

DIARY

Book 205

July 25 - July 31, 1939

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 25, 1939, 8 p.m.

NO.: 1370

PERSONAL FOR THE SECRETARY OF THE TREASURY.

I refer to your inquiry by telephone this afternoon.

In the opinion of Paris bankers and brokers, the main reason for European selling of American securities is the general discouragement over our market prospects which recently has developed. Such selling as has taken place in Switzerland, the Netherlands and France has not been of great enough volume to attract local attention and is thought here to be "normal" condition.

Among European investors of various classes, there is a general feeling that our Grade A bond yield is too low to be attractive, and that on the basis of current or near future earnings, stocks are likewise overvalued. European investors have tended to be discouraged because of the stagnation of the markets, the low price of commodities, and the increasingly effective efforts since April on the part of the British Government to discourage British investment in American securities. Political uncertainties and the reappearance of strikes may be added to this.

In addition, there is a growing belief that should

war

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war come, there will be a drop in American security markets, and investment in them does not afford frightened capital adequate war protection. Europeans are leaving on deposit in the United States much of the proceeds of their sales of American securities for this reason. In this connection, I have heard that each day new bank accounts are being opened in America by European investors.

END MESSAGE.

BULLITT.

EA:LWW

CA

GRAY

LONDON

Dated July 25, 1939

Rec'd 3:53 p.m.

Secretary of State

Washington

1066, July 25, 9 p.m.

FOR TREASURY FROM BUTTERWORTH

One. The Anglo-Polish credit negotiations have now been terminated. The Poles today refused to accede to the British conditions (see my 1033, July 20, 6 p.m.) and withdrew their request for a cash credit. Consequently present British assistance to them will be limited to the £8,000,000 credit to be used in the purchase of British manufactures and some raw materials and 500,000,000 francs for similar purchases in France. The Polish Financial Attache tells me that he and the Polish delegation are "greatly disappointed" and expatiated at some length on the desirability of Poland obtaining facilities for "immediate purposes". The British Treasury also tells me of its disappointment and expatiated on the "silliness" of the Poles in refusing a constellation because they wanted the moon and at the same time being unwilling to take steps (devaluation) to put their own habitat in order.

CA

--2--1066 from London..

order. Aside from this, since the main difference is merely that the Poles wish to obtain unrestricted possession of £5,000,000 of gold while the British are prepared to give them restricted possession of £5,000,000 sterling it is not unlikely that negotiations will be resumed. But unless this is done speedily Parliament will have recessed.

Two. The foreign exchange market was unusually inactive today. Sterling was steady and the British fund only sold small amounts of forward dollars at 1 5/8. 200 bars of gold were sold at fixing of which 35 were married and something less than 50 supplied by the British fund. Buyers were prorated on a 64% basis. Gold coins are again coming in demand.

JOHNSON

LMS EMB

JR

GRAY

Berlin

Dated July 25, 1939

Rec'd 2:50 p.m.

Secretary of State,
Washington.

694, July 25, 3 p.m.

My 610, July 7, 6 p.m.

The continuing interest of the German Government in the proposed British credits to European countries and the possible adverse affect thereof on German export and import trade is evidenced by the fact that the semi-official German DDPK has devoted another issue to attacking these credits as disruptive of the economic foundations of these countries and of their "healthy" and "fruitful" trade relations with Germany. The latest issue employs about the same arguments as the previous issue outlined in my above mentioned telegram and states in regard to these credits that "in spite of protestations to the contrary England's desire to upset Germany's reciprocal trade relations in the southeastern part of Europe and to prevent it from obtaining raw material and food supplies from these districts becomes more and more apparent." The article asserts that England cannot become immediately "a steady and permanent customer of any of the countries where it invests

-2- #684, July 25, 3 p.m., from Berlin.

invests such credits" and warns that Germany cannot continue to give preference to imports from these countries unless it is assured of a regular supply of the commodities it buys from them.

Inform Treasury.

KIRK

KLP

July 25, 1939.

FOR THE SECRETARY'S FILES:

The Secretary today saw Paul Leach of the Chicago Daily News at Mr. Leach's request. Mr. Leach asked whether the Treasury had started an investigation into the affairs of Mike Igoe. He asked that the Treasury give him for background but not for publication any information it could on such an investigation. The Secretary replied that Mr. Igoe, so far as he knew, was not being investigated by the Treasury. He added that he did not know, of course, of investigations the Justice Department might have under way.

Mr. Leach also asked about the veracity of reports that the Secretary was interested in buying the Chicago Hearst papers. The Secretary replied that he was not interested in anything until he left the Treasury and then he was going to have a sabbatical year before he did anything. Mr. Leach remarked that Secretary Ickes had also denied that he wanted to buy the Chicago Hearst papers.

ESD

MEMORANDUM

July 25, 1939.

In reply to the request of Mr. Rogge, he can have Burford, but if he wants a whole other crew, then I want to make a deal with him to release some of the seventy-eight men that they've got in Chicago.

H.M. Jr.

(Subsequently H.M. Jr. phoned Mr. Graves and asked for his recommendation on Assistant AG Rogge's request to have Mr. Burford, of Internal Revenue, detailed for special investigative work in Louisiana; Mr. Graves stated he needed Burford for important administrative work in the Bureau, and H.M. Jr. accepted his recommendation that Burford not be detailed)

GROUP MEETING

July 25, 1939.
9:30 a.m.

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Present: Mr. Gaston
Mr. Foley
Mr. McReynolds
Mrs Klotz
Mr. Duffield
Mr. Lochhead
Mr. Graves
Mr. Bell
Mr. Gibbons
Mr. Haas
Mr. White

H.M.Jr: (Holds telephone conversation with Ambassador Bullitt)

Bullitt says they'll begin to turn the heat on around the 15th of August, and while he doesn't want to say it, he thinks the 15th of August to 15th of September will be the crisis. He won't say it, but he thinks things will begin to get hot around the 15th of August; I suppose the crops are in by then.

This is the funny thing on this foreign selling - good morning, everybody - it just doesn't add up.

Gaston: Don't you think they buy here when the news is unfavorable in Europe - the peace situation - like Munich, and that they sell when things are beginning to look better over there.

H.M.Jr: Then why did they sell all through the middle of March? See? I mean that's what I would say, but then, why did they sell - the selling reached its peak on the 17th of March.

White: Any conclusion you come to you find, going back, is not sustained by the facts. The nearest thing is that the largest amount of selling, on the average, relates to the stock movement here. When things rise here, they seem to sell; when things drop, they buy; and even that isn't true, except that it is true in more of the cases than it is not true. But it's not sufficiently true to draw any conclusions.

H.M.Jr: This morning I looked at this chart which George gave me. It goes back to July '37. And there's

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just no consistency about this thing. That's why I

Gaston: Well, they certainly take into consideration both ends of the picture; both the European situation and the American market would affect them.

H.M.Jr: Well, if you look at the thing and go back, as I say, to the first of July, '37, just - if you're guided by what Europe did, you'd be consistently wrong.

Gaston: You'd have to add into that what the American market looked like, among other factors.

H.M.Jr: True. What?

Bell: Selling for a profit.

Haas: If they felt real good over there, if the European situation looked good, it seems to me one of the first things that would go up would be the British or French bond markets.

H.M.Jr: What's happening over there?

Haas: Going down.

H.M.Jr: What?

Haas: Weak,

H.M.Jr: And the other thing which is weak is

Haas: ... commodities - very weak.

H.M.Jr: Very slow. Putting it all together, what do you think, George?

Haas: Putting it all together - you can't be too conclusive about it - it looks as if the Europeans are not happy over the European political situation. That's what I make out of it.

H.M.Jr: And the other thing, Dan, while we're talking about news - I did a little home work - no one told me, just for future reference, this, you see; somebody should

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have told me that those two big issues were sloppy last week. Now, nobody ...

Bell: I thought we did. Didn't I tell you Friday on the telephone that the two issues were sticky?

H.M.Jr: No, sir.

Bell: I thought I did. Sorry.

H.M.Jr: Nobody told me that Shell Union Oil or Southern Bell Telephone were only 60 or 70 percent sold.

Bell: I didn't know the percentage, but I knew they were sticky.

H.M.Jr: No one even said they were sticky. I mean I wouldn't have done anything different, but I ought to have had that information.

Bell: I thought we gave it to you.

H.M.Jr: No.

Bell: It's in George's memorandum of

H.M.Jr: What?

Bell: It was in George's memorandum.

H.M.Jr: I didn't get George's memorandum.

Bell: Didn't you?

Haas: The Secretary left just before ...

H.M.Jr: I didn't get it, and they didn't send it to me. No, I did not get it. Just for future

Bell: Fine.

H.M.Jr: Herbert?

Gaston: I don't think of anything.

H.M.Jr: Gene?

Duffield: I haven't been able to get hold of Paul Leach this

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morning to give him your message. Do you want to fix an hour, then if he doesn't want to come cancel it, or shall I call you when I get in touch with him?

H.M.Jr: Oh, if he wants to come in at 4:15

Duffield: Well, that's bad for him because of the White House press conference at 4.

H.M.Jr: Well, if he wants to come in at 11:30 ...

Duffield: Uh-huh - 11:30.

H.M.Jr: 11:30.

Foley: (Nods nothing)

Haas: The Budget Bureau has asked you - the Director of the Budget has asked you for some revised revenue estimates. We have anticipated that, been working on it for the last several weeks. We'll have something for you this afternoon, tomorrow morning, any time you want to go over it.

H.M.Jr: Good.

Now, I'd like to call up Mr. Wallace and tell him that this - if this 119 million dollar deficiency appropriation doesn't come through, he's going to be in the soup. I'd like to be on record. It hasn't been voted, has it?

Bell: No, sir.

H.M.Jr: Am I right? I just don't want - I'd like to let him know; then I feel I've done my part. Right?

Bell: Well, I don't know what you mean by being in the soup. His program next year is shot

H.M.Jr: Yes, exactly.

Bell: Well, I assume that they have not committed the Commodity Credit to next year's program.

H.M.Jr: Yes, but if he doesn't get his 119, he can't make his corn loans, can he?

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Bell: As I understand it, he can not.

H.M.Jr: I think in fairness to him, I ought to tell him that.

(On phone) Secretary Wallace, please.

I mean if the thing was reversed - I mean, after all, he'd

Bell: He's got just a little over a hundred million dollars to operate on over and above his present commitments, if he doesn't get the 119.

H.M.Jr: I think he ought to know it. I think the President ought to know it, too. Think it's up to me to tell the President?

Bell: No, I think it's up to Wallace.

H.M.Jr: I'll ask him. It's bothered me.

Bell: It's really an operating problem.

H.M.Jr: Well, I'll clear my conscience when I've told him about it.

Got the book for me, George? (Haas hands book to HMJr)

Harry, if you have a breathing spell - if you could get me those gold things, gold countries

White: I have it here.

H.M.Jr: Wonderful.

Steve?

Gibbons: I haven't anything.

H.M.Jr: Got the gold

White: It's in the memo here.

H.M.Jr: Will you give it to me? (White hands memo to HMJr)

Have you got the - is that pools of capital, too?

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White: It's foreign exchange assets.

H.M.Jr: How do those gold countries look? Are they holding their own?

White: No, I shouldn't think so.

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

White: Only Germany, with great difficulty.

H.M.Jr: Pardon me?

White: Only Germany, with great difficulty.

H.M.Jr: What do you mean?

White: Is holding her own. Japan and Italy are losing out.

H.M.Jr: I see.

White: This isn't news, but I think it's important enough to repeat. The British deficit for the fiscal year which will end March of next year, so far, ...

H.M.Jr: Two and a half billion.

White: ... compared with ours on a per capita basis, which is the only legitimate basis, would be over seven billion dollars; that is, would be the equivalent of over seven billion. It's two billion four, and it will probably be greater before long. They just had an increase two weeks ago.

H.M.Jr: It's two and a half billion dollars.

White: It's two billion three.

H.M.Jr: That's close - for me, I mean, to remember.

White: But I think the significant comparison is the per capita.

H.M.Jr: How's their net contribution?

White: Very high. That's why they're having a boom.

H.M.Jr: In commodities?

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White: No, they're having a boom in everything. I'm preparing a memorandum on that. Almost ready - have it for tomorrow.

H.M.Jr: After you people left last night, I wanted to turn on music. Instead of that, at 10:30 I heard first Wagner and then Barkley, and Barkley hadn't had time to learn his lesson, tripped over every third word. But 10:30 at night - that's a terrible time

White: Thought it was supposed to be at 9:30.

H.M.Jr: 10:30; that's 11:30 daylight saving. Can you imagine anybody that late ...

White: They must have shoved it up the last minute.

Foley: They had 10:30 to 11:15 for Tuesday, which I thought was too late.

H.M.Jr: ... listening to Foley's self-liquidating program?

White: Well, ...

H.M.Jr: Incidentally, Foley, White and Bell are going up with me when we meet with those Democrats at two o'clock. How many Democrats had to change their arrangements for the day?

Foley: Sixteen or seventeen.

Bell: Two o'clock tomorrow?

H.M.Jr: Uh-huh. I'm eating with Harold Graves... Would you tell Mr. Doughton I'm bringing Mr. Graves with me tomorrow; and if you'll find out what room it is, you see - we're to be there at a quarter of one, and then we'll let these gentlemen - you fellows can pick us up at Doughton's room. Or if you'll tell me where the other room is, I'll go there.

Foley: It's the Rules Committee room in the Capitol on the House Side up there.

H.M.Jr: Just remember that. Maybe we better meet there.

Foley: Yes. Two o'clock.

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H.M.Jr: What?

Foley: Two o'clock.

Klotz: Mr. Graves coming after lunch?

H.M.Jr: He's coming with me at 12:30, and we'll go up; I'll take him along. Just want to tell Doughton. And after

White: On that memo I just gave you, I wish you wouldn't use it, because I'd like to prepare a better one which will demonstrate - this is all right for your information, but for something you can use

H.M.Jr: Not across the street.

White: Set the day and I can have it ready.

H.M.Jr: Let me read this.

White: We can do a much better job. It's a hurried job.

H.M.Jr: All right.

White: The sub-committee of the Executive Committee on Commercial Policy has its findings, which are incorporated in this, and recommends one of the changes and not the other. Now, they can poll the members of the Executive Committee and get an answer to you today if you want their answer before you answer the President. If you're not interested....

H.M.Jr: Yes, as long as we've waited this long, let's get their answer.

White: Then it's a question of polling them by telephone or having a meeting in the usual course of events. So I'll ask them to poll the members. The answer will be agreement, I know.

Here's a cable which indicates what is happening to the American business man in Japan, as well as some other matters, which I think is worth glancing over; and it's going into the general hopper on the Japanese situation.

H.M.Jr: I see.

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White: Miss or Mrs. O'Day, the Congresswoman, ...

H.M.Jr: Mrs. - Caroline O'Day.

White: She asked us to prepare a few paragraphs that she wants to send out. I suppose it's all right.

H.M.Jr: Oh yes, she's O.K. Anything else?

White: (Nods negatively)

Lochhead: You notice the Dutch formed a new cabinet yesterday. Doesn't seem to be very well received so far, and they don't figure it will last too long. But there doesn't seem to be any concern.

The exchanges are all holding just right on the pegged levels.

H.M.Jr: I saw this in Time Magazine. Was this cleared with the Joint Committee?

Graves: (Looks at clipping from Time) Yes.

H.M.Jr: Was it? It was cleared with the Joint Committee?

Graves: Yes.

H.M.Jr: Anything else, Harold?

Graves: No.

Bell: That's that letter to Jesse Jones.

H.M.Jr: Do you agree with me?

Bell: Yes.

H.M.Jr: It's silly. Jones wanted us to borrow 250 million for him at this time.

Bell: This low interest rate, I guess,

Gibbons: You asked me about those four planes the other day. Did you get my memorandum?

H.M.Jr: Yes.

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Gibbons: It was in the last appropriation; we had forgotten about it.

H.M.Jr: Yes, I got it. Thank you.

Bell: These are the tables showing the interest rates by six-month periods.

H.M.Jr: Including the ...

Bell: All of the corporations.

H.M.Jr: Well, I'd like to talk to you about that today. Would you come down at ... - oh, Congressman White - do I have to see him today?

Gaston: He's seen everybody else in the Treasury; I don't think he wants to snub you.

H.M.Jr: Have you fellows got the thing fixed?

Foley: Be ready by 10:30.

H.M.Jr: (On phone) Senator Pittman.
Well, let's see how I get along. But I'll talk to you (Bell) about that.

Bell: Had a few bids in this morning for a million, two million, and three million of these Home Owners Loan bonds. I told New York that they should keep within the limit of three million unless otherwise authorized, and to spread them around. We still have the 40 million bid from Devine, but we're laying off that.

H.M.Jr: I think I'd go up to five million.

Bell: Would you? Well, they're going to spread this three million around and then call back.

H.M.Jr: I'd let it go up to five. I want to talk to you about that other.

Bell: O.K. That's all.

H.M.Jr: Mac?

McR: No. I have two or three small items that I think I ought to clear with you some time this week, that is,

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when it's convenient for you.

H.M.Jr: Well, I've got two or three - I'm putting down McReynolds and Bell.

McR: One thing of a little interest - don't know whether there's anything to do about it -

H.M.Jr: (On phone) Hello. - All right. - Well, just let them know I want to talk to him a minute.

He's not in yet.

McR: Between Harrington and Corry Gill, they finally got around to cancelling out our allotment for Revenue projects, insisting on giving us the statistical project instead. The Budget Bureau has not been willing to clear the statistical project in the absence of the other one. And so I wrote the Budget Bureau a letter, prepared an estimate, since we'd been definitely turned down on these Revenue projects - submitting a supplemental estimate for a regular appropriation to take the place of the one cancelled out by WPA. The Budget Bureau won't send it up, but they'll put WPA on the spot. See, they've given us the amount that we wanted, but they insist on using it for the statistical project.

H.M.Jr: And we want it for what?

McR: We wanted it for the Revenue projects - that is, Miscellaneous Tax and Liquor Tax projects that have been going for four years and making money for us, you know. And so I've sent an estimate for a regular appropriation to do the job that's been done for four years by the relief people, because they've taken the relief money away. What I suspect will happen will be that the Budget Bureau will put the WPA people on the spot and make them transfer that back to what we want it for. I have no idea that they'll send up any supplemental estimate to Congress for an additional appropriation. But that's just a means of putting the pressure on.

H.M.Jr: Sounds dirty to me.

McR: It is a little dirty, but they treated us dirty in the first place. Tried to be courteous to them. Have

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to treat them the way they did us.

H.M.Jr: One dirt deserves another?

McR: I just try to keep on an even keel with them.

H.M.Jr: All right.

Duffield: Mr. Secretary, ...

H.M.Jr: You (Foley) better come in, see, about five minutes ahead - 10:25 - bring me up to date on that.

Duffield: If you give him an answer on silver, since there's been a lot of inquiry from the press generally about what we're going to do about that silver, will you let them know? I don't think it's fair in a case like that to give anybody an inside jump.

H.M.Jr: Well, you don't want me to give it to Pearson and Allen?

Duffield: No, what I ...

H.M.Jr: Incidentally, I recommend everybody read Pearson and Allen today. I think somebody's been talking in the Treasury. I don't know where they get all this stuff.

Immediately Harry shakes his head and says, "No." He doesn't even know what it is and he says, "No." The answer is "Yes."

That was very funny - looks at Archie and he says, "No."

White: In defense I've got to say that was in answer to his question if I knew what it was. I hate to spoil your joke, but I have to; my reputation is wearing pretty thin.

H.M.Jr: All right. Well, the one yesterday about the laps was all right, wasn't it?

White: Yes. That isn't in there, I hope.

Foley: Not yet.

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Bell: That's next week's.

H.M.Jr: And I'll put you (White) down; I haven't forgot you either, about that book.

All right. I just want to talk to Mac a minute, please.

RE SILVER PROCLAMATION

July 25, 1939.
10:30 a.m.

Present: Mr. Foley
Mr. Lochhead
Mr. Bernstein
Mr. McReynolds

H.M.Jr: Had a very nice talk with Pittman. Acted just as though nothing had ever happened.

Foley: Sure. Bet he was glad you called him up.

We've got to put something in that bill on this - while we're waiting - on competition. I think that's as innocuous as we can get it (handing typewritten paragraph to H.M.Jr)

H.M.Jr: (On phone) Ask McReynolds to come in here.

Mac can listen to the silver thing, take them both over.

Foley: We may need to get the A.G. first on this proclamation before we take it over. There's the memo.

H.M.Jr: Do you have to get him first?

Foley: Well, I think we ought to.

H.M.Jr: All right. (Signs various papers re silver)

(On phone) Where's McReynolds? - Where was he? - Is he coming? - Thank you.

Foley: This is the one that the President signs, and this is the one we'll have to have the A.G. on.

H.M.Jr: Yes.

(McReynolds comes in)

Mac, there are two things. As soon as I get these things cleared, I'm going to ask you to walk them over to the White House, you see? And it's this newly-mined silver business, you see?

McR: Yes.

H.M.Jr: If you don't understand it, get him (Bernstein) to explain it to you. And we'll dump it all on your

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lap. And then the other thing - read this - he (Foley) wants this up his sleeve in case they press us on the competition. I thought rather than try to explain all these things to the President, better let you walk them over there, if that's agreeable to you.

McR: Yes.

Foley: Then if that goes through, this is the telegram to the

H.M.Jr: Do I sign that?

Foley: No, the Director of the Mint signs that.

H.M.Jr: Why don't you/get this thing started on the way over to the Attorney General? What? Or do you (Foley) want to do that yourself?

Foley: Well, I'll do it.

You want to approve that?

H.M.Jr: Yes. Why don't you call him now?

Foley: Will you get the Attorney General, please? (On phone)

H.M.Jr: Do you mind if I have the loud-speaker on?

Foley: No.

H.M.Jr: I think now on - I want to drag the President in on this thing, see? And he has his own notions on this...

Foley: Competition.

H.M.Jr: ... competition.

Foley: Well, that's (indicating suggested clause) right.

McR: Well, this - I don't see how anybody can object to this kind of a statement.

Foley: No prohibition, you see, Mac.

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McR: No prohibition.

(Phone rings)

H.M.Jr: That's for you (Foley).

Foley: (On phone) Hello. - Thank you.

Talk to him later.

H.M.Jr: Where the hell is this fellow White?

Foley: Said he was getting some things together, be about ten minutes late.

H.M.Jr: In order to save time, you tell him what we're going to do, so he doesn't give us a long harangue.

Foley: All right. Go outside?

H.M.Jr: No, no.

(Discussion on an unrelated subject takes place)

Gee, this fellow White - I'm not going to see him. He can go back and see you fellows. We've got the whole thing settled. I'm not going to - the man is twenty minutes late. I'll go out and shake hands with him and say the whole thing is settled.

Foley: Sure, that's all.

Lochhead: I think he's coming over prepared to argue. Maybe that's what he's doing; he's collecting all his ...

H.M.Jr: What does he promote?

Foley: I don't know what he's promoting.

Bernstein: He's a miner.

Lochhead: He works for the Sunshine Mining Company.

H.M.Jr: Actually?

Lochhead: Well, every time he comes up, he says what a wonderful thing the Sunshine Mining is doing, how much taxes they pay. His best customer.

(McReynolds answers White House phone)

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McR: It's the A.G.

Foley: (On White House phone) Hello, General. - We have a silver proclamation to take care of an adjustment of the silver price on silver delivered to the mines before the first of July, and there's a lot of pressure being brought to bear on some of the people on the Hill to get this thing cleared up, and we want to get it to the President just as soon as we can. Because it's a proclamation, it has to clear through you, and I was wondering if I could send it over now so that we could get it over to the President around noon-time. - I'll send it right over. - Thank you, sir.

H.M.Jr: All right. Now, you tell them outside - I'm not going to tie up everybody - when White comes here, I'll step outside. I'll tell Kieley. The man's twenty minutes late. And I'll simply say everything is in order.

(To Kieley) Is Mr. White here?

Kieley: No.

H.M.Jr: Well, when he comes I'll step outside and talk to him outside.

Foley: Sure, that's all right.

AMENDMENT TO NEWLY-MINED DOMESTIC

SILVER REGULATIONS

OF JANUARY 16, 1939

Section 1 of the Newly-Mined Domestic Silver Regulations of January 16, 1939 is amended to read as follows:

"Section 1. Scope.—These regulations relate to the receipt and coinage by the United States coinage mints of silver, mined in the United States or any place subject to the jurisdiction thereof, pursuant to the proclamation of December 21, 1933, as modified by the proclamations of August 9, 1934, April 10 and April 24, 1935, December 30, 1937, December 31, 1938, and July 25, 1939."

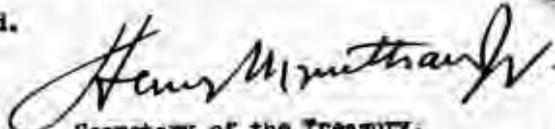
Section 2 of the Newly-Mined Domestic Silver Regulations of January 16, 1939 is amended to read as follows:

"Sec. 2. Authority for regulations.—These regulations are prescribed under authority of subsection (b) (2), section 43, title III of the act of Congress approved May 12, 1933 (Public, No. 10), as amended, and the President's proclamation of December 21, 1933, as modified by the proclamations of August 9, 1934, April 10 and April 24, 1935, December 30, 1937, December 31, 1938, and July 25, 1939."

Sec. 3. Section 20(c) of the Newly-Mined Domestic Silver Regulations of January 16, 1939 is amended to read as follows:

"(c) That the aggregate amount of such mixture so received pursuant to the proclamation of December 30, 1937, as modified, modifying the proclamation of December 21, 1933, as modified, does not exceed the amount of such silver which has been mined on or after January 1, 1938, from natural deposits in the United States or any place subject to the jurisdiction thereof."

Sec. 4. Section 24 of the Newly-Mined Domestic Silver Regulations of January 16, 1939 is hereby rescinded.


Secretary of the Treasury.

Approved:


The White House,

July 25, 1939.

July 25, 1939

9:31 a.m.

Bill

Bullitt: Hello, Henry. How are you?

HMJr: I'm all right. How are you?

B: Fine.

HMJr: Two things, Bill, which I thought you might -- I wanted to ask you. Number one, there has been consistent selling from abroad of our stocks.

B: There's been what?

HMJr: Consistent selling from abroad.....

B: Yes.

HMJr:of American securities.

B: Yes.

HMJr: And I don't know just what that means, if it means anything.

B: Yes.

HMJr: But I thought you might sort of make some inquiries, you see?

B: Yes, I will.

HMJr: Because I don't know whether it's the thing because they think things are going to get better or worse, if you know what I mean.

B: Yes.

HMJr: The interesting thing is, that last March Europe sold our stocks consistently.....

B: Yes.

HMJr:but when you go back to last September.....

B: Yes.

HMJr:they -- they were buying.

B: Yes.

HMJr: So I can't -- two and two doesn't make four.

B: Yes. Well, I'll look right into that, Henry.

HMJr: You see what I mean?

B: Yes. Now, is it in any particular issues?

HMJr: No, we don't get that. We just get the -- the sales each day of Europe, you see.

B: Yes.

HMJr: And now for -- since oh, about the 12th of July, all the European countries have been consistently selling our securities.

B: Including this one?

HMJr: Including France.

B: Yes.

HMJr: You see?

B: Yes.

HMJr: Now, I just don't know how to interpret that.

B: Yes. Well, I'll look into that right away.

HMJr: Now the other thing, which is personal.....

B: Yes.

HMJr: We're thinking -- still thinking of going on the 2nd of August to Denmark.

B: Yes.

HMJr: Do you want to be so bold as to make any forecasts for August?

B: When will you leave, Henry?

HMJr: The second of August.

B: Well, I'll tell you, I think that you at least have time to get to Denmark before the thing begins getting very hot.

HMJr: I see.

B: I think that things will begin to get warm along about the time you're engaged in landing in Denmark.

HMJr: I see.

B: But I don't think necessarily that the thing breaks. I think that sometime between the 15th of August and the 15th of September.....

HMJr: Yes.

B:you'll have a very big crisis.

HMJr: You do?

B: And I think that probably the heat will begin to be turned on shortly before the 15th of August.

HMJr: I see.

B: But I don't say that it's going to break.

HMJr: Uh-huh.

B: It's just one of those things that may or may not.

HMJr: Well, that part of the world is as safe as any in Europe, isn't it?

B: I think it's perfectly all right to go. If I were you and I wanted to do it, I'd certainly go.

HMJr: Yeah. Well, I want to get away from.....

B: Yeah.

HMJr:I want to get an ocean between Washington and me.

B: Well, I think you're absolutely right.

HMJr: I see.

B: See?

HMJr: Hello?

B: Hello?

HMJr: Well, I just wanted to check with you.

B: Fine. Well, that's perfect. Fine. I'll get right after that, Henry.

HMJr: Thank you.

B: All right. Good.....

HMJr: Good bye.

B: Good luck.

HMJr: Good bye.

July 25, 1939
10:10 a.m.

HMJr: Hello.

Operator: Senator Pittman. Go ahead.

HMJr: Hello.

Key
Pittman: Hello.

HMJr: Hello, Key.

P: Good morning, Henry.

HMJr: How are you?

P: I'm feeling pretty good.

HMJr: Key, we have a situation down here which I'm not sure that you're familiar with, but this bill as it passed affecting domestic silver, there's one day which they've sort of jumped - July 1.

P: Yes, I knew about that.

HMJr: Now, what I'm recommending to the President is that he get out another proclamation and that he include July 1 and -- and days back of that -- people who didn't get in their certificates, et cetera, and pay them the 64.64.

P: Yeah.

HMJr: And I wondered if you thought that was -- sounded all right.

P: I -- yes, I wrote to the President, Henry.

HMJr: Well, he didn't tell me that.

P: No, that's sometime ago.

HMJr: Well, I.....

P: You know when we were messing around with this thing? I mean, when the thing was up.

HMJr: Yes.

P: I wrote to him and told him that it -- it looked to me as though we were going to be delayed several days in ratifying that conference report.....

HMJr: Yeah.

P:approving it.

HMJr: Yeah.

P: And that there would be a hiatus in there.

HMJr: Yeah.

P: And I suggested to him that he issue a proclamation to cover that proposition.

HMJr: Well.....

P: Because it was evident to me that the Treasury Department was going to have a great deal of trouble on it.

HMJr: Well.....

P: Your -- your proposition is to -- is to have the proclamation run 64.....

HMJr:64.....

P:up until July the 2nd.

HMJr: That's right.

P: Well, I think that's the proper way to handle it.

HMJr: Until the other bill -- whatever the other bill was.....

P: Well, the other bill, it says after July the 1st.

HMJr: Yes, that's right.

P: Yeah.

HMJr: And then straighten out these people that are having trouble with their certificates the way we did in December, I think, when you brought it to my attention.

P: Yes, I think that will straighten the whole thing out.

HMJr: And.....

P: That'll be a continuing proposition then.

HMJr: There'll be a continuing -- there will be no gap.

P: All right, and I think it's the right thing to do.

HMJr: Well, I wanted to ask you that.

P: I -- I've had a great deal of annoying thoughts. Of course, I've had all kinds of telegrams and things coming in here. I didn't send them down to you because you had the same thing.

HMJr: But, I'll get that over this morning, but I'm not going to say anything about it publicly until the President clears it.

Operator: Hello.

P: Just a minute. Get off the line. Hello?

HMJr: I say, I'm not going to say anything about it publicly until they get a clearance from the President.

P: Oh no, I wouldn't either, because that just causes that much more trouble.

HMJr: But I'll get it over there sometime around noon today.

P: Yes, that's good.

HMJr: All right.

P: I'd have called you up yesterday except we were fighting on that Panama Treaty last night until seven o'clock.

HMJr: Is that what.....

P: I couldn't get out of the Chamber.

HMJr: That seems like quite a fight, doesn't it?

P: Well, I think we're going to get it through, but it's -- they're messing around with it awfully.

HMJr: All right, Key.

P: All right.

HMJr: Thank you.

July 25, 1939
10:13 a.m.

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Cordell

Hull: Hello, Henry.

HMJr: Yes.

H: I -- I've been having a dickens of a time on this Cochran matter.

HMJr: Oh.

H: Bill Bullitt, you know, and Cochran have been at daggers points and are at daggers points and they fight whether they are on one side of the Atlantic or on the other.

HMJr: I didn't -- I knew they didn't get along, but I didn't know it was as bad as all that.

H: Oh, it's just as bad as it can be.

HMJr: I'm sorry.

H: And they -- the question -- I think, about whether he shall take an additional title with him back to Paris on this temporary trip or not.....

HMJr: Uh-huh.

H:is one that's been a matter of, apparently that one must have just been submitted.

HMJr: I see.

H: Now, I think later, when he comes back and goes on with his work.....

HMJr: Yes.

H:I think we'll have a chance in a normal way to see just what can be done.

HMJr: I see.

H: At this time I can't get the whole personnel outfit to pick it up.

HMJr: I see.

H: I just wanted you to know what.....

HMJr: Well, that's awfully nice. You think that you might be able to do something in September when he's back here.

H: Well, there'll be a -- there'll be a chance in the light of any need he may have for a further title in dealing with Embassies and Legations, and so on. Now, I don't want to make any promise.

HMJr: I see.

H: But I'll be considering it all the time, sympathetically.

HMJr: Well, could I -- could I tell him that?

H: You could tell him that we are keeping wide open the door for consideration of it in connection with these other phases, and that while I -- you see, you have to keep a little bit of peace with your whole personnel organization.

HMJr: Yeah.

H: And unless/^{it's}some major matter, you don't like to get into a bit of hair-pulling.

HMJr: Well, when he comes back he'll be out from under the influence of Bullitt.

H: Yeah.

HMJr: And the fellow really has earned it.

H: Yes. Well, I'm keeping -- you just tell him that we are keeping it open after his return, and that while I -- I never -- it's not proper to make any definite commitments that we are keeping it open with the view of seeing -- of giving it the very fullest consideration.

HMJr: May I -- could I go as far as saying that -- that you're giving it sympathetic consideration after he gets back here?

H: Yes, I -- I would do that.

HMJr: I mean, that you personally.....

H: Yes, without making commitments.

HMJr: I -- I'll tell him that no commitments.....

H: Yes.

HMJr:but that when he returns that you'll take another look at it....

H: Yes, from -- from week to week as his work -- his contacts with these Legations and Embassies.....

HMJr: Yes.

H:come along.

HMJr: Well, it's terribly nice of you to call me.

H: How are things looking, Henry?

HMJr: Well, I tell you, there's one thing which I don't understand, and that is that for the last ten days Europe has been consistently selling American Securities.

H: I see.

HMJr: And we've looked back -- we've gone back to July 1, '37 to see what they've done heretofore,.....

H: Yeah.

HMJr:but it doesn't -- there's no consistency. I mean.....

H: Yeah.

HMJr:last March they sold stocks but a year ago in September, during the Munich thing, they were buying them.

H: Yeah.

HMJr: So it -- it just doesn't make sense.

H: Well, I'm guessing, just if -- it's anybody's guess. -- I'm guessing that they will crowd the British on further out of China and get her to concede away some of the principles that everybody relies on.

HMJr: Yes.

H: (Coughs) And thanks, I might say, to the action over here at the Capitol.....

HMJr: I see.

H:that's -- Japan put the screws to her much more rigidly when she saw that our moral influence was -- was dropping down about forty per cent.

HMJr: Well, let me ask.....

H: And then.....

HMJr: Please.

H: Go ahead.

HMJr: Now, I was just going to say, from the standpoint of world peace, is it good or bad for England to give in in the Far East?

H: Well, it's the worst possible thing.

HMJr: I see.

H: You see, they watch -- for instance, Tokyo watches us like a hawk.

HMJr: I see.

H: If they see us give in in the Far East, they tighten up in Europe.

HMJr: I see.

H: On the theory that we will be giving in all along when the -- when the test comes, you know.

HMJr: Uh-huh.

H: And then, on the other hand, in Europe I think you're liable to see a -- another Munich attempted on a much larger scale.

HMJr: Yeah.

H: On the theory that they can wear down the nerves and wear down the influence and the spirit of the peaceful nations, especially relying on our elimination from the whole picture.

HMJr: I see.

H: In other words, we're taking the position that, destructive as war is,.....

HMJr: Yeah.

H:a civilized nation should not -- should not contribute the weight of a feather to peace.....

HMJr: Yeah.

H:and the avoidance of war.

HMJr: Yeah.

H: Now that's the position they take over at the Capitol, that -- that opposition.

HMJr: Was -- did -- did Pittman play ball?

H: Well, he's -- he'd -- he was at heart with us all the time.

HMJr: Yeah.

H: As to whether that was -- were miscalculations that's....

Operator:

H:-- strategy that's another -- I -- I, of course, I would defend Pittman. I have to.

HMJr: Yeah. Well, the reason I asked was that on account of the silver, I thought.....

H: Well, he was very sore there a while.

HMJr: Yeah, but.....

H: But he didn't mention that to me.

HMJr: Well, he -- he took it all out on me, which is all right.

H: Yeah.

HMJr: But I don't know that he was sore at the President.

H: Well, I -- he was cussing out most everybody -- most everybody there for a few days.

HMJr: I just talked to him a few minutes ago because there was a -- between the old bill and the new bill there's a lapse of a day.

H: I see.

HMJr: And I'm straightening that out, and he's very much pleased.

H: Yes. Oh, yes, he's all right now.

HMJr: Yeah.

H: Yeah.

HMJr: Well.....

H: Henry, your silver is still going on.

HMJr: Still going on at 35 cents. It's a hundred to one now, you know. 35 dollars an ounce for gold and.....

H: I.....

HMJr:35 cents for silver.

H: I see.

HMJr: So it's -- it's a hundred to one shot.

H: I see. Not sixteen to one.

HMJr: No, sir.

H: I see. All right, thank you.

HMJr: Thank you very much.

July 25, 1939
10:26 a.m.

Operator: Go ahead.

HMJr: Hello.

Henry
Wallace: Hello, Henry.

HMJr: The reason I'm calling you, Henry, I've got something very much on my mind that I'd like to get to you which you may be familiar with. You see?

W: Yeah.

HMJr: And if you're not, I want to get it to you. I - do you know that in Commodity Credit you are limited to borrowing another hundred million dollars?

W: To borrowing another hundred million.

HMJr: And that if, for instance, you don't get the 119 which is up before Congress they tell me, for instance, you're just -- you're -- well, you wouldn't be fit -- able to make any corn loans, et cetera, et cetera?

W: Uh-huh.

HMJr: And that there is a movement up on the Hill which I've got -- definitely not to give you the 119 in order just to scrap your lending program through Commodity Credit?

W: I see. Uh-huh.

HMJr: And I think from your standpoint and the President's and the administration, it's terribly important that you get that.

W: I think so too. It is very important, Henry.

HMJr: I mean, if you don't get it your Commodity Credit.....

W: Well, it just means -- it just means that the whole structure of grain prices caves in, is what it means.

HMJr: Yeah. Now -- did you know this?

W: No, I didn't know it.

HMJr: Well, that's why I wanted to get you out of conference.

W: Well, I think it is exceedingly important and I wonder -- I wonder this, who is handling this end of it for you, Henry?

HMJr: Well, the President gave me this information with Dan Bell, but I think it -- if you don't mind my suggesting it -- I think it's important enough that you ought to bring it to the President's attention.

W: I think so too, absolutely.

HMJr: And if I can be of any help, I'll be glad to, but -- I didn't know whether you knew it and I wanted to tell you because there is a thing deliberately to scrap this thing.

W: I see.

HMJr: To embarrass the President and you.

W: Uh-huh.

HMJr: And you haven't got much time, Henry.

