cannot consistently be taken.

Very sincerely yours,

Mr. A. W. O'Connell,  
O'Connell Packing Company,  
P. O. Box 8424, Kenton Station,  
Portland, Oregon.

15

June 13, 1939.

Dear Boss:

I got your note.

I am in favor of dog food.

I think this Argentine stuff is a lot of baloney, but that will do for dogs who can't get fresh meat.

My people have fixed up some words for the barker from Oregon. Personally I ignore all dogs that bark. I advise you to do the same.

I lick your hand,

Affectionately,

DANO.

The President,

The White House.

(Message communicated through Henry Morgenthau, Jr., Secretary of the Treasury.)

*By hand  
File to Thompson*

JUN 14 1939

O'Connell Packing Company,  
P. O. Box 5624, Kenton Station,  
Portland, Oregon.

Gentlemen:

I have your letter of May 23, 1939, with respect to the tariff classification of canned dog food.

The Department's views in this matter were set forth in my letter of May 20, 1939, which apparently had not been received by you when you wrote your letter of May 23. I can only add, in reply to the points raised in the last mentioned letter, that the Department's rulings on the tariff classification of imported dog food have been made on the basis of careful consideration of the facts, the law, and pertinent judicial decisions.

The functions of the Treasury Department with respect to the tariff laws are purely administrative. The policy of the tariff laws is a matter for the legislative discretion of the Congress. I am sure you will appreciate that if it departed from the expressed will of Congress, however justifiable such action might appear, the Treasury Department would clearly exceed its legal authority.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

WR:hl

*File to Thompson*

Additional Amount Estimated that can be spent in calendar year 1940 if this program is adopted  
(Millions of dollars)

A. Projects which are in major part or in whole self-liquidating:

1. Increase in the borrowing powers of the United States Housing Authority by \$800 million

200

2. Reduction of F.H.A. maximum interest in accord with the decline in long-term borrowing rates on high grade securities. The Federal Mortgage Association (under R.F.C.) buying rate for F.H.A. mortgages should be reduced correspondingly in order to make effective the reduction in the F.H.A. rates

3. Expansion of the self-liquidating portion of the Farm Tenancy Program to reach up to an additional 500,000 families of very low income who have not yet received any assistance from the Farm Tenancy Program. Present program calls for \$165 million expenditure, of which \$110 million is self-liquidating. This proposal would reduce the appropriation for the self-liquidating portion of the program to \$100 million and grant power to borrow up to an additional \$500 million in the fiscal year 1940 for self-liquidating projects developed during that year.

400

4. Expansion of rural electrification program to reach a maximum of one and a quarter million rural families not now receiving electric service nor likely to receive such service in the near future. Present program calls for expenditure of \$40 million for the next fiscal year. This proposal provides for a \$50 million appropriation and borrowing capacity up to ten times that amount for a ten year self-liquidating project

150

5. Federal toll authority. Self-liquidating toll roads, canals, bridge projects. Program submitted by Bureau of Public Roads calls for a \$3 billion program for the next four years. Possibly \$1 billion would be completely self-liquidating, of which \$300 million might be expended in the calendar year 1940. The proposal is to give this Authority borrowing capacity up to \$1 billion for the four year program

300

6. Extension of short-term and long-term loans for the purpose of promoting foreign trade. An expenditure of \$500 million over the next couple of years for such purposes is feasible, of which \$300 million could be used in 1940

300

7. To stimulate construction of non-Federal public works of purely self-financing type the President could direct the RFC to make the loans at a sufficiently low rate of interest to stimulate borrowing for this purpose. The rate of interest envisaged as necessary to get results is a lower rate than the RFC customarily charges. No additional legislation will be necessary as the RFC already possesses this power.

8. Railroad equipment construction. The main sector of private enterprise in which expenditures have lagged and where the most serious bottlenecks will arise in the event of further marked recovery is railroad equipment.

Substantial expenditures can be secured in this field either

(a) By securing specific authorization for the RFC to make equipment loans at low rates of interest to the full cost of equipment for longer than customary maturities and to have the funds available for such purposes increased. Such loans should be available only for orders placed within a year and interest could well be waived for a two year period.

(b) By establishing a self-financing railroad equipment authority to purchase and lease equipment to the railroads. In this way we could make absolutely certain that necessary equipment in sizeable volume would be constructed in the next twelve months.

Neither of these methods would involve any charge on the budget, if the RFC is authorized to subscribe to the capital of the equipment corporation.

- 3 -

**B. Projects which are not self-liquidating:**

9. Rapid expansion of the Food Stamp Plan for distributing surplus commodities to all communities and extension to cover more commodities, including cotton textiles, clothing and dairy projects.

The present appropriation asked for (\$113 million added to \$90 million otherwise available) will leave \$100 million available for the Food Stamp Plan for the fiscal year 1940. This program asks for \$200 million more. The \$300 million which would then be available for the Food Stamp Plan would take care of the bulk of the eligible persons now receiving some form of public assistance.

200

10. Expansion on a nation-wide basis of the self-help cooperatives, now successfully operated in Washington, D. C., Richmond and many Western States. (Appropriation of \$200 million covers expenditures for fiscal years 1940 and 1941).

100

Total

1,650

The above program calls for an expenditure and investment during the calendar year of 1940 of approximately \$1.6 billion.

These sums are not all employment-creating expenditures. Of the \$1.6 billion additional expenditures called for under this program in 1940, probably about \$1 billion would create direct and indirect employment in the first instance. It is estimated that by the end of the calendar year 1940 at least one million more men would be employed as a result of this program.

If, in addition to the above program, something effective is done for non-Federal public works and for railroad equipment the increase in employment would be substantially higher.

HDP:136  
6/14/39

53

ADDITIONAL PROPOSALS RECOMMENDED BY \_\_\_\_\_

1. Non-Federal Public Works

In order (a) to prevent a drastic decline in public works expenditure in the Summer of 1940, (b) to provide for a continuing public works program, and (c) to avoid the further heavy charge on the budget that would be entailed by continuation of present methods of financing, it is recommended that the Federal Government make an annual grant of 50 percent of the servicing charges of State and municipal borrowings for public works. In this way a billion dollar program could be financed at an annual charge on the budget of \$27 million. Precedents exist in the U. S. Housing Authority and in British and Swedish Government practice. The justification for this method of subsidizing is that the public works are paid for while they are being used.

2. Old Age Security

An adequate national old age pension program could be financed out of existing appropriations. In this way an additional \$500 million could be contributed to consumption without entailing any additional charge on the budget. (See separate memorandum.)

The combined public works and old age security proposals would add some \$1 billion to the Government's contribution to buying power at an additional cost to the budget of only \$27 million.

With the addition of these proposals the total program would result in additional expenditures of from \$2½ to \$3 billion, which would almost certainly assure a very marked degree of recovery in 1940.

LBC:mh  
6/14/39

*Do nothing from [unclear]*

264

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

*AM*

DATE JUN 14 1939

*7/16/39  
E.E.P.  
4-1625*

TO Secretary Morgenthau  
FROM Mr. Foley

For your information

Sometime ago the Federal Trade Commission issued a complaint against the Gold Medal Farms, Inc., a relatively small milk distributor in Buskirk, New York, charging the company with employing coercion, intimidation and threats for the purpose of preventing farmers from joining producer control cooperatives, and with making false, disparaging and scurrilous statements about the Metropolitan Cooperative Milk Producers Bargaining Agency.

Extensive hearings were held and the case is now before the Commission, which is considering whether or not to issue an order directed at the alleged illegal acts of the Gold Medal Farms, Inc. It is my understanding that the Commission has so far been unable to come to an agreement on this matter, some of the Commissioners believing that a cease and desist order should issue and some of the Commissioners taking the opposite view.

Mr. O'Connell has discussed the matter at length with Mr. Kelley, chief counsel for the Commission, who is apparently inclined to agree with those who believe that a cease and desist order should not be issued. It is Mr. Kelley's view that there is some doubt as to the jurisdiction of the Commission to act in the premises because a court might hold that the case does not involve interstate commerce. His more serious doubts, however, arose out of his belief that the testimony in the hearing fails to substantiate the charges made in the complaint and that were an order to be entered and were such an order appealed from by the defendant, a court would in all probability set the order aside as not supported by the proven facts. Mr. Kelley made his file available to Mr. O'Connell and asked him to go into the matter, expressing the wish that he be given the benefit of Mr. O'Connell's judgment as to whether on all the facts, the order should issue.

