

2. Tax administration. From the point of view of tax administration, several shortcomings of the Certificate Plan should be noted.

Sound tax policy endeavors to keep tax changes as infrequent as possible to minimize dislocating effects on industry. Under the certificate plan rate changes of substantial magnitude might be made from year to year. The rate changes would probably occur more frequently than they occurred under the invalidated processing taxes because the Certificate Plan, unlike the processing taxes, apparently allows the Secretary of Agriculture no discretion in this respect. The tax rate for each marketing year is automatically equal to the difference between the average farm price and parity price. ^{1/}

Furthermore, the crudeness of the Certificate Plan as a tax measure, lacking in integration of technical details (with respect to definitions of tax base, and exemptions, deductions and refunding provisions), can be expected to create many inequities.

The effective application of processing taxes requires the imposition of compensatory taxes. Floor stock taxes are a case in point. Under the invalidated processing taxes provision was made for compensatory floor stock taxes on any article that on the date the processing tax became effective was held for sale or other disposition.

Such compensatory taxes are essential to prevent undue profiteering. The need for such taxes is present especially when rate changes are likely to occur from time to time. Moreover, in those instances where, on

^{1/} See, however, page 25, fn. 1.

occasions, reductions in tax rates are likely, provision should also be made for refunds on floor stocks. In the absence of such provisions, processors and distributors are exposed to heavy losses merely because of a change in the tax rate.

Under the processing tax, the Secretary of Agriculture was instructed to ascertain whether "the payment of the processing tax upon any basic agricultural commodity is causing or will cause to the processors thereof disadvantages in competition with competing commodities by reason of excessive shifts in consumption between such commodities or products thereof." If he so found, he was to proclaim a tax at a rate "necessary to prevent such disadvantages in competition" on the first domestic processing of the competing commodity. The need for this type of compensatory levy is particularly important in a commodity, such as cotton, for which important competitive substitutes are available, such as paper, jute and rayon. This problem may be more serious in the case of the industrial uses of cotton.

Conceivably, a certificate plan of the type proposed could be supplemented by compensatory taxes within the internal revenue system. Whether such compensatory taxes are in fact contemplated by the proponents of the plan has not yet been indicated. It would appear that the imposition and administration of compensatory taxes as well as the disposition of the revenues raised would be more cumbersome as adjuncts of the Certificate Plan than was the case with the processing taxes imposed from 1933 to 1936.

3. Federal expenditures. The adoption of the certificate plan would clearly result in a large increase in total expenditures for agricultural purposes. Part of the expenditures would be inside the Federal budget and part outside the Federal budget. There appears to be some question whether the amount of Federal expenditures within the budget would be reduced.

Some features of the plan would indicate the possibility of reduction in budget expenditures. With respect to certain commodities, the certificate plan is proposed as a substitute for "parity payments" now financed from general revenues. These expenditures presumably could be discontinued upon the enactment of the certificate plan. It is also possible that the enactment of the certificate plan might make agriculture's resistance to reductions in appropriations less effective than it would otherwise be.

On the other hand, if the plan reduces domestic consumption and increases farm surpluses, it will increase the demand for crop loans (so-called) which constitute a drain on the Treasury. Moreover, the adoption of the plan may serve merely as an entering wedge for larger farm benefits. Pressure may be expected to develop to secure for the noncertificated commodities government benefit payments on a par with those obtained by commodities covered by the certificate plan.

Federal expenditures also may be increased in other directions because of the plan. The increased cost of living due to the taxes may indirectly raise expenditures for relief purposes. Such expenditures would also be increased if the tax so reduced the volume of consumption as to decrease the volume of employment.

4. Distribution of burdens and benefits. The certificate plan would impose a tax on certain necessities. It would tax the consumption of wheat, cotton and rice. Experience with the processing taxes under the Agricultural Adjustment Act of 1933, invalidated in 1936, indicates that the burden of taxes on these commodities would fall, in large part, on consumers. Inasmuch as the consumer expenditures for the products of these agricultural commodities account for a much greater proportion of the total expenditures of individuals and families with small incomes than of the total expenditures of those with larger incomes, the burden of the tax would be regressive. It would bear more heavily on those with small incomes than on those with larger incomes.

The tax would be unusually regressive for it would be imposed on physical units of an agricultural commodity, without regard to the price of the product consumed. Unlike a sales tax which is imposed on the basis of price, the certificate tax would be imposed on the basis of weight or volume. Low income consumers purchasing low-priced cotton articles would pay a higher tax with each dollar spent than higher income consumers purchasing high-priced cotton articles.

It may be that in some cases processors would find it necessary and practical to transfer some of the tax burden from their low-priced to their high-priced products. Under the invalidated processing taxes cigarettes, for instance, appear to have borne more than their share of the tobacco taxes. This type of adjustment, however, is very uncertain

and cannot be predicted as a likely occurrence in the case of other products.

The rate of taxation contemplated by the proposed certificate plan would be far heavier than the rates which in the past usually have been applied to necessities in the United States. The general sales taxes imposed by states in no instance exceed 3 percent of the amount of the transaction, and moreover, in many cases, exempt farm products from taxation.

The rate of the tax under the proposed certificate plan would be equal to the difference between estimated parity prices and the average farm prices of the particular agricultural commodities affected. In some instances, the rates of these taxes would be even higher than those imposed under the invalidated processing taxes. Even on the basis of United States average farm prices prevailing on December 15, 1939, the difference between parity prices and farm prices amounts to 30.8 cents per bushel of wheat and 6.2 cents per pound of cotton. A 6-cent tax on 10-cent cotton, for instance, would be equal to 60 percent of the farmers' selling price. The imposition of indirect taxes of this magnitude, superimposed on an already regressive Federal-state-local tax system, would severely affect the already limited purchasing power of the low-income families.

The effects of the certificate plan would be especially burdensome to those who, just like wheat, cotton and rice farmers, are receiving less than "parity" incomes. There are large numbers of other persons on farms and in the cities who have incomes and standards of living as

low as the growers of wheat, cotton and rice. The whole body of the unemployed and the under-employed laborers in all industries have less than "parity" incomes and would be subjected to a heavy burden on account of the tax. 1/

Underlying this method of financing parity payments is the assumption that the existence of low agricultural prices bestows an unfair advantage on consumers, and that such an advantage might properly be recaptured for the benefit of agricultural producers. It presupposes that the rewards accorded by the market place to the producers of certain commodities are not just and require supplementation to raise them to some specified but variable levels.

Although it may be agreed that "the farmer is entitled to a fair price," that does not dispose of the question as to what is the fair price. Even defining it as a price which will give the producer a fair income leaves undetermined the essential question of what is fair. Furthermore, a price that will give a fair income to the producer is not necessarily a fair price to the consumer. The consumer ought not be required to pay more than the price resulting under a sound organization of agriculture. A sound organization of agriculture giving fair returns

1/ In answer to this problem, Secretary Wallace replies: "The fact is that many of the people who can't afford to pay for pork when the farmers are getting 13 cents a pound for hogs probably can't buy pork when hogs are down to 3 cents either. Isn't it a wiser policy to ask that all consumers who are able, pay a fair price for their food, and then to aid the others if necessary through the methods of making surplus foods available to those without jobs, such as the Food Stamp Plan and the school lunch program?" (Wallace, "How permanent is the farm program?" page 14.)

to those engaged in farming would almost certainly afford lower prices to consumers than "parity" as now computed. To impose on the consumers through a processing tax the burden of giving the farmer a fair price --whatever that may be found to be--may thus result in serious unfairness to consumers.

In the Department of Agriculture it is recognized that the certificate plan would constitute, in effect, a tax on consumption. It has been maintained, however, that the regressive effects of the tax would be offset by the "progressive" effects of the expenditures and that the net result would be "progressive." Underlying this position is the assumption that the plan would benefit a low-income farm group largely at the expense of a higher-income non-farm group.

At the outset, it should be noted that this distinction between farm and non-farm population is not wholly relevant to the issue. The certificate plan has been designed for the benefit of wheat, cotton and rice (and possibly some tobacco) growers only. It probably cannot be employed successfully, and it is not proposed, for the benefit of the growers of the many other farm commodities. In consequence, the plan does not propose to benefit the entire farm population at the expense of the entire non-farm population. It proposes, rather, to benefit wheat, cotton and rice growers as distinct from all other farm groups as well as all the non-farm groups.

There are at present in the United States approximately 7 million farm families. About 3 million of these are engaged, to a small or large extent, in the growing of wheat, cotton and rice. Thus, even if

all wheat, cotton and rice growers cooperated in the AAA production and soil conservation programs and were eligible for parity payments, the certificate plan would benefit not more than 3 million farm families, at the expense of another group consisting of 4 million farm families, more than 22 million non-farm families, and several million single individuals.

Moreover, the plan, if adopted, may not be of much help to some wheat and cotton growers. That likelihood is indicated by the fact that a portion of the wheat and cotton growers produce these commodities in such small quantities that the benefits they would receive from their share of the certificates, if they complied with the farm program, would be offset largely by their share of the tax burden as purchasers of wheat, cotton and rice products.

The certificate plan is said to have "progressive" effects because the average income of the farm population which would be benefited is lower than the average income of the non-farm population which would be taxed. However, a comparison between farm and non-farm population on the basis of per capita incomes is subject to misinterpretation. The incomes of the two groups are not comparable. A dollar of income in a rural area is something entirely different from a dollar of income in an industrial area. Its purchasing power is different because the cost of living generally is lower in rural than in urban areas. For those on farms, food, housing and clothing, three important elements in the budget of the low-income groups, require a smaller expenditure than for those in the cities.

In comparing the income of the farm and the non-farm population it is emphasized that a larger proportion of the farm population falls in the low-income group than is the case in the non-farm population. It is pointed out, for instance, that a considerably larger percentage of the families on cotton farms have low annual incomes than is the case with an industrial population. Such use of percentages, however, does not bring out some of the important aspects of the low-income problem. The percentages relate to entirely different magnitudes. The adoption of the certificate plan would result in the taxation of at least 5 million non-relief families with incomes of less than \$780, for the benefit of wheat, cotton and rice growers, only part of whom have such low incomes. In addition, there were 4,500,000 relief families, of whom 600,000 were farm families. ^{1/} In other words, it is not evident

^{1/} In 1935-36, one-third of American families are estimated to have had incomes of less than \$780. No information is available on the income distribution among wheat, cotton and rice farmers specifically. However, in that year, 37.6 percent of all non-relief farm families were estimated to have had annual incomes under \$780. For all non-relief families, the corresponding proportion was only 23.5 percent. However, in actual numbers, over 6 million non-relief families had incomes less than \$780. Non-relief farm families accounted for a little over 2 million of the six. However, families of wage earners also accounted for over 2 million. Even if the percentage of wheat, cotton and rice growers falling in this low income group were much larger than that reported for all farm families, the adoption of the certificate plan would result in the taxation of at least 5 million non-relief families with incomes of less than \$780, for the benefit of wheat, cotton and rice growers, only part of whom have such low incomes. In addition, there were 4,500,000 relief families, of whom 600,000 were farm families.

that the net effect of the plan would be a distribution of income from higher to low income groups.

Moreover, we are here dealing with families whose incomes range from minus quantities upward. Therefore, even if, on the average, the families taxed had a higher income than those which received the benefits, the families taxed would still include a number whose incomes would be lower than the incomes of many receiving the benefits. In other words, despite the fact that on the average farm families have lower incomes than urban families, the plan would tax some consumers with little or no income for the benefit of some farmers with relatively larger incomes. To this extent the effect of the plan would be the converse of "progressiveness."

Finally, it should be noted that, aside from limitations on maximum payments to individual farmers, the benefits under the certificate plan would be distributed among farmers approximately in proportion to the present distribution of incomes. Wheat, cotton and rice growers would benefit in proportion to their normal production. Therefore, in general, farmers with large farms, producing large amounts of wheat, cotton or rice would receive more money from the plan than small farmers producing smaller amounts.

These considerations indicate that (1) the cost of the plan would be distributed inversely to taxpaying ability, (2) the benefits of the plan for these commodities would be apportioned roughly according to the present distribution of incomes among the growers, and (3) some purchasing power would be transferred from low income families to higher income families.

At all events, even if it could be agreed that the certificate plan tax on consumers for the benefit of producers might have "progressive" effects, it would still be true that the degree of such "progressiveness" would be less than could be achieved under practically any other method of taxation.

EXHIBIT I

Collections from Agricultural Adjustment Taxes

Source of receipts	Fiscal year ending June 30		
	1934	1935	1936
Wheat	\$ 117,621,174.82	\$123,860,932.23	\$ 9,441,516.44
Corn	4,496,193.74	6,849,629.87	924,823.31
Cotton	144,767,232.64	95,926,301.71	5,387,539.30
Tobacco	18,088,426.05	32,725,501.44	13,226,127.31
Hogs	77,034,611.24	184,601,009.46	8,973,083.16
Paper and jute fabrics ...	9,244,830.78	3,221,707.27	637,265.85
Sugar	170,416.37	71,093,970.65	30,357,599.06
Rice	-	29,119.97	665,721.04
Rye	-	-	175,475.88
Peanuts	-	3,571,936.01	138,051.04
Cotton-ginning tax	-	1,110,874.86	451,223.03
Tobacco-sales tax	-	3,231,374.77	1,214,880.64
Potato-sales tax	-	-	43,900.64
Total, agricultural adjustment taxes	\$ 371,422,885.64	\$526,222,358.24	\$71,637,206.70

COPY

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January 12, 1940

MEMORANDUM FOR THE SECRETARY:

Attached is a proposed statement of reasons for disapproving the Certificate Plan for parity payments.

This statement was prepared in response to your request of Wednesday, for transmission through Mr. Philip Young to Mr. Lauchlin Currie.

The various memoranda which we have prepared are being combined in one revised memorandum, and this should be ready for transmission tomorrow.

January 12, 1940.

MEMORANDUM FOR THE PRESIDENT:

The Treasury Department has analyzed the proposed Certificate Plan for providing parity payments to wheat, cotton and rice growers, financed outside the Budget by processing taxes without the necessity of periodic Congressional review.

The Department concludes that the plan is an undesirable method of financing agricultural benefits, principally for the following fiscal reasons:

(1) The cost of the Plan would fall on the consumers of basic necessities, burdening those with small incomes more than those with large incomes. The taxes imposed would be even more regressive than any of the present Federal sales and excise taxes. They would be imposed on the weight of the basic commodity regardless of the price of the final product to the consumer. In some cases the proposed tax rates would be higher than those of the former processing taxes. The payments under the Plan would be made to about three million wheat, cotton and rice producers, some of which now receive substantial incomes, at the

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expense of another group comprising four million other farm families, more than twenty-two million non-farm families and several million single individuals, and including the unemployed, the relief recipients and many others with very low incomes.

(2) The exclusion of such important tax and expenditure items from the Budget would limit the effective use of fiscal policy as an instrument of economic control. Furthermore, it would impair the effectiveness of the Budget in fiscal planning and management since the lack of periodic Congressional review and public scrutiny would further handicap Government in the proper allocation of its expenditures among the many needs.

(3) The adoption of the Plan cannot be counted on to reduce appropriations within the Budget even though it would add large expenditures outside the Budget. The Department of Agriculture has itself expressed the expectation that reductions in parity payments within the Budget would be offset by increased appropriations for the disposal of surplus. The heavy processing taxes might well reduce substantially the consumption of the taxed commodities, aggravating the agricultural surplus problem.

Moreover, producers of commodities not covered by the Plan would doubtless insist not only on their present payments but also on additional payments to place them on an equal basis with wheat, cotton and rice producers.

An analysis of these and other aspects of the Certificate Plan is contained in the attached memorandum.

/s/ H. Morgenthau, Jr.

Attachment

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January 12, 1940.
3:40 p.m.

Carter
Glass: Hello.

H.M.Jr: Henry Morgenthau Jr.

G: How are you Mr. Secretary?

H.M.Jr: I'm fine. Senator, some time at your convenience, remember I mentioned at your birthday.

G: Yes.

H.M.Jr: I would like to sit down with you and Bob Wagner and Henry Steagall.

G: Yes.

H.M.Jr: And I'd like to bring with me the Comptroller and Dan Bell and our General Counsel, Ed Foley. And we'd like to have some time, would be convenient to you three gentlemen, we'd like to have, oh an hour or two.

G: Yes.

H.M.Jr: And to tell you just what we've been doing in regard to the Bank of America.

G: Yes. Will it take that long?

H.M.Jr: I'm afraid so.

G: Yes, very well, I'll be at your service any time you can get the other two men ready.

H.M.Jr: We might be able to do it in a hour, it might - if you start to cross-examine us we'll need another hour. But we're ready to answer any questions but we would like to bring you gentlemen up to date and then any questions you have to ask we'd like to answer them.

G: Yes.

H.M.Jr: But I think it's important enough that you gentlemen hear the thing and know just what it is because it's like a tax case, we can't tell the public about it, but we can tell you gentlemen about it in executive session.

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G: Yes, well I'll be very glad to come at any time you can get the other two to come.

H.M.Jr: Well I've asked them and Bob Wagner's out of town.

G: Yes.

H.M.Jr: And he'll be back Monday.

G: Yes.

H.M.Jr: So I'm going to go after them again.

G: Well I'll be here Monday but I've got to go into appropriation matters Monday, but I'll - I'll - make it convenient to come any time you get the others.

H.M.Jr: If you see Wagner you might mention it to him.

G: I will mention it to him.

H.M.Jr: Yes.

G: You can't get - you can't count Monday on what Henry will commit himself to do the other days.

H.M.Jr: Who - Henry Steagall?

G: Yes.

H.M.Jr: Well he said he - he doesn't, but he's going away Wednesday.

G: Yes.

H.M.Jr: So we could do it Monday or Tuesday.

G: Very well. Just any time you get the others to agree I'll be at your service.

H.M.Jr: Thank you so much.

G: How's your father?

H.M.Jr: Oh he's fine. He's fine. He's enjoying good health.

G: That's good.

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H.M.Jr: I appreciated your nice letter and I sent it on to him because I knew he would enjoy it.

G: Well thank you sir.

H.M.Jr: Hope to see you soon.

G: Thank you.

H.M.Jr: Goodbye.

GROUP MEETING

January 12, 1940.
9:30 a.m.

Present: Mr. Harris
Mr. Graves
Mr. Thompson
Mr. Cochran
Mr. Schwarz
Mr. Cotton
Mr. Gaston
Mr. Foley
Mr. White
Mr. Haas
Mr. Sullivan
Mrs. Klotz

H.M.Jr: I made use of your word "abuse" yesterday.

Gaston: I see you made use of it, and got some more of it.

H.M.Jr: Yes, but that was just the word I needed. Where is Harry?

"E. A. Goldenweiser, Federal Reserve, warned the abandonment of gold purchases would cause chaos in world finance."

Cochran: This one, I think, gives a little more on that (handing ticker message to Secretary).

H.M.Jr: I would like to see that article. Will somebody mark it and send it out to the house?

Well, Herbert, what do you know?

Gaston: I spoke to Mr. Harris about this Comptroller situation out there in San Francisco and he tells me they have a reorganization order prepared abolishing the offices of Comptroller of Customs. I think it might be a good idea to put that in.

H.M.Jr: Well, on whose desk is it?

Harris: The last I heard, it was on yours.

H.M.Jr: There is nothing on my desk.

Harris: I don't know where it is now.

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- Gaston: Do you agree that we should take it over there?
- H.M.Jr: Well, I told the President and he said, "All right, if you can save \$80,000...." I mean, that was the figure somebody gave him. It isn't on my desk.
- Harris: I never saw so many innocent looking people.
- H.M.Jr: While we are checking up on each other, about two weeks ago Mr. Sumner Welles wrote me a letter which I referred to Mr. Harris and Mr. White for an answer.
- White: Mr. Harris gave it to me and we were - tried to get his - all the evidence to support what we feel is true. We sent over to the State Department. They didn't have any minutes of the sub-committee to sustain what they said was true but they said that they would have the minutes if we gave them a little time. They were going to write them. So they still - we are working on it, but....
- H.M.Jr: Well, I just wondered. Incidentally, we listened last night to Grady on this Town Hall business, with Taber on the other side.
- Gaston: I heard part of it.
- H.M.Jr: Taber just put it all over Grady. I thought Grady was terrible. They all got into a discussion of gold and Taber said, "Well, this rise that you are talking about, Mr. Grady, in farm products and all that, that took place through the gold policy long before we ever had a gold treaty." But Grady handles himself awfully poorly on the air.
- Gaston: Grady got awfully mixed up on gold and balances.
- H.M.Jr: What else? Didn't you think he handled himself badly?
- Gaston: I didn't hear all of it, but Taber handled himself much better in the answers to questions that I heard.
- White: There is an amusing commentary on the relationship of the trade agreements with gold. On the one hand,

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they say - they support the trade agreement policy on the grounds that it is a reciprocal trade agreement and they don't give any more concessions than they get, that they get concessions for exports which equal any concessions they give for exports. Then at some other point in the speech or argument, they say that one of the necessary things for us to do is not to get so much gold and that is why the trade agreement program is good, because it increases our imports. Obviously, it doesn't affect the gold at all if they are right in the first place, which they are not.

Gaston: You asked me to check with Ireys on this report on Schenck.

H.M.Jr: Yes.

Gaston: Ireys wasn't in yesterday but I checked with Woolf. He said they had promised to report by the twenty-second. Ed went a little further with it with John and he can add to it. That is all I have.

Foley: Well, it was the twenty-second with four items and with the fifth item it would have been the first of February. I went - Phil Wenchel went to John's office and he called and as a result Oftedal is going to report in here on Tuesday morning.

H.M.Jr: Fine.

Sullivan: On four of the items, and the fifth one would probably take about two days more in New York and that should be back here Friday morning or Saturday. All that we can get readily should be here by the nineteenth. Oftedal didn't understand that the time was an important element.

H.M.Jr: Well, my heavens! Then, Mrs. Klotz, make a note that we will ask about that memorandum on the twenty-second, you see, the morning of the twenty-second. Let's have it cleaned up by the morning of the twenty-second. Why can't somebody do that in New York and save that time?

Sullivan: I tried to do that. Now, two of the four items can be done here and those were just waiting.

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They went to work on those early this morning and all the information on those two will be ready tomorrow morning, but the one in New York, I tried to arrange to have somebody else do that and it is just one of those things that Oftedal will have to do. There is too much background. I don't think he is going to get much in New York anyway. I think that so far as the answer to Clark's letter is concerned, that can be written on the sixteenth and Mr. Wenchel thinks so too.

H.M.Jr: Let's crowd them, anyway.

Sullivan: All right. They were being crowded last night.

H.M.Jr: Are you through, Herbert?

Gaston: Yes.

H.M.Jr: Foley?

Foley: We got off the airmail letter to the Bank last night. The planes weren't flying, but we sent it airmail anyway and it will be picked up in Chicago or Pittsburgh.

I want to make a complaint about the mail room, if I may. We called down and told them that we had this stuff to go out about 25 minutes after 4:00 and asked them to wait and they didn't wait and I had to pay 15 bucks to get the stuff out and we had to handle it ourselves. We tried to get the fellow at home to get him to come back and we couldn't reach him. I don't think when we call down and ask them to stay that they ought to walk out on us like that.

Thompson: I will take care of that. We usually take care of things like that in our office.

H.M.Jr: Why shouldn't the man wait?

Thompson: He should have.

H.M.Jr: Will you look into that?

Thompson: Yes.

H.M.Jr: See that Foley gets back 15 dollars, but I want to

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make a note we are borrowing money and they are paying us to - we are getting a plus sign, so he only gets \$14.99, you see. He has got to pay us for the use of the money, you see. That is the way we do it in the bills.

Foley: That is what I am complaining about, the use of my money.

H.M.Jr: Well, he gets \$14.99.

Foley: The lawyers....

White: There is a lot of sense in that. He isn't as apt to spend that fifteen. It is safer in the Treasury than in his own pocket and he should pay for that privilege. That really lies behind the justification.

Foley: The lawyers, Landis and Dean Garrison, won't be able to come in conveniently next Tuesday and Eddie has a crowded schedule and he would rather have the thing put off until sometime later in the week or still further off, if that is possible.

H.M.Jr: Well, let's call it postponed for the time being, and will you (Thompson) tell Bell's office that we won't need any bankers in and they should call that Tuesday meeting off. I think there were two bankers coming.

Klotz: Tom Smith and Ottley.

H.M.Jr: That ought to be done immediately. Don't send a Government telegram. Either make it a telephone call or teletype.

Foley: I sent copies of the orders that went out to the three lawyers last night, that the Comptroller sent to the bankers.

H.M.Jr: Fine.

Foley: Here is a memorandum to the President.

H.M.Jr: If you will stay behind, I will read it.

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Foley: All right. I have got a couple of other things on this same thing.

H.M.Jr: All right.
Sullivan?

Sullivan: Nothing, sir.

H.M.Jr: I see you and Bell slipped through yesterday.

Sullivan: Yes. They took care of us once in a while. I meant as to me, not as to Bell.

H.M.Jr: Anything else?

Cochran: I made the appointment for 11:45 for those two men.

H.M.Jr: All right. Do you sit in on those meetings?

Cochran: I have been in on part of them, I think.

H.M.Jr: But not on this one, have you?

Cochran: No, sir. It was just on that one subject.

Cotton: According to the newspapers, Mr. Jones has made a loan to Norway. I take it you know more about it.

H.M.Jr: Well, I told you....

Cotton: None of the Bank people know anything about it. It is one of these things that was handled like the Finnish business.

H.M.Jr: I told you exactly what I knew the day that Jones and Welles were here and Jones got us in a corner and said, "What do you think of my making a loan to Norway?" I said, "I don't know." "Well, have you or Welles got any objections?" And I said, "No." That is all I know about it.

Cotton: He has put it out in the newspapers.

H.M.Jr: Well....

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Cotton: I will report to you when it comes up.

H.M.Jr: What do you want me to say?

Cotton: I am just telling you.

H.M.Jr: Chick?

Schwarz: I have nothing.

H.M.Jr: George?

Haas: I have nothing.

H.M.Jr: Basil?

Harris: Nothing.

H.M.Jr: Harry?

White: You remember I spoke of the difference in the reporting between tin and molybdenum to Russia. We investigated that and a rather interesting thing developed. They both left. The molybdenum left in the regular way, which we got through the export declarations. The tin left on the ship, which we got from Basil Harris but it is a re-export of tin. We don't examine the re-exports. The interesting thing about it is this, that Britain is curtailing the sale of tin to such countries as she thinks may either provide tin to Germany or Germany's allies, and here is an illustration of tin coming here and going out in pretty large quantities to Russia for re-export. I think that should be called to somebody's attention.

H.M.Jr: Well, is that in our figures where we say how much goes to Russia? The re-export figures up to now have not been included?

White: No, we have not taken the re-export figures.

H.M.Jr: Don't you think that would be good?

White: Yes.

H.M.Jr: Could that be done?

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White: It should be more true now, because they may be using the United States as an entrepot, which is definitely the case in tin. In the case of molybdenum, it is our own production of molybdenum so we haven't watched the re-export.

H.M.Jr: Using us as what?

White: Entrepot. It is spelled e-n-t-r-e-p-o-t.

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

White: As much goes out as comes in.

H.M.Jr: Could we have those figures from now on?

White: We will begin examining those figures, but I thought you might want to raise that question about....

H.M.Jr: Using tin, could you tell me where this tin came from?

White: That I don't know. I will try to find out. It was in bond. Whether we can identify the tin, I don't know.

Harris: Did you - it comes from the Dutch East Indies.

White: That is where most of our tin comes from.

Harris: You mean any one spot?

White: We will try to find out what tin is going into bond and what tin there is in bond.

H.M.Jr: Exactly. Could you get on that, Harry?

White: Yes, we will do that.

Harris: You might check the Pacific Coast on that, which I don't think we have done yet. We have only worked the Atlantic Coast.

White: The figures we have been getting are for the whole of the United States. The others come in a little later, that is all.

Here is an interesting report (handing report to Secretary).

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H.M.Jr: Fine. Anything else?

Thompson: I have the papers here for Mr. Seymour.

H.M.Jr: Do I have to sign them?

Thompson: Yes.

H.M.Jr: All right.

Sullivan: You were talking about Finland's inability to get munitions. The Winchester fellow was in to see me yesterday and they are making 50 million rounds for Finland and he had come in primarily to see me about the British and they apparently are getting nowhere at all. They are talking vaguely about 300 million rounds, but not for this war because they think they have adequate supplies. That is for the war against Russia to follow this one.

H.M.Jr: Well, the Finnish Minister made the statement to me that Mr. Basil Harris' - that they had cancelled the order for 50 million rounds in Remington because they didn't have the money to pay for it.

Sullivan: He didn't tell me that yesterday afternoon.

H.M.Jr: I had Collins check up and he said he thought that was incorrect. He said 50 million rounds.

Sullivan: That is right.

H.M.Jr: There is another order for something else. You say that the Firms have 11 million dollars on deposit?

Cochran: It may be earmarked for some other orders, but this one with Winchester, he did make an arrangement. They paid so much down and they called for an irrevocable letter of credit and the Winchester people waived that requirement.

H.M.Jr: There are two different orders.

Cochran: I don't know about the Remington. I just know about Winchester.

H.M.Jr: I think he misinformed me.

January 12, 1940.
11:00 a.m.

H.M.Jr: How are you Guy?
Guy
Helvering: Just fine. Are you starting off a good year in fine shape?

H.M.Jr: I'm - I'm all right.

H: Well that's fine.

H.M.Jr: Guy, on account of it being Cabinet it's sort of a bad day. If it's something that won't keep until Monday I'll fix it. Is there something on your mind?

H: Well I did want to discuss about some procedural matters before any steps were taken.

H.M.Jr: What kind of matters?

H: Well some procedural matters in connection with the Bureau and the Department.

H.M.Jr: Oh! What does that mean, procedure - you're using big long canvas words, I don't understand.

H: Well I mean the contact between the Department and the Bureau. There's some things I'd just like to talk over with you just in a kind of a sociable sort of a way.

H.M.Jr: I see.

H: Whenever it's convenient to you, but I did want to do it before any orders were given as to how the things be handled.

H.M.Jr: Well there's been no order that I know of.

H: Uh-huh. Well you'll necessarily be giving some instructions out, won't you?

H.M.Jr: Yes. Well I tell you what you could do, are you working tomorrow? Saturday.

H: Well I was till noon, yes.

H.M.Jr: Well, do you want to come, how long will it take you?

H: Oh about fifteen minutes, plenty.

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H.M.Jr: Well how about nine-thirty tomorrow morning?

H: Fine.

H.M.Jr: O.K.

H: I'll be there.

H.M.Jr: All right.

H: Thank you.

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Treasury Department
Division of Monetary Research

Date.....1-12-40.....19

To: Secretary Morgenthau

From: Mr White

This is Mr. Mitchell's
draft submitted to you
Friday morning.

These are troubled days, in which grave questions concerning our relations with the outside world press for consideration. Of this, no one could be more aware than I, dealing, as I do, with our day-by-day fiscal, monetary and foreign-exchange problems. But Europe and Asia must not be permitted wholly to divert our attention from our first responsibility, the internal welfare of our own country.

In recent years, strange doctrines have been abroad; things that our fathers considered axiomatic have been denied. ~~But~~ ~~Out~~ of this conflict of ideas, the people of this country have decided, I think, that they want no totalitarianism, Nazi or Communist, that they mean to hold fast to our political tradition of democracy, our economic tradition of free enterprise.

But our American social organization can persist only if if it can, as we say, deliver the goods. Here is our task. We must have economic security, an advancing standard of living, and, beyond them, freedom for every citizen to develop and enrich his or her personality according to his^{or} _^her capabilities -- all that is comprehended in the New Deal phrase, the more abundant life.

In the seven years of the New Deal, we have made a courageous beginning towards revitalizing our American system. In 1933,

when President Roosevelt took office, capitalism breathed feebly, if at all. I need not, perhaps, recall the tragic separation then of business men from their businesses, investors from their savings, workers from their jobs, farmers from their farms, and of families from their homes and youths from their families. Instead of an American system, we had an American chaos.

What has the New Deal accomplished? What has been its meaning, its inner pattern? Let me mention a few significant matters. The strengthening of our national banking system has reduced bank failures from 2,700 a year to less than 50. Federal insurance of bank accounts has virtually ended loss to small depositors. The Securities Exchange Act has reformed the capital market. More than a million homes were saved by the H.O.L.C., and the other housing agencies have helped two and a half million families either to improve their present homes or to build new ones. The Social Security Act, as it comes into full effect, will give hitherto undreamed-of benefits to ~~most~~ the great majority of our population. The agricultural agencies have checked farm foreclosures and the drift to farm tenancy.

The New Deal saw that the irreplaceable resource of our system lay in our youth, and it has no prouder record than its youth

programs. Through the C.G.C. and the N.Y.A., almost a million young people a year have been given the means of fitting themselves for their future careers. While other countries were conscripting their youth for military service, we chose to enlist them for a free society.

Such is the pattern of the New Deal. Not all parts of it fit neatly; not all elements are harmonious. But the broad design is unmistakable: to keep our system of democracy and individual enterprise in its fullness.