W: Yeah. Well now, -- you think I'd better get to the President tomorrow on it when he gets here. Well, he's here today though, isn't he?

HMJr: He's here today. I -- there's no time to lose.

W: Yeah.

HMJr: There's no time to lose.

W: I'll get into it right away.

HMJr: All right.

W: Thank you.

HMJr: Thank you, Henry.

July 25, 1939
10:49 a.m.

HMJr: Hello.

Harold
Graves: Hello, Mr. Morgenthau.

HMJr: Harold.....

G: Yes, sir.

HMJr:Rogge of the Department of Justice called up
Foley this morning and wanted to know whether they
could borrow Burford for a month.

G: Yes.

HMJr: Now, I don't want to -- because you're in charge, I
don't want to go over your head.

G: Well, Burford is -- is the head of our Unjust Enrich-
ment Processing Tax Division down here in the Income
Tax Unit. His work is in bad shape.

HMJr: Yeah.

G: They have asked that before and I have declined to
release Burford because he's worse needed, in my
opinion, where he is.

HMJr: I see.

G: If you would -- would think otherwise, of course, I
will see to it that he is detailed.

HMJr: No, the matter rests with you.

G: Well, I would prefer not to do it. I -- I have con-
sidered that very carefully and I -- I think that we
need Burford worse where he is.

HMJr: Well, the decision rests with you.

G: Fine.

HMJr: Just a minute. Just a minute, Mac.....(brief pause)
Mac agrees with you, and he said that Burford has an
assistant down there who's available.

G: That's right. Lohn is there, in New Orleans right now.

HMJr: What's his name?

G: Lohn.

HMJr: L-O-.....

G: L-O-H-N.

HMJr: L-O-H-N, and he's there now?

G: And he's there now.

HMJr: Well, there's no use completely disrupting our organization if -- is Lohn a good man?

G: He is a very good man.

HMJr: Well then.....

G: I don't think he knows as much of the details about the New Orleans situation as Burford.

HMJr: Well.....

G: But he's a competent man.

HMJr: I see. All right. Thank you.

G: You're welcome.

July 25, 1939
11:59 a.m.

HMJr: Hello.

Operator: Go ahead.

Drew Pearson: Hello, Mr. Secretary.

HMJr: How are you?

P: I'm fine. How are you?

HMJr: I enjoyed your column today.

P: Well, thank you. I.....

HMJr: It was all right.

P: I hope it had some effect.

HMJr: Oh, I think so. It's -- It'll take a couple of more jars -- shocks, you know.

P: Well, that's what I -- I've got some more coming.

HMJr: And -- but we haven't lost yet on this Spanish thing, you know, either.

P: I wanted to ask you about that..

HMJr: They're still fighting.

P: It's got me that this trouble over there in Spain would strengthen your hand a lot.

HMJr: Did you notice that the only loss the Export-Import Bank made was on a Spanish loan?

P: Yes, I -- I wrote something about that in the column some -- a little while ago.

HMJr: Yeah.

P: A tobacco loan. Well, is there anything we can do to help out on that any more.

HMJr: No, I -- I'm -- I got some -- I don't know if I can give it. I'm trying to get some way so that I can -- so that I won't get caught redhanded. /If I can I'll give it to you. (Laughingly)

P: All right. (Laughingly)

HMJr: All right.

P: Now, say, I wanted to -- I -- I'm going to find some more stories on that South American loan business. I'm -- what I'm trying to do is to show the inequity of the way those loans were made.

HMJr: Yeah.

P: How the South American governments finally got any money. Mr. White promised to help me out on.....

HMJr: Yes.

P:some of the background.

HMJr: Yeah.

P: And so we'll keep fire on that. I -- I wanted to ask you -- I was going to come down and ask to see you on a -- what might be a little bit of a -- possibly an embarrassing question, but I don't think it really is.

HMJr: What's that?

P: We have a tip from Louisiana regarding Governor Leche's income tax and I was just checking on it. It sounds pretty accurate, but I didn't want to go wrong on it. It was to this effect, that he had been very careful to chalk up all his income and had put it all in; he wasn't caught except for a small amount which was a technicality and didn't really -- wasn't really serious, but -- but for the year 1938 he had put in a total income of 883 thousand dollars.

HMJr: Well, I'll be perfectly -- in the first place, I don't know about it, and in the second place, Drew, if I did, I couldn't tell you.

P: Well, I knew that was very ticklish.

HMJr: No, I -- I don't know a thing about it.

P: Well.....(Laughingly)

HMJr: And if I did, I couldn't tell you.

P: (Laughingly) All right.

HMJr: Is that fair enough?

P: That's fair enough.

HMJr: Yeah.

P: All right. Let me know if anything happens on Spain.

HMJr: O. K.

P: Goodbye.

HMJr: I'm on safer ground.

P: Yeah. All right.

HMJr: No, no -- I -- I don't -- I just don't know on that.

P: Yeah. All right.

HMJr: All right.

P: Thanks for calling.

HMJr: Goodbye.

P: Goodbye.

July 25, 1939

FOR THE SECRETARY'S FILES:

The Secretary met today with Representatives

NAME	STATE	COMMITTEE
Patrick J. Boland	Pennsylvania	Ways and Means
John J. Dempsey	New Mexico	Rules
Harry P. Beam	Illinois	Agriculture
Thomas F. Ford	California	Banking and Currency
Charles H. Leavy	Washington	Appropriations
Joe Starnes	Alabama	Appropriations

and with Mr. Bell, Mr. White, Mr. Foley, and Mr. Duffield.

Representative Starnes, speaking as the head of the group, said the group wanted Secretary Morgenthau to urge upon the President approval of a \$350,000,000 PWA appropriation to be used on a 30 percent grant basis. Representative Starnes said that PWA was the most popular Government program and that it put more people to work than any other program. He said the House would pass the Bill in a minute if the President would approve it, but that the group would not push a PWA bill if the President were going to blame it on a "spendthrift Congress." Representative Starnes also said that self-liquidating projects based on 100 percent loans were not popular and would not be liked by the country. He said he thought the country was "sold a bill of goods."

Representative Leavy said that he felt the Federal Government had a moral obligation to grant PWA money to those local projects which cities and states had already authorized.

Representative Ford and Representative Bean said the political situation in their communities would be bad if no PWA appropriation were forthcoming. Other members of the group echoed this political forecast and Representative Starnes said he was not sure that the votes could be found in the House to pass the Self-Liquidating Bill.

Secretary Morgenthau replied that he too was thinking of the party and of its problem in the election year. He said he knew that communities wrote to Congressmen asking for schools and other PWA projects, but that holders of Government bonds and baby bonds wrote to the Treasury asking when the Government was going to live within its means. The Secretary said that he knew that farmers around his home in New York accepted checks for liming their soil or planting winter rye -- which they would have done anyway -- but that they give him the devil about balancing the budget. He said he felt that the Self-Liquidating Bill offered a bridge which might close the gap between receipts and expenditures. Thus, he said, the party was saved from the situation of not having any device after seven years of deficit spending which would end that spending over the next four or five years. He said that he could not feel that spending was being cut off too abruptly when Congress had appropriated \$10,000,000,000 for this fiscal year -- the largest total on record -- plus the Self-Liquidating Bill if enacted.

ESD

JOE STARNES

FIFTH DISTRICT
ALABAMA

HOME ADDRESS:
MONTICELLO, ALA.

MEMBER
COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE
INDEPENDENT OFFICES
WAR

Congress of the United States
House of Representatives

Washington, D. C.

July 22, 1939

49

Hon. Henry Morgenthau, Jr., Secretary,
Department of Treasury,
Washington, D. C.

My dear Mr. Secretary:

Confirming our telephone conversation of Thursday,
July 20, I shall bring the following Congressional delegation
with me to your office 10:30 A. M., Monday, July 24, to dis-
cuss the proposal to continue the Public Works Administration
under the provisions of my Bill, HR 7243, the list follows
herewith:

NAME	STATE	COMMITTEE
✓ R. Ewing Thomason	Texas	Military Affairs
✓ John W. McCormack	Massachusetts	Ways and Means
Patrick J. Boland	Pennsylvania	Ways and Means
✓ John D. Dingell	Michigan	Ways and Means
✓ John J. Delaney	New York	Rules
John J. Dempsey	New Mexico	Rules
Harry P. Beam	Illinois	Agriculture
Thomas F. Ford	California	Banking and Currency
Charles H. Leavy	Washington	Appropriations

Each of the above is a member of a major committee and
a warm supporter of the Administration.

Very sincerely yours,


Joe Starnes

JS:gg

House of Representatives

OFFICIAL BUSINESS—FREE



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

Europe

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

50

DATE July 25, 1939

TO Secretary Morgenthau

FROM A. Lochhead

CONFIDENTIAL

Earmarked Gold Held by Federal Reserve Bank
For Foreign Central Accounts

<u>Country</u>	<u>Earmarked Gold</u>
England	\$185,207,000
France	246,617,000
Holland	269,519,000
Belgium	164,364,000
Switzerland Swiss Natl. Bk.	195,372,000
Switzerland BIS	17,477,000
Russia	0
Canada	0
Mexico	16,330,000
Colombia	0
China	1,107,000
Japan	2,909,000*
Sweden	87,794,000
<hr/>	
TOTAL	\$1,186,696,000

*Held at Fed. Res. Bk. at San Francisco as our agent and for our account.

July 26, 1939

My dear Mr. President:

I thought you would be interested in knowing that I appeared, this afternoon, before the House Democratic Steering Committee. The following are the members of the Steering Committee:

- | | |
|--|---|
| James G. Scrugham, Nevada
Chairman | Ex Officio Members: |
| William I. Sirovich, New York
Secretary | William B. Bankhead, Ala.
Speaker |
| Harry P. Bean, Illinois | Sam Rayburn, Texas
Floor Leader |
| Clarence Cannon, Missouri | John W. McCormack, Mass.
Chairman, Caucus |
| Jere Cooper, Tennessee | Robert L. Doughton, No. Car.
Chairman,
Ways and Means Committee |
| Robert Crosser, Ohio | Edward T. Taylor, Colorado
Chairman
Appropriation Committee |
| Wall Doxey, Mississippi | A. J. Sabath, Illinois
Chairman,
Rules Committee |
| Charles I. Faddis, Penna. | Patrick J. Boland, Penna.
Whip |
| Jed Johnson, Oklahoma | |
| Marvin Jones, Texas | |
| Charles Kramer, California | |
| William H. Larrabee, Indiana | |
| John W. McCormack, Mass. | |
| Howard W. Smith, Virginia | |
| Malcolm C. Tarver, Georgia | |

The purpose of calling me before this group was to try to get me to approve of the so-called Starnes' Public Works Bill which would in effect provide \$350,000,000 grants for public works.

I concentrated my effort in talking in favor of your Self-liquidating Public Works Program.

On leaving, after quite a lengthy session, several

members were kind enough to say that I won over the majority of those present to your program.

Yours sincerely,

The President,
The White House.

July 26, 1939

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Harry P. Bean, Illinois	Sam Rayburn, Texas Floor Leader
Clarence Cannon, Missouri	John W. McCormack, Mass. Chairman, Caucus
Jere Cooper, Tennessee	Robert L. Doughton, Mo. Car. Chairman, Ways and Means Committee
Robert Crosser, Ohio	Edward T. Taylor, Colorado Chairman Appropriation Committee
Wall Doxey, Mississippi	A. J. Sabath, Illinois Chairman, Rules Committee
Charles I. Faddis, Penna.	Patrick J. Boland, Penna. Whip
Jed Johnson, Oklahoma	
Marvin Jones, Texas	
Charles Kramer, California	
William H. Larrabee, Indiana	
John W. McCormack, Mass.	
Howard W. Smith, Virginia	
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Yours sincerely,

The President,
The White House.

TREASURY DEPARTMENT

57

INTER OFFICE COMMUNICATION

DATE July 26, 1939

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

For your information -

The meeting this afternoon with the House Democratic Steering Committee will be at 2 P.M. in the House Rules Committee Room which is located on the east corridor of the gallery floor in the House of Representatives wing of the Capitol Building.

The members of the Steering Committee are:

James G. Scrugham, Nevada,
Chairman
William I. Sirovich, New York,
Secretary
Harry P. Beam, Illinois
Clarence Cannon, Missouri
Jere Cooper, Tennessee
Robert Crosser, Ohio
Wall Doxey, Mississippi
Charles I. Faddis, Penna.
Jed Johnson, Oklahoma
Marvin Jones, Texas
Charles Kramer, California
William H. Larrabee, Indiana
John W. McCormack, Massachusetts
Howard W. Smith, Virginia
Malcolm C. Tarver, Georgia

Ex Officio Members:

William B. Bankhead, Alabama
Speaker
Sam Rayburn, Texas
Floor Leader
John W. McCormack, Massachusetts
Chairman, Caucus
Robert L. Doughton, North Carolina
Chairman,
Ways and Means Committee
Edward T. Taylor, Colorado
Chairman,
Appropriation Committee
A. J. Sabath, Illinois
Chairman,
Rules Committee
Patrick J. Boland, Penna.
Whip

E. H. F.

July 26, 1939

9 a.m.

Present:

Capt. Collins.

Capt. C: Mr. Green of the State Department phoned yesterday afternoon about 4:30 and said that Lord Riverdale would be in Washington Monday. Mr. Green wanted to know if I would talk to Lord Riverdale and a friend of his who is with him, Tuesday or Wednesday, concerning the possible establishment in this country of a permanent mission for the purchase of materials for the English Government to be utilized in case of an emergency in lieu of J. P. Morgan interests. He said it wasn't a case of setting up the procedure to be followed, but all he wanted to do was ask questions and if we could answer them he would appreciate it very much.

HM, Jr: To me, Mr. Green is just zero, zero.

Capt. C: I go with you 100% on that.

HM, Jr: You call up Mr. Green and, very sorry, you can't take any requests from him of that nature; that it will have to come to me from the President of the United States.

Capt. C: Yes, sir.

HM, Jr: And barring a request from the President of the United States, the Treasury will not act, is not available.

Capt. C: I told him yesterday I was clearing it with you.

July 26, 1939
10:30 a.m.

PRESENT: Mr. K. P. Chen
Mr. Lochhead
Mr. Keeshin
Professor Buck
Mr. Andrew B. Bassi
Mr. Maurice E. Sheahan

H.M.Jr.: (to Prof. Buck) I didn't know that you were here.

Lochhead: He came in on a dash last week, but you were away over the weekend.

H.M.Jr.: Fine.

Well, Mr. Chen, you have everybody fixed up now?

Chen: Yes, we have made reservations to leave San Francisco on the 16th of August, so all the arrangement has been completed.

H.M.Jr.: Fine. These are the two gentlemen that are going to go?

Keeshin: Yes. They are Mr. Sheahan and Mr. Bassi.

H.M.Jr.: Have either of you been in China?

Bassi: Not in China, sir.

H.M.Jr.: Have you been in any foreign countries?

Sheahan: Yes.

H.M.Jr.: What ones?

Sheahan: Mexico, Alaska and Siberia.

H.M.Jr.: And you?

Bassi: No.

H.M.Jr.: I see.

Keeshin: Mr. Sheahan is going over for the three months period and Mr. Bassi will remain in command.

H.M.Jr: The reason I asked to see you people before you go was I wanted to impress upon you that we are very much interested; that this is a very important mission, and that while the United States Government can't officially go beyond what we have done in helping the Chinese Government get you people, we have been at it for months and did not lightly arrive at the Keeshin organization.

We took them after looking the whole country over and the whole life blood of China depends upon giving them an efficient and honest transportation system now that they have spent their good money with us. They have the trucks. They have the kind of trucks we think they ought to have, and the next thing is to make those things function. And I wanted to let you know that both the President and myself are tremendously interested in this mission, and can't impress upon you enough the importance, and each day as another port becomes blocked, it becomes more and more important to these people that lines of communication be kept open.

I just wanted to say that to you so that you would know it isn't just a commercial proposition, but there is a great deal more behind it, and I have learned enough Chinese philosophy to know that it isn't just today, and the next day, and the next, but it's the next 100 years that are at stake in the Far East. If we can help these people in this way, you men are having a part of what will or won't happen in the next 100 years, and they are putting up a magnificent fight against all kinds of odds and I want to do everything I can to see that they get real service and that we make good on this. After all, I want them to feel that the American engineers coming over there -- American mechanics -- that they are the best and that we don't want to let them down.

I will be glad if you men want to ask me any questions.

Keeshin: I might say this, that both these men are, in my opinion, in both experience and practical experience, the best two that I know that could do the job. They have an objective and that is to bring about a transportation system down there to bring the materials in. I have set a quota for them that I hope that they will be able to accomplish, and that is to bring out a minimum of 3500 tons

- 3 -

of tung oil per month, with the further thought and idea that they are setting the lines -- they are setting the transportation lines for the future permanently.

I have the utmost confidence. They know that any additional help or advice they will need that I will be at their call. I have assured Mr. Chen that I will render any additional services, and not only myself, but my company. After 6 or 7 months, if it should be necessary, I have assured Mr. Chen that I will have to come over myself.

H.M.Jr: Getting the urge!

Keeshin: I would like to go right now if I could. One thing I wondered, if it would be possible to have a letter for these men to our Ambassador?

H.M.Jr: Sure.

Keeshin: And I also had this in mind, because we want to avoid all interference there and get a clearance right away so as to eliminate any difficulties that might range over various state rights. They have their provincial rights, etc. First, a letter to General Chiang Kai-shek, so that they could sit down and make it plain that they are there to do a job and want to eliminate as much difficulty as possible.

H.M.Jr: I will see that you get a letter from Mr. Hull to Ambassador Johnson for these men. We will try it the normal way.

Lochhead: I will do it through Mr. Hamilton.

H.M.Jr: Yes, and as for a letter to General Chiang Kai-shek, I think that should be from Mr. Chen.

Chen: Yes.

H.M.Jr: Is that right?

Chen: Yes, sir. Dr. Buck will go back with these two gentlemen.

H.M.Jr: He's going back?

Chen: Yes, as far as Chungking. His (Keeshin) concern -- they will cooperate with these gentlemen one hundred per cent

to facilitate the work, give them all the facilities, so they will also receive assistance from Dr. Buok.

H.M.Jr.: Of course, I don't know -- I can take care of the letters from the State Department to our Ambassador and getting the letter from Mr. Hull is what they ought to have, but letters to Chiang Kai-shek ought to come from.....

Buck: If you feel you could write the letter to Mr. Chiang Kai-shek I would think it would be very advantageous.

H.M.Jr.: What would I say? You dictate the kind of letter you think I ought to send and let me take a look at it. When you go out, you write the kind of letter you think I ought to send. You and Mr. Chen compose a letter for me; the kind of a letter you think I ought to sign.

Keeshin: It would be very helpful.

H.M.Jr.: And if it looks all right, I'll sign it.

Buck: I had a meeting with the Minister of Communications the day before I left, July 4th, and I mentioned this matter and he was very enthusiastic and he said he would give these men all the facilities and make it possible to get the work accomplished.

H.M.Jr.: Well, are they going to cover both the route through Indo-China and the one to Nanking and Rangoon, both?

Chen: Yes.

H.M.Jr.: Do I understand that the wood oil trucks will be running from both places?

Chen: I am afraid not, because we don't know the situation in Hongkong. Maybe try to block the route from Haiphong to Hongkong, so we have been figuring on having reservations.

H.M.Jr.: How many wood oil trucks will there be?

Chen: We have ordered 1,000.

H.M.Jr.: And they won't have anything to do with the others?

Chen: No. This is only part of it.

H.M.Jr: Because it would be a waste of their energy if you did not make use of them on the whole transportation problem.

Chen: The object of these gentlemen to go to China is to give advice and on the whole problem of transportation.

Keeshin: That's right. Because both of them have much experience. Mr. Bassi has had air service experience during the war and truck transportation experience, while Mr. Sheahan covers both truck, rail and water, and I did not know until last night that we even have a parachute jumper with us, - Mr. Bassi here.

H.M.Jr: Really?

Keeshin: So between the two of them and this third man who is going in on the machinery set up -- you know there is a third man going?

H.M.Jr: Mr. Bassi has been with Standard Oil?

Bassi: Socony Vacuum.

Keeshin: And also has been engineering our properties for the past eight years.

H.M.Jr: Do you speak French?

Bassi: No, Italian -- some Italian.

Buck: On this Indo-China part of the picture, if there is some letter that could be given to the authorities there, I think it would be advantageous.

Lochhead: French authorities?

Buck: Yes.

H.M.Jr: I tell you what I would do. You (Chen) send your friend Wellington Koo a telegram and tell him to go to the Vice President of the Indo-China Bank who went out there, Mr. Lawrence, and get Wellington Koo to send Lawrence word that these fellows are coming and that they should take care of them. That's the man who went out, isn't it?

Chen: Yes.

Lochhead: Monnett arranged for them to go.

H.M.Jr: He's back in Paris, and if he knew these gentlemen are coming, I think he would because they know railways. And then they ought to get a letter -- Wellington Koo ought to give them a letter to the Governor of Indo-China. Has the new one come out there?

Lochhead: I don't think so.

H.M.Jr: There is to be a new Governor; one friendly to China, so if he would get a letter to the Governor of Indo-China, plus whoever runs the railroad -- but Wellington Koo can do that very easily, can't he?

Chen: I think so.

H.M.Jr: Well, if he can't, let him go into see Ambassador Bullitt and we'll fix them up, but I would send a telegram to Wellington Koo and let him get through from the French side and if he had any trouble he could go in to see Ambassador Bullitt and he could fix them up.

What other things do they need? Letter to Chiang Kai-shek, a letter from Hull to Johnson, letters to French Indo-China. They don't need any letters to Nicholson?

Lochhead: I wrote Nicholson yesterday and told him these gentlemen were coming over and asked him to give them every cooperation.

Sheahan: Any necessity for entre to the Burmese Government?

Buck: Yes.

H.M.Jr: I have never talked to the British. They have been so cooperative I think we had better leave them alone and if they got wind of the fact that they bought all American trucks, American gasoline, I don't know how they would feel. They have been all right so I would leave well enough alone.

Buck: What introduction will they have if they go down there?

H.M.Jr: They will have to get it from the Chinese Government. After all, you can get them a letter from our Consul General at Rangoon. Get them that. Once they go out -- after

all, the Chinese Government will have to officially take care of them, but we will give them all of this besides and you (Lochhead) write a letter for me to Nicholson and if you (Bassi and Sheahan) want to write me you had better write me through Nicholson. In fact, anything you want to send me you had better send through Nicholson.

Now, what else can you think of?

Lochhead: I think that covers it pretty well. Of course, through Nicholson you (Bassi and Sheahan) can keep communicating because we have a special private code and it goes very fast. We are not very far away as long as you keep in touch with Nicholson.

H.M.Jr: I wish I were going along.

July 26, 1939
11:10 a.m.

PRESENT: Mr. White
Mr. Cotton
Mr. Lockhead

H.M.Jr.: The reason I wanted to see you people is this.

The letter is all right with this exception - this is Colombia that we are talking about. I want the letter rewritten with this in view, that I want to lay down this principle, that I won't do, out of respect to Miss Chauncey, a blankety-blank thing in any South American country until the State Department will say to me that they want the United States Treasury to go ahead and treat with a country on financial matters in exactly the same way as when we were treating with England and France with regard to the Tripartite Agreement. And I want to establish this precedent, and I don't want to have anything to do with any country until they say to me that the financial arrangements are a Treasury matter, and until they will give me a formula on how the State Department is going to handle the private debts, Government debt owed to our private citizens, I am very sorry I will not proceed. I am not interested. I am doing it forcefully and I want to put it in there.

I talked to the President about it this morning. I said, "You know, Mr. President, we are right where we were in Brazil and one of these days they will come running to you after some Latin American country has done some big deal with some fascist country. The State Department will say, 'For God's sake, save us!' I think it is unfortunate that we have to wait for that to happen." But that's what is going to happen. And he said, "You are right."

I said, "I did what you told me to do with regard to Mr. Welles, but I am telling you that nothing will happen until there is some big calamity; - Some big deal is put across with some South American country and some fascist country," and I said, "I think it's a tragedy you have to wait for that to happen."

Cotton: Your two conditions here our financial transactions are in the hands of the Treasury and you have to be satisfied to know what the State Department is doing about the private debt.

H.M.Jr.: I want to say to them that this is the formula I am going to follow in regard to any country that they are asking me to help. I want to do it formally and very carefully. I will give you 24 hours on it. As I understand it, I don't know whether you know it, that Ambassador Braden went ahead in Colombia and tried to do business and he said to hell with the private debt and the State Department is outraged to think he would go ahead and disregard the private debt. This I was told within the last three days. He went ahead and now the State Department is outraged because when Welles was here you heard me say this: "I want to lay down this formula for two reasons: One, to force their hand, and second, to do it for the record."

White: And I wonder if this is what you have in mind. The thing may be made a little more comprehensive so the policy can be set up of what you would want to pursue. It's never been done in writing.

H.M.Jr.: You know what I have in mind. You agree this is an ideal opportunity.

Cotton: Yes.

H.M.Jr.: To put down in black and white how I feel, before I go into a country I want to have the -- I don't want Herbert Feis to cut my throat in the middle of a deal, and before I go in -- and I don't want this bondholders committee or the State Department -- and that's why I have always said when I am dealing I will never get 100 yards from the White House so I can get there just as fast as somebody else can. I want them to say that they want me to go into Colombia.

All right. Then, what is the formula we will follow? When I spoke to Welles about Colombia he said, "Oh, that's a special situation." And the kind of letter I want to write, taking for granted it will reach the public, not through me.....

White: Therefore, the policy should be made that you would like to pursue.

H.M.Jr.: But this is a swell opportunity. Just the kind of think I've been waiting for.

White: Two points about the letter that occurred to me. One, I doubt that they want the kind of loan which is indicated, and I don't think they want a loan against collateral - they want a gold loan.

H.M.Jr: That's unimportant. The important thing is to use this as a vehicle to establish a precedent. Let Foley see this letter before it goes. I will give you until Friday morning so you can do a good job.

Cotton: One thing. On the private debt situation you want to say -- you want to know what formula the State Department is pursuing for settlement?

H.M.Jr: No. Before I will start negotiations with any Latin American country in regard to financial aid, I want the State Department to give me, in advance, the formula that they will pursue in regard to these particular countries on the debt owing to our private citizens and pending whether I feel that that is reasonable or not, I will not proceed.

White: Do you want to go a step further, because that letter taken by itself, it would be impossible to know what your position is. I am wondering if the letter could not be so phrased, without stating it too boldly, to indicate that it is your opinion that it is not worth while to go forward unless -- in other words, unless the policy is such that you think you can. Some indication of what you think the proper policy should be.

H.M.Jr: I don't say the State Department should not make representations, but what I say is they should be reasonable, and just as I told Mr. Welles, when they follow this policy of insisting on 100 cents on a dollar, it's impossible. You have got to take into account what can the country afford.

White: Yes. Take for example Colombia. Our man Hanson made a lengthy study of what he thought they could afford to pay. In other words, the assumption is not at all warranted that we do not feel they can't pay anything.

H.M.Jr: No, don't put me in the position -- look, using again Brazil, I know what happened in Brazil.

For three weeks they side-tracked me while they put a pistol to the head of poor Warren Pierson. Then Welles came to me, "Henry, as a personal favor, without discussing what has happened, the rights, or wrongs, I am asking you to see Mr. Aranha at 11 o'clock tomorrow. As a personal favor to me." I said, "On that ground there is only one thing to do and that is say yes." That could not close the thing. He said, "Don't let's discuss the pros and cons, but just as a personal favor." I did it, but I don't want to get into another one. After all, I don't have to be slapped on both cheeks and kicked where I sit down without having learned a lesson.

Before I go in I want to know if they are going to be reasonable about Colombia's debts with our private citizens and if they are, I will proceed. I think it's perfectly all right for the State Department, but for them to say that until these countries will pay 100 cents on the dollar, whether they can pay or not, we won't do business with them with 40 per cent of the world doing business on barter, - it's just childish.

Lochhead: If they would just face the situation. There are several formulas that could be worked out that would be fair, but they are just talking 100 per cent.

H.M.Jr: If you fellows whip something into shape by Friday morning.....

White: Here's something on Colombia in case it comes up for discussion.

H.M.Jr: Everybody understand?

July 26, 1939

Present:

Mr. Foley
Mr. McReynolds

HM, Jr: I read an article in the New Republic last night and in it it mentioned people closely associated with McNutt. They mentioned a Mr. McHale, who is head of his 2% Club.

I got in touch with Harold Graves. Told him to look it up and read the New Republic article, which was on page 333, and he and Irey were around this morning and had the stuff out and found McHale in 1932 had nothing, but it runs up in three years until he had an income of \$80,000. Also the same thing as Greenlee -- lot of stock in breweries. It seems in Indiana there is a sort of monopoly and you can have only so many breweries. Looks like exactly the same pattern as Greenlee. And he did a little bit better, and being a lawyer he gets \$6,000 every three months for advice.

They are looking into that case. There was no tax paid on his stock in the brewery.

I then told them to look into it further and into the whole question of breweries and the A.B.C. Board and we may have a very interesting situation on our hands. Evidently if you were on the inside in 1933 and could get a brewery a license, it was worth from \$50,000 to \$70,000 a year and it keeps on. It is good as long as the brewery keeps its license. We may have another Pendergast case on our hands.

My interest, besides having people pay their taxes, I don't want the President to get too much involved with any one man. But I am not going to tell Justice a thing until we make the case -- if there is a case.

oOo-oOo

July 26, 1939
11:11 a.m.

71

HMJr: Hello.

Operator: Wallace is waiting.

HMJr: Hello.

Henry
Wallace: Hello, Henry.

HMJr: Yes, Henry.

W: Henry, this morning a group of about 40 Congressmen and Senators from the south called on me with regard to cottonseed and cottonseed-oil.

HMJr: Yeah.

W: The upshot of the meeting was that I arranged to have some of our experts meet with them up on the Hill at two o'clock this afternoon.

HMJr: Yeah.

W: We had about an hour's conversation, in which they spent a large part of the time telling me how desperate the situation with regard to cottonseed-oil was and -- and discussing various types of action. Our type -- some of the types of action which they mentioned were of such a nature that I felt that representatives from both State and Treasury should be in on the meeting this afternoon.

HMJr: Yeah.

W: And they thought so too.

HMJr: What do they want to do -- lower or raise the tax?

W: Oh, they have a variety of proposals. They want -- they would like to have federal surplus commodity corporation buy cottonseed, which would put us in the cottonseed-oil business in a big way.

HMJr: But.....

W: That's one proposal. Another proposal is that we buy cottonseed-oil. Another proposal is that we adopt certain -- let Congress fix up certain amendments to section 22, which, in effect, would shut out - put an embargo on competitive fats and oils.

HMJr: Well.....

W: And another proposal is that we should take special action with regard to making it possible for Germany to purchase -- to purchase lard. You see, lard and cottonseed-oil are strictly interchangeable and competitive. Lard substitutes are made almost exclusively out of cottonseed-oil. There's some soy bean oil.....

HMJr: What do they want to do, grease the way for Chamberlain?

W: Ah.....

HMJr: Did you get that?

W: Yeah, I got it. (Hearty laughter)

HMJr: All right.

W: (Laughter) I hope so. I (Laughs)- I -- by the way, I notice our British friends sort of ran out on us in China, didn't they?

HMJr: Yeah. Well, I expected that.

W: Yeah.

HMJr: Ah.....

W: Well, I -- well, the matter had a significance, it seemed to me -- the thing they were proposing had a significance greater than the Department of Agriculture, and I thought other folks -- and there was such a big gang of them here, and so many called up and said they would like to be here but couldn't get away from Committee meetings, that it looks like the thing is the major -- a rather major political move up there.

HMJr: When's the meeting, Henry?

W: At two o'clock in the House Ways and Means -- in the House Ways -- in the Ways and Means Committee room in the Capitol.

HMJr: Well.....

W: Judge Hobbs of Alabama is sort of running the show.

HMJr: Well, I'll send George Haas up there.

W: Yes, I think you ought to have an observer there.

HMJr: I -- I'll be glad to.

W: Fine.

HMJr: Anything else?

W: No, I think the -- on that thing we were talking about yesterday, that went through the Senate, as I understand it, and I got information -- one of our boys gave me information this morning to lead me to think that it's going through on the.....

HMJr: Good.

W:-- on the House end. If these boys do some of the things they want, why my guess is that there's 119 or 120 million for replenishing the stock -- we'll leave a -- we'll -- we'll still be short of funds, if these boys get what they want.

HMJr: I see.

W: They're putting on plenty of pressure.

HMJr: Well at least I -- I didn't want you to be.....

W: Well, you were -- you were certainly splendid to let me know the situation.

HMJr: No.

W: And I want you to know that I appreciate it.

HMJr: All right, Henry.

W: They stamp -- I got very good reports on the stamp plan, by the way.

HMJr: Wonderful!

W: I -- some of the details and -- get in from Rochester as to increases and consumption and so on, are -- well, they're very heartening.

HMJr: Good. Well, I'm -- I'm delighted.

W: Yeah.

HMJr: Thank you, Henry.

W: Goodbye.

HMJr: Goodbye.

July 26, 1939
12:28 p.m.

74

HMJr: Hello.

Operator: Mr. Doughton. Go ahead.

HMJr: Hello.

Robert
Doughton: Secretary?

HMJr: Talking.

D: Looking for you and Mr. Graves and Senator Harrison here to have lunch with me at 12:45. That's right, isn't it?

HMJr: Yeah, I was going to leave here in about a minute and a half.

D: All right. Come right out to the Ways and Means Committee room here in the Capitol. Pat and I will be right here.

HMJr: All right.

D: Right here on the -- you know where it is here in the Capitol.

HMJr: Well, I can find out.

D: Second floor, right here on the Capitol.

HMJr: O. K.

D: Ways and Means Committee room in the Capitol. All right, come right on.

July 26, 1939
4:19 p.m.

75

HMJr: Hello.

Operator: Secretary Hull coming on. Go ahead.

HMJr: Hello.

Outside

Operator: Just a moment please, Mr. Secretary. Mr. Hull is coming right on.

HMJr: Well, why can't you put him on?

Cordell

Hull: Hello, Henry.

HMJr: Hello.

H: I understood that this Britisher who is coming over here, you know, from -- to look out about purchases...

HMJr: Yes.

H:that -- just to get a sort of an idea about setting up a system of -- of purchasing, he wanted to talk to one of your men there. Not to ask for anything at all in any way, but just to get a sort of an idea about how to set up one of those organizations.

HMJr: Yes.

H: And I take it -- my fellows here all think it's all right, as just a matter of courtesy. At least they want -- their Captain wanted to talk with your man over there.

HMJr: Well, Cordell, this is what I said. If you think I'm being unnecessarily fussy, I'll forget it, but on account of the -- my experience on the French business, you see, I did sort of want it to go over the President's desk.

H: Oh, I -- I see.

HMJr: Because I -- I did get in such hot water with that.....

H: Well, that was while they were buying, wasn't it?

HMJr: Excuse me?

H: Wasn't that while they were actually making purchases?

HMJr: Yes, yes.

H: This -- I understood this fellow didn't want to buy a thing, he didn't want to sell anything, he just wanted to get a sort of a vague idea about how to organize one of those purchasing agencies.

HMJr: Well, if it isn't asking you too much, if you'd -- if you'd write me so I'd have something.

H: Yes, all right. I'll be glad to do that. That's -- that's all right.

HMJr: If you'll write me about it.....

H: Yeah.

HMJr:why that's good enough for me.

H: All right. I'll write you then.

HMJr: But I'm like a singed cat, I -- I'm just a little bit timid.

H: Yes. Well, I -- I wouldn't want to get you into any trouble.

HMJr: Well, I'm sure you wouldn't ever.

H: No.

HMJr: But if you'll just drop me a little note I'll be glad to comply with your request.

H: All right.

HMJr: Thank you.

July 26, 1939
4:27 p.m.

77

HMJr: Hello.

Charles
Edison: Hello, Mr. Secretary.

HMJr: How are you?

E: Well, I'm going to live. How are you? How do you like the heat?

HMJr: It's all right as long as I don't go out.

E: (Laughs) Yeah, that's right.

HMJr: Did you get that little chit?

E: Yes, sir. And we're very happy to be able to fix you up with -- with a plane.

HMJr: Ah -- I'm generous, I'll give you my ^{other} Lockheed in exchange.

E: Just a big-hearted boy! (Laughs)

HMJr: I'll tell you, I told the President I think I saved you 6 million dollars, on that armor plate.

E: Yeah, I think you did.

HMJr: And this is just a little commission on that.

E: (Laughter) All right. Well, we're happy to go along. I'll tell you, there's this about it.

HMJr: Yeah.

E: We have a -- we have a plane that was bought for Admiral Cook's use.

HMJr: Yes.

E: At least he had to have a plane, and that thing is fairly well fixed up. However, it's about a year old and we are getting some new planes, seven new planes, that will be delivered around September.

HMJr: Yeah.

E: And they are -- oh, not quite as fast, but they'll go 190 cruising and a little better for an occasional passenger -- I mean, you know, where you don't use it all the time, because you can see -- it's a high-wing type. And if you're in no hurry for it, why that's probably the better -- better.....

HMJr: What make is it?

E: God, I've forgotten. I -- I didn't ask....

HMJr: It -- it -- well, I tell you, what I'd like to have - if you have the money, see - is one of these Lockheed twelves.

E: A Lockheed twelve.

HMJr: Yeah.

E: Yeah.

HMJr: That's what I mentioned to the President. They're not -- they're not as expensive as some of yours and they make just what I want.

E: Well now, we have this plane over there that you can have -- oh, right away.

HMJr: No, I -- mine will do me until we can get this one ordered. I'd like to order a new one.

E: Well then, I'll see what this other -- what these seven are that are coming in. He says that they are beautiful planes and they're very comfortable and very safe.

HMJr: Well.....

E: They may be Lockheeds, I don't know.

HMJr: Who -- could you -- do you want to designate somebody that I can contact -- have Admiral Waesche contact, or would.....

E: Yeah. Well, Admiral Towers has been in contact with Waesche already.

HMJr: Oh, has he?

E: Yeah.

HMJr: Admiral Towers?

E: Yeah. He's the head of the Bureau of Aeronautics.

HMJr: Well, what I'd like to do. I'm going to leave on my vacation next Tuesday and I'd like to get this straightened out before then.

E: Yeah.

HMJr: Do you think that would be possible?

E: Oh, sure. That is.....

HMJr: I dropped everything for you, - on the armor plate.

E: Well, we got your plane. You can have it this afternoon. As far as that goes, you can have my plane. (Laughs)

HMJr: No, I don't -- I've got this plane and I'm going away, and I'm all right if I just knew that one was coming along in the next couple of months.

E: Yeah.

HMJr: And I did -- I mentioned to the President that as far as I know, I think that the small Lockheed which runs around, I think, 50 thousand dollars, - the Army has just bought four.....

E: Yeah.

HMJr: And that's what I'd like to get unless there's something better and this doesn't -- the beauty of this Lockheed is it can get in and out of small airports.

E: Yeah. I see. Well, I'll see what these seven are that we're getting and.....

HMJr: Have you told Towers about it?

E: Oh yeah, he's been working on it.

HMJr: Well then, I'll tell Waesche, and if you don't mind, before I go if I don't hear from you I may contact you again.

E: Yes. Well, I'll -- I'll get right -- I'll have them get right after it and see if we've got a Lockheed twelve on order.

HMJr: That's the point.

E: If we haven't there may be quite a delay in getting it.
See?

HMJr: Yeah.

E: On the other hand, I do know that he said that we had --
these seven are on order.....

HMJr: That may be just what I want.

