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June 20, 1939

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

My dear Mr. Jones:

There is enclosed for your information copy of my letter of this date to the Chairman of the Board of Directors of the Tennessee Valley Authority, concerning the proposed issuance at par by the Authority to the Reconstruction Finance Corporation of an issue of serial bonds dated June 15, 1939, maturing June 15, 1959, 1960 and 1961, with interest at 2 $\frac{1}{2}$ % per annum, payable semiannually from the date of issue.

The obligation of the bonds is that the principal amount specified and the interest thereon shall be paid to the "Reconstruction Finance Corporation or its registered assigns". In view of the statutory provisions which accord to this class of bonds of the Tennessee Valley Authority all the rights and privileges accorded by law to Panama Canal bonds, you have agreed with respect to bonds previously acquired by the Reconstruction Finance Corporation that its interest in such Tennessee Valley Authority bonds will not be assigned but will be held by the Corporation until maturity. Your written confirmation extending this understanding to the above mentioned issue of series B bonds will be appreciated.

Very truly yours,

(343) H. W. WASHINGTON, JR.

Secretary of the Treasury

Enclosure

Mailed today from Mr. Bell's office
(by hand thru Mr. Ager) and complete
file in Bell's office -- 6/22/39

WTH:HBW

June 20, 1939

Honorable H. A. Morgan,
Chairman, Tennessee Valley Authority,
Knoxville, Tennessee.

My dear Mr. Morgan:

Pursuant to the authority vested in me by Section 15 of the Tennessee Valley Authority Act, as amended, I hereby approve in amount and price the issuance and sale at par and accrued interest of serial bonds of the Tennessee Valley Authority in the principal sum of \$5,300,000, dated June 15, 1939; bond No. 1 for \$1,300,000 maturing on June 15, 1959, bond No. 2 for \$2,000,000 maturing June 15, 1960, and bond No. 3 for \$2,000,000, maturing June 15, 1961; bearing interest at the rate of 2 $\frac{1}{2}$ % per annum, payable semiannually on June 15 and December 15 of each year, payable to the Reconstruction Finance Corporation or its registered assigns, such bonds being all of an authorized serial issue of \$5,300,000 designated Series B.

Very truly yours,

(Sigs) H. MORGENTHAU Jr.

Secretary of the Treasury

WTH:HBW

Mailed today from Mr. Bell's office
(by hand thru Mr. Ager) and complete
file in Bell's office -- 6/22/39

June 20, 1939

MEMORANDUM FOR THE FILE

Senator Barkley telephoned that Senator McCarran, and others comprising the silver bloc in the Senate, were threatening to filibuster to prevent the Senate from reaching a vote on the legislation to continue the President's emergency monetary powers until the Administration, through the Secretary of the Treasury, stated the price it would pay for newly mined domestic silver. Senator Barkley asked me to advise him of the position of Secretary Morgenthau and the President on such a proposal.

I told Senator Barkley that it was my understanding the President and the Secretary of the Treasury desired to stand on the bill as it passed the House and make no concession whatsoever as to any increase in the price now being paid for newly mined domestic silver. At my suggestion, Bernstein and White talked to Senator Barkley in Col. Halsey's office and pointed out that the price of 64.64 cents per ounce now being paid by the Treasury was a subsidy of approximately 23 cents an ounce for the silver miners since the current world price is around 41 cents per ounce. This represents the largest subsidy ever paid for silver. When the price was 76 cents per ounce, the world price was in the neighborhood of 65 cents per ounce and the subsidy was only about 11 or 12 cents an ounce.

Shortly after I spoke to Senator Barkley, Secretary Morgenthau called from Princeton and I related to him the substance of my conversation with Senator Barkley. Secretary Morgenthau stated that this represented his position, and later so advised the President.

E. N. H.

JUN 19 1939

My dear Mr. Attorney General:

The President has requested the joint recommendation of your Department and the Treasury Department with regard to a bill, which has been prepared by the Legislative Counsel of the Senate at the request of Senator Hayden, creating a Federal Land Authority with power to cooperate with the states in securing lands needed for highway construction.

The memorandum from the President, together with a memorandum from Senator Hayden, a copy of the proposed bill, and a memorandum for the Legislative Counsel are enclosed for your reference.

The Treasury Department has given principal consideration to the financial provisions of the proposed bill. Beginning with section 10, the proposed draft follows very closely the language of the Housing Authority Act of 1937, as amended. Section 10 of the proposal contains section 17 of the Housing Authority Act, in addition to an authorization for an appropriation, and a provision making capital receipts and assets available until expended. These latter provisions are taken from section 18 of the Housing Authority Act.

Section 11 follows almost literally section 20 of the Housing Authority Act, except as to amounts and the omission of the maximum rate of interest.

File to Mr. Thompson

By hand

Sections 12(a), (b), and (c) are identical with sections 21(a), (b), and (c) of the Housing Authority Act.

Section 13 is the usual penalty section, and section 14 exempts real property, or any interest therein, from taxation during the period such property, or interests therein, are held by the Authority.

The following minor deletions and additions to the language of the proposal are suggested:

On page 13, section 11(a), the omission of the words "not exceeding percentum per annum" in lines 10 and 11 is suggested.

The addition of the words "With the approval of the Secretary of the Treasury" at the beginning of section 12(a) is suggested on page 15. With this addition, section 12(a) will read "With the approval of the Secretary of the Treasury any money of the Authority", etc.

The same addition is suggested to section 12(b) so that it will read "With the approval of the Secretary of the Treasury the Federal Reserve banks are authorized", etc.

The deletion of the words "except receipts from customs" from line 18 of section 12(c) on page 15 is also suggested.

As noted above, the financial provisions of the proposed bill are substantially in accord with similar provisions of the Housing Authority Act, the most recent legislation establishing an agency

having authority to issue bonds guaranteed by the United States and, except in the minor respects just outlined, it is believed that the provisions are workable.

The Treasury Department is not in possession of information or evidence to establish the necessity or advisability of creating a Federal Land Authority for the purposes set out in Senator Hayden's memorandum.

However, the Treasury Department has recommended to the President a bill to provide for the construction and financing of federal express post roads by the issuance of bonds, in the aggregate amount of a billion dollars, payable from tolls and other charges. It is suggested that Senator Hayden's bill be considered in the light of this recommendation by the Treasury.

You may submit this letter to the President together with whatever report is made by the Department of Justice on Senator Hayden's proposal.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Attorney General of the United States.

Enclosures (4)

NOT:lld
Typed 6.16.39

7

THE WHITE HOUSE
WASHINGTON

Ed Foley

May 17, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY
THE ATTORNEY GENERAL

Will you let me have your
joint recommendation?

F. D. R.

RECEIVED
OFFICE OF THE
SECRETARY OF THE TREASURY

MAY 17 PM 2 08

2:45 pm

United States Senate

COMMITTEE ON APPROPRIATIONS

May 15, 1939

MEMORANDUM FOR THE PRESIDENT

I am handing you herewith a committee print of a bill which has been prepared for me by the Legislative Counsel of the Senate, proposing to create a Federal Land Authority. There is also attached hereto my memorandum for the Legislative Counsel which furnishes a comparison between what I had in mind in requesting the preparation of the bill and the language of the proposed act itself.

The bill creates an independent ex-officio Authority composed of the Secretary of War, the Secretary of Agriculture, and the Federal Works Administrator, with the Commissioner of Public Roads as Executive Director. The Authority is empowered:

1. To purchase and condemn lands for rights of way to be used for Federal Aid Highways;
2. To purchase but not to condemn abutting and adjoining lands to be retained as an investment from the returns of which the cost of condemnation and purchase may be in part repaid;
3. To issue bonds, the proceeds to be used for purchases and condemnations;
4. To contract with States and municipalities for purchases and condemnations, Federal funds so used to be repaid by the State or municipality over a long term contract period, if not repaid from profits realized on lands purchased.

May I suggest that you ask the Attorney General whether the bill would meet any Constitutional tests which might be raised and that you similarly ask the Secretary of the Treasury whether the fiscal policy involved is proper.

Carl Hayden

U. S. S.

[COMMITTEE PRINT]

MAY 11, 1939

70TH CONGRESS
1ST SESSION

S.

IN THE SENATE OF THE UNITED STATES

MAY , 1939

Mr. *Hayden* introduced the following bill; which was read twice and referred to the Committee on Post Offices and Post Roads

A BILL

To create a Federal Land Authority with power to cooperate with the States in securing lands needed for highway construction.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Federal Land Authority
4 Act".

DEFINITION

5
6 SEC. 2. (a) As used in this Act—

7 (1) The term "State" means any State, the District
8 of Columbia, Alaska, Hawaii, or Puerto Rico.

9 (2) The term "Authority" means the Federal Land
10 Authority.

J. 147392—1

1 (3) The term "board" means the board of directors
2 of the Authority.

3 (b) For the purposes of this Act, any real property
4 or interest therein shall be deemed to be required for the
5 purpose of providing a right-of-way for a highway, if the
6 acquisition of such real property or interest therein is nec-
7 essary in order to provide for (1) the physical location of
8 such highway (including any bridges, tunnels, roadside
9 ditches, culverts, and other structures or works constituting
10 a part of such highway); (2) the physical location of such
11 additions to such highway as may reasonably be deemed
12 to be necessary in the future in order to provide adequately
13 for increased traffic over such highway; (3) roadside
14 beautification, sanitary facilities, parking spaces, and the
15 elimination of safety hazards along such highway; (4) the
16 control of access to, and egress from, such highway; and
17 (5) the elimination of undesirable remnants of land adjacent
18 to such highway.

19 FEDERAL LAND AUTHORITY

20 SEC. 3. (a) There is hereby created, as an independent
21 agency of the Federal Government, a body corporate to be
22 known as the Federal Land Authority. The principal
23 office of the Authority shall be in the District of Columbia,
24 but it may establish branch offices or agencies in any State,

1 and may exercise any of its powers at any place within the
2 United States.

3 (b) The powers of the Authority shall be vested in a
4 board of directors to be composed of the Secretary of War,
5 the Secretary of Agriculture, and the Federal Works Ad-
6 ministrator. The Commissioner of Public Roads in the
7 Federal Works Agency shall be the executive director of
8 the Authority and shall have such powers as may be dele-
9 gated to him by the board. The members of the board
10 and the executive director shall receive no additional com-
11 pensation for their services as such, but may be allowed
12 travel and subsistence expenses when engaged in business
13 of the Authority outside of the District of Columbia.

14 (c) The board is authorized, subject to the civil-service
15 laws and the Classification Act of 1923, as amended, to
16 appoint, and to fix the compensation of, such officers and
17 employees as may be necessary to carry out the provisions
18 of this Act: *Provided*, That no person shall be appointed
19 under this subsection to any position in a State or district
20 office of the Authority unless such person has been a bona
21 fide resident of such State or district for a period of at least
22 one year immediately preceding the date of his appointment.

23 (d) Officers and employees of the Authority shall be
24 entitled to the benefits of the Act entitled "An Act to pro-

1 vide compensation for employees of the United States suffer-
 2 ing injuries while in the performance of their duties, and for
 3 other purposes", approved September 7, 1916, as amended
 4 and supplemented, to the same extent that employees of
 5 the executive departments are entitled to such benefits.

6 (e) The Authority may accept and utilize voluntary
 7 and uncompensated services and, with the consent of the
 8 agency concerned, may utilize the officers, employees,
 9 equipment, and information of any agency of the Federal
 10 Government, or of any State, or any agency or political
 11 subdivision thereof.

12 (f) The Authority may make such expenditures, sub-
 13 ject to audit under the general law, for the acquisition and
 14 maintenance of adequate administrative agencies, offices,
 15 vehicles, furnishings, equipment, supplies, books, periodicals,
 16 printing and binding, for attendance at meetings, for neces-
 17 sary traveling expenses, and for other purposes, as may
 18 from time to time be found necessary for the proper admin-
 19 istration of this Act. Financial transactions of the Author-
 20 ity with respect to the acquisition or disposition of real
 21 property or interests therein, and vouchers approved by the
 22 board in connection with such financial transactions, shall
 23 be final and conclusive upon all officers of the Government;
 24 except that all such financial transactions of the Authority
 25 shall be audited by the General Accounting Office at such

1 times and in such manner as the Comptroller General may
 2 by regulations prescribe.

3 (g) The provisions of section 3709 of the Revised
 4 Statutes, as amended, shall apply to all contracts of the
 5 Authority for the purchase of supplies except when the
 6 aggregate amount involved does not exceed \$300.

7 (h) The Authority shall have an official seal, which
 8 shall be judicially noticed.

9 (i) The Authority shall be granted the free use of the
 10 United States mails in the same manner as the executive
 11 departments of the Government.

12 (j) The board shall define the authority and duties of
 13 the officers and employees of the Authority and may re-
 14 quire bonds of such of them as it may designate and fix
 15 the penalties of, and pay the premiums for, such bonds.