We know we have made progress. But we also know that what we have done is only a start towards delivering the goods that the American system must produce if it is to endure. While the perils of a disturbed world crowd around us, ~~and~~ we need to redefine our goal, to adopt a sailing-plan for the period ahead.

The crucial problem that, to my mind, confronts us can be stated best, not in the language of economists, but in human terms. ~~Let us again consider our youth.~~ What hope today has a bright, plucky boy or girl, leaving high school, of acquiring a profitable business of his or her own in his or her lifetime? Unless this simple question can be answered, "Yes," all talk about free enterprise is mockery.

From my own experience, however, I believe that the same

question can be answered affirmatively when asked about farm boys and girls. Over much of the country, although not all, they have today the means of acquiring technical education of an extremely high quality. Through agricultural cooperatives organized under the auspices of the federal government, they have access to credit on terms more favorable than ever before in our history. And while they are engaged in paying for their farms, they can call on the government for many valuable services. Here, I think, may lie the key to ^{help for} ~~the~~ the small business enterpriser.

It may be objected that the difficulties of American youths in establishing themselves in business are a very small part of our national problem. Unless we have an economic system that has both stability and growth, I am aware that the small business men — and, for that matter, the one-family farmer — will have little prospect of ultimate success. But I should like to indulge in a figure of speech. One of the admirable achievements of the New Deal has been its conservation of our forest resources, its teaching of the importance of replanting cut-over forest areas. It is similarly true that the men and women, young or old, who want to start a taxi stand, a coffee shop, a clothing store, are the

seedlings of capitalism. When they die out, our system of free enterprise is also dead.

In the nature of things, ^{most} Americans will not ~~not~~ own their own businesses. We can hope to have a nation of one-family farms, but a nation of self-employed business men would throw us back to the cottage industries of the eighteenth century, when a pair of shoes cost a month's earnings. Most Americans will be in corporate enterprises, and will be wage earners.

What must we make a system of free enterprise mean to them?

Among many other things, it ought to bring to them, as consumers, constantly better and cheaper goods, which is another way of saying a higher standard of living. It ought to give them freedom to enter such employment, and to change ^{employment,} ~~it~~, as they please, and to become members of the labor union of their choice. And, ^{if it} ~~it~~ is to have meaning, capitalism must also give them the possession of property.

Again I want to speak of simple things. The chief form of private property is the home. Perhaps no other problem has so preoccupied members of this administration -- ^{may be} ~~among~~ among the rest -- as the diffusion of home ownership. Nothing else so certainly expresses the phrase, the more abundant life. After the delights and duties of

neighborliness, every family should be able to retire, a little sovereign group, within its own home. By no other means can the spirit be so refreshed and enriched.

Again, the system should give wage earners the reasonable hope of accumulating the savings that will permit them to do for their children, to give their children an easier lot than they had, and a chance to go further in the world. And it should also give them ^{the} hope of savings to supplement the old-age payments that, at last, the New Deal is bringing to the ^{greater part} ~~great majority~~ of our citizens.

Probably no one, not even the most hide-bound reactionary, will dispute these simple goals that I have set for our system of free enterprise: the opportunity for ambitious youngsters to enter business, the chance for every citizen to own his own home, to benefit his children, to enjoy a calm and peaceful old age. But ~~have~~ have we the spirit of unity and sacrifice, the courage and intelligence, to face the changes necessary before these goals can be achieved?

A wage earner cannot hope to own a home, indeed, ought not own one, as long as his or her wage is at the mercy of a wildly ^{as few forward-looking corporations have attempted} fluctuating economy. In the last few years, ~~there have been attempts~~ to make a frontal attack upon this problem by the establishment of an annual wage/©

The responsible leaders of our great labor organizations, however, have hesitated to endorse this solution, not because their members did not earnestly desire an assured annual income, but because the leaders believed that industry, as a whole, did not plan its ~~business~~ affairs with sufficient foresight to give hope that ~~business~~ continuous employment could, in fact, be provided, or the annual-wage agreements lived up to. No more serious indictment, it need hardly be added, could be drawn against our present industrial management.

This ^{question} ~~problem~~ of the annual wage is, of course, part of the ^{question: problem that I have just tried to translate into human terms, the,} ~~larger, slightly different~~ problem of the full employment of labor, which ^{involves,} logically ~~means~~ full employment of capital resources and industrial plant as well. It is the central ^{issue} ~~problem~~ of our time, the ~~big~~ knot that ~~we~~ ^{be} must [^] cut if our system of free enterprise is to be given ^{reality} ~~meaning~~ for our citizens. The means of achieving it is the sailing-plan for the period ahead that we need.

To the discussion of this problem I want here to add only two observations, two footnotes. Admittedly one of the conditions for uninterrupted full employment is the wise investment of new capital, so that boom will not be followed by bust. One of the chief lessons of the New Deal, I think, is that the government, in many realms of

industry, must be the partner of management in planning. Among the users of new capital -- and consequently planners -- under the Republican administrations of the 1920s were men like Insull and the Van Sweringen brothers. To some degree, our unemployment today is the result of the great and wasteful dislocations in our system caused by the type of management such men represented. Contrast their record with the development, under the New Deal's auspices, of the Tennessee Valley region.¹ In the present juncture, the planning symbolized by the TVA is not only ~~beneficial to our system~~ beneficial to our system, but will probably prove to be a sort of protecting iron lung without which it cannot survive.

The other observation I have to make concerns price control, a matter of daily concern to the Treasury, the procurement division of which is the nation's single largest purchaser. If there is any question on which economic authorities are united, it is that we cannot have full employment of our resources unless prices are free to move with the judgment of the market. The essential economic fact of a totalitarian state is that prices may be set by a dictator on his mountain eyrie. What reason have we for calling ours a free economy if our prices can be set by a little group of men in the office of a New York corporation

lawyer? Whenever a price is set higher than the market justifies, a worker, and often hundreds and thousands of workers, are denied jobs they otherwise might have had. Whether universally free markets are possible in a world of imperfect human beings is something we are now in process of discovering through the Temporary National Economic Committee. Wherever a free market does not exist and cannot be created, the government, not interested business men, must undertake to act as the arbiter of prices.

The New Deal is dedicated to the bringing of full employment of all our resources, and revivifying our political democracy and economic system of free enterprise. Reactionaries, who confuse the preservation of their vested interests and special privileges with the preservation of capitalism, should hesitate to oppose the reforms that will be needed. Everyone agrees that the United States has the "makings" for success, the technical skill, the natural resources and capital equipment. I am sure that our system can deliver the goods.

January 12, 1940.
1:50 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Henry B. Steagall: All right, Mr. Secretary.

H.M.Jr: How are you?

S: I'm good, thank you. I hope you are.

H.M.Jr: Fine.

S: I'm sorry I didn't get you sooner. I called you late in the afternoon, and I was out to dinner and then went to the White House and this morning it so happens that I have - we had a conference speech which always last for an hour or two, and some more to follow and I've just gotten to my office. I haven't had any time in the office today.

H.M.Jr: Good heavens.

S: Why I didn't call you sooner, but I called Bob and he was leaving last night for New York and won't be back until the first of the week.

H.M.Jr: I see.

S: So that your matter will just have to rest I suppose until he gets back.

H.M.Jr: Yes, that's right.

S: That was the suggestion he made and we'll get in touch with you later on.

H.M.Jr: Well -

S: See what we can do to help you if we can.

H.M.Jr: You keep it in mind.

S: I will. I won't forget it.

H.M.Jr: When are you going away?

S: I'm going away about the middle of the week. I've got a speaking date in Montgomery that I'm just obliged to fill.

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H.M.Jr: Do you think we'll be able to get together before you go?

S: I hope we can and if we can I can arrange it so far as I'm concerned. And - but we can't until Bob gets back here and he's not going to be back before Monday or Tuesday, and I imagine it'll be Tuesday.

H.M.Jr: Fine.

S: As soon as ever he gets here I'll get a hold of him - leave a call in his office and then we'll make our plans as soon as we can.

H.M.Jr: The more I think of it, I think your idea of having a preliminary meeting with you and Bob and Carter Glass is good.

S: I think that's about as good a way to begin it then we could - maybe that - for the moment it doesn't occur to me and there's nothing occurs to me about it except we just would feel our way about it then reach decisions as we found out more about what the facts were and so forth.

H.M.Jr: Well -

S: I feel like I should defer to them to a great extent in reference to it and that's why maybe we ought to have a little preliminary meeting.

H.M.Jr: I think you're idea is good.

S: Well we'll arrange to do that.

H.M.Jr: Thank you. Goodbye.

S: Goodbye.

*P. Delano brought this in
to me and I approved. /mz*

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January 12, 1940

MEMORANDUM TO THE SECRETARY

In order to give Mr. Seymour the full assistance of this office, we are, subject to your approval, detaching from their present duties Mr. L. H. Sedlacek, District Chief National Bank Examiner, Minneapolis, Minnesota; Mr. Eugene S. Williams, National Bank Examiner, San Francisco; and Mr. C. H. McLean, National Bank Examiner presently located in Philadelphia, requesting them to report to Mr. Seymour until such time as he releases them.

Messrs. Sedlacek, Williams and McLean are intimately acquainted with the background of the Bank of America case. They are all employees of long standing and have all examined the bank. In co-operation with the other members of the staff who are available in Washington they will be able to furnish to Mr. Seymour all the facts and collateral information concerning this case. It naturally follows that the Chief Examiner and his assistants domiciled in Washington, in addition to any other attaches' of the Comptroller's office, will be available to Mr. Seymour on call.

Preston Delano



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Preston Delano

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. K. P. Chen dropped in to see me this afternoon at 3 o'clock. He will be in town over the week-end and at least through Tuesday, and would like to see the Secretary before leaving.

In our conversation, Mr. Chen mentioned that the first shipment of 500 tons of tin from China will arrive in the United States at the end of this month. He will then have it tested, and will let the Procurement Division of the Treasury have first opportunity at purchasing if the Treasury is interested. He is seeing Captain Collins on Saturday. Mr. Chen stated that the Chinese Government has 4000 tons of tin in stock, so that much more can be shipped if found advisable.

In answer to my inquiry, Mr. Chen stated that the French were still holding Chinese tungsten in French Indo-China. If this were released by the French, Chen thinks about one-half thereof could probably be shipped to the United States. He would be glad to confirm this figure with his Government if the release can be accomplished. He hopes that the French will pay some heed to representations toward the liberation of this metal. He understood confidentially that the Chinese Government had issued a private ultimatum to France that shipments for China through French Indo-China should stop. Chen was worried over the recent bombing of the railway between Haiphong and interior China, on the Chinese side of the frontier.

Mr. Chen offered to prepare a memorandum giving the foregoing and such other information as he may have available for the Secretary, and will drop by Saturday morning to leave it. His chief interest is to procure funds for China to buy essentials. He thinks financial assistance at this time would greatly help Chinese morale. If the Secretary desires to fix an appointment for Mr. Chen, I could give him this word when he calls on Saturday morning.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 12, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

It is respectfully suggested that this cablegram (#157, dated December 28, 1939, from the American Minister at Bern), together with the reports of the Franco-English economic and financial agreements and of the special Anglo-Swedish arrangement, could profitably be made the starting point for a study by our experts as to the possible effect of the British-French policies upon our own monetary and economic set-up.



COPY FOR SECRETARY

HSM

GRAY

Bern

Dated December 28, 1939

Rec'd 1:30 p. m.

Secretary of State,
Washington.

157, December 28, 4 p. m.

I learned this morning that the Swiss Government is considering a proposal by the Bank of England to set up a clearing arrangement for Swiss trade with the sterling group of countries comparable to the payments arrangement recently concluded between Great Britain and Sweden. The proposal was recently discussed in London with a special representative of the Swiss Government (Keller) and it is being debated here today at National Bank by representatives of all interested Federal departments and the National Bank. Doctor Keller will return to London after the first of the year with the Swiss Government's reply.

I understand on good authority that the Swiss reaction is not likely to be favorable unless the British Government plans to stabilize the pound-Swiss franc rate by the establishment of a clearing account in London as part of a general scheme intended to abolish all free

markets

hsm -2- No. 157, December 28, 4 p.m., from Bern

markets for sterling to include the United States. Swiss trade with the United Kingdom is favorable but normally unfavorable taking sterling monetary bloc countries as a whole.

I was asked by Keller quite informally if there had been any proposals along such lines of sterling rate of exchange control made to the American Government by the British authorities. Would consequently appreciate any information which might appropriately be passed on to him.

He also mentioned that he had succeeded in obtaining relaxation of British import embargo on Swiss watches (admitting one-third of normal imports) and on embroideries and is hopeful of obtaining concessions also on silk goods and foot wear.

HARRISON

RR

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Another dull day was experienced in the foreign exchange market. The opening quotation for sterling was 3.95-1/4. Shortly thereafter the Chase Bank reported that it had received an order from a foreign bank to purchase £100,000 and this order, coupled with some small commercial purchasing on balance, raised the rate to 3.96 about noon-time. Late in the afternoon, the rate strengthened further in a thin market and reached a high of 3.96-1/2. The closing quotation was 3.96-1/4.

Sales of spot sterling by the four reporting banks totaled £308,000 from the following sources:

By commercial concerns.....	£ 208,000
By foreign banks (Europe).....	£ 100,000
Total.....	£ 308,000

Purchases of spot sterling amounted to £407,000, as indicated below:

By commercial concerns.....	£ 272,000
By foreign banks (Far East and Europe).....	£ 135,000
Total.....	£ 407,000

The following reporting banks sold cotton bills totaling £11,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 7,000 by the National City Bank
4,000 by the Guaranty Trust Co.
£11,000 Total

The rate for the Cuban peso was 9-7/8% discount, which is the best price since October 26, 1939.

The other important currencies closed as follows:

French francs	.0224-5/8
Guilders	.5350
Swiss francs	.2243
Belgas	.1685
Canadian dollars	11-3/4% discount

The Dow Jones ticker carried an A. P. despatch from Buenos Aires stating that the Exchange Control Board of the Central Bank of Argentina announced that hereafter all French exchange, both money and credits, resulting from sales of Argentine goods to France would be made available only for purchases from France and for

transfer to France and French possessions. The Bank also announced the creation of a special account similar to the account recently established for the British pound. According to the news item, informed sources said that the action indicated that the francs and pounds resulting from Argentine exports would be given guaranteed value. This action is regarded by authoritative quarters as likely further to restrict Argentine purchases from the United States. The despatch stated that in informed sources it was believed that this action by Argentina would delay trade generally because the war had already slowed up shipments from Great Britain and France.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$6,290,000 from the Bank of Norway
1,125,000 from the Bank of Mexico
 \$7,415,000 Total

There were no new gold shipments reported to us today.

Mr. Cameron of the Federal Reserve Bank of New York called and said that the Bank had received instructions from the Bank of Finland to place \$1,250,000 at the disposal of the Finnish Legation. The Legation wanted this amount paid to the National City Bank of New York and, in order to save the loss of one day by mailing its instructions to New York, it was arranged that the letter addressed by the Finnish Minister to the Federal Reserve Bank of New York instructing it to make payment to the National City Bank be delivered to my office. The letter containing the instructions was received from the Finnish Minister and, upon its receipt, the contents were telephoned to New York. The letter was subsequently forwarded to the Federal Reserve Bank of New York.

In London, both the spot and forward prices for silver were fixed at 22-3/8d, off 1/8d for each delivery. The U. S. equivalents were 39.80¢ and 39.49¢. The Bombay silver price remained fairly steady, its U. S. equivalent being 42.67¢. Handy and Harman's and the Treasury's prices for foreign silver were both unchanged at 34-3/4¢ and 35¢, respectively.

We made six purchases of silver totaling 400,000 ounces under the Silver Purchase Act. Of this amount 100,000 ounces was trading silver previously purchased by one of the New York banks and the remaining 300,000 ounces represents new production silver from foreign countries purchased for forward delivery.

Mr. Knoke gave me by telephone this afternoon figures with respect to Russian balances in New York as of January 12, compared with similar figures for January 5. The balance of the Russian State Bank with the Chase is up \$1,500,000 to \$4,000,000. Letters of credit of the State Bank of Russia with the Chase increased by \$1,100,000 to \$7,000,000. The Amtorg balance with the Chase remained unchanged at \$2,000,000. The following were the principal in and out payments in the Russian State Bank account during the week: after receiving \$2,000,000 from the Rotterdam Bank last week, a further \$5,500,000 has been paid in from the same source this week. The Swiss Bank Corporation contributed \$1,500,000, and \$300,000 came from a Japanese bank. Among the out payments were \$2,250,000 to the Amtorg; \$600,000 to the Lithuanian Central Bank; \$125,000 to the Estonian Central Bank; \$750,000 to the Union Bank of Switzerland; and various smaller payments. The Amtorg is still opening credits for copper exports.

CONFIDENTIAL

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Mr. Knoke also mentioned that the Sveriges Riksbank had ordered one transfer of \$10,000,000 from its account to the National City Bank. The Sveriges Riksbank account with the Federal has been quite active for several weeks, involving important out payments to banks in New York City.

B. W. F.

CONFIDENTIAL

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Yesterday Mr. Erickson, Commercial Consular of the Swedish Legation, telephoned me and arranged for an appointment for 11 o'clock this morning. When Mr. Erickson arrived, I found that the Swedish Minister was with him.

The Minister referred to the decision of the Federal Reserve Bank of New York not to grant any credit to the Sveriges Riksbank except against gold held in the United States. The Minister stated that this proposition was not of interest to Governor Rooth at this time. Further communications had, however, been recently received from Rooth in regard to two possible types of credit that might be sought from the Export-Import Bank. The first was for a straight export credit of perhaps one year; the second was envisaged for a period of four or five years. The Minister asked whether the Export-Import Bank or the Reconstruction Finance Corporation would be the more likely to grant the credits in question. He referred to the statement carried in this morning's press and attributed to Mr. Jesse Jones to the effect that negotiations were under way for a \$10,000,000 credit to Sweden. The Minister also inquired as to whether Mr. Warren Pierson, President of the Export-Import Bank, had returned to office.

I telephoned Mr. Pierson's office and learned that he is leaving the hospital tomorrow, and is not expected back at his office for one week. I confirmed that the Vice President, Mr. Whittemore, was in charge. When the Minister stated that his negotiations had been with Mr. Pierson, and asked whether he should now see Mr. Whittemore or preferably Mr. Jones, I told him that if he desired to approach Mr. Jones, he would have a proper reason therefor, namely, the press statement of this morning above mentioned. The Minister stated that he had discussed with Mr. Pierson originally the idea of a possible credit for \$25,000,000, rather than \$10,000,000, and was disappointed that the Export-Import Bank was not seeking an increase of more than \$75,000,000 or \$100,000,000 from Congress. The Minister stressed the importance of Swedish purchases from the United States and the high credit standing of his country.

In answer to repeated questions of the Minister as to whether it would be the Reconstruction Finance Corporation or the Export-Import Bank that could help out and for how long a term, I insisted that these questions could only properly be answered by Mr. Jones and the officer in charge of the Export-Import Bank, and I recommended that the Minister get in touch at once with Mr. Jones. Incidentally, he told me that he understood the announcement of the \$10,000,000 credit from the Export-Import Bank to Norway to be premature. He agreed, however, that with the present atmosphere of American sympathy for and interest in Scandinavia, it would appear to be a propitious time to present the Swedish request for credit.



January 13, 1940

To: The Secretary

From: Mr. Young

Re: Income Certificate Plan
for Agriculture

I advised Mr. Lauchlin Currie that the Treasury memorandum had been completed last night, but that I had delayed forwarding it to him until I had received the memorandum on the same subject from the Federal Reserve this morning.

I have now received the memorandum from Federal Reserve, and both of these have been duly transmitted to Mr. Currie.

ry.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In a thin foreign exchange market, the rate for sterling strengthened on fair commercial buying. After opening at 3.96-1/2, sterling advanced steadily to a high of 3.97-5/8 around noon-time. Just before the close the rate eased and the final quotation was 3.97-1/8.

It is interesting to note that the four reporting banks executed no sterling transactions today by order of foreign banks. For account of commercial concerns, the reporting banks executed sales of spot sterling totaling £60,000 and purchases totaling £227,000.

The Chase National Bank reported that it had sold £2,000 in cotton bills to the British Control on the basis of the official rate of 4.02-1/2.

Continued improvement was reported in the rate for the Cuban peso, today's quotation being 9-5/8% discount. The Mexican peso was steady at its current low of .1672.

The other important currencies closed as follows:

French francs	.0225
Guilders	.5354
Swiss francs	.2243
Belgas	.1686
Canadian dollars	11-9/16% discount

We purchased gold valued at \$1,125,000 from the earmarked account of the Bank of Mexico.

The State Department forwarded to us cables stating that the following gold shipments would be made:

\$3,087,000 from India, representing three shipments by the National City Bank, Bombay to the American Trust Company, San Francisco.

1,194,000 from India, shipped by the National City Bank, Bombay, to its head office in New York.

262,000 from India, shipped by the National Bank of India to the Guaranty Trust Co., San Francisco.

230,000 from India, shipped by the National Bank of India to the Chase National Bank, San Francisco.

1,743,000 from England, shipped by Samuel Montagu & Co. to the Guaranty Trust Co., New York.

70,000 from England, shipped by Johnson Matthey, London, to Johnson Matthey, New York.

14,000 from England, shipped by Samuel Montagu & Co. to Mr. Vitalis Nachmias, New York.

\$6,600,000 Total

Of the above shipments, those arriving at San Francisco will be sold to the U. S. Mint there, and those consigned to New York will be sold to the U. S. Assay Office.

In the report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on January 10, such deposits totaled \$35,785,000, an increase of about \$1,500,000 since the last report on January 3. Of this amount, \$24,698,000 represented deposits with the Yokohama Specie Bank by their branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$77,603,000, an increase of \$8,300,000 since January 3.

B. W. S.

CONFIDENTIAL

January 13, 1940.
11:53 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

John
Traphagen: Hello Mr. Secretary.

H.M.Jr: How are you?

T: I'm fine, thank you.

H.M.Jr: Mr. Traphagen, these gentlemen have left.

T: Yes.

H.M.Jr: And I think we made some progress.

T: Good.

H.M.Jr: Now this, we pinned them down to this proposal.

T: Which proposal.

H.M.Jr: The suggestion which you made.

T: Yes.

H.M.Jr: For three years you see?

T: Yes.

H.M.Jr: That they buy five hundred thousand dollars face amount of their own bonds as retired.

T: Yes.

H.M.Jr: If that could be extended - extended over the life of the loan they, I think, are ready to commit themselves to that. When they first started they said they would not spend more than two hundred thousand dollars a year to retire bonds, you see?

T: Yes.

H.M.Jr: Now they say, if the counsel would agree to their proposal over the life of the issue they would, each year, buy in and cancel five hundred thousand dollars worth of their bonds. Hello.

- 2 -

T: Yes. Well of course that's going to take a terribly long time to pay off these bonds.

H.M.Jr: Well -

T: It'd take about ninety years.

H.M.Jr: Oh, no.

T: Wasn't it forty-five million of the bonds at five hundred thousand a year?

H.M.Jr: True.

T: They'd be retiring half a million a year.

H.M.Jr: Well - at least it's more than they've ever agreed to before.

T: Yes.

H.M.Jr: Now as to the back interest, they're suggesting six to ten year script. Hello.

T: Six to ten year script.

H.M.Jr: Yes.

T: Yes.

H.M.Jr: On the back interest.

T: Yes.

H.M.Jr: Just before they got up to leave they said, "Well couldn't we have a three per cent for the life of the loan" and we - and I shrugged my shoulders and said, "Well I thought we had covered enough ground today". Hello.

T: Yes.

H.M.Jr: And it didn't imply anything in any way, and as to the Mortgage Bank, they said they were not authorized to talk but they would get in touch and have whoever was authorized to talk to come up here immediately.

T: Yes.

- 3 -

H.M.Jr: And they told us that they were in favor of coming to an agreement on the Mortgage Bank, but they could not talk for the Mortgage Bank.

T: That's good. Well now may I ask you a question about the split for the back interest, six to ten year.

H.M.Jr: Yes.

T: Was it their idea that they would issue script for the full amount? -

H.M.Jr: Well -

T: Thirteen and a half million.

H.M.Jr: It wasn't discussed. It was just - first place they recognized the principle that they should do something on the back interest.

T: Yes.

H.M.Jr: That's Number one.

T: Yes.

H.M.Jr: Number two - whatever they do they'll do it in script.

T: Yes.

H.M.Jr: What the amount would be or how, they didn't discuss.

T: I see. I see.

H.M.Jr: See? Now they would like to talk with you again now.

T: All right.

H.M.Jr: Personally, if I might make a suggestion, I think that if the counsel could see its way clear of saying that they will retire each year five hundred thousand. As a starter that is getting further than it seems as though it had ever gotten before.

T: Yes. Yes. Well I'll be glad to see them Mr. Secretary. I am not - I'm not too hopeful about getting the counsel to agree, but I've been doing

a little figuring since I got back here on Mr. Jones' plan.

H.M.Jr: Yes.

T: Which I think might be worked out.

H.M.Jr: I see.

T: The net effect of it would be that instead of paying four per cent interest they'd be paying three per cent interest.

H.M.Jr: Yes.

T: They'd be applying one per cent - the difference between three and four, to the retirement of the back interest and over a period of fifteen years they could retire the back interest at three per cent instead of the figure that it accrued at, six.

H.M.Jr: Yes.

T: And the sum that they would pay would work out the same. It would all come into two million three, and I think that where we've got to get together, it seems to me, is on a question of how long a period we will permit them to buy in five hundred thousand face amount of bonds instead of five hundred thousand dollars at market value.

H.M.Jr: Well I doubt if you get two million three cash a year. I doubt it.

T: Yes.

H.M.Jr: I think the size of the pie is two million dollars. How are you going to divide it, that's subject to negotiation, but I very much doubt if you get more than two million.

T: Yes.

H.M.Jr: Now as to how many pieces of pie there are, that's another question.

T: Well, may I ask you this?

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H.M.Jr: Please.

T: Was there anything said at the meeting by you or your associates on the committee that would indicate the best - that two million was agreeable to you?

H.M.Jr: No.

T: It was not.

H.M.Jr: No, no, we didn't.

T: I see.

H.M.Jr: No we wouldn't do that.

T: No. Right. Well I'll go over -

H.M.Jr: No. What I'm saying is just my own feeling but there was - no we did not indicate anything.

T: I see.

H.M.Jr: No.

T: First rate. And thank you very much for calling me, I'll get in touch with them right away.

H.M.Jr: Just a minute. Mr. Jones wants to say something. Just a minute please.

T: Yes.

H.M.Jr: Mr. Jones suggested why don't you issue a new bond running for thirty or forty years and that that bond should be retired at the rate of five hundred thousand dollars a year.

T: Yes, yes. Well we can -

H.M.Jr: That would get over the ninety year thing.

T: Yes.

H.M.Jr: I mean - forty year bond retiring five hundred thousand dollars a year and I take it what Mr. Jones means at the end of forty year -

T: They'd refund it.

H.M.Jr: Or - pay it off.

T: Yes.

H.M.Jr: Yes.

T: Right.

H.M.Jr: You see?

T: Yes.

H.M.Jr: Just a minute. Somebody else - Cotton wants to say something. Cotton says the so-called Laylin proposal will grow to two million two at the end. But they never accepted that.

T: Yes.

H.M.Jr: But we didn't in any way say as to what the amount is. Just after talking to him an hour and a half is my impression that's all.

T: Yes.

H.M.Jr: But I agree with you, they're good horse traders.

T: They certainly are.

H.M.Jr: Nothing the matter with you either.

T: Well I'm a novice compared to those fellows but I'm not afraid of them.

H.M.Jr: Well, all right. Fine.

T: Thank you for calling me.

H.M.Jr: Thank you.

T: Goodbye.

H.M.Jr: Goodbye.

January 13, 1940.
12:05 p.m.

H.M.Jr: I'm fine Bob. How's everything down your way?
Bob
Doughton: Well we're going along down here trying to see what we can do about extending this reciprocal trade act. We've had two days you see in the paper, getting along pretty well I reckon, but it's going to be a kind of hard uphill fight.

H.M.Jr: I wouldn't be surprised.

D: What I called you here, they're trying to raise some of these many interested American manufactures against it and some of the farm organizations and every selfish group you know, that likes the old plan and would start fighting us, I think we'd make it in the House all right. It'd be quite drawn out and laborious. What I called you about Henry is the matter you came down to see Ed Tinsell (?) about.

H.M.Jr: Oh yes.

D: I think this, that somebody will check up on the house leadership. We were immediately - after you were here, and had a conference with the two men, you know I suggested that's what I would do.

H.M.Jr: I know.

D: Well I got in touch with them right now - less than an hour after you left.

H.M.Jr: Yes.

D: And confidentially didn't get any encouragement at all.

H.M.Jr: I see.

D: They seemed to be rather indifferent or would not - maybe that's not the right word, rather opposed to anything of the kind, that is not favorable at all.

H.M.Jr: I see.

D: So I just don't know. I was wondering whether or not I should take it up with the steering committee or just what I should do.

H.M.Jr: Well give me a chance to think about it.

D: Yes.

H.M.Jr: And to talk it over with the man across the street.

D: Yes, well I thought that was the best thing to do.

H.M.Jr: I'll do that.

D: I wanted to let you know and so then you - I wasn't going to make any further move until I heard from you again.

H.M.Jr: Well I appreciate that very much and I'll try to get some sort of an answer for you.

D: You know there was something said at the press conference yesterday according to the papers.

H.M.Jr: I know.

D: And I - just wait now until I hear from you.

H.M.Jr: All right Bob.

D: All right thank - I want to see you again some of these days.

H.M.Jr: Oh, any -

D: Did John Hanes ever say anything to you about a better position for Mills Kitchen, son of Gord Kitchen, who's down in the Department of Justice now.

H.M.Jr: Well I don't remember. He might have.

D: He told me he was going to do that and seemed very much interested. Mills is down there, and the position, I think, is far below his worth and merits and experience and all that kind of thing.

H.M.Jr: Well let me take a look at it Bob.

D: You take a look at that because I want to help him.

H.M.Jr: O.K.

D: And he's worthy of it. Has Jackson taken the oath of office yet?

H.M.Jr: Not that I know of.

- 3 -

D: He hasn't gone in yet.

H.M.Jr: No.

D: As soon as he gets in I want to talk to him but I don't want to talk to him until after I talk to you, and I wish you'd talk with John Hanes if you think of it.

H.M.Jr: Well when I see him I will.

D: I understand he'll be here Monday.

H.M.Jr: I see. Well I didn't know that.

D: That's what his office told.

H.M.Jr: O.K.

D: All right. Thank you Henry. Call me back when I can work.

H.M.Jr: Thank you.

D: Goodbye.

FS

PLAIN

London

Dated January 13, 1940

Rec'd 8:30 a.m.

Secretary of State,
Washington.

112, January 13, noon.

FOR TREASURY FROM BUTTERWORTH.

Gifford leaves London for Genoa today to board the MANHATTAN. All plans will be held in abeyance until he reaches Washington and discusses matters there. The FINANCIAL NEWS, DAILY EXPRESS and DAILY TELEGRAPH contain reports to the effect that "British holders of American securities worth many millions of pounds are to be offered a new war loan in exchange instead of cash". These reports are based on a press conference which Colonel Llewellyn, Parliamentary Secretary for the Ministry of Supply held yesterday in which he dissertated at length on the war potential of the British Empire. In the course of his remarks, according to the FINANCIAL NEWS, "he discussed the methods by which Britain could pay for her imports from foreign countries, in particular the United States. There are three ways, he pointed out, by which Britain could pay for her imports - gold

which

FS 2-No. 112, January 13, noon from London

which she held, exports which she could make, and the foreign securities held by her nationals. Holders of these foreign securities, he said, would shortly be deprived of them by a benevolent Treasury and given war loan or some other government security instead." The DAILY TELEGRAPH takes the line that these reports should be treated "with reserve". Incidentally I had a word with Phillips this morning who did not then know of Colonel Llewelin's excursion into the Treasury's field and had not seen this morning's press reports.

CGB

JENSON

TO THE SECRETARY
OF THE
TREASURY
LONDON
JAN 13 1918

RECEIVED
JAN 13 1918

THE WHITE HOUSE
WASHINGTON

January 15, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

(copy to Lauchlin Currie)

Because immediately after March 15th the question will arise as to whether last year's tax bill will cost the Treasury more than expected, I wish you would appoint an informal committee of three, consisting of a representative of the Internal Revenue Bureau, Lauchlin Currie, and a third person to be chosen by them to make a report to me as soon as possible.

This report should cover the tax law changes of 1939 and also the tax law changes of 1938 and I take it that the tax law changes made in 1938 will be fully reflected in the returns, this Spring.

It is important both for the Treasury and for me that we get some fairly definite facts on this situation.

F. D. R.

RE COLOMBIAN FINANCE

January 13, 1940.
10:00 a.m.

Present: Mr. Traphagen
Mr. Jones
Mr. Cochran
Mr. Cotton
Mr. Welles
Mr. Feis

*also Traphagen
Sullivan
Langley*

Traphagen: I think I ought to tell you, Mr. Secretary, if you want me to begin....