E:that'll be very good anyway. Or if you want one
right away, we can give you one this afternoon.

HMJr: No, I don't -- I don't -- I'm going away and will be
gone until the first week of September and I don't
need any plane, but I'd like to have one coming along,
that was all.

E: All right, fine. Well, I'll have Towers work with
Waesche and try to get you a definitive answer before
you go away.

HMJr: Thank you so much.

E: All right.

HMJr: Goodbye.

E: Goodbye.

July 26, 1939
4:31 p.m.

81

HMJr: Hello.

Operator: Admiral Waesche. Go ahead.

HMJr: Hello.

Admiral
Waesche: How do you do, Mr. Secretary. Waesche speaking.

HMJr: Hello, Waesche. I spoke to the President about a plane.

W: Yes, sir.

HMJr: And he wrote out a memorandum to Edison saying that he wanted me to have one.

W: Yes, sir.

HMJr: And I just spoke to Edison and he said he'd talked to Towers.

W: I see.

HMJr: And that Towers has been in contact with you?

W: Yes, sir. He called me ^{up} this afternoon.

HMJr: Now -- first he tried to palm off one a year old, which didn't interest me.....

W: Yeah. There's a fourteen -- Lockheed fourteen which they have there.

HMJr: Well, that's too big.

W: Yeah.

HMJr: This one that you sent me up the catalog on, that's the one I want.

W: Yeah, you -- I -- I was going to send you up some information, even before Towers called me, on this Lockheed fourteen. Of course, that Lockheed twelve, you realize, is smaller than the plane we have.

HMJr: Yeah, not much smaller though.

W: Yeah, but you're familiar -- I just wanted to make sure that you knew.....

HMJr: Yeah, I know that. I don't -- I understand that.

W: Yeah, I see.

HMJr: Now, but -- he says he's got seven planes coming through.

W: Yeah, he told me five are the Douglas DC five type.

HMJr: What is that?

W: Well I've had -- Towers is sending -- I'll get a memorandum over from him. He called me up about three o'clock.

HMJr: Yes.

W: And I asked him if he would send me over a memorandum giving me all the data on these DC five Douglas, the first delivery of which is in September.

HMJr: Yeah.

W: Giving the same data which I gave to you in that memorandum about the twelve.

HMJr: Yeah.

W: And I'll have that sometime this evening. Now, these --but however, these Douglas planes.....

HMJr: Yeah.

W:are a larger plane.....

HMJr: Yeah.

W:than -- than you have at the present time.

HMJr: I see.

W: A Lockheed ten. But nevertheless they -- according to Towers, in his opinion, they're more suitable for transport purposes than the Lockheed type, but they are a larger plane than even the D -- than even the -- the one that we have now.

HMJr: Yeah.

W: I thought that as soon as I got that data.....

HMJr: Well, I can't.....

W:from him this evening.....

HMJr: Sometime tomorrow. The only rush I was in, I wanted to have something to tell the President this morning, which I did.

W: Yeah.

HMJr: But if you could let me know sometime tomorrow.

W: Yeah. Now, Towers went on further to say that if they went to the Lockheed people to buy a twelve plane.....

HMJr: Yes.

W:that he didn't know how long it would take to make delivery and so forth. In other words, he was discouraging me all he could on the Navy purchasing a twelve plane. He offered -- he had -- the two solutions which he offered me was this present DC -- Lockheed fourteen which they have.....

HMJr: Yeah.

W:and which they've had about a year, and the other was one of these Douglas DC five planes. They have -- which they have four or five under contract, he said. There might have been more than that, but he said four or five. The first delivery was expected in September.

HMJr: Yeah.

W: Now, I asked him to send me over all the information, both on this Lockheed fourteen that he spoke about, and also all the data on this new Douglas DC five plane.

HMJr: Yeah. Well, when you've got that tomorrow, give me a ring. They have one which is a year old over there.

W: Yes, sir. That's -- he said a little less than a year. He just returned himself from a trip down south. That was bought for -- for the Assistant Secretary, I believe.

HMJr: I know he told me it was bought for some Admiral.

W: Well.....

HMJr: I don't know what the Lockheed fourteen is. I don't know what it's like.

W: Yeah. Well, the Lockheed fourteen is practically the same plane that -- that Hughes flew around the world in.

HMJr: Oh, yes.

W: It's a -- it's a better -- as a matter of fact, yesterday when I talked to our people - Bwerman, when he got me that data, he suggested that he thought you would be more pleased with a fourteen. That was even before we had any contact with the Navy.

HMJr: Yeah.

W: The fourteen has cyclone engines; it's a faster plane and a larger plane than either the ten or -- or the twelve.

HMJr: Well, maybe.... Well, we'll look them over.

W: Yes, sir.

HMJr: What do you think?

W: I think -- I think it's -- I think it's worth while looking into this -- this Lockheed fourteen that the Navy has. He says it's less than a year old.

HMJr: Yeah.

W: And it's a larger and more powerful plane than we have now. There were a few bugs in that type which Towers said have been ironed out on this plane.

HMJr: I see. I see. Well, supposing you have your people look and when you're ready you give me a ring.

W: All right, sir. I'll do that.

HMJr: But we're -- out of that I'll get a plane anyway.

W: Yeah. All right, sir.

HMJr: I simply feel that this plane being four years' old, I'd like to get something.....

W: Yeah. Well, Towers told me, of course, he'd gotten instructions from Edison, and -- that he was ready to turn over right away this fourteen or one of these D.C. fives in September as soon as they came in. He felt that it would take some time, possibly, to go through the formality of making a purchase of a twelve.

HMJr: Yeah.

W: And he didn't know whether they had any in stock. I asked him if he didn't have some in stock and he said he'd wire out, and I said, "Well don't wire yet until I let you know."

HMJr: O. K. Well, let's sit tight.....

W: Yeah.

HMJr:and see what -- what these -- Douglas looks like, and maybe that Lockheed fourteen is all right.

W: Yes, sir. I think that -- I think that -- it'd be well to look into that Lockheed fourteen. I'll have our people do it after I get the memorandum from Towers.

HMJr: Righto.

W: All right, sir.

HMJr: Thank you.

July 26, 1939
4:42 p.m.

86

HMJr: Hello.

Charles
Edison: Hello, Mr.....

HMJr: Hello, Edison.

E: Oh. Say, I don't want to disturb you again, but I've been in contact again with Towers.

HMJr: Yes.

E: And he says that what we have coming around September....

HMJr: Yes.

E:is a Douglas DC five transport.

HMJr: Yes.

E: Which is the very latest thing that's -- that's out.

HMJr: I see.

E: And he says he thinks it's the kind that's going to sweep the field.

HMJr: Really.

E: He says it's a -- slightly faster than the Lockheed twelve.

HMJr: Yes.

E: And is a much safer plane, and it can get in and out of airports -- small airports -- it can't get in and out of cow pastures.....

HMJr: No.

E:any better than the Lockheed, but it can get in and out of small airports rather better than the Lockheed.

HMJr: Yes.

E: It's a little more comfortable, and it's -- he thinks it's going to sweep the market and that the air and transport people are going to just buy it.

HMJr: Well.....

E: And he thinks you're getting a -- by far the better plane. The DC -- or the Lockheed twelve is a -- is a type that is a little bit obsolescent, it's on the way out.

HMJr: I see.

E: And that we haven't any^{on} order.

HMJr: I see.

E: And that it would be probably be some delay, but he's going to give all that dope to Waesche.

HMJr: Fine.

E: And we'll try to fix you up.

HMJr: I'm ever so much obliged. I appreciate the trouble you're taking.

E: Not at all.

HMJr: Thank you so much.

E: Glad to do it.

HMJr: Thank you.

E: Goodbye.

HMJr: Goodbye.

Memorandum of Conference between Secretary Morgenthau
and Senator Harrison and Congressman Doughton, 12:45
p.m., Wednesday, July 26, 1959, in Congressman
Doughton's office

Re: Proposed Treasury Decision in relation
to Section 102 cases.

Mr. Graves accompanied the Secretary at this conference.

The party had luncheon in the House Dining Room as guests of
Congressman Doughton and returned to the latter's office at about
1:30.

In the discussion which followed both Senator Harrison and
Congressman Doughton stated that while it was obviously necessary
for the Treasury to revise and strengthen its instructions to the
personnel of the Bureau of Internal Revenue with relation to cases
arising under Section 102 it would be inadvisable to give too much
publicity to the matter at this time. They called attention to
the very favorable impression upon the business world generally
which had been created by statements made by the Secretary at the
time when the Revenue Act of 1959 was under consideration and they
stated that they hoped that this particular matter could be handled
in such a way as to avoid destroying that good impression.

Secretary Morgenthau made it clear that the Treasury was not
regarding Section 102 as being a substitute for the undistributed
profits tax which was now eliminated under the provisions of the
Revenue Act of 1959; that Section 102 had application only to
instances in which corporations should retain earnings beyond the
reasonable needs of the business for the purpose of enabling share-
holders to evade surtaxes on their individual incomes; and that in
its administration of the provisions of Section 102 it would be
the policy of the Treasury to avoid anything that might smack of
unwarranted persecution of corporate business enterprises.

Senator Harrison and Congressman Doughton expressed themselves
as satisfied that the Treasury would administer the provisions of
Section 102 with proper regard to the point of view which they had
expressed, and the Secretary advised them that he would immediately
issue the Treasury Decision (copies of which had earlier been supplied
to Senator Harrison and Congressman Doughton), which had been drafted
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to Senator Harrison and Congressman Doughton), which had been drafted
to place the new policy into effect.

RNG:mb

W. C. Douglass 7-26

90

July 25, 1939.

MEMORANDUM FOR: Secretary Morgenthau

SUBJECT: Proposed Treasury Decision to establish procedure for administering Section 102.

In response to your recent request conveyed through Mr. Harold Graves, I have furnished him with certain statistical data on dividend distribution. This material may be useful in connection with your consideration of the proposed Treasury Decision in which are listed the conditions under which corporations will be examined to determine the applicability of the penalty tax for the unreasonable accumulation of earnings provided in Section 102 of the Revenue Act.

The proposed Treasury Decision appears to be satisfactory in the form in which it was revised at Mr. Magill's suggestion. Some supplemental instructions to revenue agents may be necessary to insure the adequate examination of large corporations since such corporations typically distribute in dividends a higher percentage of net income than do small corporations.

The procedure established by the proposed Treasury Decision can reasonably be expected to increase the effectiveness of Section 102. It is suggested, however, that too much should not be expected of it or other administrative improvements for the following reasons:

(1) The tax provided by Section 102 applies only when the method used to prevent the imposition of the personal surtax is the accumulation of earnings beyond the reasonable needs of the business. The tax does not apply in those cases where the profits are plowed back into a growing business. Furthermore, the tax is not intended to apply in the many cases where avoidance of the personal surtax is a result but not the purpose of the retention of earnings by the corporation. Section 102 is thus not a substitute for a general undistributed profits tax.

(2) Effective application of Section 102 to the cases contemplated in the law may result in hardship to innocent corporations since intent or purpose is very difficult to determine in matters of this kind. A great deal of protest may be anticipated if vigorous enforcement is attempted. The Board of Tax Appeals and the courts will probably be generous with taxpayers and prone to reverse the Commissioner in the numerous borderline cases where the taxpayers might be innocent. It may accordingly be anticipated that only the more clearcut cases will be successfully subjected to the Section 102 tax.

Roy Blough

July 26, 1939

My dear Mr. Edison:

I am sending you herewith a memorandum in the President's own handwriting. After you have read it I would appreciate your telephoning me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Charles Edison,
Assistant Secretary of the Navy.

By hand

Franklin

Will you please
replace the Van. Trees,
small Lockwood please
now 4 years old

FDR

July 26, 1939

Dear Mr. Hamilton:

As I mentioned in our telephone conversation this morning, the Chinese Ministry of Communications has secured the services of three Americans to give advice and assistance in problems of China's transportation and these gentlemen are leaving for China by Clipper on August 16th.

Secretary Morgenthau has been greatly interested in the transportation problems confronting the Chinese and was personally interested in securing the services of these three gentlemen in this connection. Although, of course, they have no official status, he is naturally anxious that they be given every assistance possible in the circumstances.

If you will, therefore, advise the American Ambassador in China, as well as the Consul at Rangoon, Yunnan, and Saigon of the personal interest of the Secretary in the success of the task assigned to these gentlemen, they will no doubt be able to facilitate the object of their visit.

For your further information the names of the three men are Maurice E. Sheehan, Andrew B. Bassi, and C. W. Van Patter, and are connected with the Keeshin Freight Line, Inc., Chicago, Illinois.

Very truly yours,

(Signed) Archie Lochhead

Archie Lochhead,
Technical Assistant to the
Secretary.

Mr. Maxwell M. Hamilton,
Head, Division of Far Eastern Affairs,
State Department,
Washington, D. C.

July 26, 1939

Dear Sir:

In response to your request for transportation experts from the United States, it gives me great pleasure to introduce Maurice E. Sheahan, Andrew B. Bassi, and C. W. Van Patter of Keeshin Transportation Company of Chicago. These men have been selected, after a very thorough search throughout the United States and after consideration, as the best qualified persons to assist China in her transportation problems.

The effort made in selecting these men is an indication of the interest of the American people in the development of your transportation system in the best manner possible. Since you are fully aware of the importance of transportation to the life of China I am confident that you will extend every facility to these experts in order to make their services of the greatest possible value.

With high esteem,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Generalissimo,
Chiang Kai-shek,
Chungking.

(Taken by hand down to Room 194
for Professor Buck)

July 26, 1939

Dear Mr. Nicholson:

At the request of the Chinese Government, a commission of three American transportation experts have been selected, after a thorough search throughout this country, as the best qualified experts. These men are Andrew B. Bassi, Maurice E. Sheahan, and C. W. Van Fatter of Keeshin Transportation Company of Chicago. Their official connection is with the Chinese Ministry of Communications.

They will leave San Francisco by Clipper on August 16th. As occasion arises please assist them in every way possible. I have asked them to communicate through you if they have any important radio messages to transmit for my information.

With kind regards,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. H. R. Nicholson,
United States Treasury,
Hongkong.

(Taken by hand down to
Room 194, Prof. Buck)

July 26, 1939

Dear Mr. Nicholson:

At the request of the Chinese Government, a commission of three American transportation experts have been selected, after a thorough search throughout this country, as the best qualified experts. These men are Andrew B. Bassi, Maurice E. Sheehan, and C. W. Van Fatter of Keeshin Transportation Company of Chicago. Their official connection is with the Chinese Ministry of Communications.

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With kind regards,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. M. R. Nicholson,
United States Treasury,
Hongkong.

(Taken by hand down to
Room 194, Prof. Buck)

(Strictly Confidential)

P A R A P H R A S E

A telegram (no. 1381) of July 26, 1939, from the American Ambassador at Paris reads substantially as follows:

On July 25, the American Ambassador lunched with Sun Fo and Wellington Koo (Chinese Ambassador to France) at which time Sun and Koo said that there was practically none of the Chinese currency stabilization fund remaining and that on account of the fact that the sum of two hundred million francs was not enough to support the Chinese dollar the French Government was not willing to advance that sum as it had agreed to do. Sun and Koo said that the French might be induced to advance this two hundred million francs and even more if there could be some sign that additional assistance would be available from Great Britain and the United States. They remarked that, although the British had, on account of the fact that the five million pounds advanced in March had been drained so speedily, refused to introduce in Parliament a new bill providing for another advance to the stabilization fund, they (the British) would sign an agreement shortly to extend to China three million pounds of export credits to be used for making purchases in Great Britain. Sun and Koo both expressed the opinion that it was a matter of vital importance that the Chinese stabilization fund be established again on a firm enough basis to render it immune to further attacks which Japanese and others might make. The moral effect of China's friends giving further aid would be very great, they remarked, in view of the recent agreement between

Great Britain and Japan. Categorical assurance had been given the Chinese Ambassador in London that Great Britain had not promised Japan to withhold support from the Chinese dollar, Koo observed.

Koo then inquired of the American Ambassador whether the United States Government could not advance to China immediately gold as payment for purchases of Chinese silver for delivery by China half a year or a year later. The American Ambassador expressed the opinion that the question of the undesirability or desirability of such action would not come up as he thought such action would not be legal.

Koo said later when talking with a secretary of the American Embassy that there were on deposit at the present time in foreign and Chinese banks in the British and French Concessions at Tientsin twenty million ounces of silver belonging to the Chinese Government. Replying to a question he said that he understood no commitment had been made by the British to assist the Japanese in obtaining this silver. He was anxious to know whether it would not be possible for the United States Government to buy this silver and help in making arrangements for its shipment to America. Koo then made the suggestion that it might be thought to be possible for the Export-Import Bank to extend to China credits to be used for the exportation of another American commodity - gold. The American secretary said that he considered that the proposal appeared somewhat fanciful and that presumably such action would not be legal. Koo said that he would immediately ask the Chinese Minister of Finance (Kung) for definite instructions concerning precise proposals

- 3 -

and that he would appreciate it very much if in the meantime the United States Government could give consideration to this matter and think over means and methods of assisting in the maintenance of a stable currency in China.

The American Ambassador requests instructions in regard to the kind of reply he should make in the event, which he considers probable, that he is questioned further by Koo and Sun in regard to this matter.

893.51/6947

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: July 26, 1939, 3 p.m.

NO.: 898

Part Air
Rec'd July 27.

STRICTLY CONFIDENTIAL.

No. 50 for Treasury from Heath.

Reference is made to the Embassy's telegram No. 652 of July 14, 7 p.m.

It has not been possible for the Embassy to find out whether any American banks have as yet consented to make standstill credit lines available for Bremen cotton firms for the financing of shipments of American cotton to Spain. It is known, however, that several of them are still being urged to make these credits available.

The Guaranty Trust Company representative in Berlin admitted that his bank is being asked to finance such shipments. He said that he had declined so far, since his bank's general policy had been to refuse credits for any but "normal export business". More important, taking in consideration the international situation, his bank was trying to study unused as large a part as possible of its standstill credit lines so that the grounds of the credit being "unavailed of" could be used later on for discontinuing such part.

On this same matter an approach has been made to the representative of the National City Bank. The reply made

to

to the German banks so far has been that the National City would prefer not to finance such shipments. This representative did not think the Germans would insist, but said that since the standstill agreement established the credit lines "to finance international trade" he believed that the American banks would be obliged to accept the transaction if the Germans insisted. In addition he told me that similar business outside of the standstill agreement had been offered to the National City Bank by both Dutch and Swiss banks, but they had not accepted it so far. It was his understanding that the proposed cotton credits to Spain would have the guarantee of the German banks as well as the Spanish Finance Ministry's guarantee.

It is requested that the above sources of information be protected.

KIRK.

RECEIVED

NOV 28 1939

RECEIVED - FOREIGN
 DEPARTMENT OF STATE
 NOV 28 1939

file 7-26-39

100

Mr Cotton

may read

in our office

but cannot

take with him



DEPARTMENT OF STATE
WASHINGTON

July 26, 1939

Personal and Confidential.

My dear Mr. Secretary:

In pursuance of an oral request made by Mr. Joseph P. Cotton, Jr., who, it is understood, is making for you a study of matters relating to the question of Russian debts and claims against the Soviet Union, I am enclosing herewith a copy of a memorandum dated November 16, 1933 setting forth the substance of the so-called Gentleman's Agreement between the President and Mr. Litvinov relating to the problem of debts and claims.

The contents of this memorandum have never been made public. It would be appreciated, therefore, if you will make sure that the copy furnished herewith is treated as a highly confidential document.

Believe me,

Yours very sincerely,

Under Secretary

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

(For enclosure,
see following page)

Enclosure:

**Confidential Memorandum,
November 16, 1933.**

Department of State

BUREAU
DIVISION

Eu

ENCLOSURE

TO

7/26/39

Letter drafted

ADDRESSED TO

Mr. Morgenthau.

103

STRICTLY CONFIDENTIAL.

104

THE WHITE HOUSE
Washington

November 16, 1933

Mr. Litvinov, at a meeting with the President, the Acting Secretary of the Treasury, and Mr. Bullitt, made a "gentleman's agreement" with the President that over and above all claims of the Soviet Government and its nationals against the Government of the United States and its nationals, the Soviet Government will pay to the Government of the United States on account of the Kerensky debt or otherwise a sum to be not less than \$75,000,000, in the form of a percentage above the ordinary rate of interest on a loan to be granted to it by the Government of the United States or its nationals, all other claims of the Government of the United States or its nationals and of the Government of the Union of Soviet Socialist Republics or its nationals to be regarded as eliminated.

The President said that he believed confidently that he could persuade Congress to accept a sum of \$150,000,000, but that he feared that Congress would not accept any smaller sum. Mr. Litvinov then said that he could not on his own authority accept any such minimum, as his Government had already stated that it considered this sum excessive.

Mr. Litvinov said that he had entire confidence in the fair-mindedness of the President and felt sure that when the President had looked into the facts he would not feel that a sum greater than \$75,000,000 was justified. So far as he personally was concerned, and without making any commitment, he would be inclined to advise his Government to accept \$100,000,000 if the President should still consider such a sum fair.

Mr. Litvinov agreed to remain in Washington after resumption of relations and to discuss with Mr. Morgenthau and Mr. Bullitt the exact sum between the limits of \$75,000,000 and \$150,000,000 to be paid by the Soviet Government.

[Initialed by F.D.R. and M.L.]

TREASURY DEPARTMENT

105

INTER OFFICE COMMUNICATION

DATE July 26, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Colombia

The appended memorandum on Colombia, prepared by Mr. Hanson of this Division, discusses Colombia's debt and her capacity to resume payments on her defaulted obligations. I have not had an opportunity to consider the matter carefully but Mr. Hanson's conclusions appear, on the basis of the material presented, to me to be reasonable.

Debt situation in Colombia briefly is as follows:

1. Colombia has an internal debt of 77 million pesos (peso equals 57¢). This debt has been serviced continuously.
2. She has an external short term debt of \$19 million contracted in 1930. This debt is also being serviced in full.
3. She has an external long term debt of approximately \$160 million. Most of this debt is in dollar bonds. About half the debt consists of national government obligations and half of local government obligations. Not all the dollar obligations are held in the United States but more than half are so held. (A complete description of the debt, terms of their issue and purposes are in the appended memorandum.)
4. Colombia is now in complete default on her long term external debt. Partial default began in 1931 and complete default in 1934. The interest on her defaulted external debt has now reached \$22 million.
5. Lopez, ex-President of Colombia, is now in the United States attempting to obtain settlement in the hope of obtaining new credits if such settlement can be made.

Secretary Morgenthau - 2

6. Mr. Hanson concludes from his analysis that Colombia is in a position to make reasonable settlement on her external debt involving payment of \$2 million a year.
7. Colombia's financial situation is fairly sound. She has had a balanced budget for four years and business and foreign trade conditions are good.
8. Colombia has \$25 million of gold and produces about \$15 million of gold a year.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

1
107

DATE July 5, 1939

TO Mr. White
FROM Mr. Hanson

Subject: Colombia's Capacity to Pay Dollar Obligations. An Analysis of the Obstruction to Expansion of our Exports, and a Debt-Settlement Plan that Would Clear Away the Obstruction

Summary

1. I estimate that Colombia's capacity to pay defaulted external bonds amounts to \$2,000,000 annually. This is calculated on two bases:
 - a. Availability of dollar exchange for transfer, and
 - b. Budgetary capacity to pay.
2. Colombia is in default on national government dollar bonds of \$51,200,000, national government sterling bonds of £1,500,000, guaranteed bonds of the Agricultural Mortgage Bank of \$10,300,000 and £1,130,000, departmental dollar bonds of \$60,000,000, municipal dollar bonds of \$22,100,000. The total, calculated in dollars, of external bonds and scrip is \$159,000,000.
3. A fair and feasible debt-settlement plan:
 - a. A general consolidation of national, departmental, and municipal external debt shall not be attempted.
 - b. Conversion to a peso basis is not acceptable.
 - c. Interest on the national government debt shall be renewed at 1½ percent on a consolidation of dollar and sterling issues outstanding.
 - d. Within a period of five years the interest rate shall be raised within a range of 1½ percent to a maximum-potential of 3 percent, if improvement in exports of coffee, petroleum and gold attains the proportions established by the accompanying schedule.
 - e. In no event shall the interest rate ever go beyond 3 percent.
 - f. No amortisation shall be scheduled for the first five years, since it is essential that as much funds as possible be available to develop Colombia's long-run capacity to pay.

- g. Such a plan would require \$1,000,000 annually from the revenues of the national government. This can be met.
- h. As a condition of acceptance by bondholders of this drastic scaling down of obligations, the government shall undertake to consolidate the internal debt to effect a saving of at least 1,000,000 pesos annually. This step is facilitated by the fact that domestic banks hold more than 50 percent of the internal debt, half of these holdings being by the Central Bank.
- i. Departments and municipalities shall arrange separately for the renewal of their interest payments, probably at a greater sacrifice to bondholders. The national government's initial renewal at $1\frac{1}{2}$ percent, the maximum of 3 percent, and the absence of amortization for five years, shall serve as maxima rather than minima for these local governments.

It is believed wise that departments and municipalities reach a settlement requiring not more than \$1,000,000 annually in total.

4. This plan is fair to bondholders for the following reasons:

- a. Dollar bonds were originally issued at heavy initial discounts and heavy bankers' profit margins so that the contemplated debt service would have been impossible even had proceeds been spent productively.

Net proceeds were 8.8 percent less than face value for national bonds, 13.6 percent less for departmental bonds, 16.2 percent less for municipal, and 11.7 percent less for guaranteed Mortgage Bank bonds.

Bankers' gross profits averaged 2.71 percent on national bonds, 8 percent on departmental and municipal issues, 5.3 percent on guaranteed Mortgage Bank bonds; evidence in the report below indicates very high net profits too.

Originally contemplated debt service required that net proceeds yield 7.7 percent on national investment, 10.1 percent on departmental investment, 10.9 percent on municipal investment, and 10.6 percent on guaranteed Bank's bonds.

President Olaya's survey concluded that only 1/3 of net proceeds of national government bonds was spent productively. I would set as an outside estimate 1/2 spent productively, and the overall for departmental and municipal might be lower. Obviously a scaling down is necessary.

- b. There has been a considerable turnover of Colombian bonds in the past 7 years. National government bonds have ranged from 12 to 50, departmental bonds from 5 to 20, municipals from 7 to 25. The contemplated renewal of interest affords an ample yield on market devaluations of the considerable quantity transferred to new hands. National government bonds now selling around 25.

Transactions on New York exchange 1934-1938 average \$16,000,000 annually in Colombian bonds.

5. This plan is fair to the Colombian government for the following reasons:

a. There is no evidence of significant graft or fraud in the original issue of these loans.

b. Although responsibility for wasteful expenditure on non-productive investments is laid in Colombia at the door of over-generous lenders, Colombia cannot evade responsibility. The purported purposes were usually public works, many of which are still held out as feasible and desirable. In fact, Export-Import Bank credits might be sought for same or similar purposes. A sovereign state, while rejecting control over her expenditures, cannot throw off responsibility for obligations on the grounds of wasteful use.

c. She has been servicing faithfully short-term credits and internal debt to the prejudice of these long-term bonds.

d. The proposed terms are well within her capacity to pay.

6. Why is immediate settlement on the debt issue desirable?

a. Since a large part of these dollar bonds are held abroad, (in 1935 it was estimated that 40 percent of national government bonds and 15 percent of local government bonds were held outside the United States) it is especially improper to handicap our export trade indefinitely for these holders.

b. Colombia has immense potentialities, offers vast market for durable goods, and has strategic political importance which necessitate our careful attention to strengthening our trade position.

c. Colombia has been servicing an expanded internal debt (77,000,000 pesos) and growing short-term external credits faithfully. There are now signs that with or without a debt-settlement additional short-term credits are being offered her. Further mishandling of the debt-settlement warrants no support from the United States Government at the expense of exporters.

I. The Public DebtA. Current Debt Structure

1. External bonds:

National government:	dollar bonds	\$ 51,200,000
	dollar scrip	\$ 3,100,000
National government:	guaranteed dollar bonds of Agricultural Mortgage Bank	\$ 10,300,000
National government:	sterling bonds	£ 1,500,000
National government:	guaranteed sterling bonds of Agricultural Mortgage Bank	£ 1,130,000
Departmental dollar bonds		\$ 60,000,000
Municipal dollar bonds		\$ 22,100,000
	Total calculated in dollars	\$159,000,000

Note: Interest arrears on the national government's external debt has reached \$21,600,000.

2. Internal debt of national government (March 1939):

Funded debt	50,600,000 pesos
Debt to Banco de la Republica	21,800,000
Loans from banks and other domestic concerns	4,800,000
	<u>77,200,000</u>

Note: In November 1938, the Banco de la Republica held 16,700,000 pesos of internal bonds in addition to direct government borrowing of 27,800,000, so that it was creditor for 58 percent of the internal debt.

3. External short-term banking credits:

Short-term loan of 1930 by American banking syndicate with 1/5 French participation	\$ 17,000,000
Other short-term credits	2,300,000
	<u>\$ 19,300,000</u>

Note: These short-term credits have been serviced faithfully while bond service was suspended.

B. Growth of the Public Debt

1. External:

a. Up to the 1920's Colombian bonds were floated almost exclusively in Europe. Volume of external debt was small and price paid was high, in Colombia was considered a poor credit risk. In 1923 external debt consisted of £3,600,000.

b. During 1920's dollar bonds to amount of \$170,000,000 were sold by national, departmental and municipal governments. Of this total, \$60,000,000 were national government bonds, 67,500,000 departmental, 26,100,000 municipal, and 16,000,000 Agricultural Mortgage Bank bonds guaranteed by national government. Sterling borrowings during this period were limited to £1,200,000 for the Agricultural Mortgage Bank. We ignore here the non-guaranteed bonds of various banks to amount of \$22,000,000 and £3,400,000; of these dollar bonds \$12,400,000 are still outstanding.

c. American investment (government and direct) grew from \$4,000,000 in 1913 to \$30,000,000 in 1920 and \$260,000,000 in 1929; meanwhile British investment changed little, \$34.5 million in 1913 and \$37.9 in 1929.

2. Internal:

During the 1930's internal debt grew, although public distribution is narrow, with the Central Bank accounting for over half. Military trouble with Peru necessitated borrowing for national defense. Internal funded debt was 23,300,000 pesos on December 31, 1931, 35,400,000 on December 31, 1932. By September 30, 1934 it had reached 48,700,000. Since that time there has been no significant change in total internal debt.

3. Short-term external loans:

In 1930 a banking syndicate headed by National City Bank arranged a global credit to amount of \$20,000,000. At that time Colombian bonds were no longer marketable. This loan has received preference throughout 1930's and has been serviced faithfully. The conditions fixed by the syndicate as conditions of loan were:

a. Balancing of budget for 1931

b. Placing of State railroads in hands of autonomous corporation with distinct budget and accountability, and that the same corporation handle the ports too

- c. Law fixing debt limit such as that borrowings cannot exceed a debt service requirement of 30 percent of ordinary revenues
- d. Reorganize office of comptroller general and certain fiscal organization.
- e. A law assuring legality of this loan.

There was considerable dispute over delivery of the last 4 million of this credit on question whether budget had been balanced. State Department intervened on receiving word from Colombia of the controversy.

C. Nature and origin of the dollar bond borrowings

1. Fraud and bribery did not characterize the issue of Colombian bonds, so far as available evidence shows. There is testimony that 29 representatives of American bond houses were in Colombia at the same time trying to find lenders but no scandalous revelations similar to the Peruvian bond circumstances have been revealed for Colombia.

In the Valle, Cundinamarca and Bogota issues, 15 percent of the net originating profits were paid to persons who had "found" this business, but these gains were relatively insignificant.

2. Bankers' gross margins were very heavy. On business totalling \$173,000,000 face value, bankers' gross profits were \$9,280,000 or about 5.34 percent. This includes about 8 percent on departmental and municipal issues, 2.71 percent on the national government bonds, and 5.3 percent on the guaranteed bonds of the Agricultural Mortgage Bank.

3. Bankers' net profits were high too because the expense of printing, engraving, executing bonds, etc., was all slapped onto the debtor. In addition, fiscal agents were allowed 1/4 to 1/2 of 1 percent of all interest and amortization payments, i.e., bankers' and fiscal agents' fees totalled in vicinity of nominal rate of interest on the bonds.

Note, however, that the earlier British issues had been even more costly to Colombia. However, it is claimed that Colombia by now was a better credit risk.

4. Net proceeds of the bond issues were deeply cut by initial discount. Note also in the following table the average service charges annually. Service charges ran 7.7 percent on the net proceeds for national government bonds and over 10 percent on departmental and municipal bonds. This required a high productivity of the investment even had they been fully spent productively.

	Face value \$ <u>000,000</u>	Net proceeds \$ <u>000,000</u>	Average dif- ference %	Annual service \$ <u>000,000</u>	Service as % of proceeds
National bonds	60	54.7	8.8	4.21	7.7
Departmental	67.5	58.34	13.6	5.98	10.1
Municipal bonds	26.1	21.86	16.2	2.40	10.9
Guaranteed Bank	16.0	14.12	11.7	1.50	10.6

See Table I for full account of these bond issues.

5. President Olaya in the heat of a political campaign claimed that only \$18,000,000 of net proceeds of 54,700,000 national government bonds had been spent productively.

It is true that with money being offered so liberally much waste must have been present. However, when Colombians claim that our bankers should have extended money only with greater controls, they forget that Colombia was a sovereign state which would have refused to accede to any controls.

It is important to note that the purported purposes of these funds was largely public works. In some cases the same or similar public works are being held out as the destination of any funds that might be gotten through the Export-Import Bank. Such funds would again go down without controls. Is it enough for a debtor to say that he wasted the money and thus must not be held liable? No. One difference, however, is that any new funds would not require an annual service of 7 to 10 percent and this enables less productive investments to be feasible.

6. During the dollar bond spree of the twenties, two points were ignored:

- a. Passing of the point where Colombian budget could stand such service charges.
- b. The transfer problem.

a. Since there was a fairly close balance between exports and imports, the foreign exchange problem was sure to become difficult in years when foreign companies ceased to expand their investments in the country and transferred a considerable share of their earnings home. By 1928-29 Standard Oil of New Jersey was accounting for 20 percent of Colombian exports and bananas 5 percent. If proceeds from half of these shipments were to be kept in the United States, Colombia would lack the necessary exchange that year.

Actually the immediate cause for the break in exchange and imposition of a exchange controls in 1931 was the withdrawal of short-term funds from Colombia by American interests.

b. As to budgetary limits. On June 5, 1928 Colombia passed a law requiring provincial and municipal governments to obtain authorization of central government before negotiating further foreign loans, such loans must be for public purposes, and foreign debt service must not exceed 20 percent of ordinary revenue.

In the Fall of 1928 Department of Commerce in the Corliss Circular warned that Colombian debt expansion was getting out of hand, stressed the difficult budgetary and debt situation, pointed to loopholes in the law of June 5 such as definition of ordinary revenue and ways to evade the 20 percent debt service limit.

E. Debt Service Record

1. The Colombian Government when confronted with a transfer problem in 1930 at first tried to preserve its own credit by prohibiting on October 31, 1931 the transfer of funds by the political subdivisions and private mortgage banks for the service of their external debts, and reserved the available exchange for its own use.
2. January 1, 1932, sinking fund payments on national external debt and nationally-guaranteed Mortgage Bank bonds was suspended.
3. Finally the government announced that coupons maturing on these loans from April 1, 1933 to January 1, 1934 would be paid one-third in cash and two-thirds in scrip.
4. After that date, cash payments were suspended entirely and coupons maturing during 1934 were paid only in scrip.
5. After January 1, 1935, even the scrip payments were discontinued.
6. Colombia showed a laudable desire to maintain service by continuing full service on all obligations as long as she did (to November 1, 1931). The trouble with Peru killed off a budding recovery and destroyed hopes of weathering the depression with credit record good.
7. She has been servicing her internal debt.
8. She has been servicing the American bankers syndicate loan of \$20,000,000 (original), despite fact that it was contracted after difficulties began (1930). Service has been at 3 percent interest and \$100,000 amortization. The debt stands around \$17,000,000.

F. Projected new short-term credits:

- a. In 1938 short-term credits up to 5,000,000 pesos were authorized for the War Department. Known to have been used was a credit of 1,500,000 pesos for German military supplies at 6 percent to be amortized in five years.

- b. American-owned Bogota Telephone Company in March 1939 signed agreement to sell the Bogota the phone system for \$2,500,000 on a credit at 3 percent over period of 30 years.
- c. The national government plans to borrow 6,000,000 pesos for roads against the security of gasoline tax.
- d. Santander and Bogota have been authorized to incur short-term credits which would be serviced to prejudice of defaulted obligations.
- e. In 1938 a railway was bought for 11,500,000 pesos from Beglian owners, with a credit arrangement which will be serviced to prejudice of defaulted bonds.
- f. Barranquilla is the only entity which since 1931 has provided for and maintained bond service payments, though exchange restrictions compelled them to be retained on deposit in local banks.

II. The Balance of Payments

A. Potential Balance of Payments

Export-potential	165,000,000 to 210,000,000 pesos
Import-potential (defined as the figure below which imports cannot be cut without excessive interference with wider national policies)	140,000,000 to 175,000,000 pesos

Balance of trade	15,000,000 to 25,000,000
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Other credits (port dues, foreign expenditures in Col. etc.)	2,000,000 to 4,000,000
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Potential credit of 20,000,000 pesos.

Against which:

Short-term credits servicing	4,000,000 pesos
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Non-corporate requirements abroad	2,000,000
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Miscellaneous	2,000,000
---------------	-----------

Oil and banana company remittances	<u>9,000,000*</u>
------------------------------------	-------------------

17,000,000

* Usually it is calculated that exchange created by oil and bananas is not fully available since 50 percent is likely to be left abroad. If oil exports are put at 37,000,000 and bananas at 8,000,000 there is total of 45,000,000 pesos involved. Let us assume that developmental possibilities attract reinvestment of larger share of profits so that only 20 percent of export values will be unavailable, i.e., 20 percent will be sent home as dividends, i.e., 9,000,000 pesos.

This would leave about 3,000,000 to 5,000,000 pesos balance available for renewal of interest on bonded indebtedness, or about \$2,000,000. 1.75 pesos = \$1.

B. Volume of exports in the foreseeable future:

Coffee export capacity of 4,000,000 to 4,400,000 bags.
Trend: Definitely upward but expansion will be slow.

Gold export capacity of 300,000 to 600,000 troy ounces.
Trend: Definitely upward.

Oil export capacity of 18,000,000 to 20,000,000 barrels.

Trend: Definitely upward and capable of wide expansion if oil companies are treated generously.

Bananas export capacity of 175,000 to 200,000 tons.

Trend: Upward.

Hides export capacity of 7,000 to 8,000 tons.

Trend: No upward movement anticipated.

Tobacco export capacity of 4,000 to 6,000 tons.

Trend: Upward but of minor consequence.

Platinum export capacity of 30,000 to 40,000 troy ounces.

Trend: No major change expected.

See Table II.

C. Value of exports in the foreseeable future:

Coffee exports of	90,000,000 to 100,000,000 pesos
Petroleum " "	35,000,000 to 50,000,000
Hides " "	3,500,000 " 6,500,000
Tobacco " "	1,000,000 " 1,000,000
Platinum " "	1,500,000 " 3,000,000
Gold " "	20,000,000 " 35,000,000
Bananas " "	8,000,000 " 10,000,000

These products will run to 90 percent or more of the total exports.

This would put exports between 156,000,000 and 210,000,000 pesos annually.

See Table III.