16 GENERAL POWERS OF THE AUTHORITY

17 SEC. 4. The Authority—

18 (a) Shall have succession in its corporate name.

19 (b) May sue and be sued in its corporate name in any
 20 court of competent jurisdiction of the United States.

21 (c) May adopt, amend, and repeal bylaws, rules, and
 22 regulations governing the manner in which its business may
 23 be conducted and the powers vested in it may be exercised
 24 and enjoyed.

1 (d) Shall have such incidental powers as may be nec-
 2 essary or appropriate for the exercise of the powers vested
 3 in it.

4 (e) May make contracts as herein authorized.

5 ACQUISITION AND SALE OF LAND FOR HIGHWAY PURPOSES

6 SEC. 5. (a) The Authority shall have power to acquire
 7 by purchase or condemnation any real property or interest
 8 therein required for the purpose of providing a right-of-
 9 way for any highway to be constructed, reconstructed, or
 10 relocated, by any State with Federal aid furnished under
 11 the provisions of the Federal Highway Act, as amended
 12 and supplemented. The Authority shall not acquire any
 13 such real property or interest therein unless (1) the acqui-
 14 sition of such real property or interest therein has been
 15 approved by the Public Roads Administration in the Fed-
 16 eral Works Agency and by the highway department of
 17 the State in which such real property is located and (2)
 18 the Authority has entered into a contract (conforming to
 19 the requirements of subsection (b) of this section) with
 20 the State in which such real property is located, or a
 21 political subdivision thereof, providing for the sale of such
 22 real property or interest therein to such State or political
 23 subdivision.

24 (b) Any real property or interest therein acquired by
 25 the Authority under the provisions of subsection (a) of this

1 section shall, except as otherwise provided by subsection (c)
 2 of this section, be sold and conveyed by the Authority to the
 3 State or political subdivision thereof which contracted with
 4 the Authority to purchase such real property or interest
 5 therein from the Authority. The price at which such real
 6 property or interest therein shall be sold to such State or
 7 political subdivision shall be a sum equal to the total of all
 8 sums paid by the Authority for such property or interest
 9 therein and all expenses incurred by the Authority in con-
 10 nection with the acquisition and conveyance thereof minus
 11 the sum agreed upon by the Authority and the State or
 12 political subdivision as the fair value of any part of such real
 13 property or interest therein which may be retained by the
 14 Authority pursuant to the provisions of subsection (c) of
 15 this section. Such price may be paid to the Authority in
 16 installments, within an agreed period of not to exceed fifty
 17 years. The unpaid balance of the price outstanding shall
 18 bear interest at the rate of $\frac{1}{2}$ per centum per annum.

19 (c) The Authority may release a State or political
 20 subdivision thereof from its contractual obligation to purchase
 21 any real property or interest therein, or any part of any real
 22 property or interest therein, acquired by the Authority under
 23 the provisions of subsection (a) of this section, if the Au-
 24 thority finds that such real property or interest therein, or
 25 such part of such real property or interest therein, is (1) in

1 excess of the requirements of the State for highway right-of-
 2 way purposes or (2) is no longer needed for right-of-way
 3 purposes because of changes in any plan for proposed high-
 4 way construction.

5 ACQUISITION AND SALE OF LAND FOR OTHER THAN HIGH-
 6 WAY PURPOSES

7 SEC. 6. (a) The Authority shall have power to acquire
 8 by purchase, but not by condemnation, for investment pur-
 9 poses, any real property located in the vicinity of any real
 10 property acquired by the Authority under the provisions of
 11 subsection (a) of section 5, if, in the opinion of the board,
 12 the price at which such property may be purchased by the
 13 Authority is such as to make it probable that the Authority
 14 will, as a result of appreciation in land values resulting from
 15 Federal-aid highway construction, be able to dispose of such
 16 property, within twenty years, at such a price as to result
 17 in a profit to the Authority.

18 (b) The Authority shall have power to sell, under reg-
 19 ulations prescribed by the board, any real property or interest
 20 therein acquired by it under the provisions of subsection (a)
 21 of this section or with respect to which it has, under sub-
 22 section (c) of section 5, released a State or political sub-
 23 division thereof from its contractual obligation to purchase.
 24 All sales under the provisions of this section shall be for cash
 and shall be public sales made after advertisement and com-

1 petitive bidding. The Authority may reserve the right to
 2 reject any or all bids made at any such sale which are deemed
 3 by it to be inadequate.

4 (c) The Authority shall, except when in its opinion con-
 5 trary to the public interest, sell any real property or interest
 6 therein acquired by it under the provisions of subsection (a)
 7 of this section, or with respect to which it has, under sub-
 8 section (c) of section 5, released a State or political sub-
 9 division thereof from its contractual obligation to purchase,
 10 within a period of not more than twenty years from the date
 11 of its acquisition of such real property or interest therein.

12 (d) The amount of any profit realized by the Authority
 13 upon the sale of any real property or interest therein sold
 14 by it under the provisions of subsection (b) of this section
 15 shall be applied as a credit against, but only to the extent
 16 of, any unpaid balance owing to the Authority by a State or
 17 political subdivision thereof for any real property or interest
 18 therein sold to such State or political subdivision under the
 19 provisions of subsection (b) of section 5, if the real property
 20 or interest therein sold under the provisions of subsection
 21 (b) of this section was acquired by the Authority in connec-
 22 tion with the acquisition of any real property or interest
 23 therein for such State or political subdivision. In determin-
 24 ing the amount of any such profit the Authority shall deduct

from the sale price of the real property or interest therein a sum equal to the total of (1) the sums expended by the Authority for the purpose of acquiring, holding, managing, and disposing of such real property or interest therein; and (2) a sum representing interest at the rate of _____ per centum per annum upon the investment of the Authority in such property or interest therein. Any credit allowed under the provisions of this subsection shall be applied against the installment payments owing by such State or political subdivision thereof and maturing at the most remote date in the future.

LOANS BY THE AUTHORITY TO STATES AND POLITICAL SUBDIVISIONS THEREOF

SEC. 7. The Authority may make loans to any State or political subdivision thereof of sums equal to the total of the sums expended by such State or political subdivision for the purpose of acquiring by condemnation real property or interests therein for the purpose of providing rights-of-way for highways proposed to be constructed, reconstructed, or relocated with Federal aid furnished under the provisions of the Federal Highway Act, as amended and supplemented. Each loan shall be repaid, in installments, within an agreed period of not to exceed fifty years and shall bear interest on the unpaid balance outstanding at the rate of _____ per centum per annum.

COLLECTION OF TOLLS FOR USE OF HIGHWAY FACILITIES

SEC. 8. The Authority is authorized and empowered to grant to any State or political subdivision thereof which owes the Authority any sum, as the result of a transaction entered into with the Authority by such State or political subdivision under the provisions of subsection (b) of section 5 or section 7, the power to levy and collect tolls for the use of any highway facility constituting a part of the highway constructed, reconstructed, or relocated upon the right-of-way with respect to which such transaction was entered into. The rates of such tolls shall be determined by the Authority but shall be such, as in the opinion of the Authority, the Public Roads Administration in the Federal Works Agency, and the highway department of the State in which such facility is located, will not result in materially reducing the volume of traffic using such facility. Such tolls shall be collected by such State or political subdivision and the proceeds thereof, after deducting expenses incurred for collection, shall be paid by such State or political subdivision to the Authority and shall be applied by the Authority in payment of any installment then due, or next becoming due, upon the indebtedness of such State or political subdivision to the Authority resulting from such transaction. The Authority shall audit the books of the State or political subdivision with respect to the collection,

1 and the expenses incurred for collection, of any such tolls,
 2 and shall prescribe regulations with respect to the custody
 3 of, and accounting for, any funds derived from such tolls.
 4 No State or political subdivision shall be authorized to con-
 5 tinue the collection of any such tolls after it has collected a
 6 sum sufficient to retire its indebtedness to the Authority
 7 resulting from such transaction; and after it has collected
 8 such sum, such facility shall be operated as a toll-free
 9 facility.

10 PROHIBITION AGAINST ENGAGING IN HIGHWAY
 11 CONSTRUCTION

12 SEC. 9. The Authority shall not engage in, or contract
 13 for, any highway or other construction.

14 CAPITAL STOCK OF AUTHORITY

15 SEC. 10. The Authority shall have a capital stock of
 16 \$100,000,000, which shall be subscribed for by the United
 17 States and paid for by the Secretary of the Treasury out
 18 of any available funds. Receipts for such payment shall
 19 be issued to the Secretary of the Treasury by the Authority
 20 and shall evidence the stock ownership of the United States.
 21 There is hereby authorized to be appropriated, out of any
 22 money in the Treasury not otherwise appropriated, for the
 23 fiscal year ending June 30, 1940, a sum sufficient to enable
 24 the Secretary of the Treasury to pay the subscription to the
 25 capital stock of the Authority. Such sum, and all receipts

1 and assets of the Authority, shall be available for the pur-
 2 poses of this Act until expended.

3 POWER OF AUTHORITY TO ISSUE OBLIGATIONS

4 SEC. 11. (a) The Authority is authorized to issue
 5 obligations in an amount not to exceed \$500,000,000, in
 6 the form of notes, bonds, or otherwise, which it may sell
 7 to obtain funds for the purposes of this Act. Such obliga-
 8 tions shall be in such forms and denominations, mature
 9 within such periods not exceeding fifty years from date of
 10 issue, bear such rates of interest [not exceeding] per
 11 centum per annum] be subject to such terms and conditions,
 12 and be issued in such manner and sold at such prices as
 13 may be prescribed by the Authority, with the approval of
 14 the Secretary of the Treasury.

15 (b) Such obligations shall be exempt, both as to
 16 principal and interest, from all taxation (except surtaxes,
 17 estate, inheritance, and gift taxes) now or hereafter im-
 18 posed by the United States or by any State, county,
 19 municipality, or local taxing authority.

20 (c) Such obligations shall be fully and unconditionally
 21 guaranteed upon their face by the United States as to the
 22 payment of both interest and principal, and, in the event
 23 that the Authority shall be unable to make any such pay-
 24 ment with respect to any such obligations upon demand

1 (b) Any person who, with intent to defraud the Au-
 2 thority or to deceive any director, officer, or employee thereof
 3 or any officer or employee of the United States, makes any
 4 false entry in any book of the Authority or makes any false
 5 report or statement to, or for, the Authority shall, upon con-
 6 viction thereof, be fined not more than \$1,000 or imprisoned
 7 for not more than one year, or both.

8 (c) Any person who shall receive any compensation,
 9 rebate, or reward, or shall enter into any conspiracy, collu-
 10 sion, or agreement, express or implied, with intent to defraud
 11 the Authority or with intent unlawfully to defeat its purposes,
 12 shall, upon conviction thereof, be fined not more than \$1,000
 13 or imprisoned for not more than one year, or both.

14 (d) Any person who induces or influences the Author-
 15 ity to purchase or acquire any property or to enter into any
 16 contract and willfully fails to disclose any interest, legal or
 17 equitable, which he has in such property or in the property
 18 to which such contract relates, or any special benefit which
 19 he expects to receive as a result of such contract, shall, upon
 20 conviction thereof, be fined not more than \$1,000 or im-
 21 prisoned for not more than one year, or both.

22 (e) No individual, association, partnership, or corpora-
 23 tion shall use the words "Federal Land Authority", or any
 24 combination of such three words, as the name, or part thereof.

1 under which he or it shall do business. Any such use shall
 2 constitute a misdemeanor and shall be punishable by a fine
 3 not exceeding \$1,000.

4 TAXATION

5 SEC. 14. All real property or interests therein acquired
 6 by the Authority under the provisions of this Act shall, dur-
 7 ing the period for which such property or interests therein
 8 is held by the Authority, be exempt from all taxation now
 9 or hereafter imposed by any State or political subdivision
 10 thereof.

1 when due, payments shall be made to the holder of such
 2 obligations by the Secretary of the Treasury with money
 3 hereby authorized to be appropriated for such purpose out
 4 of any money in the Treasury not otherwise appropriated.
 5 To the extent of such payment the Secretary of the Treasury
 6 shall succeed to all the rights of such holder.

7 (d) Such obligations shall be lawful investments and
 8 may be accepted as security for all fiduciary, trust, and
 9 public funds the investment or deposit of which shall be
 10 under the authority or control of the United States or any
 11 officer or agency thereof. The Secretary of the Treasury
 12 is likewise authorized to purchase any such obligations, and
 13 for such purchases he may use as a public-debt transaction
 14 the proceeds from the sale of any securities hereafter issued
 15 under the Second Liberty Bond Act, as amended, and the
 16 purposes for which securities may be issued under such
 17 Act, as amended, are extended to include any such pur-
 18 chases. The Secretary of the Treasury may at any time
 19 sell any of the obligations acquired by him pursuant to
 20 this section, and all redemptions, purchases, and sales by
 21 him of such obligations shall be treated as public-debt trans-
 22 actions of the United States.