H.M.Jr: Begin anywhere you want.

Traphagen:that I submitted a proposal in writing to the Ambassador last night and I submitted it in these terms: I said, "It is an outline of what the Council will expect." In respect to the long-term dollar debt, direct obligations to the public, which are outstanding to the extent of 45 million dollars, we would expect an annual payment of \$2,300,000 a year.

Jones: Interest and principal?

Traphagen: Interest and principal, to be applied during the first three years as follows: For interest, \$350,000; for the retirement of coupons and arrears at the rate of one-sixth of their face value, \$460,000; for sinking fund, \$500,000. For the next two years: Interest at $3\frac{1}{2}$ percent, \$1,575,000; for the retirement of coupons, \$450,000; for sinking fund, \$275,000. For the sixth year and thereafter until the bonds are retired: Interest at 4 percent, \$1,008,000; for sinking fund, \$500,000.

Then I went on to discuss the guaranteed obligations and I might tell you what was indicated there, that on the basis of five million outstanding in this country, we would expect annual payments of \$250,000, of which during the first five years, \$150,000 would be for the interest at 3 percent, for the retirement of back coupons at \$10 per coupon, which is the same thing we are doing in the direct obligations, \$50,000, and for sinking fund, \$50,000, and for the sixth year and thereafter until the bonds are retired, \$175,000, or $3\frac{1}{2}$ percent interest, \$75,000 for sinking fund.

- 2 -

Then I have stated that in the sinking funds, as the principal of the bonds is retired and the interest requirements are reduced, the sinking fund should be increased.

Now, I said to the Ambassador after some considerable discussion - we were there until 12:00 o'clock - that while I wasn't authorized to do so by my associates, that if the Colombian Government came back and said to me or to us that they would accept this plan with the modification in the first three years that instead of \$500,000 being applied to the sinking fund, 500 face amount bonds, 500,000 face amount bonds were retired, I would be willing to recommend that to the Council, provided the offer came to us in that form. If the bonds could be purchased at 40 or under, which I think they could, that would reduce the payments during the first three years to two million dollars.

Jones: To two million?

Traphagen: Yes. The Secretary squirmed around. He is a very nice little fellow. I made it a point to keep on very good terms with him and I haven't felt there was any advantage in getting into a controversy about what their exports were or what their imports are or whether their foreign exchange is so much, or anything, but I have simply felt that this was largely a matter of making a deal with these people and I think he is very anxious to make a settlement that will accrue to his benefit in Colombia. It seems to me that this formula is an extremely favorable one for them. They have, as a matter of fact, said that they could provide two million a year. They backed away from that a little bit in the first year by putting a million 750 thousand in there, but the Ambassador is - he indicated to me that he was very loath to submit this offer to Colombia because he said it wasn't as good really as the Laylin proposal, which was made last August and which he submitted to his Government without any indication that it would be accepted and he said his Government was very much opposed to the so-called Laylin offer. He doesn't think this is any better.

- 3 -

I said, "Mr. Ambassador, if you don't feel that you want to submit this to your Government, I would like to withdraw this offer." I said, "Very frankly, this offer goes way beyond anything that the Council feels it should. We have stretched our views a great deal to accommodate you and in doing so we feel that we have very much involved our own position in dealing with future Governments." I said, "We have been so liberal, we have set up customs we believe are going to be very embarrassing to us," so I said, "I would like to withdraw that offer."

Well, he didn't exactly want me to do that.

H.M.Jr: Was Laylin there?

Traphagen: Yes. They both said they preferred not to have me do that until after the week-end.

(Mr. Welles and Mr. Feis enter the conference)

That, in short, is about what happened last night. I can tell it to you in ten minutes, but I got there at half past 8:00 and I left there shortly after 12:00.

H.M.Jr: I would appreciate it if you would....

Jones: Start it all over, then maybe I will catch it.

H.M.Jr: Are you going to leave me a copy of that thing?

Traphagen: Yes, I will leave you this.

H.M.Jr: You had better talk a little louder.

Traphagen: I had a very pleasant talk with the Ambassador and Dr. Jaramillo and Mr. Laylin last night at the Embassy. I was saying that my relations with the Ambassador had been very pleasant and I like him very much and I can sympathize with his difficulties and I tried to show him that I did.

At his request I delivered him in writing a memorandum or a letter from the Council which

- 4 -

I signed as one of the members of the executive committee and I put it in writing because he asked me to make an offer which he could transmit to his Government. The offer calls for payments on the part of the Colombian Government at \$2,300,000 a year on account of the direct obligations.

In the first year, that \$2,300,000 would be applied for interest at 3 percent, \$1,350,000; for the retirement of back coupons at the rate of one-sixth of their face value, \$450,000; for the sinking fund, \$500,000. For the next two years the interest rate would be stepped up to $3\frac{1}{2}$ percent, which would require \$1,575,000. The retirement of coupons would be the same, \$450,000, and the sinking fund would be reduced to \$275,000.

Then for the sixth year the interest - and thereafter, the interest rate would be 4 percent, calling for a million eight and the sinking fund, \$500,000.

Now, I might say that the Council feels that this plan is extremely liberal. There is accrued in unpaid and back interest approximately $1\frac{3}{4}$ million dollars which would be settled under this plan for a cash payment extending over a period of six years - five years, at two million and a quarter dollars. I plead very hard with my associates in the Council to settle that bank interest on this basis because the Ambassador explained to me that he was very loath and he knew his Government would be very loath to create a new debt in the form of a funding obligation. My associates on the Council were quite opposed to this because they said they felt the set-up an extremely bad precedent, but I persuaded them to submit it in this form.

I think I ought to say, too, that we submitted a plan to take care of the mortgage bank obligations, guaranteed, which we estimate is about five million in this country, five million dollars, which would require \$250,000 a year to be applied

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to interest during the first five years, 3 percent, and for the sixth year and thereafter, $3\frac{1}{2}$ percent, and the sinking fund payment to start at \$50,000, and application of another thousand to back interest on approximately the same basis as the other belongs and after retirement of back interest the sinking fund would be \$75,000 a year. We have asked them also to state in any announcement that is made of a settlement, when it takes place, that the Colombian Government would welcome the initiation of negotiations for the settlement of the municipal and departmental debts of the Republic and that in the event those settlements can be arranged, that they would endeavor to make exchange available.

The Ambassador quite naturally - at least I expected that he would and he did raise a good many objections to this. I think he is a very good trader. He is naturally wanting to do as best he can for his Government. He said that he didn't feel that this plan was quite as good as the Laylin plan. I stretched it a bit further on my own responsibility by saying that if this Government would come to us with a proposition that they would accept, on the basis of the sinking fund for the first three years, in face amount of bonds rather than in dollars, in other words, that they could turn in \$500,000 face amount of dollars - face amount of bonds, rather than applying that to the purchase of a million or a million and a quarter bonds, that I would be willing to say to him that if that offer came back to us from his Government that I would recommend its acceptance.

Now, that would have the effect of reducing the sinking fund requirements during those first three years from approximately \$500,000 to - or from \$500,000 to approximately, let's say, \$200,000, because I believe they could buy those \$500,000 of bonds at \$40 a bond, or 40 percent. I would be willing to make that recommendation to the Council. Whether they would accept it or not, I don't know, but I would hope that they would. I would try very hard to persuade them to do it.

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That brings the figure down to approximately the figure that they are talking about at the moment, \$2,000,000. To me that seems extremely liberal but the Ambassador was loath to present this proposal to his Government. He said he was loath to do so because the Laylin plan had been presented. Well, I said, "Mr. Ambassador, the Laylin plan was never approved by Council. This represents quite a different situation in that I am bringing to you a proposal that comes from the Council and therefore it is much nearer the point of final approval all around."

"Well," he said, "I am loath, nevertheless, to submit it because," he said, "the Laylin plan was not received with favor and," he said, "I am very much afraid that this would be received with little favor."

I said, "If you feel that way about it, I would prefer to withdraw this offer. I would like to take this offer back, because I feel that the Council has gone a very long way and set up some rather unfortunate precedents for the future dealings that we may have and I would prefer to withdraw that offer."

Well, his associates persuaded him that he shouldn't let me withdraw the offer and I think that on further reflection he decided himself that he shouldn't withdraw the offer and he said, "I would like to have you leave it with me over the week-end," and he said, "I promise you that I will not submit the offer to my Government unless I feel differently about it and unless I do feel differently about it, I will return it to you and not consider that you have submitted this offer." And he said, "I will hope to come in to New York next week and see you about it."

Now, that is about the way we left it. My own reaction is that the Ambassador is an excellent trader. He tells me that we have a misconception here of the position of Colombia to pay. He feels that the figures that we have had, and I

- 7 -

think he feels the figures, perhaps, that the Government has had, are not true figures, and I said in reply to that that if there was any question about the facts in the case that I for one was perfectly willing to have a re-examination of those facts, that I wouldn't undertake to argue it with him but I would put a man in Colombia in whom I had confidence on the matter to study it thoroughly and I would be glad to have the thing thrashed out. I said, "That is going to take time. If you want to give up the necessary time and delay this matter in order to do that, I am perfectly willing to do it."

I have studiously avoided having any controversy with him about figures. I don't feel I know enough about the figures of Colombia to argue with him and I would rather have a man in whom I had more confidence go down and make those figures. Maybe Mr. Welles could make some figures available to us and perhaps the Department of Commerce could make some figures available to us, other than we have. I think we have official figures. Perhaps they ought to be studied in a different way than they have been studied. Certainly on the basis of the figures we have, it would seem to me that Colombia is well able to make these payments. I am not at all certain that the Ambassador isn't willing to go ahead on this plan. I am not at all certain he isn't still trading and trying to make the best deal he can. I think he has made a pretty good deal up to date. I think we have given up a great deal when we have said to him that we are willing to forego the funding of those arrears of interest at 1 $\frac{3}{8}$ million dollars.

- Jones: Can you indulge me with those figures so I can get them down?
- Traphagen: Yes, sir.
- Jones: The first three years?

- 3 -

- Traphagen: The first three years - the sum, total sum, is two million three. It would be divided up into interest at three percent, which would take \$1,350,000; the retirement of back interest, \$450,000; and the sinking fund, \$500,000. That is all in dollars.
- Jones: But by taking bonds, that two million three....
- Traphagen: If we could buy these bonds at 40, Mr. Jones, which I think we could do....
- Jones: What are they now?
- Traphagen: They are selling them around 29, I think. I don't know how these bonds have raised in price, but I think they have been selling lately somewhere between 25 and 30. Is that right, Mr. Cotton?
- Cotton: I think so.
- Traphagen: Now, thereafter, or for the next two years, the interest rate would be raised to $3\frac{1}{2}$ percent, which would take a million 575. Those coupons, \$459,000. The sinking fund would be reduced to \$275,000.
- Jones: Would that be in bonds, too?
- Traphagen: No, that would....
- Jones: You are not settled on that?
- Traphagen: Yes, we are. I told them that the bond purchase would apply for the first three years.
- Jones: That is still two million three?
- Traphagen: Yes.
- Jones: How long does that run?
- Traphagen: Two years. Then the sixth year and thereafter, the interest would be four percent, or a million 800 thousand.

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Jones: All right.

Traphagen: And the sinking fund would be \$500,000.

Feis: I explained the fact that the State Department gentlemen had made you late and I don't think they mind (speaking of Colombians waiting in the reception room).

Traphagen: The other is the guaranteed obligations of the mortgage bank. We estimate \$5,000,000. That is an approximate figure, but we could go on that basis. I told them in view of the fact we were giving up $1\frac{3}{4}$ million dollars, the back interest of $2\frac{1}{4}$ million dollars, that I thought it ought to be so.

Jones: Do you regard this as approximately as favorable a settlement as the bondholders are willing to accept?

Traphagen: Mr. Jones, I think some individual bondholders would settle for very little. I think the intelligent bondholders that know something about Colombia - and there are a good many of them - I had a letter from a man the other day who has been a holder for a good many years, ever since these bonds came out. I would think they would feel that this settlement was extremely liberal to the Government and from the Council's experience in handling these settlements, I feel this is by far the most liberal settlement that they have ever considered.

Jones: You did make your - you refunded....

Traphagen: The Republic did fund the interest, I think, for one year.

Jones: Only one?

Traphagen: I think it was one year. Mr. Cotton would know more about that.

Cotton: It was two years.

Welles: You mean the issue of scrip? I thought it was three years.

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Cotton: I thought it was two. I am not sure.

Welles: Jaramillo was Secretary of the Treasury at the time and I thought he said three years.

Jones: Did they meet those scrip payments, have they met them?

Traphagen: Yes.

Jones: Promptly?

Traphagen: Yes.

Jones: They have all been paid?

Traphagen: Well, no, but the interest is being paid.

Jones: Did they give interest-bearing scrip?

Traphagen: They did.

Jones: Coupons are not mature?

Traphagen: The scrip has not matured, just the interest.

Jones: But the interest of this total is included in the 45 million?

Traphagen: No, that is not included.

Jones: Do you remember what the amount of that interest was that they gave scrip for?

Traphagen: Approximately, I think it is around $3\frac{1}{2}$ to 4 million dollars, isn't it?

Cotton: Yes, something like that.

Jones: So they owe that in addition to the 45 million?

Cotton: Yes. There are two million six of scrip outstanding now. There was originally about $3\frac{1}{2}$.

Welles: Some of it has been paid off.

Cotton: Yes. About half of it has been paid off.

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Jones: But you are not treating with that scrip in these figures?

Traphagen: No.

Jones: Does that mature over a period of years?

Cotton: It matures in 1946.

Jones: They have made no effort to bring that into the....

Traphagen: We didn't feel that it needed to be brought in, Mr. Jones, that it would be taken care of just as it is being taken care of today and we felt that was the best way to leave it.

Jones: I wondered if they had....

Traphagen: No, they haven't brought it up at all. The only thing that we have added to what was in their minds were the mortgage bank obligations. They would prefer not to bring those into the settlement at this time but I said that I didn't see how they could possibly feel that we were curing the default or that we could feel that way until they had made a settlement of their guaranteed obligations, as well as their direct obligations.

Jones: Who are the principal holders of these securities?

Traphagen: They are scattered all over the country.

Jones: Corporations or individuals?

Traphagen: Mostly individuals, some institutions. They are scattered all over the country and as near as we can tell the average holding is somewhere in the neighborhood of three to four bonds. Now, there are some people that have larger amounts, of course, and there are some institutions that have larger amounts, but they are scattered all over the place.

Jones: Do you have lists of the holders?

Traphagen: Yes, not all the holders but of a considerable number of them.

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Jones: Well, this is obviously more than the Ambassador is willing to - or wants to consider. This calls for about $2\frac{1}{2}$ million, or at least a minimum of - about $2\frac{1}{4}$ million dollars in the first three years.

Traphagen: Of course, the mortgage bank is not a charge upon the Treasury. That is an independent operation and....

Jones: Would we treat it independently?

Traphagen: I think we would.

Jones: He would rather not bring it in but....

Traphagen: He would have to provide revenues for that. He would have to provide for an exchange for it.

Jones: I see.

Traphagen: But it wouldn't go into his budget, as I understand it. And I think the mortgage bank, from all I can find out, is doing reasonably well.

H.M.Jr: That is what everybody says, the mortgage bank is doing all right.

Jones: And probably could make the payments if they had the exchange and the disposition.

H.M.Jr: Do you (Mr. Welles) want to ask any questions?

Welles: No, I think that is entirely clear, what Mr. Traphagen has said.

H.M.Jr: Herbert?

Feis: No, sir.

Jones: Have you had any contacts with the Ambassador since we were here last?

Welles: I have seen the Ambassador and Dr. Jaramillo twice, but not since the meeting of last night.

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- H.M.Jr: Well, as I understand it, you would rather not be here when the Ambassador is here?
- Traphagen: I am inclined to feel that it might be just as well if I were not, because I think it is most important for the Ambassador and myself to keep on the very best possible terms and I am just a little afraid that our conversations might lead to some differences which in the presence of you gentlemen might make it somewhat embarrassing, either to him or to me. If I am going to be very frank in his presence, as I would want to be, as I have been here and I have tried to be very frank with him, I think we might disturb him and I still feel that in dealing with these people - I have had some experience, not very much, but some experience with the people from the South. I think you have got to show them a sympathetic and kindly attitude to get anywhere with them and I would like to preserve that situation if I can.
- H.M.Jr: You are afraid if you got frank you might not be able to continue that?
- Traphagen: I got a little disturbed at them on one occasion last night and I showed them that I did, but it only lasted a second or two and I thought it was just as well to show them that below a certain point we could not go. But I will do whatever you want. I think it is better if you will let me withdraw.
- Welles: I think Mr. Traphagen is quite right. They have told me they have the most pleasant relationship. They have been very appreciative of the attitude he has taken.
- Jones: They might tell their story a little freer, too.
- H.M.Jr: I am very much obliged to you.
(Mr. Traphagen left the conference)
(Ambassador Turbay, Dr. Jaramillo and Mr. Laylin entered the conference)

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H.M.Jr: Mr. Ambassador, would you care to tell us how you are progressing with your meetings with Mr. Traphagen?

Turbay: I am not sure of my English, that it is good enough to explain.

(The conference continued with Mr. Laylin acting as interpreter for the Ambassador)

Laylin: The Ambassador says he wants to express his gratitude for this meeting, that he thinks it will help a great deal in working out the arrangement that he is sincerely trying to reach and that he appreciates the help that this meeting implies.

Will you correct me in my translation?

Welles: I will correct you if necessary. I see no reason so far.

Laylin: On beginning negotiations with Mr. Traphagen about a month ago, the Ambassador reviewed the history of the negotiations to that day.

In this conversation opening the negotiations, the Ambassador emphasized the willingness to discuss any arrangement that was within Colombia's capacity to pay, but called attention to the recent difficulties that the war has created for his country.

That the Colombian Government has been studying a proposal that was put forward in the conferences between the foreign Ambassador Lopez and Francis White that was made before the war broke out, but the Government has been studying it because of indications that were given after this time that that might be a formula which the Council would accept and Dr. Jaramillo corrects me by saying the Government looked upon it as being reasonable and acceptable.

And that the Government studying this formula found that it was too high, they thought, for

their capacity of payment, but they did authorize the Ambassador to renew negotiations on the basis of an interest rate of 3 percent with one percent amortization, nominal. One percent of the principal amount of the bonds would be retired each year and that after the settlement had gone on for a few years, the annual service charge would come up to two million dollars.

But naturally since this is a negotiation, the Ambassador is prepared to study any other proposal, taking into account features that would be more acceptable to the bondholders.

And it was with this object that he requested the Council to put forward its views so that they could be transmitted to Colombia.

In response to this request, last night Mr. Traphagen gave the Ambassador the Council's suggestions and the Ambassador has the essence of them in this envelope, but he supposes that Mr. Traphagen has communicated them to you.

H.M.Jr: He has.

Laylin: Last night the Ambassador told Mr. Traphagen that he wanted to study carefully before he gave anything more than his first impressions.

But last night he did give his first impressions, subject to studying it, which he would like to repeat here.

The first impression the Ambassador drew from the proposal was that it represented a charge on Colombia's revenues greater than was contemplated in the formula that was previously sent to Colombia, which, after studying, they thought was too high.

Welles: The Ambassador said certain features of it.

Laylin: But for another part, this contemplates also agreement upon the guaranteed bank debt which was not contemplated in previous conversations.

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And that the third point refers to the amortization - contemplated one percent of the amortization based upon the principal amount of the bond. Now, the cash that will be used to purchase bond, if the Government should purchase those bonds in the open market and retire one percent of the total principal amount of the bonds each year, but this the Ambassador had contemplated would be increased later as the capacity of Colombia permitted it.

And that it is the Ambassador's understanding that in the contracts made by the Council with other countries, and it is a provision in the old contract that we are now discussing, that the amortization should work this way and the Ambassador understands that usually it involves one percent.

Understanding the position of his Government, he considers that variation from this would be one of the most serious features.

Jones: What feature would be serious, what feature was it that would be serious?

Laylin: The feature of Mr. Traphagen's plan that says so many dollars shall be used every year in the purchase of bonds. The old contract said that so much principal amount of bonds would be retired every year. Since that was in the old contract and since the Ambassador's instructions have been very explicit on that point, he considers that it would be very difficult in having - presenting to his Government a plan to change that, that the plan would show that you retired so much principal amount of bonds a year and that those be purchased and furnished to the fiscal agent.

Jones: Are you addressing that to the guaranteed bonds or the other bonds?

Laylin: That is to the direct debt.

Jones: I thought you were talking about the guaranteed ones.

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Laylin: He was in the previous point.

The Ambassador said there is a point on this that doesn't deal so much with the amount of the amortization fund as the principal which his Government considers very important.

H.M.Jr: Well, if I understand what Mr. Traphagen said, he was willing to recommend to the Council that for the first three years you would buy in \$500,000 worth of bonds at whatever price you could and cancel them. Now, do I take it that the point that you are raising is, is that the principal you would like to have extended over the whole life?

Turbay: Yes, over the whole life.

H.M.Jr: And not just for three years?

Turbay: Not just for three years.

H.M.Jr: Is that the only difference?

Turbay: Yes.

H.M.Jr: Rather than having it for three years, you would like to have it over the whole life of this?

Turbay: Whole life.

H.M.Jr: That is the difference?

Turbay: Yes.

Laylin: It was one of the points that his Government has maintained with the greatest firmness with him.

The Ambassador is making a special point of this, Mr. Secretary, in order to have you appreciate the difficulties that he himself is having with his own Government.

H.M.Jr: I understand. May I just ask a question, please? Do I understand that as far as the first three years are concerned, that you and Mr. Traphagen are not very far apart?

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- Laylin: Understanding first that your question referred to the whole proposal in the first three years, the Ambassador remarked that there is a difference as to how the arrears of interest should be treated. My formula contemplated....
- H.M.Jr: You say "my formula". How do you mean that?
- Laylin: Well, I was the one that proposed that. It was the formula that we were all studying when we resumed negotiations. That formula contemplated that in the first year there would be retired six months of arrears of interest, so that the charge was not so heavy to begin with. Thereafter, in each year they would retire one year of back interest.
- H.M.Jr: Do you mind if I interrupt you? I want to try to see if - let's put that aside a minute, the arrears.
- Turbay: Yes.
- H.M.Jr: That is a question, I take it, that you are not interested in. With that exception, looking at this thing for the first three years, the amount of payment, and leaving for the moment the guaranteed debt to one side, because the Secretary of the Treasury's first interest is what comes out of the Treasury, and as I understand the guaranteed debt it is not so we could talk about that, but leaving the guaranteed debt to one side, with the exception of that and arrears, are you and Mr. Traphagen practically together?
- Laylin: I am sorry for the discussion, but we wanted to clear it. On your question, as it was understood, leaving aside the point of the form of the amortization and guaranteed bank debt question and also this question of the arrears of interest, without authority on the part of his Government to say that it is all right, the Ambassador thinks generally that it would be and he would be very glad to transmit it to his Government.
- H.M.Jr: With a recommendation?

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Turbay: Yes.

Jones: I didn't understand it. You said, leaving aside what?

Laylin: Leaving aside the question of the form of the amortization, or rather assuming that the amortization would be the nominal amount, which would mean that the bonds were purchased at 40, that it would cost \$200,000.

Jones: Assuming that would be the case, that would be acceptable?

Laylin: Assuming that to be the case and leaving the whole question of arrears of interest up in the air, as I understand it. Is that the way you understood it? (Speaking to the Ambassador)

Keeping the idea that something would be done about arrears of interest....

H.M.Jr: Excuse me. He feels something should be done about arrears of interest?

Laylin: Right. He accepts that.

H.M.Jr: He accepts that as a principle?

Laylin: Right.

Welles: The Ambassador has just made the suggestion as a possibility that scrip might be offered for the arrears of interest which could be amortized over a period of ten years. That is the basis of his discussion. The basic idea is to diminish as much as possible the cash payments that have to be made during the first five years on account of the various obligations that the Government has to provide for.

H.M.Jr: As I understand it, the thing is taking shape like this: That is the basic amount of dollars. He feels that that is a reasonable amount.

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Welles: To put it bluntly, and the Ambassador will correct me if I am mistaken, he feels that for the first year the total amount of dollars should be distributed in two ways, one million 750 thousand dollars. The amortization for the first year would be only for a six months period instead of a twelve months period. The \$450,000 for the first year would be paid at the rate of six months, \$225,000. After that, taking care of the arrears of interest in some manner such as that which he has proposed, the total amount of dollars which the Colombian Government would be willing to pay would amount to \$2,000,000. Is that correct?

Including payments that would have to be made on the arrears of interest.

Jones: Leaving the two million out?

Welles: Yes. Including the full payment on them over a period of either - from six to ten years.

H.M.Jr: Mr. Ambassador, sitting here on what we call the sidelines, if you understand, I mean sitting to one side, it looks to me as though you are a very able business man.

Turbay: No.

H.M.Jr: And that you have taken very good care of the interests of your Government. Now, you have been talking recently about \$1,750,000 and Mr. Traphagen has been talking with his people and has said two million three, or nothing. Well now, he has come down and said - it looks as though he has met you about half-way, because he is talking now about \$2,000,000. That is the size of the pie. It is a two-million-dollar pie, but how many pieces that is going to be cut into or how it is going to be distributed, I should think the important thing from the standpoint of your country is the amount of foreign exchange which is going to go out.

Turbay: Yes.

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- H.M.Jr: But it does look to me as though you gentlemen had sort of met half-way between what each of you were talking about. Isn't that correct?
- Welles: The Ambassador is saying that he reiterated to Mr. Traphagen last night that the Colombian Government hasn't modified the position it has expressed to him in the slightest degree, that in general terms it has taken its total debt of 50 million dollars and expressed a willingness to pay 3 percent interest on that yearly, which amounts to \$1,500,000 cash and nominal amortization, \$500,000 a year, meaning a cash amortization of 250. The bonds representing \$500,000 would be turned over or canceled each year. That is the position they still maintain.
- H.M.Jr: And Traphagen said he recognized the principle of something on the back interest?
- Welles: The Ambassador has just repeated that to me, that he is willing to agree in principle that the arrears of interest should be paid over the period of six to ten years.
- H.M.Jr: In scrip?
- Turbay: Yes.
- H.M.Jr: Putting that to one side, if our information is correct - of course, I have no way of knowing. I understand that this guaranteed bank is doing very well and is solvent, I mean in good shape. Is there any reason why that bank shouldn't resume payments on its debt?
- Welles: The Ambassador says the Government of Colombia is disposed to move immediately for that settlement. Legally, the Government cannot act for a bank because the bank has juridical personality. The Government of Colombia, in other words, is not the bank.
- Jones: You just used a word that I didn't understand what it meant.

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- Welles: That is a Spanish term meaning legal entity.
- Jones: The Government can't move until....
- Welles: The bank has to do the negotiating. The Government can't negotiate for the bank. The Government is the guarantor for the bank.
- Jones: Has a demand ever been made to make - form this guarantee?
- Welles: You mean legally?
- Jones: Yes.
- Welles: The Ambassador reminds me, which I had forgotten, that last year the mortgage bank did approach directly the American banks, creditor banks here for an agreement.
- The banks got in touch with the Protective Council and the Council told them not to make any agreement separately.
- H.M.Jr: Who would the Ambassador suggest would be the proper person for Mr. Traphagen to talk to in regard to this guaranteed bank? Who should Mr. Traphagen talk to?
- Welles: The Central Reserve City Bank and some bank in Chicago. Those would be the banks Mr. Traphagen ought to get in touch with.
- H.M.Jr: I meant the bank in Colombia, this bank we are talking about, who can speak for them?
- Welles: Either the Manager of the bank in Bogota or any representative he might appoint for that purpose.
- H.M.Jr: If the Government approved, couldn't some representative immediately come up from that bank so that - because I think that if the two things could be done together it would leave a more favorable impression in this country as to the whole matter that we are talking about, you see. I think it would leave a much more favorable

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impression and a more friendly feeling. Could somebody come up from Colombia who would have the authority to talk for this bank?

Welles: The Ambassador says he sees no objection himself and that he will inform his Government on this suggestion.

H.M.Jr: The way I feel, Mr. Ambassador, I feel that this talk has been very useful and it seems to me that you are getting closer and closer together all the time and I think that as long as both parties are so fair in their approach, it looks as though you ought to be able to get together.

Turbay: My feeling is exactly the same.

H.M.Jr: Mr. Traphagen went back to his hotel and said he would be very glad to see you gentlemen again today if you would care to. He is waiting there at his hotel. After this conference, he said he would be very glad to sit down and talk again.

I might make a suggestion. I think he is a very busy man and he does this on his own time and it would be too bad not to avail yourself of the opportunity of having another talk and we will talk to him again after you leave and tell him the impression we have had of our conversation with you gentlemen.

Turbay: Yes.

Welles: The Ambassador says that not only does he see no objection, but he would be very happy to have the opportunity, but he would like first to make a suggestion.

H.M.Jr: Please.

Welles: The Ambassador makes a very practical suggestion, which is a difficult one. He says that if he transmits this to his Government, he can only transmit it as a pure plan which he knows beforehand will not be favorably received and he realizes that both he and Mr. Traphagen are acting

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as middlemen and he feels that it would be very helpful indeed if some compromise solution could be suggested which would make it easier for Mr. Traphagen to go back to his people and for the Ambassador to report to his Government.

H.M.Jr: What I am hoping is that when you gentlemen meet together again today, that you will get some....

Jones: Come closer together.

H.M.Jr: A little closer together and we will have another talk over the telephone with Mr. Traphagen and if Mr. Traphagen would be willing to extend the principle of three years over the life of the agreement, and if you people would say you would buy \$500,000 worth of bonds each year until they are all retired, at whatever price they cost, but if the price goes up it means the credit of Colombia is that much better and you can afford to pay a higher price and you ought to do it.

Laylin: It works automatically.

H.M.Jr: As I understand it, he is going to limit it to the total dollar amount of \$200,000. As I understand what you said, you were willing to pay \$200,000 out of pocket, but what I am suggesting is that if you would say, "We will buy \$500,000 worth of face amount of the bonds a year," and if you people would say that and Mr. Traphagen would say, "Well, we will take that for the life of the thing," it seems to me that that would be a compromise, you see. You can well afford to pay the increased price if your credit is that much better, and I am sure the minute that this agreement is over, your credit, even though it is very good now, will be that much better afterward.

Turbay: Yes.

Laylin: That would help a lot.

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H.M.Jr: And then this question of scrip would be something that you could suggest to him, as to the - on the bank interest. But that, it would seem to me, would be the middle of the road. Then indicate to him that you will ask your Government to send somebody to come up immediately by airplane to talk about this guaranteed bank. Does that sound all right to you, Jesse?

Jones: Yes.

H.M.Jr: We feel like we are all the same family, so we are doing our talking out loud. Am I going too far?

Welles: I don't think so at all.

Jones: In other words, you don't think it is time for the referee to step in?

H.M.Jr: Not yet. We will talk to Mr. Traphagen on the telephone before he sees you.

Laylin: Mr. Secretary, there is one other point which we raised with Mr. Traphagen last night on this same feature. He offered, very confidentially, and as a personal matter, if the Colombians would make a counter offer to change this amortization through the first two years, to do his best with the Council to get them to accept it on that basis. I said, "Can't you give us something so that when we send this down to Colombia now it won't give them the impression it is the last proposal," and he said - it is the one time he seemed to draw up rather stiffly - he said, "No, that is asking too much of me." I think it would help a great deal if we could get that so it wouldn't give the impression that it is a backward step as against that other formula.

H.M.Jr: If my associates agree with me, and I take it they do, what we will suggest is this, that if you gentlemen say, "We will retire over..." As long as the issue is outstanding, \$500,000 a year of bonds, that Mr. Traphagen recommend

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to his committee that they accept that in principle, you see.

Welles: With the further statement that the Ambassador will ask his Government to have somebody sent immediately authorizing him to deal for the guaranteed bank.

H.M.Jr: That is right. You made your suggestion with scrip on the back interest. As I understand it from Mr. Traphagen, you simply want to establish the principle that the bank interest does exist and some kind of a token payment be made on the back interest. Whether it is one-sixth or whether it is scrip, at least that recognizes that there is a back interest.

Welles: The Ambassador says their thought is that the proposal should be a firm 3 percent without modification throughout the entire period. My impression is that that is the point that can still be discussed.

H.M.Jr: I think they had better talk that over with Traphagen.

Welles: The Ambassador says he will take, as the basis for an agreement, the arrangement suggested for the first three year period in regard to amortization and I also understood that would cover the straight interest rate at 3 percent throughout the whole period and not just for the first three years. I think that is a point that could be further discussed.

H.M.Jr: It would be too much to expect you to come to an agreement in one day. Mr. Laylin wouldn't be working for you for his fees.

Laylin: But, Mr. Secretary, that is the 365th day.

H.M.Jr: It is only the first time I have ever met the Ambassador on this subject. We make progress fast.

Turbay: We will meet Mr. Traphagen and speak with him.