D. The nature of imports is such as not to permit any great reduction while the economy is geared to the above-mentioned scale of exports and to plans for development. Colombia runs normally to 20,000,000 pesos of textile imports, 7 to 10 million iron and steel products, mining and textile machinery 10,000,000, etc. She imports wheat, raw cotton, rice, sugar to extent of 5,000,000 and in her present desire for greater self-sufficiency in food she may cut this down somewhat. Domestic manufacturing is likely to reduce textile imports but it will be a non-economic manufacturing development. Cotton imports of 2,000,000 pesos appear an unnecessary strain on foreign exchange resources, but native cotton is too good for present stage of domestic textile manufacturing.

III. Public Finance

A. Any major expansion in government revenue waits on improvement of internal productive capacity and export capacity.

B. The system of using double budget system (ordinary and extraordinary budgets) makes it extremely difficult to assess the true financial status of the national government. We need more information on public finance and balance of payments of Colombia before forming a worthwhile judgment of its position.

C. Since 1935-36 both administration and structure of the revenue system have been improved. The introduction of the excess profits tax and patrimony tax and the reorganized improved yield of the income tax have been advantageous. Note in Table IV the increased revenue from these sources. Further expansibility without basic improvement, however, is questionable.

D. On the expenditure side, note in Table V certain encouraging factors: Education and public health have received increased appropriations. The public works expenditures are highly necessary under the circumstances of faulty internal transportation, etc. An unfortunate feature is the military expenditure which gives no sign of permitting reduction. The trouble with Peru in 1932-1934 not only increased the internal debt but created new naval and air forces and an expanded army which now permanently require heavy appropriations.

E. Total cost of government in Colombia today is probably 150,000,000 pesos. This includes 90,000,000 pesos national government, 40,000,000 departmental, and 20,000,000 (?) municipal government.

National income probably does not exceed 750,000,000 pesos and may run 550,000,000 to 700,600,000.

Note that total cost of government as used here omits debt service on \$160,000,000 bonds.

F. In the past four years the national government budget has been balanced and surpluses have run around 2,000,000 pesos.

G. It will be remarked that in 1939 the budget calls for only 11 percent of revenues to be devoted to debt service. This is very small for a Latin American nation, although the internal development requirements make it desirable that renewal of service of remaining debt should not bring the figure above 15 percent. In this connection, note that the distribution of total debt between national and local governments in Colombia differs from that of other Latin American nations with consequent difficulty in assessing the significance of the debt service percentage.

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H. The Monetary Stabilization Law of November 1938, provided funds as follows:

1. Stabilized peso at 1.75 to dollar by specifying as monetary unit a coin of 900 parts fine gold, weighing 0.56424 grams. Bank must compute its gold value on this basis.
2. Modified contract with Banco de la Republic as to gold account and provided for distribution of profits from this law.
3. Devaluation profit of 16,000,000 pesos was divided thus:
 - 8.0 to pay government debt to Bank
 - 5.0 for public works, etc.
 - 3.0 to form stabilization fund.

IV. Trade

A. The United States has a strong trade position in Colombia. Division of Colombian imports:

1938	U.S. 49.9%	Germany 17.4%	U.K. 11.4%
1937	46.5	13.3	17.4

Division of Colombian exports:

1938	U.S. 54%	Germany 14.4%	Canada 9.5%
1937	56.6	12.4	6.7

B. The strength of our bargaining position is indicated by the following table of trade balances with the various competitors.

Millions of pesos

	Trade Balance	Balance with US	Balance with Germany*	Balance with UK
1938	+ 4	-	- 6	- 19
1937	+ 15	+ 7	- 4	- 31
1936	+ 37	+ 45	- 4	- 20
1935	+ 36	+ 50	- 5	- 16
1934	+ 65	+ 66	- 6	- 8
1933	+ 22	+ 31	- 5	- 4
1932	+ 40	+ 41	- 2	- 5
1931	+ 57	+ 64	- 2	- 5
1930	+ 50	+ 63	- 4	- 4
1929	+ 1	+ 37	- 15	- 12
1928			- 20	
1927			- 14	
1926			- 13	

* Note that exports to Germany in 3 years 1936-1938 averaged 21,000,000 pesos. In 3 years 1931-1933 average was 3,000,000. In three years 1926-1928 average was 2,000,000.

V. Observations

A. The United States has 4 interests in Colombia:

1. Debt settlement.
2. Promotion of exports and participation in development of vast potentialities of Colombia.
3. Direct investments and the means of expropriations.
4. Political and ideological; Colombia's location has great strategic importance and we want a friendly power there.

B. There is present definitely in Colombia a desire for state ownership of utilities. In addition there is considerable sentiment for expropriation of banana and oil companies a la Mexico. While we could have no legal objection to expropriation with adequate compensation of these properties, it is unlikely that Colombia's interests would be best served at this time by such action and this fact is recognized by existing Colombian Government. What is needed is even more investment from abroad. Oil offers greater possibilities of expansion if the government's attitude is favorable.

C. Colombia has coal and iron and there has been persistent interest in the development of an iron and steel industry. An economic or major development of this industry does not appear possible.

D. She needs badly a geological survey as a basis for mineral developments. This would afford worthwhile object for our cooperation, if it has not already been undertaken. Deposits of copper, lead, zinc, mercury etc., are known, although to date she has developed chiefly gold, oil, emerald, platinum. Her reserves of coal are the greatest in South America.

E. Colombia is not yet self-sufficing on such items as rice, wheat, cotton, sugar, cocoa, and although domestic development of these industries may not be strictly economic, it is being encouraged.

F. The great need, of course, is improved transportation and communication.

G. In the five years 1934-1938 Colombia produced 2,023,000 troy ounces of gold and exported 2,010,000.

H. Rate of exchange (Cents per peso):

1929	96.55	1934	61.78
1930	96.49	1935	56.01
1931	96.57	1936	57.08
1932	96.28	1937	56.73
1933	81.70	1938	
		1939	

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I. Debt of National Government

(In millions)

	: 1933		: 1934		: 1935		: 1936		: 1937	
	:Pesos:	\$								
External										
Consolidated	61.3	59.7	61.1	59.4	58.4	56.8	62.9	61.2	63.5	61.8
Scrip	1.7	1.6	5.0	4.9	4.7	4.6				
Floating	21.1	20.5	21.3	20.7	37.8	36.8	37.4	36.4	33.9	33.0
Total	84.1	81.8	87.4	85.0	100.9	98.2	100.3	97.7	97.5	94.9
Internal										
Consolidated	33.9	21.7	38.1	24.5	53.9	30.7	51.1	29.6	47.4	25.7
Floating	35.3	22.6	44.3	28.6	29.8	17.0	27.4	15.8	29.3	15.9
Total	69.3	44.3	82.3	53.2	83.7	47.7	78.6	45.1	76.7	41.6
Total	153.4	126.1	169.7	138.2	184.6	145.9	178.9	142.8	174.1	136.5

External debt converted to dollars at original par of exchange; internal debt converted at December rate.

Table 1

Issue Record of Dollar Bonds of Colombia

Year of issue	Interest rate (percent)	Term in years	Face value (000,000)	Initial discount (percent)	Net proceeds (000,000)	Annual service (000)	Gross profit of bankers (points)	Purposes
National Government								
Public Works Loan *	1927	6	34	\$25.0	8.82	\$22.8	\$1,750	\$10 refunding and Public Works-
Public Works Loan *	1928	6	34	35.0	8.70	31.9	2,460	Highways.
Departments								
Antioquia	1925	7	20	3.0	17.00	2.47	286	Retire debt.
Antioquia	1926	7	20	6.0	14.75	5.11	573	Retire debt.
Antioquia	1926	7	20	3.0	15.00	2.53	286	Retire debt.
Antioquia	1927	7	20	2.5	8.00	2.14	239	Railways
Antioquia	1928	7	20	3.75	9.00	3.39	377	Retire internal debt and roads.
Antioquia	1929	7	20	1.75	12.00	1.51	165	4.50
Antioquia	1927	7	30	4.00	8.75	3.65	324	Retire internal debt and roads.
Antioquia	1927	7	30	4.00	7.95	3.68	323	Retire internal debt and roads.
Antioquia	1928	7	30	4.950	7.75	3.98	352	Retire internal debt and roads.
Antioquia	1928	7	30	6.0	16.50	4.98	520	Railroads and roads.
Caldas	1926	7 1/2	20	4.0	15.00	3.38	346	12.00
Caldas	1926	7 1/2	20	4.0	15.00	3.38	346	Railroads and roads.
Caldas	1927	6	19	0.2	0.00	0.2	12	
Caldas	1927	6	19	0.2	0.00	0.2	12	
Condensurero	1928	6 1/2	31	12.0	12.00	10.28	909	\$3 1/2 refunding, railroads and roads.
Santander	1928	7	20	2.0	11.34	1.85	188	5.00
Santander	1927	7	20	2.5	11.50	2.21	240	10.50
Tolima	1926	7 1/2	20	2.5	15.50	1.96	247	8.00
Valle	1927	7 1/2	20	1.5	10.00	1.26	150	7.00
Valle	1928	7	20	4.5	11.00	3.76	430	5.50
Valle	1928	7	20	4.5	11.00	3.76	430	Bonds.
Municipalities								
Bogota	1924	8	20	\$ 6.0	12.5	\$ 5.22	\$ 606	6.00
Bogota	1927	6 1/2	20	2.7	15.0	2.17	244	13.00
Barranquilla	1925	8	10	0.5	14.0	0.42	72	14.00
Barranquilla	1925	8	15	0.5	13.0	0.42	55	12.00
Barranquilla	1926	8	20	0.5	12.0	0.43	53	7.00
Barranquilla	1928	8	20	0.5	11.0	0.44	53	
Barranquilla	1928	8	20	0.5	12.0	0.43	53	
Barranquilla	1929	8	20	0.5	12.0	0.43	53	
Cali	1927	7	20	2.0	14.0	1.60	188	Retire debt and water
Cali	1928	7	20	0.63	14.0	0.54	61	
Cali	1930	7	20	0.25	13.0	0.20	24	
Cali	1926	7	25	3.0	15.0	2.38	271	8.25
Medellin	1926	7	25	3.0	15.0	2.38	271	Public utilities
Medellin	1928	6 1/2	26	9.0	10. 7/8	7.61	722	\$2.7 refunding and utilities
Banks								
Banco Agricola Hipotecario	1926	7	20	\$ 3.0	15.00	\$ 2.52	\$ 340	9.00
Banco Agricola Hipotecario	1927	7	20	3.0	9.6	2.71	282	7.35

Table 1

Issue Record of Dollar Bonds of Colombia

(Continued - 2)

	Year of issue	Interest rate (percent)	Term in years	Face value (000,000)	Initial discount (percent)	Net proceeds (000,000)	Annual service (000)	Gross profit of bankers (points)	Purpose
Banks (Continued)									
Banco Agricola Hipotecario*	1927	6	20	\$ 5.0	11.5	\$ 4.42	\$440	3.50	Working capital
Banco Agricola Hipotecario*	1928	6	20	5.0	10.2	4.47	440	3.70	Working capital
Banco de Colombia	1927	7	20	2.0	10.75	1.76	187		Working capital
Banco de Colombia	1928	7	20	1.0	11. 5/8	0.92	94		Working capital
Banco Hipotecario de Bogota	1927	7	20	3.0	11.25	2.50	283		Working capital
Banco Hipotecario de Bogota	1927	7	20	3.0	12.00	2.62	281		Working capital
Banco Hipotecario de Colombia	1926	7	20	6.0	12.00	5.25	565		Working capital
Banco Hipotecario de Colombia	1927	7	20	3.06	9.00	2.76	282		Working capital
Banco Hipotecario de Colombia	1927	6 1/2	20	4.0	15.00	3.36	361		Working capital

* Guaranteed by National Government.

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Table 2
Volume of Exports

Period	Imports tons (000)	Exports tons (000)	Exports of:							
			Coffee (000 bags)	Gold troy ounces (000)	Petroleum barrels (000)	Bananas tons (000)	Hides tons (000)	Tobacco tons (000)	Platinum troy ounces (000)	
1939 4 months			1,218							
4 months of 1938			1,320							
1938	409	3,140	4,230	300	18,450	195	7.0	4.9	29	
1937	368	2,970	4,070	524	17,740	153	7.7	2.1	29	
1936	370	2,780	3,940	340	16,130	160	7.7	1.5	41	
1935	270	2,700	3,770	340	15,950	155	6.9	2.4	39	
1934	267	2,700	3,090	506	15,500	144	7.1	1.6	55	
1933	213	2,045	3,386		11,806	135				
1932	183	2,546	3,226							
1931	248	2,670	3,066							
1930	411	3,094	3,293							
1929	650	3,002	2,863							
1928	672	2,893	2,795							
1927	534	2,228	2,528							
1926	429	1,052	2,438							
1925	339	373								
1924	236	370								
1923	209	329								

Table 3
 Value of Exports
 (In millions of Pesos)

Period	Total : exports	Total : exports : including : gold	Balance : of : trade	Exports of							Coffee prices : metallic : U. S. cents
				Coffee	Gold	Petroleum	Bananas	Hides	Tobacco	Platinum	
1939 January and February		30		14	7	4 1/2	2	0.7	0.4	0.2	
1938	159	168	+ 9	89	19	37	9	3.9	1.0	1.6	11.51
1937	169	182	+ 13	99	32	35	7	5.0	0.4	2.7	12.19
1936	134	158	+ 24	91	21	28	8	3.5	0.3	3.1	11.99
1935	119	143	+ 24	79	19	29	9	2.7	0.4	2.1	10.85
1934	98	152	+ 54	82	29	28	6	2.9	0.3	2.7	14.35
1933	50	72	+ 22	49	5	10	5	1.5	0.1	1.2	11.05
1932	31	70	+ 39	43	3	16	6	0.9	0.1	0.5	12.26
1931	41	98	+ 57	55	18	16	5	1.6	0.2	1.2	16.85
1930	63	112	+ 49	62	9	26	9	3.4	0.2	1.9	18.36
1929	126	127	+ 1	77	5	27	9	3.9	0.2	2.6	18.58
1928	148	133		88	1	26	9	3.6	0.2	3.3	28.14
1927	126	109		71	1	23	5	3.2	0.4	3.3	26.60
1926	111	111		86	1	10	5	2.7	0.3	4.4	29.65
1925	89	84		67	1	-	5	3.2	0.3	4.0	29.03
1924	56	86		69	2	-	4	2.9	0.3	3.9	26.66
1923	61	60		45	4	-	4	2.6	0.2	3.6	19.30

Table 4
Public Finance
National Government
Revenues
(In millions of pesos)

Period	Total taxes	Customs	Export of coffee	Stamp taxes of gold	Tax on sales of gold	Gasoline tax	Excise on profits tax, patri- mony	In- come tax	In- heritance and gift tax	Tax on export drafts	National property (salt, etc)	Services (mail, tele- graph, etc)	Miscellaneous such as Profits of State bank	Oil royalties	Ordinary revenue	Extraordinary revenue for national defense	
1939 - Budget		32.5		5.4	2.0	3.9	7.0	11.5		3.0	4.5			3.0			
1938 - Actual	68.4	30.6	0.9	5.3	1.9	3.7	6.3	11.4	1.4	2.8	4.4	4.7	4.2	0.5	2.7	82.7	2.5
1937	69.3	34.3	0.5	4.9	6.0	3.1	5.3	10.2	0.9	-	4.2	5.2	2.9	0.4	2.1	82.6	1.7
1936	59.7	30.0	0.4	3.7	5.6	2.5	4.2	8.7	0.7	0.1	3.9	3.4	3.0	0.3	1.9	70.1	1.4
1935	46.4	27.5	0.4	3.2	5.3	2.0	-	4.3	0.6	0.1	3.7	3.5	3.1	0.3	2.2	57.4	1.3
1934	36.3	24.6	0.3	2.9	-	1.9	-	2.0	0.6	0.2	3.8	3.1	1.6	0.4	1.2	45.4	1.3
1933		22.3		2.2				1.7									
1932		17.5		2.3				1.5									
1931		18.5		1.3				2.3									
1930		20.3		1.6				3.3			2.7	3.2					
1929		39.4		1.6				2.7			3.0	3.5					
1928		40.8		1.7				3.2									
1927		37.5		1.6				1.2									
1926		33.8		1.4				1.1									
1925		28.8		1.1				0.7									
1924		19.2		0.9				0.6									
1923		20.4		1.3				0.7									

Table 5
Expenditures
(000,000 pesos)

	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929
Debt Service:							11.5				
External	3.9	2.3	3.9	3.4	2.7	1.9		5.5	5.6		
Internal	6.0	8.6	7.5	8.8	6.1	7.7		3.9	5.5		
War	14.0	13.0	12.8	14.0	14.5	24.4	3.8	3.8	4.0	4.3	7.7
Education	7.9	6.8	6.0	6.0	2.5	1.5	1.2	1.5	1.2	4.4	7.2
Public Health		3.5	3.7	3.2	2.4		2.2	2.0	-		
Public Works	18.9	15.2	18.2	12.2	10.0	7.5		5.9	2.6	14.2	29.8
Labor, Health and Welfare	5.2										
Total	89.2	83.6	85.7	73.0	61.1	63.1		46.1	52.1	62.0	84.0

Note: Reorganized Executive Departments for 1939, therefore not strictly comparable.
Reorganized Revenue Collection System in 1936.

Memorandum of Conference between Secretary Morgenthau
and Senator Harrison and Congressman Doughton, 12:45
p.m., Wednesday, July 26, 1939, in Congressman
Doughton's office

Re: Proposed Treasury Decision in relation
to Section 102 cases.

Mr. Graves accompanied the Secretary at this conference.

The party had luncheon in the House Dining Room as guests of
Congressman Doughton and returned to the latter's office at about
1:30.

In the discussion which followed both Senator Harrison and
Congressman Doughton stated that while it was obviously necessary
for the Treasury to revise and strengthen its instructions to the
personnel of the Bureau of Internal Revenue with relation to cases
arising under Section 102 it would be inadvisable to give too much
publicity to the matter at this time. They called attention to
the very favorable impression upon the business world generally
which had been created by statements made by the Secretary at the
time when the Revenue Act of 1939 was under consideration and they
stated that they hoped that this particular matter could be handled
in such a way as to avoid destroying that good impression.

Secretary Morgenthau made it clear that the Treasury was not
regarding Section 102 as being a substitute for the undistributed
profits tax which was now eliminated under the provisions of the
Revenue Act of 1939; that Section 102 had application only to
instances in which corporations should retain earnings beyond the
reasonable needs of the business for the purpose of enabling share-
holders to evade surtaxes on their individual incomes; and that in
its administration of the provisions of Section 102 it would be
the policy of the Treasury to avoid anything that might smack of
unwarranted persecution of corporate business enterprises.

Senator Harrison and Congressman Doughton expressed themselves
as satisfied that the Treasury would administer the provisions of
Section 102 with proper regard to the point of view which they had
expressed, and the Secretary advised them that he would immediately
issue the Treasury Decision (copies of which had earlier been supplied
to Senator Harrison and Congressman Doughton), which had been drafted
to place the new policy into effect.

EMG:mb

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**Memorandum of Conference between Secretary Morgenthau
and Senator Harrison and Congressman Doughton, 12:45
p.m., Wednesday, July 26, 1939, in Congressman
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**Re: Proposed Treasury Decision in relation
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Secretary Morgenthau made it clear that the Treasury was not regarding Section 102 as being a substitute for the undistributed profits tax which was now eliminated under the provisions of the Revenue Act of 1939; that Section 102 had application only to instances in which corporations should retain earnings beyond the reasonable needs of the business for the purpose of enabling shareholders to evade surtaxes on their individual incomes; and that in its administration of the provisions of Section 102 it would be the policy of the Treasury to avoid anything that might smack of unwarranted persecution of corporate business enterprises.

Senator Harrison and Congressman Doughton expressed themselves as satisfied that the Treasury would administer the provisions of Section 102 with proper regard to the point of view which they had expressed, and the Secretary advised them that he would immediately issue the Treasury Decision (copies of which had earlier been supplied to Senator Harrison and Congressman Doughton), which had been drafted to place the new policy into effect.

HNG:mb

lw

GRAY

Berlin

Dated July 26, 1939

Rec'd 8:45 a.m.

Secretary of State

Washington

697, July 26, 9 a.m.

Number 49. FOR TREASURY FROM HEATH.

The past steady increase in currency circulation of the Reich is apparently continuing to judge from the Reichsbank report for the week ending July 22. The total monetary circulation on July 22 stood at ten thousand three hundred seventy six million marks. While as is usual for the third week of the month this figure represents a decrease of some five hundred million marks from the circulation attained at the end of the preceding month, it is three hundred seventy million higher than the circulation at the end of the corresponding week in June.

RECEIVED

KIRK

COPY TO WFLP

THESE ARE THE ORIGINALS
 OF THE DOCUMENTS
 WHICH ARE BEING
 REPRODUCED IN THIS

JR

GRAY

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Paris

Dated July 26, 1939

Rec'd 1:30 p.m.

Secretary of State,
Washington.

1377, July 26, 4 p.m.

FOR THE TREASURY DEPARTMENT.

Trading in exchange was very dull today with no important movements. The fund obtained a small amount of sterling at 176.72. The florin was inclined to weakness due to doubts that the Colijn Government would be long lived. The security market was inactive and closed at about yesterday's level.

The improvement in the French economic and financial situation reflected in the statement of operations of the French exchange equalization fund for March, and in tax returns for June (see our telegram No. 1367 of July 25) is given notice in today's financial press. As concerns the continuation of the repatriation of capital, it is pointed out that if account is taken of the two billion francs gold utilized to buy francs from the fund, the total acquisition by the exchange fund during March was 3,412,000,000 francs gold. It is observed that French importers no longer hasten to cover their foreign
currency

-2- #1377, July 26, 4 p.m., from Paris.

currency requirements in advance and that in general, French exporters now immediately convert their foreign payments into francs. (END SECTION ONE).

BULLITT

HPD

FS

GRAY

Paris

Dated July 26, 1939

Rec'd 12:45 p.m.

Secretary of State,
Washington.

1377, July 26, 4 p.m. (SECTION TWO)

While it is recognized that the increase in revenue from taxation is due in the main to newly created taxes or to increases made in taxation it is contended that the improvement is partly due to more active trade and commerce. Other favorable indications mentioned include the (*) in the general index of production from 82 in May 1938 to 97 in May 1939 and the accompanying improvement in the index of each of the principal industries. It is recognized however that while the economic situation is continually improving industry is engaged to an important extent in turning out war material and that the so-called "consumption" industries are lagging behind.

(END OF MESSAGE).

RR:DDM

BULLITT

(*) Apparent omission

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EG

GRAY

135

Paris

Dated July 27, 1939

Rec'd 1:33 p.m.

Secretary of State,
Washington.

1391, July 27, 5 p.m.
FOR THE TREASURY.

An idle day was experienced on the exchange market and rates were almost unchanged at the close. The fund obtained about two hundred thousand pounds at 176.72. After a weak opening the florin strengthened on the opinion of Amsterdam that the Colijn Government will receive a vote of confidence this evening. Apparently stimulated by the prospect of an early agreement with the Soviets the security market was cheerful and active and there was good buying from strong sources. Rentes gained about 50 centimes and variable revenue securities made substantial gains.

The Bank of France statement dated July 20 published today revealed an increase of 44,000,000 francs in commercial advances. Note circulation down 841,000,000. Deposits up 930,000,000. Treasury account increased by 101,000,000. Percentage of gold dealt 64.14 against 64.18.

(END SECTION ONE)

BULLITT

RR:WWC

PAP

GRAY

PARIS

Dated July 27, 1939

Rec'd 1:25 p.m.

Secretary of State
Washington

1391, July 27, 5 p.m. (SECTION TWO)

The First Chamber of the Tribunal of the Seine decided yesterday that the Spanish gold now on deposit in the Bank of France is free to be returned to Spain. The court further ruled that the association of French creditors of the Bank of Spain as recently demanded that a lien be established on the gold had no legal claim.

According to the London correspondent of AGENCE ECONOMIQUE Yugoslavia is trying to negotiate a loan in London of four million pounds for arm requirements.

The same paper reports rumors circulating in London that the Brazilian Government will propose the cancellation of 75% of its foreign debt and the funding of the balance on the basis of an interest rate of four per cent.

(END OF MESSAGE)

RECEIVED

BULLITT

RR:WWC

JUL 28 1939

TWENTY-THIRD YUGOSLAV
 DEPARTMENT OF STATE
 RECEIVED JUL 28 1939

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: July 27, 1939, 1 p.m.

NO.: 703

Considerable prominence was given in the financial pages of last night's press to reports from New York, an article of July 24 from the JOURNAL OF COMMERCE in particular, with regard to congressional activity under the leadership of Representative Vincent Harrington to restore trade between totalitarian states and the United States. At the beginning of these news despatches there was semi-editorial comment describing the accumulation in the United States of agricultural surpluses, and the criticism which a group of Representatives from the south and middle west directed against the commercial policy of the United States. According to the German press, this group has now clearly realized that the trade agreement program's great mistake had been the failure to conclude agreements with Germany and Italy, and that it was now a compelling necessity to recover these markets for American agricultural products. In conclusion, the German press accounts give a general description of German-American trade before the year 1935 and of the capacity of the German market to absorb American agricultural products should there be a change in present policies.

- 2 -

The following is strictly confidential:

[omission], an official of the German Government who deals with trade relations between the United States and Germany, yesterday made a bitter complaint that it was almost impossible for Germany to export to the United States in view of the 25 percent additional duty applied to German goods. A fair amount of trade had so far been maintained, he said, because of previous orders, but in August he expected a large drop in exports. They were not very successful with their plan of having American firms use their own blocked marks for the purchase of export shipments to the United States, he said. Such branches of American companies in Germany as would be capable of engaging in export business could not engage in any considerable trade because they did not have enough blocked marks to finance it.

It is requested that you inform the Treasury Department of the foregoing.

KIRK.

RECEIVED

SEP 25 1941

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20540

PAP

PLAIN

LONDON

Dated July 27, 1939

Rec'd 3:08 p.m.

Secretary of State

Washington

1081, July 27, 10 p.m.

FOR TREASURY FROM BUTTERWORTH

The holiday period having begun and many being away on military duties of one form or another, activity in the city has been further reduced.

Both yesterday and today the foreign exchange market has been idle the only overt official operations by the British fund being in offering the three months forward dollar at 1 5/8. Of the 51 bars sold at yesterday's fixing 26 were married and the British fund gave a few. Of today's 87, 6 were married and the British fund supplied all. The demand for gold coin continues.

JOHNSON

RECEIVED

WWC

JUL 28 1939

THE TREASURY DEPARTMENT
 RECEIVED
 JUL 28 1939

(Confidential)

P A R A P H R A S E

A telegram (no. 1075) of July 27, 1939, from the American Embassy at London reads substantially as follows:

On the morning of July 27, the American Charge d'Affaires had a conversation with Mr. Butler (Parliamentary Under Secretary of State for Foreign Affairs) concerning the negotiations at Tokyo between the Japanese and British. In reply to the Charge's inquiry whether there was under consideration any change in the British Government's policy toward support of the Chinese currency, Mr. Butler intimated rather evasively that the Government would continue its support. He said, however, that he could not at this time say any more in regard to the matter which was still before the Cabinet.

A member of the Embassy staff has been informed by the British Treasury that (a) non-recognition in the British Concession at Tientsin of Chinese currency as legal tender and (b) the surrender of the Chinese silver in the concession are included in the suppression demands. The British Treasury commented on the above from the financial point of view to the effect that the answer to (a) is that it is not possible to deny recognition as legal tender of the currency of the legally recognized government. With regard to (b) the comment was that no action which would result in making them pay double would be taken by the British banks which were obligated in the matter of silver. Advices from Rogers in regard to the outlook for the Chinese dollar are being awaited by the Bank of England, according to the British Treasury.

The City Editor of the Times who is known by the Embassy to be in close touch with the British monetary authorities respecting financial developments in China, stated editorially "even those who are most expert in Chinese financial and economic problems feel the greatest doubt as to what would be the proper course to pursue in the immediate future. For the moment the pressure on the Shanghai dollar has abated, and the market is inclined to think even that some recovery is possible. But the problem remains formidable and there are many who consider that if confidence in the stability of the dollar is to be fully restored, assistance will have to be on a substantially larger scale than was envisaged when the stabilization fund was originally established. Some people are inclined to take the view that the task of securing the stability of the dollar is too great for this country to undertake any further in the absence of United States cooperation. It would seem almost self-evident that it must be in the United States' best interests to cooperate in this matter, for it is only by a reasonable stability of the dollar that American trading interests can be preserved, but so far there has been surprisingly little sign that such cooperation will be forthcoming. If further support is contemplated, whether with United States help or without it, the fullest account must naturally be taken of the fundamental economic forces which are weakening the position of the dollar."

ME

GRAY

London

Dated July 28, 1939

Rec'd 12:10 p.m.

Secretary of State,
Washington.

1084, July 28, 3 p.m.

FOR TREASURY FROM BUTTERWORTH.

In the course of a statement in the House of Commons on the question of increasing old age pensions the Prime Minister gave a noteworthy analysis of the British financial situation. "Let us turn for a moment to the figures of defense expenditure. The old normal figure of the annual cost of our defense services was in the neighborhood of pounds 100 million. Before his budget speech my Right Honorable friend told the House that he anticipated that we should have to spend this year pounds 580 million. By the time we came to the third reading of the finance bill that pounds five hundred eighty million had become pounds seven hundred thirty million. Since then there have been still further adjustments which have brought the total up to 750 million pounds. But in spite of heavy additions to taxation in three successive years only 250 million pounds of that 750 million

ME

2-#1084 From London, July 28, 3 p.m.

million pounds can be provided out of current revenue this year leaving 500 million pounds to be borrowed during the year (***) I say that to raise 500 million pounds in a year is no easy task. It is one which requires very careful planning and which will require great efforts and the good will of the entire community. While this year there are certain favorable factors which make it easier than usual we cannot expect those to be repeated next year or in future years.

This country has enormous resources not all visible or apparent. I have not the slightest doubt as to the possibility of raising the loans that may be necessary this year or in future years to meet the capital cost of our expanding programme of defense but there is another aspect of our expanding on defense which is much more serious than even the problem of raising vast sums by way of loan. It is the cost of maintaining these expanded armaments when we have completed them. I have repeatedly warned the House about this matter. I still refrain from prophesying what the ultimate cost of the maintenance will be. Indeed nobody can prophesy that because as I said a little while ago we are still in the middle of the programs and no man can say when we shall come to the end of it. I ask the House very

earnestly

ME

3-#1084 From London, July 28, 3 p.m.

earnestly to consider this: if our present level of taxation heavy as it is - and it is heavy - can raise only pounds 250 million for defence how are we in the future to find an additional sum to that which may be anything between 100 million pounds and 200 million pounds? Honorable members can themselves make the calculations as to what such sums might mean in this tax or that but surely while we need not be daunted by a prospect of that kind it must make us pause before we light heartedly add pounds 40,000,000 or pounds 30,000,000 a year to the load which is already upon us and to that which at no distant time is in prospect".

JOHNSON

HPD

RECEIVED

JUL 28 1954

RECEIVED BY MAIL
JUL 28 1954
POSTAL SERVICE OF THE UNITED STATES

MEMORANDUM

July 27, 1939.

To: The Secretary
From: Mr. McReynolds

Secretary to the President Watson telephoned me at 12:45 today and told me that he was instructed by the President to give you this note:

"Larson, the present Collector of Internal Revenue at Jacksonville, Florida, will be given a job with the Lands Division of the Department of Justice at his present rate of pay in connection with the examination of land titles for the new naval air station at Pensacola. If Larson wants this job, he should get in touch with Assistant Attorney General Norman Littell. If he does not care to accept it, it is the President's intention to replace him, in any event, with Senator Pepper's candidate."



July 27, 1939

11:30 am

Present:

Mr. Chen
Professor Buck

(Miss Chauncey did not arrive at the beginning of the meeting and the Secretary dictated to her the following introduction.)

We are talking about the Chinese having a malignant malaria which is located on their border between China and Burma and I put them in contact with Dr. Farran last night and they saw Dr. Williams this morning.

HM, Jr: I think, Mr. Chen, the way I would do this is, depending upon how serious it is, I think the Embassy ought to make this request.

Mr. Chen: Yes. Yes.

HM, Jr: Your Embassy.

Mr. Chen: Yes. Yes.

HM, Jr: And I think if it is \$500.00 a month -- \$1500 altogether, is that right?

Prof. Buck: \$5,000 for three months for expenses in China.

Mr. Chen: Without salaries.

Prof. Buck: Without traveling expenses. That's the main thought. It might be possible to handle that.

HM, Jr: I would have the Embassy make the request and then you mean the \$5,000 would cover traveling expenses but

Prof. Buck: Expenses in China.

Mr. Chen: Organization and Chinese assistance.

HM, Jr: I would let your Ambassador get this.

Mr. Chen: Yes. Yes.

HM, Jr: And as to the money part, I just don't know what the rules and regulations are.....

Mr. Chen: Yes. Yes.

HM, Jr: about Public Health. Undoubtedly they have had dozens of requests. Undoubtedly definitely there is a precedent. Did he tell you?

Prof. Buck: He mentioned certain reserve funds that he thought might be available.

HM, Jr: I wouldn't know. But having found out now how to do it, I think the Ambassador could handle it.

Mr. Chen: Yes. I am going to send wire tonight to Dr. Kung and I want to tell him the generous offer of assistance on your part; that as soon as you have heard statement from Dr. Buck that you right away put us in touch so as to solve this problem for China.

HM, Jr: Fine! Thank you.

Now, you started to talk to me before about silver. What did you want to say?

Mr. Chen: I got a wire this morning from Hong Kong.

HM, Jr: An answer already?

Mr. Chen: Answer. And we would like very much to offer to you this 6,000,000 ounces of silver which is still in Chungking, is not shipped yet, and Mr. Hsi Teh-mou, who was here with me, my assistant on the mission, is sick so he promised me to give me further information about shipment, but as I understand from last wire they could ship from Haiphong or Rangoon on American boat. It will be for three months. We would like to get a bid in because it will be for three months.

-3-

HM, Jr: We have never given you a price, have we?

Mr. Chen: No.

HM, Jr: We have only given a price after it is on an American boat.

Mr. Chen: I am asking a favor.

HM, Jr: I see.

Mr. Chen: I would like very much that you can do this for us, because time is so short; make this exceptional matter. But this coming on American boat.

HM, Jr: Of course, the trouble we have is there is a bill pending to stop us from buying foreign silver and if that Bill passed I would be in an embarrassing position.

Mr. Chen: Yes.

HM, Jr: Tell you what we will do. I will have to talk to the President about it, and if I have an answer I will get in touch with you and you could come back Monday or Tuesday.

Mr. Chen: Monday. I will be back Monday.

HM, Jr: Supposing you are back Monday and I will try to get you an answer. You understand, we have been talked to two or three times about this silver in Tientsin and you appreciate there is nothing we can do about that.

Mr. Chen: I I don't think Mr. Buck understood about that this morning. Encouraged by suspension of Japanese treaty and he did not mean to be so serious about it.

Prof. Buck: Not the right time to mention it.

HM, Jr: Times are so tense I took you seriously.

Mr. Chen: I have never discussed it with him.

HM, Jr: I know that Mr. Chen would not because he would not ask us to do something that would get us into difficulty.

Mr. Chen: They appreciate everything you are doing and you are doing everything you can.

HM, Jr.: I am doing everything I can and to ask me to do something unreasonable is unfair to me.

Mr. Chen: First I came over I did not know much, but I have tried to pick up.

HM, Jr.: I have just racked -- why ask me something

Prof. Buck: It should not have been mentioned at this time.

Mr. Chen: We have never discussed it at all and Tientsin silver would only involve you in something you could not do.

HM, Jr.: You do not want us to involve our Government?

Mr. Chen: We want to conserve our position for your future help. Once we embarrass you we lose that help.

HM, Jr.: This morning they asked me about Japanese silver and gold, at my press conference in view of the State Department's announcement of the abrogation of the treaty and I said we were studying it, so we are doing everything we can to worry the Japanese.

Mr. Chen: You are doing that. Already it is gradually moving step by step and of course you are the best judge what can or cannot be done. Of the two, the Chinese-American situation most important.

HM, Jr.: I guess Mr. Buck was a little over-solicitous, but we understand each other now.

Then the Public Health thing is started?

Mr. Chen: I am going to send a wire back today. I take up with Ambassador as you suggested.

Prof. Buck: They were very enthusiastic and seem

-5-

ready to go.

HM, Jr: They are grand people. Now what else is there?

Mr. Chen: That is all I have to report to you.

oOo-oOo

July 27, 1939

My dear Mr. Welles:

Thank you for your letter of July 26th and the memorandum on the Russian debts. I appreciate the fact that this material is of a very confidential nature and you may be sure that it will be treated as such by me.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Hon. Sumner Welles,
Under-secretary of State.

By hand

July 27, 1939

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Under-secretary of State.

July 27, 1939

151

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Sincerely yours,

(Signed) H. Morgenthau, Jr.

Hon. Sumner Welles,

Under-secretary of State.

July 27, 1938

My dear Mr. President:

I thought you would be interested in reading the inclosed clipping from today's Wall Street Journal.

Yours sincerely,

The President,
The White House.

July 27, 1939

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Yours sincerely,

The President,
The White House.

July 27, 1939

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Yours sincerely,

The President,
The White House.

Surplus Cash Penalty**Treasury Will Enforce
Regulation to Drive
Earnings Into Dividends****Shows Administration Deter-
mined to Block Accumula-
tions, Despite Surtax Defeat****Wants 70% of Income Moved**

WASHINGTON—The Roosevelt administration, having lost the undistributed profits tax, is still at war upon what it regards as unreasonable cash accumulations by corporations.

When the profits tax was repealed, President Roosevelt served notice that he regarded many such accumulations as an avenue of tax escape, which he intended to close.

Yesterday the Treasury issued regulations to implement that policy. The regulations indicate an intention of close enforcement of section 102 of the Revenue Act.

Section 102 imposes penalty taxes for "unreasonable accumulation of earnings or profits to avoid surtax." The penalty taxes are 25% on the first \$100,000 of undistributed income and 35% on undistributed income in excess of \$100,000.

The Regulations

Indicative of the scope of the new regulations was the Treasury's instructions to its staff that examining officials shall recommend application or non-application of the penalty tax in all cases where a corporation has distributed less than 70% of its annual earnings as dividends. The rules pointed out, however, that an even higher distribution of profits did not entitle a company to automatic exemption if its report showed "unreasonable" accumulations of cash or quick assets.

The instructions drawn up by the bureau and approved by Secretary Morgenthau declared that the following classes of corporations "will be given close attention to determine whether section 102 is applicable":

1. Corporations which have not distributed at least 70% of their earnings as taxable dividends.

2. Corporations which have invested earnings in securities or other properties unrelated to their normal business activities.

3. Corporations which have advanced sums to officers or shareholders in the form of loans out of undistributed profits or surplus from which taxable dividends might have been declared.

4. Corporations, a majority of whose stocks is held by a family group or other small group of individuals, or by a trust or trusts for the benefit of such groups.

5. Corporations the distributions of which, while exceeding 70% of their earnings, appear to be "inadequate when considered in connection with the nature of the business or the financial position of the corporation" or corporations with "accumulations of cash or other quick assets which appear to be beyond the reasonable needs of the business."

Average "Standard"

It was stated at the Treasury that the figure of 70% distribution of earnings in dividends which is set up as a standard in the regulations was selected because it was found to approximate the average dividend distribution of all corporations.