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Finally, I believe the Commission is split three to two and Mr. Kelley, for one, would welcome any constructive suggestion we may feel at liberty to make in the matter.

*F. W. H.*

## GROUP MEETING

June 14, 1939.  
11:00 A. M.

Present: Mr. Hanes  
Mr. Gaston  
Mr. Foley  
Mrs. Klotz  
Mr. Duffield  
Mr. Haas  
Mr. White  
Mr. Lochhead  
Mr. McReynolds

H.M.Jr: Did you (McReynolds) take care of Sumner Welles?

McR: Oh yes.

H.M.Jr: Was that on me?

McR: No, it wasn't on anybody. The letter hadn't been signed to the President yet. Nell had it. It had been over there since Friday. But that was unimportant; that was merely telling him that you were doing what he suggested.

H.M.Jr: Did you call up Welles and tell him?

McR: Yes, I called him immediately, while....

Duffield: Here I am.

McR: He wanted to stay - he wanted to be sent over to see Welles.

Duffield: That's not quite true.

H.M.Jr: All right. Everything else all right?

McR: Harold said he had to take care of Marlene Dietrich, so he couldn't get over here. She wanted to sail this afternoon. He asked me to present his apologies.

H.M.Jr: I hope he does all right. She called me up - did you hear about it? - ....

Hanes: No.

H.M.Jr: ....last night at 9:00 o'clock. They went in there

- 2 -

and slapped on a deficiency of \$140,000, and she was sailing at 3:00 today. So I asked Harold if they'd take a bond and let her sail. She's an American citizen now. Kind of tough, having passage to sail at 3:00 and people walk in on her. So he's looking after it.

McR: Yes, he's looking after it.

H.M.Jr: If the Government's interests can be taken care of.

McR: Of course, if she puts up proper bond, then they're all right. That's the only way they can do it.

H.M.Jr: I have to take care of my older son's friends.

Klotz: Yes.

McR: The way you take care of them, it's O. K.

H.M.Jr: It's awful.

McR: As long as they pay all their debts, he lets them go.

Klotz: I'd love to answer that one.

Lochhead: There is a shade of uneasiness in sterling. It is attributed to the Far Eastern situation. Nobody seems to know whether Great Britain is going to back down or not over in Tientsin. It seems to be upsetting things a little bit.

France is gaining a little bit of gold each day. Nothing is going on in any of the stock markets.

I understand Chen's family is going to come in Friday - his wife, daughter and grandchild. They get here on Monday.

H.M.Jr: Will he come down here tomorrow?

Lochhead: We'll try to get hold of him.

H.M.Jr: Keeshin be glad to come?

- 3 -

McR: He said he'd be glad to come.

H.M.Jr: What time have you got down for Keeshin tomorrow?

Klotz: 10:00. You have press tomorrow at 10:30.

H.M.Jr: We can fix them up, then they can go somewhere and talk.

McR: I got him on the phone yesterday after I got word from you. He said he'd like to come. He wasn't sure he could make it.... (several further words too indistinct to be understood).

H.M.Jr: Harry, the President shifted this meeting to 12:05 - Fiscal and Monetary - so is the thing all typed and everything?

White: The first part is. I was working on some of the memoranda. If I can be excused....

H.M.Jr: I think maybe you'd better.

White: There's just a couple of things - not important.

H.M.Jr: I'd like to have you hear one thing I'm going to say. Naturally, all these things are confidential. But this is - sit down - you see, Wallace and Senator Russell came in to see the President yesterday on this cotton thing, and the President said that Wallace again is talking about a processing tax, and I suppose out of that thing the President may have said, "Well, why not try this other thing?"

Bell isn't here, is he?

So he said, "How would you feel about it if they reduced the amount by 25 million?" So I said, "Well, I don't think that that would do the trick at all, Mr. President." I said, "I know it's terribly late, but I've got an entirely new suggestion to make."

I said - in the first place, I said, "I don't like Wallace's dumping the export subsidy plan and saying it's the President's plan and Morgenthau's plan;

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I don't think that's fair." So I said, "What I'd like to do would be to take all of this export subsidy money and put it into surplus foods, surplus cotton, et cetera. And then - in the first place, you'll be consistent." I said, "Mr. Hull is terribly upset about this, and in the second place I think you would like to have it said that in eight years of your administration we have made a real start on solving the surplus food problem."

Well, he was very enthusiastic about it. So he said, "Well, what would you say - it's 370 million dollars - if I should say to Congress, 'Cut off the 372, but give me 300 million dollars to use at my discretion through the food tickets for food and cotton?'" He said, "Would you press me on the tax money?" I said, "No, Mr. President, I wouldn't."

He said, "Well, I'll see - I'll have you and Henry come over this afternoon and we'll see if we can't put that across." See? I think it would be a swell out, don't you (Hanes)?

Hanes: You mean in lieu of....

H.M.Jr: In lieu of parity payments.

Hanes: In lieu of parity payments.

H.M.Jr: And in lieu of export subsidy and everything - 300 million at the discretion of the President to be used through the stamp plan for foods and cotton textiles.

White: That's just the right maximum amount, because the law requires that only 25 percent of the subsidy be expended on one item, so that would leave just enough for textiles on the surplus food plan.

H.M.Jr: Wouldn't you (Hanes) sign on that?

Hanes: Yes. Is that a direct relief plan - does that come out of direct relief, or is that just all chargeable to the farm program?

H.M.Jr: Chargeable to the farm program.

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Hanes: Yes.

H.M.Jr: No, this would be chargeable to the agricultural program, in place of parity payments, in place of subsidy. I don't know how you'd react, but I'd say I'd take it.

Hanes: Yes.

H.M.Jr: Now, I didn't ask him, but I take it he must have thrown out several hints on taxes - not seriously - I suppose they went up on the Hill and talked about it, but he didn't talk to me about any other taxes.

Hanes: What I was referring to was that in today's Times Catledge said he had some brand new ideas.

H.M.Jr: If he had them, he didn't mention them.

Don't you (Foley) think that would be quite an out?

Foley: Yes, sounds good to me.

H.M.Jr: He really could do something then. I think it would be great stuff. I'd take it. I wouldn't ask for any more taxes, would you (Hanes)?

Hanes: I wouldn't ask for anything to do with taxes right now. We've got enough trouble as it is.

H.M.Jr: All right. Harry, you'd better....

White: I need that, in order to put the change in the original.

H.M.Jr: What?

White: I'll need that in order to change the original.

Klotz: The original? I have the original.

White: No, that's the book - can't make a whole new set of originals in time. We'll use some of the memoranda; it's basic material.

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H.M.Jr: You mean you want to get up one for the President?

White: Yes, that's what I thought you wanted.

H.M.Jr: Yes, but you'll remanufacture this - both as of yesterday.

White: Yes. I had a duplicate of that.

Klotz: What are they laughing at?

H.M.Jr: Oh, I kidded him yesterday. I said he is so economical, he won't buy any of these black-board things - I say he'll stick for 25 billion dollars inside, but yesterday when I asked him, he only had one cover. I said he takes care of 25 billion dollars and he didn't have an extra cover. That's what we were kidding him about yesterday.

I feel pretty good on this. Do you think that would go over well, George?

Haas: I think....

H.M.Jr: I mean you've got to make a trade. We're not going to get any new taxes. And instead of parity payments, have this all go through these tickets.

Haas: I think it's all right. Putting a processing tax on to get the money for dumping it is hitting the American consumer two ways. You're raising his prices....

Foley: Destroying the world market.

H.M.Jr: Can't defend it.

What have you (Foley) got?

Foley: I have this Italian countervailing duty memorandum.

H.M.Jr: Yes.

Foley: And another memorandum from Johnson saying that Feis called him and....

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H.M.Jr: Well, I'll see you - because I don't want to do it - will you put him down for 4:00 o'clock, please?

Foley: What time, 4:00?

H.M.Jr: 4:00 o'clock.

Foley: All right.