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- H.M.Jr: I think this spirit you are showing is very nice.
So glad to have seen you.
- (Ambassador Turbay, Dr. Jaramillo, Mr. Laylin, Mr. Jones
and Mr. Welles left the conference)
- H.M.Jr: Don't you think we had a good meeting?
- Feis: I don't think we could have gone further this
morning.
- H.M.Jr: I think that was a good meeting.
- Cochran: That scrip ought to meet Mr. Jones' problem, too.
- Cotton: Yes.
- Cochran: If the bondholders don't object.
- H.M.Jr: He said scrip for six or ten years. I personally
think the thing should be 3 percent over the life.
- Cotton: Nobody mentioned as to whether you would refund
the whole of this. I presume Mr. Jones would
be willing to cut in half.
- H.M.Jr: Jones can't hold out other than what we all
agree.
- Feis: As this amortization proceeding takes \$500,000
of bonds out of the market, I think we could
give them a chance to bring that interest rate
possibly up to $3\frac{1}{2}$ and you might find your com-
promise there. After five years step up to
 $3\frac{1}{2}$ or something like that. You were absolutely
right in letting that alone.
- H.M.Jr: You can't do it all at one time.
- (Mr. Jones re-entered the conference)
- H.M.Jr: We have got a call in for Traphagen.
- Jones: I think they can get together if you give them
a little more time.

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H.M.Jr: When you were in there, they raised the question of interest, couldn't it be 3 percent for the life. I felt it was enough for today.

Jones: Fine.

H.M.Jr: I didn't say anything.

Jones: Fine. I think they will get together if we give them another week or so.

H.M.Jr: I don't see how Traphagen can refuse - if they will say they will retire \$500,000 a year face amount of those bonds over the life of the thing, it seems to me that is all they can ask for.

Fels: The Council has already accepted similar arrangements in other settlements.

Jones: How was that?

Fels: The Council has already agreed to similar arrangements in other settlements and I don't see any basis on which it could stand out in this.

Jones: If they were....

(Mrs. Klotz enters the conference)

H.M.Jr: (On phone) Hello. (Telephone conversation with Mr. Traphagen follows:)

January 13, 1940

Dear Walter:

I am enclosing herewith a draft of a speech. I have made no commitments to give it. I would like to have your frank criticisms and suggestions.

Sincerely yours,

Henry

Dr. Walter W. Stewart,

Gladstone, New Jersey.

Enclosure.

(Ltr given to Secret Service man at 12:30 p.m.
1/13/40 for delivery in person.)

EMG:lh

January 13, 1940

Dear Wini

I am enclosing herewith a draft of a speech. I have made no commitments to give it. I would like to have your frank criticisms and suggestions.

Sincerely yours,

Henry

Mr. Winfield W. Riefler,
Battle Court Road,
Princeton, New Jersey.

Enclosure.

(Ltr given to Secret Service man at 12:30 p.m.
1/13/40 for delivery in person)

EMC:lh

January 13, 1940

Dear Lowell:

I am enclosing herewith a draft of a speech. I have made no commitments to give it. I would like to have your frank criticisms and suggestions.

If you are free would you drop in at 10:30 Monday morning and discuss the talk with me?

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Lowell Mellett,
National Emergency Council,
Washington, D. C.

Enclosure.

By hand 11/15 a.m. 1/13/40

HMC/lh

January 13, 1940

Dear Jake:

I am enclosing herewith a draft of a speech. I have made no commitments to give it. I would like to have your frank criticisms and suggestions.

Sincerely yours,

Henry

Dr. Jacob Viner,
Social Science Building,
University of Chicago,
Chicago, Illinois.

Enclosure.

(Airmail, Special Delivery to Benj. Franklin Postoffice)

KMC:lh

D-6a
1-13-40

*These are troubled days
is different than
D-6a
Jan 12/40*

These are troubled days, in which grave questions concerning our relations with the outside world press for consideration. No one could be more aware of this than I, dealing, as I do, with our day-by-day fiscal, monetary and foreign-exchange problems. Nevertheless, I am convinced that if we direct too much of our attention on foreign problems, we are apt to forget that our major troubles lie not in Europe or the Far East but here. We must remember that our first responsibility is the internal welfare of our own country.

We have our own salvation to work out. Whatever system of government or mis-government Europe chooses, be it Fascism, Nazism, or Communism, for us here in America only one system is thinkable. We have a political tradition of democracy, an economic tradition of capitalism. We mean to hold fast to them because we think they constitute the best political form, the most efficient economic instrument and the highest social

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1-13-40

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order that has yet been devised. By democracy we mean that the government of the community exists for the interests of the individuals composing it; that every individual is equal before the law and has rights of which he cannot be deprived by arbitrary fiat; that every citizen, of whatever race, color, creed or sex, has the right to participate in the governing of the nation. By Capitalism we mean the system of free enterprise and private property in which the driving force is competition and the profit motive.

All the great achievements of our nation have been accomplished under this partnership of capitalism and democracy. They are the twin pillars upholding our order of society. Democracy and capitalism, however, can continue only if they are successful, only if they can deliver the goods.

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1-13-40

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What, then, should our objectives be? We must have a constantly rising standard of living. We must have economic security. And, finally, we must make it possible for many more people to acquire private property.

The problem that is ever present in my mind can best be stated not in the language of economists, but in human terms. What hope have bright, plucky boys or girls, leaving high school, of acquiring a profitable business of their own in their life times. Unless this simple question can be answered "Yes, they have a chance", all talk about free enterprise and the driving force of competition is mockery.

The difficulty that American youth has in establishing itself in business is not, of course, the whole problem; the small producer, even when he gets started, whether on a farm or in business, has little prospect of success under an economic system that has neither stability nor growth. And we cannot have stability or growth unless the small business man has an opportunity to get established and be successful.

I should like to indulge in a figure of speech. One of the admirable achievements of the New Deal has been its conservation of forest resources, its teaching of the importance of re-planting cut-over forest areas. It is similarly true that men and women, young or old, who want to start a taxi stand, a coffee shop, a clothing store or a machine shop are the seedlings of capitalism. When they die out our system of capitalism with its free enterprise and private competition is also dead.

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1-13-40

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From my experience at the head of the Farm Credit Administration, I know what the New Deal has done to help farm boys and girls to own their own farms. They have today the means of acquiring technical education in agricultural colleges of an extremely high quality. Through agricultural cooperatives organized under the auspices of the Federal Government they have access to credit on terms more favorable than ever before in our history and while they are engaged in paying for their farms they can call on the government for many valuable services. If we could do as much for the courageous boy or girl who wants to establish himself or herself in a small shop or small factory, we shall have gone a long way toward making our capitalist system successful.

In the nature of things, Americans cannot all be in business for themselves. We can hope to have a nation of one-family farms, but a nation of small businessmen

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would throw us back to the cottage industries of the Eighteenth Century when a pair of shoes cost a month's earnings. Most Americans in industry will necessarily be wage earners.

What should capitalism mean to them? Among other things it ought to bring to them, as consumers, constantly better and cheaper goods, which is another way of saying a higher standard of living. It ought to give them a constantly increasing measure of economic security, It ought to preserve for them the freedom to enter whatever employment they please and become members of the labor union of their choice -- the first rights which totalitarian systems take away from the worker -- and make it possible for many more people to have private property.

Again I want to speak of simple things. The best form of private property is the home. Nothing so

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certainly expresses the phrase "the more abundant life" as the ownership of one's own home. Capitalism must make it possible for more and more people to own their own homes. Perhaps no other problem has so occupied members of this Administration as the diffusion of home ownership. I myself have participated in continuous attempts to spread home ownership and I know how much serious effort has gone into the program.

Again, the system should give wage earners a reasonable hope of accumulating the savings that will permit them to help their children, to give their children an easier lot and a chance to go further in the world. It should also give them the hope of savings adequate to supplement the old age payments that, at last, the New Deal is bringing to the greater part of our citizens.

When the New Deal came into power in 1933, this country was moving away from these objectives of a

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higher standard of living, of greater economic security and of more widespread ownership of private property at so alarming a rate that the very structure of capitalism was being threatened. All through the preceding four years this trend away from these objectives of democracy and capitalism had gone on at an alarming pace. By 1933, the separation of people from their homes, farmers from their farms, businessmen from their businesses, investors from their savings, workers from their jobs and youths from their families was delivering shattering blows to our system of free enterprise, property rights and production for profit. The great achievement of the New Deal was that it immediately directed all its energies towards reversing this disastrous trend, that it at once took measures to strengthen the foundations of democracy and capitalism.

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1-12-40

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One of the first steps of the New Deal was to take in hand our tottering banking system. Free enterprise cannot thrive without a sound banking system. Therefore the New Deal at once introduced banking reforms which have cut down our banking failures from 27 hundred a year to less than 50. Fewer banks fail now than at any time in the past century and the small depositor is virtually immune from the loss of his deposits.

It adopted the Securities & Exchange Act, one of the most important steps that has ever been taken to help safeguard the investments of the small investors, and to prevent advantages being taken of his ignorance of the security market by unscrupulous corporations.

More than a million homes were saved by the HOLC and the other housing agencies have helped 2½ million families either to improve their present homes or to build new ones.

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Recognizing that a healthy capitalism cannot exist without a healthy labor movement, the New Deal strove to foster the growth of organized labor. Labor's stake in the survival of capitalism was increased by the growth of collective bargaining, by improvement in working conditions and by higher wages.

Knowing that capitalism thrives best when competition is fair, the New Deal adopted the Fair Labor Standards Act to protect capital and labor alike from sweatshops. It is the Magna Carta of the lowest paid workers.

Recognizing further that we cannot have full employment of our resources unless the prices of key commodities are free to move with the judgment of the market, the New Deal has initiated a comprehensive investigation of the price rigidities which clog our present economy. An essential fact of a totalitarian economy is that prices may be set by a dictator from his mountain hide-away.

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1-13-40

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What reason have we for calling ours a free economy if prices of key and important commodities can be set by a little group of men in the offices of a New York corporation lawyer? Whenever prices are kept fixed at a level higher than the market justifies, hundreds and thousands of workers are denied jobs they otherwise might have. The Temporary National Economic Committee set up by the New Deal is now engaged in examining the ways and means ^{by} ~~in~~ which price flexibility can be restored to capitalism.

Nor ~~did~~ ^{has} the New Deal ignore ^d a less obvious threat to capitalism and democracy. The youth of America saw the door of opportunity closing to them. Back in 1933 vast numbers of boys and girls could find for themselves no place at all in our economic system. At loose ends, hopeless, passive -- they represented an explosive force that could readily be turned into an active struggle against the system which they felt had callously let them down.

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The New Deal is proud of its record in creating opportunities for youth. The CCC and NYA have provided almost a million young men and women a year with health, livelihood and the preparation for a future career. While other countries, faced with the same problem, were conscripting their youth into armies and labor camps, we chose to open productive paths for the men and women of tomorrow.

Finally, realizing that economic security is as important to man's happiness as food or shelter, and that the growing lack of such security for the mass of our people was the most serious indictment of capitalism, the New Deal took the first important step toward providing some economic security for all. As the Social Security Act comes into full operation more and more workers will be more protected against the hazards of old age and unemployment.

Such is the pattern of the New Deal. Not all the parts of it have been coordinative; not all elements are harmonious. But one design runs through that pattern. One principle has dominated the program of the New Deal -- to restore to capitalism its strength, its vitality, its flexibility, to make our system provide an abundant life for all.

We know that we have made some progress in the right direction. But we cannot emphasize often enough that we have made only a start. We have gone but a small part of the way on the road we must travel before democracy and capitalism are safe. We cannot stop moving. We must continue on the road we have started. To wander from the direction the New Deal has set will be fatal to the American system. The path we have chosen is the only path by which capitalism and democracy can be preserved and strengthened.

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Yes, the New Deal is forward-looking -- the New Deal is liberal. Its liberalism is the willingness to adopt new, progressive methods, but to adopt them in the effort to preserve the finest in our national tradition. It does not believe that the solutions to our problems lie in return to the old days. It recognizes that change, adaptation and growth are necessary to capitalism if it is to survive. Conservatives, on the other hand, would sacrifice the real essence of our traditions and institutions in order to hold on to the devices that protect their special interests. In that significant sense the liberalism of the New Deal is more truly conservative than the conservatism of its opponents.

Reactionaries fail to understand this. They confuse the preservation of capitalism with the preservation of special privilege. They fight to maintain the status quo

D-6x/
1-12-40

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and existing vested interests, blindly unaware that by so doing they are sapping the foundations of the very system they wish to preserve. The measures which the New Deal has taken to protect free enterprise and to strengthen competition they have labelled a threat to the sanctity of private property and the profit motive. They have opposed New Deal measures on those mistaken grounds and still are opposing them. This is the fatal error. They would imperil democracy and the capitalist system rather than forego any curtailment of their powers.

The real threat to the survival of capitalism arises when it fails to deliver the goods. When our economy fails to provide our people with employment, with a reasonable measure of security, with a standard of living within the reach of our capacities, then it is failing to deliver the goods. And when it fails to deliver the

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1-12-40

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goods people become more willing to turn from honest and practical attempts to correct defects in the system to destructive "isms". Their just discontents are diverted into destructive channels. We must not forget that. We must not forget that it is not so much ideologies that foster discontent as it is that discontent fosters ideologies.

A cure for our ills is not to abandon our reforms but to extend them, not less democracy but more, not weaker but stronger capitalism. We must maintain and enlarge our civil liberties. We must continue our attempts to achieve a higher standard of living and economic security for all. We must make equality of opportunity a living reality.

These are troubled days, in which grave questions concerning our relations with the outside world press for consideration. Of this, no one could be more aware than I, dealing, as I do, with our day-by-day fiscal, monetary and foreign-exchange problems. But Europe and Asia must not be permitted to divert our attention from our first responsibility, the internal welfare of our own country.

Here in this country we have a political tradition of democracy, an economic tradition of capitalism. But whatever system of government or mis-government Europe chooses, be it Fascism, Nazism, or Communism, for us here in America only one system is thinkable. We mean to hold fast to democracy and capitalism because we think they constitute the best political form, the most efficient economic instrument and the highest social

order that has yet been devised. By democracy we mean that the government of the community exists for the interests of the individuals composing it; that every individual is equal before the law and has rights of which he cannot be deprived by arbitrary fiat; that every citizen whatever race, color, creed or sex has the right to participate in the governing of the nation.

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Democracy and capitalism, however, can continue only if they are successful, only if they can deliver the goods. What, then, should our objectives be? We

must have a constantly rising standard of living. We must have economic security. And, parenthetically, the annual wage already established by certain forward-looking concerns is a courageous attempt to grapple with this problem. And, finally, we must make it possible for many more people to acquire private property.

The problem that is ever present in my mind can best be stated not in the language of economists, but in human terms. What hope have bright, plucky boys or girls, leaving high school, of acquiring a profitable business of their own in their life times. Unless this simple question can be answered "Yes, he has a chance", all talk about free enterprise and the driving force of competition is mockery.

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1-12-40

The difficulty of American youth in establishing itself in business is not the whole problem. It is true that unless we have an economic system that has both stability and growth, the small producer, whether he be on a farm or in business, has little prospect of ultimate success. Yet it is no less true that without an opportunity for the small business man to be successful, we cannot have stability or growth.

I should like to indulge in a figure of speech. One of the admirable achievements of the New Deal has been its conservation of forest resources, its teaching of the importance of re-planting cut-over forest areas. It is similarly true that men and women, young or old, who want to start a taxi stand, a coffee shop, a clothing store or a machine shop are the seedlings of capitalism. When they die out our system of capitalism with its free enterprise and private competition is also dead.

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What should capitalism mean to them? Among other things it ought to bring to them, as consumers, constantly better and cheaper goods, which is another way of saying a higher standard of living. It ought to give them a constantly increasing measure of economic security. It ought to preserve for them the freedom to enter whatever employment they please, and to become members of the labor union of their choice, the first rights which totalitarian systems take away from the worker. It ought also to provide for a more widespread ownership of private property.

Again I want to speak of simple things. The best form of private property is the home. Capitalism must

make it possible for more and more people to own their own homes. Perhaps no other problem has so occupied members of this Administration as the diffusion of home ownership. I myself have participated in continuous attempts to spread home ownership and I know how much serious effort has gone into the program. Nothing so certainly expresses the phrase "the more abundant life".

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D-6
1-12-40

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It adopted the S.E. Act, one of the important steps which were taken to help safeguard the investments of the small investors, and to prevent advantages being taken of his ignorance of the security market by unscrupulous corporations.

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1-12-40

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Finally, realizing that economic security was as near to man's happiness as food or shelter, and that the growing lack of such security for the mass of our people was the most serious indictment of capitalism, the New Deal took the first important step toward providing it for all. As the Social Security Act comes into full operation more and more workers will be more protected against the hazards of old age and unemployment.

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1-12-40

Such is the pattern of the New Deal. Not all the parts of it have been coordinative; not all elements are harmonious. But one design runs through that pattern. One principle has dominated the program of the New Deal -- to restore to capitalism its strength, its vitality, its flexibility, to make our system provide an abundant life for all.

We know that we have made some progress in the right direction. But we cannot emphasize often enough that we have made only a start. We have gone but a small part of the way on the road we must travel before democracy and capitalism are safe. We cannot stop moving. We must continue on the road we have started. To wander from the direction the New Deal has set will be fatal to the American system. The path we have chosen is the only path by which capitalism and democracy can be preserved and strengthened.

Reactionaries fail to understand this. They confuse the preservation of capitalism with the preservation of special privilege. They fight implacably for the status quo and existing vested interests, blindly unaware that by so doing they are sapping the foundations of the very system they wish to preserve. They have fought against the measures that the New Deal has taken to protect free enterprise on the ground that they were threats to the sanctity of private property and the profit motive. This is the fatal error. They would imperil democracy and the capitalist system rather than forego any curtailment of their powers.

The real threat to the survival of capitalism arises when it fails to deliver the goods. When our economy fails to provide our people with employment, with a reasonable measure of security, with a standard of living within the reach of our capacities, then it is

failing to deliver the goods. And when it fails to deliver the goods people become more willing to turn from honest and practical attempts to correct defects in the system to destructive "isms". Their just discontents are diverted into destructive channels. We must not forget that. We must not forget that it is not so much ideologies that foster discontent as it is that discontent fosters ideologies.

Yes, the New Deal is forward-looking -- the New Deal is liberal. Its liberalism is the willingness to adopt new, progressive methods, but to adopt them in the effort to preserve the finest in our national tradition. It does not believe that the solutions to our problems lie in return to the old days. It recognizes that change, adaptation and growth are necessary to capitalism if it is to survive. Conservatives, on the other hand, would sacrifice the real essence of our traditions and institutions in order to hold on to the devices that protect

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D-6
1-12-40

their special interests. In that significant sense the liberalism of the New Deal is more truly conservative than the conservatism of its opponents.

A cure for our ills is not to abandon our reforms but to extend them, not less democracy but more, not weaker but stronger capitalism. We must maintain and enlarge our civil liberties. We must continue our attempts to achieve a higher standard of living and economic security for all. We must make equality of opportunity a living reality.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro
NO.: 18
DATE: January 13, 1940.

Reference is made to my despatch no. 2345 of January 8, 1940.

I was informed by the Brazilian Minister for Foreign Affairs that he agrees with the statements contained in my memorandum. He reviewed in its entirety his position with reference to the debt question and went on to say that in his opinion it was very important that the Brazilian Government resume some payments on the foreign debt. He said that at this time the Government would not be able to undertake full payments as set forth in the Aranha plan but that later on it would be able to do so. He said his idea was as follows: "It is my suggestion that you inform the United States Government confidentially and informally that the Government of Brazil is contemplating resuming payments on all dollar bonds under the Aranha plan on the basis of 50 percent of all payments on dollar bonds which were due in 1937--that being the last year when payments were made under the plan. I have not been authorized by the President to give you this information

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but I feel confident that I can get his agreement as well as that of the cabinet. I should be very glad if it could go into effect before my departure for Buenos Aires on January 19."

If Brazil resumes payments, such resumption will be voluntary. A provision for increased payments in future years would be included in the announcement of resumption of payments: "under conditions similar to the increases which are provided in the Aranha plan," Aranha said; "all clauses of the plan would be respected."

I remarked to Aranha that obviously this proceeding would be a very complicated one and I inquired as to whether or not he had considered a year-by-year flat-percentage increase. He answered that he would give further study to this point.

END OF MESSAGE

CAFFERY

EA:EB

289

2211 THIRTIETH STREET

WASHINGTON, D. C.

Jan 13, 1940

Capt Collins called me
at 1:30 A.M. to say that
Pleven (French) had come to
understanding last night
in Washington with ^{Curtis} Wright Co
that the French would take
25 of P.40 - U.S. Army type.

January 13, 1940

Dear Lowell:

I am enclosing herewith a draft of a speech. I have made no commitments to give it. I would like to have your frank criticisms and suggestions.

If you are free would you drop in at 10:30 Monday morning and discuss the talk with me?

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Lowell Hallett,
National Emergency Council,
Washington, D. C.

Enclosure. ↙

By hand 11/15 a.m. 1/13/40

NMC/lh

January 13, 1940

Dear Vin:

I am enclosing herewith a draft of a speech. I have made no commitments to give it. I would like to have your frank criticisms and suggestions.

Sincerely yours,

Henry

Mr. Winfield V. Kiefler,
Battle Court Road,
Princeton, New Jersey.

Enclosure. ✓

(Ltr given to Secret Service man at 12:30 p.m.
1/13/40 for delivery in person)

EMC:lh

January 13, 1940

Dear Walter:

I am enclosing herewith a draft of a speech. I have made no commitments to give it. I would like to have your frank criticisms and suggestions.

Sincerely yours,

Henry

Dr. Walter W. Stewart,

Glendene, New Jersey.

Enclosure. ✓

(Ltr given to Secret Service man at 12:30 p.m.
1/13/40 for delivery in person.)

HMC;lh

January 13, 1940

Dear Jake:

I am enclosing herewith a draft of a speech. I have made no commitments to give it. I would like to have your frank criticisms and suggestions.

Sincerely yours,

Henry

Dr. Jacob Viner,
Social Science Building,
University of Chicago,
Chicago, Illinois.

Enclosure. ✓

(Airmail, Special Delivery to Benj. Franklin Postoffice)

HMC:lh

Confidential

PARAPHRASE



A telegram (no. 27) of January 14, 1940, from the American Embassy at Chungking quotes a message of January 13 from the Consul at Yunnanfu which reads substantially as follows:

There is a shortage of gasoline stocks for private use and the gasoline situation in Yunnanfu is considered serious. There is a prevalence of rumors to the effect that the Japanese are continuing to press the French authorities to put a stop to shipments of gasoline by railway, offering in return to desist from bombing the railway. Although freight traffic in general is still suspended on the Laokay-Yunnanfu Railway, traffic on ordinary train continues, each passenger being permitted to have about 88 pounds of baggage for taking across the broken section by ferry. Some small shipments of freight are coming through, it is said. It will require about three weeks to repair the damaged bridge, in the opinion of Yunnanfu officials. The Southwest Transportation Company will try to bring freight through by organizing a portage system of its own, according to a representative of the company.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 15, 1940

TO Secretary Morgenthau

FROM Mr. Haas *[Handwritten signature]*

In response to your request that I determine how extensive is the increase in retail bread prices mentioned in the New York Times this morning, I find that the best source of information seems to be the retail price data collected by the Bureau of Labor Statistics. Retail prices of bread in 13 cities, as of tomorrow's date, will be available in the Bureau of Labor Statistics on Thursday, at which time I will make a further report.



BRITISH PURCHASING COMMISSION

January 15, 1940.

Dear Mrs. Klotz:

Mr. Purvis will be in Washington on Wednesday, probably arriving late on Tuesday afternoon. He would like a short interview with the Secretary on Wednesday if that can be conveniently arranged.

He can be reached here tomorrow, or at the new offices of the Anglo French Purchasing Board in Washington (National 6986) on Wednesday.

Very truly yours,

E. L. Brady
(Miss) E. L. Brady
Private Secretary

Mrs. Klotz,
Office of the Secretary of the Treasury,
Washington, D. C.

BMS
1710
pen

HSM

GRAY

Paris

Dated January 15, 1940

Rec'd 11:08 a. m.

Secretary of State,
Washington.

74, January 15, 3 p. m. (SECTION ONE).

FOR THE TREASURY FROM MATHEWS.

Normal and permanent budgetary revenue for November 1939 published in today's Journal Officiel totaled 4,587 million francs which is only 101 million less than for the corresponding month of 1938. This slight decrease resulted primarily from reductions in registration duties (136 millions) and miscellaneous indirect taxes (185 millions). Increases included the special national salaries tax (177 million) the business turn over tax (172 millions) and the tax on sugar and saccharine (91 millions).

BULLITT

RR
WJC

REB

PLAIN

London

Dated January 15, 1940

Rec'd 3 p. m.

Secretary of State,
Washington.

127, January 15, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. I had a short talk with Monet at a luncheon today. He feels that the steps which have recently been taken have gone a long way to ensure that Purvis will have knowledge of all buying in the United States even though it is impractical in certain instances to have the Anglo-French Purchasing Commission actually negotiate the purchasing of certain raw materials and manufactured articles. Monet emphasized that the cooperation with Purvis was now not only working well but would be further improved. On the broad question of Anglo-French coordination he appeared also to be satisfied that given the magnitude of the task satisfactory progress had been made and that within a month or two the machine would be working quite smoothly.

2. No doubt at the request of the Treasury Colonel Llewellyn, Parliamentary Secretary of the Ministry of Supply, issued a statement over the weekend to supplement that

REB -2-#127, From London, Jan. 15, 7 p. m.

that reported in my 112 of January 13, noon. The new statement was to the effect that his previous statement was of a general character and that the inference in some quarters that any particular scheme was under consideration by the Treasury was not warranted by anything he had said and was due to a misunderstanding of his remarks.

3. As mentioned in my 81, January 10, 6 p. m. the Prime Minister's speech of that date initiated the anti-complacency campaign, and the Chancellor of the Exchequer followed up with a speech at Glasgow on Saturday night. The speech contained nothing very new but gave slightly more precision to the propaganda for savings and against wage rises. In particular he said: "The principal element in the cost of things which we buy usually is the pay of the people who make and distribute them. If at a time when things are in short supply the wages of these people are increased to correspond with the first increase of cost, that increase at once increases the cost further, and that increase of cost in turn gives a claim to a further wage rise, and so on. That is the most dangerous type of spiral which faces us today. It was ^{for} that reason that the Prime Minister in his Mansion House speech earlier in the week spoke as he did about wages."

Except

REB -3- #127, From London, Jan. 15, 7 p. m.

Except for the Labor DAILY HERALD the London press echoes Simon's sentiments. The SUNDAY TIMES goes so far as to point out that "The vicious spiral has already begun. There has been a certain rise in the official figure of the cost of living and several of the larger groups of workmen have already obtained increases on account of it. Others are now seeking similar rises and the risk of a general movement upward is imminent. The Government cannot long defer taking a more definite attitude about it."

JOHNSON

CSB

RECEIVED
JAN 16 1941

HSM

GRAY

Paris

Dated January 15, 1940

Rec'd 1:25 p. m.

Secretary of State,
Washington.

74, January 15, 3 p. m. (SECTION TWO).

Revenue from indirect taxation for the month of November was 359,000,000 francs less than estimates compared with a deficiency in this respect of 797,000,000 for the month of October (my telegram No. 2953 of December 11, 1939, 6 p. m.). The November deficiency was caused chiefly by drops in customs receipts (127,000,000), miscellaneous indirect taxes (115,000,000) and proceeds from the business turn over tax (85,000,000).

One more committee is added to the growing war list: under a decree published in the Journal Officiel of January 14 provision is made for the creation of a board in the Ministry of Public Works and Transports to advise on questions relating to the supply of motor fuel, liquid combustibles or substitutes thereof.

BULLITT

RR
WVC

HSM

GRAY

Paris

Dated January 15, 1940

Rec'd 2:05 p. m.

Secretary of State,
Washington.

74, January 15, 3 p. m. (SECTION THREE).

This body will be composed of three senators, six deputies, eleven representatives of the Government departments concerned, nine representatives of industry and four representatives consumers and six technicians.

Under an arrete published in the Journal Officiel of today a fund is set up to equalize domestic and import prices of all categories of scrap iron.

It is reported that a Franco-Spanish commercial agreement will be signed in Madrid tomorrow involving French purchases of pyrites and iron ore, lead, zinc and mercury in exchange for French wheat, North African phosphates and rice from Indo-China. The agreement likewise covers French exports of automobiles, chemical products, pharmaceuticals and various manufactures. The balance of payments will be administered by a mixed Franco-Spanish commission.

BULLITT

DDM

FS

GRAY

Paris

Dated January 15, 1940

Rec'd 1:55 p.m.

Secretary of State,
Washington.

74, January 15, 3 p.m. (SECTION FOUR).

An optimistic communique has been issued by the Information Center on French economic recovery since October 1939. It claims that the general industrial production index which had fallen to 50 in September recovered to 83 in November (compared to 85 in November 1938). The communique added that coal production in October 1939 totalled 4,119 million tons compared to a monthly average of 3,875 million in 1938 in spite of the fact that the number of miners has been reduced from 162,000 in 1938 to 140 thousand. On textiles, wool production is given as 4432 tons in October compared to 4912 tons in July. These figures which are presumably hand picked are the first of this nature to be published since the war.

(END MESSAGE).

WWC

BULLITT

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 15, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I have sought the assistance of the Federal Reserve Bank of New York in bringing to date the figures for January 3 with respect to Finnish holdings on our market which Dr. White brought to your attention. The following are the data as obtained from Mr. Knoke at 5 o'clock today:

Gold held under earmark with the Federal Reserve Bank of New York by the Bank of Finland	\$7,300,000
Dollar balances of the Bank of Finland with the Federal Reserve Bank of New York.....	4,900,000
Dollar balances of the Bank of Finland held with other banks in New York	8,300,000
Private Finnish funds on the New York market	7,200,000
TOTAL	<u>\$27,700,000</u>

(The first two items, for the Federal Reserve Bank of New York, are as of opening of business on Jan. 15; the other two items, with respect to the New York market outside of the Federal Reserve Bank, are as of Jan. 10)

RE PROPOSED LEGAL ACTION
AGAINST TREASURY DEPARTMENT

January 15, 1940.
12:00 Noon

Present: Mr. Young
Mr. Silverblatt

H.M.Jr: What is your trouble?

Silver't: That tipsy Coast Guard.

H.M.Jr: Now look, here is a report signed by Mr. Carmody and Mr. Hanes and everything else on the settlement. Now, I am not going to go behind that. If you are not satisfied, I can't do anything about it. I asked Mr. Hanes to handle this thing for me. Here is the agreement signed by Mr. Carmody and Mr. Hanes. As far as I am concerned, it is settled. Mr. Hanes spent hours, days, weeks on this thing.

Silver't: I know. I did have a long hearing, everything that I asked for. I have no complaint about that. The only thing that....

H.M.Jr: Were you treated fairly?

Silver't: Absolutely fairly, so far as the hearing was concerned. The only thing is this, that I thought I had been handed a very legalistic decision by the Government taking advantage of every possible legal benefit in my doubt but overlooking entirely practical features of it, and the net result was that I took a substantial licking. I knew very well, Mr. Secretary, that you weren't going to change this thing but I have taken this thing right through slowly. It has been over a year and a half. Frankly, I feel that I have got to take it through the Court of Claims and didn't want to do that before I had spoken to you.

H.M.Jr: That is the privilege of any citizen. I don't know of any case that Mr. Hanes spent as much time on as he has yours.

Silver't: I feel certain that he has, but you were the Head of the Department and I thought I would come in and speak to you and tell you what

- 2 -

my position was and tell you that I had felt and do feel that I have been very, very unfairly treated.

H.M.Jr: One minute you say you have been treated fairly and the next minute you say you haven't.

Silver't: I have had a fair hearing. At the hearing itself I had every opportunity to present my case. I find that I have been given a highly legalistic decision. I am told that although you might be entitled to this, under the Comptroller's decision so-and-so we can't pay this amount and although you may have spent so much money, under Comptroller's decision so-and-so, we can't pay that.

H.M.Jr: No case that I know of has been given more time and more consideration than yours has. If you are not satisfied, if the Courts uphold it....

Silver't: Naturally, that is a costly procedure, but I just wanted to tell you of my experience in person.

THE INSTITUTE FOR ADVANCED STUDY
SCHOOL OF ECONOMICS AND POLITICS
PRINCETON, NEW JERSEY

January 15, 1940

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

Dear Mr. Secretary:

The draft of your speech arrived late Saturday afternoon. I have gone over it several times and my reactions are still too mixed to be of much help to you. I like the general approach. I like most of the specific content. Taken paragraph by paragraph, it seems to me that it reflects your own approach and personality. Yet, taken as a whole, it somehow doesn't sound like you. It doesn't seem to me that it "goes over." I have tried to put my finger on the spot or spots responsible and haven't yet been able to pin them down.

This is an unsatisfactory letter, but I didn't want to hold it up longer. As soon as I get a specific idea, I'll write again.

Sincerely yours,

Winfield W. Riefler

GROUP MEETING

January 15, 1940.
9:30 a.m.