Section 102 has been in the revenue act for years but Treasury found enforcement difficult. The undistributed profits tax was a stronger weapon than section 102 to force distribution. The profits tax was largely repealed in 1938 and completely in 1939. In 1938 section 102 was strengthened in such a way as to put burden of proof on a corporation that an accumulation was not unreasonable.

The section of the law added in 1938 stated that "the fact that the earnings or profits of a corporation are permitted to accumulate beyond the reasonable needs of the business shall be determinative of the purpose to avoid surtax upon shareholders unless the corporation, by the clear preponderance of the evidence shall prove to the contrary."

In the case of holding or investment companies, moreover, the law specifies a direct presumption that they were formed or operate to avoid surtax.

Section 102 More Limited

While the existing language of the statute, if held constitutional, would greatly broaden the Treasury's power to proceed against alleged violations of the statute, the applicability of section 102 is clearly much more limited than the undistributed profits surtax which applied to virtually all corporations.

It can be stated definitely, moreover, that Treasury officials do not view section 102 as a substitute means of enforcing maximum dividend distribution by corporations as a whole—now that the undistributed profits tax no longer applies—but rather as an implement against corporations which apparently withhold dividends for tax purposes.

Treasury officials stressed that classifications set up yesterday in the new regulations did not mean that all or any large proportion of corporations in these categories would be subject to the penalty levies under section 102. The classifications, it was asserted, were merely a guide to internal revenue field agents as to the types of corporations whose tax returns must be examined for possible evidence of violation of the section.

The classifications are, nevertheless, sufficiently broad to embrace a wide section of corporations and were interpreted here as pointing to an intensive effort to prevent large surplus accumulations by corporations in cases where such accumulations are not clearly needed for business purposes.

The regulations provide that on the first four of the five classes of corporations listed above, the internal revenue examining officers' report in every instance shall contain a specific recommendation for the application or non-application of section 102. The instructions also provide that each internal revenue agent and field division of the bureau's technical staff shall designate an employe to pass personally upon the recommendations of the examining officers.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

103

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MEMORANDUM

July 27, 1939

To: Mrs. Klotz

From: Chief Wilson

For your information the President will leave Washington tomorrow afternoon at 4:30 for Quantico, Virginia, where he will board the SS Potomac for a week-end cruise on the bay and will return to Quantico Monday morning.

7-27-39

159

**Issuance of Food Order Stamps by
Federal Surplus Commodities Corporation
(Weekly)**

Week ended	Albany	Rochester	Dayton	Seattle	Total	Cumulative total
1939						
May 20	\$ 144	\$49,899	\$ -	\$ -	\$ 50,043	\$ 50,043
27	8,586	7,260	-	-	15,846	65,889
June 3	732	68,613	-	-	69,345	135,234
10	14,430	13,833	78,000	-	106,263	241,497
17	5,649	59,163	12,000	-	76,812	318,309
24	13,209	14,025	36,000	-	63,234	381,543
July 1	11,847	47,463	-	-	59,310	440,853
8	6,036	40,113	12,500	79,000	137,649	578,502
15	22,086	5,421	22,000	29,000	78,507	657,009

Treasury Department, Division of Research and Statistics, July 27, 1939

Source: Reports of Division of Disbursement, Treasury Department.

GROUP MEETING

July 27, 1939.
9:30 A. M.

Present: Mr. Gaston
Mr. Foley
Mr. McReynolds
Mr. Bell
Mr. Duffield
Mr. Gibbons
Mr. Graves
Mr. White
Mr. Haas
Miss Chauncey

H.M.Jr: Herbert?

Gaston: No, I haven't anything.

H.M.Jr: I read the story in the Times about the surplus tax - this Graves matter.

Duffield: Unfortunately, it says this is a substitute for the undistributed profits tax, and the rest - outside of that, I thought it was all right.

White: Wall Street Journal handled it very well. Front page. I thought it was good. They did make some such implication.

Graves: I thought it was very well explained.

White: Very well. Front page.

H.M.Jr: Front page?

White: Wall Street Journal - right in the middle.

H.M.Jr: I see - "Treasury Will Enforce Regulation To Drive Earnings Into Dividends."

White: I think the - I suppose the President gets a copy of that.

H.M.Jr: Of that? Well, he takes the Wall Street Journal. You mean you think we ought to send it to him?

White: Yes, because that was what he was especially concerned about, you remember.

H.M.Jr: O. K., we'll send him that clipping.

- 2 -

Duffield: Mr. Gaston suggested you'd like to see - this is the way it was published in the New York City - Seymour Weiss's remarks about you. Fortunately, they cut out the most scurrilous part.

H.M.Jr: Looks very nice.

Duffield: Yes. Harold....

H.M.Jr: Tell me what he said about me. I love it. I suppose Seymour Weiss said that I want to crucify him.

Duffield: The only other thing I have is that the Bulletin, carrying the March figures for the stabilization fund, will be released tomorrow morning.

H.M.Jr: Yes.

Duffield: Do you want by any chance to send a letter enclosing those balance sheets to anybody in the Capital, to arrive there about the same time?

H.M.Jr: No. We do send copies of those - extra copies to London and Paris.

Duffield: Yes. That's all.

Foley: I have just a relatively unimportant matter. This is a letter to the Attorney General about a young fellow that enlisted in the Coast Guard at the age of 16. His father helped him falsify the records. And then his mother wrote to the commander of the ship and said that the boy should be discharged because he was only 16 at the time he had enlisted, and she produced a birth certificate. And she said that she had gotten a scholarship for him to go to college and she thought that he should take advantage of that opportunity.

I don't - if it's all right with you, I'd rather not send it over to Justice, because I think it's pretty harsh.

H.M.Jr: Well now, you haven't told me what the case is. I mean what is the charge?

- 3 -

Foley: For falsifying an affidavit.

H.M.Jr: On whose part?

Foley: The boy's part.

McR: And his father.

Foley: And his father.

H.M.Jr: He's in Coast Guard?

Foley: He's been discharged now.

H.M.Jr: And if you send it over there, what will they do?

Foley: They probably would prosecute him, and I think he's pretty young and....

H.M.Jr: What do you recommend?

Foley: I recommend that we kill it, not send it to Justice.

H.M.Jr: I accept your recommendation.

McR: You wouldn't get a prosecution - you wouldn't get a successful prosecution.

Foley: They might indict him, then they might not try him. He'd have that on his record.

White: Spoil his chance for the scholarship.

Foley: He probably couldn't get the scholarship - all the rest of it.

H.M.Jr: All right. What else?

Foley: That's all.

H.M.Jr: George?

Haas: I have these revised revenue estimates. I'd like to go over them with you sometime when you have time.

- 4 -

- H.M.Jr: Two thirty.
- Haas: And I'm going to give you a report on that meeting.
- H.M.Jr: Right now, because I also see they're going to give food tickets to people with incomes up to a thousand dollars.
- Haas: I saw that in the paper.
- H.M.Jr: Have they told you about it?
- Haas: No.
- H.M.Jr: Why in the hell don't they take care of the people first who are on direct relief, before they start taking care of people with incomes up to a thousand dollars? It sounds crazy to me. Milo Perkins told me the people on relief - there were 18 to 20 million people. Why don't they take care of those first?
- Haas: I don't know. I think he says - he said up there yesterday at this meeting - Senator Byrnes asked him about putting lard and cottonseed-oil products, shortening products, under this food stamp, and he said that that was a possibility, said they were moving very rapidly, that the administrative problems were very difficult, and they didn't want to get cities in under the arrangement before they were ready, otherwise the scheme would break down. That's what he said yesterday. But I'll ask him about that.
- H.M.Jr: Ask him about that.
- Haas: Uh-huh.
- H.M.Jr: Will you? If they've changed the plan.
- Haas: Now, this other meeting - I don't know how it started originally, but evidently there was a meeting in Secretary of Agriculture's office in the morning, and several Congressmen, maybe 30 or so, were down to see him because the price of cottonseed-oil had declined very rapidly, and it has declined because lard prices have declined. Then they had this meeting in the afternoon for the purpose of trying to determine

what to do about it. They wanted to do something very quickly. And they explored all the field, including a barter arrangement with Germany. And evidently their interest in the Treasury Department is whether or not, if they had a deal, whether you'd be lenient on this countervailing duty. Well, Larry Bernard - Ed sent Larry Bernard up there with me. It was a pure legal question. He took that and answered it very effectively, just cleaned it up. He pointed out it was a law and all you did was administer the law. That was all there was to it. So they apparently abandoned that.

Sayre was there. He talked against export subsidies and barters, too.

Well, it got down to where they were thinking that probably the most feasible way of handling it was to increase the price of corn so they wouldn't fatten the hogs so much and therefore they wouldn't have so much lard.

(Hearty laughter)

Well, the best is still coming.

That would mean that they have to have a corn loan, but to have a corn loan you have to have some money, and they haven't got any money in Commodity Credit. So they told the Congressmen and Senators they couldn't put through a corn loan or - they wanted a cottonseed loan, too - unless they put through this bill which reimbursed the Commodity Credit.

Well then, towards the end of the meeting they were talking about various things, and Congressman Hobbs, who was acting as Chairman - several Senators - Harrison and all the southern - Bankhead and several other southern Senators there - and evidently the suggestion came out, was put forth in Wallace's office, and it's a new scheme for raising prices very quickly. They give out a statement signed by Secretary of State, Secretary Morgenthau and Secretary Wallace, saying that they're going to do all they can to increase the price of cottonseed-oil; the psychological effect of that is supposed to boost the price.

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Well, Senator Byrnes said....

H.M.Jr: How about banana oil?

Haas: Senator Byrnes said, "No, I don't want any of that." (Laughter) He said, "You may feel good when you put it out, but that's just a headache."

So I don't think that's going to be one of the things they'll do.

White: Did they investigate the possibilities of hog cholera?

Haas: They're working on that this morning.

H.M.Jr: Well, it's funny and it's tragic.

Gibbons: It's tragic all right.

Haas: Oh yes, here's what they're up against. You see, I noticed the Agriculture Department's figures indicate that this new pig crop that's coming on in the fall, beginning October, is going to be about 20 percent larger.

H.M.Jr: Five-cent hog. That's what they're figuring.

Haas: Uh-huh. So - well, anyway, they're meeting this morning and they're supposed to come back to this group with some concrete suggestions. I don't know what they'll be. Do you want me to - if they ask me, to attend that meeting?

H.M.Jr: Yes, sure. Yes, Wallace wants somebody very much.

Haas: Yes.

H.M.Jr: All right, George?

Haas: That's all.

H.M.Jr: George, get from Bell's office a little statement, on a weekly basis, what the food ticket sales are in the various cities. I mean there aren't so many. If you could go back and, say, have a chart - just go very roughly, take each city from

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the start, and on a weekly basis give me a little figure, see? Huh?

Haas: Yes, sir.

H.M.Jr: What else?

Haas: That's all.

White: We have just completed an investigation of a wood pulp case which raises special questions. That's why I want to call it to your attention. It is a very complicated case, but our finding will be one of injury, which means that the Bureau of Customs will probably apply a countervailing duty against imports of wood pulp from Germany. There is a very powerful domestic lobby, and they've gotten Senator Borah to obtain approval of a Senate committee for a Tariff Commission study of that industry, probably with the purpose of putting on a duty. So that means there's going to be another lengthy study of this made in the Tariff Commission. It will probably take a year or something of that sort. The last one they made took something like that - group of men.

And there is also the possibility that they may find sometime in the future a dumping case against the imports of pulp from the Scandinavian countries, which would really be serious, because we have already found injury, unless the situation should change. I don't know whether we can do anything about it.

There is - the only possibility which might receive some consideration is, if you want to postpone this case, finding of this case, on the grounds that the Tariff Commission is going to make a lengthy study. That's the only out. Other than that, this will have to go forward and a countervailing duty will be imposed.

H.M.Jr: Why shouldn't we go ahead in the regular way?

White: All right.

H.M.Jr: But, now, McReynolds told me he was going to fix this question of where the people should be who

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pass on countervailing duties. That was about a week ago.

White: Was it? We talked it over.

McR: George was going to - I mean Harry was going to add to that particular....

H.M.Jr: Well, is it settled?

McR:work whoever he could use to take care of it.

H.M.Jr: Well, damn it, let's settle the thing once and for all.

McR: Harry's office is the place for it.

H.M.Jr: You've got sixty cases, haven't you, and you told me you're behind....

White: Mac told me I could take on another man, and he'll take care of it.

H.M.Jr: Has it been done?

McR: If Harry can find a man.

H.M.Jr: Well, Harry, can you bring it up to date and keep it that way?

White: We can bring it up to date - it will take time - surely.

Gibbons: Not with one man.

White: With one additional man. Give us time, give us a few months. We can try it anyway.

McR: As far as sending a field investigating crew out, I don't believe that's justified by the concrete results you could possibly get from it. I think you've got to confine yourself to an office examination plus sending out for whatever information is needed.

Gibbons: My idea is to clean the stuff up and keep it up to date after that, and put in enough men to do it.

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God, this stuff has been hanging for two, three, four years - these cases. It's terrible.

White: Some of them were five years old before we got them.

Gibbons: I know it. But let's get it cleaned up, if it takes ten men, temporarily; let's do it.

H.M.Jr: Do I understand White is going to assume responsibility?

White: We'll put on another man. That will speed us up some. We'll reexamine the situation in another three months, see what progress we have made. I think we will have made enough progress toward it so that Steve will feel that it's all right. If not, at that time we can attempt....

H.M.Jr: What payroll will these people be carried on?

McR: Have to be on Customs payroll. It's a Customs job.

H.M.Jr: Isn't that all settled?

McR: It's all settled as far as I'm concerned. I don't see how you can do it any other way. We haven't got the money to go out and hire a crew of 15 or 20 men in the field.

H.M.Jr: That isn't the point. The point I'm making is that the men who are doing it - I don't want them to be on the stabilization fund payroll.

McR: They're not. They won't be put on the stabilization fund.

H.M.Jr: Are they now?

McR: You've got one man doing part-time work who is still on the stabilization work. It's a question....

White: There are two men who are on. I took it from your conversation of last week - you indicated you'd see that those two men were taken off.

McR: We've got that at this time in question status.

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H.M.Jr: I want that thing cleaned up before the first of August, without fail, Mac.

White: Then this will go forward the regular way.

H.M.Jr: Between now and the first of August. If you'll see Mac and see me about any salary increase in your organization, I'll take care of it - I'll do it between now and tomorrow night.

White: All right. Then this will go forward in the regular way. You won't hear any more about it.

H.M.Jr: This is wood pulp from Germany.

White: Wood pulp from Germany.

H.M.Jr: Go ahead in the regular way.

White: There is a great deal of interest in it. We have made a very careful investigation. We can stand behind it.

H.M.Jr: This lobby that you speak of - are they for our doing it?

White: They would look with favor upon our imposing the countervailing duty. There is another group opposed. But this group would look with favor upon the imposition of countervailing duties.

Gaston: That's dumping duties rather than countervailing duties, isn't it?

White: You're right.

H.M.Jr: In any case, I'd go ahead in the regular way.

White: The second thing I've mentioned twice. Apparently - I think you think I've been facetious. I want to mention it again, because I think it's important. The price of silver is 35 cents abroad. The domestic price is going to be 71 cents. The ease with which foreign silver can be smuggled in and sold as domestic silver gives me concern, because sometime in the next couple years, if any of that is going on, there will be quite a scandal, and it will be your responsibility exclusively. And I've made some investigation -

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we've made in the past - and we don't believe there is any kind of adequate - or any kind, but certainly not adequate - checking up of the situation. The auditing here is over six months behind and it is very, very desultory. And I was wondering whether you couldn't initiate an investigation to see what protection you have against that, and then if you find that it isn't adequate, we have some suggestions to make it adequate, to take care of when you come back, if necessary.

H.M.Jr: Isn't that the Bureau of the Mint?

McR: Secret Service would have to take care of the investigative work for them, to see whether they were....

White: We have made some inquiries.

H.M.Jr: Would you turn over what you have, and today, Mac, get the Bureau of the Mint and Secret Service together and give me a report tomorrow morning, will you?

McR: Yes, sir.

H.M.Jr: I want one tomorrow morning.

Bell: They must get certificates in each case.

White: Well - I mean they get all the formula.

H.M.Jr: Turn over what you have to Mac.

White: If you're satisfied, after investigating, that you're protected, all right.

McR: There were several inquiries along that line made.

H.M.Jr: Let's do another one during the summer.

White: I think two years ago the last one was made. I may be mistaken.

H.M.Jr: It's a good suggestion. Have a program for me tomorrow morning, Mac.

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White: Even if it were done in the past, it becomes more necessary now because the profit is doubled.

H.M.Jr: The incentive.

McR: More incentive now.

White: There's been an outflow of capital now - 25 million.

H.M.Jr: How much?

White: 25 million last week.

H.M.Jr: Good.

Haas: They were buying securities yesterday instead of selling.

H.M.Jr: And today.

Haas: And today, too.

White: Very small.

H.M.Jr: All right, Harry?

White: That's all.

Gibbons: I called Senator Minton and told him about that man in Indiana, and he wanted to see the report. I said I hadn't seen the report and all I could tell him was that it was unfavorable.

He said, "Well, what can I do?"

I said, "The Treasury is not going to appoint your man."

He said, "What about talking to the President?"

I said, "You might do that, and suggest another name. But," I said, "this man is definitely out."

So he said, "I insist on seeing the report."

I said I couldn't....

H.M.Jr: Well, he's coming in at 10:00 o'clock. You might be here. The President asked me to see him.

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Chauncey: Want any papers?

H.M.Jr: I don't want any papers.

Herbert, you're going to be here.

Gaston: Yes.

Gibbons: Senator Walsh wants a man named Hassett, who is Acting Collector of Internal Revenue, appointed, and he's been sending around letters.

H.M.Jr: That's an old case.

Gibbons: I know, but I told you it had been taken care of. The President gave you a memorandum, remember, about the fellow named Buckley.

H.M.Jr: No.

Gibbons: Well, that was - he gave you one of those little slips. Walsh doesn't want him, and Walsh has been writing letters to people in Massachusetts and he said he would have nothing to do with the appointment. Someone sent one of those to the President, and the President is sore about it. So Jimmy Roosevelt... Walsh asked me last year if I wouldn't send up the name of Hassett.

H.M.Jr: I have no suggestion from the President.

Gibbons: No, we haven't had a suggestion, excepting the President said something - "How about this fellow for Collector of Internal Revenue?"

H.M.Jr: Well, Hassett is all right, isn't he?

Gibbons: He's the fellow that McCormick wants.

H.M.Jr: Yes.

Gibbons: He's the fellow that McCormick wants, but Guy Helvering thinks he's a nit-wit.

Graves: That's my impression, but I wouldn't be sure about it.

Gibbons: Until Guy comes back, Harold thinks we ought to let the thing rest - until Guy comes back.

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H.M.Jr: Is that what you want?

Graves: Yes.

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

Gibbons: McCormick has been bearing down on the White House. That's the reason I'm telling you.

H.M.Jr: We have no definite instructions on this from the White House, have we?

Gibbons: Nothing. The only thing we've ever seen - that memorandum - "How about...." - you know how he writes these things - "This fellow be all right for Collector of Internal Revenue?" or something like that, signed "F.D.R."

H.M.Jr: He's all right, isn't he?

Graves: This man Hasset is Acting Collector now. He can go on indefinitely in that status.

Gibbons: I just wanted to let you know.

H.M.Jr: Anything else?

Gibbons: That's all.

Graves: I thought you might like to see this latest story about Mr. Greenlee in the Indianapolis Times of yesterday. Apparently the whole story is out about how we're intending to handle him for income tax violation, as well as not allowing him to be appointed.

H.M.Jr: Daniel Kidney?

Duffield: Don't know him. Washington story?

H.M.Jr: Indianapolis Times. Is that a Scripps-Howard? Yes.

How does that all get out?

Duffield: The first intimation I had of it was that it had gotten out locally and the International News Service had queried their Washington office,

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asking was it true that we had fifteen men investigating the income tax return of Mr. Greenlee. That was last Friday.

- H.M.Jr: Well, I'm going to tell Mr. Minton that my advice is that he lays off, and leave Mr. Smith alone, because it looks pretty bad.
- Gibbons: So that we check - I told him I haven't seen the report and know nothing about it and just simply was advising him.
- H.M.Jr: I'll do - I'm going to handle him. I want you to stay here, Mac, too.
- McR: All right.
- H.M.Jr: Well, I'm not going to give anybody the report. The hell with him.
- McR: I didn't tell him, but he called me half a dozen times. Minton called Harold yesterday, and finally
....
- H.M.Jr: What? Who asked for it?
- McR: Minton asked Harold for the file yesterday. He's asked me for it half a dozen times.
- H.M.Jr: Well, I think it's easier if we all see him, don't you think so? No sense of your (Graves) being here. What?
- Graves: No, I think it's just....
- H.M.Jr: Then the rest of us don't know the details.
- Graves: Except that it's bad.
- H.M.Jr: Yes.
- Graves: I have a copy of the report right here.
- H.M.Jr: Of the report? The new one?
- Graves: No, no, just a copy of the report.

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- H.M.Jr: I don't want it. Thank you.
- Gibbons: I told him all I knew - it was just impossible to appoint him. I said, "It can't be done."
- H.M.Jr: Well, if we can hold the fort for another ten days on Indiana and Florida, I think it will be quite a feather in the Treasury's cap.
- McR: I'll say it will. I'd like to see those two Collectors remain in office.
- H.M.Jr: So would I.
- Graves: Well, we'd have to investigate any other nominee, and that would certainly take more than ten days.
- H.M.Jr: Well, I have no suggestions. You told him he could give us another name, didn't you?
- Gibbons: I said, "The only thing you can do, Senator, is - I'm giving you friendly advice - is to submit another name."
- He said, "If it's that bad, I want to see the report, know what's in it."
- I said, "I don't know what's in it. I haven't seen it."
- H.M.Jr: All right. He can see it after we've submitted it to a Grand Jury.
- Graves: I have nothing.
- White: There is something else that occurred to me that I might speak about. I wonder if a study has already been made - a combination of the Internal Revenue under you (Graves) and in your tax division - examining very comprehensively this Section 102 that's written up here. There will be a great many technical and economic questions that will arise in view of the publicity which it is now being given, and I think while you're gone, if they can prepare a very comprehensive report, making the proper economic analysis, as well as a technical one....

H.M.Jr: Talk to Harold about it.

White: Yes.

H.M.Jr: See? Because what's-his-name is on this already.

Graves: Blough.

White: Oh. I just wanted....

H.M.Jr: Well, whatever you have, speak to Harold.

Dan, I've got Emil Schram coming for lunch. I'd like you to be here at two, see? And could you rearrange these things for me under the President's reorganization plan. In other words, I want on one sheet everything which comes under Jesse Jones, everything which comes under Carmody, everything which comes under Wallace, and then those which don't. See?

Bell: All right. They are alphabetically there. I'll rearrange them.

H.M.Jr: But they are not by....

Bell: That's right.

H.M.Jr: They're not by groups. See?

Bell: Yes, I understand.

H.M.Jr: And then you might be studying the thing carefully and see - I mean whether - when we group them, I mean - oh, if you come in here at five minutes of one, if there are any glaring differences, you see....

Bell: All right.

H.M.Jr: I think I'll give this back to you. But do it by agencies, will you, and then if you're in here at five - I mean I haven't - and then the whole question comes up of.... I think you might be here for lunch, too, Ed. I think if you'll be here, too....

Bell: The bill amending the Tennessee Valley Authority Act, authorizing it to borrow 61½ million dollars, as I understand it, is on the President's desk

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for signature. And they want to go ahead as of August 15 - I think that's a little early, with all they've got to do - but anyhow, we're studying it. Now, this authority does not give them a revolving fund. It authorizes them to issue 61½ million dollars in bonds, and when they once are issued, they will have exhausted their authority. So that means that if we can't work out an arrangement whereby we can buy in interim and then convert that interim into, say, a serial bond as we sell them on the market, it may be that we'll have to take the serial bonds in the first instance at rates stipulated at this time, and sell them at whatever we can get, three, six, ten months from now, for them.

- H.M.Jr: I don't want to sell any securities in the month of August.
- Bell: No, but it means we'll have to buy them - that was our arrangement.
- H.M.Jr: That's all right.
- Bell: But we may have to fix the rate....
- H.M.Jr: Can you give me something to look at before I go?
- Bell: I think I can. I'll try. But I think they've set the date too near. It ought to be September 1. It's quite complicated. Unless the lawyers can work out an interim - they're working on that.
- Foley: I don't see why we can't. I talked to them last night.
- H.M.Jr: Well, I'm available, so the next move is up to you people.

Memorandum of Conference in the Secretary's
Office, at 10 a.m., July 27, 1939.

Present: Secretary Morgenthau
Senator Minton
Assistant Secretary Gaston
Assistant Secretary Gibbons
Mr. McReynolds

The Secretary explained to Senator Minton that at the request of the President he had asked the Senator to come down so that he could explain to him the reason why he, as Secretary of the Treasury, could not recommend the appointment of Mr. Pleas E. Greenlee as Collector of Internal Revenue for the State of Indiana in accordance with the Senator's recommendation. The Secretary explained to the Senator that in all cases where recommendations were made through established channels for the appointment of Collectors of Internal Revenue and other Presidential appointments in Treasury, he required an investigation to be made of the candidates before submitting the nominations to the President; that exactly this procedure had been followed in the case of Mr. Greenlee.

The Secretary stated that he was sorry that the investigation made in this case had resulted in the development of facts which made it impossible for him to submit Greenlee's name to the President. The Senator inquired whether he could be permitted to examine the report or be informed of the specific charges developed. The Secretary told the Senator that the facts developed were of such serious character that he was not at liberty to disclose them except through the established channels for the determination of guilt or innocence of a citizen; that he had no disposition to prejudge the case and in this, as in all other cases, he assumed innocence until guilt was proved, but that the character of the case precluded any disclosure of information at the present time.

The Senator indicated that he would withhold any further action on the case or the submission of any other name as a candidate pending the outcome of the investigation in the hope that Mr. Greenlee would be able completely to exonerate himself from any charges.

. . . .

July 27, 1939
5:00 p.m.

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PRESENT: Mr. Dietrich
Mr. White
Mr. Cotton

Mr. Bernstein) For latter part
Mr. Chen) of meeting

H.M.Jr.: A few minutes ago the President of the United States called me and said he had just had a cable from Ambassador Bullitt about the Chinese foreign exchange, and what was there we could do to help. So I said the only way I knew we could help was that Mr. Chen had been in this morning and offered me 6 million ounces of silver which was at Chungking; that I had intended speaking to him about it tomorrow, but I hesitated to do anything with the Townsend Bill pending, which would direct the Treasury not to buy any more foreign silver.

So he said, "Is it all right to do it?" I said, "Well I think so." I said, "We have to make them a price subject to delivery on American flag-ship, subject to delivery at Haiphong or Rangoon." So he said, "Go ahead and do it."

White: Do you think a conversation with Townsend might avoid some difficulties later -- telling him what the situation is; probably would appreciate it and might be a very good gesture.

Cotton: What sort of a fellow is he? Would he take it?

H.M.Jr.: He's very nice to me - very nice to me. What, between you telling me to call Townsend and Ed Foley telling me to call Pittman, you're getting to be a couple politicians. What did we do last time?

Dietrich: We bought 14 $\frac{1}{2}$ ounces. They sent it on a coastal steamer.

H.M.Jr.: Give them a price in advance?

Dietrich: Oh, yes. We have to send them the price of the bid for the day. That was the stuff they sent to Manila, and put on an American boat at Haiphong. Regular American lines don't put in at Rangoon.

H.M.Jr: You're wrong. There is one boat going from Manila.

Dietrich: That's the Universal, if they can use that. The only thing there is the insurance rates might be prohibitive.

H.M.Jr: Is it a one or two screw?

Dietrich: Single screw - practically freight boats. We don't care if they can arrange it that way because we don't pay for it until it gets into the refinery here in the United States. When he sent that cable the other day he said Haiphong or Rangoon.

Another way you might be able to do this -- we don't know what the shipping conditions are over there -- bid them for delivery here on board American steamer here in the United States; that is, if they couldn't get it out any other way they could ship it by coastal boat to Singapore or Manila. Leave it up to them.

H.M.Jr: I will pay them once it's on an American flag-ship.

Dietrich: All right.

White: The important thing in this is the psychological effect.

H.M.Jr: Everything. He said the effect in London on Chamberlain was very bad, comparing what Chamberlain did on Japan and what we have done on abrogation of the treaty.

White: I have just gone over the material that was prepared last fall. We have a few new cases that seem to be pretty good on Japan to impose section 303. We have the thing all ready. Do you want to look at it before you go?

H.M.Jr: If you and Johnson will recommend it.

White: Johnson just told me that Scott had just ascertained that Japan has given a secret subsidy to their

exporters, large exporters of cotton textiles to the United States. A new subsidy, but he can't prove it.

H.M.Jr: Who's Scott?

White: I think a Treasury man. Pretty sure.

H.M.Jr: You know Arthur Vandenburg made a statement favoring ~~abrogation~~ of the 1911 treaty. Said it was O.K.

Dietrich: Would you want this bid to go out tonight?

H.M.Jr: Yes!

Dietrich: Do you mind if I leave and find somebody in the Fed? It's after six up there. We make the bid to China through the Federal Reserve.

H.M.Jr: Go ahead. That's the proposition - 24-hour service. The President said that statement on Japan was in the safe for about a month.

White: A good time for it.

H.M.Jr: Marvelous! These things usually happen about this hour and I was just sitting here thinking, "This is a nice quiet day and I would go and get a hat." I can't go to Scandinavia with a panama. They would think I was a cowboy, or something. The President gave Mrs. Morgenthau orders that we had to go and call on all these crown princes and princesses. She said, "For heaven's sake, don't remind him." He said he would call up Messersmith and arrange it.

(At this point Secretary spoke to Senator Townsend from Delaware and the following is the record of their conversation.)

July 27, 1939
5:10 p.m.

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HMJr: Senator.....

John G.
Townsend: Yeah.

HMJr: Henry Morgenthau, Jr.

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

HMJr: How is the apple crop?

T: Well, (Laughs) it's pretty slim this time. Very light, mine is.

HMJr: I'd like to talk to you a minute, confidentially, if I might.

T: You may.

HMJr: As one apple grower to another. I am about to buy six million ounces of silver from the Chinese Government and -- I didn't want to do it without first talking to you, because the last time I testified, I think you asked me whether we had any commitments outstanding, and I told you we didn't. And if I did this, we would have this commitment, for about a month.

T: Well, don't you -- I mean -- no way the Japanese get the benefit of this, is there, Mr. Secretary?

HMJr: No, no. I tell you, this is up at Chungking -- up at the Chinese capitol.

T: Well, on what theory -- on what theory can you buy that when you have no use for it, Senator -- Mr. Secretary?

HMJr: Well, (laughingly) I'm not buying it on theory. We've just followed the practice that when.....

T: Huh?

HMJr:any government offers us silver, we've been buying it -- any friendly government. I mean, I'm not -- I'm not debating whether it's good or bad, but I didn't want to do it without first telling you about it. But it's up in Chungking and.....

T: Huh?

HMJr: The silver is up in Chungking, the capitol of the -- of the Chinese government, and they've offered it to us. The normal thing would be for us to buy it.

T: Yes, I know it would have been, but I don't think -- I think this amendment of mine is going to pass. I think it will. Of course, I may --

HMJr: Well.....

T: I may be mistaken.

HMJr: Well, it wouldn't -- it wouldn't initiate any outstanding contracts, would it?

T: No, I don't -- have no intention of that.

HMJr: Well, if -- if we just understand each other that -- that I'm doing this, I won't ask you to O.K. it, but just so that you know it. You see?

T: Yeah. No, I couldn't O. K. it, because I don't think....

HMJr: No.

T:you ought to do it.

HMJr: Well.....

T: That's my opinion about it, but.....

HMJr: Well, you -- you -- all I'm going to ask you is that if your amendment passes that you let me fulfill my -- my word, that's all.

T: Well, I won't -- of course, I won't violate any.....

HMJr: That's all.

T:-- any confidence of yours.

HMJr: No. I mean, I -- we do all of this -- we enter into a contract to buy it and they'll send it down to the nearest port and I'd like to fulfill it.

T: 'But it seems to me.....

HMJr: Yeah.

T:-- I mean, it just seems to me that we're buying a product for which we have no use. Now, if -- my

judgment is that if you made the price of silver 30 cents instead of 35, you'd still -- the war price would still go there and you'd still get silver.

HMJr: Well, I -- I wanted to do you the courtesy, but if you said to me, "Now, Morgenthau, you buy it and my amendment passes, I'm not going to let you fulfill it." That -- that was all I wanted to clear.

T: Well, I don't know whether I can help it or not. (Laughs)

HMJr: No, but I mean, you're not going to -- you're not going to try to -- if this amendment passes.....

T: I would not -- going to do a thing that's dishonorable, in any way.

HMJr: Well.....

T: You know me well enough.

HMJr: That's why I'm calling you.

T: You know I wouldn't do that.

HMJr: Yeah, - that's -- I know - that's why I'm calling you, because I know you're an honorable person.

T: But I -- I still say that I don't think you ought to do it.

HMJr: Well.....

T: But that's a matter of.....

HMJr: That's a matter.....

T: It isn't between you and I.

HMJr: Sure.

T: That'll cost what, about six fives are thirty -- 21 million dollars, won't it?

HMJr: 2 million.

T: Huh?

HMJr: 2.

T: 2.

HMJr: 2.

T: 2 million a hundred thousand.

HMJr: Yes, sir.

T: Yeah. All right. Well, I appreciate your calling me, Mr. Morgenthau. I still -- I still don't agree with you, but I appreciate your calling me just the same.

HMJr: Thank you so much.

T: You're welcome.

H.M.Jr: That's all that you can expect.

Dietrich: We have about 15 million dollars or 16 million dollars in contracts outstanding now with domestic refineries. Of that, some goes in the same category.

White: But I think this will stop him. That you did not do it in anticipation and all that sort of thing. I take it you did not want him to think there are any political motives.

H.M.Jr: I did not want to say anything to him that he could quote me on the floor of the Senate. What I am saying is we are doing.....

White:the way the law requires. It is still mandatory until his bill is successful and amends it.

Dietrich: Your idea would be to big them tonight? I have to get the people in the Fed. back. Delivery American boat Rangoon or Haiphong.

H.M.Jr: Give them 90 days.

Dietrich: But pay them when it is delivered on boat.

H.M.Jr: On board American flag-ship, Rangoon, Haiphong, or any place. Didn't we do it that way down at Bombay once? They said they wanted to put it in the Consulate or something. Big shipment, but we did take it on board. We took another one at Saigon. Took 51 days for the thing to come around. Those small American boats that make the trip to Saigon -- this particular line is run by the United States Shipping and belongs to the Maritime Commission. Nice trip.

Dietrich: Mr. Secretary, I was thinking, would it be better to let the Chinese decide where to put it -- at what port, in view of all this unsettled.....

H.M.Jr: Sure.

White: You saw the cable that France was reported to have withdrawn 2 million pounds they were going to contribute?

Dietrich: Oh, yes, they never did that.

White: And possibly the English could make up for this latest action, would extend new credit.

H.M.Jr: I don't want to get mixed up in that Stabilization Fund business.

(At this point Mr. Bernstein came in and was followed immediately by Mr. Chen.)

H.M.Jr: Hello, Mr. Chen. Do you know Mr. Cotton?

Mr. Chen, I said I had good news. The President called me up and wanted to know what we could do to help more, so I said you had offered us this morning 6 million ounces of silver at Chungking.

Chen: Yes.

H.M.Jr: And the President said to buy it. So we make an offer as of today at 35 cents.

Chen: Thank you very much.

H.M.Jr: And I take it you want 90 days or so.

Chen: 90 days.

Dietrich: I was going to give him about 4 months on this one and 20 days in view of the situation over there, because they will ship it as soon as they can.

H.M.Jr: It's up in Chungking.

Chen: Yes.

H.M.Jr: You don't know where they would sent it?

Chen: To Haiphong or Rangoon and trans-shipped from Haiphong or Rangoon to be shipped to this country.

H.M.Jr: Well, we will make a bid tonight, if that's what you want.

Chen: Very good of you.

H.M.Jr: You would make it tonight through the Fed?

Dietrich: I will get the Fed. fellows back tonight.

H.M.Jr: To Central Bank of China at 35 cents, delivered on board American flag-ship.

Chen: Yes.

H.M.Jr: That all right, Bernie?

Bernstein: Yes.

H.M.Jr: How long ought they to have?

Chen: From Chungking to Kunning - I think that wouldn't take long.

Dietrich: When we bid, we bid for delivery in this country, so many days. Make it 90 or 120 days.

H.M.Jr: This morning he said 90 days. Can you make it 90 days?

Chen: We can make it.

H.M.Jr: I would rather make it 90 days than any more than that.

Chen: Yes.

H.M.Jr: Do we have to work out anything?

Dietrich: I will work it out with the Fed.

H.M.Jr: That's the normal way, through the Fed?

Dietrich: Yes.

White: Any publicity?

H.M.Jr: Never gets out. You don't want it known.

Dietrich: We never give any of these bids any publicity.

Chen: Any help just now helps. See?

H.M.Jr: You had better wait. Let me talk to Senator Pittman and see how he feels. I have been unable to get him, but as of tonight, let's say no publicity.

Chen: We need support for China today.

White: And publicity should come a day or two later.

H.M.Jr: That doesn't make any difference, but I want to think that over.

(Loud noise of automobile backfiring.)

H.M.Jr: That's a celebration - Chinese fireworks. You see, you don't come and see me enough. I don't get a chance. You wait around here for a little while and we do business.

Chen: I want to - want to very much, but sometime I feel you are so busy.

H.M.Jr: I'm not busy! Let me have time to think about publicity.

Chen: Thank you very much, Mr. Secretary.

July 27, 1939.

My dear Mr. Chen:

Mrs. Morgenthau and I wish to express to you and to Mrs. Chen our most sincere and hearty thanks for the gifts which you were so good as to bring to us.

We both appreciate greatly Mrs. Chen's kindness and thoughtfulness. We shall enjoy the tea and Mrs. Morgenthau will take delight in the possession of the beautiful embroidered coat, which will always be a reminder of our friendship.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. K. P. Chen,
The Carlton,
Washington, D. C.

HEG/melr

By hand

HEG

Go to Mrs M

Copy sent to Mrs. Morgenthau 7/27/39

July 27, 1939.

My dear Mr. Chen:

Mrs. Morgenthau and I wish to express to you and to Mrs. Chen our most sincere and hearty thanks for the gifts which you were so good as to bring to us.

We both appreciate greatly Mrs. Chen's kindness and thoughtfulness. We shall enjoy the tea and Mrs. Morgenthau will take delight in the possession of the beautiful embroidered coat, which will always be a reminder of our friendship.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. K. P. Chen,
The Carlton,
Washington, D. C.

HEG/melr

Copy sent to Mrs. Morgenthau 7/27/39

Carlton
WASHINGTON, D.C.

Washington D. C.
192 25th July 1939.

Dear Secretary and
Mrs. Morgenthau,

Mrs. Chen. I hope
you will enjoy this
package of tea which
she brought with her
from China and accept
it as a little token of
the sincerest good wishes

and as an expression of
lasting appreciation and
gratitude for all your
friendly kindness.

The embroidered Coat
Mrs Chen brought for Mrs. Morganthau.
We hope she may find pleasure
in having it and that she will
consider it as an expression of
good will and thankfulness from China.
As always,
Sincerely,
W. Chen

TREASURY DEPARTMENT

193

INTER OFFICE COMMUNICATION

DATE July 27, 1939.