I have three or four memos here for your general information. One is on that bid for the cement for the Shasta Dam out in California. That's all gone through and it's been cleared over at the Comptroller General and with the Labor Department. Everything is fine. You said you didn't want to know anything about it until everything was done.

McR: You got a complete memorandum from Harry Collins, giving the whole history, which I gave to Nell the day before yesterday, told her to give you when you were available.

Foley: It's a good thing.

McR: Yes, they did a good job.

H.M.Jr: This is - it's a million and a half....

Foley: The Permanente Corporation got it.

H.M.Jr: They did get it?

Foley: Permanente.

H.M.Jr: They did get it?

Foley: They were a million and a half low on all the cement. Going to build a new plant, and to furnish the cement for the new dam.

H.M.Jr: They got the bid.

Foley: They got the bid. Cleared it with the Labor Department and the Comptroller General.

McR: The beauty of it is that Ickes took the initiative in insisting they get the bid, and it was cleared

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with the Comptroller General and with the Department of Labor - Walsh-Healy Act - so the recommendation came from all the agencies that were involved for these people getting it. The Treasury just followed the recommendations of those people.

H.M.Jr:

Grand.

Will you hold this thing?

Those figures that you (Haas) are trying to get for me on a county basis - Lubin says he has all of that, due to the Walsh-Healy stuff - everything current. He can show you where every dollar is being spent.

Haas:

Well, she's got that, I think, but there's one problem  
....

H.M.Jr:

She sent me a memorandum that they had nothing since last October, and Lubin says that she isn't going to the right place, that if she comes to his office, he has it on a month-to-month basis, never more than a month behind.

Haas:

Is that so? I told her to go there.

There's one other problem that came up in connection with that. I intended to mention it when it came my turn. She said that the State and local districts by counties - doesn't think it's available anywhere here; probably have to go to New York.

E.M.Jr:

Well, get the Federal thing first.

Haas:

First. And you want to see it before she goes at the other.

H.M.Jr:

Yes. But he says if she comes over to Lubin's office, he has it current.

Haas:

That's fine. I told her that's where it was.

Foley:

We won the British-American Tobacco case in the Circuit Court of Appeals in New York. In 1933 we took six and a half million dollars in gold from American-British Tobacco, and we paid them twenty dollars

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sixty-seven cents an ounce. They claimed they were entitled to thirty-five dollars an ounce.

H.M.Jr: Wasn't Campton attorney for that?

Foley: I don't remember whether Campton was counsel in the first instance. Dean Acheson represented the Federal Reserve Bank for us, and it's a unanimous opinion. They dismissed the suit and they held that the regulations and the Executive Order were valid.

H.M.Jr: Good.

Foley: And we also won another case in New York. They tried to mandamus the Federal Reserve Bank of New York to fix a different exchange rate for the milreis in connection with imports, and Judge Rosenman dismissed the action and held that the State courts had no power to mandamus an agency of the Federal Government.

And here's a memorandum on the hearings on the Mead bill yesterday. Brown of Chicago, and two or three other representatives....

H.M.Jr: And will you bring this back at 4:00 o'clock please.

Hanes: Ed, would you mind telling the Secretary about that request from the Mellon Galleries?

Foley: Yes, I have that here. Shepard wrote a letter to you which John turned over to me last Saturday morning, I think, asking whether gifts to or for the use of the National Gallery of Art were subject to Federal gift taxes. I have an opinion here which holds that they are not subject to the gift taxes, because the Gallery is a charitable or educational trust. This memorandum indicates the legal basis for the ruling, John, but the ruling actually has to be issued by the Commissioner. Now, I think it is safe enough to advise Finley on the basis of this ruling. The actual ruling will have to be prepared over in the Bureau and sent to Finley.

Now, I asked Phil Wenchel to clear that with the man in the Commissioner's office that handles these rulings for him. They always go along on legal

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matters with the reasoning for these rulings that the legal division over there gives, but they actually have to put them out; we don't put them out. And here is this....

Hanes: The reason Dave Finley asked me to get this through and quickly is because they're about to get a very handsome gift, and he just wants to be sure it is not subject to....

H.M.Jr: Is it all right?

Foley: Yes, sir.

H.M.Jr: What do I do?

Foley: I don't think you do anything. I think John wanted it discussed in front of you for your information.

Hanes: I just bring it to you because I'm sure some other - we are hoping - confidentially, we are hoping we're going to get the Widener Collection given to the Gallery. This is not the case involved here. The man that's involved in this case is going to be elected a trustee on July 1 and they are just anxious to get this ruling in hand so that they can assure him that the thing is not taxable.

H.M.Jr: It's all right.

Hanes: It's all right. With your permission we will today tell David Finley that the Treasury Department has ruled on it and that a formal clearance or closing agreement, whatever we call it....

Foley: It's a ruling.

H.M.Jr: What else?

Foley: We might check over there before you call Finley - I mean you might call this man in the Bureau, just to make sure Phil has cleared it with him and he's in agreement, so there won't be any hitch.

Hanes: I was waiting for you to give me the clearance before I called him.

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Foley: All right.

They continued the hearings yesterday on the Schenck matter over in the Department of Justice, and they actually had the people in yesterday - Schenck and Zanuck and Getz were there, and Kades. The Attorney General had a private conference with Jim Morris and the taxpayers first, and then came out, and the lawyers were present and he stayed only a couple minutes after he came out; he said he had to catch a train to go up to Philadelphia to make a speech. They didn't finish, and they're going on again over there this morning at half past 10:00. Not very much was developed.

The Attorney General stated that the purpose of the conference was to afford the taxpayers an opportunity to tell their stories, and that they wanted to ascertain all the facts. If the facts didn't justify and warrant a criminal proceeding, they wouldn't bring a criminal proceeding, they would only bring a civil proceeding. And that that was the purpose for which they were brought in.

H.M.Jr: Harlan Miller has a little cartoon - did you see it? -  
....

Foley: No, sir.

H.M.Jr: ....in his column this morning, a picture of the Attorney General and J. Edgar Hoover, and it says "Attorney General and J. Edgar Hoover find an airplane can get them to the door of any Grand Jury room in time to have their picture taken."

Klotz: Oh no.

H.M.Jr: Which is pretty good, pretty near the truth. Sometimes those little things - it's just a little cartoon, and three lines, that's all.

Klotz: That's wonderful.

Foley: That amendment that was made....

Gaston: You know what they're calling him now.

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H.M.Jr: Who?

Gaston: Frank - "just a boy scout."

H.M.Jr: I see. I don't think that's what Homer Cummings calls him, but....

Foley: They were supposed to have had lunch....

H.M.Jr: He called him - well....

Foley: ....on the Annenberg case.

H.M.Jr: I saw that too.

Foley: You wanted me to get the language of the amendment for rural housing that was made to the United States Housing Authority bill.

H.M.Jr: Yes. We'll let that ride - I mean if you don't - if we don't have time - I think we'll have time between 11:00 and 12:00 when these others are here, you see.

Foley: Yes, sir.

There is one - there is a letter here to Thomas on the Sokol matter.

H.M.Jr: 4:00 o'clock.

Foley: It ought to be signed today, I think.

H.M.Jr: 4:00 o'clock.

McR: It's just a soft-soaping letter telling him that we're awfully good....

Foley: It's all right.

McR: ....and that we've done everything we can for him, but we won't give him a damn thing.

H.M.Jr: If Mac says it's soft-soap, it's soft-soap. (Signs letter).

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These fellows, you know, who travel all over the United States and pick the best golf courses....

Foley: This is to the Chairman....

McR: Wonderful golf course out there.

H.M.Jr: You look better this spring than I've seen you look anytime in years. Now, just keep it up.

Is that all right till 4:00? Can you last till 4:00?

Foley: I can last till 4:00 on this.

H.M.Jr: O. K.

George?

Haas: I have nothing this morning.

H.M.Jr: And the automobile index is up?

Haas: Automobile index up 2.4 this week. Still got electric power to hear from. It looks to be definitely up.

H.M.Jr: Quite remarkable.

McR: I was visiting over the week-end in the home of the General Counsel of the Westinghouse Company.

H.M.Jr: Yes.