Present: Mr. Haas
Mr. Graves
Mr. Cochran
Mr. White
Mr. Thompson
Mr. Cotton
Mr. Gaston
Mr. Schwarz
Mr. Foley
Mr. Sullivan
Mrs Klotz

H.M.Jr: Do you have anything, Herbert?

Gaston: No, I haven't anything.

H.M.Jr: Mr. Doughton keeps asking us about Miles Kitchin. Know anything about him?

Foley: No. It is somebody he recommended for a job.

H.M.Jr: I think it is up to Bob Jackson to take care of him.

What else do you know?

Foley: Thurman Hill is in Malone, New York, this morning and he is going to join with SEC in asking for a change of venue for Associated Gas Electric case. He is going to call me at 10:00 o'clock and I am to tell him whether or not he is to make any suggestions to the court.

H.M.Jr: Who is Thurman Hill?

Foley: He is head of our reorganization section in the Bureau of Internal Revenue.

H.M.Jr: I see.

Foley: He is our lawyer who would normally handle this case. Do you want him to make any suggestions to the court as to names?

H.M.Jr: No, I have no suggestions. Have you?

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Foley: Well, we talked about two names on Saturday and I was wondering if there was anything further on those two.

H.M.Jr: Let the SEC make the suggestions.

Gaston: There was something I forgot to mention. The yawl, Lekala, which we had a lot of fuss about, trailed down the Coast and the Department of Justice had to read the riot act to them and charge them not to go out of the jurisdiction of the United States. It is these ex-officers of German boats. She put out to sea for Palm Beach and hasn't been seen since. She put out to sea last Monday for Palm Beach. She has escaped our jurisdiction.

H.M.Jr: Whose fault is that?

Gaston: Theirs, I should say.

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

Gaston: The Germans on board the boat. They were simply told under penalty of the law not to go out of our jurisdiction and we were told to keep her under observation but not to trail her.

H.M.Jr: Who told you about it?

Gaston: Justice.

H.M.Jr: I can't get excited about that.

Gaston: There is nothing to get excited about. They have no considerable supplies aboard and they are just trying to get back to Germany, that is all.

H.M.Jr: Anything else, Herbert?

Gaston: That is all.

Foley: I think we ought to keep in mind, as far as the Bank of America is concerned, that we have deposits in that Bank of about 80 million dollars and we ought to be thinking about whether we are going to leave those deposits in there.

- 3 -

H.M.Jr: You know what the collateral is, don't you?

Foley: Yes, it is fully secured. But I think psychologically that is a factor.

H.M.Jr: Whatever move we make must be made carefully and studied out, planned. Now, when are you fellows going to come in to me with a plan as a result of that telegram?

Foley: Well, do you want to do it this afternoon?

H.M.Jr: I want to do it when you men are ready.

Foley: We can be ready this afternoon with a telegram.

H.M.Jr: I will be ready at 3:00 o'clock.

Foley: All right.

We checked the New York State personal income tax and we don't find what you are talking about.

H.M.Jr: Did you see Steve step on it Saturday and kill it, Steve Early?

Foley: No, I missed that. The only thing that even sounds like it was something that LaGuardia tried in 1933 - '34, and that was 15 percent of the amount of the Federal income tax paid by residents of the City of New York, but they never did collect it. They repealed the law the following year and refunded the tax.

H.M.Jr: Steve Early - look that up, Chick. He stepped on that Saturday morning very hard, that 10 percent business, because I showed the President a memorandum Friday that there was no such thing and I think - am I not right that Steve stepped on it?

Schwarz: That is right.

H.M.Jr: And John Sullivan, I think he gave it to me, but you can ask him, what the President thought

- 4 -

he had and hadn't done. Whatever was the net amount of the tax you paid in New York, that you add a fixed percent. Ask your men what would one percent added to your net tax be, I mean after all the deductions, you see, for either individuals or corporations, one percent on the net on the individual and one percent on the corporation, based on their '39 returns. What would that provide, see. I think that is what the President wants.

Sullivan: That is one percent of the taxable income, not one percent of the tax?

H.M.Jr: No, when you get all through and I have to pay, say, a thousand dollars tax - that is the tax I pay on my 1939 income, isn't it? Yes, 1939. I mean my tax to the Government is a thousand dollars, see, the net. Now, what would one percent added to that be, on the individual and on the corporation. Do I make myself clear?

Sullivan: No. One percent of that would be \$10.00.

H.M.Jr: O. K., what would that be for everybody who had a tax to pay?

Sullivan: That would be about \$260,000. No, one percent? Five and a half is everything. Income tax is about 50 percent of that. It would be about \$26,000,000.

H.M.Jr: And on the corporations, too.

Sullivan: That includes corporations.

H.M.Jr: How do you get one percent of 26 million?

Sullivan: Your total income tax was about 200 million, as I recall the figures offhand.

H.M.Jr: Well, check it up and get me a little memorandum, because I think that is what the President has in mind and I think - he is all confused. We gave him this memorandum Friday and Saturday he killed the story, you see. Thursday the story was given out from the White House, I think.

Then we showed him that he hadn't done that in New York but he had doubled the income tax rates.

Foley: A hundred percent.

H.M.Jr: A hundred percent. Then what he thought he had done. Let's show him what it would produce if he had done what he thought he had done. Do I make myself clear?

Sullivan: Yes, sir.

Gaston: We had one year there of so-called gross income tax which wasn't the gross income tax, it was one percent of the actual net income without personal deductions. It was a flat one percent.

H.M.Jr: When?

Gaston: In 1931 or '32, I think. It was 1932. One percent so-called gross income tax.

H.M.Jr: You and the President are both wrong. They have been all through it. What they did was, you paid a one percent....

Foley: The rates were one, two and three and they were made two, four and six, just double the rates and it made the tax a hundred percent more than it had been.

Gaston: I will look it up, too.

H.M.Jr: If anyone can find what the President has in mind, you would be doing him a service. Talk to Ed afterward.

Gaston: Yes. We had a gross income tax.

H.M.Jr: Well, what the President had in mind isn't a gross. He has got a percentage on whatever the net amount that you pay, see. I made myself clear?

Foley: That is what LaGuardia tried to do in '34. That is the only thing that even approaches it. He

- 6 -

computed 15 percent of the tax - Federal tax paid by resolution of the City of New York and that was the emergency tax to pay for the City to defray extraordinary expenses for relief.

- H.M.Jr: This thing that you have in mind, Herbert, how much would you think it would produce?
- Gaston: I don't remember how much. It was on account, as I recall it, of the emergency expenditures relief.
- H.M.Jr: At the President's press budget seminar he turned to me and said, "What were the rates," and I said, "I don't remember, but I can tell you how much it produced. It produced 19 million dollars. It was the first amount of money you produced for unemployment relief." I was right on the money. I didn't go off the end of the limb. When we looked it up we found he had just doubled the rates.
- Foley: He recommended to the legislature a 50 percent increase and the legislature made it a hundred percent increase.
- Gaston: I think the first year was one percent, net income without deductions, and I think they doubled the rate on that.
- H.M.Jr: He has been all through that. You look it up and see whether Ed isn't right, because he has gone all through the statutes.
- Foley: I will give him a copy of the memos.
- H.M.Jr: Well, Herbert, you are no worse off than the President, but he is not a Republican.
- Gaston: I know I am right about the gross income tax.
- H.M.Jr: I wouldn't bet you.
- Cochran: Do you wish to receive Mr. Chen this week? He will be here through Wednesday, anyway.
- H.M.Jr: 3:00 o'clock tomorrow.

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Cochran: You know Mr. Heath arrived Saturday?

H.M.Jr: Will you tell him I would like to have him lunch with me today? Just Mr. Heath.

Cochran: Yes, I will.

H.M.Jr: Anything else?

Cochran: No, sir.

Cotton: Traphagen called me after seeing the Colombians on Saturday. He had a rather discouraging interview. Would you like to hear the story now?

H.M.Jr: Yes. There are a lot of Colombians here.

Cotton: Well, he, according to him, was - Turbay is now undercutting his two million dollar offer and Traphagen is getting a little fed up with the whole thing. He was really quite discouraged about the whole thing. He left it that Turbay would write him a letter indicating what he, Turbay, would be prepared to recommend to the Colombian Government.

H.M.Jr: Would you communicate that to Mr. Welles and Mr. Jones, please, what you are telling me? You can write me a memorandum and send them each a copy. All right?

Cotton: Yes.

H.M.Jr: Chick?

Schwarz: I just wanted to report that Mr. Thompson on Saturday told us to participate over at the Budget Bureau in a meeting directed toward a reply to Congressman Wigglesworth, who is attacking Government information.

H.M.Jr: Is doing what?

Schwarz: Attacking Government information expenditures.

Thompson: The Budget wanted to get a picture of the whole subject.

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- Schwarz: We participated with Agriculture, Interior, and some of the other Departments.
- Thompson: The Treasury made a very good showing.
- H.M.Jr: I would be curious to know what it costs. Our expenses now must be very low.
- Thompson: They are very low.
- Schwarz: Relatively very meager.
- H.M.Jr: How was it, do you remember the figures?
- Schwarz: None of them have cut loose with the figures yet. They are all going to make surveys, but we will have an over-all picture in a short time. It was a matter of definition Saturday. We had to agree....
- H.M.Jr: Besides yourself, who is there that is charged up to Public Relations?
- Schwarz: We have about six or seven people but some of those are clerks, of course.
- H.M.Jr: Outside of the clerks.
- Schwarz: There are three others.
- H.M.Jr: Who are they?
- Schwarz: Mr. Atkins and....
- H.M.Jr: Isn't Atkins on Internal Revenue?
- Schwarz: But it is charged to Public Relations.
- H.M.Jr: We carry a lot of dead wood around here that doesn't do anything, as far as I am concerned.
- Schwarz: They are going to do something.
- H.M.Jr: Pardon me?
- Schwarz: They are going to do plenty. We need space, incidentally. We need a working room and also

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a place to receive the public so they don't trip over something.

H.M.Jr: Well, sometime in the next 24 hours I will go up and look over that space.

Thompson: I am already at work trying to get them some room.

H.M.Jr: I will go up and look over that space.
George?

Haas: I have nothing but this regular material (handing report to Secretary).

H.M.Jr: If Sullivan and Graves and you (Thompson) will stay behind a minute please.

John?

Sullivan: Nothing, sir.

H.M.Jr: Harry?

White: The exports of last month's figures are just in. They are the largest in nine years. They are 25 percent higher than last month's, 35 percent higher than last year, the same month, with a total of about 360 million dollars. We haven't got the breakdown by countries or commodities, yet, so we can't know to which countries they are increasing, but we will find that out in a few days.

H.M.Jr: And on that re-export stuff?

White: We are just getting permission to do that. I don't know whether it has come through yet. On that matter of tin that I spoke about, I overlooked something quite important. Tin is not kept in bond at all. There is no duty on it.

H.M.Jr: I see.

White: So we will have to find other ways of finding out what is available, but we are following

- 10 -

that up. I have that information on the chrome deposits in Alaska that you asked about. There has been an outflow of capital again, about 15 million dollars, mostly short-term balances.

Aldrich has written another article, included in his annual report, I take it - I am not sure - on this matter of free gold and something else that he is driving at. We can either have a memorandum for you - it is unimportant and he is wrong, but that is one thing.

The second is whether we oughtn't to give some publicity to our view. We thought we would include - we have already included treatment of that in those articles we are preparing but if you want to do something separately on it or if you are not bothered by it, we can just let it go.

H.M.Jr: Yes, I am bothered by it, particularly since Pittman took it up.

White: Did he, on this gold?

H.M.Jr: He said he endorsed Aldrich.

White: I didn't see that.

H.M.Jr: Yes.

White: I don't know what device you might use. You might use again the device of a letter from a Senator.

H.M.Jr: You had better get busy on it.

White: On a letter from a Senator?

H.M.Jr: Something.

White: All right, I will talk it over. Something you want to be able to make public?

H.M.Jr: Yes. Maybe from Pittman. Look up what he said in his statement in support of Aldrich.

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- White: I will find out. That letter from Senator Pittman, with respect to our purchases of Japanese silver that you turned over, raises some question that I think we ought to consider taking cognizance of the information which was relayed to us from Dietrich, which I take it Cochran either has or will speak to you about, of the reported deal made to the Japanese in regard to Japanese silver held in Tientsin, that they would give the Japanese the silver if the Japanese would stop the block in Tientsin, all of which suggests we had better make up our mind about the purchase of that silver. We have a little less grounds to stand on, because the silver comes to New York through the London market now.
- H.M.Jr: Have they got that in Tientsin?
- White: I don't know, it is a question of policy.
- H.M.Jr: I have been offered that silver through diplomatic channels for over a year and I have said no.
- White: From the Japanese?
- H.M.Jr: No, from the banks that own it.
- White: The arrangements reported now is that they are going to turn that silver over to Japan.
- H.M.Jr: They have discussed that for months. The last I saw was - just check my memory - was that on this question of these three men who took refuge with the English in their compound in Tientsin, in that deal in connection with the Japanese; it was reported as a part of the deal the English said they would turn over the silver in the banks in Tientsin to the Japanese.
- White: This is somewhat of the same character.
- H.M.Jr: It must be at least three months old.
- White: This article was dated December 9. The memo is dated January 12. This isn't official information.

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It is only a copy of an article that has appeared. I think we ought to decide here, partly in order to answer the letter and partly in order to determine our policy, whether we want to attempt to identify....

H.M.Jr: Harry, you have got to sit down and talk that out. You can't do it here.

White: I was going to suggest we have a meeting.

H.M.Jr: Ask for a meeting.

White: Well, let's have a meeting among ourselves first.

H.M.Jr: That is what I was thinking.

White: You remember some time ago, four months ago, three or four months ago, you asked for detailed information to be kept in your book with regard to the balances of the various countries. There were a lot of things we have had to do and it has finally come through and now we get them weekly and we are ready to change your book when you want it or I have got the stuff on the table.

H.M.Jr: When you bring that in....

White: I have it here, if you want it.

H.M.Jr: Well, when you get a chance to put that in my hand, I will talk to you about a lot of this.

White: When I get a chance to put the chart in your hand?

H.M.Jr: Yes, and I want to sit down and talk to you.

White: I have got it here.

H.M.Jr: All right.

White: I have a cable here that....

H.M.Jr: These things that you are talking about are worth an hour or two.

- 13 -

White: These cables I want to see you about and I have something else I would like to see you about.

H.M.Jr: If you will stay behind until I clear these gentlemen, I will see you. I want to see these three and if you will wait, Harry, I will see you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 15, 1940

TO Secretary Morgenthau

FROM Mr. Cochran



On Saturday Mr. Hamish Mitchell came to see me. He is a British subject who for several years represented the General Motors Financing Corporation in London and traveled extensively on the Continent, where I occasionally saw him. He told me that he is now a member of Mr. Purvis' staff in New York. He was accompanied by Mr. G. Miller Hyde, who is to be stationed in Washington as Secretary-General of the Anglo-French Purchasing Board, with offices in the Hibbs Building. Mr. Hyde is a young lawyer from Montreal.



W 322
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 15, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me at 12:10 noon to let me know that his Embassy had just received a preliminary reply to the message which Mr. Pinsent had sent in regard to the Secretary's suggestion with respect to disposing of British and French owned dollar securities in the United States. It will be recalled that the suggestions were made to Messrs. Pinsent and Leroy-Beaulieu when these two representatives were received together by the Secretary. The message expressed sincere thanks for the Secretary's advice, and indicated that his views were shared by the British Government. It was feared, however, that the French would not be able to act in the near future along the lines suggested. The British are, however, still in touch with the French on this point. Mr. Gifford is now on his way to the United States and is due here on January 24. As soon as he arrives the British will go into the security question, but no action is anticipated before that time.

In answer to my question as to whether any further word had been received on the earlier question as to the proportion and extent of gold and securities that the British and French would dispose of this year, Pinsent told me that the British Government had prepared a tentative estimate, but was withholding this pending a decision from the French Government, which is anxious to see Leroy-Beaulieu before giving their answer.

H. M. S.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 15, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

In a thin foreign exchange market, sterling appreciated from 3.96-3/4 at the opening to 3.97-3/4 by the late afternoon. It subsequently receded to close at 3.97-1/2.

Sales of spot sterling by the four reporting banks totaled £324,000 from the following sources:

By commercial concerns.....	£ 207,000
By foreign banks (Europe).....	£ 117,000
Total.....	£ 324,000

Purchases of spot sterling amounted to £351,000, as indicated below:

By commercial concerns.....	£ 227,000
By foreign banks (Europe).....	£ 124,000
Total.....	£ 351,000

The Guaranty Trust Company reported that it had sold cotton bills totaling \$5,000 to the British Control on the basis of the official rate of 4.02-1/2.

Quotations for the guilder and the belga, which closed at .5354 and .1686, respectively, on Saturday, sustained losses today, probably as a result of the disquieting reports relative to Germany's intentions toward Holland and Belgium. Today's closing quotations were .5321 for the guilder and .1679 for the belga.

The other important currencies closed as follows:

French francs	.0225-1/2
Swiss francs	.2243
Canadian dollars	11-3/4% discount

The rate for the Cuban peso was 9-5/8% discount and for the Mexican peso .1672, both rates unchanged from Saturday.

The Federal Reserve Bank purchased 30,000 Italian lire and 30,000 guilders for the Bank of Latvia.

We purchased \$1,760,000 in gold from the earmarked account of the National Bank of Belgium.

The Federal Reserve Bank of New York reported to us the following shipments of gold:

\$3,732,000	from Canada, shipped by the Bank of Canada, Montreal, to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
2,711,000	from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of Sweden.
2,248,000	from England, shipped by the Bank of England to the Federal Reserve Bank of New York, to be earmarked for account of the Swiss National Bank.
2,198,000	from England, shipped by Samuel Montagu and Company to the Bankers Trust Co., New York, for account of the Bankers Trust Co., London, for sale to the U. S. Assay Office.
1,125,000	from Italy, shipped by the Bank of Italy to the Federal Reserve Bank of New York, to be earmarked for account of the B.I.S.
563,000	from Switzerland, shipped by the Swiss National Bank to the Federal Reserve Bank of New York, to be earmarked for account of the B.I.S.
280,000	from England, shipped by Samuel Montagu and Company to Chase National Bank, New York, for account of the Twentsche Bank, Amsterdam, for sale to the U. S. Assay Office.
100,000	from India, shipped by the Netherlands Trading Society to the Chase National Bank, New York, for account of the Chase National Bank, London, for sale to the U. S. Assay Office.
520,000	from Switzerland, shipped by the Swiss Bank Corporation to the Chase National Bank, New York, for sale to the U. S. Assay Office.
113,000	from Switzerland, shipped by the Banque Federale Bern to the National City Bank, New York, for sale to the U. S. Assay Office.
<u>\$13,590,000</u>	Total

The Federal Reserve Bank of New York informed us that as of the close of business tonight, gold en route to the United States from foreign countries totaled \$107,993,000, the disposition of which is to be as follows:

\$ 55,635,000	to be earmarked at the Federal Reserve Bank of New York, for account of various foreign central banks.
24,698,000	for sale to the U. S. Assay Office at New York.
18,227,000	for sale to the U. S. Mint at San Francisco.
<u>9,433,000</u>	disposition unknown at the present time.
<u>\$107,993,000</u>	Total

It is interesting to note that at the present time there is no gold en route from Japan to the United States.

The London fixing prices for spot and forward silver were both 21-3/4s, off 5/8d. The U. S. equivalents were 38.83¢ and 38.59¢, respectively. According to a report from London received by one of the New York banks, the silver market there was extremely thin. The prices fixed for foreign silver by Handy and Harman and by the Treasury were unchanged at 34-3/4¢ and 35¢, respectively.

CONFIDENTIAL

We made eight purchases of silver totaling 725,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented a sale from inventory by one of the refining companies, and the remaining 625,000 ounces consisted of new production silver from foreign countries purchased for forward delivery.

From January 2 to January 15, inclusive, total purchases of silver amounted to 5,628,000 ounces under the Silver Purchase Act. In the New York market, 5,128,000 ounces were purchased, and the balance of 500,000 ounces were bought from Canada under our monthly agreement to buy up to 1,200,000 ounces.

H. M. F.

January 15, 1940.
10:09 a.m.

H.M.Jr: Hello.

Operator: Commissioner Helvering. Go ahead.

H.M.Jr: Hello.

Guy
Helvering: Hello.

H.M.Jr: Guy?

H: Yes.

H.M.Jr: I have here Sullivan, and Harold Graves and Norman Thompson.

H: Yes.

H.M.Jr: And we found this letter of yours dated November - December 15, to Hanes in regard to the hobby matter.

H: Yes.

H.M.Jr: I want to congratulate you on that letter, particularly the last paragraph.

H: (laughs)

H.M.Jr: Where you refused to take it out of the decentralized procedure, see?

H: Yes.

H.M.Jr: Now I'll give this - as long as Sullivan is here, I'm going to give it to him to take back, you see?

H: Yes.

H.M.Jr: And let the thing go the way all the other cases go.

H: Sure.

H.M.Jr: But when the matter is settled I'd like to have a copy for my file the complete file on this, correspondence between you and Hanes and you and the field.

H: Yes.

H.M.Jr: When the matter is settled.

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H: Yes. All right.

H.M.Jr: See?

H: Yes.

H.M.Jr: But I take it that this being written December 15. It's almost - well it is a month. Maybe something has happened down there since then.

H: How's that?

H.M.Jr: Maybe the thing has been settled or something.

H: No, no. That copy of the letter we were going to send to the field.

H.M.Jr: Yes.

H: That's attached there.

H.M.Jr: Never went?

H: It didn't go until we had the approval of our position on it.

H.M.Jr: Well you mean to say that Hanes never approved it.

H: No we never got it back. I asked him, if you notice, I wanted him to approve my memorandum, explanation to him and when he did that, then I enclosed there I think, you'll find in the file, a copy of the letter to our man in Dallas.

H.M.Jr: Yes.

H: That letter was to go as quick as he approved the -

H.M.Jr: Well would you suggest that I write a little note to Mr. Hanes and ask him why he never acknowledged receipt of your letter.

H: Well of course I don't know whether that's necessary or not. The only thing I would like to have, a note to you to me so -

H.M.Jr: Oh I'd love to give you a note.

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H: That you approve the stand we take and to take this matter up immediately.

H.M.Jr: I'd love to write you a note and I'll say that I picked this thing up out of the files and I'm surprised that the thing was delayed so long!

H: Yes, that's right.

H.M.Jr: See?

H: That's right.

H.M.Jr: And then I'll restate my position on the decentralized units.

H: I'd like to have you do that.

H.M.Jr: See? And I'll express amazement that the thing was held up so long.

H: Yes.

H.M.Jr: You'll have that before lunch.

H: Yes, all right. Thank you very much.

H.M.Jr: Now any other cases like that, until we get them straightened out will you bring them to my attention.

H: Yes. I'm getting up a list of some that are along the same line -

H.M.Jr: Right.

H: Right along the same line and there's several others that were mentioned.

H.M.Jr: And would you like - would you like me to - supposing we write this letter in a way that you might want to circularize it.

H: That's it. That's it exactly.

H.M.Jr: To the other - to the users.

H: Yes sir. That would be fine.

H.M.Jr: See?

H: Yes.

H.M.Jr: Supposing you do that. I'll have Harold do that.

H: I'd like to circulate it right here in the Bureau too.

H.M.Jr: O.K. Well this is the kind of letter that can circularize, or might even see daylight if necessary.

H: Yes. Well that would be a fine thing.

H.M.Jr: Of course I'll have trouble getting Harold Graves to write this kind of a letter.

H: Well I have an idea you will.

H.M.Jr: Harold's grinning from ear to ear. But I think under pressure he'll submit gracefully.

H: I think he understands the situation, too.

H.M.Jr: Yes, under pressure he'll submit gracefully.

H: All right, you put the pressure on him.

H.M.Jr: I'll put the pressure on him.

H: All right.

H.M.Jr: All right.

January 15, 1940.
10:30 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Robert Jackson: Bob Jackson.

H.M.Jr: How are you?

J: I'm fine this morning.

H.M.Jr: Have you called up to complain?

J: Yes. I had such a good time, it was a great let down afterwards.

H.M.Jr: I see.

J: Oh I had a grand time.

H.M.Jr: Good.

J: I thought the Chief did too.

H.M.Jr: I think so.

J: Why I just wanted to check with you. I'm sure that you feel as I do about it, but I just want to make sure.

H.M.Jr: Please.

J: There's been a statement as you know that income tax returns be used to prosecute anti-Semitic sentiment.

H.M.Jr: Well Bob, who made that statement?

J: It was made by the Attorney General in a press conference.

H.M.Jr: Well I didn't know that.

J: I think it would be terrible. Have you seen the law suit that was brought in New York to stop it?

H.M.Jr: No. Well the first place I've had no requests from the Attorney General and if I did I wouldn't comply.

J: Well I just felt sure that wasn't expressing your

sentiments. That would be a terrible thing. It would discredit the whole process and it would result in the other crowd doing the other thing you know.

- H.M.Jr: Well if he asks me for it I wouldn't give it to him.
- J: Well -
- H.M.Jr: So that - and I've had no request of any - along that nature.
- J: I want to do what I can to counteract that kind - that sentiment and I just want to be sure that I was going along with you in doing it.
- H.M.Jr: How did the Senate - I wish you'd do me a favor. Could you get me a copy of his statement that he made in his press conference and sent it over to me that relates to that.
- J: Yes, I think I can. I don't know whether there is a copy available of the actual conference. I'll get you the report on it.
- H.M.Jr: Could you?
- J: Yes.
- H.M.Jr: Then the other thing. Would you send me a copy of the speech you made on Jackson Day?
- J: Yes.
- H.M.Jr: I'd like very much to read that.
- J: I'll be glad to.
- H.M.Jr: Will you do that?
- J: Fine.
- H.M.Jr: No, any time Bob you want to know where I stand I'll tell you!
- J: Well I was just sure that we weren't misunderstanding the matter.
- H.M.Jr: And there's so many things that I want to talk to you

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about.

J: Yes.

H.M.Jr: Are you by any chance free Thursday for lunch?

J: Thursday, I don't think I'm committed in any way.

H.M.Jr: What?

J: I don't think I'm committed in any way.

H.M.Jr: Well supposing you come over and have lunch with me, will you?

J: All right.

H.M.Jr: You know where we eat in - I eat inside.

J: That's fine.

H.M.Jr: Will you do that?

J: I'll be glad to.

H.M.Jr: I want to unburden myself of some of the Treasury problems that we have with Justice.

J: All right, I'll be glad to do that.

H.M.Jr: O.K.

J: Goodbye.

H.M.Jr: Goodbye.

January 15, 1940.
2:15 p.m.

H.M.Jr: Hello.

Operator: Mr. Helvering.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Guy
Helvering: Hello.

H.M.Jr: Yes, Guy.

H: Miss Epps has been calling over here today, several times about files on cases, all of which were to be in this memorandum I'm getting up for you.

H.M.Jr: I see.

H: For instance, one case she wanted was the file in the Cudahy case. Of course I'm sure that you didn't want that file because we'd have to have a truck to take it over there.

H.M.Jr: I tell you what it is, and I can get that straightened out right away. Phil Young was here, you see. Hello.

H: I say I'm sure you wouldn't -

H.M.Jr: No, no. I tell you where - Phil Young was here you see.

H: Yes.

H.M.Jr: To see me, and I asked him what other cases are there like the Texas case.

H: Yes.

H.M.Jr: So he said, "Well the only other one that he knew of, was the Cudahy case".

H: Yes.

H.M.Jr: So I said, "Well let me see it". Hello.

H: Yes.

- 2 -

H.M.Jr: So I guess that's where the trouble is. I'll send for Phil Young and Miss Epps.

H: Yes.

H.M.Jr: And see that there's no crossing of wires.

H: Well she's asked for several cases, all of which I'm going to give you a memorandum on and this one I'm preparing.

H.M.Jr: Oh!

H: About this National Bank case and the A. G. Budge case, and Cudahy case and -

H.M.Jr: Well what do you think I'd better do at this end. I guess Phil Young was working on it.

H: Yes.

H.M.Jr: Tell him to drop out.

H: Yes. Just tell him that you're getting that information from another source.

H.M.Jr: All right. I'll do that.

H: I won't need to bother with them because it just duplicates the work.

H.M.Jr: I'll - well he wasn't - I only asked him on the Cudahy case.

H: Yes.

H.M.Jr: And I'll send for him and Miss Epps and tell them to forget it.

H: Yes, all right.

H.M.Jr: I'm glad you called me.

H: All right.

H.M.Jr: Thank you.

January 15, 1940.
3:35 p.m.

H.M.Jr: Hello.
Morris
Tremaine: Hello Henry.

H.M.Jr: Hello Morris.

T: Yes, what can I do for you?

H.M.Jr: Well I tell you what you can do. I think you are, or were, or have been, a - something to do with the banks, the state banks.

T: That's right. I'm on the banking board.

H.M.Jr: Right. Well strictly between you and me.

T: Yes.

H.M.Jr: What would you think if I recommended to Mr. Roosevelt that he take Mr. White and put him in the place of Leo Crowley, at the head of FDIC.

T: I think it'd be a - he's - I tell you, I think it would be a marvellous move. I think, of course you'll clear with Herbert.

H.M.Jr: Well that's up to the President.

T: Yes. But I mean that's all. I think it would be a marvellous move. He's a very decent guy, cautious, I think it would give you a tremendous amount of support from the State Banking superintendents of the nation.

H.M.Jr: That's right.

T: He's stands very well with them.

H.M.Jr: Yes.

T: He is, of course you know he's opposed to the extension of the national banking system, as I am. I mean he's afraid it's going to gobble up all the State banks.

H.M.Jr: Well -

T: And you ought to talk to him about that philosophy first insofar as it might interfere, but he - I've

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connected him with the TNEC.

H.M.Jr: Yes.

T:

H.M.Jr: Yes.

T: He's very - he's devoted to the New Deal.

H.M.Jr: Yes.

T: There's no question where he stands. He knows the ropes. I think the only thing that might be an embarrassment is in connection with some New York State situations that are pretty hot.

H.M.Jr: Yes.

T: And that are pending at the moment that you know about.

H.M.Jr: No I don't.

T: Well there's two or three very crucial situations at stake.

H.M.Jr: State banks?

T: Yes.

H.M.Jr: Well no, I wouldn't know about those.

T: Well but you see the FDIC is in on it.

H.M.Jr: I see.

T: You see?

H.M.Jr: Well they can't be so hot because they have - when they get real hot Leo writes me about them.

T: Well they're so hot that they're working out now, some method of trying to reorganize and merge and put in money.

H.M.Jr: I see.

T: And the only reason I mention it is, it seems to me that as to those two that he's been working on -

H.M.Jr: Are you referring to Yonkers?

T: No I'm referring to Syracuse and Utica.

H.M.Jr: Oh well I don't happen to know.

T: They're very important and it seems to me those ought to be cleaned up before he goes in, if he goes in.

H.M.Jr: I see.

T: So that he wouldn't be embarrassed. See?

H.M.Jr: Yes. But you told me what you - and I would say - what you tell me that he's a swell guy.

T: No question and a very able - he's done a much better job than I thought because he's not a very - imaginative guy in the sense of dopping out new types of approaches, but on a particular problem he is perfect, he gets the confidence of everybody, he's got courage, complete integrity and he's got the backing of everybody. I have yet to hear anybody really swear at him even after he turns them down.

H.M.Jr: Wonderful.

T: You see?

H.M.Jr: I've got a fellow down here. I think he's a friend of yours.

T: Who's that?

H.M.Jr: Whitney Seymour.

T: Oh yes. Yes. Well you're lucky there too. That's a great guy.

H.M.Jr: Well when you come in -

T: I'll be down on Thursday.

H.M.Jr: Well drop in and see me.

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T: Well I'll drop in.

H.M.Jr: Goodbye.

T: All right. Goodbye.

January 15, 1940.
5:28 p.m.

H.M.Jr: Hello.

Operator: Mr. Frank. Go ahead.

H.M.Jr: Hello.
Jerome
Frank: Yes Henry.

H.M.Jr: I don't know whether they showed you what I said at my press conference or not, about Associated Gas?

F: No.

H.M.Jr: Well let me just read you the little part that I said : "Said Sec. Morg was asked whether he, Treasury would have SEC appointed trustee in bankruptcy for Associated Gas. He declined to state any preference on the choice of trustees, but said that if the court and Commission consider it best that the SEC assume the trusteeship he would be delighted".

F: Thank you very much. Very nice indeed.

H.M.Jr: Is that all right?

F: Yes, swell. Just exactly right.

H.M.Jr: I was amused. The New York Times fellow put us on the grill on the thing, you see, started all off, and at the end, he said, "Well how do you people feel about Hanes?" See?

F: Yes.

H.M.Jr: So when they asked us that, I gave them this. I thought - I knew the question was coming.

F: Yes, sir.

H.M.Jr: So I had Foley at the conference. He handled most of it. He handled it very well. But I thought it was amusing that the Times reporter was - what do they call it - primed with the question.

F: Oh that's Arthur Krock.

H.M.Jr: Yes.