23 (e) Such obligations may be marketed for the Author-
 24 ity at its request by the Secretary of the Treasury, utilizing
 25 all the facilities of the Treasury Department now authorized

1 by law for the marketing of obligations of the United States.

2 INVESTMENT AND DEPOSIT OF FUNDS OF THE AUTHORITY

3 SEC. 12. (a) ^{with the approval of the Secretary of the Treasury} Any money of the Authority not other-
 4 wise employed may be deposited, subject to check, with the
 5 Treasurer of the United States or in any Federal Reserve
 6 bank, or may be invested in obligations of the United States
 7 or used in the purchase or retirement or redemption of any
 8 obligations issued by the Authority.

9 (b) The Federal Reserve banks are authorized and
 10 directed to act as depositories, custodians, and fiscal agents
 11 for the Authority in the general exercise of its powers, and ^{with the approval of the}
 12 the Authority may reimburse any such bank for its services ^{Secretary of the}
 13 in such manner as may be agreed upon. ^{Treasurer}

14 (c) The Authority may be employed as a financial
 15 agent of the Government. When designated by the Secre-
 16 tary of the Treasury, and subject to such regulations as he
 17 may prescribe, the Authority shall be a depository of public
 18 money ^{is} ~~except receipts from customs.~~ e

19 PENALTIES

20 SEC. 13. (a) All general penal statutes relating to the
 21 larceny, embezzlement, or conversion or to the improper
 22 handling, retention, use, or disposal of public moneys or
 23 property of the United States shall apply to the moneys and
 24 property of the Authority and to moneys and properties of
 25 the United States entrusted to the Authority.

KEENE, N.H.
 CARL HAYDEN, ILL.
 CLARENCE THOMAS, III, D.C.
 JAMES P. EASTLAND, MISS.
 ROBERT C. BYRD, W. VA.
 R. A. TAFT, OHIO
 PATRICK NEASE, MISS.
 JOHN H. STENNIS, MISS.
 JOHN H. STENNIS, MISS.
 JOSEPH C. MCNEIL, ILL.
 HARRY S. THOMAS, MISS.
 EDWARD H. REED, MISS.
 THOMAS H. CLARK, MISS.
 FRANCIS T. WELLS, MISS.
 JAMES CHAMBERLAIN, MISS.

JAMES H. HALE, MISS.
 JAMES E. EASTMAN, ILL.
 JOHN S. TANTON, MISS.
 STYLIS WATSON, MISS.
 HENRY GARY LEWIS, MISS.
 HARRY C. MILLER, MISS.
 ROBERT A. TAFT, OHIO

United States Senate
COMMITTEE ON APPROPRIATIONS

MEMORANDUM FOR THE LEGISLATIVE COUNSEL

There is desired to be created an independent agency to be called the Federal Land Authority and to be composed of the Secretary of Agriculture, Secretary of War, and the Administrator of the Federal Works Agency. The Federal Land Authority shall have corporate powers and a capital stock of \$100,000,000, which shall be subscribed by the United States and authority for the appropriation of which, for the use of the Authority, shall be provided.

The Authority shall be empowered to issue bonds, indentures, and securities payable in not to exceed fifty years with an interest rate to be specified by the Authority. The full credit of the United States shall be pledged to repay its bonds, indentures, and securities and they shall be payable on their face. The total limit of such securities which may be outstanding at any one time shall not exceed \$500,000,000.

The Authority shall have the power to sue and be sued in any Court of the United States and shall have the specific power to condemn and take by eminent domain lands and structures appurtenant thereto desired to be used as right of way for the construction of highways under the Federal Aid Act of 1916 as amended and supplemented. The right of eminent domain and of condemnation shall be limited to lands which are to be used for highways and adjacent right of way purposes but should be broad enough so as to include lands not specifically used for the highway but used for planting and beautification and road side development along the side of the highway itself.

In addition to this, the Authority shall have the power to purchase lands whether to be used for highway purposes or whether merely adjacent to proposed highways. There should be no power of condemnation as to such adjacent lands but merely the power of purchase. Funds to be used for these purchases and for condemnations should be realized from the sale of securities.

The Chief of the Bureau of Public Roads should

be the Executive Director of the Federal Land Authority and he should be empowered to utilize without further compensation the services of such employees of the Department of Agriculture, U. S. Housing Authority, War Department, and Bureau of Public Roads as he may desire. He should also have some limited authority to appoint clerical and administrative personnel with due regard to the Civil Service Classification Act, such personnel to serve directly under the Federal Land Authority.

All purchases and condemnations of lands or structures shall be made directly by the Authority acting through the Chief of the Bureau of Public Roads as Executive Officer, and no such purchase or condemnation shall be made without the prior approval of the State Highway Department of the State in which such lands are located, the Bureau of Public Roads, and the Federal Land Authority. Such condemnations and purchases shall be made in connection with existing Federal Aid Highways, highways proposed by the State Highway Departments, and the Federal Bureau of Public Roads, eventually to be included in the Federal Aid Highway system and areas proposed by the

State Highway Department and the Bureau of Public Roads with the approval of the Federal Land Authority to be utilized for the relocation of the existing Federal Aid Highways.

The Federal Land Authority shall be empowered to sell any lands adjacent to condemned or purchased right of ways which have been purchased by the Authority but shall not be empowered to sell lands condemned for right of way purposes. Such sales may be made at any time desired by the Authority under regulations to be promulgated by the Authority but shall be public sales after advertisement and competitive bidding. The Authority shall be empowered, however, to set a low limit of cost below which it will not receive bids for such lands.

The Federal Land Authority shall have the power to enter into contracts with any municipality or political subdivision under the terms of which the Authority shall, after the approval of the State Highway Department concerned and the Bureau of Public Roads, condemn or purchase or condemn and purchase lands desired to be used by the appropriate State Highway Department and the Federal Bureau of

Public Roads for the construction of highway facilities. Any such contract shall provide that the City, municipality, or political subdivision within which the lands to be condemned or purchased are located, shall repay to the Federal Land Authority over a period of forty years in annual payments the total cost with interest of such purchases or condemnations made by the Federal Land Authority. Such contracts shall provide that the total number of such annual payments shall be reduced by whatever amount is collected by the Federal Land Authority from the sale of excess property purchased adjacent to the highway right of way or collected from any tolls which may be charged for the use of such facilities. Any reductions in payments of this nature shall not serve to reduce the total annual installment to be made by the municipality or political subdivision but shall merely serve to eliminate so much of the final payment or payments as may equal the amount so collected by the Authority.

In addition to any revenues which may be realized by the Federal Land Authority through the sale of properties purchased adjacent to the right of way, the Authority shall have the power, with the consent of the State Highway Department and the Bureau of Public Roads, to collect tolls or charges upon any bridge, facility, or portion of highway deemed appropriate for the levying of such charges. Such charges if levied shall be no more than shall be made at a rate, in the opinion of the State Highway Department, the Bureau of Public Roads, and the Federal Land Authority, which will not materially reduce the volume of traffic to be carried by the facility and which will at the same time return to the Authority a revenue substantially above the necessary costs of collection which shall be borne by the Authority and which shall be deducted from the total revenue realized from such sources before such revenue is applied to reduce and eliminate the annual payments to be made by the municipality or subdivision under the terms of any contract entered into by the Federal Land Authority and such municipality or political subdivision.

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Authority should also be granted to the Executive Secretary of the Federal Land Authority for the local appointment, under Civil Service rules and regulations, of employees for the collection of such tolls and charges as may be levied on such structures. A limitation should be put in at an appropriate place in the bill which will have the effect of preventing the Federal Land Authority from holding any property purchased adjacent to a condemned or purchased right of way for longer than twenty years.

A specific restriction should be placed in the bill which will prevent the Federal Land Authority from engaging in any construction of any type and which will limit all construction to the State Highway Departments and the Bureau of Public Roads under the terms of the Federal Aid Highway Act of 1916 as amended and supplemented.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 20, 1939

TO Mr. White
FROM Miss Kistler

Subject: Recent Trends in Foreign Trade

1. So far this year, United States exports have declined more than the exports of any other leading country except Australia. Exports of France and Canada have registered the largest gains.

Exports of Leading Countries
Percentage Change, 1939 over 1938

	<u>January--April</u>	<u>Month of April</u>
Australia	- 20%	- 39%
<u>United States 1/</u>	<u>- 13</u>	<u>- 3</u>
United Kingdom 1/	- 2	4
Netherlands	- 1	2
Sweden	- 1	- 3
Germany 2/	- 1	4
Switzerland	7	5
Japan	8	3
Canada	15	2
France 1/	27	32

2. Imports of the United States, on the other hand, have increased more than the imports of any other leading country except Sweden.

Imports of Leading Countries
Percentage Change, 1939 over 1938

	<u>January--April</u>	<u>Month of April</u>
Sweden	- 13%	20%
<u>United States 1/</u>	<u>9</u>	<u>22</u>
France 1/	6	5
Japan	4	- 17
Switzerland	3	14
Germany 2/	1	- 6
Netherlands	2	6
United Kingdom 1/	- 7	4
Australia	- 12	- 16
Canada	- 14	- 14

1/ January through May

2/ Excludes trade with Austria, April thru Sept. 1938. Since Oct. 1938, trade of Greater Germany includes Austria and Sudetenland)

June 20, 1939.
5:15 P.M.

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

H.M.Jr: Did I spoil your golf game?
McReynolds: No, I got some in.
Gaston: I wasn't out.
Bell: The word I got from the Press was that the two of them were playing golf.
H.M.Jr: You got that from the Press?
Bell: They wanted to know if I could answer some questions and I said the Senators didn't let me know anything to-day.
McReynolds: Herbert had to go to a party tonight so he couldn't go.
Hanes: Herbert and I have to be at Oxon Hill at 7 o'clock.
H.M.Jr: So you want to cut out the kidding and get down to business.
Hanes: We haven't any choice in the matter. The President is going to be there and we have to be there on time.
H.M.Jr: How many minutes can you spare me?
Bell: We have an hour and a half.
Hanes: We have to leave my house at 6:15.

Foley: Do you think this is a Senate Finance Committee meeting.

H.M.Jr: What I wanted to ask particularly - a lot of things but I am going to call the President in a minute and a half before he goes to Oxon Hill. I have done a lot of thinking about this bill and particularly since I hear that Mr. Barkley called up the silver Senators and wanted to know if they would do a little trading.

Archie, what was the price in silver in cents about?

Lochhead: The price was 40.30 in the London market.

H.M.Jr: How much does it cost to get it over here?

Lochhead: One half cent.

H.M.Jr: I want to give this to the President to sleep on. At noon we would drop it one cent and continue to drop it a cent a day until they pass the bill. Let's say we are paying 40¢ instead of 43¢. At a subsidy of 26¢ it looks a good deal sweeter than 23¢ and if these fellows want to trade - although they are asking 77 - and if they get a subsidy of 26¢ over the domestic price I think it is an excellent profit. There are eight thousand silver miners up and down the Rocky Mountains. I will give it to the President to sleep on.

Archie, as my silver trader, what do you think?

Lochhead: Well the market abroad naturally is looking for a reduction. Silver is being offered over there and not taken very heavily because they are afraid our price will be dropped by the time they get it over here. There has been some silver from London. We are getting that this week but we will get less and less. We are paying 43¢ for it now. That's really 2¢ above parity.

H.M.Jr: Unless silver does something, I would like to see what the President thinks. In the first place, it is darned hard to explain. Silver tomorrow will be 40¢ and we will pay 43¢ in London.

- 3 -

- Gaston: I think that's right and if it is a fact that our price is what is supporting the market I don't see why we should spread a little.
- H.M.Jr: Anything on the boats?
- Lochhead: We got a cable off. The Queen Mary - that came in carrying one million ounces and I don't think it will be heavier than that because if the stuff comes over here we would tell them that it had to be in American bars. That means it all has to go to the refinery. There is no refinery here that can turn out more than two hundred fifty bars a day.
- H.M.Jr: The public doesn't know that. It looks stupid for us to be paying 43¢.
- Harry, have you any feeling on it?
- White: It would be a good idea if you could take advantage of the decline and you need not offer them a reason but again I am a little afraid about giving the silver Senators the impression that you are putting the screws on. If you give them the impression you are going to fight I think they may get their back up and they may decide to stick with one another if it will be a fight. They have seventeen votes. That's my first reaction. Barkley is going to give them the impression that silver may go down as well as up.
- (H.M.Jr. calls the White House. To Operator: "Will you tap me?")
- H.M.Jr: (To White) What do you think Barkley is doing?
- White: I raised this question. I said that I understood that the price is not fixed by law ~~but~~ by Presidential Proclamation and it could be raised or lowered.
- H.M.Jr: Who said that, Barkley?
- White: I said that. But the Presidential Proclamation is setting the price independently of other considerations in the past. He said why do

- 4 -

they pay 64 $\frac{1}{2}$ ¢ when they can buy it for 43¢ and I said I don't know.