McR: He told me they had had the biggest month in Westinghouse history but one that they had ever had, and very much better than any within the last five or six years.

H.M.Jr: Key Pittman told me yesterday at lunch that from now and on he and I are political enemies. And you (Foley) might get this to Wagner, that on Monday he, Key - between now and Monday he's going to call a meeting of the silver Senators and see if he can get enough strength together to put on an amendment on the stabilization fund bill fixing the price of domestic silver at seventy-seven plus. Now, I'm

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personally tickled to death. I didn't say a word to him. I hope he does it, and I'm willing to give odds that he gets licked, which I think would be swell.

Gaston: He's just - it might very well result in their eliminating that unlimited coinage of silver clause from that bill. That's just about what he'll get if he's not careful.

Foley: He's got Townsend, you know, to take care of. Townsend is trying to repeal the Silver Purchase Act and also the clause for the unlimited coinage of silver.

H.M.Jr: If he starts something....

Foley: He's got to lick that motion and he's got to carry his own. I suppose if he gets licked on his own, he'll be all right on the rest of the bill, won't he?

H.M.Jr: Well, he won't go along with me on the bill unless I promise him the seventy-seven cents, and I'm just not going to deal with him. I'm just willing to rest on the good sense of the majority of the Senate, that they're not going to do such a thing. But you might pass it along to Wagner.

Foley: I will. What I was wondering was whether he'd be content to rest it there or he'd try to take it out on you on the continuation of the power to revalue.

H.M.Jr: Well....

Lochhead: He might lose his whole bill there, not get anything for domestic silver. You know, the whole price of silver....

H.M.Jr: Well, if he's going to hold out on us and the President will back me up, why, I'll - this is, of course, strictly - I'll cut the price of domestic silver. I'll put it down to fifty cents. If he wants to start monkeying with a buzz saw, O. K., I'll put the domestic price down to fifty cents on the first of July, if they don't pass the bill. The thing to do is to drop it a cent a day until he comes across. That would be the thing: drop it a cent a day.

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Foley: Yes.

H.M.Jr: I'd drop the price a cent a day until he passed the bill on us.

Foley: I feel quite badly that they didn't bring that up this week. You know, the Senate had to adjourn because they had nothing to do. They are not in session today. They adjourned yesterday until tomorrow because they had no work. And Wagner had that stuff all ready; he could have brought it up.

H.M.Jr: I guess it's this silver business. I guess Pittman told him to give him a chance to see....

Foley: He said he had some kind of an arrangement with Thomas and some kind of an arrangement with Bankhead, and Glass asked him to hold up. I don't see why. I mean Biffle told me he could take care of Bankhead and he could take care of Thomas with pairs.

H.M.Jr: (On phone) Harold Graves.

No, if he wants to start monkeying on this silver thing, I'd love to have a fight. I mean I'm not going to pick it, I'm not going to start anything, but if he wants to have a fight on silver he'll be surprised, because the President and myself have got all the cards and he's got none.

Gaston: Even up there on the Hill he's just tickling a bunch of dynamite when he starts that.

H.M.Jr: If he wants to play poker, I'll play.

McR: Eighty percent opposition.

H.M.Jr: I'm not nervous about it. I mean if they pass it on - what's the last day - pass it on Friday the 3rd.

Gaston: Might be a good idea to let him cause an explosion and clean this thing up.

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

June 14, 1939  
11:25 a.m.

HMJr: Hello.

Operator: Mr. Graves.

HMJr: Hello.

Harold  
Graves: Hello, Mr. Morgenthau.

HMJr: Well.....

G: Graves speaking.

HMJr: Yes, Harold.

G: Since your call we have talked with Los Angeles about this Dietrich case.

HMJr: Yeah.

G: And we find that the lawyer for Miss Dietrich and her husband.....

HMJr: Yeah.

G: .....has been promising for many months to furnish information showing how much Miss Dietrich's earnings in England were during the years '36 and '37.

HMJr: Yeah.

G: And in spite of the fact that repeated promises to furnish this information had been made.....

HMJr: Yeah.

G: .....one of which was that it would be furnished a week ago.....

HMJr: Yeah.

G: .....the information was never furnished.

HMJr: I see.

G: And therefore the -- the tax was set up against the two on the basis of the contract of employment at an estimated figure.

HMJr: Yeah.

- 2 -

- G: Now, the information that our people at Los Angeles have is that Miss Dietrich is investing her earnings in a -- in an Isle of Man holding -- personal holding corporation.
- HMJr: I see.
- G: It seems to be a straight case of an attempted evasion of our tax.
- HMJr: Uh-huh.
- G: And under the circumstances I think there's -- there's no question of the propriety.....
- HMJr: Oh, no.
- G: .....of what we have done.
- HMJr: Well, in the words of the vernacular, "Give her the works".
- G: Yes. Well, I thought you would say that.
- HMJr: All right.
- G: Now, she has already been advised by the Collector of New York of her right under the law to file a bond.....
- HMJr: Yeah.
- G: .....in the amount -- she's been notified of the amount.
- HMJr: Yeah.
- G: So I think we're perfectly in the clear on the case.
- HMJr: Absolutely. I -- I wouldn't -- if it's a case like that, I mean -- yeah. As I -- just -- as I say, treat it the way you are.
- G: Yes, sir.
- HMJr: I -- I'd give her the works.
- G: Thank you very much.
- HMJr: And if she calls me up again I won't talk to her.
- G: Fine! O. K., thank you very much. Good bye.

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McR: So that's the way you take care of your son's friends.

H.M.Jr: What?

Klotz: That's the way you take care of your son's friends.

Haas: I said to Ed, "Hold tight."

H.M.Jr: What?

Haas: "Hold tight."

H.M.Jr: Mrs. Klotz said I told them, "Let the chippies fall where they may." Have to work that on Graves.

Gaston: Better make it "chips."

H.M.Jr: Is everybody happy? You got something?

Hanes: No, not a thing.

H.M.Jr: Herbert?

Gaston: No.

H.M.Jr: Are you (Hanes) going to sit in on this Fiscal and Monetary thing and help me spend a little money? Well, we will now adjourn to Fiscal and Monetary.

TREASURY DEPARTMENT  
WASHINGTON

CONFERENCE IN THE SECRETARY'S OFFICE AT

2:45 P.M., JUNE 14, 1939

Those present besides the Secretary were Secretary Wallace, Director of the Budget Smith, Colonel Dasher, <sup>and</sup> Mr. Scott, also of the Budget, and Mr. Bell.

In accordance with the President's request the Secretary of the Treasury and Director Smith conferred with Secretary Wallace concerning the President's suggestion that we compromise with the Agriculture bloc on the hill concerned with the amounts contained in the Agricultural bill over and above the Budget estimates by agreeing to change the \$113,000,000 contained in the bill for distribution of surplus foods to \$210,000,000, which, together with the sum of \$90,000,000 already in the bill, would make \$300,000,000 available for this purpose, out of which the President contemplated taking care not only of the distribution of surplus food but of some of the surplus cotton by distributing cotton goods. The Secretary and Mr. Smith also told Mr. Wallace of the President's suggestion that we eliminate the parity payments amounting to \$225,000,000, <sup>but</sup> including some of the other miscellaneous items such as Farm Tenancy, and that the President did not want any export subsidy of any kind as it would interfere with the operation of Secretary Hull's trade agreements.

The Secretary explained how this whole matter had come to

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be discussed at the morning conference and that what he was now telling Secretary Wallace was really the President's suggestion. He said the President asked him to discuss the matter with him and requested that the three of them (Secretary Wallace, Secretary Morgenthau and Director Smith) then go to the Capitol and discuss it with Senators Bankhead and Russell.

Secretary Wallace said that this proposal did not meet the situation at all and that he was quite surprised at the President's attitude on the export subsidy as he had never been very much inclined towards this export subsidy but he thought the President and Mr. Morgenthau were both in favor of it and he had gone out of his way to advocate it for that reason. It seemed that he was now out on a limb. He also said that the parity payments would meet a particular phase of the agricultural problem and would indicate to the farmers that the President was still their friend, whereas the other proposal would definitely indicate that he had abandoned them entirely.

After some discussion it was decided that they should seek an appointment with the Senators previously mentioned. This was arranged so that they could meet in Senator Bankhead's office at 4:30 p.m.