F: Arthur and Johnny were close.

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H.M.Jr: I thought it was amusing.

F: Very funny. All right. Thank you for calling.

H.M.Jr: Goodbye.

January 15, 1940.
10:00 a.m.

H.M.Jr: Hello.
Sumner
Welles: Hello.

H.M.Jr: Hello Sumner.

W: Good morning Henry. I'm sorry to tell you that after the promising start that I thought was under way when I left your office at noon on Saturday, things didn't go so well.

H.M.Jr: So I hear. From Traphagen to Cotton to me.

W: I see. So I heard it of course from the Colombian side. Jaramillio had dinner with me Saturday night.

H.M.Jr: Yes.

W: And told me that for the first time in any of their conversations with Traphagen the latter was extremely intransigent and overbearing, refused to consider any modifications of any character including those they tentatively discussed in the morning before he came to see - I mean the day before you saw him. And said that he desired to withdraw the proposal that he had made. So that was the result of it. Nothing at all was accomplished and no time was fixed for any further conversations. What did he say to you?

H.M.Jr: Well he didn't say anything to me but to Cotton, he told him that he felt, I don't know what the word that he used but the inference was that he was trying to, Traphagen said, in his opinion, he thought the Colombians were trying to chisel under the two million, that they'd made and now that he - Traphagen, was waiting for a letter from the Colombians, from the Ambassador and that the Ambassador promised to write Traphagen a letter.

W: Well, what they told me was that they were reporting fully to their Government everything that had transpired and Jaramillio told me that he was sending a personal letter to President Santos urging him to give them a little more elasticity so that they could, if necessary, go up a little.

H.M.Jr: I see.

W: That they were rather discouraged and frankly somewhat annoyed. Deeply appreciative of everything that you said and everything that took place at the meeting they had in your office.

H.M.Jr: I thought I was good.

W: I thought you were very good. Very good indeed.

H.M.Jr: Well let me - I told Cotton to write me a memorandum of his conversation with Traphagen and to send a copy to you and Jones.

W: All right.

H.M.Jr: And that is in the mill now.

W: Right.

H.M.Jr: And -

W: Of course the thing that concerns me a little is the time element.

H.M.Jr: I agree with you.

W: And since I'm leaving tonight, I feel the one thing we ought to do is to try to keep them talking with each other.

H.M.Jr: While you're gone who will you designate to represent you?

W: Feis.

H.M.Jr: O.K.

W: All right.

H.M.Jr: I'll - I'll put all the pressure on I can Sumner.

W: All right Henry.

H.M.Jr: Because I'd like to see it done.

W: You bet.

H.M.Jr: Thank you for calling.

W: Thanks. Thanks a lot. Goodbye.

January 15, 1940.
5:15 p.m.

Operator: Here you are sir.

H.M.Jr: Hello.

Sumner
Welles: Hello Henry.

H.M.Jr: Yes, Sumner.

W: I spoke to Feis immediately after speaking with you. He says the only interview that he's had with Francis White, which I knew about, was in New York, when he happened to be up there some two weeks ago.

H.M.Jr: Yes.

W: That had to do solely with the Brazilian negotiations and carried out the feeling that we all of us had, that if they were going to deal with the Brazilian debt situation, with the Europeans having their representatives in Rio, they must send somebody to talk with the Brazilian Government. They couldn't leave it in abeyance. He said the Colombian discussion was not touched upon except in the most casual way and had nothing to do with negotiations.

H.M.Jr: Well, it gets down to the question of the truth of one person.

W: He told me that he had informed Cotton fully of this at the time.

H.M.Jr: Well that's surprising.

W: And he also asked me to let you know that the full file of all of the Brazilian cables was in the possession of Dr. White except a short one that came in today, which he's sending over to you.

H.M.Jr: Well, White only told me this morning he was waiting for it, maybe he got it today.

W: That I don't know. He says White has it.

H.M.Jr: Well -

W: Except this last one which Feis is sending over to him.

H.M.Jr: Well you go away on your vacation and when you come back we'll talk about this.

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W: All right Henry.

H.M.Jr: I mean - I - I'm not satisfied, and you and I and Jones have worked so hard on this thing that - and any unnecessary cross currents make it that much more difficult.

W: Naturally we want to avoid them.

H.M.Jr: And -

W: Decidedly. But he made a frank statement and he sent me a memorandum at the time which had to do solely with the Brazilian situation, their sending a representative.

H.M.Jr: Well, there is a written memorandum of his conversation that has to do with Colombia.

W: Well that I haven't seen. I've only seen the -

H.M.Jr: No, it's not in your possession, but there is one in existence.

W: I see.

H.M.Jr: Between the - the conversation between himself and Francis White. And it had to do with Colombia, and it had to do with the negotiations, but -

W: Well you know Francis is - I've known him for twenty-five years. He's not always very scrupulous.

H.M.Jr: Having been told this, and working so hard, not making any progress, anything that I know on this is - I'm going to pass it on to you for what it's worth.

W: Please do, and I'll do the same.

H.M.Jr: Thank you.

W: All right Henry.

H.M.Jr: Goodbye.

W: Goodbye.

January 15, 1940.
5:07 p.m.

Sumner
Welles:

Sorry I wasn't here when you called.

H.M.Jr:

Well that's all right. It's your last day, before your vacation. Sumner, I was kind of upset this morning. I was told on the very best of authority that Feis has had at least one meeting with this Francis White, since you and Jones and I have been discussing Colombia. Hello.

W:

Yes. Well if he has I didn't know it.

H.M.Jr:

Well - and I wondered without - whether you wouldn't ask him to write for you just what he discussed with Francis White, as far as Colombia went in settling the debt.

W:

Oh yes indeed. Certainly.

H.M.Jr:

And then I'd like to have a copy of it.

W:

Why certainly.

H.M.Jr:

Because I think for everybody's sake we ought to have it.

W:

Why yes I'll get hold of him now before I leave and ask him to do that.

H.M.Jr:

Will you please?

W:

Why yes, surely. Henry, in that connection, did you hear anything further from Traphagen?

H.M.Jr:

Well now let me think. I haven't heard from him direct. The only thing I heard was my talk this morning with Cotton. I asked him to write it out and give you - send you a copy and communicate with you. Now I heard from you, I've heard nothing else.

W:

Why after I saw you, the reason I was away when you called was I was down at the Inter-American Committee meeting, and I saw Jaramillio there. He gave me to understand that what he wanted to do was to have a further conversation, in New York if necessary, with Traphagen, and at that interview, give him what the Colombian Government believed is maximum proposal today.

- H.M.Jr: Yes.
- W: And he gave me to understand personally, not in conjunction with his Ambassador but personally, that he was getting in touch directly with the President of Colombia.
- H.M.Jr: Right.
- W: With whom you know, he is on very intimate terms.
- H.M.Jr: Right.
- W: And suggesting that they approve that proposal.
- H.M.Jr: I see.
- W: Now I think that anything that you can do to further that meeting between the Colombians under those conditions and Traphagen be very much to the good.
- H.M.Jr: Well I'm anxious for everybody's sake in the administration, to get this thing through successfully.
- W: Yes. And I would just suggest this, if you'd allow me, that if you'd tell Cotton or if you care to telephone Traphagen yourself and say that you believe it to be fruitful and helpful if they would have a meeting before this week is over and as soon as possible. I think it might have the necessary effect. He then could get in touch with them and say he'd be glad to see them in New York on such and such a day.
- H.M.Jr: I'll call Traphagen myself.
- W: That will be awfully helpful. One final thing.
- H.M.Jr: Please.
- W: There's a development with regard to this Brazilian debt situation since we discussed it briefly on Saturday.
- H.M.Jr: Right.
- W: And I'd appreciate it if you could, call a meeting of the committee with Feis to replace me so that that matter could be taken up. It's more a question that you be informed than that Jesse be informed.
- H.M.Jr: Well now, when that takes place will Feis bring

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the communications that have gone on between the State Department and our embassy in Brazil.

W: Yes.

H.M.Jr: In regard to this thing.

W: Yes, I'll ask him to do that.

H.M.Jr: I'd like to see all communications that bear on the debt question.

W: Yes. Well naturally you don't want them back over the years. You mean just recently.

H.M.Jr: No, recently.

W: Sure.

H.M.Jr: And any communication that Feis may have had with the bondholders committee recently on the Brazilian matter.

W: Yes. I'll ask him to bring over that file, and will you call -

H.M.Jr: But anything that he has personally has had with them.

W: Yes.

H.M.Jr: On the Brazilian thing also.

W: Yes. All right. All right Henry.

H.M.Jr: If you please.

W: I'll be glad to do that.

H.M.Jr: And when I have that file, that - before me, that'll serve as a memorandum.

W: Uhhuh.

H.M.Jr: To call a meeting.

W: All right. Thanks.

H.M.Jr: I hope you enjoy your vacation.

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W: Thanks a lot Henry. I think I'll be back sooner than I expect.

H.M.Jr: You've certainly earned one.

W: Thank you. Thanks a lot.

H.M.Jr: Goodbye.

W: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 15, 1940.

TO Secretary Morgenthau
FROM Mr. Haag



The number of persons employed by the Works Projects Administration increased by 8,000 persons from 2,152,000 persons during the week ended December 27, 1939, to 2,160,000 persons during the week ended January 3, 1940, as is shown in the attached tables and chart.

Attachments

WORKS PROJECTS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

350

Week Ending 1939	Number of Workers (In thousands)
May 3	2,736
May 10	2,660
May 17	2,623
May 24	2,609
May 31	2,600
June 7	2,593
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,082
August 9	2,054
August 16	1,977
August 23	1,897
August 30	1,842
September 6	1,662
September 13	1,696
September 20	1,735
September 27	1,790
October 4	1,834
October 11	1,875
October 18	1,898
October 25	1,901
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160

Source: Works Projects Administration.

WORKS PROJECTS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

351

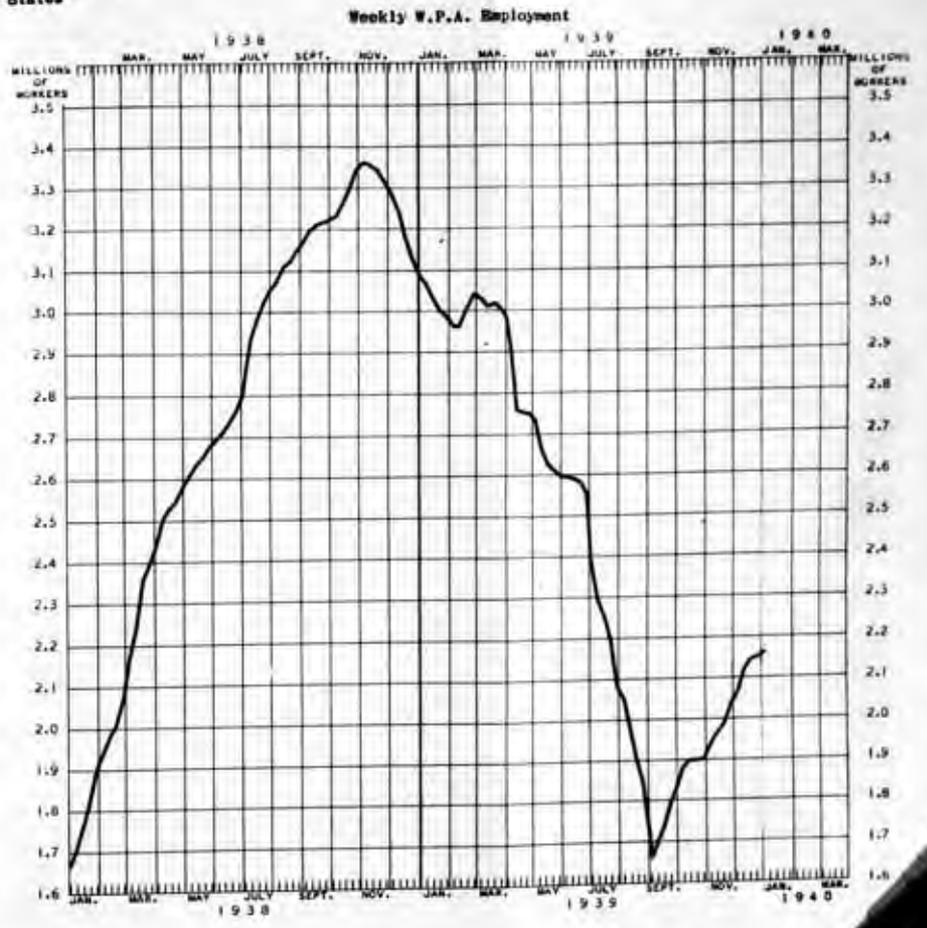
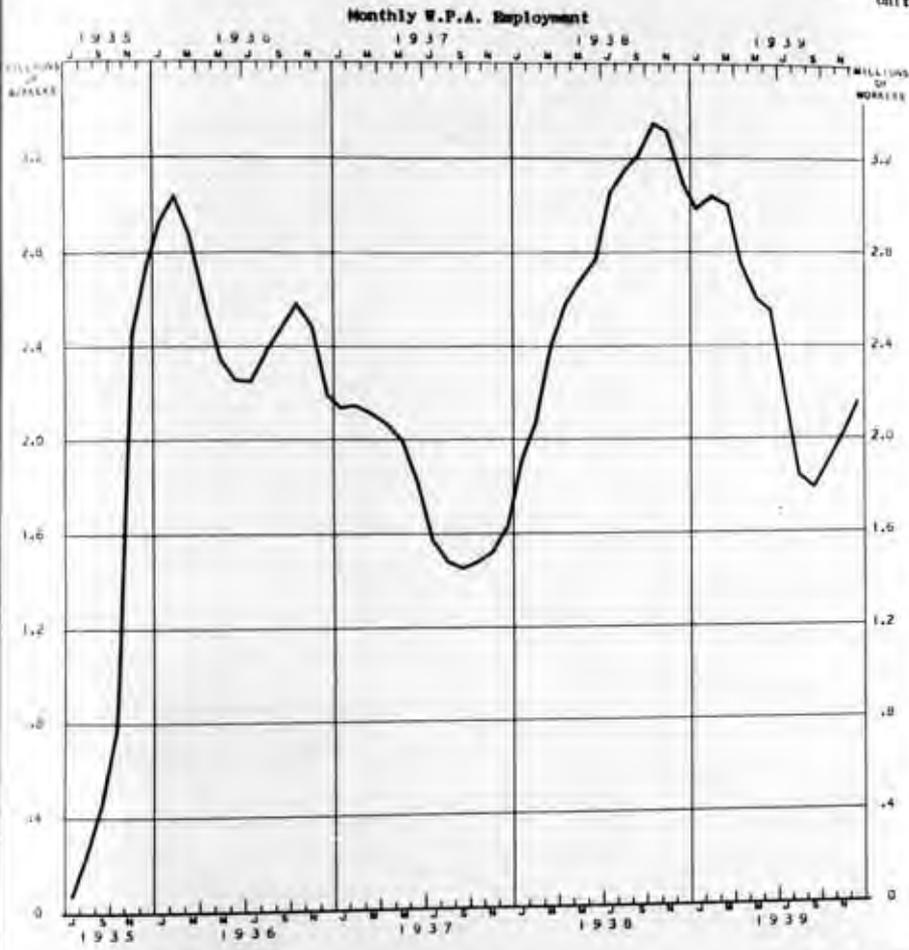
	Number of Workers (In thousands)
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,901
November	2,024
December	2,152

Source: Works Projects Administration.

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

They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORKS PROGRESS ADMINISTRATION

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

Z - 221 - 81

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 15, 1940

TO Secretary Morgenthau
 FROM Mr. Haas *GA*
 Subject: The Business Situation,
 Week ending January 13, 1940.

Conclusions

(1) A more bearish turn in business sentiment has been reflected in -- and influenced by -- a downturn in security prices, which was accompanied by increased foreign selling; a downturn in sensitive commodity prices, marked by an apparent collapse of the speculative boom in silk prices; and a sharp reduction in steel output scheduled for this week in several districts.

(2) The expected business setback, however, has been so widely advertised and anticipated that many adjustments to it have doubtless already been made. The key to the business trend during the coming months will be the amount and the timing of new orders.

(3) A rising trend of national income, which reached an annual rate of \$72.5 billions in November, is being reflected in an increasing volume of retail sales. While this should provide a sustaining influence for business activity during the coming months, an element of weakness in the sales outlook is the increasing volume of current sales being financed on credit.

Background of the current situation

The FRB index (adjusted) rose in December to a new all-time high of 126, according to preliminary data of the Federal Reserve Board, making a gain of 4 points over November. The apparent rise, however, was due entirely to seasonal adjustment, the unadjusted index declining 3 points in December to 121.

With new orders currently at a level substantially below the level of output, it is rather generally believed that industrial activity will not show the usual seasonal expansion

Secretary Morgenthau - 2

during the early months of 1940, and is more likely to decline. It is believed that the volume of orders during the next few months will remain below that of the last quarter of 1939, since (1) many orders originally intended to be placed with manufacturers in the spring of 1940 were advanced by the war, and have already been booked; and (2) the danger of price inflation and delivery difficulties, envisaged at the outbreak of war, is shown to have been exaggerated, hence there is little ground for expecting soon a repetition of the buying boom of last fall.

The key to the business trend during the coming months will therefore be the volume and timing of the next upturn in new orders. The extent of present unfilled order backlogs will determine how long production can remain above the level of incoming orders.

Canadian business activity lower

Evidence of hesitation in the general business rise is seen in a decline in business activity in Canada during November, which appears significant in that (1) business began to improve in Canada last spring several months earlier than in the United States, and (2) if war orders are to become an important business factor, they might be expected to show their influence more immediately in Canadian business activity.

The index of Canadian manufacturing activity (adjusted), compiled by the Dominion Bureau of Statistics, declined to 136.9 in November from the peak of 143.7 reached in October. These figures contrast with the year's low of 105.0 established last February. Greatest setbacks were shown by the tobacco, rubber, petroleum, lumber, and iron and steel industries. The adjusted index of steel output declined 3 per cent, and pig iron output 12 per cent. This decline, according to some observers, might reflect a transition stage from the production of goods for domestic use to the production of war materials. An improvement in steel orders has been noted since the holidays, although orders are running below the high average reached last quarter.

Business sentiment turns more bearish

The attitude in business and financial circles toward the business outlook has turned somewhat more bearish during the past week. This change has been due in part to the failure of stock and commodity prices to show greater strength since the beginning of the year. It has been influenced also by a relatively low level of new steel orders, and by recent weakness in the rate of steel activity. Declines are scheduled in

Secretary Morgenthau - 3

steel operating rates for the current week, according to preliminary data from the Pittsburgh, Youngstown, and Shenango Valley districts, apparently because of the failure of steel buying to increase since the holidays.

The change in business sentiment has been reflected in -- and influenced by -- a downturn in stock prices and sensitive commodity prices during the past week. Declines in sensitive price indices (see Chart 1) have been due to various influences. Commodity prices in general have been affected by increased uncertainty over possible war developments this spring, and by uncertainty over the domestic business outlook, which have tended to discourage new buying.

Prices for certain individual commodities have been weakened by specific developments. Heavy additional snowfall over the drought areas, and prospects of more during the current week, have brought a sharp decline in wheat prices. The rains and snows of the past week, according to the Weather Bureau, "provided potential soil moisture that will be decidedly beneficial, when the snow melts, over large areas which have been persistently dry". Increased available market supplies of wheat and cotton, resulting from repossession of loan stocks by farmers, have also tended to depress prices of these commodities.

The sharpest price break of the week has been in silk, marking a collapse of the speculative boom (centered in Japan) which has been under way since the beginning of the year. Silk futures in New York last Friday declined the permissible limit of 25 cents a pound, closing at \$3.60 for the February contract.

Stock prices turn downward

A downturn in stock prices last week was accompanied on Friday by a marked increase in British selling of securities on our markets. (See Chart 2) Prices of speculative bonds weakened somewhat more than prices of high grade bonds, bringing a slight further decline in our index of confidence. (See Chart 3)

Since the impending business setback will be probably the most advertised and most widely anticipated of any in recent years, many adjustments to it have already been made, both in security prices and in business policies. The current downturn in stock prices represents a continuation of the sagging trend that began last September, rather than a new decline.

Secretary Morgenthau - 4

New York Times index lower

Current business activity, as measured by the New York Times index (shown on Chart 3), appears to be in a declining trend. For the week ended January 6 the index shows a reduction of 0.9 point to 105.9. Substantial setbacks in the adjusted indices of steel production and automobile production in that week will be followed by further declines in those indices during the week ended January 13, according to preliminary data. The indices of electric power production, lumber production, and cotton mill activity improved during the January 6 week, while the two carloadings indices declined.

Sales rise with higher national income

A sustaining basic influence in the current business recovery has been a steeply rising trend of national income, which showed no more than a brief hesitation during the business setback of early 1939. An annual rate of \$72.5 billions was reached in November. (See Chart 4) Farm income in 1939 (lower section of chart) made a less favorable comparison with 1938 than did the national income as a whole.

In terms of purchasing power, based on the Conference Board index of living costs, the national income in November was higher than in any month since monthly figures are available, going back to the beginning of 1929, with the single exception of the "soldiers' bonus" month of June 1936.

The increase in national income has been reflected in a rising trend of retail sales. Department store and variety store sales (seasonally adjusted) rose gradually during the second half of 1939. (See Chart 5) The seasonally adjusted index of rural sales (lower section of chart) has shown a less favorable trend, in line with the less satisfactory level of farm income.

A weakening factor in the outlook for retail sales has been an apparent increase in the volume of buying to above the current level of incomes, representing an expansion in buying on credit. (See Chart 6) Our composite index of sales rose in November to above the estimated "sales equivalent of national income", reaching a relative level similar to that in March 1939, which was followed by a sharp drop in the sales index. Credit

Secretary Morgenthau - 5

executives are reported to be considering the adoption of stricter credit policies, following a liberalization of such policies in 1939.

Increased foreign buying reported

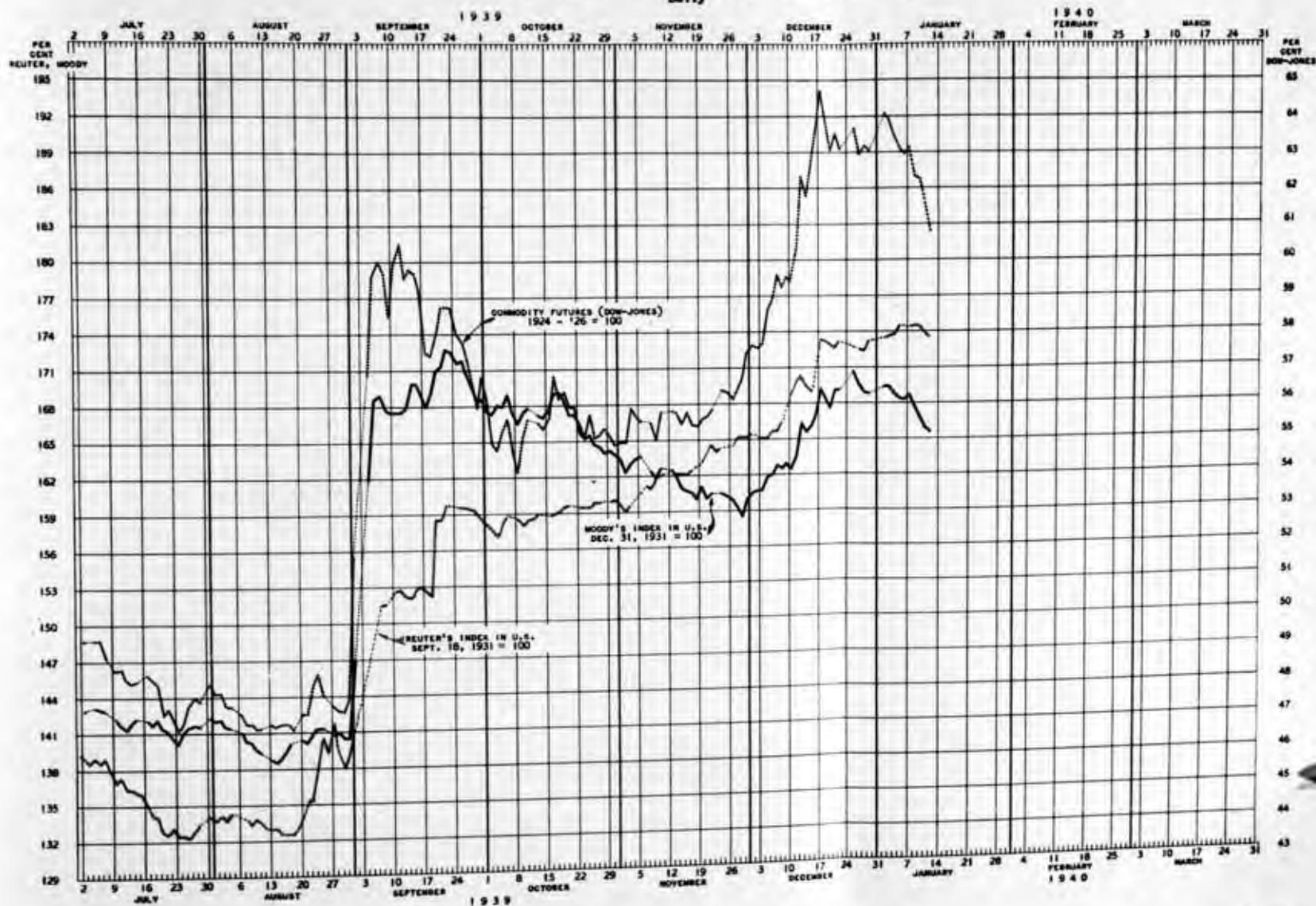
Press reports of increased foreign buying have appeared during the past week, though it is difficult to differentiate in the news between actual orders and inquiries. Since it is usually to the interest of foreign buying agents to conceal the extent of their buying, it is possible that war orders may be a more important current factor than generally realized.

Domestic exports in December, totalling \$358 millions, reached the highest monthly value since March 1930, increasing 25 per cent over November. The business significance of the export figures, however, cannot be appraised until more detail is available.

Reports of large British and French buying, such as appeared recently, must be interpreted in the light of changed purchasing methods. Last week's huge purchases by the United Kingdom of 61,000,000 bushels of Australian and 20,000,000 bushels of Canadian wheat, were the largest such purchases since the War began. The last large purchase of Canadian wheat by the United Kingdom was for 10,000,000 bushels on November 28, 1939. It must be kept in mind, however, that this represents an entirely new method of purchasing, and interpreted accordingly. The report last week that the United Kingdom has purchased Canada's entire surplus of aluminum, lead, and copper, immense quantities of lumber, and 2,000,000 yards of linoleum, is spectacular, but probably represents no more business than if it were divided into small orders.

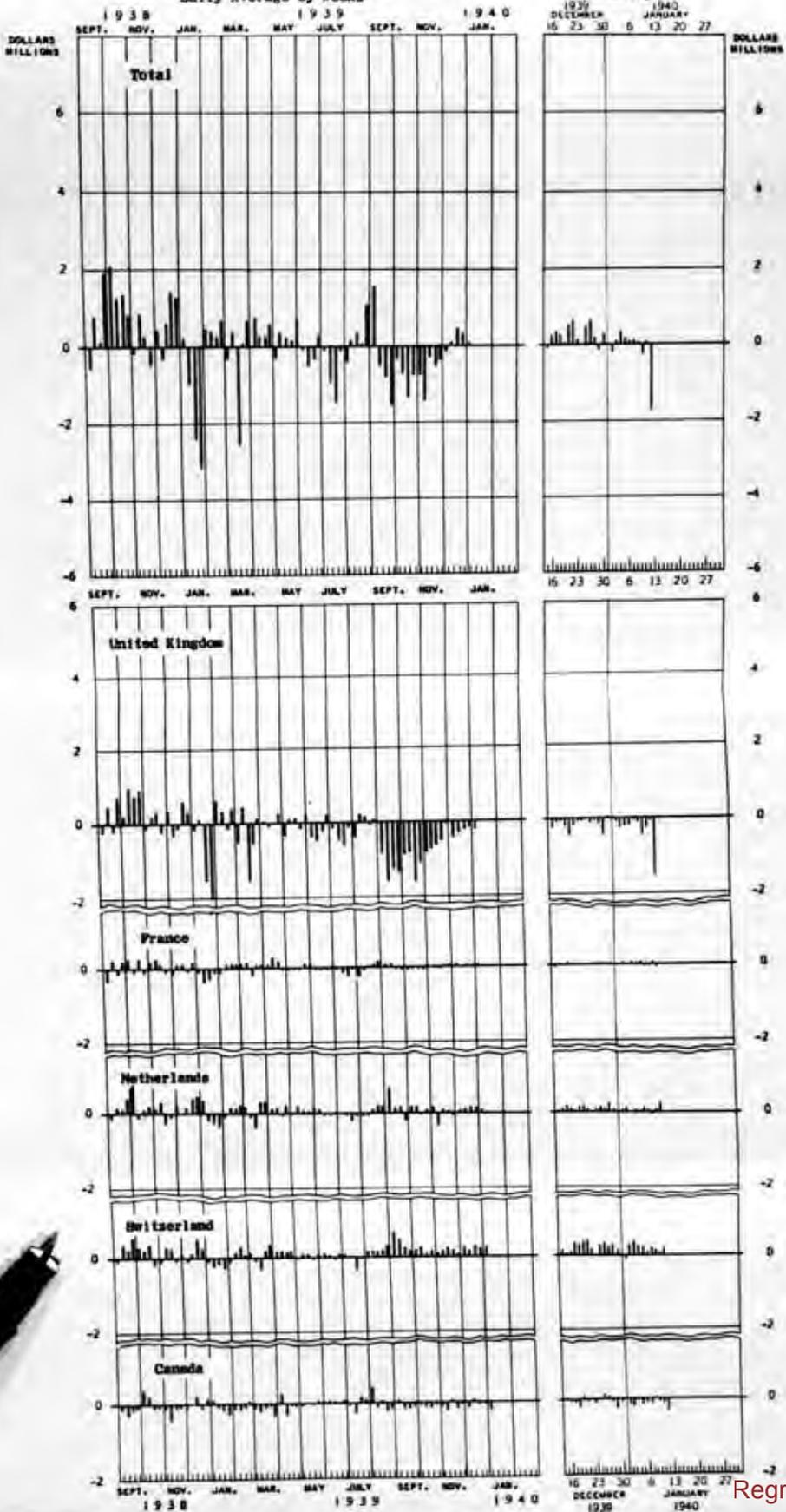
COMMODITY PRICE INDEXES IN U.S. AND U.K.