H.M.Jr: Didn't you have an answer for that?

Dr. White: No sir.

Bell: Same reason we are growing corn.

H.M.Jr: This is the way I look at it. If there was no bill pending and silver was two cents below the natural market I would drop it one cent.

Lochhead: That has been our action.

Dr.White: Are you going to give them the idea that you are going to fight it?

H.M.Jr: Simply we do it at 12 o'clock tomorrow. The chances are it will break 40¢ tomorrow. We just say the price will be 42¢

(White House phone rings)

H.M.Jr: Hello - hello Mr. President.

President: Hello Hen.

H.M.Jr: How are you?

President: Fine. What's the news?

H.M.Jr: I am here at the Treasury. The reason I am calling you at this hour is I want to give you a slant on something which I know you would just want to sleep on.

President: Yes - yes.

H.M.Jr: Silver to-day in London is 40-1/3 cents.

President: Yes.

H.M.Jr: It costs one half cent to bring it over here.

President: Yes.

H.M.Jr: We are paying 43.

President: Yes.

- 5 -

H.M.Jr: I would like to talk to you about the possibility of dropping it a cent, see? Now if there was no legislation on the hill that's what we would do. Now Barkley called up this afternoon and wanted to know if the silver Senators wanted to make a deal. He spoke to Foley. If I cut our price down to forty then the price here is twenty-six instead of twenty-three. If you would sort of let it get through your brain and give me your advice tomorrow I would appreciate it. Here it closed at forty-three - just under. It has dropped about two cents within the last few days. So the normal thing would be to drop it another cent.

Are you free around 9:30 tomorrow morning.

President: I think that's all right.

H.M.Jr: Good, I'll drop in for a minute in the morning.

President: 9:30.

H.M.Jr: Goodbye.

President: Goodbye

H.M.Jr: He thought that was a good idea but you see that gives me a chance. I wish all the rest of you would think about it. I have been thinking hard about it for a week; I think it is good ball.

Do you want to take two minutes to tell me what happened on the hill.

Hanes: This thing came so thick and fast to-day. We are studying the thing again tonight as we have to see Doughton in the morning on whether the Conference Committee will agree to these amendments.

H.M.Jr: Do you want to see me before I see the President?

- 6 -

Hanes: I will give you a memorandum tonight. It is quite long. I just dictated it and my Secretary will give it to you before he leaves and if you are not here he will send it to you at your house. In it I gave you all the changes the Committee made to-day.

H.M.Jr: Supposing I read it and we will see each other at 9.

Hanes: I think it will be ready before I go. It is just an outline on what the Finance Committee did to-day.

There is one proposal which I do think is very drastic. It was an amendment offered by Senator Byrd, allowing corporations that had failed to enter demand for refund of processing taxes to extend the time to January, 1940.

Foley: Oh, that's terrible. We have refused to approve all the private bills for that.

Hanes: We reported disapproval on that seven or eight times. We told them we were against it.

H.M.Jr: I think if you and I were together at 9 o'clock we'd have a chance to go over things.

Hanes: Barkley whispered to me, as I went out, if there is anything here you don't like we will take it out.

H.M.Jr: You must be dizzy.

Hanes: I am - very. We were six hours there; finished the reading of the bill and all of those things.

(Hanes & Gaston left the meeting)

As Hanes and Gaston were leaving the Secretary said: "You turn that silver idea over in your head - both of you. The normal thing would be to drop it a cent - that would be the normal thing."

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Hanes: O.K. - see you at 9 o'clock.

H.M.Jr: What did they do - get you off the golf links?

McReynolds: My alibi told me you were coming into the office.

H.M.Jr: I didn't ask to see you.

McReynolds: That's quite all right.

H.M.Jr: How many holes did you get in?

McReynolds: Eight. My Secretary called me. I hadn't the least idea that you would want me, nevertheless I wanted to come.

H.M.Jr: I always think the best thing on these silver and monetary things is to do business as usual. Was I right when I told the President to drop it two cents?

Lochhead: Yes.

Dr. White: If you drop it, you might explain why merely on that basis.

H.M.Jr: No, what we do normally. At 12 o'clock we get out a press release that the price is 42¢.

Dr. White: Do you explain to Pittman why you.....

Lochhead: The Dow Jones would show it every few hours and we would not have to explain it.

Dr. White: There is a strong point - they are going to say they are going to fight - the first bell of the round - round one.

Bell: What is the usual spread?

Lochhead: Roughly, one half cent. Lately it has been amounting to three quarters of a cent.

- 8 -

- Dr. White: You could boost the price.
- H.M.Jr: You can fight them one cent a day.
- Dr. White: I think that they are ready now. It is a question it seems to me.....
- H.M.Jr: The President has to decide if Neutrality is to be handled by Key Pittman. He has to make up his mind. He sleeps on a thing; he is very shrewd on things. When I see him at 9:30 he has had a chance to think it over. His Neutrality thing is more important than silver and he knows Key Pittman is Chairman.
- What is the next business after this?
- Foley: Just the tax bill.
- H.M.Jr: This bill is our business of the day or whatever they call it. It's on the calendar?
- Foley: Yes.
- Dr.White: They will talk for days; they are interested in only one thing - silver.
- Foley: But the tax bill will push them. They have it out on the calendar.
- H.M.Jr: How is the health of Carter Glass?
- Dr. White: He's dead.
- Foley: They will meet tomorrow at 11 instead of the regular time. It is taking the form of an old-fashioned filibuster.
- Dr.White: Why would they let Reynolds make a speech if that's all they had to do.
- Foley: They just want to make it appear it is a filibuster.
- Dr: White: I think with all the filibustering we are in a better position to wait until it got around that they are filibustering and then everybody will know what they are doing.

- 9 -

H.M.Jr: Key Pittman came in here sometime in the last month and said if you push up the price to seventy-seven cents I will get eighteen Senators to go to work on Adams and we will deliver him. I said thank you very much Key but the price is too high. If we begin to drop the price of foreign silver then the subsidy gets bigger and bigger and makes them really more and more ridiculous. The difference between forty-four and sixty-four - the more foreign silver drops - then sixty-four and a half looks damn sweet.

Bell: They will be bring other pressure then to get you and London.....

Dr. White: They are afraid you are going to drop to sixty-four.

H.M.Jr: And that's why - coming down on the plane my brain was rested - and that's why I doped out this move. I finally came to the conclusion that the thing was to drop it one cent tomorrow - but on this kind of thing, with all the weapons in the President's hand, nobody can make him.

Foley: You knew the Farm Bureau sent out the speeches to the Senators acknowledging the contributions to the plan.

Dr. White: He called me up the day before and.....

H.M.Jr: Ed O'Neil?

Dr. White: Ogg - and he wanted to know if there was something more - he would do it.

(Telephone conversation with summer Welles)

June 20, 1939
5:38 p.m.

35

HMJr: Hello.

Operator: All right. Go ahead.

HMJr: Hello.

Sumner Welles: Hello, Henry. How are you?

HMJr: I thought you were out at Oxon Hill entertaining the President and all the rest of the important people in the Administration.

W: Not yet.

HMJr: Not yet?

W: Did you have a good trip?

HMJr: Very. Saw my.....

W: Fine!

HMJr:son graduate.

W: Fine!

HMJr: A very happy occasion.

W: Fine! Henry, I wanted to speak to you about this Italian matter.

HMJr: Oh yeah?

W: Today I had word -- I was away myself yesterday, I only had word today, that you were thinking of issuing that notice on countervailing duties on the silk question.

HMJr: That's right.

W: Now the situation is this, your man is in Paris now prepared to go down to Italy immediately to investigate all of these questions, including silk.

HMJr: Yeah.

W: And the Italian authorities have told us that they would be willing to offer every facility for him to make the full investigation.

HMJr: Yeah.

W: Now, if you make the announcement tomorrow.....

HMJr: Yeah.

W:it's going to create exactly the effect that we wanted to avoid if we could, and my suggestion, and a very urgent one, is that we hold it up until your man could get down there and can give you a report on the ground of that.

HMJr: Well, I'm sorry, Sumner, I can't comply with your request. I've given the order and I can't back down. We've just been through exactly the same thing with the Germans and now the Germans are working very hard to find some way to correct it; we are giving them very courteous treatment, glad to discuss the thing with them; but that is after the order is out. And -- this order -- unless the President gives me formal instructions not to issue it tomorrow, why I'm going to put it into effect, and after it's in effect if the Italians want to change their ways, why we'll be very glad to listen to them.

W: Well, why do make the distinction between one and the other commodities?

HMJr: Well, we -- we don't.

W: Well, there are about seven or eight other things.

HMJr: Well.....

W: And my understanding is that this order relates solely to silk.

HMJr: Well, because that's the only one that we have complete information on, and on the others -- that we haven't.

W: Well you see, from the political standpoint you create exactly the situation that we have been doing our utmost to avoid.

HMJr: Well, I'm only interested in carrying out the law. I'm not interested in the political situation. I can't -- all I can do is to interpret the law and carry it out, and our own people, plus the Attorney General, advises me we should do this; and I -- I can't -- I can't bend the law for political reasons. I've got -- I'm a policeman. I've got to carry out the law.

- W: Well, nobody is suggesting, naturally, that you bend the law.
- HMJr: Well.....
- W: But I understood that the whole effort that we were making over a period of two weeks was to avoid this situation arising if the Italians would correct their procedure.
- HMJr: Well, that isn't my understanding. I'm sorry, old man, but this is a time -- they were given the 45 days and they have done nothing to change their methods of subsidizing the silk which they export to this country. Now they had 45 days to change their ways and they didn't choose to do so.
- W: Well, a matter of that kind, obviously, if one Government complains of the commercial policy of another Government and the second Government says, "Come and talk it over and I'll show you what I am doing," it seems to me that's about as far as you can get in that time.
- HMJr: Well, if -- if Mr. Phillips cor -- correctly reported Mr. Ciano, Mr. Ciano said he wasn't interested.
- W: Well, you remember that he said he knew nothing about it and turned him over to what amounted to the Secretary of Commerce, who was extremely interested, and the Ambassador here, as you know, I imagine you've had the memorandum, has gone into it pretty thoroughly.
- HMJr: Yeah. Well, after the order is in effect they can change it and then we can revoke the order, but I think it's a great mistake for the United States Government to tell any Government that's going to do something it -- and then when that Government doesn't change the subsidy that we should back down. And -- there's been nothing under the law which -- that the Italians have done to convince me that they are going to change their ways on -- on silk.
- W: Well, I haven't followed the conversations that the Italian Embassy has had with your people, so I'm not....
- HMJr: Well, I ---.....
- W:competent to say.

- 4 -

HMJr:I've followed it very, very carefully. We've had -- I've had the best legal advice that we have available and -- and I'm simply, as I say, -- the policeman in this case, and then I'm advised not to carry it out. And barring a written order from the President directing me not to do it, why I'm going to sign it at noon tomorrow.

W: All right. Well, you've given me ample notice.

HMJr: Well, I'm sorry. I'd like to help but I -- I -- in this case.....

W: Well, then we'll have to do the best we can. Pick up the pieces, if there are any to pick up.

HMJr: All right, Sumner.

W: All right, Henry. I'll see you soon, I hope.

HMJr: I hope so.

W: Good bye.

HMJr: Good bye.

Dr. White: (After Welles hung up) Since when is it the custom to ask us to go to Italy to investigate something? Why don't they come to us?

(The Secretary got up from his chair and strode over to the window. He had a big smile on his face).

(Still smiling) I wasn't trying to put on a show, gentlemen, but I feel ALL RIGHT.

(Very hearty laughter)

How's that, Danny?

Bell: O.K.

Foley: I have that order on countervailing duties.

H.M.Jr: You come in at one minute to two.

Foley: All we have to do is to put the date on it.

Dr.White: Before you make any such decision of sending our man in Paris to Italy I wish you would speak to my man.

Foley: The President may say something when you go over at 9:30.

H.M.Jr: There isn't any question about the thing.

Foley: He sent a reply over to Hull and Feis.

Dr. White: These fellows have plenty of guts when it comes to some Latin American country.

H.M.Jr: I told the President at lunch, "You won't lend any money to Brazil, Columbia and Cuba but you will lend it to General Franco. It just doesn't make sense to me. I want another twenty-four - forty-eight hours; I just can't understand it."

H.M.Jr: Are you fellows in a hurry? Has anybody got a dinner engagement?

Group: No sir.

(Mr. Foley hands letter dated June 20/39 addressed to the President to Secretary Morgenthau. This letter is in connection with the Spanish Silver Litigation. Copy attached.)

H.M.Jr: Incidentally, someone pointed out that the silver we bought equals just the price of \$300,000; one offsets the other. Somebody pointed it out.

Dr.White: Isn't the individual loan less than that?