WMB



## TREASURY DEPARTMENT

WASHINGTON

CONFERENCE IN SENATOR BANKHEAD'S OFFICEAT 4:30 p.m., JUNE 14, 1933

Those present besides Senator Bankhead were Senator Russell, Secretary Wallace, Secretary Morgenthau, Director Smith and Mr. Bell.

The Secretary started the discussion by saying that the matter of the amounts contained in the Agriculture appropriation bill over and above the Budget estimate had come up in a conference this morning at the White House and the President had suggested that the two Secretaries and Director Smith confer with the two Senators to see whether there could not be some agreement reached through a compromise. He handed Senators Bankhead and Russell a copy of a statement which had been prepared to show the effect of the President's suggestions on the various items contained in the bill.

Senator Bankhead took one look at the statement and said that he could not at all agree with it. It was quite apparent that he was fully apprised of the President's suggestion before the conference as it did not require any study on his part to grasp the significance of these suggestions. He and Senator Russell both said they could not go along with the President's suggestions and so far as they were concerned they would have to stand pat on the Senate bill, getting whatever they could out of conference for the particular items. If the President vetoed it that was his responsibility and not theirs.

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Secretary Morgenthau said that that was about all that could be done as he was more or less a messenger boy and he had delivered his message and would report to the President the result of the conference.

*swb*

MEETING OF FISCAL AND MONETARY  
ADVISORY BOARDJune 14, 1939.  
11:35 A. M.

Present: Mr. Eccles  
Mr. Delano  
Mr. Smith  
Mr. Hanes  
Mr. Foley  
Mr. Gaston  
Mr. Haas  
Mr. White  
Mr. Duffield  
Mr. Currie

H.M.Jr: Do I hand this to the President?

White: I'll have to call your attention to some changes that we made which were necessitated by revamping of the method of handling the funds. Do you want to go to the first change or do you want to take them one by one?

H.M.Jr: Well, is there anything in 1?

White: No.

H.M.Jr: Anything in 2?

White: 2 is as I think you want it.

H.M.Jr: May I read it a minute. (Reads silently).

3?

White: Now, 3 raised this problem. You wanted them to borrow the money on this self-liquidating basis, but they had planned this expenditure for next year or soon thereafter and had hoped in the future to get additional appropriations. Therefore, it was - in order to meet that requirement, in the last line we said "borrow up to an additional 500 million in the fiscal year 1940 for self-liquidating projects during that year," without saying anything about what would be done in subsequent years. In other words, this is a one-year program - year and a half program.

- 2 -

- Eccles: Well, this is where you were going to set up a corporation and issue debentures.
- White: That's right. But if you gave them only a maximum borrowing capacity, then what would they have for the year following? So we left it indeterminate, that's all, so that it doesn't specify whether they have that maximum borrowing capacity or not. But they could borrow next year for projects during that year.
- Eccles: Well, except that any program that would go to Congress - they are certainly not going to leave the gate wide open.
- White: No. Well, I thought that later you could set a maximum, which you didn't here.
- Eccles: Yes. In other words, the only change in the program is that you leave the maximum off.
- White: Yes, or specify that they can borrow 500 million for projects for next year, without saying they can borrow any more for subsequent years. The way this program is, it would end at the end of next year and the borrowing capacity would end at the end of next year.
- H.M.Jr: I wouldn't have done it that way.
- Eccles: No, I think that's bad, because if you merely set up a corporation and give them a limit to which they can issue guaranteed debentures - a billion dollars or whatever the amount is - then they can spend whatever they are able to, but the minute you limit it, say they're going to spend 500 million in one year, Congress may say, "Well, that's too much in one year."
- White: Well, that's what the program called for.
- Delano: We've got to assume something if we are going to make an estimate.
- Foley: Why not make it entirely independent of what funds they have for present expenditure and make this an additional program?

- 3 -

Eccles: That's right.

Foley: Additional to the amount that is available for expenditure at the present time.

White: This is made that way, but it includes self-liquidating projects which were in their original program. That's why we have the addition of 500 million. It's so specified. That's the way it is. But the point which they're raising is that at the end of a year this comes to an end, the way it's stated now.

H.M.Jr: We can explain it.

White: We have time to change any of these things.

H.M.Jr: We're due over there at 12:05.

White: All right.

Foley: You won't be able to change it, Harry.

H.M.Jr: Well, this isn't a last thing. This is another preview. It isn't a last....

Foley: I don't understand 4, Mr. Secretary, the way it's stated.

White: What isn't clear?

Foley: Well, the rural electric authority has a ten-year program at the present time.

White: That's right.

Foley: Which amounts to 400 million dollars.

White: That's right.

Foley: Now, each year for ten years they get 40 million dollars. What we're proposing here is a corporation with capital which will be blown up five times in the way of debentures.

White: Ten times - 500 million dollars. We've changed it.

- 4 -

Foley: Oh, you changed it. I thought it was five.

White: They informed us of their ten-year program, so we had to make the sum a little greater than what they were going to have authorized.

Foley: Well....

White: That makes it 500 million.

Foley: You could do it that way or you could do it by making the corporation and the new program entirely separate from their ten-year program, because otherwise you'd be cutting down....

White: Yes, that's why it was altered.

Foley: ....on the program they had at the present time, and you'd meet with resistance from them.

White: This is entirely satisfactory to them. I called them up. This is what - they'd very much like to have the 500 million dollar borrowing capacity for the next ten years.

Eccles: Not saying when they were going to spend it.

Foley: That's in lieu of the ten-year program.

White: That's right. It will take them ten years to spend it.

Foley: I understand it now. You changed it from the five to the ten in order to make it an over-all figure, to make it more attractive to them than the present ten-year program.

White: That's right.

H.M.Jr: That's the way I think 3 should be set up.

Eccles: That's what I think. I think 3 is the same way, without any amount - just put the limit to the amount of the debentures, but have a sufficient amount.....

- 5 -

Foley: So that it....

Eccles: ....it's over-all and they can spend it as fast as they can.

White: That's the way it should be, but I didn't know what sort of an over-all figure you could put in there that didn't look tremendous.

H.M.Jr: "5. Federal Toll Authority - self-liquidating."

Delano: I thought we were talking about 3. Were you talking about 4?

H.M.Jr: We jumped to 4.

Delano: Oh, I see.

White: I've got some more information....

H.M.Jr: Excuse me - have you got some question on 3, Mr. Delano?

Delano: No.

H.M.Jr: Some question on 4? What?

Delano: No, I didn't. 4 is all right with me.

White: I just got some more information from the Bureau of Roads. They have been trying to check up on this 5 and they are skeptical about a 3 billion program. So what we have here is that it would be a billion program for four years. And they are a little bit dubious about even the 300 million, but that's within the realm of reason. You can alter it later. They're making a field survey, hope to have the final figures ready within a week as to what they can do. They have 21 projects already lined up. They're 70 percent self-liquidating.

H.M.Jr: Are they in here - the list?

White: Some of them, but not all of them. They're getting them. But this road memorandum should not be regarded as definitive or final, because they are doing much more work on it.

- 6 -

H.M.Jr: "Extension...."

Any questions?

White: That's the same as it was.

H.M.Jr: 6 is the same as before.

White: That's right.

H.M.Jr: ??

White: Well, in 7 we tried to incorporate what your thought was there.

H.M.Jr: (After reading silently) Well, that's just exactly the way I wanted it.

Eccles: I don't know what 7 is.

Foley: You don't know what 7 is?

Eccles: No.

Foley: Well, in the Glass-Steagall bill, the RFC was given power to buy public securities. At the present time they are not exercising that power. In order to provide some inducement for municipalities to build self-financing projects at the present time instead of deferring them to some later time, a lower rate of interest than is normally charged by RFC could be offered to these municipalities for a certain time. Projects that would be started before the first of January, 1940, for instance.

Eccles: Are there any?

Foley: The obligations that the RFC would purchase for such financing would bear  $2\frac{1}{2}$  percent or 2 or some such rate of interest. That would be attractive to the municipalities.

Eccles: Are there any such projects?

Foley: Yes, I think there are many of them, Governor.