Daily

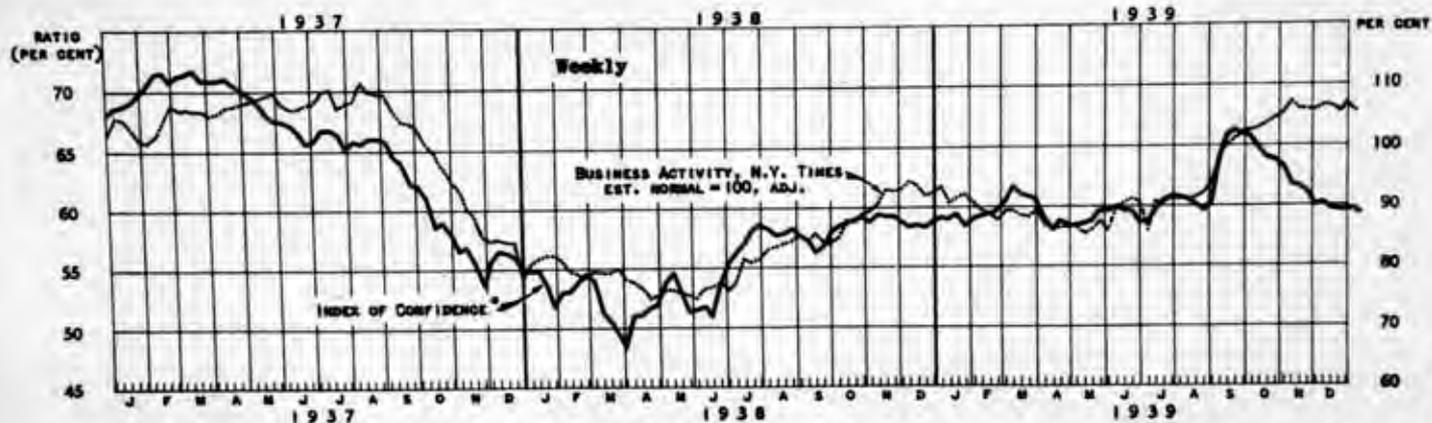
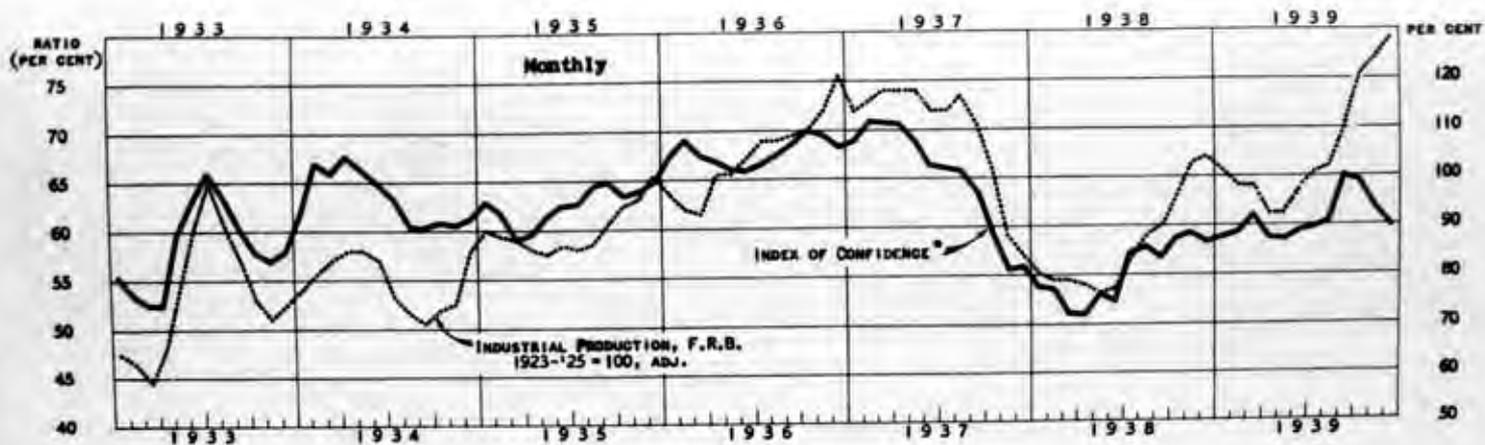


NET FOREIGN PURCHASES AND SALES OF U.S. STOCKS

Net Purchases (+), Net Sales (-)
Daily Average by Weeks



INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY



* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

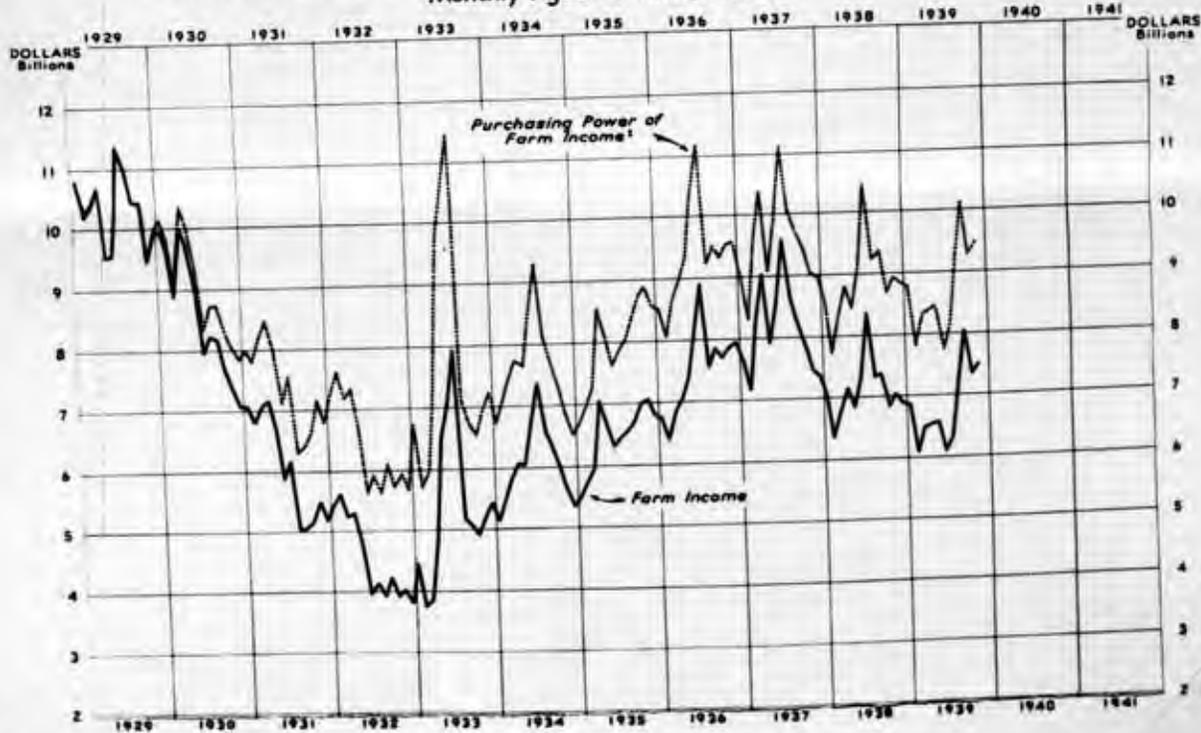
NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER

Monthly Figures on Annual Basis*



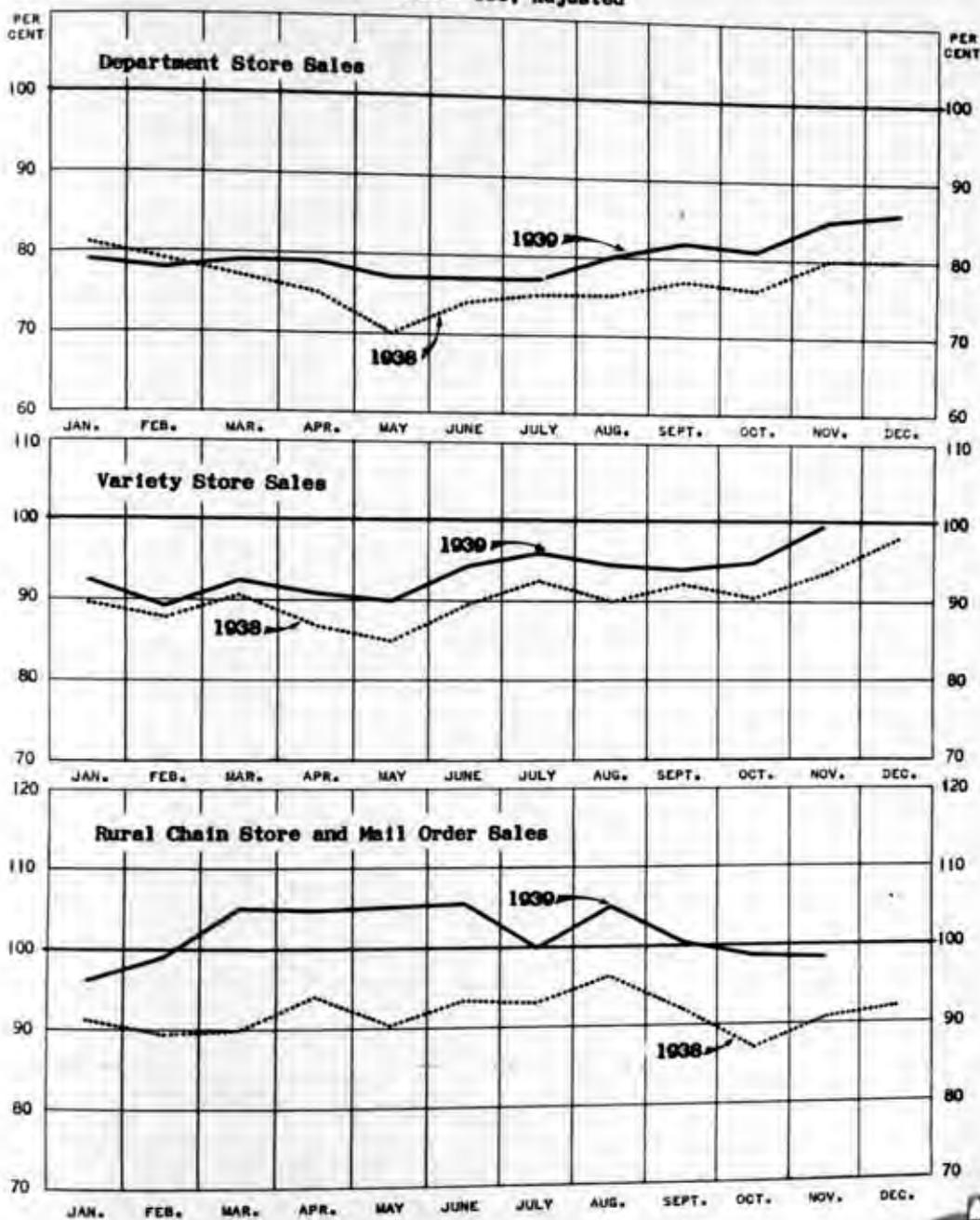
FARM INCOME AND ITS EQUIVALENT PURCHASING POWER

Monthly Figures on Annual Basis*



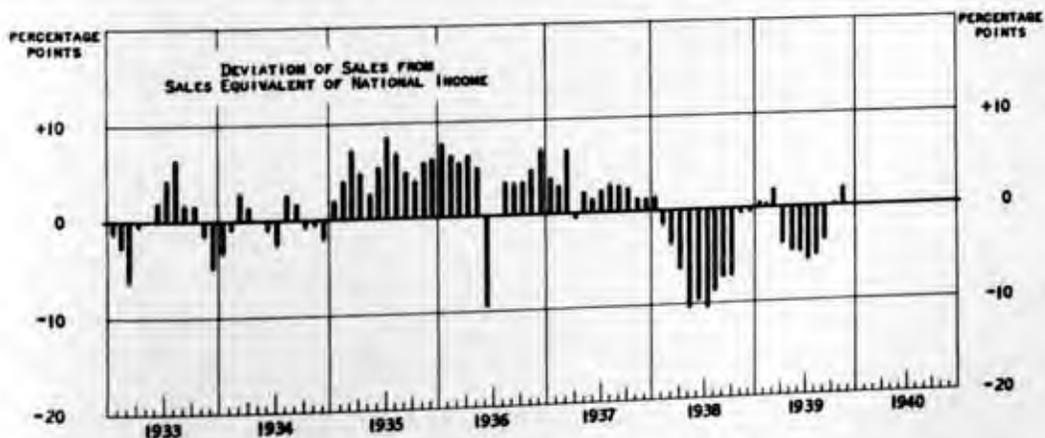
*Seasonally adjusted Monthly Figures Multiplied by Twelve
 *Based on Cost of Living Index of Nat. Ind. Conf. Bd.
 *Based on Prices Paid by Farmers, 1929=100

RETAIL TRADE
Urban and Rural Sales of General Merchandise
 1929 = 100, Adjusted



INDICES OF SALES AND SALES EQUIVALENT OF NATIONAL INCOME

1936 = 100, SEASONALLY ADJUSTED



* REPRESENTS OFFTAKE OF MANUFACTURED GOODS

TREASURY DEPARTMENT

364

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

Re: Increase in New York Emergency Personal Income Tax since 1931.

Other than the 100 per cent increase in personal income tax rates first enacted in 1931 and described in my memorandum of January 9, 1940, there has been no state emergency tax on personal incomes imposed by the New York Legislature except a flat 1 per cent emergency tax. This tax was originally imposed upon personal incomes received in 1933 and since then has been continued from year to year. Although at first the scope of the emergency tax was somewhat different from the regular personal income tax, the basis on which the tax is now computed is the same as that of the normal tax. [L. 1939, c. 567, c. 935]

The so-called "temporary increase of the tax on personal incomes" adopted in 1931 has become absorbed into the permanent tax structure and the rates now range from 2 per cent to 7 per cent plus the emergency tax of 1 per cent.

The state receives the entire proceeds of the emergency 1 per cent tax and the Joint Legislative Committee on State Fiscal Policies has stated "that were this emergency income tax to be repealed, there would be a decrease in state revenues of approximately \$20,000,000." [Leg. Doc. (1938) No. 41 (Dec. 23, 1937)]

E. H. F. L.

785

January 15, 1940.

MEMORANDUM FOR MR. HELVERING:

I am returning herewith your memorandum of December 15, 1939, together with correspondence indicating that certain tax cases have been made the subject of conferences between the Department and persons representing the taxpayers, all of which has just been brought to my attention.

To put it mildly, I am astounded to discover that there has been a disposition in any instance to interfere with the routine which has been established at my direction for the disposition of cases in which taxpayers have protested against adjustments proposed by examining officers. I had supposed it to be clearly understood that disputes with reference to the findings of examining officers were to be referred for consideration, and settlement if possible, by the several field divisions of the Technical Staff, and that in the event settlement should not be possible on terms agreeable both to the Government and the taxpayers, the cases would go directly to the Board of Tax Appeals without the intervention of any departmental officer. I would like you to know, and to advise the other officers of the Bureau, that I will hereafter expect the most rigid adherence to the instructions which have been issued with respect to the disposition of tax cases by field officers of the Bureau, and that I will under no circumstances tolerate a repetition of what happened in the cases referred to.

The recommendation contained in your memorandum of December 15, 1939, to the effect that the case therein described should be left for consideration by the Southwestern Division of the Technical Staff, is approved. Upon the final disposition of this case, please return the accompanying papers for my files.

(Signed) H. Morenthan, Jr.

Secretary of the Treasury.

HIG/mif

JVS
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January 15, 1940.

CONFIDENTIAL

**TREASURY STAFF OFFICERS,
COMMISSIONER OF INTERNAL REVENUE,
AND OTHERS CONCERNED:**

Except as I may direct otherwise, the following arrangements will be observed in the disposition of internal revenue matters by officers of the Department:

1.--In keeping with the decentralization of tax cases, conferences with relation to the merits of pending cases will not be accorded taxpayers or their representatives by any departmental officer, excepting conferences held by the Commissioner and the Chief Counsel of the Bureau of Internal Revenue and their subordinates pursuant to the provisions of Com. Min., T. S. No. 57, approved by me on September 14, 1939, and other applicable instructions issued by the Commissioner.

2.--The foregoing is not intended to prevent consideration by proper officers of the Department other than the Commissioner and the Chief Counsel and their subordinates, of controversies between the Bureau and taxpayers which do not involve the merits of tax cases, nor to preclude conferences between those officers and taxpayers or their representatives with respect to such controversies. Should the presence of any officer or employee of the Bureau be desired at any such conference, or at any conference held at the Department on a subject related to the activities of the Bureau of Internal Revenue, the officer holding the conference will advise the Commissioner accordingly, who will issue the necessary instructions to the person or persons concerned. Except with the Commissioner's express approval, however, neither he nor any other officer of the Bureau will be required to participate in any such conference if attended by a taxpayer or a taxpayer's representative.

3.--The Commissioner will be solely responsible for

the conduct of tax investigations, including investigations in cases involving fraud, and no other officer of the Department will, except at the Commissioner's direction or with his approval, assign personnel to make, or to participate in, any such investigation.

(Signed) H. Morgenthau, Jr.

HNG/mff

Secretary of the Treasury.

WLS E.V. 7 A.
1/15/40

H. Morgenthau, Jr.

TREASURY DEPARTMENT
Office of Commissioner of Internal Revenue
Washington, D. C.

Com.-Mimeograph
Coll. No. 4960
R. A. No. 1014
S. I. No. 81
T. S. No. 57

September 14, 1939.

Functions and Jurisdiction of
Field Divisions of the Technical Staff

COLLECTORS OF INTERNAL REVENUE,
INTERNAL REVENUE AGENTS IN CHARGE,
SPECIAL AGENTS IN CHARGE,
HEADS AND COUNSEL OF FIELD DIVISIONS
OF THE TECHNICAL STAFF, AND
OTHER OFFICERS AND EMPLOYEES OF THE
BUREAU OF INTERNAL REVENUE CONCERNED:

1. (a) There shall be ten field divisions of the Technical Staff of the Commissioner's Office, herein referred to as Staff Divisions, with designations and territorial jurisdiction, respectively, as follows:

Staff Division :	Territorial Jurisdiction
New England	Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island
New York	New York State
Eastern	New Jersey, Pennsylvania
Atlantic	Maryland, Delaware, District of Columbia, Virginia, West Virginia, North Carolina
Southern	South Carolina, Georgia, Alabama, Tennessee, Florida
Central	Michigan, Ohio, Kentucky
Chicago	Illinois, Indiana, Wisconsin, Minnesota, North Dakota, South Dakota
Western	Iowa, Missouri, Kansas, Nebraska, Wyoming, Colorado, New Mexico

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T. S. No. 57

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Staff Division :	Territorial Jurisdiction
Southwestern :	Mississippi, Louisiana, Arkansas, Okla- homa, Texas
Pacific :	California, Oregon, Washington, Idaho, Montana, Nevada, Utah, Arizona, Alaska, Hawaii

Except as otherwise provided herein, the Staff Divisions will perform their duties under the Commissioner's supervision, through the Head of the Technical Staff, Bureau of Internal Revenue, Washington, D. C.

(b) Local and branch offices will be maintained at the following places, and at such other places as in the judgment of the Commissioner may appear advisable:

Staff Division :	Local and Branch Offices
New England :	Boston, Mass. New Haven, Conn.
New York :	New York City Buffalo, N. Y.
Eastern :	Newark, N. J. Philadelphia, Pa. Pittsburgh, Pa.
Atlantic :	Baltimore, Md. Wilmington, Del. (Branch) Washington, D. C. Richmond, Va. Huntington, W. Va. (Branch) Greensboro, N. Car.
Southern :	Atlanta, Ga. Jacksonville, Fla. Birmingham, Ala. Nashville, Tenn. (Branch)

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 S. I. No. 81
 T. S. No. 57

-3-

Staff Division :	Local and Branch Offices
Central	: Detroit, Mich. : Cleveland, Ohio : Cincinnati, Ohio : Louisville, Ky. (Branch)
Chicago	: St. Paul, Minn. : Chicago, Ill. : Milwaukee, Wis. (Branch) : Indianapolis, Ind.
Western	: St. Louis, Mo. : Kansas City, Mo. : Wichita, Kans. (Branch) : Omaha, Neb. : Denver, Colo.
Southwestern	: Dallas, Tex. : Houston, Tex. : New Orleans, La. : Oklahoma City, Okla.
Pacific	: San Francisco, Calif. : Los Angeles, Calif. : Seattle, Wash. : Portland, Ore. (Branch)

(c) The personnel of each Staff Division will consist of a Head and an Assistant Head, to be designated by the Commissioner, a Division Counsel and an Assistant Division Counsel, to be designated by the Chief Counsel, and such technical advisors, attorneys, auditors, clerks, and other employees as may be necessary.

(d) The Assistant Head of each Staff Division will assist the Head of the Division as the latter may direct, and, during the absence of the Head from duty within the Division, will serve as Acting Head of the Division and as such will perform the duties of the Head in his own name. During the absence of the Head from any local or branch office on official business within the Division, the Assistant Head may perform at such local or branch office, in the name of the Head, such of the duties of the Head as the latter may direct.

(over)

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Coll. No. 4960
R. A. No. 1014
S. I. No. 81
T. S. No. 57

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(e) Each local office, including all branches thereof, will be under the immediate supervision of a Technical Advisor in Charge, to be designated by the Commissioner, except that the duties of Technical Advisor in Charge at one local office in each division will be performed by the Assistant Head of the Division ex officio. During the absence of the Technical Advisor in Charge from any local office, or during the absence of the Assistant Head of the Division from the local office at which he performs the duties of Technical Advisor in Charge ex officio, such office will, unless the Head or the Assistant Head of the Division is there present for duty, be under the immediate supervision of a technical advisor designated temporarily by the Head of the Division as Acting Technical Advisor in Charge. Each branch office will be in the direct charge of a technical advisor designated by the Commissioner.

(f) The Assistant Division Counsel will assist the Division Counsel as the latter may direct, and, during the absence of the Division Counsel from duty within the Division, will serve as Acting Division Counsel, and as such will perform the duties of the Division Counsel in his own name. During the absence of the Division Counsel from any local or branch office on official business within the Division, the Assistant Division Counsel may perform at such local or branch office, in the name of the Division Counsel, such of the duties of the Division Counsel as the latter may direct.

(g) There will be an Assistant Counsel in Charge for each local office to which counsel may be permanently assigned, including all branches thereof, to be designated by the Chief Counsel, except that the duties of Assistant Counsel in Charge at one local office in each division will be performed by the Assistant Division Counsel ex officio. During the absence of the Assistant Counsel in Charge from any local office to which counsel may be permanently assigned, or during the absence of the Assistant Division Counsel from the local office at which he performs the duties of Assistant Counsel in Charge ex officio, the duties of the Assistant Counsel in Charge will, unless the Division Counsel or the Assistant Division Counsel is there present for duty, be performed by an attorney designated temporarily by the Division Counsel as Acting Assistant Counsel in Charge.

2. (a) The Head of each Staff Division will exclusively represent the Commissioner in the determination of Federal income-, profits-, estate-, and gift-tax liability (whether before or after the issuance of a statutory notice of deficiency) in all cases originating in the office of any Internal Revenue Agent in Charge situated within the territorial jurisdiction of the Division, in which the taxpayers have finally protested the preliminary determination of liability made by

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that officer, excepting cases in the pre-90-day status in which the Special Agent in Charge has recommended criminal prosecution: Provided, That the Staff Division shall not eliminate the ad valorem fraud or negligence penalty in any case in the so-called 90-day status, or the pre-90-day status, except with the concurrence of the Special Agent in Charge.

(b) The Head of each Staff Division will also have exclusive authority to settle by stipulation (1) all cases docketed by the United States Board of Tax Appeals and placed upon a calendar for hearing at any place, other than Washington, D. C., within the territory comprising the jurisdiction of the Division, and (2) all cases originating in the office of any Internal Revenue Agent in Charge situated within the territorial jurisdiction of the Division, which are placed on the Washington calendar of said Board of Tax Appeals: Provided, That he shall not make or approve a stipulation for settlement in any docketed case except with the concurrence of the Division Counsel; and Provided further, That in the absence of the Head and the Assistant Head of the Staff Division, the Technical Advisor in Charge of any local office shall have authority to settle by stipulation any such docketed case, but only with the concurrence of the Division Counsel or of the Assistant Counsel in Charge, in which the deficiency determined in the statutory notice does not exceed \$500 and the basis of settlement does not involve an overassessment in excess of \$500.

3. (a) The Division Counsel will perform his duties under the general supervision of the Chief Counsel. He will advise the Head of the Staff Division, upon request, upon legal questions arising in the determination of income-, profits-, estate-, and gift-tax liability. He will advise the Head of the Staff Division also with respect to any proposed settlement of a docketed case. He will prepare answers to petitions filed with the Board of Tax Appeals, copies of which will be furnished him by the Chief Counsel, in cases originating in the offices of the Internal Revenue Agents in Charge situated within the territorial jurisdiction of the Division; and he will have exclusive authority to represent the Commissioner in the defense before the Board of (1) cases placed upon a calendar for hearing at any place, other than Washington, D. C., within the territorial jurisdiction of the Division, and (2) cases originating in the office of any Internal Revenue Agent in Charge situated within the territorial jurisdiction of the Division, which are placed on the Washington calendar of said Board of Tax Appeals, but he shall not stipulate before the Board for the settlement of any case except with the approval of the Head of the Staff Division. The Division Counsel will consider all memoranda prepared in the Staff Division directing the issuance of statutory notices of deficiency prior to their approval by the Head of the Division.

(b) In the absence of the Division Counsel and the Assistant Division Counsel, the Assistant Counsel in Charge at any local office will have authority to concur with the Head of the Staff Division or with the Technical Advisor in Charge of that office, in a settlement by stipulation of

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Com.-Mimeograph
Coll. No. 4960
R. A. No. 1014
S. I. No. 81
T. S. No. 57

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any docketed case in which the deficiency determined in the statutory notice does not exceed \$500 and the basis of settlement does not involve an overassessment in excess of \$500.

Procedure in Pre-90-Day Cases

4. Each Staff Division will accord hearings upon protested cases referred to it in accordance with prescribed procedure by the Internal Revenue Agents in Charge situated within the territorial jurisdiction of the Division. It will not, however, consider before the issuance of the statutory notice of deficiency any case in which no protest has been filed with the Internal Revenue Agent in Charge. In any case in which protest has been filed with the Internal Revenue Agent in Charge, it will not be required to consider prior to the issuance of the statutory notice new contentions or new evidence that may be decisive with respect to any major issue, but upon the presentation of such contentions or evidence, may refer the issues involved to the Internal Revenue Agent in Charge for further consideration and for conference with the taxpayer if advisable.

5. When the Head of a Staff Division has reached a final conclusion with respect to any case, he will prepare a memorandum thereof setting forth the exact grounds upon which his conclusion rests. This memorandum will be transmitted with all the papers in the case to the proper Internal Revenue Agent in Charge, who will--

- (a) Certify a deficiency to the Collector in accordance with Mimeograph 3552;
- (b) Issue a statutory notice of deficiency; or
- (c) Transmit the case to the Bureau for the preparation of a certificate of overassessment, or other appropriate action.

Jurisdiction After Statutory Notice

6. The Staff Divisions will have complete jurisdiction of all cases after the issuance of the statutory notice. Upon the taxpayer's request, the Head of a Staff Division may take up for settlement any case in which a statutory notice has been issued, and may grant the taxpayer a hearing thereon. Except in unusual circumstances, however, he will not grant a hearing in such a case prior to the filing of the petition if a hearing has been had in the office of the Internal Revenue Agent in Charge, or if the taxpayer has refused an opportunity to be heard there.

7. After the filing of the petition in any case, the Head of the proper Staff Division will continue to have sole authority, subject to

the provisions of paragraph 2 above, for the settlement of the case, and will have the custody of all files, papers, and documents relating to the case, which will, however, at all times be available to the Division Counsel for the preparation of the answer to the petition and for the defense before the Board of the Commissioner's determination.

Hearings

8. At any hearing granted by a Staff Division, whether at a local or branch office or on circuit, the Internal Revenue Agent in Charge will be represented if he so desires, or if the Head of the Staff Division, or the Technical Advisor in Charge of a local office, as the case may be, deems it advisable; and at any such hearing on a case involving the ad valorem fraud or negligence penalty, the Special Agent in Charge will be represented if he so desires. Except as may be otherwise directed by the Commissioner, through the Head of the Technical Staff, the conduct of hearings and other proceedings by the Staff Division will be in accordance with the procedure customarily followed by the Technical Staff.

General

9. The intent of the arrangements and procedure above prescribed is to provide one, single, unified agency, with office facilities at or near the taxpayers' residences or places of business, to exercise on the ground, for the Commissioner, all the authority which the Department or any of its branches may have under the law in the review of protested tax determinations made by the Internal Revenue Agents in Charge, in the settlement of contested cases, and in the defense of such cases, when necessary, before the Board of Tax Appeals.

10. The term "profits-tax liability" as used herein will be construed to include (a) the liability of contracting parties for excess profits on Navy contracts arising under section 3 of the Act of March 27, 1934 (48 Stat. L. 505; U. S. C. Title 34, section 496), and under that Act as amended by the Act of June 25, 1936 (49 Stat. L. 1926; U. S. C. Sup. II, Title 34, section 496) and as further amended by section 14 of the Act of April 3, 1939 (Public, No. 18, Seventy-sixth Congress, 1st Session), and (b) the liability of contracting parties for excess profits on contracts for aircraft for the Army arising under section 14 of the Act of April 3, 1939 (Public, No. 18, Seventy-sixth Congress, 1st Session).

11. Notwithstanding the provisions of paragraphs 2 and 3 hereof, the Head of each Staff Division will have exclusive authority to settle by stipulation, subject to the concurrence of the Division Counsel, all cases docketed by the United States Board of Tax Appeals which originated in the office of any Internal Revenue Agent in Charge situated within the territorial jurisdiction of such Division, which may be placed upon a calendar of

(over)

Com.-Mimeograph
Coll. No. 4960
R. A. No. 1014
S. I. No. 81
T. S. No. 57

- 8 -

said Board for hearing at a place within the territorial jurisdiction of any Staff Division adjoining such Division; and the Division Counsel for such Division will have exclusive authority to represent the Commissioner in the defense of such cases before the Board, subject to the conditions contained in paragraph 3 hereof with respect to the approval of stipulations for settlement by the Head of the Division.

13. Notwithstanding any of the foregoing provisions, should the Commissioner determine that it would better serve the interests of the Government, he may, by order in writing, withdraw any case not docketed before the United States Board of Tax Appeals from the jurisdiction of any Staff Division, and provide for its disposition under his personal direction. Similarly, should the Commissioner and the Chief Counsel jointly determine that it would better serve the interests of the Government, they may, by order in writing, withdraw any case docketed before the Board of Tax Appeals from the jurisdiction of any Staff Division, and provide for its disposition under their joint direction. A copy of each order issued under the provisions of this paragraph will be promptly furnished to the Secretary, with a statement of the reasons for the action taken.

13. The instructions contained in this mimeograph supersede prior instructions to the extent that such prior instructions are inconsistent herewith.

14. Correspondence from Internal Revenue Agents in Charge in regard to the procedure described herein should refer to the number of this mimeograph and to the symbols IT:F. Correspondence from Heads of Field Divisions of the Technical Staff should refer to the number of this mimeograph and to the symbols C-TS:ARM. Correspondence from Counsel for Field Divisions of the Technical Staff should refer to the number of this mimeograph and to the symbols CC:A:OWS.

14. The instructions contained in this mimeograph will be effective October 1, 1939.

GUY T. HELVERING,
Commissioner.

APPROVED: September 14, 1939.

H. MORGENTHAU, JR.,
Secretary of the Treasury.

COPY

December 15, 1939.

MEMORANDUM FOR UNDER SECRETARY HANES:

I have your memorandum of November 14, 1939, transmitting a letter to you from Mr. W. P. Hobby dated November 15, 1939. This correspondence relates to the income and profits tax controversy of the Houston Printing Company, Houston, Texas, for the years 1936 and 1937. Mr. Hobby addressed a letter to me under date of November 10, 1939, dealing with the same subject. Undoubtedly, if the things mentioned in your memorandum are taking place in the Houston office of the Southwestern Division of the Technical Staff, it is a reprehensible situation which needs immediate correction.

I have three reports from the Staff Division in connection with this case. In these reports it is stated that Mr. Hobby was not present at any conference with the Technical Staff and that no one in the Staff office at Houston has ever seen or spoken to him to their knowledge as late as their report dated November 17, 1939. I mention this circumstance to show that Mr. Hobby has had to rely upon the reports of his representative or associates. In the same way, I have to rely upon the reports of the Bureau employees.

The Staff reports deny that the conferee "agreed to allow our (the company's) contentions with respect to that year (1936)." They deny that the conferee "agreed that under the restrictive clause of the bond indenture of May 1, 1931 "dividends could not be paid during the year 1936." They deny that the taxpayer has "shown that the letter given to the bank by our company constituted a part of the loan agreement and was as effective as if it had been a clause contained in the agreement;" on the contrary, it has been consistently maintained by the Field employees of both the Agent in Charge and the Staff Division that the letter of July 1, 1935 was, under the corporation statutes of Texas, an unauthorized act not binding upon the corporation.

These reports specifically deny that the taxpayer was recognized as being entitled, under the law, to relief for the year 1936, and that such relief was withheld because the taxpayer refused to accept the Government's case for the year 1937. The supporting statement prepared by the Houston office of the Technical Staff and adopted by the Head of the Southwestern Division on October 26, 1939, contains the following paragraph:

Memorandum for Under Secretary Hanes.

"There may be some ground for arguing that the taxpayer was prohibited from paying dividends during the year 1936 by the fact its ratio of current assets to current liabilities for that year was approximately 1.50 to 1 and that by its indenture of May 1, 1931, it was prevented from paying dividends in the event such payment would decrease the ratio of current assets to current liabilities below 3.50 to 1. However, the taxpayer makes no contention for relief from that source, preferring to rely entirely upon the letter of July 1, 1935, and the affidavit of Messrs. Simpson and Doherty."

From this it appears that even the confidential memorandum in the case makes no such admission of error as regards the year 1936. The above-quoted statement respecting the ratio of current assets to current liabilities represented an accounting theory of the conferee by which he was seeking to work out a basis of settlement with the taxpayer. The Staff conferees do conscientiously endeavor to close cases. Upon closer analysis there arose the gravest doubt as to the accuracy of the conferee's theory, but since no settlement had resulted it was considered unnecessary to change the remark in the supporting statement.

According to the Staff report of November 17, 1939, the following is what transpired at and shortly after the conference in the case:

"Mr. B. H. Wilson handled the case in this office for the Staff, and the taxpayer was represented by Mr. H. I. Wilhelm of the J. A. Phillips Company. Mr. W. P. Hobby, the President of the corporation, did not appear in the conference, nor has anyone in this office ever seen or spoken to him to their knowledge. After having reviewed the facts in the case, and listened to the arguments put forth by Mr. Wilhelm, Mr. Wilson states that he, at the conclusion of the conference, advised Mr. Wilhelm that if the taxpayer would submit a proposal of settlement on the basis that the Staff allow the claim for dividend credit for 1936 and waive the claim for any credit in 1937 he would seriously consider recommending such a proposal. He states, however, that he then and there told Mr. Wilhelm that he was still undecided relative to the year 1936 but felt the Government's position was much stronger for 1937. For such reason he was willing to seriously consider a proposal for settlement for 1936 and 1937 on the basis of the allowance of the credit for 1936 and the full deficiency for 1937. Mr. Wilhelm knows that any recommendation made by any of the conferees in the Staff is subject to review.