TO Secretary Morgenthau
 FROM Mr. Haas

Subject: Report of meeting held in Senate Appropriations Committee Room, Wednesday, July 26, 1939, at 2 P.M. (Executive Session).

Purpose of meeting: to determine what might be done to increase the prices of cottonseed and cottonseed oil.

Attendance: Congressman Hobbs, Presiding Chairman

<u>Senators</u>	<u>Agriculture</u>	<u>State</u>
Bankhead	Eledsoe	Edminster
Byrnes	Boyd	Hiss
Connally	Hutson	Sayre
Harrison	Perkins	
Hill	Randolph	<u>Treasury</u>
McKellar	Richards	Bernard
	Robbins	Haas
	Wheeler	
<u>Congressmen</u>	Wilson	
Doxey		
Fulmer		
Hobbs	<u>Commodity Credit</u>	
Pace	Goodloe	

Dr. Boyd, of the Department of Agriculture, was asked to furnish a statistical picture of the cottonseed oil situation. He concluded by estimating that in the calendar year 1940 there would be a surplus of edible fats and oils, exclusive of butter, of about 450 to 600 million pounds. He pointed out that the declining price of cottonseed oil is in a large part the result of the increase in the supply of lard and the prospects for further increases next year. He felt that anything that could be done to reduce the lard supply would not only improve the price of lard but the price of cottonseed oil as well, in that the two commodities are to a large part interchangeable and their prices move together.

Mr. Robbins, Assistant Director of Marketing, Department of Agriculture, stated that they had explored various methods which might be used to relieve this situation. He listed the following possibilities:

- (1) Placing an export subsidy on lard;
- (2) Barter trade of lard with some countries, such as Germany;
- (3) Distribution of cottonseed oil products and lard through the Federal Surplus Commodities Corporation (this would include direct distribution and distribution by means of the "Stamp System");
- (4) Taking a quantity of cottonseed off the market by means of a Commodity Credit loan;
- (5) A Commodity Credit corn loan for the purpose of increasing the price of corn, thus reducing the incentive to fatten hogs, etc.

Mr. Sayre, Assistant Secretary of State, was asked to express his views on the subject of the barter arrangement and the possibility of placing an export subsidy on lard. Mr. Sayre spoke at some length, vigorously opposing these proposals on the ground that they were in conflict with the whole reciprocal trade treaty program, that they are unsound economically, and that they would not achieve any beneficial results.

Congressman Hobbs, who was acting as Chairman, questioned that even if a barter arrangement were made the Treasury Department might invoke countervailing duties. He asked to have the Treasury's position on that score. Mr. Bernard spoke for the Treasury, pointing out that it was purely a legal question, and that the Secretary of the Treasury had no discretion whatsoever in administering the law.

Mr. Perkins, President of the Federal Surplus Commodities Corporation, discussed the possibility of relief purchases. He said at the most probably not more than 80 million pounds of cottonseed shortening could be disposed of in this manner, and that this would not contribute much to solving the surplus which is of a magnitude of 450 to 600 million pounds. He added further that the Federal Surplus Commodities Corporation in the past had not purchased commodities until it was felt that the prices had about reached the bottom. Lard prices, he felt, would be even lower when the heavy winter marketing came in.

Mr. Wheeler, Chief of the Division of Foreign Agricultural Service, Department of Agriculture, discussed briefly the lard export problem, pointing out that the disappearance of lard exports to Germany accounts for 45 percent of the total decrease in lard exports.

Mr. Goodloe, Vice President of the Commodities Credit Corporation, discussed the possibility of a Commodity Credit loan on cottonseed. He felt that a loan would do little to solve the problem. He went further to point out that even if a loan were decided upon it would be months before the arrangements for the loan could be made, in that at the present time there are no warehouses in which the cottonseed could be stored. Warehouses would have to be constructed. The cottonseed, he said, was also perishable and under the best conditions would be a difficult product to handle under a loan.

Mr. Hutson, Assistant Administrator of the Agricultural Adjustment Administration, said that after considering the matter from all angles he had come to the conclusion that the most effective method of improving the situation was to deal with the primary products rather than the secondary products. He felt that another Commodity Credit corn loan this year would tend to hold up corn prices and thereby reduce the weight at which hogs would be marketed, and this, in turn, would reduce the lard supply, increase the prices of lard, and thus increase the prices of cottonseed oil. But he pointed out that the Commodity Credit Corporation did not have any funds, and that any loan program would be contingent upon Congress passing the appropriation bill now pending providing for \$119 millions capital stock deficiency in the Commodity Credit Corporation.

Mr. Goodloe, Mr. Robbins, and Mr. Randolph each stressed the importance of the passage of this appropriation to restore the capital stock of the Commodity Credit Corporation.

Senator Harrison said he hoped the committee of experts would also consider the question of excise taxes on imported competing foreign fats and oils.

Congressman Hobbs said that in the meeting in Secretary Wallace's office that morning the proposal was made that a public statement be issued jointly by Secretary Hull, Secretary Morgenthau and Secretary Wallace, to the effect that the three departments are going to do everything possible to improve cottonseed prices. Congressman Hobbs thought the psychological effect of such a statement would be very beneficial.

Senator Byrnes disagreed with Congressman Hobbs, the Senator feeling that such a statement would be very unwise

and would just produce another headache on top of what they already have on their hands. As he pointed out, the question would be immediately raised as to just what was going to be done, and the Senator thought that was the problem with which they should be concerned.

July 27, 1939.

My dear Dr. Kung:

I have received your friendly and gracious note of July 4 transmitted through Dr. Buck and it pleased me greatly.

There was delivered to me at the same time the magnificent carved ivory boat and the beautiful pair of jade cuff links which you had sent as a personal gift. I accept them with greatest gratitude as a token of the cordial and trustful relations which exist between our governments as well as of our personal friendship.

These relations have made it a pleasure to me to give what assistance I could as a representative of my government to your efforts in behalf of your people and your government.

I send you my most cordial greetings and good wishes.

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. H. H. Kung
President of the Executive Yuan
Chungking, China.

HEG:ew

Copy sent to Mrs. M. 7/27/39



9/6 to Mrs. M.

Mr. Henry Morganthau, Jr.
Secretary of the Treasury
United State of America

198

DR. H. H. KUNG
resident of the Executive Yuan

Big Ivory Boat
Pair Jade Cuff Links

FROM: MR. GASTON'S OFFICE

TO: _____

Dear Mr. King:

I have received your
 valuable and gracious note, as
 transmitted through Mr. Rice

It pleased me greatly
~~to~~ ^{at the same time} delivered to me ^{the}

your beautiful carved ivory boat and
 beautiful pair of jade
 links which you had sent
 as a personal gift. I accept

them with greatest gratitude as
 tokens of the cordial and
 friendly relations which
 exist between our governments
 as well as of our personal
 friendship.

These relations have made it
 possible for me to give what
 assistance I could as a representative
 of your government to your efforts in
 behalf of your people and your govern-
 ment. I send you my most cordial
 regards and good wishes sincerely

Hej
200

The Executive Yuan

PERSONAL

Chungking, China.
July 4th 1939.

Dear Mr. Secretary,

I take great pleasure in sending you this message of greetings through Prof. J. Lossing Buck who is leaving for your country to-morrow.

Taking advantage of this opportunity, I wish to thank you for your friendly assistance in consenting to the postponement for two years of principal payments on the Consolidated Note for Flood Relief and Cotton and Wheat Loan and the reduction of interest thereon. This further expression of America's goodwill and assistance to China is indeed much appreciated by my Government.

We are obliged to you also for your continued assistance in the maintenance of our financial and currency stability as shown in arrangements for additional silver purchases from and extending credits to China. While the maintenance of financial stability is in the interest of China, it is my belief that it also provides a basis that is beneficial to all countries having trade interests and investments in our country.

I am happy to learn of the interest you take in the problem of our wartime transportation, particularly in connection with the new Yunnan-Burma Road. As Prof. Buck has just completed an inspection tour over that road together with our Minister of Communications, I am sure he will be able to furnish you with reliable information on the subject. I look forward to having your friendly advice in this connection.

Mr. K. P. Chen has reported to me of the cordial and helpful assistance which you stand ready always to extend to him. I take this opportunity once more to assure you of my appreciation of these manifestations of friendly cooperation.

Hoping this message will find you in the best of health and with kindest personal regards.

Sincerely yours,



H. H. Kung.

The Honorable Henry Morgenthau, Jr.
Department of Treasury
Washington, D. C., U. S. A.

院政行府政民國
THE EXECUTIVE YUAN,
NATIONAL GOVERNMENT,
CHINA.

201

The Honorable Henry Morgenthau, Jr.
Department of Treasury
Washington, D. C.
U. S. A.

Address of Prof. J. L. Buck.

My dear Dr. Kung:

I have received your friendly and gracious note of July 4 transmitted through Dr. Buck and it pleased me greatly.

There was delivered to me at the same time the magnificent carved ivory boat and the beautiful pair of jade cuff links which you had sent as a personal gift. I accept them with greatest gratitude as a token of the cordial and trustful relations which exist between our governments as well as of our personal friendship.

These relations have made it a pleasure to me to give what assistance I could as a representative of my government to your efforts in behalf of your people and your government.

I send you my most cordial greetings and good wishes.

Sincerely,

July 27, 1939
10:15 a.m.

203

HMJr: Hello.

Robert
Wagner: Hello, Henry.

HMJr: Yes, Bob.

W: How are you?

HMJr: I'm fine.

W: Good.

HMJr: What time did you get home this morning?

W: Well, I left right after you. I don't know what time the rest -- you know, between you and me, when I'm weary and tired as I am now.....

HMJr: Yeah.

W:those things bore me to death. I don't know.....

HMJr: Well.....

W:whether you noticed or not. I was just.....

HMJr: No, you seemed to be having a good time and I wondered now you did it.

W: Oh, Jesus! I -- well, it -- it bored me to death. I mean, they're nice people.

HMJr: Sure.

W: But I was too weary for it.

HMJr: Well.....

W: I don't enjoy those things anyhow, I'm sorry to say. It was all right. Nathan meant well. I don't know why the heck/gave it, but it's O.K.
he

HMJr: Yeah.

W: Say, Henry, you mentioned something there last night about this investigation. I want you to know that if -- if I make it and when I make it, I'm going to ask for you to assign some fellow from -- one of your men to me in that regard. I want you to feel

that I want you to have your finger in the thing.
You see?

HMJr: Well, we'll be delighted to. Whenever you're ready.

W: Yeah. Well, I mean, I want you to understand that
now.

HMJr: O. K., Bob.

W: Because last night you made that little slurring --
very slurring remarks.....

HMJr: (Laughs)

W:that I was going to take everything away from you.
Well now.....

HMJr: Well.....

W:I might take something out of your pocket if I
ever got near enough to it but.....

HMJr: Right.

W:they tell me that you've got it all sealed up.

HMJr: Yeah.

W: But outside of that, you know, I'm -- I'm for you.

HMJr: You did -- you did a little kidding yourself, you know,
last night.

W: (Hearty laughter) Yes.

HMJr: You're pretty good at it.

W: Yes, for a Cabinet officer you were -- you stood it
very well.

HMJr: O. K.

W: Usually they're very dignified, you know.

HMJr: Well, what the hell.

W: (Laughs) Well, I lose my dignity too, but -- but I
just wanted you to know that, Henry.

HMJr: All right.

W: When the time comes. If -- if I let it go through. I don't know whether I will or not yet, you know.

HMJr: Well, when -- when do you think the bill will come to a vote?

W: What's that?

HMJr: When do you think the lending bill will come.....

W: Well, I -- I should think tomorrow sometime, it seems to me.

HMJr: Have you got the vote?

W: I think so.

HMJr: Good.

W: I think so. Of course, Barkley is -- you know, that's his 'baby' not mine.

HMJr: Yeah.

W: But I'm cooperating in every way. I -- I get these things out of committee somehow or other, you know.

HMJr: Right.

W: I don't think you could have gotten it out of every committee.

HMJr: You're right.

W: I don't think Finances would have reported it for you.

HMJr: No.

W: At least Pat Harrison didn't think so. (Laughs)

HMJr: I see.

W: Well, that's.....

HMJr: Well, when you're ready you let us know.

W: Yeah. Goodbye, Henry.

July 27, 1939
11:16 a.m.

206

Operator: Go ahead.

HMJr: Hello.

Jesse
Jones: Hello, Henry.

HMJr: Is it nice and cool out there?

J: Yeah, quite cool. How are you getting along?

HMJr: Fine. I read in the paper you made 250 million dollars.

J: Well, I thought we ought to counteract some of the things they've been saying about what I've said.

HMJr: Well, are there -- have you paid any taxes on it?

J: Paid any taxes?

HMJr: On the 250 million?

J: We'll pay you that in defaulted loans.

HMJr: (Laughs) Son-of-a-gun.

J: Yeah. (Laughs)

HMJr: Yeah, you would. How is it out there? Nice and cool?

J: Oh, yes, it's nice and cool.

HMJr: Good.

J: I'm not very well. I've been having a little trouble.

HMJr: Oh, for heavens sakes! What's the matter?

J: Well, I'm just worn out I guess.

HMJr: Oh, gosh! Well, you get out to that nice Grove and you'll forget your troubles.

J: Well, I don't whether I'll get to the Grove or not. Maybe I can go tomorrow.

HMJr: Uh-huh. I've got nothing. The Senate hopes to vote on this Lending Bill this week.

J: Yeah. Well, I -- I had a pretty definite idea that the thing was all set to go, as I told you before I left.

HMJr: Yeah.

J: Or -- after I got on the way.

HMJr: Yeah.

J: But I see from the papers there's a good deal of talk about it.

HMJr: Yeah, they're having their troubles.

J: Yeah.

HMJr: They're having their troubles.

J: And you plan to go about the second of August?

HMJr: I'm going to go. I bought my tickets yesterday.

J: On the second, huh?

HMJr: Yeah.

J: Uh-huh.

HMJr: And.....

J: Well, I hope you'll have a nice trip.

HMJr: Thank you so much. I -- I -- are you -- is it something new, or just your old trouble?

J: That's all.

HMJr: I see. Well, take care of yourself, Jesse, and when we come back I hope the Treasury will still be here.

J: I'm sure it will, and I don't suppose there's anything I could do even if I was there.

HMJr: Well, you're always helpful.

J: I think the committees have pretty well understood everything.

HMJr: Yeah.

J: And Steagall told me that he thought sure he would get his -- get the committee out without any difficulty.

HMJr: Well that's good. Did he tell you.....

J: Well, I hope you'll have a nice trip.

HMJr: O. K.

J: O. K.

HMJr: Goodbye.

July 27, 1939
11:59 a.m.

209

HMJr: Hello.

Cordell
Hull: Hello, Henry.

HMJr: Cordell.....

H: Yes, sir.

HMJr:I want to congratulate you on your statement on the Japanese situation.

H: That looks all right to you from all angles?

HMJr: Yes, it does.

H: Well, I'm glad to hear that.

HMJr: They cross-examined me at my press conference and wanted to know what I was going to do about gold and so forth and so on to Japan.

H: Yeah.

HMJr: So I said, "Well, we'd look into it."

H: Yeah.

HMJr: I didn't think it be any harm -- there'd be any harm in saying that.

H: Yes.

HMJr: There's nothing we can do, but I didn't want to tell them that.

H: Yes.

HMJr: No, I thought it was a fine statement.

H: Well, it -- I don't know how it will be received over there. I'm not saying anything except that it speaks for itself, and let it ride for the present. If they ask me about whether we contemplate negotiating a new agreement, I'll tell them that -- that whatever the developments.....

HMJr: Yes.

H:we'll -- that -- that if -- if and when the developments indicate that a satisfactory agreement can be negotiated, we, of course, would have -- have it in mind.

HMJr: Yes.

H: Henry, while you're talking, that reminds me. You've got a little -- you've got a little difficulty, I think, over there in that Mandhurian thing about changing the name to China and making them mark everything up as coming from China there in Manchuria.

HMJr: Yeah.

H: I was just wondering if -- if my fellows -- ^{if} it might not be helpful to make one last effort for a conference with my fellows and yours to see whether you can avoid a possible complication there.

HMJr: Yeah. Well, I'm not familiar with it personally. If you'd have whoever is handling it get in touch with Harry White over here.

H: Yeah.

HMJr: Will you do that?

H: Yes, I'll be glad to do it. I think we ought to make another effort to see if we can't avoid shutting ourselves out over there, practically.

HMJr: Well, I -- I'll tell Harry White that you're interested and that he'll be hearing from somebody from your office.

H: Yes, and if -- whatever you can indicate to him about -- about keeping that liberalized just a little, if we can, to avoid being shut out over there.

HMJr: I see. Well, I -- I'll mention that to him.

H: All right. Thank you.

HMJr: Now.....

H: Anything else, Henry?

HMJr: Yes. If -- I thought if it would be convenient for you to get to Cabinet maybe a couple of minutes earlier. Frank Walker just left here.

H: Yeah.

HMJr: I'll get there tomorrow a couple of minutes early?

H: Yes, you might just notify all of them to come in five minutes earlier.

HMJr: Well, I -- I thought maybe you and I had better talk together first.

H: Oh, I think it's all right to -- if you can -- you might talk to any two or three. Most of us, as I was saying to Frank -- I said, "I'll be glad to function in any way in the world," and I said if he -- the question came up about whether it wouldn't be a little more appropriate for you in your situation, and everything, and knowing all the -- all the detailed facts.....

HMJr: (Laughs) Oh, no.

H: I said, I'll work anywhere in any way.

HMJr: No.

H: I thought if you could decide on some -- most of us are not persons of means, as you know.

HMJr: Yeah. Well, I'd like to just have a couple words with you and then.....

H: Yeah.

HMJr:after that then you can... ..

H: All right.

HMJr:decide what to do.

H: All right.

HMJr: I'll get over there five minutes ahead of time.

H: All right.

July 28, 1939

10:30 am

Mr. Hull just telephoned me and said that the President had talked to him about the purchase of silver from China and he, Mr. Hull, hoped we would postpone it for a couple of days on account of the note Hull had sent to the Japanese yesterday. I said I was sorry; it was too late; that we had already consummated the sale as of last night. Then he said that he hoped we would handle in the same way that we always did.

He had something in his mind about not wanting us to send it to Rangoon, so I said we simply told the Chinese we would take it on an American flag ship wherever they wanted to put it.

I then told him that sometime this morning that Senator Townsend's amendment against discontinuing our right to buy foreign silver would come up to a vote; that we were working on an idea to tell Barkley to have the amendment read so that we could not buy silver of any country where we had denounced the treaty. Well, Hull didn't like that at all. So I said, "How about if we had it read that we should not buy silver except from countries with which we had trade treaties." He said, No, he did not want to tie up silver with trade treaties. He said he personally had not expressed himself at any time in regard to foreign silver and the matter rested entirely with the President and myself. So I said then I would send Barkley word that we wanted to leave the law in regard to the purchase of foreign silver unchanged.

He gave me the feeling and thought that he did not want to do anything further to aggravate the Japanese at this time.

* * *

Mr. Foley and Dr. White came in, and the following is a record of the meeting.

-2-

HM, Jr: I just talked to Hull and he says he has never said anything about foreign silver; does not want to be quoted; does not want to tie it up with trade treaties, with sanctions, anything. He wants to be left completely out. So the word to Barkley is

Mr. Foley: ... that the President would like to retain it and just give him the regular arguments.

HM, Jr: I had better check with the President and make 100% sure on this thing.

(He tried to reach the President on the phone, but was unsuccessful. Talked to him later at 11 am and the report of their talk is recorded at that time.)

GROUP MEETING

July 28, 1939.
9:30 A. M.

Present: Mr. Gaston
Mr. Foley
Mr. McReynolds
Mr. Gibbons
Mr. Graves
Mr. White
Mr. Duffield
Mr. Haas
Mr. Bell
Miss Chauncey

H.M.Jr: What's new, Herbert?

Gaston: I don't know anything new. I got my first communication from the administrator of the Federal Security Agency.

H.M.Jr: What's that?

Gaston: He sends in an 1830 copper plate coming from Public Health, wants to know if the Bureau of Printing and Engraving can make some prints from it.

H.M.Jr: Who's that?

Gaston: McNutt.

H.M.Jr: What does he want with it?

Gaston: Oh, it's just something they discovered in their files. It's an old copper plate which was used to print an order transferring people - a Customs order....

H.M.Jr: Just a minute. Bullitt.

(Holds telephone conversation with Ambassador Bullitt).

He deserved that. You know what they did? We got that about five or five thirty, had to call the people back from the Federal Reserve. The message left there at 12:30 midnight - the Federal Reserve - and we had an answer this morning from Chungking accepting it. It was quite - Bullitt - I thought he would - it would pep him up a little bit; not that he needs it.

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Gibbons: How much did you buy?

H.M.Jr: Six million ounces.

Gaston: They don't get any money until it gets here, do they?

H.M.Jr: They get it as soon as it is on an American flagship.

Gaston: On an American flagship.

H.M.Jr: Wherever they put it on.

I'm going to find out whether the State Department wants me to say so publicly or not.

Just as soon as they put it on an American flagship, either at Haiphong or Rangoon.

Gaston: Interesting names.

H.M.Jr: Anything else?

Gaston: No.

Foley: That motion of Lucas's last night was beaten.

H.M.Jr: Little louder, please.

Foley: The motion of Senator Lucas last night to earmark 250 million dollars for PWA grants was beaten. I think the vote was 43 to 35. So we had a pretty good day in the Senate yesterday. We won every roll call.

H.M.Jr: What was that amendment, again?

Foley: Earmarking 250 million dollars for grants. Maloney first made it 350. They beat that. Then Lucas made it 250 and they beat that. So I think we are through with PWA in so far as the Senate is concerned. They expect to pass the bill today in the Senate. Barkley is doing a good job.

H.M.Jr: How late did they stay in session?

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Foley: They adjourned about 10:25.

H.M.Jr: Just as you got there?

Foley: Little after that - about ten minutes. Just finished that vote and cleaned up a little additional business.

H.M.Jr: As Pepys says, "And then to bed."

Foley: "And then to bed."

Gaston: "And so to bed."

White: You notice the change in the interest rate - made it a half percent....

Foley: Well, that's only the maximum. Doesn't make any difference.

Gaston: Doesn't affect you at all.

Foley: Doesn't affect us at all.

H.M.Jr: So far so good.

Foley: What's that?

H.M.Jr: So far so good.

Foley: So far so good.

H.M.Jr: All right. What else? I want you to stay behind a minute on a personal matter.

Foley: Nothing else.

H.M.Jr: (To Duffield) Hello, Swobodin.

Duffield: Ha! ha! ha!

H.M.Jr: What is it?

Duffield: Slobodkin, isn't it?

H.M.Jr: Slobodkin. Told Eddie Greenbaum - comes all the way down here, puts over a fast one. What a man.

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(Referring to newspaper clipping) Mrs. Morgenthau will be tickled to death - this doesn't - yes, it brings in Admiral Peoples, gives him full credit.

Duffield: Ha! ha!

H.M.Jr: Oh boy! All right?

Duffield: I thought our stabilization fund got out without any trouble.

H.M.Jr: Yes.

I thought - (to Miss Chauncey) we might send this over to the President, from the New York Times. I thought it was rather nice.

Duffield: That's all I have.

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: George, take a minute - Milo Perkins was over here trying to explain to me why they are taking care of these people in this Oklahoma city, Oklahoma town. I don't understand it, do you?

Haas: I haven't - I don't know his explanation, but I have my suspicions why they do that.

H.M.Jr: Well....

Haas: But maybe you better let me talk to him. I haven't talked to him.

H.M.Jr: Well, what do you think it is?

Haas: I think there are a good many people that feel that there are people, and Parren expressed this too, that are not on relief that really need - you have these surplus foods, why not give it to them? And then from the agricultural point of view, they have the surpluses, and if they can pass them out to a wider sector of the population, they'll get rid of more of them. And I presume that's governing their action down there.

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- H.M.Jr: Yes, but these people are above the relief level; they go up to the people with a thousand dollar income.
- Bell: That's different.
- H.M.Jr: That's what I don't get, you see.
- Haas: Well....
- H.M.Jr: That's what I don't get. Check into it. He said it was just a test, but I can't understand it. I mean until....
- Haas: I'll find out what their reasons are.
- H.M.Jr: I mean if they said, "Now, everybody that's on relief is getting their tickets and we still have surplus food, and in order to get rid of it we have to go in the upper brackets," I could understand that. But where they have only four or five cities and have only used \$700,000 so far totally, I just don't get it.
- Haas: Dr. Stanley was advocating somewhat that order of distribution.
- H.M.Jr: I don't understand it.
- Haas: Your point is, why don't they do the whole relief class first, that is, the bottom or marginal class.
- H.M.Jr: Why don't they take the lowest rung before they go up six or seven rungs?
- Bell: I think there's some sense to it where the incomes are comparable. I can't see why a man working in an oil station at \$40 a month shouldn't have the same right as a man who gets \$40 a month on WPA.
- Haas: That's the point I was thinking.
- White: And the fields are not mutually exclusive.
- H.M.Jr: What?
- White: That is, they don't think by supplying these additional funds to the low income groups in certain

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areas, in test cases - they will not be reducing either their efficacy or the sums available during the next year for the others; so that they are not depriving relievers, they're going ahead just as fast as they can.

H.M.Jr: Well, I'm still not satisfied.

White: I mean that may be the answer.

H.M.Jr: And then the other thing that surprised me - which is the tickets they give away, what color, George?

Haas: The orange, isn't it?

H.M.Jr: I'm asking you. I don't know.

Haas: I know them one day and the next day I get them balled up again.

H.M.Jr: Well, let's call them the gift tickets.

Haas: O. K.

H.M.Jr: Now, they tell me - no, not the gift, the cash tickets aren't being used in the South, because they haven't got enough money for relief for us to allocate the cash tickets.

Haas: That may be a factor in this.

H.M.Jr: So in the South the cash tickets, whatever color they are, aren't being used at all, and they've got to use the gift tickets.

Haas: That may be. It's down in Arkansas. I'll check up and find out definitely.

H.M.Jr: Isn't it Oklahoma? Arkansas?

Haas: Maybe it is Oklahoma.

H.M.Jr: I'd like to understand it. Look into it.

Haas: O. K. That's all I have

White: You asked about this memo that you received from the President, from Ambassador Bullitt. We

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submitted to you a memorandum to give to the President on that on June 10th.

H.M.Jr: Did it go?

White: I don't know. I gave it to you. I'll give you the carbon of it.

H.M.Jr: If it went, that kills it.

Chauncey: I'll check.

H.M.Jr: Just give it to Miss Chauncey. If it went, that ends it. I'm just cleaning up my desk. There's a bare spot here.

White: There's a reply to your telephone request of Bullitt for an explanation - his explanation. Did you see it?

H.M.Jr: (Nods yes).

White: All right.

The capital movement reversed itself this week and now there's an inflow of 11 million. But the total of net sales of American securities is 9 million dollars, outstanding.

For your information, there is coming up this morning at the executive committee of Commercial Policy a discussion of a proposal which the British have made - supposed to be confidential - several months ago, to the effect - whether the American Government would not join with them in a new policy with respect to German trade. They felt that they were being pushed out by the Germans on some items, and particularly coal, and so what they did, distinct from the Government - they may have had the Government's blessing; I guess they did - but among the industrialists they collected a substantial pool of funds, and then they went to the Germans and they said, "Now, either you allocate the market favorably to everyone concerned, or reasonably, or we'll utilize this fund to increase our coal subsidies and beat you at your own game" - something like that. And they claim they had a good deal of success in negotiations,

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when the Czechoslovakian episode broke out and stopped them.

Now, they then came to this country and wanted to extend that procedure to a very much larger area and wanted the United States to join them. At that time Sayre replied that it was an important matter and they would have to consider it. I don't know whether they gave it any consideration or not. I see no evidence of it. But a few weeks ago the British representative - Government representative again - asked them what's been done on it, and they're taking it up this morning.

H.M.Jr: All right.

White: Just thought you - I don't think anything will come of it at all, so far as we're concerned.

There is a letter that was sent from Sayre to you on this matter dealing with the change of Section 303, at the President's request. If you want to handle that before you go, we'd better get the letter this morning and prepare another memorandum for the President.

H.M.Jr: All right.

White: You have it. At least, we haven't it.

Chauncey: Isn't that the one we brought in to you yesterday?

White: I didn't see it. I'll look.

H.M.Jr: Yes. I'm in marvelous shape. There's nothing on my desk, not a thing.

White: O. K. The rest of the desks are crowded, then.

Chuck Kades called up to say that on this Townsend silver amendment he feels pretty sure - was afraid that Barkley might ask them for some reasons why it should be opposed.

Duffield: Call the State Department.

White: What?

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Duffield: Call the State Department.

White: Yes. He wanted some arguments against it. Do you want to submit non-Treasury arguments against it, or do you just want to do nothing? How do you - do you want to indicate to Barkley you don't care, or have no interest one way or the other, or you have an interest, or do you want to refer it to the State Department?

H.M.Jr: The President of the United States wants that thing continued. I'd say that.

White: Wants it continued. Then you'd like to have us give him the argument, without having it appear from the Treasury.

H.M.Jr: The President wants it continued. Yes, definitely, he does.

White: All right.

H.M.Jr: Let me just - I was thinking during the night if there was some way - and this might appeal to Townsend as a result of my conversation with him yesterday; I mean after talking with him - that we wouldn't buy silver from a country that had broken a treaty or something like that, you see.

White: Or from countries with whom we do not have trade agreements. That would rule out - that would be an interesting classification, because we could with a little stretching tie up silver purchases with trade, and that wouldn't appear to have the political - but it actually would.

H.M.Jr: Well now, let's just stop and think a minute. I think that would appeal to him. Do we have a trade agreement with Japan?

White: No.

Gaston: How about China?

H.M.Jr: How about China?

White: Well, China hasn't any more silver. Might be an incentive to make a trade agreement.

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- H.M.Jr: How about Peru and Chile?
- White: Peru, I think so, but I'm not sure. I'll check up. But we don't have any with Japan.
- H.M.Jr: I'm afraid the trade agreement thing - I'd like a little bit - the countries that we have denounced - what do you call it?
- White: The most-favored-nation clause.
- H.M.Jr: Yes.
- White: Now, Japan is in that list, and Germany - I think the only two.
- H.M.Jr: That would be perfect - those whom we have denounced.
- White: Whom we do not accord most-favored-nation treatment to.
- Gaston: That's in effect for the next six months with Japan - that treaty.
- White: It won't be terminated for the next six months.
- H.M.Jr: You noticed the question Townsend asked. And that would take care of the situation of any silver that the Japanese might steal, see? I think that might appeal to Townsend. What?
- White: It might. It might appeal to others.
- H.M.Jr: Well, it might appeal to others. What do you think of that? I got that during the night.
- White: Well, it's good if we can get it by the State Department.
- H.M.Jr: I should think that they'd be for it.
- White: I don't - what occurs to me is, I don't know what kind of a justification - how you could link the two up, except on the basis that the purchase of silver gives them dollar balances for trade. But it's rather a tenuous connection; it's almost a specious justification.

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- H.M.Jr: Well, I'm not thinking of that. I'm thinking of - the President wants us to continue to buy silver, but we don't want to be stuck with Japan. Now, how are we going to take care of that?
- White: Well, supposing you're asked, "Why did you confine it to countries with whom you have most-favored-nation treatment?"
- H.M.Jr: No, I mean not that - I mean where we have denounced....
- White: Where we have denounced most-favored-nation treatment.
- H.M.Jr: I wouldn't do the other. Where we have denounced.
- White: And then you might say, "Well, this is a question of commercial policy and it is in accord with our general policy of giving most-favored-nation treatment."
- H.M.Jr: Harry, you and the General Counsel's office give me something to take over to Cabinet on that. Think we still have time?
- Foley: I wouldn't be surprised if that didn't come up before 2:00 o'clock.
- H.M.Jr: Get busy on it right away.
- White: See what it looks like, anyway.
- H.M.Jr: See what it looks like. And I can talk to Mr. Hull and talk to the President about it.
- Harry?
- White: Yes. I don't think Townsend will be satisfied.
- H.M.Jr: No, no, not give it to him, but give it to Barkley.
- Foley: Give it to Barkley. He can take it in lieu of what Townsend wants. He can agree to accept it instead of having a fight.
- White: I think it will have to be done very quickly, because I think the amendment is coming up on

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the floor sometime today, if it's not defeated.

H.M.Jr: What time?

Foley: 11:00 o'clock, but the first amendment won't be the silver amendment, it'll be the WPA amendment.

H.M.Jr: Go at it right away.

White: I wasn't able to get the originals.

H.M.Jr: I'm looking for it.

White: They relate to data six months old, but we do not have the authority to get the most recent data. You remember we got Secretary Hull's permission to examine his records. So the fact that we haven't more recent data doesn't mean that they do not exist, but it's up to the State Department....

H.M.Jr: Well, after this meeting is over, I'm going to a special safe. I tried to work the combination once. I'm going back in there.

White: If you can't work it....

H.M.Jr: I'll work it. I just did it once. If we can't, we can get our professional safe-opener downstairs to open it.

Duffield: (Laughs).

H.M.Jr: We have five of them.

Duffield: I know. I was just wondering about the safety of your safe if there are five people who can open it.

H.M.Jr: What else, Harry?

White: I just have a memorandum here on Argentine. There's trouble there, but nothing for us to....

H.M.Jr: No, new business.

White: That's all.

H.M.Jr: But get busy on that other thing and let me know as soon as you have it. It might be very nice.

- Gaston: He might accept - Townsend might accept an overall limitation on the amount we buy and then permit the Committee on Commercial Policy to pass on the deals.
- H.M.Jr: No, I don't think - he won't accept it, but this would be for Barkley. Just a chance. Just a chance.
- Gibbons: (Nods nothing).
- H.M.Jr: Harold?
- Graves: Nothing.
- Bell: The Export-Import Bank gets its capital from the RFC in the form of - through the purchases of preferred stock, which bear cumulative dividends at the rate of three percent. They have paid those dividends up to December 31, 1938, but they only pay them as and when the funds are available. They have commitments now of 45 million, but only 30 has been used, so they have 15 million dollars on balance. The RFC gives them three percent interest on that balance, so that the net effect is that they only pay three percent dividends on the actual cash advances by the RFC.
- In addition to that, they have a million dollar capital which is subscribed by Secretary Hull and Wallace, I believe. That was paid for out of old NIRA funds.
- H.M.Jr: Yes.
- Bell: That's the memorandum which can go in your file.
- H.M.Jr: Now, isn't there a way of changing their capitalization from preferred stock - I mean to just a straight borrowing?
- Bell: I think it would take legislation probably, wouldn't it, Ed? They have authority to make loans of a hundred million dollars; it's an authority of Congress.
- H.M.Jr: I mean why must they get their capital from preferred stock? Couldn't they pay it off and have a....

Bell: Borrow in the market? I don't think so.

H.M.Jr: Or borrow from the RFC at one percent.

Bell: They could probably change - that might necessitate changing the by-laws in the charter, by reducing the preferred stock and giving authority to borrow from the RFC instead of through the sale of preferred stock.

H.M.Jr: Or put it another way: must the preferred stock bear three percent?

Bell: No, that could be changed.

H.M.Jr: Why couldn't that just be reduced to one percent?

Duffield: You remember Mr. Lochhead brought that up a couple of times here on a couple French deals. They had tried to charge the French four percent.

H.M.Jr: I know. That's the whole purpose of this.

Bell: I think the way to do it is reduce the dividends.

H.M.Jr: That's what I'm trying to do here.

Foley: That could be done by letter from the Bank to the RFC, and the RFC just accept it.

Bell: I suppose it's a part of the by-laws, which might have to be changed.

H.M.Jr: Well, Dan, go into it.

Bell: That will be part of that picture.

H.M.Jr: Yes, but I want to start moving on this thing. Is there any reason why they can't have a meeting and say, "We'll only pay the RFC one percent," and have a vote on it.

Foley: No, they probably need a meeting of the Board of Directors to authorize the President to request the RFC to reduce the dividend rate on the stock from three to one and a half, whatever you want to fix. All the RFC has to do is accept it at the bottom of the letter.

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Bell: The RFC can probably agree to it without going to the President. Probably just a matter of agreement between the two.

H.M.Jr: Look, if you could clean it up, I'd like to bring it to the President's attention at 1:00 o'clock Monday - what we can do to reduce their stuff. I should think if - well, I said - I'd trade with them; I'd stick for one percent. If we get one and a half, it's all right.

Bell: O. K.

H.M.Jr: I'd stick for one percent, Dan.

Bell: All right.

H.M.Jr: Huh? Will you follow through?

Bell: Yes, sir.

H.M.Jr: Will you call up Leo Crowley and tell him why in the hell does he charge five percent to his bank, I think four percent is enough?

Bell: Four percent?

H.M.Jr: Yes. He charges five.

Bell: I think it's four percent.

H.M.Jr: He charges one percent more than the RFC.

Bell: The RFC is charging three on loans, but four percent on loans for capital stock. I think the RFC charges three percent on loans.

H.M.Jr: Well, whatever it is, he charges one percent more. What? He should drop his rate.

Bell: Now, in these discussions that I'm to carry on, is it a question of getting something for you by the time you get back, or do you want them to go ahead and change them if they can?

H.M.Jr: I want them to do business.

Bell: I've written these letters and dictated them on the basis that you want a complete report by

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the time you get back.

H.M.Jr: Good. But let's crowd RFC, let's crowd Export-Import Bank, let's crowd Leo Crowley, then the more we can begin to move, the more we can say, "Well, this fellow has done it, why can't you do it?"

Bell: All right, I'll call them.

We have - Mr. Hanes has a request from Colonel Theodore Roosevelt for the - they want the list of the names on the United States Savings Bond list - a million six hundred thousand. He wants some gentleman to come down from New York to interview Mr. Hanes and tell him the reason they want this list. They say it's for educational purposes. I just signed a letter saying that it's confidential and we can't give them out. I suppose that's all right.

H.M.Jr: That's all right. I wouldn't give them out for anybody.

McR: Give it to one and you'll have to give it to everybody else.

Bell: I said it was highly confidential and we don't give them out.

H.M.Jr: He's crazy.

Bell: That's all.

McR: (Discussion with Secretary in tones too low to be understood).

BB:mh
7/28/39

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It is hereby declared to be the policy of the United States that ~~ix~~ any provision in any law to the contrary notwithstanding the United States shall not make any purchases of silver other than the current newly-mined production as defined in regulations issued by the Secretary of the Treasury with the approval of the President.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE July 28, 1939

To Secretary Morgenthau
FROM Mr. Gaston *MS*

Tom Corcoran and Ben Cohen were your guests for lunch today, Friday, July 28th, along with Ed Foley and me. There was some discussion and joking about the demand of Congressman Thomas Ford for a 24-hour rule to apply to the California-Mexico border, and you accused Tom Corcoran jokingly about having something to do with the Pensacola man's candidacy for Collector of Internal Revenue. You told Corcoran and Cohen that you had noticed that the radio news broadcasts were nearly always concerned with disaster and conflict and that there was practically never any cheering or constructive news on the radio programs. You remarked that for several years past the Department of Agriculture had had a program of from one-half hour to one hour at some time of the day on one of the networks, and you wondered why the Department of Commerce shouldn't get similar facilities and do something in the way of getting out constructive information. Both of the visitors seemed to think it a good idea. Corcoran was particularly vocal. He talked of the importance of getting some one for commentator who could dramatize things and put them over with some zip. He suggested David Cushman Coyle as a good man. He said there would be some reaction against Coyle, but he thought that would be over quickly and he would get a good following. You remarked that you were not very strong for Coyle, but that what you wanted to do was to throw out the idea and you said that you would like to leave it in their laps, that is, Corcoran's and Cohen's. They agreed to accept the

7/28/39.