- 7 -

- Eccles: Where a municipality can't borrow in the market at  $2\frac{1}{2}$ ?
- Foley: Oh certainly, oh yes. These municipalities can't get anywhere near  $2\frac{1}{2}$ .
- Eccles: Who?
- Foley: These municipalities can't get anywhere near  $2\frac{1}{2}$  on these revenue obligations.
- Eccles: You're talking about revenue bonds.
- Foley: Yes, self-financing projects.
- Eccles: Which are in excess of the debt limit of the municipalities.
- Foley: Be outside of the debt limit of the municipalities - self-financing projects.
- H.M.Jr: Be outside the debt limit?
- Eccles: Revenue bonds can be outside.
- Foley: That financing is the same as our guaranteed financing. It's outside all constitutional and statutory debt limits.
- Eccles: In other words, if a city wants to build a municipal plant without any subsidy of any kind....
- Foley: ....it could be over its general debt limit.
- Eccles: That's right.
- Foley: But it could borrow on debentures payable solely from income that the projects would produce.
- H.M.Jr: (First portion of sentence spoken while others were talking, words not understood) ....where the cities couldn't vote a bond issue.
- Eccles: But they did it on the basis of a revenue bond. In other words they had to depend upon the plant

- 8 -

itself to pay off the principal - interest and principal, and it was not a direct obligation of the city, as I understand it.

Woley: That's right, special obligations entirely outside the debt limit.

Eccles: If the thing defaulted, they could take the plant over, but couldn't get any judgment against the city.

Woley: For instance, in 1936, Mr. Secretary, Buffalo came to the President and said, "We've only got five million dollars additional borrowing power within our 10 percent constitutional limit, and we've got a fifteen million dollar sewage disposal plant to build here, and we are violating the treaty with Canada. Now, what can we do?"

He sent them over to us and we set up legislation which took the sewer department of the city right out from under the city management, created an authority, authorized this authority to issue obligations payable solely from a sewage charge. And the plant has been constructed, it is now in operation, the bonds are selling in the open market at a premium, and that's outside the debt limit.

Eccles: Has it been determined whether or not those are liabilities of the city?

Woley: Yes, that went to the Court of Appeals, and the Court of Appeals by six to one in New York held that those obligations are outside the debt limit, not a charge on the taxing power, and not within the 10 percent, and were not liabilities of the city; they were special obligations payable only from the sewage charge.

Eccles: Revenue bonds.

Duffield: Does the absence of a figure mean you don't think they'll do anything under that?

White: No, I have no idea....

- 9 -

Eccles: It's awfully uncertain as to what you'd get there.

Foley: He'd have to sell that program, but he could do, I think, a considerable amount if there wasn't any interference from PWA and WPA in the way of outright lump sum grants.

Eccles: He'd have to publicize the thing and they'd have to be pretty liberal on the question of passing not only on the credit but also on the interest rates. I wouldn't be very hopeful of just doing....

Foley: His present rate of interest....

H.M.Jr: Ed, excuse me....

Foley: I'm sorry.

H.M.Jr: I want to cover this thing - do you mind - I don't want to go over there - I mean 7 is set up the way I wanted it.

How about 8?

White: 8 is an attempt again to put down the way you wanted this handled, calling attention of the President to the possibilities and that it could be handled either way. Then in the memorandum there is a discussion of the merits of both proposals, and the desirability.

Eccles: You have the memorandum?

White: No.

Eccles: The Secretary has it.

White: It's in there. That is, it refers to a number and in the number there is a memorandum which Mr. Currie prepared on both those projects.

Eccles: Did you put that in the large memorandum or the digest?

Currie: The large memorandum.

- 10 -

H.M.Jr:

Now, is 9 the same as it was?

White:

9 is the same as it was, with one important difference. We had it before as an additional 150. This did not include the textiles. That is, the law permits now - you could use 50 million more on textiles. So we raised that to 200, which would be 200 additional providing they'd get the other hundred, and then that would permit them to use 50 million on textiles, which would be just within the 25 percent, which is the limitation on the objective of funds to be spent for any specific commodity. So that was upped 50 million there to include textiles.

H.M.Jr:

Well now, the thing that I was - this thing, which is an additional proposal recommended by - we've been over this thing before, and as I said here, any member can take over anything that he wants to, but I don't care personally to put in the question of the non-federal projects and the old-age security. I don't know - I take it this is your baby, Marriner.

Eccles:

Yes, that's right.

H.M.Jr:

So, do you want to take this sheet and do what you care to about it? I don't know how Mr. Delano and Smith feel about it.

Eccles:

Don't you want to put it in that program as a....

H.M.Jr:

This is a - I don't want to endorse it, so I'd rather have you handle it personally.

Eccles:

All right.

H.M.Jr:

I don't want to endorse it.

White:

I think it will have to be rety'd.

H.M.Jr:

Maybe somebody else does, but I quite frankly don't want it.

Eccles:

Currie, I'd like the rest of the stuff that goes with that.

- 11 -

- H.M.Jr: Take them out of here. Now, as I say, anybody else that wants to endorse, for want of a better name....
- Eccles: You don't endorse this. I'll endorse it. You don't need to endorse it. It's just a question of the program....
- Currie: Presenting the whole.
- Eccles: In other words, it's the Committee presenting the program.
- H.M.Jr: Yes, but I go along with this, but I don't want to - as a member of the Committee, I don't want to present that. But as I say, it's perfectly proper for you to present it.
- Eccles: Well, it's just a question, do you want to get the whole program together?
- H.M.Jr: Yes, but if I give him this book, then I'm....
- Eccles: You say, "In this book there is our program, and here is - here it is, marked - an additional proposal recommended by...."
- H.M.Jr: Do you want to put in "by Eccles"?
- Eccles: That's right.
- H.M.Jr: Oh, all right. That's all right.
- Eccles: Then the whole thing is together. You don't endorse it.
- H.M.Jr: Then just put it in there by name - "by Eccles."
- Eccles: I don't know whether you want to - Mr. Delano, you want to....
- Delano: I'll endorse it. It has not been before our whole Committee, but I think that they would endorse it.
- Eccles: Yes, you would. It's the old-age pension and the non-federal....

- 12 -

- H.M.Jr: How about you, Mr. Smith? You want to get....
- Smith: Well, I'd like to frankly be in a position of giving some further - having opportunity to give some further consideration to this program before I comment on it.
- Eccles: You mean the whole program?
- Smith: Yes, I think I am in very much that position with respect to all of it, but more particularly with respect to these suggestions that you are submitting here. I am inclined to think that something perhaps ought to be done with the Federal Public Works, but I have had no opportunity to give it consideration. And furthermore, I am perhaps in a little bit different position than other members of this group; first, because I am new; secondly, because I may be asked as Budget Director to do some checking on some of these items, and I have had no instructions on any of them up till now.
- Eccles: Well, do I understand, then, that this is a program that the three of us approve with the exception of the old-age security memorandum and non-federal public works memorandum, which Mr. Delano and I only would approve. And you (Smith)....
- Smith: No, I - let me correct you on that. I would approve with no more or less reservations, I think, than any other member of this Committee would have in his mind, the entire program, up to your suggestion here. In other words, we can consider that the Committee has approved this program so far as I am concerned.
- Eccles: And as far as these two are concerned, you haven't had a chance to study them, you are non-committal.
- Smith: I would like....
- Eccles: The Secretary is opposed, and we recommend.
- H.M.Jr: I am definitely opposed.
- Eccles: That's what I say.

June 14, 1939  
10:33 a.m.

HMJr: Hello.

Operator: Miss Dietrich.

HMJr: Hello.

Marlene  
Dietrich: Hello. Mr. Morgenthau?

HMJr: How are you?

D: This is Miss Dietrich. I'm so sorry to trouble you, but I am quite alone here in New York and I don't know what to do. I wanted to ask your advice. I have become an American citizen some days ago.

HMJr: I saw that in the papers.

D: Oh, I'm glad to know that -- and all the past years, you know, I was an alien and every time I left the country I had to have a clearance and had to pay my income tax in full, which I always did, because otherwise I couldn't leave the country.

HMJr: Yes.

D: And now they told me that they won't let me sail this afternoon because they claim income tax for 1936 and 1937.