H.M.Jr: Yes, but they would make payments and it would come to that.

I will take this with me myself tomorrow and give it to the President at 9:30. Have you other copies?

Foley: I sent one to Harry Hopkins, one to the Attorney General and one to Walton Moore and one to Warren Pierson.

H.M.Jr: Who are the other Chairmen?

Foley: I will give one to Ben Cohen and one for your files.

H.M.Jr: Take the one for my files and give it to Jesse Jones.

Foley: Oh no, I don't want to do that - that isn't right.

H.M.Jr: Let's get more but tomorrow we will give one to Jesse Jones and one to Ben Cohen. I don't want Jesse saying, "Why are you circularizing this town and not giving one to me". Isn't it over my signature?

Foley: No sir, I sent them out over mine.

H.M.Jr: Well that's all right, do it that way; send one to Jones and give one to Ben Cohen. You say Harry (Hopkins) will stick with us?

Foley: Yes, he's all right - said he would talk to the President about it.

Dr. White: When a country does business with another does a country.....

Foley: This Ambassador is now asking the Courts in this country to review the acts of the other regime in Spain - international law - and they are doing it by saying we are acting outside the law in concert with these communists which were not the recognized government of Spain and we were conspiring with them in the commission of unlawful acts.

H.M.Jr: Well I called up Walton Moore and said, "I want you to do me a personal favor". He said, "I don't know what it is but it is granted". First, as an American citizen and second as Chairman of the Export-Import Bank, Warren Pierson calls up Foley and says if Walton Moore gets this why can't I have that.

Foley: He says you can string me up more than the old man. He says you only have one boss to work for - I have six or seven.

H.M.Jr: If old Walton Moore gets his teeth into this thing - he is a bulldog first and foremost. That's why I sent it over to the old boy.

Foley: That's lowering the good faith of the people in the Treasury. We instructed them that payment be made by check to the Spanish Ambassador.

H.M., Jr: We still have time. What I'd love to do, but I can't without the President's permission, is to show that brief to Kintner and Alsop but I am giving it to Harry or Jake.

As to our Public Works Program, where are we?

That's all, Archie, if you want to go. What time does the price of silver come over?

Lochhead: It comes over a little after 9 o'clock.

H.M.Jr: If Mrs. McHugh or somebody is in there send me the closing sheet.

(Lochhead then left the office)

(Mr. Foley hands Secretary Morgenthau the reply to Senator Byrnes' letter)

H.M.Jr: Let George (Haas) see it.

Where is Byrnes' letter to the President?

Foley: We haven't seen it. He switched on it. We thought we were to write the letter to Mead and he said he had taken care of that and Byrnes was writing him.

McReynolds: We had a draft of a letter to write for the President but he had already talked to Jim Byrnes.

H.M.Jr: Well will this go up then? What does the President do? Does Jimmy write a letter based on this? Which has to come first?

Foley: I suppose the letter from Jimmy.

McReynolds: We were supposed to be there at 12:30; then they asked us to come at 12:15 and then they asked us to come at 2:45 tomorrow.

H.M.Jr: I will go with you when you go. I forgot the most important man of all, Danny Bell. I was slipping.

Bell: I don't think so.

McReynolds: He did the most of the work, except for Foley's boys who did the drafting.

Dr. White: I saw Danny going out at 8 o'clock last night.

H.M.Jr: Oh boy, I never would write this this way. (Second paragraph - first sentence - "I am opposed to this provision".)

Bell: It never has to the same extent as WPA.

- H.M.Jr: You don't say that.
- Foley: That's the weakness of the letter.
- H.M.Jr: This leaves the President out on a limb. You can't do that, gentlemen.
- Foley: It is particularly weak. The point is it is a hard point to make.
- H.M.Jr: I am awful glad I saw this. This isn't right.
- Bell: The PWA projects to be started were \$125,000,000. That has been set aside. They are limited projects that can be completed in a year.
- Dr. White: The Secretary takes issue with the thing here - the Public Works.
- H.M.Jr: Ickes is still talking about \$500,000,000 more and the President has not told him to keep his mouth shut. Mac, I will give you ten to one he won't do it. I know the President pretty well and I think we can accomplish the same thing and not get him into another Hopkins-Ickes argument. Why draw him into the middle of that argument. This will make the Senator from Arizona - Hayden.....
- Foley: We can make the same point by saying that appropriation should not be reduced a single cent.
- H.M.Jr: I don't know who wrote this but I am tickled to death I came in tonight. The only sentence I am taking out is "The allocation of this money to the Public Works Administration will not take care of them; it will not provide jobs for them in their urgent need."
- Dr. White: I think that you will wish to alter the next paragraph.
- H.M.Jr: But where were all you fellows when you left that in?

- 15 -

- H.M.Jr: I would say, "All right, Mr. President, you already have approved four or five million dollars but in your seventh year you say it is no good." How much has been voted for Public Works - three or four or five billion?
- McReynolds: Herbert read the draft and he said I don't want to open up this Public Works question and give them any more money.
- H.M.Jr: With all due respect to the President, he never should sign it and he can't sign it with those two sentences in.
- Dr. White: I read this thing this afternoon and I didn't see that part at all.
- Foley: We evidently pounded that out.
- H.M.Jr: Once in a while I am right.
- McReynolds: That's O.K. - you are keeping the President out of a jam. I was surprised at the way he put it when we went over there yesterday.
- The people who were here from the other departments understand thoroughly that the bill was to be up and they were to testify before the motion of the extension is taken up.
- Foley: Rural Electrification is a seven year program now.
- H.M.Jr: I see Josh Lee has a bill.
- Foley: Yes.
- Dr. White: They want seven hundred million for a two year program but did not think they would have difficulty spending much more than that in the two years but they would like seven hundred million.

- H.M.Jr: Whatever this Committee did I will have to stand by.
- McReynolds: Baldwin and Adams - if we left it the way it was it would be much easier to live up to.
- H.M.Jr: You fellows spent four hours - you have done your duty.
- Expansion of housing program. Did you take care of that.
- Foley: I did.
- H.M.Jr: He said he would. He said he would talk to Stewart MacDonald.
- Did you get that chart for me? - FHA?
- Haas: Yes.
- H.M.Jr: Where is it?
- Haas: In my office.
- H.M.Jr: Get it.
- (Haas leaves to get chart)
- Foley: This letter is addressed to the Senator in reply to his letter in which he has asked about the one hundred twenty five million dollar funds. Where do we go from here? That whole question is left in the air.
- H.M.Jr: I think there should be a sentence in there. I am not trying to dictate it. He wants it.
- Foley: We can say that right here. "I hope I may count on your assistance now at this session of the legislature".
- H.M.Jr: Whoever is the opposite member that Jimmy Byrnes is in the House - that same fellow should get a letter just like it.
- Bell: Adams is Chairman of the sub-committee.

Dr. White: Would it be possible to answer this by saying, "I am enclosing a program which I am suggesting to the different committees"?

Foley: They don't want to do that.

Bell: I take it, Mr. Secretary, this is another face-saving proposition.

Foley: This fellow Starnes - he is from Alabama and he has already introduced a Public Works bill for Ickes.

Bell: It does not review these loans.

Mc Reynolds: Woodrum?

Bell: No, Woodrum wouldn't do it.

Foley: But Starnes is the man that introduced the PWA bill in the House and he's the man Ickes is working with.

H.M.Jr: Let's raise that. Make a note to raise it.
(Haas returns with chart and shows it to the Secretary)

Haas: (Points to chart to show Secretary some item)
Two more weeks for that.

H.M.Jr: Swell.

Haas: (Pointing at another item) These are mortgages selected for appraisal.

H.M.Jr: Which is the better one?

Haas: That's the stage just before closing. They are closed already but they have another one where they are actually paying premiums.

H.M.Jr: Thank you. Well I think that cleans up for the day. Got any suggestions, Mac?

McReynolds: No sir.

Dr. White: There were two newspaper men outside and they said to me, "I hear you are drawing up a program". I made no comment.

McReynolds: Berle had his picture in the paper - in the News as the one who was drawing it up.

H.M.Jr: Who?

McReynolds: Berle. They had an article and Berle's picture as the one who's doing it.

Foley: He didn't write anything because he couldn't get anything.

Dr. White: I couldn't make that crowd out.

McReynolds: I saw Sandy after we came back from the White House and he said, "Where were you fellows? What have you done? Did it have anything to do with the spending program?" I told him it was just a meeting on routine things and he didn't bother me any more.

Dr. White: The way this is at present - I mean as far as the President's making it; he could get by without making it. Does it matter what form it takes outwardly?

H.M.Jr: I am convinced now that unless Congress should go home on the first of July - and I have a \$5.00 bill that they will be here on the 29th of July - I am convinced the President wants that in - in his attitude with me.

Dr. White: Would that be given out to the press?

Foley: What I did.....

H.M.Jr: I am glad that we did this tonight.

Foley: (Reading) "I hope I may count on your assistance in obtaining legislation at this session necessary to make this program effective".

H.M.Jr: Read it again.

Foley: "I hope I may count on your assistance in obtaining legislation at this session necessary to make this program effective".

Dr. White: That's better. You wouldn't want to go a little further?

McReynolds: That's as far as he can go with a fellow like Jimmy.

Dr. White: You can work that in in the earlier paragraph.

Foley: The types of projects I have in mind are listed at the bottom.

Dr. White: These projects are in addition to programs already submitted.

H.M.Jr: Who is this Congressman he is seeing?

Foley: Starnes of Alabama - Joe Starnes.

Dr. White: When an important message like this goes to a minor.....

Bell: He isn't a minor. As I understood it the President had it in mind when Barkley was there. Now Byrnes shows up in the meantime and he switches to Byrnes.

Foley: Byrnes is the better man than Mead because he carries more weight.

H.M.Jr: That's right - that's what Mrs. Morgenthau says.

How does it read now?

Foley: I just added, "These programs are in addition to those already submitted".

H.M.Jr: George (Haas) have Larry (Seltzer) go out to Detroit and then have him go on to Chicago; he can send me those reports - International Harvester, Montgomery Ward.....

Haas: Sears Roebuck.

H.M.Jr: Yes.

Foley: We have rewritten the legislation; we have put it all in one bill so we won't have a lot of bills.

- 20 -

H.M.Jr:

I am glad I came in tonight. It was nice and cool in here. I want to thank all you gentlemen for staying. That's a good day's work.

Final draft - 6/30/31

Dear Senator Byrnes:

I have your letter of today in which you ask my position as to the provision of the "Work Relief and Public Works Appropriation Act of 1939" as passed by the House of Representatives (H.J. Res. 326) which would allot \$125,000,000 to the Public Works Administration for loans and grants for non-Federal public works.

I am opposed to this provision. It means simply that 165,000 men who are badly in need of work will have to be dropped from the Works Progress Administration rolls; men who in the great majority of cases are the sole support of families whose subsistence depends on this slender income. The allocation of this money to the Public Works Administration will not take care of them; it will not provide jobs for them in their urgent need. What will happen to most of them is that they will be forced onto the already overburdened direct relief rolls of the cities, towns and counties.

I believe in encouraging additional needed public works of various kinds, but I do not think the device employed in the House Bill is the right way to attack the problem. I have a different suggestion to make. I think there is a way to provide Federal assistance in the financing of public enterprises that will give added employment without stripping the work-relief budget of badly needed funds and without additional heavy direct charges on the Federal budget.

- 2 -

At my suggestion, various departments and agencies of the Government have canvassed the situation to find projects which will meet genuine public needs - projects that can be put under way quickly and will be self-liquidating. They have found a variety of such projects which have stood the test of careful scrutiny and which hold the promise of a far greater volume of productive expenditure and employment than could be provided by the diversion of \$125,000,000 of work-relief funds. All can be financed through the issuance of guaranteed securities by Government agencies with good prospect of repayment of both principal and interest through earnings.

I have caused estimates to be made of the amounts of idle funds that can thus be turned into productive, revenue-earning channels. The estimates are, I believe, conservative. The projects and types of projects I have in mind are listed below, together with the sums which, it is estimated, can be put to work to provide employment for men and machines in diverse lines of industry within the coming fiscal year:

	Program duration <u>(years)</u>	Total amount of <u>program</u>	Loan disbursements fiscal year <u>1940</u>
I. Federal Works Agency -			
(a) Non-Federal public works:	2	\$350M	\$150M
<p>Projects of the self-financing type to be financed by loans at sufficiently low rates of interest to stimulate borrowing for this purpose. The type of projects would be water-works, sewage disposal plants, bridges, hospitals, and other municipal projects.</p>			

- 3 -

	Program duration <u>(years)</u>	Total amount of <u>program</u>	Loan disbursements fiscal year <u>1949</u>
(b) Express Post-Roads: Self-liquidating toll roads, bridges, high-speed highways and city by-passes.	4	\$750M	\$150M
(c) Railroad Equipment: Authority to purchase all types of railroad equipment which is to be leased to railroads at a rate which will return the cost to the United States over a period of years. Carriers would have the option to buy the leased equipment.	2	750	250
II. Department of Agriculture -			
(a) Rural Electrification: Expansion of present rural electrification program to reach a maximum of $1\frac{1}{2}$ million rural families not now receiving electric service nor likely to receive such service in the near future.	7	860	20
(b) Farm Tenant Program: Expansion of the self-liqui- dating portion of the program of the Farm Security Administration for tenant farm purchases, re- habilitation program, loans for minor improvements and repairs, loans to resettlement cooperatives, and loans for water facilities.	2	500	350
III. Foreign Loans -			
Extension of short and long- term loans to foreign governments for the purpose of promoting our foreign trade. The proceeds of these loans would be spent in the United States and would be used for development and reconstruction purposes.	2	500	250
TOTAL		\$3,210M	\$1,170M

- 4 -

This program would stimulate a greater amount of productive expenditure than is indicated by the total estimated loan disbursements of \$1,170 millions for the fiscal year 1940. Some parts of it will involve additional local expenditures not financed by Federal funds, and other indirect expenditures will be generated.