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responsibility to go ahead with it. Corcoran added that Bob Berger of the National Emergency Council was a good radio man and it ought to be possible to transfer him to Commerce. He explained the difficulties that had surrounded Lowell Mellett to prevent him from doing anything of the kind. It was agreed that he didn't have the appropriation to work on it, but that Commerce did. You repeated that you were leaving the matter in Corcoran's and Cohen's hands.

Near the close of the lunch Corcoran brought up the subject of the Hatch Bill, and outlined the kind of a veto message he thought ought to be written. He asked your opinion and you said you were sorry but that you had not been following the matter. He turned to me and asked my opinion as to what I thought the reaction would be to such a message, and I told him I thought it would be bad, that the public would base its reaction on the impression of the Bill that it has already gotten from the newspapers, and that it would have to be a mighty good veto message to change that reaction.



July 28, 1939
9:33 a.m.

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HMJr: Hello.

Bill
Bullitt: Hello, Henry.

HMJr: How are you?

B: Fine.

HMJr: I thought you'd be amused at the service that you got yesterday.

B: My what?

HMJr: At the service that you got.

B: You approve of it?

HMJr: Hello?

B: Hello.

HMJr: I thought you would be interested and amused at the service which you got yesterday here.

B: Yes, it was very good, Henry.

HMJr: Hello.

B: It was very good.

HMJr: Can you hear me?

B: Yes, I hear you perfectly. Did you hear me?

HMJr: No.

B: I hear you absolutely perfectly.

HMJr: I say, do you know about the service you got yesterday?

B: Which one?

HMJr: On silver for China?

B: Oh, bravo!

HMJr: The President called me and -- I'm saying this on purpose on the wire.

B: Yes.

HMJr: And between five-thirty and midnight last night we bought six million ounces of silver from the Chinese Government.

B: Bravo!

HMJr: And I thought that you'd be interested because it was your cable that assisted.

B: Well, I'm perfectly delighted! Six million ounces?

HMJr: Yes.

B: And when are they going to deliver it?

HMJr: Well they -- they deliver it just as soon as they can get it down from Chungking.

B: Oh, Henry, that is perfectly magnificent!

HMJr: And I thought you'd be pleased.

B: Oh, thank you very much indeed.

HMJr: Get any more good ideas, why send them along.

B: Henry, I can't thank you enough.

HMJr: But I -- and I -- I mean, we've done quite a lot for them in the last twenty-four hours.

B: Well, that's absolutely perfect! I should say you have, and that -- the other action is extremely important not only there, but also in Europe.

HMJr: Well -- hello?

B: Hello?

HMJr: For instance, they've got a malaria malignant fever up on the Burma border.

B: Yes.

HMJr: And we're going to send some Public Health people up there to help them out.

B: Good for you!

HMJr: Because everybody stopped working on the roads.

B: Yeah. Well, you just get them to work again and kick the fascists in the tail if they don't have the courage to go on.

HMJr: And -- but I thought that you'd be interested in this.

B: Thank you very much, Henry. I'm deeply obliged to you for telephoning.

HMJr: What else do you know?

B: Well, I don't know, I think things look fairly all right. I don't know whether the gentleman is going to go off or not. I'm glad you're coming over.

HMJr: Well, we're sailing Tuesday -- Wednesday.

B: Yeah. Fine! Well, I'll look forward to seeing you, Henry, and I'm delighted.

HMJr: All right.

B: Delighted! Good luck to you.

HMJr: Goodbye.

B: Same to you - Henry,.....

HMJr: Yes.

B:can I tell that to the Chinese Ambassador?

HMJr: To the which?

B: Chinese Ambassador.

HMJr: Spanish?

B: Chinese.

HMJr: Chinese?

B: Yes.

HMJr: Sure.

B: Fine. Thanks very much.

HMJr: It cleared through the Embassy here.

B: Fine. Much obliged to you.

HMJr: Yes.

B: Goodbye.

HMJr: Goodbye.

B: Good luck.

July 28, 1939
10:53 a.m.

HMJr: Hello.

Key
Pittman: Hello.

HMJr: Key.

P: Yeah.

HMJr: I called you last night - I don't know whether they told you, and they said you were down to the airport, because I wanted to tell you what I was proposing to do, and not being able to get you why I had to go ahead. And that is the Chinese Government had six million ounces of silver up at Chungking that they wanted us to buy, and the President and myself thought it would be a good thing to buy it. So we did last night.

P: Uh.

HMJr: But there will be no publicity on it of any kind.
have

P: You/bought it?

HMJr: Yeah. At the world's price - 35 cents, - to be delivered on an American boat.

P: Was that the Chinese or is it the Japs?

HMJr: No, no, this comes from Chungking. It's right -- it's the Chinese.

P: Oh, Chungking - I didn't catch it.

HMJr: No, it comes from -- oh, God, no! It comes from Chungking and done through the Chinese Embassy here.

P: Ah - that's all right.

HMJr: What?

P: Yes, I just -- I just.....

HMJr: No, no. I -- I.....

P: I wasn't thinking where Chungking was until after you.....

- HMJr: No, if I did from the Japs, you'd better send me over to St. Elizabeth.
- P: Well, I should think the Japs would have to prove where they got the silver. (Laughs)
- HMJr: Yes. No, this comes right of Chungking.
- P: Well, I think that's a good idea. Personally, I want to help the Chinese all I can. I hope to God that they can hang on for a year.
- HMJr: But I wanted to talk to you about it before I did it. Now.....
- P: Oh, well, there's no reason why, that I know of. I.....
- HMJr: Yeah.
- P: We're on friendly relations with them and.....
- HMJr: Yeah. Now.....
- P:no war declared and nothing else.
- HMJr: Now, on this -- well, that's all right with you then?
- P: Oh, absolutely!
- HMJr: Now, on this amendment that's coming up of Townsend's-- you think you can defeat it?
- P: Oh, I think so, yes.
- HMJr: You do? Because.....
- P: Yes -- hell, if our silver fellows will stay with us -- stay with it.....
- HMJr: Yeah.
- P: Ah.....
- HMJr: The President -- the President feels we ought to have that just for occasions like this, you see?
- P: Oh, that's exactly -- that's what I'm thinking about it.
- HMJr: And if we, for instance, find that the Japanese are beginning to dump silver on us, why we can make some rules and regulations.....

P: Oh, yes, you can fix it.

HMJr:which will make it impossible.

P: Undoubtedly. I hope to God those fellows do. I'm going around and talk to them anyway.

HMJr: Well.....

P: That's the best I can do. I -- I don't want to make a speech on the floor.

HMJr: No.

P: It won't do any good. The best thing to do -- I want to go around and talk to them. I know every damn one of them.....

HMJr: Yeah.

P:are against the Japs anyway.

HMJr: Well, we -- we -- if it got so we found that the Japanese were beginning to dump silver, we just would make some -- we'd find some way not to buy it.

P: Why yes. You've got -- you've got your discretion, I think, Henry, anyway.

HMJr: But on this other -- this thing -- it -- it's useful just like last night. I mean, they came in, they're desperate; they have no money; they have six million ounces, will we buy it. Well, I talked.....

P: Yes.

HMJr:to the President and -- and he said, "Yes, go ahead. Buy it."

P: Why certainly. We've got to rely on whatever executive powers we've got. We've got such a damn fool Senate up here now that I never know what they're going to do.

HMJr: But we're doing all we can down here to help the Chinese.

P: Well, I -- I think you're right, and I think the whole Senate would sustain you in it.

HMJr: Well.....

P: If it ever -- if it ever became public. It won't become public from -- through me, of course.

HMJr: No, Cordell Hull doesn't want it to become public. Just.....

P: No, I don't think it's -- it just makes it a subject for discussion.

HMJr: He said it would just add to his troubles.

P: That's all, yes.

HMJr: So we're not going to tell anybody.

P: All right. Thank you, Henry.

HMJr: All right.

July 28, 1939
10:58 a.m.

241

HMJr: Colonel Halsey.....

Colonel
Halsey: Yes, sir.

HMJr: Morgenthau.

H: Yes, sir, Mr. Secretary.

HMJr: How are you?

H: I'm fine. I hope you're well, sir.

HMJr: Fine. Ed Foley was in this morning talking to me about
Mr. Younger.

H: Yes, sir.

HMJr: And I'm going to see that whatever he got heretofore
that he continues to get the same. I understand.....

H: Well, I -- I surely will appreciate that. That's a
real -- that's a real courtesy and I surely appreciate
that, sir, and I can hardly tell you how I thank you.
It means -- he's Mrs. Halsey's brother, and it means
a whole lot to me.

HMJr: Well, that's why.....

H: Thank -- thank you very much.

HMJr: Well, it'll be taken care of.

H: Thank -- thank you so much, sir.

HMJr: Goodbye.

July 28, 1939
11:01 a.m.

242

HMJr: Ed.....

Ed
Foley: Yes, Mr. Secretary.

HMJr: I just talked to the President and he said to tell you that -- to tell Barkley that we do want the right to buy foreign silver continued.

F: Yeah.

HMJr: I didn't make the alternative suggestion because the President seemed to want it just like this.

F: Yeah.

HMJr: And that you could say, of course, we're buying less and less.

F: Yeah.

HMJr: Now, I talked to Pittman about what we did last night on China and he's simply delighted.

F: Fine.

HMJr: And I said we feel down here that we better have that power continued, and he says good, and he said, "I'll go around and talk to the boys and tell them that that's what we want.

F: All right. Now, can -- can Barkley say that this is what the President wants?

HMJr: Yeah.

F: All right.

HMJr: Yeah.

F: All right.

HMJr: Yeah.

F: Well, I'll get word to him right away.

HMJr: O. K.

F: Thank you.

July 28, 1939
3:45 p.m.

243

HMJr: Hello.

Operator: Secretary Hull calling you.

HMJr: All right. Tell Foley to come right in.

O: Right. Go ahead.

HMJr: Hello. Hello.

Outside

Operator: Just a moment, please, Mr. Secretary.

HMJr: Thank you. Hello.

Cordell

Hull: Hello, Henry.

HMJr: Yes, Cordell.

H: I talked this out with our special man connected with the Latin American division.

HMJr: Yes.

H: He, of course, knows how much trouble your department has had with that border down there.

HMJr: Yeah.

H: And the Tia Juanatrouble and so on. Now, we -- of course, our only business is to pass on the foreign policy side of it.

HMJr: I understand.

H: And we think probably that the Mexican Government would make a protest against this, but we don't think it would be a major protest or an insistent protest.

HMJr: Yeah.

H: And we would -- if we should get it we'd pass it on to you, as Sumner Welles says, for your information.

HMJr: I understand. Well, if you don't tell me, "Henry, this is something that's going to embarrass me terribly," I think for the San Diego district only....

H: Yeah.

HMJr:we'll put this 24-hour thing in.

H: Yes, probably you can get your man, Gibbons -- Gibbons can make an adjustment with the balance of the Mexican border then and let this -- and compromise on this order of yours as to Tia Juana.

HMJr: Yes. Well, the thought is just for that San Diego district.

H: Yes. Henry, when are you -- when are you leaving town for good?

HMJr: I'm leaving late Tuesday afternoon.

H: Will you see Henry Wallace?

HMJr: I'll make it a point to talk to him.

H: I tell you, I think that we ought to get -- you ought to ask the President to talk to him direct.

HMJr: Well, I.....

H: And then you talk to him, because since I came back here Sumner was telling me that -- of course, this is for your information.

HMJr: I understand.

H: It shows how this damn thing spreads like a pest, you know, and -- and a dozen pestilences. It -- the Brazilians -- I think I should tell you, the Brazilian Ambassador came in very gloomy and all out of sorts this morning.

HMJr: Yeah.

H: He says that -- that Wallace assured Aranha when he was up here that they would not go into any -- any cotton subsidy situation and -- on this -- and Aranha went back and made that representation and then they accepted the invitation of this cotton convention here in September, world conference, and the Ambassador said, "We want to notify you that in the light of all this subsidy business....."

HMJr: Yeah.

- H: ".....that's on here, we can't think about attending this conference, and we've got to look out for ourselves."
- HMJr: Well, Cordell, between you and me, I'll talk to Wallace, but damnit -- ah -- I've got no authority and I don't know why.....
- H: Well, that's the point. I think if you would -- I'll write the President again.
- HMJr: Yes.
- H: And -- Sumner and I both will, and if you'll urge him to get ahold of Wallace and tell him this simply will wreck everything if he goes on in this fashion.
- HMJr: Yeah. Well, I'll be glad to talk to him, but it's.....
- H: I mean, you -- you can.....
- HMJr: I know what you want.
- H: Yeah.
- HMJr: And I'll do it from the standpoint of the Treasury, where is this going to stop, and we haven't got money enough to pay for all of this.
- H: Yes, and it's going to bring on every sort of complication.
- HMJr: I -- I'll do it from the financial standpoint.
- H: Yeah. All right, Henry.
- HMJr: And on the other thing we'll go ahead just on that one section.
- H: Yes. You understand we just deal in foreign policies.
- HMJr: I know, and.....
- H: Yeah.
- HMJr:I try to deal in deficits.
- H: (Laughter) All right.
- HMJr: O. K.

July 28, 1939

My dear Captain Collins:

In connection with the approaching visit of Lord Riverdale, which you reported to me on July 26th, I am enclosing herewith for your information and guidance in your conversations with Lord Riverdale, a photo-static copy of a letter I have received from Secretary Hull.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Captain H. E. Collins,
Procurement Division.

*P.S. Please report to me after
you have seen Lord Riverdale*

✓

July 26, 1939

My dear Captain Collins:

In connection with the approaching visit of Lord Riverdale, which you reported to me on July 26th, I am enclosing herewith for your information and guidance in your conversations with Lord Riverdale, a photostatic copy of a letter I have received from Secretary Hull.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Captain H. E. Collins,
Procurement Division.

*P.S. Please report to me after
you have seen Lord Riverdale*

July 28, 1939

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Sincerely yours,

(Signed) H. Morgenthau, Jr.

Captain H. E. Collins,
Procurement Division.

THE SECRETARY OF STATE
WASHINGTON

July 27, 1939.

My dear Mr. Secretary:

The British Embassy has requested that arrangements be made for Lord Riverdale to see Capt. H. E. Collins of the Procurement Division of the Treasury. I am informed that Lord Riverdale only desires to secure some general information relative to the organization and operation of the Procurement Division.

I am pleased, therefore, as a matter of courtesy to the British Embassy, to bring this matter to your attention in the hope that you may find it consistent further to extend the courtesy sought by the British Embassy by bringing about the arrangement requested.

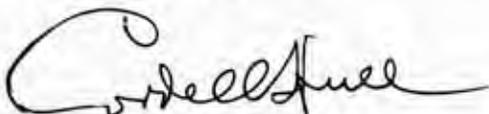
There is nothing more involved in any respect than the foregoing.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



WASHINGTON



The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

July 28, 1939

To: The Secretary
From: Miss Lonigan *EL*

WPA
Mr. Carmody was quite pleased with the idea of my visiting the western exchanges.

If it appears that nothing can be accomplished at WPA, and Mrs. Morgenthau has nothing she wishes taken care of, I am planning to start west, the middle of next week, and visit Boise, Portland, Seattle, San Francisco, Los Angeles, and any other self-help communities that I can reach in a limited time. That will include about a hundred Exchanges.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

251

MEMORANDUM
July 28, 1939

To: Mrs. Klotz
From: Chief Wilson

The following tentative schedule for the President, July 28 to 31, is given for your further information:

Friday, July 28, 1939

Lv. Washington via auto.....4:30 p.m.
Ar. Quantico, Va.....5:45 p.m.
Board USS Potomac for cruise

Monday, July 31, 1939

Ar. Quantico, Va., via USS Potomac 10:00 a.m.
Ar. Washington via auto.....11:15 a.m.

July 28, 1939

3:30 p. m.

(After Cabinet)

Present:

Mr. McReynolds
Mr. Foley
Mr. Gaston

HM, Jr: The President gave me this thing (chit about Eugene Foley, Collector of Internal Revenue for Mississippi).

It has to do with Mississippi and Pat Harrison and the rest of them and the President said if he should sign the Hatch bill he wants us to go after our Collector of Internal Revenue and tell him he is playing politics, etc., etc., and stop it.

I talked to Cordell Hull and the President after Cabinet about Congress Ford and Los Angeles and the President said as far as he was concerned it was all right. Hull said, "Give me half an hour to talk it over and if we did not hear from him you (Foley) are to call him up." And have the order fixed so it applied only to the San Diego area. It's all right with the President. He said to Cordell, "Supposing Mrs. Hull and Mrs. Roosevelt want to go to Tia Juana to buy a drink and they want to buy a couple of dollars worth of stuff, could they bring it in."

Mr. Gaston: \$5.00 worth.

* * * *

COLOMBIA.

In addition to the above:
Mr. Gotton
Mr. Foley
Mr. Bell

-2-

HM, Jr: Was everybody good except White?

Dr. White: I am afraid so.

Mr. Foley: Joe (Cotton) and I thought, the way it is there, as you read it now, is good enough because what you have in mind is clearly implied. Harry is making it bolder and more forceful and I don't think it is necessary.

HM, Jr: Bold Harry! Light Horse Harry!

Dr. White: I have a suggestion: that this is a little too important to make a decision now. You are asking very definitely for two things that are really important.

HM, Jr: I am willing to let it go until Monday. Has Bell taken a look at this? Well, I would like Bell to read it, Gaston to read it and McReynolds. See if you can't get together on one letter.

Dr. White: We will get together on one letter. We will adjourn for 15 minutes.

HM, Jr: I am leaving now. See if you can't get together on it by Monday.

oOo-oOo

1908 Aug - Fort. H. H. Bell
Knapville
1st wing of mine today exhibited
hms. Very active
Taken under point in July

2 Hatch Bell signed for
first to mine July
Knapville

THE WHITE HOUSE
WASHINGTON

*Key
will*

255

July 28, 1939.

**MEMORANDUM FOR
THE PRESIDENT**

You said you wanted to
talk with Secretary Morgenthau
about this.

G.

HRE

GRAY

PARIS

Dated July 28, 1939

Rec'd 3:55 p.m.

Secretary of State

Washington

1403, July 28, 6 p.m. (SECTION ONE)

The Director General of La Societe Generale, Ardant, called me several days ago to discuss the establishment by his concern of a branch "trust company" at New York under our laws. The Societe Generale through one of its directors, M. Chadenet, who has just returned from the United States consulted with Davis Polk and Company and found no insurmountable legal obstacles to its establishment. Before proceeding further, however, they would like to know the attitude of our Treasury "and presumably other pertinent authorities" with respect to the project. They mentioned the recent setting up of several similar organizations by the Credit Suisse and the Swiss Banking Corporation. They left at the Embassy this morning a brief memorandum of which the following is the substance:

BULLITT

EMB:NK

HRE

GRAY

PARIS RECEIVED
Dated July 28, 1939

Rec'd by [unclear]

THE TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

Secretary of State
Washington

1403, July 28, 6 p.m. (SECTION TWO)

Both in the general interest and that of its clientele the Societe Generale considers it indispensable to set up at New York a banking establishment under the provision of law covering American trust companies with an initial capital of around \$500,000 and "with small general expenses." The first and important task of this organization would be "progressively to centralize in its vaults an important part of the portfolio of American and foreign securities held by the investing clientele of the Societe Generale." The memorandum asserts that this portfolio is at present scattered "in many neutral foreign banks, the majority Swiss or Dutch." The proposed organization would likewise seek as efficiently as possible to administer the important balances which it has held "for many years" in America; and furthermore the new agency approves transfer of financial and economic information of interest to it and to its clients.

BULLITT

EMB: NK

HRE

GRAY

PARIS

Dated July 28, 1939

Rec'd 4:28 p.m.

Secretary of State

Washington

1403, July 28, 6 p.m. (SECTION THREE)

The memorandum claims that "the manner in which this company will be administered will not create competition for American banks. We will continue to deposit all our funds with them and to carry on through them the banking, commercial or capital operations entrusted to us by our clients. We will not seek in any way to attract American clientele."

"Before complying with all the conditions imposed by Article III of the 'banking law' on companies desiring to establish themselves in New York, and before filing a 'notice of intention' for the organization of a 'banking corporation' which notice must be transmitted to the 'superintendent of banks' who in turn will ^{ascertain} ~~ascertain~~ the opinion of the 'banking board,'" the Societe Generale desires to make known its intentions to our Treasury and hopes that it will give the matter favorable consideration.

Rueff has confirmed to me the statements of M. Ardant that the French Ministry of Finance views the proposal

with

HRE

2-#1403 July 28, 6 p.m. (Sec 3)

with complete approval. Ardant and Chadenet enjoy the most excellent reputation in Paris.

I should appreciate receiving such views as you may wish me to communicate to the Societe Generale.

(END OF MESSAGE)

BULLITT

EMB:NK

RECEIVED

JUL 28 1950

TO: SAC, NEW YORK
FROM: SAC, PARIS
SUBJECT: [illegible]

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: July 28, 1939, 7 p. m.
NO.: 1405
FOR THE TREASURY. (GRAY)

RECEIVED
U.S. DEPARTMENT OF THE TREASURY
JUL 29 1939

Exchange market very dull today. The pound was under pressure, (this partially reflects concern over the long-term effect of the terrific pace at which British armament expenditure is proceeding) and British control was compelled to sell dollars. More sterling was gained by the French fund, totalling for the last two days well over half a million dollars. Improvement also seen on forward franc, and belga was strong with Belgium gaining some sterling. Market on the Swiss franc unchanged on the fall of the Colijn Government. The florin dropped to 20.07 against 20.19 yesterday and 20.24 the day before. Month-end requirements are making money tighter. Market on securities was down about a half percent, rentes dropping 25 centimes on the average.

No immediate effect was caused in the market but French financial circles showed pleasure at our denunciation of our commercial treaty with Japan. (End Gray)

Rumors of French credit and loan negotiations with Yugoslavia were reported by the financial press. We were told today by Rueff nothing definite has yet been decided.

BULLITT

(Strictly Confidential)

P A R A P H R A S E

A telegram (no. 573) of July 28, 1939, to the American Embassy at Paris reads substantially as follows:

On several occasions the Chinese have made informally to the Treasury Department the suggestion that the silver on deposit in the French and British Concessions at Tientsin be bought by this Government. The position that the matter of the purchase of the silver is a political question on account of the circumstances involved in connection with the silver has been taken by the Treasury Department. It may be said in strict confidence that any action on the part of this Government toward obtaining a property interest in the silver in the concessions would not be advisable in the considered opinion of the Department of State.

On July 21 the Department was informed by Ambassador Hu Shih that virtually none of the stabilization fund remained. The Ambassador was informed, in response to his expression of a hope that additional assistance of a financial nature would be provided, that the whole subject would be studied by the Department although we could not lead him to look for an encouraging reply.

RFP

GRAY

RECEIVED

261

Paris

Dated July 29, 1939

Rec'd 10:28

PROJ 10 111
RECEIVED
TREASURY DEPARTMENT
JUL 29 1939
U.S. DEPARTMENT OF THE TREASURY

Secretary of State

Washington

1410, July 29, 1 p.m.

FOR THE TREASURY.

About eighty decree laws are being presented for approval to a Council of Ministers which meets this morning and it is intended to publish the most important of these measures in the Journal Official at an early date. Reynaud will explain their scope in a radio address this evening. Those of a financial and economic character include measures designed to increase the use of checks as instruments of payment; to develop the guaranteed export credit system; to combat the falling birth rate; further to limit profits derived from national defense contracts; reorganization of the wheat agency; modification of customs tariffs and reinforcement of central Government control over the financing of heavily indebted municipalities. Ratification of the Franco-American double taxation agreement will be authorized by decree. Another decree will authorize postponement of the general elections for two years.

(End Section One)

HPD

BULLITT

lw

GRAY

262

Paris

Dated July 29, 1939

Rec'd 10:30

RECEIVED

U.S. DEPARTMENT OF THE TREASURY
OFFICE OF THE ASSISTANT SECRETARY
FOR INTERNATIONAL FINANCE
WASHINGTON, D. C.

Secretary of State

Washington

1410, July 29, 1 p.m. (SECTION TWO)

It is rumored that Reynaud will announce the transfer from the exchange fund to the Bank of France of a further five billion francs gold.

JOURNÉE INDUSTRIELLE says that attention is being paid in London to the question of a closer collaboration between Great Britain and France regarding "raw materials and credits" and repeats that France is in a more favorable situation than Great Britain because France is "more nearly self sufficient" and that "its gold reserves are sufficient to insure cover for its imports in case of war" (sic). This paper then goes on to say that for important political reasons the utmost discretion has been and should be observed with regard to the United States but that opinion "favorable to Great Britain will naturally develop under the influence of circumstances". This is a further play on

the

lw -2- No. 1410, July 29, 1 p.m. (SECTION TWO)
from Paris

the new note (mentioned in our telegram No. 1327 of
July 19) suggesting arrangements for more effective
reciprocal support by France and Great Britain of
each others currencies. (END MESSAGE)

BULLITT

HPD

RECEIVED
JUL 31 1939
INTERNATIONAL DEPARTMENT
U. S. DEPARTMENT OF STATE
WASHINGTON, D. C.

July 31, 1939.
3:27 p.m.

264

HMJr: Hello, Key.

Key

Pittman: Henry.....

HMJr: Yes.

P: I was told just now by Biffle that old Townsend is going to offer another amendment here stating that none of this money can be used to buy -- purchase foreign silver. Well, of course, you don't need any of this money in this Lending Bill to purchase foreign silver.

HMJr: No.

P: But if he offers it, I'm just going to get up there and simply say that everybody in the Senate can offer a bill that it can be used for some purpose that's not in the bill if they want to.

HMJr: Yeah.

P: And it's just a safe-phasing propose - (laughs)

HMJr: Yes.

P:face saving proposition and.....

HMJr: Yes.

P: But that it's absurd to do it.

HMJr: Yes.

P: And that I move to table it.

HMJr: Right.

P: I hope they stand by me because it's just absurd.

HMJr: Well.....

P: But really you don't need it and it doesn't make a damn bit of difference.

HMJr: No, we don't use that money anyway.

P: Why certainly not. You -- the bill provides where you use your money. You use any funds you've got in the Treasury unappropriated, or any money.

HMJr: That's right.

P: Well, all right.

HMJr: Well, thanks for letting me know.

P: All right.

HMJr: Thank you.

July 31, 1939
4:42 p.m.

266

HMJr: Hello.

F.C.

Harrington: Hello, Mr. Secretary.

HMJr: How are you?

H: I hope you're going to have a grand trip.

HMJr: I certainly am.

H: I wish I were going. (Laughs)

HMJr: I wish you were too.

H: Why, what I wanted to call you about was this Co-operative business that you spoke to me about.

HMJr: Self-Help Co-op.

H: Yeah.

HMJr: Yeah.

H: And I think Miss Lonigan has been a little irritated with me because I haven't been able to see her, but, Mr. Secretary, this month has just been -- this month of July has been something for me..... (Laughs)

HMJr: I know that.

H:with this new Act.

HMJr: I know that.

H: And what I asked her to do, and sent the message to her, was to put down on paper what -- definitely what she had in mind.

HMJr: Yeah.

H: Because, after all, when you're talking in terms of 40 or 50 million dollars..... (Laughingly)

HMJr: Yeah.

H:I think you ought to.

HMJr: I think so.

H: And sometime this week I expect to get to a general talk on that whole thing.

HMJr: Good.

H: I -- I simply wanted to assure you that I hadn't forgotten your call.....

HMJr: Well.....

H:and I was getting at it as soon as I could.

HMJr: Well, it was very nice of you to call me, and Mr. Hanes will be here during my absence.

H: Yeah.

HMJr: And if you can get around to it -- what I talked with -- to the President was -- the last time -- was the -- thinking of the possibility of following in the footsteps of the cities where the food stamp thing has been made a success.

H: Yes.

HMJr: And -- because they've got to do an awful lot of preliminary work, you know.

H: Yeah.

HMJr: And that -- if they were going to do something they might take a look at Rochester and Dayton and Seattle.

H: Yeah.

HMJr: And this Self-Help Co-op. is just as difficult to put across as these food stamps. It takes a lot of work.

H: Oh, I'm sure of that.

HMJr: And -- but I appreciate your calling and I'll let Miss Lonigan know through McReynolds.

H: All right.

HMJr: I'll tell -- McReynolds has been watching this and Mr. Hanes will watch it too.

H: Yeah.

HMJr: But I'll tell Mac that you called and pass it along to Miss Lonigan.

H: Fine! Thank you.

HMJr: Thank you.

H: I hope you have a grand time, sir.

HMJr: Thank you so much.

H: Righto.

July 31, 1939

Present:

Mr. Hanes
Dr. White
Mr. Cotton

(To discuss letter to State Department on Colombia.)

HM, Jr: Let me just paraphrase what I said to Sumner Welles. I said I won't go into any of these countries unless the State Department first asks me to. That's number one. Number two: I won't go into any country unless we first have an understanding about the debt of this Latin-American country to our private citizens.

Dr. White: Number two is very well handled in this letter. One is a little bit aggressive.

Mr. Cotton: It says once a decision has been taken

HM, Jr: Once a decision has been made by the President of the United States and the Secretary of State.

Dr. White: That would still leave it that once they have made the decision that you carry out the negotiations.

HM, Jr: What's what I want. Once the decision has been made by the President of the United States and the Secretary of State that

Dr. White: ... to go ahead and attempt to work out a program.

HM, Jr: I want the decision made by the President of the United States and the Secretary of State, but once that decision has been made then it is our program.

-2-

I want to get Hanes' reaction.

Can I give a little background?

Mr. Hanes: Yes. It's all new to me.

HM, Jr: The background is -- you were here when we went along on the Brazilian thing. You know for three weeks I was overlooked on it. Now we find out that why nothing has happened is that this Francis White, Protective Bondholders Committee up in New York, and Herbert Feis have just put the whole thing to one side pending a settlement and finally, through Aranha having to offer to resign, he was able to get Brazil to put up \$1,000,000. But in the meantime everything is at a standstill.

Now, Welles comes over. He wants us to do this and do that. He sat there and I told him I would not go into any country in the future unless this question is settled before hand.

Our Chinese loan was practically scrapped because at the last minute Hornbeck said the Chinese Government owes \$5,000,000 to Continental, Chicago. It turned out it went back to the time of the Empress that they had it. They were willing to hold up this whole thing for that. I don't say the State Department should not use its good offices, but -- let's take the case of Cuba where there is \$80,000,000 involved. Herbert Feis and his Bondholders Committee said they must collect 100 cents on the dollar. Some of the loans were made in good faith.

Now Colombia. Gregg is a good fellow. Here's \$10,000,000 or \$15,000,000 locomotives and railroad equipment they want to buy. No, sir! They can't do it! Unless they settle the debt thing. Well if they want to do that and our United States Government says they have to collect 100 cents on the dollar for our private citizens, all right, but I don't want to play because where the world is moving so fast we sit back in three cases, Brazil, Cuba and Colombia, we are going to force these people to do business on a barter basis and in normal times a fellow should pay his debts, but these are not normal times and they are not Governmental debts.

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We are absolutely stymied and it's taken me all this time to do it. All I say in this letter if they want to do it, all right, but don't come around and ask me to help. It's of interest to you fellows. First, you are here when I am away. If you are going to sit around with the Ministers of Finance of Latin America, this is the first thing they will talk about. Now Francis White has sent two cables to Aranha which they tell me are the most insulting things they have ever seen and outrageous and they ruined the man's political career. If ever a fellow tried to do his best -- and the whole thing has been hamstrung by this Protective Bondholders Committee. I think it's outrageous.

Dr. White: I made an analogy which Dannie Bell thought very well of. I said the Government is in the position of a banker who is talking to a bankrupt individual who is coming to it for assistance. Now that banker, before he gives assistance, wants to know whether the settlement which he is going to arrange with the creditors is a reasonable one which would enable the bankruptee to go forward and put himself on his feet again so he will be able to repay his loan again. Why should a bank come to the rescue if the creditor will get all the benefit of it? So the Secretary does want these loans to be adjusted, but in such a way that together with any assistance the American Government gives them that that country will be able to go forward and improve economically by increased trade and pay back.

Mr. Hanes: Was this Bondholders Protective Committee able to arrive at some conclusion with Aranha while he was here?

Dr. White: Yes. I think the settlement was \$11,000,000 or \$12,000,000. Never got any official information.

Mr. Cotton: Somewhere between \$10,000,000 and \$12,000,000.

Dr. White: That's what I understood was going to be the settlement.

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HM, Jr: They paid one installement and in order to get it Aranha had to threaten to resign and they tell me that politically he's through. You (Hanes) want to think it over during the night?

Mr. Hanes: No. I think you are right.

HM, Jr: But I did not want it to go out unless it made sense to you, and I think I am trying to be practical.

Well, fix it up. And, again, we won't start unless the President and Mr. Hull ask us to.

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE July 31, 1939

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Export-Import Bank interest rates.

Under the law all of the Bank's capital is obtained from the RFC by purchase of stock and loans. At the present time, all of the capital is represented by \$1 million of common stock and \$45 millions of 5% preferred. However, the rate on the preferred has been reduced to 3% as in the case of all other RFC investments in preferred stock of banks. Addition to its capital by borrowing will soon be necessary.

This means that the Bank pays approximately 3% for its money which the RFC has obtained from the Treasury and from the public at a present rate of approximately .9%. There would be no obstacle to reducing the cost of money to the bank to the same rate which the RFC has to pay. This could be done by further reducing the rate on the outstanding preferred stock by agreement or, if the RFC did not wish to make a special exception in the case of the Bank, by redeeming the preferred stock out of proceeds of loans from the RFC.

J.P.C.H.

GROUP MEETING

July 31, 1939.
11:00 A. M.

Present: Mr. Hanes
Mr. Gaston
Mr. Foley
Mr. Gibbons
Mr. McReynolds
Mr. Graves
Mr. White
Mr. Bell
Mr. Haas
Mr. Duffield
Miss Chauncey

H.M.Jr: (Reading certain papers) Harold, I don't understand this.

Graves: Man and wife - two.

H.M.Jr: Oh.

Graves: Texas has community property law. They usually file separate returns.

H.M.Jr: I see.

Mr. Hanes - I've seen you today.

Hanes: Glad to be back. Haven't anything on my mind.

H.M.Jr: I haven't done anything since I've seen you except find out whether I need a white tie in Finland; thought I'd better maybe take one.

Herbert?

Gaston: Don't know a thing.

H.M.Jr: How is the great "self-liquidator" today?

Bell: Boy, he's been liquidated.

H.M.Jr: Every time I see you (Foley), you lose five pounds of weight.

White: Getting thinner all the time.

(H.M.Jr. leaves room for few minutes to take telephone call and returns)

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- H.M.Jr: I'm sorry, but I had to take care of that. How far did I get? Oh yes, I got as far as "Self-liquidating Foley." Well, what have we got left of the bill?
- Gaston: We've agreed that we haven't lost a thing yet.
- H.M.Jr: Good.
- Bell: Well, so far as the House bill is concerned.
- Foley: We haven't seen the language, Mr. Secretary, because they haven't had it printed, and they've only got one copy that they marked up in pencil. And Joe is down there now to get the changes and mark up a copy for us.
- H.M.Jr: Joe?
- Foley: Joe O'Connell.
- H.M.Jr: Oh.
- Foley: The amounts you probably have seen. They came over the ticker this morning.
- H.M.Jr: (Nods negatively).
- Foley: They left PWA as it was - 350. They reduced the highways from 750 in the President's letter to 500. They dropped railroad equipment from 500 to 250. They dropped rural electrification from 460 to 350. They dropped farm tenant from 500 to 400. They left Export-Import Bank the same. And they didn't add anything for reclamation in the House. And the total is a billion 950.
- Bell: They did add the farm....
- Foley: And they have added the refinancing of the farm mortgages that the Senate added.
- Gaston: That leaves the first year's program untouched. Just the over-all limit.
- Foley: If the language changes are not so restrictive as to prevent free administration of the bill, I don't think that we're in bad shape in the House. Steagall

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says he's got a bill now that nobody in the House from Alabama dare vote against, and he says he won't have any trouble on the floor with this bill. So if he passes the bill the way he's reported it out and we find that there aren't any restrictive language changes, I think we'll go with the bill to a friendly conference, because Byrnes and Wagner and Barkley will be the Senate conferees for the majority - maybe Adams, maybe the four of them - so we'll have three out of the four Democrats Administration supporters, and I think we'll be able to fix the bill up pretty much in conference, and it will be so near the end of the session and they'll be so tired and anxious to get away that they'll agree to anything the conferees bring back. I don't think there will be a fight on the conference report.

H.M.Jr: Well, a billion 950 is still a tidy sum.

Foley: I think so.

White: Well, as Herbert points out, it takes out from the further end, which is not important, because you've got a year to amplify it.

Gaston: It's all got to be passed on again next year and the following year, and it will give us just as much to spend in the first two years as the original bill.

H.M.Jr: When will it get to the floor of the House?

Foley: Well, they haven't got a rule yet. I should think it would come up on the floor not earlier than Wednesday, and not on Wednesday if they take up the Straus bill today and they haven't disposed of it by Wednesday. But I suggest that they ought to have the bill under discussion on the floor in the House in Wednesday. And I don't think they'll take so long in the House; might not take more than a day or two in the House, depending on the kind of a rule they get.

H.M.Jr: Well, one thing - Johnny's in favor of this bill going through, is he not - these fellows can leave town if it goes through, you see, so the

chances of its going through fairly soon - you see, they're all nailed down here until they get this bill over.

White: Baldwin called me up and wanted to....

H.M.Jr: Baldwin's Farm Security.

White:hoped that the Treasury would not oppose the refinancing provision on the farm mortgages at low rates of interest. He seemed to get the idea they would oppose it.

H.M.Jr: Let me tell the story as I understand it. "Frosty" Hill calls up his pal, Danny Bell - I mean this isn't from Danny - I mean this is the way I pick it - a little bit here and there - he wants us to go ahead on the Hill and fight it. Then we ask Hill to write a letter saying that he's opposed to it to Wallace, but he won't do it, see? So we didn't even have a chance to decide whether we were for it or against it, because we are very meticulous around here about flow of authority. You see, "Frosty" Hill calling up Bell to get us to do it wasn't official, so I never had a chance to say whether I was for or against it.

Foley: That's not the whole story. The amendment was agreed to in the Senate, 74 to 8, so probably it wouldn't have made much difference.

White: Well, they feel that if the Treasury opposes it, it might give it trouble in the House, and they think that with that on, the whole bill has a much better chance of passing.

H.M.Jr: Harry, I'm amazed that you think I'd go along with a minority of eight. Forty-two to thirty-nine - I might be interested. Seventy-two to eight - I'm amazed, Harry. I'm amazed.

White: Yes.

H.M.Jr: I'm insulted.

White: I just said I would take it up with you, but I remember you made a statement which would lead

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me to believe that you will not oppose it, because somebody asked you in the Committee meeting, "Supposing as a consequence of these low rates, it induces low rates on other outstanding mortgages?" If I remember correctly, you said that would be a good thing.

H.M.Jr: You corrected my testimony.

White: That's the way it went in.

H.M.Jr: I want you to know....

White: Then it's all right.

Bell: Is it still in your testimony?

H.M.Jr: I want you to know who's running this bill around here. You'll (Hanes) find out. I hope you have as good luck as I have.

What are you so.... I'll tell him, "You can say it's whatever way I testified." I should worry.

Hanes: Got to stick to it.

H.M.Jr: If Hanes wants to look up how I testified....

Foley: Harry, they're not going to ask us. They put it in without asking us.