HMJr: Oh!

D: I have never received a claim, or my income tax man, ever for these years.

HMJr: Yes.

D: They have never asked us for it.

HMJr: Uh-huh.

D: And I claim that I have paid everything because otherwise I wouldn't have been able to leave the country.

HMJr: Uh-huh.

D: And always paid over a hundred thousand dollars every time I left the country. Now I don't know what to do.

HMJr: Well, now this.....

- 2 -

D: I haven't got the money to put up a bond.

HMJr: Miss Dietrich, where are you?

D: I'm at the Sherry-Netherland Hotel in New York and the order came directly from Washington from a Mr. Holmes.

HMJr: Holmes?

D: Graves.

HMJr: Who?

D: (Aside: Who gave the order in Washington? Who gave the order in Washington?) Mr. Graves.

HMJr: Oh, yes.

D: Mr. Harold Graves gave the order and it arrived here last night.

HMJr: Uh-huh.

D: The gentlemen are here right now and they have the orders to take my luggage off the boat.

HMJr: What boat are you sailing on?

D: The Normandie.

HMJr: And what time does she sail?

D: At three o'clock.

HMJr: When?

D: At three o'clock.

HMJr: Oh, my! Well.....

D: And -- I mean three o'clock here.

HMJr: And you're at the Sherry-Netherland?

D: Yes.

HMJr: Well, what's your room number?

D: My room number is 7-D, like in Denver.

HMJr: 7-D. And are the income tax men there now?

- 3 -

D: What did you say?

HMJr: Are the income tax men there now?

D: Yes.

HMJr: They are there now?

D: Yes.

HMJr: Uh-huh. Do you know their names?

D: Just a minute. (Talks aside.)  
(One of the income tax men comes on the wire.)

Stephen M.  
Ryan: Hello.

HMJr: Yes.

R: Mr. Secretary.

HMJr: Yes.

R: We're deputy collectors of taxes, second district. We're here on a jeopardy assessment which came through from Mr. Graves at nine o'clock last night.

HMJr: Uh-huh.

R: Instructions -- our instructions are from Mr. Hoey and Mr. McNamara.

HMJr: Uh-huh. How much is the jeopardy assessment?

R: Yes.

HMJr: How much is it?

R: A hundred and forty thousand dollars.

HMJr: Oh, dear.

R: It's an assessment against both Miss Dietrich and her husband.

HMJr: Uh-huh. Well now, I'll talk to Mr. Graves. I'm not at all familiar with the case, you see? And you stay there. I don't know whether I can do anything or not. I don't know a thing about it, but I'll -- I'll talk to.....

- 4 -

R: Sherwood is -- in Washington is also interested.

HMJr: Who?

R: A Mr. Sherwood -- W. T. Sherwood and Harold Graves.

HMJr: Yes. Well, I'll talk to Harold Graves and, as I say, I don't -- is it -- the jeopardy assessment is a hundred and forty thousand dollars.

R: That's right -- for the years of '36 and '37.

HMJr: Uh-huh. Well.....

R: Against Marlene Dietrich and Rudolph Sieber.

HMJr: Right! Well, you tell Miss Dietrich I'll speak to Mr. Graves and -- and -- but.....

R: I'll do that, sir.

HMJr: And the matter is entirely in his hands. I mean, I never interfere.

R: I see.

HMJr: But I'll have him call you one way or the other.

R: I see.

HMJr: Now, who -- which -- what is your name?

R: My name is Ryan. Stephen M. Ryan.

HMJr: Ryan.

R: I suggest, Mr. Secretary, that if he's going to call New York he call the Custom House directly because they have our location here and they can advise us.

HMJr: Righto! Well, you stay there because you -- you'll have to do something in the next twenty minutes if anything can be done.

R: We'll stay right here.

HMJr: Thank you.

R: All right, sir. Thank you.

HMJr: Good bye.

June 14, 1939  
10:37 a.m.

HMJr: I just had a call from Miss Marlene Dietrich.

Harold

Graves: Oh, yes.

HMJr: And -- who we met in Europe last year.

G: Yes, sir.

HMJr: And she says that -- I mean, she didn't, but Stephen Ryan got on the phone who is at her apartment and she's sailing at three o'clock.

G: Yes, sir.

HMJr: That you've got a jeopardy assessment on her '36 and '37 for a hundred and forty thousand.

G: Yes, sir.

HMJr: What is that, Harold?

G: Well, we had a wire late last night from the Internal Revenue Agent in Charge at Los Angeles advising of this tax deficiency and advising also that these people, Miss Dietrich and her husband, were leaving New York today.

HMJr: Yes.

G: And he recommended the jeopardy assessment. Now that's all the information we have. The Bureau people submitted it to me with the recommendation that we should make the jeopardy assessment and I told them to go ahead.

HMJr: Is there any way of -- of having her put up a bond?

G: I think so. I've asked Mr. Schoeneman to get in touch with the Collector at New York and see if that thing can't be worked out. I have had no report yet.

HMJr: Well, the only -- the only thing, I feel, is this -- I mean, to -- to slap this thing on the night before anybody is sailing is kind of tough on them.

G: Yes.

HMJr: And the Government's interests have to be protected, of course.

G: Yes.

HMJr: But I wondered if there was some way of getting a bond.

G: Well, let me take that up with the -- the people at New York and report back to you.

HMJr: She says the steamer sails at three, and I don't know whether.....

G: Yes. We'll have to move awful fast, and I will move fast.

HMJr: But -- Yeah. And the man at her apartment -- she's at the Hotel Sherry-Netherland.

G: Hotel -- Sherry-Netherland?

HMJr: Hotel Sherry-Netherland.

G: Yes.

HMJr: Room 7-D.

G: 7-D?

HMJr: "D" like in Dorothy.

G: Yes, sir.

HMJr: And the agent there is Stephen Ryan. He's in her apartment now.

G: Yes.

HMJr: Now, as I say, I'm not asking you to do -- well, you know me by now.

G: Yes.

HMJr: But if the Government's interests can be protected and still let the woman sail, I do think it's kind of tough on them.

G: Very well, I'll see if we can't work it out, Mr. Morgenthau.

HMJr: What's that?

G: I'll see if we can't work it out.

HMJr: And call me back?

G: I will, sir.

- 3 -

HMJr: Thank you.

G: You're welcome. Good bye.

June 14, 1939  
5:48 p.m.

HMJr: Hello.

Operator: Secretary Wallace. Go ahead.

HMJr: Henry -- Henry.

Henry

Wallace: Yeah.

HMJr: I thought you'd like to know that I spoke to the President and told him as near as I could what had happened.

W: Oh, that's fine.

HMJr: And he said he himself is going to call Senator Bankhead tomorrow.

W: Uh-huh.

HMJr: I didn't know whether he was going to talk to him or whether he was going to send for him, but he was going to communicate with him in the morning.

W: Say, Henry, on this three hundred million for Export-Import Bank.....

HMJr: Yeah.

W: .....do you get it that that money might be available for handling wheat and cotton exports?

HMJr: Well..... -- I.....

W: Is that in the picture?

HMJr: I -- I hadn't thought of it, but it's something to think about. I think they were thinking in terms of machinery, but let's not -- I wouldn't say the door was closed on anything.

W: Yeah.

HMJr: See?

W: The.....

HMJr: I wouldn't say the door was closed on anything, and.....

W: If the intention was to shut out the subsidized wheat and exports it -- well, it just makes the whole, this cutting out on the export subsidy makes the International Wheat Conference and the International Cotton Conference a

complete joke, makes us.....

HMJr: Well.....

W: .....the laughing stock of the world, but.....

HMJr: I'm glad you let me have that press release because that refreshed my memory.

W: Uh-huh.

HMJr: But I -- as I told you earlier today, I -- I wouldn't say anything was -- was closed. See?

W: Uh-huh.

HMJr: Now, the President -- as far as I'm concerned, I think I'm finished on this thing, but if I should for any reason get back into it again I'll let you know before I do anything else.

W: Yeah. I -- I suppose ~~Id~~ better talk with him, hadn't I?

HMJr: I -- if you're asking me, I think you should.

W: I think I probably had. I want to get some -- the -- I think you ought to know how this will leave the cotton and wheat, because it's going to.....