To give effect to the projects outlined above, additional legislation will be necessary. As a part, however, of the whole program for stimulating productive employment, I include two other proposals which will not require legislation in addition to that already enacted or pending.

The first of these is the expansion of the public housing program of the United States Housing Authority through extending its borrowing power by \$800,000,000. I have already indicated my approval of this legislation.

The second supplementary proposal is to cause a further stimulation of private home construction by lowering the maximum interest rates on loans insured through the Federal Housing Administration. I have already discussed this matter with the Administrator.

I hope I may count on your assistance in obtaining legislation necessary to making this program effective.

Sincerely,

Honorable James F. Byrnes,
United States Senate.

Fourth draft 54
6-20 '37

Dear Senator Byrnes:

I have your letter of today in which you ask my position as to the provision of the "Work Relief and Public Works Appropriation Act of 1939" as passed by the House of Representatives (H.J. Res. 326) which would allot \$125,000,000 to the Public Works Administration for loans and grants for non-Federal public works.

I am opposed to this provision. It means simply that 165,000 men who are badly in need of work will have to be dropped from the Works Progress Administration rolls; men who in the great majority of cases are the sole support of families whose subsistence depends on this slender income. What will happen to most of these men is that they will be forced onto the already overburdened direct relief rolls of the cities, towns and counties.

I believe in encouraging additional needed public works of various kinds. But I have a different suggestion to make. I think there is a way to provide Federal assistance in the financing of public enterprises that will give added employment without stripping the work-relief budget of badly needed funds and without additional heavy direct charges on the Federal budget.

At my suggestion, various departments and agencies of the Government have canvassed the situation to find projects which will meet genuine public needs - projects that can be put under way quickly and

will be self-liquidating. They have found a variety of such projects which have stood the test of careful scrutiny and which hold the promise of a great volume of productive expenditure and employment. I believe this is a much sounder method of dealing with the problem than the diversion of \$125,000,000 of work-relief funds. All can be financed through the issuance of guaranteed securities by Government agencies with good prospect of repayment of both principal and interest through earnings.

I have caused estimates to be made of the extent of the field for investment of funds in revenue earning channels on a self-liquidating basis. The estimates are, I believe, conservative. The types of projects I have in mind are listed below, together with the sums which, it is estimated, can be put to work to provide employment for men and machines in diverse lines of industry within the coming fiscal year. These projects are in addition to programs already submitted.

	<u>Program duration (years)</u>	<u>Total amount of PROGRAM</u>	<u>Loan disbursements fiscal year 1940</u>
I. Federal Works Agency - (a) Non-Federal public works: Projects of the self-financing type to be financed by loans at sufficiently low rates of interest to stimulate borrowing for this purpose. The type of projects would be water-works, sewage disposal plants, bridges, hospitals, and other municipal projects.	2	\$350M	\$150M

- 3 -

	Program duration <u>(years)</u>	Total amount of <u>program</u>	Loan disbursements fiscal year <u>1949</u>
(b) Express Post-Roads: Self-liquidating toll roads, bridges, high-speed highways and city by-passes.	4	\$750M	\$150M
(c) Railroad Equipment: Authority to purchase all types of railroad equipment which is to be leased to rail- roads at a rate which will return the cost to the United States over a period of years. Carriers would have the option to buy the leased equipment.	2	750	250
II. Department of Agriculture -			
(a) Rural Electrification: Expansion of present rural electrification program to reach a maximum of 1½ million rural families not now receiv- ing electric service nor likely to receive such service in the near future.	7	460	20
(b) Farm Tenant Program: Expansion of the self-liqui- dating portion of the program of the Farm Security Adminis- tration for tenant farm purchases, rehabilitation program, loans for minor im- provements and repairs, loans to resettlement cooperatives, and loans for water facilities.	2	500	250
III. Foreign Loans -			
Extension of short and long- term loans to foreign govern- ments for the purpose of promot- ing our foreign trade. The proceeds of these loans would be spent in the United States and would be used for development and reconstruction purposes.	2	500	250
TOTALS		\$3,210M	\$1,170M

- 4 -

This program would stimulate a greater amount of productive expenditure than is indicated by the total estimated loan disbursements of \$1,170 millions for the fiscal year 1940. Some parts of it will involve additional local expenditures not financed by Federal funds, and other indirect expenditures will be generated.

To give effect to the projects outlined above, additional legislation will be necessary. As a part, however, of the whole program for stimulating productive employment, I include two other proposals which will not require legislation in addition to that already enacted or pending.

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The second supplementary proposal is to cause a further stimulation of private home construction by lowering the maximum interest rates on loans insured through the Federal Housing Administration. I have already discussed this matter with the Administrator.

I hope I may count on your assistance in obtaining legislation at this session necessary to making this program effective.

Sincerely,

Honorable James F. Byrnes
United States Senate.

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Dear Mr. President:

I am enclosing documents relating to litigation now pending in the United States District Court for the Southern District of New York brought in the name of the Bank of Spain against various agencies which assisted the Treasury Department in the purchase of silver from the then-recognized Loyalist Government of Spain.

You will recall at our luncheon meeting on Monday that I promised to send you these in connection with your consideration of the proposed extension of credit on the part of the Export-Import Bank to the present Spanish Government to aid in financing the export of surplus cotton.

Faithfully yours,

The President

The White House

Enclosures

1. Statement on Spanish Silver Litigation
2. Excerpts from the Briefs filed by Sullivan & Cromwell (the More vicious portions)
3. MEMORANDUM ON BEHALF OF PLAINTIFF - Banco de Espana v. Federal Reserve Bank of New York.
4. REPLY MEMORANDUM ON BEHALF OF DEFENDANTS IN SUPPORT OF MOTIONS FOR SUMMARY JUDGMENT OR IN THE ALTERNATIVE FOR DISMISSAL.

EHF: jv 6/20'39

Spanish Silver Litigation

Pursuant to the provisions of the Silver Purchase Act, the Secretary of the Treasury, acting with the specific approval of the President, purchased on five separate occasions during 1938 from the then recognized Government of Spain approximately 35 million ounces of silver at a price of \$15,000,000. Negotiations for the sale of such silver were carried on by the Secretary of the Treasury and the Ambassador of the then recognized Loyalist Government. The silver came from Barcelona, Spain, the seat of the Loyalist Government. Pursuant to the written contracts of purchase approximately 95% of the purchase price or \$14,250,000 was paid to Spain upon delivery of the silver, the final 5% or \$750,000 to be paid when the exact silver content was determined. Payment on behalf of the Spanish Government was received by the Spanish Ambassador in Washington in the form of Treasurer's checks which the Ambassador cashed at the Treasury Department.

At the time these purchases were made certain persons claiming to represent the Bank of Spain located at Burgos, the seat of the Franco government, notified this Government of their claim that the silver was taken from the Bank of Spain in violation of Spanish law. They thereupon brought law suits against the Superintendent of the United States Assay Office at New York, where the silver was located, against the United States Shipping Lines, the transporter of the silver, and the Federal Reserve Bank of New York, which acted as fiscal agent of the United States in connection with the first shipment of silver. These suits are for the recovery of the silver thus acquired by the United States or for \$15,000,000 in damages.

The plaintiff charges in memoranda filed by it with the Court that the silver of the Bank of Spain was stolen in Barcelona, not by government officials, but by communist group leaders. He believes that they used Mr. de los Rios the Spanish Ambassador to effect the sale and caused him to take payment in cash which was at once diverted from official channels by being turned over to secret agents in the United States." The plaintiff insinuates that the United States Government conspired with the Spaniards in illegal acts.

The present Spanish Ambassador representing the newly recognized Spanish Government has filed with the Court a document called a "suggestion" which states in effect that the present Spanish Government desires our courts to re-examine the question of the validity of the acts of the predecessor Spanish Government and its officials.

The Government's reply memorandum, prepared by the Department of Justice and former Secretary of State Bilson who is acting as special counsel for the Government, characterizes the memorandum filed by the Bank of Spain in the following manner:

"In its memorandum on this notion the plaintiff not only attacks the good faith and honesty of the Ambassador and other officials of the Spanish Government, but also insinuates that our own Government conspired with them in illegal acts." (p. 8 of Government's reply memorandum)

The Government states at p. 15 of its reply memorandum:

"Plaintiff has made no use of the contention except as a basis for its unworthy and unjustified accusation that payment was made to the Spanish Ambassador on behalf of his Government without any authentic authority and constituted in fact a wrongful diversion, conspired at and made possible by the United States."

Any attached statement contains quotations from the memoranda of the plaintiff which are illustrative of its attack on the honesty of the Spanish and American officials that negotiated these sales.

Banco de Espana
V.
Federal Reserve Bank of New York

In the United States District
Court for the Southern
District of New York.

The following are excerpts from the main memorandum filed by Bank of Spain

"During the latter phase of the late civil war in Spain, certain persons in Barcelona appear to have desired to obtain funds outside of Spain. The identity of these persons is presently unknown. It may be that they were those holding public office, as defendants would claim. It is equally possible, and there is evidence to suggest, that they were communistic and anarchistic group leaders who anticipated defeat and expulsion from Spain." p. 4.

* * * * *

"It is observed, however, on inspection of the cases that they were lettered 'B E 5', to indicate that the silver was that of 'Banco de Espana' and that the silver was in the form of 5 peseta coins. Also, that the boxes bore the letters 'F R B' to indicate the originally intended consignee, Federal Reserve Bank, and bore seals with the initials 'U G T' to indicate Union General de Trabajadores (General Union of Workers), a Spanish socialist-communist organization and the initials 'C N T' to indicate Confederacion Nacional de Trabajadores (National Conference of Workers), a Spanish anarcho-syndicalist organization." p. 10.

* * * * *

"Two facts, as to which there is competent evidence, are, first, an eye-witness has testified, as to the silver containers which he saw, that they bore the seals and stamps of the Bank of Spain—concededly the source—and of two Spanish communist organizations, which may well have been the despoilers of the Bank.

"The second fact is that the proceeds of the silver—many millions of dollars—were paid over in cash to Mr. de los Rios. The handling of the transaction in this way makes it impossible to affirm or deny that the proceeds were used for the benefit of the Spanish Government. One certain thing is that no part of the proceeds went to the Bank of Spain. In the absence of some legitimate explanation of this abnormal procedure—and the affidavits on behalf of defendants suggest none—suspicion properly attaches to the status and motives of those who instructed Mr. de los Rios to avoid normal banking and checking practices in relation to such vast sums.

"Within the United States the negotiations were, superficially at least, handled by an official of the then recognized Barcelona Government. This, if other surrounding circumstances were normal, might warrant some inference that the taking of the silver in Barcelona was official. But the strength of any inference as to the official character of the seizure is clearly weakened by the nature of the seals on the containers and by the use of cash. It is further weakened by the fact, which is a matter of public knowledge, that civil conditions in Barcelona were chaotic and that de facto power was largely exercised

by powerful anarchist and communist organizations which made Barcelona their headquarters. Desperate conditions breed expedients which would not normally be resorted to." pp. 15-16. (double underscoring added.)

* * * * *

"The defendants, and the United States, in whose interests the defendants claim to have acted, are not in the position of innocent holders or purchasers of the silver." p. 17.

* * * * *

"The doctrine that a domestic court should not inquire into the validity of the acts of a foreign sovereign within its own territory should not and cannot come into play unless some sovereign act is involved. Obviously, if a foreigner holding public office becomes a thief or a murderer, he cannot be heard to say that comity prevents our courts hearing this case." p. 41.

* * * * *

"As reasons for our attitude in this matter, we may point out that conditions in Barcelona which prevailed during the period in question were notoriously those of dissension and confusion, of expediency and unscrupulousness.