White: He got the news or the impression somewhere that we were actively going up to oppose it. I don't know where he got it.

Bell: We'd like to - I would. I think it's vicious.

Foley: He must have been talking to Danny.

Bell: I think it's the worst thing that could be done. God, it's terrible.

H.M.Jr: Do you want a conference on it?

Bell: It's too bad, certainly, that it's put in this bill. No, I don't want a conference on it. I don't think there is any sense in having a conference or the

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Treasury opening its mouth, now that it's settled. The only way you could get it out is - would be by veto.

H.M.Jr: Well, should I worry?

Bell: No, I don't think you should worry, and I don't think you should say anything....

H.M.Jr: All right.

Bell:about it.

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

Hanes: Yes.

McR: Seventy-four to eight - that's the answer.

Bell: Yes, that's the answer.

H.M.Jr: All right. Now, where were we? Right with you (Foley).

Foley: Right with me.

Sam Clark, the new Assistant Attorney General in charge of taxes, called up on Saturday and said that there was to be a meeting in the Attorney General's office at 11:30 today on the Schenck case and the Attorney General would like to have me there. Then they called up this morning and said that the Attorney General wanted Thurman Arnold to be present. Thurman was ill this morning, so they postponed the conference until 11:30 on Wednesday.

H.M.Jr: Well, now that Hanes is back, will you talk to him about that sort of thing?

Foley: You bet. I think maybe it would be a good idea if Johnny went on Wednesday.

H.M.Jr: That I - well, I don't know whether you (Hanes) want to.

Foley: Because we probably....

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H.M.Jr: I'm still here. Well, he can - I don't have to give him any advice. That's up to him. Wild horses wouldn't get me there. Not that I'm offering any advice.

McR: In other words, you'll get no criticism from the Secretary if you don't go.

H.M.Jr: I think it would be nice if Clark would pay a call on Hanes. He never did that to me.

Foley: Well, Johnny, I've invited Sam to have lunch with Phil Wenchel and me on Wednesday. If you're free on Wednesday and if Harold Graves is free on Wednesday, I think it would be nice if you two would come.

Hanes: I'd like to. I know him. You know, he was over in SEC.

H.M.Jr: I say he never called on me, but that's all right.

Foley: Well, would you like to see him before you leave?

H.M.Jr: Nothing new. No, it's all right. He should have called on me.

Foley: Well, I think it's simply been an oversight on his part. I think he....

H.M.Jr: As his only client.

What else?

Foley: Nothing else.

H.M.Jr: George?

Haas: I have nothing important. (Hands Secretary book of figures).

I have a couple more reasons, which you're probably familiar with, why they set up that Oklahoma stamp plan. For them to recognize....

H.M.Jr: I think - do you mind if I go around and come back, because I've got this bank meeting at 11:30.

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Haas: I could write a memorandum.

H.M.Jr: Supposing you do. And I wish you'd show Mr. Hanes your estimate on revenue.

Haas: Fine.

H.M.Jr: I think he'd like to see that.

Anything else, George?

Haas: That's all I have.

H.M.Jr: Gene, I like your necktie.

Duffield: Been ashamed to wear that for a lot of years. Thanks.

H.M.Jr: Now that you're in the Treasury, you're getting bold, huh?

Duffield: That's a list of newspaper men you might want to invite for this luncheon.

H.M.Jr: Fine.

Duffield: They're the people who are ordinarily here. Now, if you want to add....

H.M.Jr: Well, will you invite them. And then, the 9:30 group is invited for lunch tomorrow, plus the newspaper men.

Duffield: I have a copy of that. Do you want to keep it?

H.M.Jr: Well, will you (Chauncey) tell Dowling....

Chauncey: I'll make arrangements....

H.M.Jr: Tell him to talk to me about it. I'm having a luncheon - that's tomorrow - having the newspaper men and the 9:30 group for lunch.

Duffield: That's all.

H.M.Jr: While I'm here - I was amazed to pick up the paper this morning and see that Stewart McDonald had reduced his interest rate by a half percent. Did

he let you (Bell) know?

Bell: I got it. I have a memorandum here.

Mr. Schram called me late Saturday and said that he had received from Mr. Jones in San Francisco a copy - copies of letters which Jones had sent to the agencies under his control. One was to Stewart asking him to reduce the rate from five to four and a half, and I understand that Stewart is really with Jesse, so that the action was all taken on the Coast and announced to be effective tomorrow. He also wrote a letter to Mr. Fahey asking him to reduce the Home Owners rate from five to four and a half. I should say that there would be a great deal of argument about that, in view of the fight that the Home Owners Loan has put up on the Hill to keep legislation from going through reducing that rate, the argument being that the spread between what they pay on their borrowed funds and what they get from the mortgages will just about cover their losses.

H.M.Jr: I see that McNutt and Eccles claim the credit for this and the Japanese thing.

Bell: Oh, really? I hadn't got that far with the paper.

White: That's directly traceable to your action. You ought to get credit for that.

H.M.Jr: Why?

White: That five to four and a half percent. You remember that when the program was presented, the President raised the issue and he said to see McDonald, perhaps postpone it. That was the first time the ball started to roll.

H.M.Jr: Well, I can give you more than that. That's why McDonald at lunch gave me his word that he would do it on or about the first of August, and on the strength of that we took it out of the legislation. So that's why I thought it would be just a nice thing to - see, Jesse talks to me every other day on the phone, and might have said something. No, downstairs I asked Stewart McDonald at lunch -

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were you (Bell) present?

Bell: I was there.

White: Wasn't that a consequence of your conversation with the President in which he asked you to do that?

H.M.Jr: He asked me to have it taken out of the bill. The President asked if we'd take it out of the bill on the plea of McDonald, saying it would kill his spring business, but he'd be willing to do it on the first of August. And he said he thought unless something else came up, he most likely could do it, he would try to do it on the first of August. Wasn't a definite pledge. But that's what happened. That's why I was just a little interested. Not hurt, just interested.

Bell: Crowley is also reducing his rate from four to three.

White: Spring fashion.

H.M.Jr: Well, that's - you called him and asked him to do that.

Bell: He's doing that right away.

H.M.Jr: And would you give Mr. Hanes that list....

Bell: Yes.

H.M.Jr:that we had prepared. Bell made me a study of all the interest rates of the various lending agencies. We're trying to get them somewhat uniform. There's no uniformity, and he's following up - I think you'd be very much interested in following through on that, Johnny. It's a very interesting study. We sent a copy to the head of each of these agencies. I mean Jones on his preferred stock charges three and Crowley charged four on what they loaned the banks. I mean there's just no rhyme or reason to it.

Bell: Well, Crowley's rate is a capitalization rate. He buys the assets of the closed or merged bank, and if there's anything over and above what he - on the liquidation over and above what he paid for them, then he puts it on his books as a capitalized

interest charge. So if he gets back more than the three percent, that money will be returned to the stockholders.

H.M.Jr: Well, to be serious a minute, I'd ten times rather have the thing done and not get the credit, than not have it done and try to claim it. I'm not interested. I mean it's like this - somebody writes up the story that it was McNutt's idea to serve notice on Japan to abrogate the treaty. That wasn't - if he did help, he won't be asked a second time to help Mr. Hull.

Gibbons: Anybody listen to the conference they have with Chicago University every Sunday? Drew Pearson was on, and he said that the Secretary of State had made the most dismal failure in the Administration - State Department - that it was just a great failure. He was just terrible.

H.M.Jr: He did say that?

Gibbons: I want to get a copy of it.

H.M.Jr: That's too bad.

Easton: He has a personal feud with Mr. Hull - Drew Pearson has.

Gibbons: Three persons talk every Sunday - the professors usually talk; they turned it over - this was politics. Just happened to be listening. I had to go out, and I didn't hear the whole thing, but it was awful.

H.M.Jr: Harry?

White: Here's that report on Japan that you asked for. It's a very superficial review, and we wrote a brief memorandum giving you the exact situation.

Chauncey: You failed - you didn't put it in your afternoon file basket, so it came to light Saturday morning. I have it.

H.M.Jr: Well, will you give me this and the other thing when I go to the White House.

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White: And I have some information on Fisher.

H.M.Jr: Who?

White: Fisher.

H.M.Jr: Fisher?

White: Herbert mentioned that name to you - Fisher - when you were talking about Milo Perkins.

H.M.Jr: Oh.

Gibbons: The only thing I have - I understand Columbia Pictures is getting out a moving picture, which we won't have anything to do with - my daughter read about it in the movies - a story there about a drunken aviator. So Herbert and I are going to review it.

H.M.Jr: Drunken Coast Guard aviator?

Gibbons: Yes. And when we took it up with them, they came back and sort of begged the question, said the man wasn't drunk but his wife left him - he had been depressed; it was a picture of his apartment, with evidence there of his having drunk - empty glasses, all that sort of thing. But I don't know what we can do about it. We refused to have anything to do with it. We can bring some pressure after seeing it, if we want to.

Gaston: We'll know more about it after we see the picture this afternoon.

Gibbons: It may be all right, don't you know?

Gaston: We tried to stop them from making it, wouldn't give them any cooperation, but they went ahead and made it anyway.

Gibbons: Chick Schwarz has just gotten back from....

H.M.Jr: I should think you'd wait at least until Wednesday for a moving picture. Didn't think you'd start....

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Gaston: I've got more important things to do after Wednesday.

H.M.Jr: Whoo hoo! Oh boy!

All right. Harold?

Graves: Some days ago you asked me to have ready for you before you went away a summary of the results of the income tax operations of the Bureau under this decentralized program.

H.M.Jr: Yes.

Graves: Mr. Duffield and I have collaborated on that. We have now a statement in the form of a press release....

H.M.Jr: Oh.

Graves:that covers that ground.

H.M.Jr: Well, supposing what we do - as long as Mr. Hanes is here - got a copy for him?

Duffield: I can get some. That - my secretary sent that in to me after I had left the office.

H.M.Jr: Well....

Duffield: It hasn't gone out, Mr. Secretary; it's ready to go.

H.M.Jr: How long has this been in the making?

Duffield: What do you mean?

H.M.Jr: I mean how long ago did I speak to you about this?

Graves: About ten days ago.

H.M.Jr: I see. Well, give a copy to Mr. Hanes.

Duffield: I will.

H.M.Jr: What was your idea?

Duffield: I was going to ask you if it was something you wanted particularly to give a little boost to;

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if so, I would suggest you might mention it at your press conference this afternoon.

H.M.Jr: No. Why don't you just....

Duffield: Otherwise, it would just go out in the routine whenever you say it's all right.

H.M.Jr: Well, get it out - wouldn't this go out from Internal Revenue?

Duffield: Goes out from here.

H.M.Jr: Will anybody print it?

Duffield: Will anybody?

H.M.Jr: Yes.

Duffield: Oh, I think so.

H.M.Jr: (To Hanes) Take a look at it. All right.

Graves: (Nods nothing).

Duffield: May I ask, before you leave that, it's all right to put it out when Mr. Hanes says it's O. K.?

H.M.Jr: Well, he and I will decide in the next few minutes what we'll do. Take a look at it.

Bell: This is the final subscription allotment of the Commodity Credit notes.

H.M.Jr: Oh. Do I do anything?

Bell: Just initial it, that's all.

Jere Cooper asked you to get some quick action on a new check for a woman - forty dollars. Well, it just can't be done. Have to get some initialed papers. And that's explaining it.

H.M.Jr: All right. (Signs letter).

Bell: I have a number of things to discuss with you and Mr. Hanes.

H.M.Jr: With Hanes and me?

Bell: Yes. I take it you want to. Take several minutes.

H.M.Jr: Two thirty.

Bell: O. K., fine.

H.M.Jr: And Hanes?

Bell: Yes, sir.

H.M.Jr: Give you half an hour?

Bell: That's plenty. That's all I've got.

White: May I interrupt with one thing? A State Department man is coming to see me about the marking - he claims, because you suggested that he come to see me. Now, I understood that your instructions were to let the thing lie on ice until you came back.

H.M.Jr: No, what happened was that Mr. Hull called me up on the phone and spoke to me anyway, and said, in view of what he had done in the Far East, could we go slowly....

White: That's right.

H.M.Jr:in regard to the marking of goods originating in Manchuria.

White: That's right.

H.M.Jr: In Manchukuo. I said I'd be glad to look into it, if he'd have his man see Dr. White.

White: I see.

H.M.Jr: He said would I please say to Dr. White that he, Mr. Hull, was interested in going slowly on that.

White: I see.

H.M.Jr: And I said I'd tell him. I have no opinion on it, but Mr. Hull is very much interested, and when he does make these direct requests, I like to comply

with him if it is possible.

White: I see.

H.M.Jr: See? What?

White: O. K.

H.M.Jr: I mean I like to comply with him if it is possible. He doesn't make many. I mean all he said is to postpone anything....

McR: John McCormack was in to see you about the widow of a Congressman up in Boston.

H.M.Jr: Yes.

McR: And he wanted her given a job as a Deputy Collector.

H.M.Jr: That's right. Can you do it?

McR: Of course, they can appoint anybody they want to as Deputy Collector.

Graves: McCormack's man has just been appointed Collector here. I should think it's up to him to take it up with Hassett, the new Collector.

H.M.Jr: Well, this is a - Mr. McCormack is Chairman of the Caucus in the House - Democratic Caucus.

Bell: Does that mean anything?

H.M.Jr: (To Graves) That's better - smile.

McR: Of course it can be done.

H.M.Jr: Do it.

What would you do with that (income tax press release), Johnny?

Hanes: Let it go through.

H.M.Jr: Let it go. All right, give it out.

McR: This is a letter to Harry White on his trip. If you sign that one, he has to pay five dollars for a bond. If you sign this, he doesn't. I recommend

you make him pay it.

White: I'll shoot you for it, Mac.

McR: Still, I think....

H.M.Jr: Why should he pay five dollars for the bond?

McR: Mrs. Klotz had to pay five dollars for her bond; why shouldn't he?

H.M.Jr: On that basis....

McR: No, it's common practice. That is, if this was - if it was anything but stabilization fund, he'd have to, and I don't think you'd better make any exception.

White: I'll take it away from him in craps; it's all right.

Hanes: Very common practice, isn't it, Harry?

McR: I just wanted to do that while Harry was here, so he'd know how reticent I was about it.

And here are some letters that your lady wanted signed when you get around to it. It's the letters that Irey has prepared in that coordination set-up that he talked to you about.

H.M.Jr: Oh. Well, after Mr. Bell and Mr. Hanes, I'll see you - I want Mr. Hanes to know about that.

McR: Yes. O. K.

H.M.Jr: What?

McR: I don't think anyone can object.

H.M.Jr: I don't want to do that on the eve of going without Mr. Hanes knowing about it.

EG

GRAY

Paris

Dated July 31, 1939

Rec'd 5:10 p.m.

Secretary of State,
Washington.

1421, July 31, 7 p.m.

FOR THE TREASURY.

Our telegram No. 1410, July 29, 1 p.m. Reynaud's radio address displayed the usual confident optimism which is such an important part in his successful campaign of popular education on French financial and economic problems and necessities (*) it has been well received.

He reviewed the financial and economic results of his policy, and explained the main features of the most important of the decrees laws approved by the Council of Ministers earlier in the day. Again stressing the moral and material renaissance which has taken place in France he pointed to certain specific indications of financial and economic recovery: compared with June 1938, exports during June 1939 had increased 25% in volume and 40% in (*); the value of exports was equal to the value of the combined total of orders placed for the War, Air and

Navy

-2- #1421, July 31, 7 p.m. from Paris

Navy Departments (thus endeavoring to show that improvement in the French economic situation was not merely confined to rearmament activities); the general index of production had passed from 83 in October 1938 to 100 in June 1939; the production of automobiles was higher today than in 1929; construction had increased by 56% during the first half year of 1939 compared with the same period of 1938.

(END SECTION ONE)

BULLITT

HR:DDM

(*) Apparent omissions

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1939-10-01 1939-10-01
1939-10-01 1939-10-01
1939-10-01 1939-10-01

JR

GRAY

Paris

Dated July 31, 1939

Rec'd 5:33 p.m.

Secretary of State,
Washington.

1421, July 31, 7 p.m. (SECTION TWO).

Turning to the currency he referred to Socialist predictions in June last that the franc would be helpless before any serious threat of war and pointed out that in spite of continuing crisis gold has not ceased to flow towards France and that since March 31 last France possess the largest gold stock in the world after the United States; during the last five days "eleven tons" had been received. As indicated he also announced that the exchange fund had just been led to pay over five billion francs gold to the Bank of France, increasing the gold stock of the latter to ninety-seven billions. The Treasury he said commenced the second half of the year under better conditions than the first, with resources substantially higher than at any time since January. Since May 1 the three year bonds had brought in five billion francs and the interest rate had just been reduced from 4% to 3.50%. The
armament

-2- #1421, July 31, 7 p.m. (SECTION TWO) from Paris.

armament bonds (issued on July 1st) had produced two billion francs in 25 days. Savings deposits last month exceeded withdrawals by five hundred ninety-five millions. The Minister concluded his discourse by explaining efforts made by the Government to prevent higher living costs, justified the Government's policy of taxation and explained steps taken to limit the profits of armament suppliers. With respect to living costs he asserted that whereas these had gone up 14.56% in the first eight months of 1937 and 6.24% in 1938 they had risen only 4.37% this year.

BULLITT

RR:WWC

RECEIVED

JUL 31 1938

TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

JR

GRAY

Paris

Dated July 31, 1939

Rec'd 5:35 p.m.

Secretary of State,
Washington.

1421, July 31, 7 p.m. (SECTION THREE).

The first series of decree laws, twenty-seven in number, approved by the Council of Ministers on July 29 were published in the Journal Officiel of July 30. Those of direct or indirect financial or economic importance include: (one) a plan designed to increase the birth rate which will probably involve an expenditure of about 1450 million francs annually to be obtained by taxation; (two) reorganization of the system of wheat subsidies through the wheat agency (which has obliged the Treasury to advance to date about three billion francs mainly through the Bank of France) by a new scheme designed to guarantee the state and producers from risk of loss; (three) application of recommendations of the special committee created on May 8 last relating to ways and means of limiting profits on armament contracts. Under the plan the Government will take all profit over ten per cent; (four) increase by one billion to total of five billion francs
for

-2- #1421, July 31, 7 p.m. (SECTION THREE) from Paris.

for program of new railway work (necessary for national defense); (five) additional appropriation of 1,245 million francs authorized for the 1938 budget chiefly for armament; and (six) transfer of appropriations totaling 4,500 million francs from 1938 special armament budget to the same budget for 1939. (END MESSAGE).

BULLITT

WTC:DDM

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1939 JUL 31

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

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 31, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending July 29, 1939.

Conclusions

(1) Some further improvement in the basic situation of business in this country occurred during June, as shown by a rise of 1 point in our index of basic demand for that month, and a similar rise in our composite sales index. While the new orders index declined slightly during the month, it remains within the pattern of the general upward trend begun last year, and will be strongly reinforced by automobile steel takings during the early fall. Domestic factors thus indicate a further business recovery during the second half of the year.

(2) A strengthening in foreign stock prices and sensitive commodity prices last week, together with a shift in foreign trading in our securities toward small net purchase balances, may indicate some improvement in sentiment abroad.

(3) National income payments rose somewhat during June, reaching an estimated annual rate of \$65.7 billions. In terms of "real" income, which takes into account the increased purchasing power resulting from a decline in living costs, national income during the first half of this year was close to the 1929 level.

- - - - -

The general situation

The basic domestic situation, which for a number of months has pointed toward further recovery, showed an improving tendency during June. Our index of basic demand (see Chart 1, upper section) rose 1 point to 103 in June, which compares with an FRB index of 97.

This indicates that industrial activity must increase somewhat further to reach the current level of estimated demand. Two other influences, however, will tend to carry industrial production still higher: (1) The estimated demand level will doubtless continue to rise as business activity improves, until

some maladjustment occurs; and (2) depleted inventories will probably be built up to a greater or less extent, particularly if prices improve, owing to the increased inventory levels necessitated by a larger volume of business.

During June, the estimated basic demand for steel, seasonally adjusted, rose to the highest level of the year. The basic demand for automobiles, coal, leather, meats, refined petroleum, rubber, and textiles also improved over the May levels, while declines were shown for cement, lumber, and crude petroleum.

A 1-point rise in our composite index of sales for June, seasonally adjusted, confirms the increase in estimated basic demand. (See center section of Chart 1.) This indicates that the offtake of manufactured goods, in physical volume, continues substantially above the current level of industrial production. As in the case of basic demand, the sales index will doubtless rise further as business improves.

New orders (lower section of Chart 1) declined slightly in June, owing largely to a lower level of orders for building materials, but the combined index remains substantially above the equivalent level of industrial production, and continues within the pattern of the broad upward movement initiated early in 1938.

The new orders index would be higher if it took into account the large volume of steel contracted for by the automobile companies, but on which deliveries have not yet been specified, and which therefore is not recorded as new orders. This provides an important potential factor toward raising the new orders index during the third quarter.

Prices somewhat firmer

Some improvement in foreign sentiment, of at least a temporary nature, is suggested by upturns in stock prices on the London and Paris exchanges last week, accompanying slight further gains on the New York exchange. (See Chart 2.) The recent heavy foreign selling of American securities has also tapered off, and small net purchase balances were recorded on several days last week.

With these indications of improved sentiment abroad, sensitive commodity prices have shown a firmer tendency (see Chart 3), aided in part by increased industrial buying in this country. Reuter's index has tended to lag, but turned upward at the end of the week.

As a significant reflection of the recent improvement in demand for industrial materials, including materials required for armament programs, the prices of these materials have shown a rising tendency during the past several weeks, while prices of farm products (and of food products in general) have turned sharply downward. (See Chart 4.) Agricultural prices have strengthened, however, in the last few days.

Manufacturers are making commitments for raw material requirements more freely as a result of increased current activity and greater optimism over prospects for the second half of the year, according to trade reports, and expectations of firmer prices for raw materials are also said to have contributed toward lengthening the period of forward buying. Dun and Bradstreet mention in their current weekly business review that "Buying by consumers is being felt almost at once by wholesalers, since retail inventories are at low levels and retail trade is diminishing only slightly."

"Real" national income near 1929 level

National income payments in June, as estimated by the Department of Commerce, rose to an annual rate of \$65.7 billions. This compares with a rate of \$65.0 billions in May, when a setback in industrial activity due largely to the coal strike reduced the level of income payments. In 1929, the peak year, national income payments are estimated at \$78.6 billions.

The significance of the volume of national income payments to the country's well-being, of course, can be measured only in terms of the goods and services they will buy. Commodity prices and living costs have declined substantially since 1929, which has brought the present level of "real" national income much nearer the 1929 level than may generally be realized.

In Chart 5 we compare national income payments as estimated by the Department of Commerce with "real" national income, or the equivalent purchasing power of these income payments, based on the monthly cost-of-living index of the National Industrial Conference Board. This index agrees closely with a similar index compiled quarterly by the Department of Labor.

It will be noted that "real" national income during the first half of 1939, as thus estimated, was very close to the 1929 level, being equivalent to an annual rate of about \$77.2 billions as compared with the \$78.6 billion figure for 1929. The current high levels of "real" wages and "real" national income doubtless explain in part the well-maintained level of consumer buying during the first half of this year.

In comparing with 1929, it should be noted, one important qualification has to be kept in mind. The total population of the United States has increased since that year by 7.9 per cent, hence the same amount of total income payments now as in 1929 would mean a somewhat smaller amount per person.

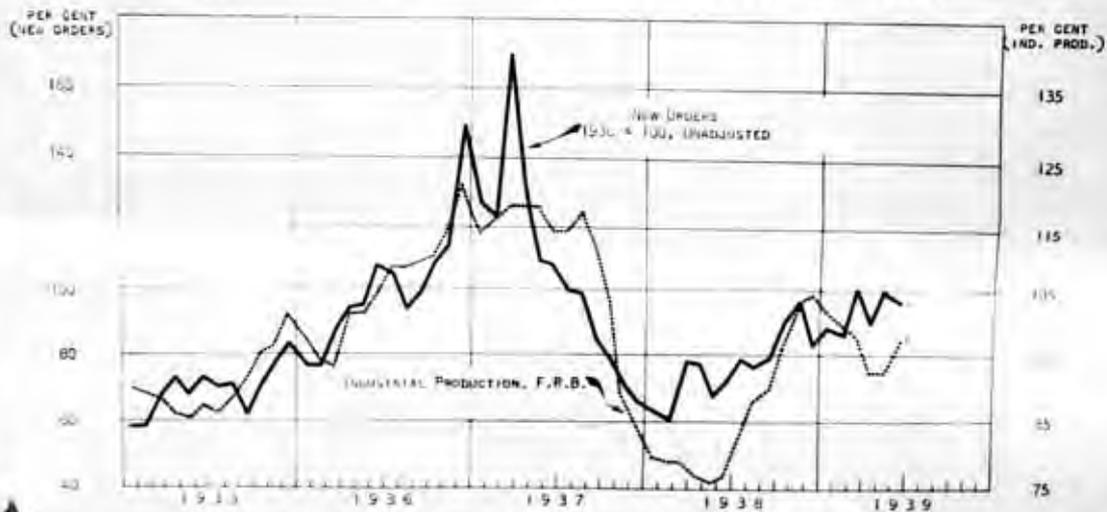
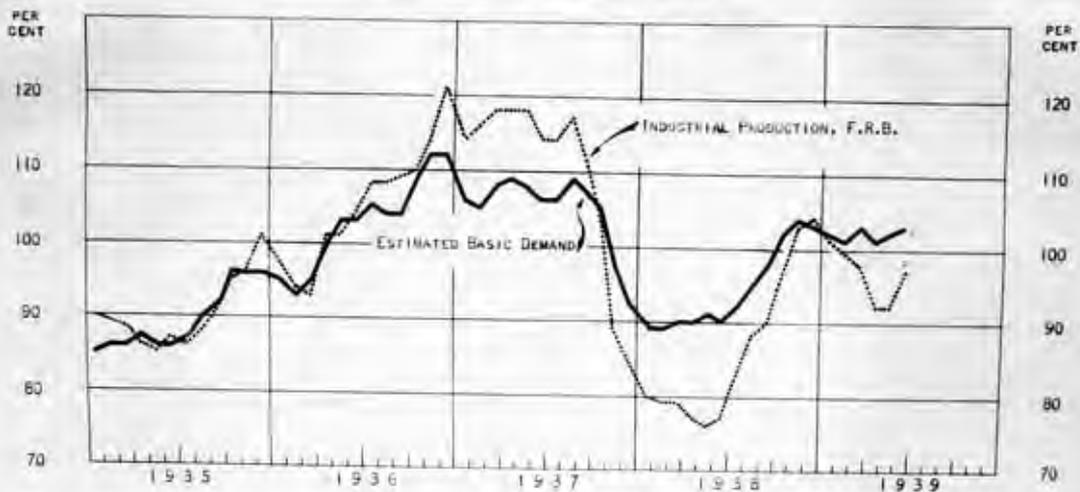
The current business trend

The New York Times business index for the week ending July 22 sagged 0.7 point to 90.3, owing to a wide decline in the adjusted index of automobile production, and downturns in the indexes for electric power production, cotton mill activity, and "all other" carloadings. These were largely offset, however, by a marked rise in steel production.

For the following week (ending July 29) the automobile index will again decline somewhat, since shutdowns for changeovers have reduced the week's production to 40,595 units from 47,420 units the previous week. The effect of this on the composite index will be more than offset, however, by a further important gain in the index of steel production. Data are not yet available on the five other components of the index for that week.

INDICES OF BASIC BUSINESS TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

1923 = '25 = 100, SEASONALLY ADJUSTED*



*EXCEPT NEW ORDERS
REPRESENTS "OFFTAK" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

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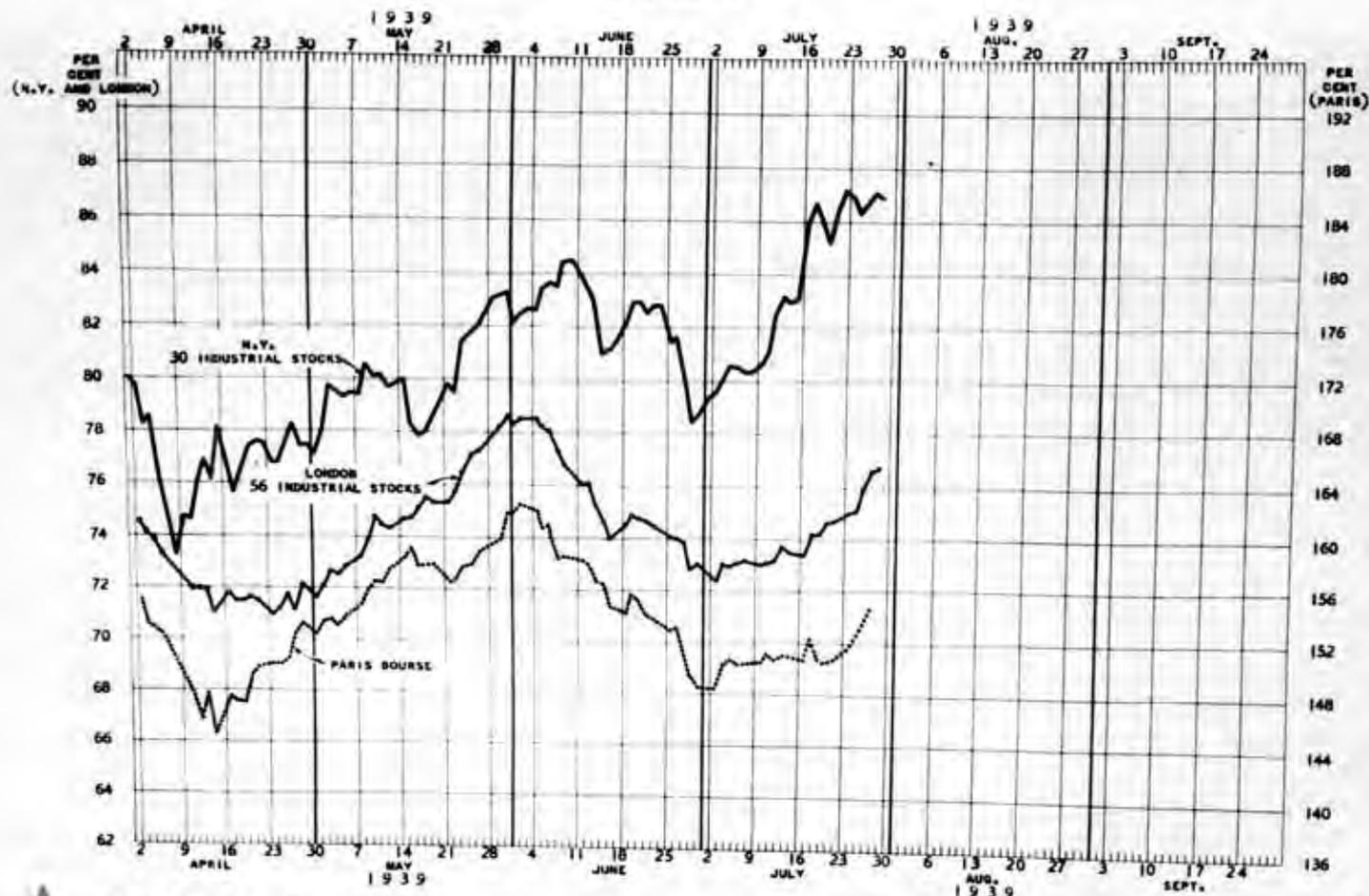
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Regraded Unclassified

STOCK PRICES IN U.S., U.K. AND FRANCE.

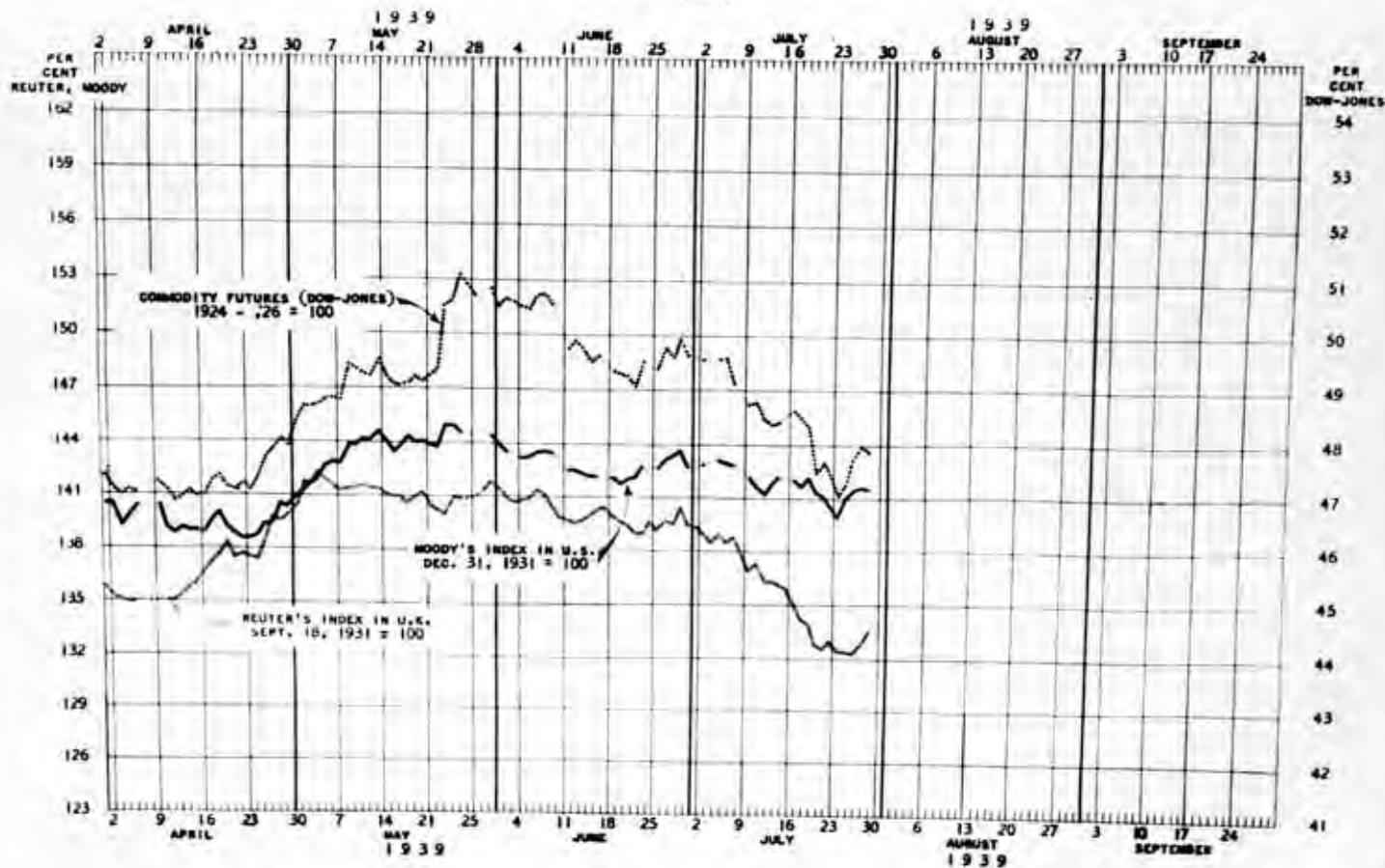
AUGUST 1936 = 100



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Chart 2
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COMMODITY PRICE INDEXES IN U.S. AND U.K.
Daily



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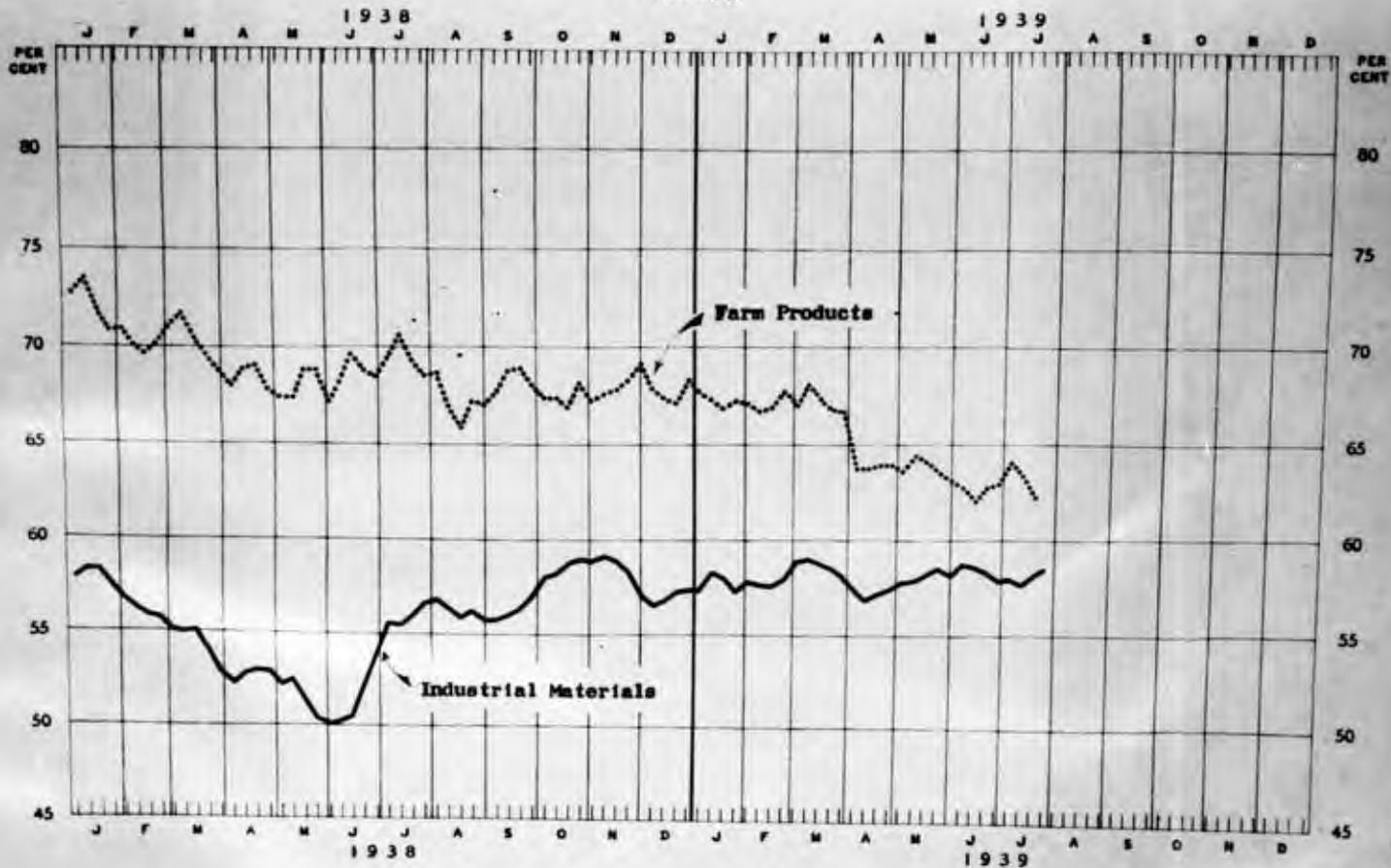
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Chart 3

PRICES OF INDUSTRIAL MATERIALS AND FARM PRODUCTS

1926 = 100



SOURCE: BUREAU OF LABOR STATISTICS

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Division of Research and Statistics

Chart 4
CONFIDENTIAL

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NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER

Monthly Figures on Annual Basis*



*Seasonally Adjusted Monthly Figures Multiplied by Twelve
 †Based on Cost of Living Index of Nat'l. Ind. Conf. Bd.

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Chart 5