HMJr: I think.....

W: .....-- it just inevitably precipitates a string of actions which -- well, just can't be stopped.

HMJr: I think you ought -- I think you ought to by all means.

W: They ought to know about -- ought to know about that. Sometimes you wonder whether or not to let Nature take her course and let him face the actions, but I think it's our duty, though, really to let him know in advance, isn't it?

HMJr: Definitely!

W: I think we should.

HMJr: Definitely!

W: All right, fine.

HMJr: Good night.

## TREASURY DEPARTMENT

WASHINGTON

CONFERENCE AT THE WHITE HOUSE BETWEEN THE  
PRESIDENT AND THE FISCAL AND MONETARY COMMITTEE,  
12:30 p.m., JUNE 14, 1939

Those present besides the President were the Secretary of the Treasury, Chairman Eccles, Director Smith, Mr. Delano and Mr. Bell.

The Secretary handed to the President a memorandum from the Fiscal and Monetary Committee, containing recommendations for a new recovery program for the fiscal year 1940.

The President said that he would go down the list and as he reads each item he would like for some one to point out whether or not legislation is needed. This he did, Mr. Smith explaining the situation with respect to the United States Housing Authority item and Mr. Eccles explaining the situation with respect to the Federal Housing Administration item. The other items from 3 to 7, both inclusive, were hurriedly passed over. When he came to item 8, concerning loans to railroads, Mr. Eccles explained that the Reconstruction Finance Corporation did not need any further legislation to make loans to railroads for the purpose of purchasing new equipment but that its present limit is only about \$150,000,000 and that it would not be sufficient to make any material contribution to a recovery program. He said that the Reconstruction Finance Corporation would,

- 2 -

however, in all probability need legislation to waive the interest as suggested in part of 8 (a). The President said that he did not like that part which suggested waiving the interest as it was a bad precedent to establish. He liked 8 (b) which would create a new corporation solely for the purpose of making equipment trust loans. Mr. Eccles and Mr. Delano concurred in the President's views on this item.

We then came down to the items concerning the food stamp plans of the Department of Agriculture. The President discussed the Agriculture bill now in conference and the items contained therein which are in dispute and which increase the budget estimates by some \$378,000,000. The President said that he would be willing to expand the food stamp plan to \$300,000,000 and include approximately \$100,000,000 for distribution of cotton goods. He said he was definitely opposed to the export subsidy. He suggested that the Secretary and Mr. Smith see Secretary Wallace this afternoon and explain to him what the President had in mind in this connection, and then the two of them should go to see Senator Russell and Senator Bankhead and try to sell them the idea.

The President then discussed the non-Federal public works items listed in the memorandum. He said that he was afraid to submit any recommendation with respect to these because if it once got started in Congress he was afraid he could not control the amount it would appropriate. He said there was now a move on foot to earmark for

- 3 -

public works the sum of \$125,000,000 to \$250,000,000 of the funds to be appropriated in the relief bill. This he would have to oppose. He said that if the Congress will go along on the agricultural bill in agreeing to the \$210,000,000 additional (\$300,000,000 all told) for the distribution of surplus commodities, he would agree to earmark, say, \$200,000,000 of relief funds for public works.

Mr. Eccles then brought up what he said he considered to be a very important matter which should be discussed with the President at this time, and that was the question of old-age benefits. He said that the Government would continue to increase the reserve during 1940, paying out practically nothing in the form of benefits. He insisted that these taxes were a tax on consumption and that they were a deterrent to business. It was his opinion, therefore, that they should be further reduced or those that are collected should be returned to the beneficiaries in the form of benefit payments under the Social Security Act. The Secretary said that he felt that there is a question of good faith here as the President and he had conferred at some length with members of the Ways and Means Committee of the House and the Finance Committee of the Senate and had agreed upon a program for social security legislation. The matters agreed upon had been embodied in a bill and had passed the House last week. He thought, therefore, that the President could not advocate something different at this time when the House had carried through his program in its entirety. The President said that he questioned as to whether we

- 4 -

should say anything about old-age benefit payments at this time or suggest any reductions in the taxes. He thought we had better let well enough alone. Mr. Eccles then said that he would like anyway to leave a memorandum with the President on this subject, hoping that he would have time to read it.

*see B*

June 14, 1939

HM, Jr gave a copy of this to Senator Bankhead  
and to Senator Russell.

DISPUTED ITEMS IN AGRICULTUREAPPROPRIATION BILL

(In millions of dollars)

	Amount in Bill	Recommend allow	Recommend disallow
Parity payments .....	\$225.0	-	- \$225.0
Surplus Commodities <sup>1/</sup> .....	113.0	\$210.0	+ 97.0
Farm Tenant Act (loans) .....	25.0	25.0	--
Roads .....	- 8.0	- 8.0	--
Miscellaneous items .....	8.0	8.0	--
	363.0	235.0	- 128.0
AAA (Passed House - Not in dispute) .....	14.6	14.6	--
	377.6	249.6	- 128.0

<sup>1/</sup> In addition \$90M indefinite appropriation (30% customs)  
will be available (Total \$300M)

REB

PLAIN

London

Dated June 14, 1939

Rec'd 2:20 p. m.

Secretary of State,  
Washington.

828, June 14, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. Questions arising out of the Czech gold affair continue to be asked in the House of Commons, apart from stirring up the Labor Party's agitation for nationalizing the Bank of England, the controversy now seems to have narrowed down to the question of the cooperation between the British Treasury and the Bank of England in foreign financial matters.

Two. Sterling weakened a little today on a narrow market. The British fund apparently did not deal in the spot dollar but intervened in the forward market when the three months premium went to one and one-half. There was a large demand for gold, 250 bars being wanted when 148S 4-1/2D was taken as the price at the beginning of the fixing. When the price was raised a half D the demand narrowed to about 200 bars. Actually 125 bars were dealt in,

REB

2-#828, From London, June 14, 7p.m.

in, 21 of which were married and about 30 supplied by the Bank of England, the total being pro-rated to buyers on a 44% basis.

The belga reacted from its weakness of yesterday closing at 27.53.

KENNEDY

CSB

RECEIVED

JUN 12 1958

TREASURY DEPARTMENT  
Office of the Secretary  
Treasury Building in the Building

CJ

GRAY

PARIS

Dated June 14, 1939

Rec'd 2:52 p.m.

Secretary of State,  
Washington.

1131, June 14, 7 p.m.

FOR THE TREASURY.

The threatened blockade of Tientsin had a depressing effect on the exchange and security markets. Exchange transactions were on a small scale and no changes of importance took place. There was a slight improvement in the Belga. Losses in rentes ranged from 25 centimes to 1 franc 25 and variable revenue securities lost from two to three per cent.

WILSON

HPD

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JUN 19 1939

TREASURY DEPARTMENT  
Office of the Secretary  
General Building, Washington

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: June 14, 1939, 6 p.m.

NO.: 498

Reference, my telegram No. 298 of April 29, 10 a.m.

A speech was given before the Berlin Union of Businessmen and Manufacturers by State Secretary Reinhardt, of the Reich Finance Ministry, and the author of the new finance plan. He asserted that the Reich would impose no new or increased taxes. He said that the additional revenue to be derived from reductions in income tax exemptions last February, plus the surtax on increased income of last March, in addition to more revenue from the Sudetenland, Austria and Memel, and greater efficiency in collection, would be enough to increase the tax revenues of Germany from the 17.7 billion marks collected during the fiscal year ended March 31 last to a total of 22 billion reichsmarks for the present fiscal period.

German business circles accept this assurance of no further increases in taxation with considerable reserve. A similar statement was made by Reinhardt some six months ago. The predicted increase of four billion marks in tax revenues, it is to be noted, would not be a clear gain;

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the Government, in the new territories acquired during the past twelve months, is faced with increasing expenditures. Furthermore it has been said that the present diminution and the eventual cessation of extraordinary expenditures on the western fortifications may be offset to a certain extent by an increase in German navy expenditures. An unconfirmed report has been circulating in this connection to the effect that the German navy has obtained authorization for a construction program involving the additional expenditure over the next four years of nine billion marks.

Repeat to Treasury as 35 from Heath.

KIRK.

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