"The New York Times of February 19, 1939 reported that 'Azana bitterly had reproached Premier Negrin for having 'faked' his signature on a decree.' It is the signature of this same Azana which is alleged to give validity to the 'decree' of April 29, 1938. The New York Times statement, of course, is not evidence, but it explains our state of mind and plaintiff's insistence that its rights should not be cut off by an alleged 'decree' which has not been proved as required by law." p. 49.

* * * * *

"It is, of course, clear that a legislative enactment authorizing a Minister of Finance to borrow money does not authorize him to steal it. Equally a law authorizing a Minister of Finance to appropriate property is not authority for a private individual to do so." p. 53.

* * * * *

"The only trustworthy clew that is afforded as to what took place in Barcelona is that derived from physical inspection of the packages which arrived in New York. An eye witness testifies that the boxes in which the second shipment arrived bore various sets of stamps or markings. Of these the first was 'B E 5', 'B E' standing for 'Banco de Espana' and '5' for the fact that the contents were 5 peseta coins. There were also the initials 'U G T' to indicate Union General de Trabajadores, a Spanish socialist-communist organization, and the initials 'C N T' to indicate Confederacion Nacional de Trabajadores, a Spanish anarcho-syndicalist organization. There were furthermore the letters 'F R B' to indicate the Federal Reserve Bank.

"These markings show that 'B E', Bank of Spain, is, as admitted, the source; 'F R B', Federal Reserve Bank, is, as admitted, the originally intended consignee of the silver; and 'U G T' and 'C N T' are the powerful communist organizations in Barcelona which may well have been the intermediary between the Bank of Spain and the Federal Reserve Bank.

"The foregoing is obviously speculation, but we submit that if the defendants, who are making these motions, elect not to disclose that which was peculiarly within their ability to disclose and leave the matter to speculation, there is as good a basis for guessing that the silver was taken by the communist organizations as that it was taken by Government officials." p. 55.

The following excerpt is from the answering memorandum filed by the Bank of Spain:

"We believe that when the full facts come out they will show that the silver of the Bank of Spain was stolen in Barcelona, not by government officials, but by communist group leaders. We believe that they used Mr. de los Rios to effect the sale and caused him to take payment in cash which was at once diverted from official channels by being turned over to secret agents in the United States. When the Bank of Spain brought suit and the United States Treasury and defendants' counsel asked for proof of acquisition by the Spanish Government of title, we believe that these persons in Spain concocted and sent over a paper record which was in good faith relied upon by defendants' counsel, but which, when it came to the test, they could not prove to be genuine.

"Such an explanation alone seems to explain such admitted facts as:

-
- "1. The fact that the containers of silver bore the markings of the two Spanish societies 'U.G.T.' and 'C.N.T.'"
 - "2. That Mr. de los Rios took the purchase price, several millions of dollars, in cash.
 - "3. That defendants' counsel, with all the resources at their command, have been unable, for nearly a year, to prove the authenticity of the paper record sent them.
 - "4. That the sale concededly violated a statute which prohibits the alienation of the Bank's silver reserves." pp. 17-18.

JUN 10 1939

My dear Mr. Chairman:

The attention of the Treasury Department has been called to H. R. 2888, A Bill "To amend the United States Housing Act of 1937, and for other purposes", which has been referred to your Committee. A similar bill, S. 591, was introduced in the Senate, and on May 22 the Senate Committee on Education and Labor reported S. 591 favorably with amendments (Report No. 463).

Section 1 of H. R. 2888 would authorize the United States Housing Authority to enter into additional contracts which will provide for annual contributions aggregating not more than \$45,000,000 per annum. Under Section 2 the Authority is authorized to issue and sell its obligations in an amount not to exceed \$800,000,000 in addition to the amount of such obligations heretofore authorized, namely, \$500,000,000. Section 3 would amend Section 2(10) of the United States Housing Act of 1937 defining the going Federal rate of interest. Section 4 of the Bill would permit national banks and State member banks

By hand
File to Mr. Thompson

of the Federal Reserve System to underwrite or purchase bonds of public housing agencies which are secured by a pledge of payments under annual contributions contracts with the Authority, without regard to the limitations and restrictions provided in section 5136 of the Revised Statutes of 1873, as amended (U.S.C., Sup. IV, title 12, sec. 24).

The Treasury Department is in sympathy with the proposal to extend and broaden the program of the United States Housing Authority. The low-rent housing program not only furnishes safe and sanitary dwelling facilities for the lowest income groups and eliminates the slums in which they now live, but in addition it serves as a much needed stimulus for the construction industry. Accordingly, the Department recommends that H. R. 2688, with the exception of section 4, be enacted.

Section 4 of H. R. 2688 provides that "The last sentence of paragraph Seventh of section 5136 of the Revised Statutes, as amended, is amended by inserting before the colon, after the words 'obligations of national mortgage associations', a comma and the following: 'or such obligations of any public housing agency (as defined in section 2(11) of the United States Housing Act of 1937, as amended) as are secured by a pledge of payments under an annual contributions contract between such agency and the United States Housing Authority'".

- 3 -

Paragraph Seventh of section 5136 of the Revised Statutes of 1873, as amended (U.S.C., Sup. IV, title 12, sec. 24) provides in general that national banks (the restrictions are also extended to State member banks of the Federal Reserve System by section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 335)) shall not deal in securities or stocks for their own account or underwrite securities or stock, but permits national banks to purchase for their own account "investment securities", under limitations and restrictions prescribed by the Comptroller of the Currency, provided that a bank shall not hold for its own account the investment securities of any one obligor or maker in excess of 10 per centum of the bank's unimpaired capital stock and 10 per centum of its unimpaired surplus. Paragraph Seventh provides further that the limitations and restrictions contained therein, as to dealing in, underwriting and purchasing of investment securities, shall not apply to certain types of obligations, including "obligations which are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States".

If the obligations of public housing agencies are "investment securities" under section 5136 of the Revised Statutes and the regulations of the Comptroller of the Currency issued pursuant thereto, na-

- 4 -

tional banks could under existing law purchase for their own account obligations of a local housing agency in an amount up to 10 per centum of the unimpaired capital and unimpaired surplus of the bank. The effect of the amendment to section 5136, proposed by section 4 of H. R. 2655, would be to authorize national banks (and State member banks of the Federal Reserve System, if not prohibited by State law) to underwrite, and to purchase for their own account, obligations of a public housing agency in unlimited amounts, since such obligations would be exempted from the restrictions contained in section 5136.

It may be contended that obligations of public housing agencies should be exempted from the restrictions in section 5136 because they are of the same character as certain obligations insured by the Federal Housing Administration pursuant to section 207 of the National Housing Act, which are, at present, exempted from the restrictions in section 5136. The mortgages insured by the Federal Housing Administration pursuant to section 207 of the National Housing Act, as amended (U.S.C., Sup. IV, title 12, sec. 1715) are mortgages covering residential properties held by public or private agencies, for the purpose of rehabilitation of slum or blighted areas or providing housing for rent or sale, the rents or sales being regulated under housing laws or by the Federal Housing Administrator, and such mortgages may involve a principal obligation as large as \$5,000,000. It is these obligations which are expressly excepted from the limitations and restrictions con-

- 5 -

tained in section 5136 of the Revised Statutes by the language therein covering "obligations which are insured by the Federal Housing Administrator, pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States". The effect of that exception is to remove obligations insured under section 207 of the National Housing Act from the restrictions contained in section 5136, including the 10 per centum limit on purchases by national banks, and further to remove them from any restrictions contained in regulations issued by the Comptroller of the Currency pursuant to section 5136.

In the opinion of this Department bonds of public housing agencies are not of the same character, in so far as security is concerned, as obligations insured pursuant to section 207 of the National Housing Act. In case of default by the mortgagor under a mortgage insured pursuant to section 207, the mortgagee is entitled to exchange the mortgage for debentures which are fully and unconditionally guaranteed as to principal and interest by the United States. It should be noted that section 5136 of the Revised Statutes excepts obligations insured under section 207 of the National Housing Act, provided that "the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States." (Underscoring supplied) On the other hand, bonds of public housing agencies, which it

- 6 -

is proposed, by section 4 of H. R. 2888, to except from the restrictions contained in section 5136 of the Revised Statutes, "are secured by a pledge of payments under an annual contributions contract between such agency and the United States Housing Authority".

It would seem clear that a pledge of payments under an annual contributions contract, made pursuant to section 610 of the United States Housing Act of 1937, as amended (U.S.C., Sup. IV, title 42, sec. 1410), would not be security equal in value to debentures "guaranteed as to principal and interest by the United States". The bonds of public housing agencies are not obligations of the United States, nor are they guaranteed as to the payment of principal or interest by the United States. Section 10 of the United States Housing Act of 1937, as amended (U.S.C., Sup. IV, title 42, sec. 1410) provides that the United States Housing Authority may make annual contributions to public housing agencies to assist in achieving and maintaining the low-rent character of their housing projects and the faith of the United States is pledged to the payment of all annual contributions contracted to be made by the Authority. Section 10 provides, further, that payments under annual contributions contracts shall be pledged as security for any loans obtained by public housing agencies to assist in the development of the housing projects to which the annual contributions relate, provided that annual contributions shall first be used to apply toward the payment of interest or principal as the same matures on any loan due to

- 7 -

the Authority from the public housing agencies. Thus, under existing law annual contributions estimated and paid by the Authority are pledged toward the payment of public housing agencies' bonds, after matured principal and interest on loans owing to the Authority have been paid. This constitutes the basic security for the payment of such bonds, and it is understood that under the form of contract which the Authority contemplates entering into with public housing agencies it is intended that the annual contributions will be calculated in such a manner as to be sufficient to amortize the principal and interest on the public housing agencies' bonds.

Section 10 of the United States Housing Act of 1937, as amended, in addition to authorizing the Authority to determine the amount of the annual contributions payable to each public housing agency to assist in achieving and maintaining the low-rent character of the projects, gives the Authority very broad powers to modify a contract covering annual contributions and to reduce the amount of or terminate such contributions. That section provides that where a contract for annual contributions is made for a period exceeding 20 years, the Authority shall reserve the right to reexamine the status of the housing project involved at the end of 10 years and every 5 years thereafter. If the Authority is of the opinion that changed conditions so warrant it may modify the amount of subsequent annual contributions payable to assist in maintaining the low-rent character of the project.

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Section 15(3) of the United States Housing Act of 1937, as amended (U.S.C., Sup. IV, title 42, sec. 1415(3)) provides that the Authority shall retain the right, in the event of a substantial breach of the conditions contained in a contract with a public housing agency providing for the maintenance of the low-rent character of the housing project involved, to reduce or terminate the annual contributions payable under such contracts. Also, in the event of the acquisition of such project by a third party the annual contributions shall terminate.

The uncertain character of the annual contributions as security for, or a source of funds for the amortization of the principal and interest of, bonds of public housing agencies is indicated by the following language in the report of the Senate Committee on Education and Labor relative to S. 591 (Report No. 463):

"The annual contributions are intended to bridge the gap between the economic rent which is the rent which would otherwise have to be charged for this decent new housing (in order to meet debt service, maintenance, and operating expenses) and the social rent, which is the rent that families now living in the slums can now afford to pay.

"Under the terms of the present act, the annual contributions contracts, whenever made for a period exceeding 20 years, will be reviewed at least at the end of 10 years and every fifth year thereafter, in accordance with the statutory provisions that they be modified as warranted by changed economic conditions. The contributions, through such modifications, can never be raised above the maximum rate at which

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annual contributions may be contracted under the act. Although debt-service requirements (because necessarily fixed at the very outset for the life of the project) present a condition that will not change, other conditions will change, such as price or wage levels. Every analysis of normal rent and income trends in the past, and every reasonable estimate of probable trends in the future, reinforces the conviction that the annual contributions necessary to achieve rents within reach of 'low-income families,' and to insure the financial stability of housing projects, will gradually decline. For this reason it must not be presumed that the annual contributions to be contracted for will last for 60 years." (pp 3-4) (Underscoring supplied)

Thus, under existing law the basic security for the bonds of public housing agencies is the annual contributions payable by the Authority to such agencies, which contributions are for the purpose of maintaining the low-rent character of the projects. Under the law the Authority has the power to change a contract providing for annual contributions and to reduce or terminate entirely such annual contributions. Thus, the basic security for these public housing agencies' bonds could be drastically altered.

As already pointed out above, if section 5136 were amended as proposed in H. R. 2656, not only would national banks be authorized to purchase for their own account obligations of public housing agencies without limit, but they would also be authorized to underwrite such obligations in unlimited amounts. It should be remembered that, in enacting the Banking Act of 1933, it was clearly the intention

- 10 -

of Congress to divorce the commercial banking business from "the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities". (Section 21 of the Banking Act of 1933, as amended (U.S.C., Sup. IV, title 12, sec. 378)) In its report on the Banking Act of 1933, the Senate Committee on Banking and Currency stated:

" * * National banks were never intended to undertake investment banking business on a large scale, and the whole tenor of legislation and administrative rulings concerning them has been away from recognition of such a growth in the direction of investment banking as legitimate. Nevertheless it has continued; and a very fruitful cause of bank failures, especially within the past three years, has been the fact that the funds of various institutions have been so extensively 'tied up' in long-term investments." (Senate Report No. 77, 73rd Cong., 1st Sess., p. 8)

If the bonds of public housing agencies were exempted from the prohibition against underwriting contained in section 5136, the result might be the formation of a syndicate, including a number of national banks, for the purpose of underwriting these bonds. It is believed that it would not constitute a desirable tendency for national banks to participate in such an underwriting arrangement.