Memorandum for Under Secretary Hanes.

COPY

"Mr. Wilson was of the opinion at the conclusion of the conference that Mr. Wilhelm was in favor of submitting such a proposal, but Mr. Wilhelm stated that before submitting such a proposal he wished to take the matter up with the attorneys for the company. A few days later when Mr. Wilson was discussing another case with Mr. Wilhelm on the telephone, Mr. Wilhelm advised him that after discussing the case with the taxpayer's attorneys, they had decided that the letter dated July 1, 1935, constituted a sufficient restriction relative to the payment of dividends to entitle the taxpayer to the credit claimed in both years and would therefore consider no basis of settlement other than the full surrender by the Staff of the surtax asserted for both years, amounting to \$39,040.19 for 1936, and \$55,987.77 for 1937. He therefore suggested to Mr. Wilson that the statutory notice be issued.

"Mr. Wilson is definite in his recollection that he did not state to Mr. Wilhelm that he admitted that the taxpayer was entitled to the relief sought for 1936, or that he would not settle 1936 unless the taxpayer signed up for 1937."

The taxpayer's representative has apparently never contended, or submitted any evidence to prove that there was a ratification by the Board of Directors of the subject matter of the letter of July 1, 1935, copy attached.

Under the circumstances I have caused instructions to be issued to the Head of the Southwestern Division of the Technical Staff to call another conference in the case with a view of developing certain matters which are set forth in the attached proposed letter. I do not believe that the circumstances justify me in taking the case out of the regular decentralized procedure or causing the file to be transferred to Washington for review.

(Signed) Guy T. Helvering

Commissioner.

Enclosures:

Copy of letter dated 7/1/1935
Proposed letter

ARM/ld

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 1-22-36

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

Re: New York City Individual Income Tax and Estate Tax.

The City of New York in 1934 imposed an income tax on each individual resident of the City equal to 15 per cent of the Federal income tax payable by the individual for the year 1934. [Local Law No. 19 (1934), §2(b)] The tax was to be paid in 1935 but before it became operative it was repealed by the Municipal Assembly.

In 1934 the City of New York also imposed a city estate tax equal to 40 per cent of the State estate tax. [Local Law No. 23 (1934), §2] This tax applies to estates of decedents who were non-residents as well as to those who were residents of the City.

The law became effective with the approval of the Mayor on December 5, 1934 and expired by its own terms December 31, 1935. It was repealed in 1936. [Local Law No. 15 (1936)] The repealing law canceled all taxes imposed and provided for refunds to persons who had paid the City estate tax.

These two local laws adopted by the Municipal Assembly of the City of New York have some analogy to the suggestion of a 10 per cent supertax.

E.H.F.

Handed to me by John Sullivan
after Jan 15th 1940. Wmp.

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As I told you this morning, the Revenue Act of 1939 is by and large a good tax bill. Most of the important changes that were made are not only defensible but desirable. The difficulty that those working on the Act were confronted with, however, was that the attitude and atmosphere surrounding the deliberations was almost solely for tax relief and business appeasement. It is hardly surprising that there was a constant effort to insert into the bill provisions designed to aid special interests or special groups, and the only surprising fact is that so few were finally enacted. It should be remembered, however, that every effort was made to keep the bill down to a minimum number of amendments because of the lack of time between the introduction of the bill and the June 30th dead line.

The following four matters are those which my office believes should not have been inserted in the bill:

(1) Section 225 - Pan-American Trade Corporations. This amendment in substance provided that a domestic corporation having a domestic subsidiary engaged in trade in Pan-America can file a consolidated return. My office felt this amendment undesirable because by its terms it permits consolidated returns to a few, and possibly only to one domestic corporation, without any sound distinction between the corporations it favors and any other type of domestic corporations having subsidiaries. It was inserted, as I understand, in order to aid the United Fruit Company. The amendment was introduced by Senator Harrison when the bill reached the Finance Committee. I believe the amendment also had the support of Representative McCormack of Massachusetts.

Confidential

United Fruit Company has its main office in Boston. It is generally known throughout the tax world that this amendment was inserted for the aid of the United Fruit Company.

(2) Arms-length presumptions with respect to cosmetics tax.

This amendment provides in effect that a sale of cosmetics by a manufacturer to a selling corporation shall be presumed to be bona fide and at arms length if the manufacturer owns less than 75 percent of the stock of the selling corporation. For a number of years the Bureau has been confronted with the problem of determining whether or not in certain cases manufacturers have been selling products to their allied selling agents at fair prices. It is important to the Treasury that a fair price be charged because the cosmetics tax is based upon the price at which the article is sold by the manufacturer. The Ponds Extract Company has had a case in the Bureau in which a sales price was found not to be at arms length. Former Senator Hardwick of Georgia had tried for some time past to get an amendment to aid Ponds Extract Company in its case. In 1938 Mr. Magill was successful in having the Conference Committee reject an amendment similar to the one which was passed in 1939. The amendment is objectionable because, in the first place, it weakens the operation of the cosmetics tax, which rather needs strengthening. In addition, the presumption is an arbitrary one, based on a stock ownership which will help some companies, like Ponds Company, and will not help other companies which may be more deserving of equity. This amendment was advocated in the Senate Finance Committee by Senator George of Georgia and also had the support of Representative McCormack of Massachusetts.

(3) Exclusion of coverings, containers, and packaging charges from the base of the cosmetics tax. Under the law prior to the amendment, the cosmetics tax, as well as any other sales tax, was based upon the price charged for the article by the manufacturer, including the price of the covering or container and the packaging charge. Elizabeth Arden, Inc., retained Mr. Joseph Tumulty in an effort to exclude from the base of the tax the packaging charge and the cost of the covering or container. Elizabeth Arden, Inc., does not manufacture its own containers and does not actually do the packaging of the product. The cost of the container in the case of high priced cosmetics, such as those manufactured by Elizabeth Arden, Inc., is probably the most substantial item. Mr. Tumulty interested Senator Harrison in his amendment and it was inserted in the bill. Merely to state the amendment shows why it is objectionable but, in addition to its obvious faults, it should be pointed out that it draws a sharp distinction between corporations manufacturing their own containers and those which have subsidiary corporations who manufacture containers for them. This seems to be a wholly indefensible situation.

(4) Compensation for services rendered for a period of five years or more. This provision in substance provides that where an individual receives compensation in one year for services rendered over a period of five years or more, then his tax shall be computed as if the compensation had been received ratably over the five years or more during which the services were rendered. In effect this is an averaging device for this group of taxpayers. It results in a very substantial

reduction of tax in that it avoids application of the high surtax rates to the lump sum compensation actually received in the one year. This amendment was inserted in order to assist Mr. Albert Hopkins, an attorney of Chicago, Illinois. Mr. Hopkins interested Senator Harrison in this amendment and it was inserted while the bill was in the Senate Finance Committee. Mr. Hopkins expected to receive in 1939 a large fee for services which he had rendered for a period of more than five years; consequently, the amendment was made effective for years beginning after December 31, 1938. Mr. Hopkins had a very appealing case, but of course no more appealing than the cases of literally thousands of other taxpayers who cannot obtain the use of an averaging device. The amendment is objectionable for many technical reasons. It is, moreover, very unfair that someone who has worked four years and 364 days is denied an averaging device when someone who has worked five years may have an averaging device.

You made mention to me about a copper company amendment. The only one that I can think of is the so-called last-in first-out inventory amendment. This amendment has been advocated strongly by the American Smelting and Refining Company, and they succeeded in introducing an objectionable form of it into the 1938 Act. After the passage of the 1938 Act, however, we spent many months in overhauling the provision, and as it now appears in the 1939 Act we believe it is a desirable amendment. I must admit, however, that quite a group in the Bureau of Internal Revenue feels this provision to be undesirable.

January 15, 1940

Merle Cochran told me that he saw, over the week-end, Reuben Clark of Utah. Clark told him two things. Clark has a copy of a memorandum from Francis White telling him of either one or two conversations that he, White, had with Herbert Feis in New York in which Herbert Feis told him certain things in connection with the settlement of the Colombian debt which are just opposite from what I am trying to do.

I am going to ask Welles to have Feis write down a report of what his conversations have been with Francis White.

Reuben Clark told him that the State Department tried to get them to send somebody down to Brazil to start these debt negotiations, but not being able to do it that the State Department has issued instructions to Caffree and the intention is to leave both Jones and me out of the picture.

If and when the State Department asks me to get in on the Brazilian debt matter, I am going to insist on having copies of all cables affecting the Brazilian debt that have gone on between the State Department and our Embassy.

All of this demonstrates that the State Department is more anxious to keep the matter in their own hands than they are to get the Treasury's assistance in helping them to reach a settlement. For a long time I have been suspicious of Feis and it looks as though we had caught him red-handed. I am quite sure that Welles will protect him and I doubt very much if I will ever get the memorandum, although, if necessary, I can get a copy of Francis White's memorandum to Reuben Clark.

oOo-oOo

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 15, 1940

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Colombian debt.

Mr. Traphagen called me last Saturday after having seen the Colombians subsequent to his talk with Mr. Jones, Mr. Welles and yourself, asking that you be informed of the results of his conversation with the Colombians.

He said that the conversation was most unsatisfactory and that Turbay was undercutting his offer of overall service of \$1,750,000 in the first year and \$2,000,000 thereafter. It was obvious to him that Turbay felt that his position had been strengthened by the attitude the committee must have expressed to the Colombians that morning. Mr. Traphagen left his counter-proposal with Turbay and the Ambassador agreed to write him a letter indicating what he would be willing to recommend favorably to his government.

J.P.C. Jr.

BANK OF NEW YORK
NEW YORK'S FIRST BANK—FOUNDED 1784

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48 WALL STREET, NEW YORK

J. C. TRAPRAGEN
PRESIDENT

January 15th 1940

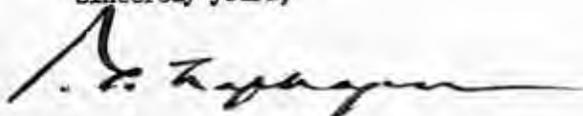
Dear Mr. Secretary,

I am enclosing copy of a letter I have today sent to Mr. Jones.

My conversation with the Ambassador at noon on Saturday was very unsatisfactory. As near as I can tell he wants to make the annual payments at about \$1,775,000. I told him that I simply could not continue to discuss the subject on that basis and that if he wanted to negotiate the matter with me I would have to ask him to write me a letter stating exactly what he had in mind.

I am sorry to have to say that I am afraid we are seeing more of the same tactics that developed in the cablegram that was discussed with the State Department. At the same time I feel convinced that if we can take a strong and unified stand with the Ambassador as I suggest in my letter to Mr. Jones, a proper settlement can be made.

Sincerely yours,



Hon. Henry Morgenthau,
Secretary of the Treasury,
Washington, D. C.

January 15th 1940

Dear Mr. Jones,

On the telephone on Saturday I told you I had done some figuring on the suggestion that you made at our meeting earlier that day.

The plan which I submitted to the Colombian Ambassador with respect to the direct obligations of the Republic called for payments of \$2,800,000 a year to be applied as follows:

During the first three years	
For interest at 5%	\$ 1,550,000
For retirement of coupons in arrears at the rate of 1/6 of their face amount	450,000
For sinking fund	500,000*
For the following two years	
For interest at 4½%	1,575,000
For retirement of coupons in arrears..	450,000
For sinking fund	275,000*
For the sixth year and thereafter until the bonds are retired	
For interest at 4%	1,800,000
For sinking fund	500,000*

* The sinking fund will be increased each year as bonds are retired and as the requirements for interest are consequently reduced, it being understood that the difference between the annual payment of \$2,800,000 and the amount necessary for interest and coupon arrears will be applied to the purchase and retirement of bonds until the debt is extinguished.

As I understood your suggestion it was your feeling that to accept one-sixth of the arrears in cash was too little and that you felt the arrears which had accrued at 6 per cent should be settled at 3 per cent. Roughly speaking, the arrears at the contract rate of interest amount to \$13,500,000. One-half of this amount, or 6 per cent, would be \$6,750,000. This could be paid over a period of fifteen years at the rate of \$450,000 annually. Under this arrangement the figures would set up as follows:

For the first fifteen years: For interest at 3 per cent - \$1,350,000; for back interest - fifteen annual installments of \$450,000; for sinking fund - \$500,000.

For the sixteenth year and thereafter: For interest at 4 per cent - \$1,300,000; for sinking fund - \$500,000.

The above plan might be varied by having annual payments on account of back interest of \$675,000 for ten years but to bring the figure within the \$2,500,000 that would reduce the sinking fund to \$275,000. Colombian bondholders have had a very unfavorable time as you know and I think that they are entitled to have a sinking fund operate on the basis indicated in my offer as a means of bringing some substantial buying power into the market for these bonds. This it is hoped would give the bondholders a market in which to sell their bonds or to get their principal paid off within a reasonable number of years.

As I told you on the telephone, I was very much disturbed by my conversation with the Ambassador when I saw him after he had returned from his meeting in Mr. Morgenthau's office. I feel very certain that he is using every device possible to bring his original offer of \$2,000,000 even lower. Furthermore, his action leads me to believe that his plea that Colombia cannot afford to pay \$2,500,000 on account of its direct obligations is simply a part of his trading tactics. I believe that if you and Mr. Morgenthau and Mr. Welles will support the Council at a figure of \$2,500,000 with payments for the first three years at the reduced sum of \$2,000,000 that we can conclude these negotiations with a little patience.

I am sending a copy of this letter to Mr.
Morgenthau.

Sincerely yours,

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

January 15, 1940

I have asked General Watson to get for me how many planes the Army and Navy will get each month this year, by months and by makes, and have it on the President's desk tomorrow and Watson's answer was, quick as a flash, "Now don't take too many planes away from us".

January 15, 1940.
9:21 a.m.

H.M.Jr: Hello.

Operator: Captain Collins. Go ahead.

H.M.Jr: Hello.

Captain Collins: Good morning Mr. Secretary.

H.M.Jr: How are you?

C: Sir?

H.M.Jr: How are you?

C: Well I'm better.

H.M.Jr: Good. Captain, if there's going to be any trouble about getting that information I want.

C: Yes sir.

H.M.Jr: On the U. S. Army and Navy planes, production per month for '40.

C: Yes, sir.

H.M.Jr: I'll get it through General Watson.

C: Oh I don't think they'll be any trouble at all sir.

H.M.Jr: Well I've got to have that by noon tomorrow.

C: By noon tomorrow. Well I'll get on top of it and if I can't make it I'll let you know and then we can go to Watson.

H.M.Jr: Yes, but let me know in time.

C: Yes, sir, I shall.

H.M.Jr: But if you can't get it then I want to go to General Watson and get it because I've just got to have that.

C: Yes, sir. Now that's the complete picture. Everything.

H.M.Jr: I want to know how many planes each month the Army and Navy are going to get delivery during '40.

- 2 -

C: By type.

H.M.Jr: By type.

C: Yes.

H.M.Jr: By manufacture.

C: By manufacture.

H.M.Jr: See?

C: Yes sir. Well that's quite a big order for the Army.

H.M.Jr: Why?

C: Well they've got them scattered over about half a - for bombers for instance, they've got three types of bombers, and they're scattered over three or four manufacturers.

H.M.Jr: Well -

C: But I'll get right on top of it.

H.M.Jr: Well if you can't get it let me know this morning and I'll ask General Watson to get it.

C: All right sir.

H.M.Jr: I mean, it's - after all if the Army has it, it's just a question of putting a couple of men on it.

C: Well of course they've got it better than that. As a matter of fact they should have that thing up to the minute you see, in photostatic form.

H.M.Jr: But it's over a week ago you asked me.

C: Yes, sir. Well I've been out for three days. I'll get right on top of it.

H.M.Jr: And if it's just that they don't want to give it to you, let - it must be fully a week.

C: Yes, sir.

H.M.Jr: Yes. O.K.

C: All right sir.

January 15, 1940.
5:20 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Captain
Collins: Mr. Secretary.

H.M.Jr: Right.

C: I'm very sorry to have to tell you that I have not been able to get that dope out of the Army.

H.M.Jr: I see.

C: They - Valant was here this afternoon, Colonel Valant, and he just said that he would, that it had gone up to the Secretary's office for transmittal to me and he's been giving me the run around ever since about three o'clock when he returned. I have not received the information.

H.M.Jr: Let it go. I can get, I'll get General Watson.

C: All right sir. I will - I have however, will have your answer tomorrow morning with the dope on the Navy.

H.M.Jr: You will.

C: Yes. There was no trouble, they gave me their restricted list.

H.M.Jr: I see. And - well that's all right I - I - it doesn't surprise me.

C: Well it doesn't me either except I don't like these fellows to tell you one thing and then do something else.

H.M.Jr: Well didn't you have it in your hands.

C: I had it there, that was a slip, but I had to give it right back to them because it had been released by a major over there who had no right to do it. And he was in such flat spin I - he got it back about the time I got it, and I simply took off, all they had time to take off the light bombers and the pursuits.

H.M.Jr: Right.

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- C: And those of course are the only ships in which the French are interested.
- H.M.Jr: I see. O.K.
- C: All right sir. Now we had this meeting this afternoon with the manufacturers.
- H.M.Jr: Yes.
- C: And that was attended by Colonel Hines who is in the Munitions Board as well as Colonel Valant of the Air Corps.
- H.M.Jr: Yes.
- C: And the Douglas, Martin and Curtis are sitting down now and trying to get some statement to take and give these people tomorrow afternoon, and they're going to clear their end of it through the Army and Navy Joint board.
- H.M.Jr: I see.
- C: So we should know by then exactly what can be done.
- H.M.Jr: When will you know?
- C: Well it'll be - the meeting will probably will not happen until oh, half past three or four in the afternoon. They're very anxious. The French want to get it out on the Clipper on Thursday.
- H.M.Jr: Yes.
- C: And these boys are working tonight trying to see what they can do. Martin has taken a glorious attitude. He said he would like to be given an opportunity to prove that American industry can do it.
- H.M.Jr: Which Martin - who represent?
- C: Glenn Martin.
- H.M.Jr: Glenn comes himself.
- C: That's Martin himself. Hodgkin - Joe Hodgkin - Vice-President was with him. Now I think the French and the British both felt very much cheered over his attitude.

H.M.Jr: Well, strictly for you and for nobody else, I'm going over to take a look at the Martin plant tomorrow.

C: Yes sir.

H.M.Jr: I've been wanting to do that for two years.

C: Yes sir.

H.M.Jr: I'm going over there tomorrow morning.

C: Well you'll see a very interesting picture.

H.M.Jr: That's for you only.

C: Yes. Do they know you're coming?

H.M.Jr: Oh yes. Yes, they know it.

C: Well I think you'll see a very interesting -

H.M.Jr: But I told them to keep it quiet, because -

C: Yes.

H.M.Jr: Martin didn't say anything did he?

C: Oh not a sound. I saw him - I saw him privately for about ten minutes there

H.M.Jr: Well don't say anything to him, because I want to see if I can once go out of the Treasury for a half day without having it in the newspapers.

C: (laughs) No I shall keep that absolutely quiet.

H.M.Jr: O.K. Goodnight.

C: Goodnight, sir.



OFFICE OF THE DIRECTOR

Confidential
TREASURY DEPARTMENT

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PROCUREMENT DIVISION

WASHINGTON

January 15, 1940

MEMORANDUM FOR THE SECRETARY

A meeting was held Thursday at which were present representatives of the Pratt & Whitney Company, Wright Aeronautical and Allison Motors, as well as Colonel Greenley, M. Plevan, Colonel Jacquin, Major Lingle of the Army and Commander Pride of the Navy representing the Army & Navy Munitions Board, and the Director of Procurement.

Colonel Greenley presented to the meeting the desire of the Allies to purchase in this country by April, 1941, 20,000 motors, and after discussion, extended his delivery date to the first of October, 1941. The discussion further brought out the fact that it was desired that Wright 2600s and Pratt & Whitney 1830s be furnished. The Allison is rated at 1090 HP, the Wright 2600 at approximately 1650 HP, and the Pratt & Whitney 1830 at approximately 1200 HP.

Memoranda received Saturday from the engine contractors indicate the following deliveries that might be made to October 1, 1941:

Allison	3,500
Wright	4,400
Pratt & Whitney	<u>5,775</u>
	13,675

The above delivery includes new production plus all outstanding options on existing contracts. A meeting is to be held today with the airplane manufacturers for the purpose of determining what planes may be delivered through September, 1941, based on the above indicated number of motors which will be available.

H. G. Jones
Director of Procurement

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 15, 1940

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Domestic Exports to U.S.S.R.

United States domestic exports to Russia in December 1939 were \$10.5 million. In November 1939 exports to the U.S.S.R. were \$7.0 and in December 1938, \$7.2 million. In addition, there were substantial re-exports to the U.S.S.R. during December, but the data are not yet available.

Following is a list of exports which increased in value in December compared with the average monthly exports during the period prior to the outbreak of war.

	December 1939	Monthly Average July 1938 - Sept. 1939
	(In thousands of dollars)	
Total domestic exports	\$ 10,517	\$ 4,233
Copper, brass, bronze and products	5,086	10
Molybdenum	1,906	271
Power driven planers, shapers and grinding machines	857	473
Other industrial machinery	667	313
Power driven forging machinery	281	90
Electric motors, etc.	205	36
Diesel and semi-Diesel engines	164	13
Wheat	161	64
Ferro-alloys	152	--
Aircraft engines, instruments, parts and accessories	117	84
All other commodities	921	2,879

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

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TO Secretary Morgenthau

FROM Mr. White

Subject: FOREIGN ECONOMIC DEVELOPMENTS

(Prepared by the Division of Monetary Research)

The Allies and the American Markets

The United Kingdom, France and Canada have liquidated almost \$1 billion of dollar assets in the first four months of war.

Sales of gold to United States	\$600 million
Reduction of dollar balances	250 million
Net sales of securities	<u>100 million</u>
Total	\$950 million

This unusually large payment to us by the Allies is not due to any increase in their imports from us to date. From the outbreak of the war through November our favorable trade balance with the Allies was only slightly greater than last year's - (\$188 million in 1939 and \$175 million in 1938). From one-fourth to one-third of the \$950 million was used for items which will not recur: covering a short exchange position England developed before the outbreak of the war, and adjustment of the belligerents' foreign trade from a credit to a cash basis. Additional substantial sums were taken for advance payments on armament contracts. Most of the remainder of the \$950 million can be accounted for by the favorable balance of payments normally due us from those countries.

During the first four months of war reported net imports of capital to the United States from all countries amounted to \$28 million. Non-belligerents sent about \$360 million here while belligerents withdrew \$330 million.

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 of the first four months of war

The liquidation of American securities by the Allies which averaged \$8 million a week during the first three months of war, declined in December to an average of only \$3 million a week.

Canada

The absence of war orders is a disappointing element in the current Canadian situation. Reported Canadian orders aggregate only \$90 million, while British war orders have been confined largely to contracts for base metals and foodstuffs.

British Government purchases of Canadian foodstuffs have made only a small dent in Canada's available exportable surpluses. The wheat surplus of Canada is still a major problem facing the country. The recently reported British purchase of 20 to 30 million bushels of Canadian wheat — the largest since hostilities opened — is not expected by the market to be repeated before July 31 while the available exportable Canadian wheat on December 1, 1939 approximated 400 million bushels.

As yet no program of munitions buying has been authorized. Highly developed steel industries and certain machinery industries, which have been repeatedly told to hold themselves in readiness to produce munitions and shells, find themselves in a dilemma. Should they continue to make the necessary adjustments to their plants? Will the orders be forthcoming? If they neglect to make changes now, will they find themselves unable to take care of the vital war demands later?

However, in spite of the absence of war orders, Canadian industrial and business activity has been maintained at an extraordinary high level in 1939. Numerous production records are being established. Canadian mineral output in 1939 reached an all-time peak. The gross value of agricultural products was the largest since 1930. Production of footwear in October was the highest on record. Steel mill operations continue to rise; in October they were the largest since October 1918. Plant capacity in southern Ontario is being extended. Employment in manufacturing industries on November 1, 1939 was at record level and holiday retail trade was the best in years.

Wholesale prices rose sharply during September, but have leveled off since. The index of wholesale prices is now only 10 percent higher than in August.

Latin America

The immediate effect of the war upon Latin America has been favorable to some countries and unfavorable to others. Brazil, for instance, had an excess of exports of \$30 million since September, compared with a balanced trade in the same period of 1938. Argentina's exports have been running 11 percent higher than last year and Peru's exports have been maintained at the level of last year. On the other hand, it is reported that Mexico's exports are sharply down although the statistics are not available. Exports of the Dominican Republic dropped 35 percent in November, compared with November 1938.

Exchange rates of Latin American countries have in general been maintained since September with the exception of Mexico and Peru.

However, Latin America may be faced with a major coffee crisis as a result of the war in Europe. Coffee exports from Latin America normally run \$1/4 billion annually and in seven countries coffee accounts for over one-third of exports. World coffee imports may decline 15 percent in 1940 with the burden falling wholly on Latin America as European nations give preference to Empire sources to avoid foreign exchange drains. The price of Brazilian coffee so far has held up but the prices of mild coffees broke badly after eight weeks, prices falling by from 20 to 25 percent. The 2 cents per pound decline in the price of mild coffee hit Colombia badly for each cent means \$5 million per year less in foreign exchange.

Renewed agitation for a hemisphere agreement on coffee may be expected along with the flood of price-supporting and producer-assistance measures. All eyes are on the United States market but we already take 55 percent of world coffee imports and the demand is inelastic.

England

Mr. Chamberlain's speech of January 9 was the opening gun in the Government campaign to bring home the need for curtailing consumption. The British Government has wished to prevent wage increases, if not to reduce some, but has so far failed to get support from the Trades Unions for its plans. The rationing system introduced last week is only a first step and, by itself, will be ineffective in reducing consumption. However, the sharp price rises since the outbreak of war will be much more effective. The Board of Trade index of wholesale prices rose 23 percent from August through December and wholesale food prices rose 28 percent. The cost of living index rose 12 percent and the retail cost of food, almost 14 percent from September 1 to December 1.

Although the British press has been "viewing with alarm" the increases in wages granted to workers with increases in cost of living, the total increase in the wage bill as a result of the wage increases during the first fifteen weeks of the war amounted to only £30 million per year.

The deficit for the nine months April to December is £605 million (\$2,420 million) as compared with £266 million (\$1,075 million) in 1938. The deficit has been financed by £290 million in long-term securities issued under the National Defence Act and the balance was raised by short-term bills. England now has £1,500 (\$6 billion) of short-term Treasury bills outstanding, and £ of long terms.

England's attempt to induce foreign countries to accept payment for trade balances in blocked sterling has succeeded in Sweden as well as in Argentina. A temporary agreement has been reached between the Bank of England and the Swedish Riksbank, in which Sweden agrees to take part of its export surplus in blocked sterling which can be spent only in the British Empire (except Canada, New Zealand and Hong Kong.)

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France

France is financing the huge current deficit of 20 billion francs (\$450 million) per month by methods usually characterized as "inflationary".

Total subscriptions to armament bonds during December were only about 6 billion francs; at this rate only about one-fourth of the budgetary deficit will be covered. Moreover, a substantial part of the 6 billion francs was subscribed by banks, and did not represent a genuine diversion of purchasing power. The Bank of France has advanced 5 billion francs to the government each month since October. Short-term borrowing (probably unpaid government bills) has supplied the other 10 billion per month needed to meet the deficit.

Currency circulation in France is 40 percent higher than a year ago, and still rising.

Germany

Germany has made little progress so far in overcoming the effect of the war on the network of commercial agreements on which her trade is based. Trade talks with Russia have been going on for over 4 months but no completed trade agreement has yet been reported. The only new commercial accord Germany has succeeded in consummating since September is the Rumanian agreement, signed on December 20, which sets slightly larger monthly minimum oil shipments, and establishes a Reichsmark value more favorable to Germany.

In the meantime the Allies have completed trade agreements with Sweden, Yugoslavia, Greece, Turkey and Spain and have made tentative trade agreements with other non-European countries, notably Argentina -- to say nothing of their extensive new commercial arrangements with the Empires and the British Dominions. British economic warfare, designed to buy up whole nations' export surpluses which might otherwise go to Germany, is providing strategic raw materials but also export surpluses of products for which she has no direct use. She takes Yugoslavia's metals, but must also take her entire prune crop; the Turkish Government sells its chromium production to the Allies but they must also take the Turkish fig and grape export surplus; it is understood that Greece is trying to make the same kind of arrangement.

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On another front of their economic warfare the Allies have succeeded in raising the price of Rumanian oil -- to themselves and to Germany -- to double its price prior to the outbreak of war. The final disposition of the bulk of Rumanian oil between the belligerents is still an unsettled question.

The German Government on January 10 announced a new plan which will result in a forced diversion of a substantial part of the income of the working class to the State for war purposes. Ten percent of the wages of German workers will be paid in "promissory notes" or scrip. The plan under consideration is that half of this scrip is to be deposited in savings banks, probably to be invested in short-term Treasury bills or in war loans. The other half is to go to state institutions such as health and insurance funds. Part of this scrip may also be invested eventually in government securities.

Japan

Inflation in Japan is beginning to get out of hand. Price control measures are breaking down as the government is forced to continuously raise "fixed" prices. Tokyo wholesale prices have increased more than 15 percent since September, a 6 percent rise taking place in December. There are waves of hoarding of essential commodities, and farmers are reluctant to sell their produce. Bank of Japan has been forced to purchase over one-half of the 1,400 million yen national bonds issued in the last quarter. Since the end of August 1,200 million additional currency notes were placed in circulation, breaking all previous records for a three-month period. The government debt increased by 5,200 million yen during 1939, bringing the total debt to 21,300 million yen. In June 1937, the government debt was only 10,600 million yen.

The Autumn rice crop in Korea has been out drastically by the most severe drought in over 90 years. Without imports from Korea, Japan faces a considerable shortage and the farmers, realizing this, are at present hoarding their supplies, causing a severe shortage in urban centers. The drought is also responsible for the reduced rivers and reservoirs on the western mainland, which in turn has intensified the shortage of coal.

Italy and Hungary

There are unconfirmed reports of an Italian agreement to defend Hungary from any attack by Germany or Russia. Such an agreement would have no solid economic base. Germany holds the whip-hand over the Hungarian economy. German firms are prominent in almost every branch of Hungarian business. Italian influence is negligible.

During the first six months of 1939, the German Empire supplied 48 percent of Hungarian imports and took 52 percent of Hungarian exports. Italy supplied only 6 percent of Hungarian imports and took only 18 percent of her exports. Hungary is so dependent on the German market that she has currently continued trade even though forced to accumulate a balance of about 45 million marks in her clearing account with Germany. Germany is even increasing the price of goods, such as dyestuffs and chemicals, needed by Hungarian industry.

Turkey, England and France

An economic and financial accord among Turkey, England and France was signed in Paris on January 8, 1940. This accord is the sequel to the Anglo-French diplomatic victory with Turkey. It reveals that Britain and France are paying dearly for Turkish support. The total of credits, loans or gifts made to Turkey by Great Britain and France from May 1938 to February 1940 is at least £58,000,000, (about \$250 million) of which £26 million was granted before the war and £32 million after. The latter included a loan of £15 million of gold.

World Prices

Wholesale prices continued to rise in most of the leading countries of the world, with prices in Japan, Scandinavia, the Lowlands and the United Kingdom showing the greatest increases since the outbreak of the war. In Canada and the United States the sharply upward spurt in prices which occurred during the first six weeks of war has leveled off since.

World Trade

The general disruption of trade which occurred during September makes it difficult to discern as yet any general foreign trade trends. Of the 12 countries for which export figures for October are available only those distant from

the belligerent area, and those whose principal foreign outlets are other than European belligerents shipped more abroad this October than last. Japan, China, the United States, New Zealand, Canada and British India are among this group. Exports of the United States and Canada continued to rise in November (by 15 percent) and December (by 30-35 percent).

Sharply reduced imports into countries of the British Empire, other than Canada, bear witness to the effectiveness of the restrictions on imports in those countries. Imports were lower in value this October compared with last October by 23 percent in New Zealand, 22 percent in the United Kingdom, 20 percent in British India and 13 percent in Australia. Canada, which has not yet imposed restrictions on imports, has increased her imports since the outbreak of war by more than 25 percent.

Gold, Silver and Foreign Exchange

The preliminary estimate of gold production outside the United States in 1939 is about \$1 billion, an increase of 10 percent over 1938. United States net purchases of foreign gold in December amounted to \$250 million, about half of which came from the United Kingdom, France and Canada. That does not mean that their gold holdings decreased that much, however. The British and French Empires currently produce gold at the rate of about \$65 million a month, and they may have had favorable balances of payments with other countries.

Silver production outside the United States during 1939 amounted to about 210 million ounces -- 4 percent increase over 1938. The Treasury purchased 159 million ounces of foreign silver in 1939, and purchases so far in 1940 have continued at about the same rate.

The foreign exchange situation has been relatively stable. There has been no significant change in currencies vis-a-vis the dollar since the first of the year. The tightening up of British Exchange controls has helped strengthen the unofficial sterling rate which is now about 1 percent higher than a couple of weeks ago.