In view of all the facts, it is the opinion of the Treasury Department that it would be unwise to increase the existing exceptions to section 5136 of the Revised Statutes, by exempting from the restrictions

and limitations contained therein the obligations of public housing agencies. Accordingly, this Department is of the opinion that section 4 should not be enacted.

The Treasury recommends that H. R. 2685, with the exception of section 4, be enacted.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your Committee.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Henry B. Steagall
Chairman, Committee on Banking
and Currency,
House of Representatives.

TELEGRAM SENT

June 20, 1939

11 a.m.

AMEMBASSY

LONDON (ENGLAND)

460.

The Secretary of the Treasury requests that he be advised by cable of individual shipments of silver of 50,000 ounces or more from London to New York certified by the Embassy from June 12. Please cable similar information daily until further notice.

HULL

RECEIVED

JUN 22 1939

TREASURY DEPARTMENT
Office of the Secretary
Circular 101 of 1938

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 20, 1939, 5 p.m.

NO.: 1166

FOR THE TREASURY DEPARTMENT.

On the exchange market today there were no important changes, with trading quiet. A moderate amount of dollars and sterling was obtained by the fund. Yesterday and today a substantial amount of sterling was purchased by the Belgian control. On the security market there was a more cheerful tone, with improvement in most securities. There was a gain of around 50 centimes in rentes.

WILSON.

EA:LWW

RECEIVED

JUN 21 1939

TREASURY DEPARTMENT
RECEIVED JUN 21 1939
U.S. DEPARTMENT OF THE TREASURY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: June 20, 1939, 4 p.m.

NO.: 527

Reference is made to my telegram No. 506 of June 16.

CONFIDENTIAL.

During a conversation which I had with von Wedel of the Reichsbank yesterday, he gave me the following information about the new Reichsbank law which will make it necessary for foreign stockholders of the institution to exchange their shares for non-voting preferred shares of the Golddiscountbank - which is a subsidiary of the Reichsbank - sometime between the fifteenth of August of this year and the first of April next year. The Government has not yet issued regulations for the execution of this share conversion.

As far as he knew, von Wedel told me, there were very few American shareholders of the Reichsbank. He said he would try to give us information as to the total amount of those held by Americans, although he claimed that was strictly confidential information. Von Wedel believed that American stockholders would be completely satisfied with the arrangement, as they would get the same amount of dividends on the par value of their investment

- 2 -

vestment, 8 percent, which is what they received in recent years. He said that they would be fully transferable dividends. Should American investors not be satisfied, he said, they would only have to submit ^{themselves} to the Reichsbank and say that the terms of the conversion were not satisfactory, and the Reichsbank would then consider whether they could make some other arrangement.

No mention was made by Von Wedel of what other arrangements might be made, but the question is raised by the statement outlined above as to whether the Reichsbank might not permit redemption of shares held by Americans and allow part and possibly eventually all of the proceeds to be transferred. The amount of shares held by Americans is small, it is understood. The Reichsbank directorate on various occasions in the past has given evidence that it wanted to keep its good relations and credit standing with banking and investment circles in the United States.

The press states that some 35 million marks of the 150 million mark share capital of the Reichsbank are held by foreigners.

According to von Wedel the meeting of Reichsbank stockholders which is scheduled for June 30 will be a pure formality. He said that the proposed share offer would be ratified without any changes being made.

It is requested that this telegram be repeated to Treasury as Heath's No. 38.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 21, 1939, 8 p.m.

NO.: 1175

FOR THE TREASURY DEPARTMENT.

Today the security and exchange markets were quiet and inactive. There were no important changes on these markets. A substantial amount of sterling was obtained by the French fund.

WILSON.

RECEIVED

JUN 22 1939

TREASURY DEPARTMENT
OFFICE OF THE ASSISTANT
SECRETARY FOR INTERNATIONAL AFFAIRS

EA:LWW

CJ

GRAY

LONDON

Dated June 21, 1939

Rec'd 2:55 p.m.

Secretary of State,
Washington.

868. June 21, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Replying to your 460, June 20 11 a.m., silver shipments invoiced from June 12th to 21st inclusive totaled 1,086,103.75 fine ounces and 540,278.63 standard ounces total value \$367,267.22 plus pounds 940,746.18 shillings 9 pence consisting of anglo metal to American metal 300,123.50 fine ounces price 42.31 cents per fine ounce by QUEEN MARY; 100,061.40 fine ounces price 41.97 cents per fine ounce; 150,021 fine ounces price 42.51 cents per fine ounce; 150,002.60 fine ounces price 42.31 cents per fine ounce by MANHATTAN; 169,900 fine ounces price 41.83 cents per fine ounce by MAURETANIA. Mocatta and Goldsmid to Guaranty Trust 216,065.12 standard ounces price 20 3/16 pence by MAURETANIA; same to Irvington Smelting and Refining 215,995.25 fine ounces price 19 7/8 pence per standard ounce by AQUITANIA;

Sharps

-2- #868, June 21, 6 p.m., from London

Sharps and Wilkins to Handy and Harley 107,797.93 standard ounces price 19 3/4 pence by MAURETANIA; same to Guaranty Trust 118,054.43 standard ounces price 19 3/4 pence; 118,361.15 standard ounces price 19 3/8 pence by AQUITANIA.

Press quotes rumors from New York of probabilities (a) repeal of silver act, (b) cessation of purchase of foreign silver (c) reduction of buying price for foreign silver, with the opinion that (c) is the most likely. Einzig in Lombard Street column of FINANCIAL NEWS points out that continuance of purchase of foreign silver now helps Japan whose accumulations are substantial while China's available reserves are largely exhausted. Some market operators expect no further support from arbitrageurs until future policy is known since the last ship to reach New York before June 30 has now sailed. The price at today's fixing was 19 pence and the turnover was not large.

CSB

RECEIVED

JUN 21 1940

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

CJ

GRAY

LONDON

Dated June 21, 1939

Rec'd 3:03 p.m.

Secretary of State,
Washington.

870, June 21, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

As yesterday the British fund has not appeared to operate in spot or forward dollars, but in contrast to yesterday when the fund gave about 120 of the 186 bars dealt in and 60 bars were married, today's gold dealings at the fixing were all in market gold, a big seller having appeared. Of the 119 bars dealt in 50 were married.

Sterling was weak on reports from Tientsin but the amount of business was small such pressure as there was being largely counteracted by the demand for dollars arising from the gold dealings.

KENNEDY

CSB

RECEIVED

JUN 21 1939

THE TREASURY DEPARTMENT
Office of the Secretary
Federal Reserve Bank of New York

JUN 21 1939

My dear Senator:

Reference is made to your letter of May 25, 1939, relative to S. 591, A Bill "To amend the United States Housing Act of 1937, and for other purposes".

After extended consideration the Treasury Department has changed its proposed letter to the Director of the Bureau of the Budget relative to S. 591, in order to make a positive recommendation that S. 591, with the exception of section 4 thereof, be enacted.

The amendment to section 5136 of the Revised Statutes, proposed by section 4, has been carefully considered by the officials in the Treasury Department responsible for the supervision of national banks. Although the Treasury is sympathetic to the housing program and does not desire to embarrass any necessary and appropriate expansion of that program, it is of the opinion that the duty to protect the soundness of the national banking system obligates the Department to oppose any further broadening of the exemptions to section 5136 in order to permit national banks to purchase for their own account and to underwrite the bonds of public housing agencies in unlimited amounts. The Treasury is especially desirous that the spirit of section 21 of the Banking Act of 1933,

File to Mr. Thompson

By hand

- 2 -

as amended (U.S.C., Supp. IV, title 12, sec. 378), which divorced the commercial banking business from the business of underwriting or distributing securities, not be violated by any measure which would tend to encourage the participation of national banks in syndicates organized for the purpose of underwriting and distributing securities such as the bonds of public housing agencies.

You suggest that the objections contained in the Treasury Department's proposed letter to the Bureau of the Budget can be met by amending section 5136 of the Revised Statutes in such a manner as to place upon the Comptroller of the Currency the responsibility of prescribing prohibitions, limitations, and restrictions as to the dealing in, underwriting, or purchasing of the bonds of public housing agencies by national banks. Such a proposal would include a general authority for national banks to underwrite such bonds, pursuant to regulations prescribed by the Comptroller of the Currency, to which the Treasury Department is opposed as already indicated. In addition, it is the opinion of this Department that it would be an unwise precedent so to amend section 5136, and, further, that such an amendment would operate to impose an unreasonable burden upon the Comptroller of the Currency.

You indicate in your letter that a discussion of the United States Housing Authority's decision to seek an opinion from the Attorney General with reference to certain legal questions arising

from a proposed new form of annual contributions contracts, is not essential to a consideration of the legislation proposed in S. 591, and that such a discussion may raise confusing issues. In deference to your personal feeling on that point, I can assure you that the Treasury will not make any reference to the proposed opinion of the Attorney General in any communication in the nature of a report on S. 591 which it may transmit to Congress. However, since it is assumed that the Bureau of the Budget would not transmit to Congress or make public, without the consent of the Treasury Department, any communication from this Department to the Bureau with reference to S. 591, it does not appear necessary to eliminate the reference to the proposed opinion of the Attorney General from the letter to the Director of the Bureau of the Budget.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Robert F. Wagner,
United States Senate

DJB:es typed 6.1.39

Pres read this at 400 P.M.
June 21, 1939

86

The FHA has given the matter of reduction in the interest rate consideration for several months and is now intensively studying the situation so as to determine what the effect would be on stimulating or slowing up the present rate of new residential construction.

Owing to the unprecedented delay in getting the Housing Bill through Congress the entire FHA program has suffered somewhat, as many of the attractive features of the law were due to expire on July 1st and lenders, speculative builders, real estate developers, etc., were cautious in extending themselves not knowing for certain if these sections of the Act would be renewed.

The Bill was finally signed on June 3rd and only last week were the revised rules and regulations sent to something like 15,000 lenders.

The feeling here has been that these people have been disarranged and upset by this and would only be further harassed by a mandatory rate cut right now.

Our feeling is that the rate cut should be made, but at a time when the waters have been clarified a little from the present muddiness.

It must be remembered that the FHA exists purely through the voluntary cooperation of lenders and it is felt that its success has been due to a great extent to the fact that it has not pursued irritating policies or issued compulsory mandates.

Interest rates in the large lending centers have already been voluntarily broken by the lenders to $4\frac{1}{2}\%$ and $4\frac{1}{4}\%$, so a reduction in the rate would not increase the business here.

The volume of new residential construction is improving in the secondary cities and it is felt that the immediate effect of an arbitrary rate reduction here might have a tendency to slow up lending.

At least this is a thing we would like to study a little further.

----- * -----

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE June 21, 1939

TO:
FROM:
SUBJECT:Reasons for maintaining 5% interest rate.

- (a) Reduction of rate would reduce the attractiveness of insured mortgages to certain groups of institutions.
- (b) At the present time many institutions, such as building and loan associations in different parts of the country, are able to lend their funds on an uninsured basis at a better rate than 5%.
- (c) Initial service fees are not being charged in large money centers due to competitive situations and the initial cost to the borrower is the lowest in the history of the country.
- (d) Reduction in the maximum yield to lending institutions would stimulate the charging of initial fee to provide income.
- (e) Inter-state foreign money might be cut off due to the fact that the yield to the parent company would be reduced to a point where it would not be attractive.
- (f) 25 years is a long time for which to establish a maximum rate of $4\frac{1}{2}\%$. The lender has no opportunity to re-adjust his interest rate upward if during that period there is a drastic rise in the general cost of money.
- (g) The comparison of bond rate and insured mortgage rate is not equitable due to the cost of handling a monthly payment mortgage under our plan.
- (h) $4\frac{1}{2}\%$ yield on an insured mortgage is not a true $4\frac{1}{2}\%$ yield in the same manner as a bond yield due to servicing costs.
- (i) Reduction of yield to the lending institution would result in the curtailment of their advertising and developing program which would stimulate new construction.
- (j) There has been no great demand from prospective borrowers for reduction in the present rate.
- (k) 5% rate for a 25 year, 90% loan is a fair rate.
- (l) Elimination of foreign inter-state money would permit local lending institutions in competing with insured mortgages to lend at any rate and under any terms, due to the elimination of the competitive lender.

FEDERAL HOUSING ADMINISTRATION

MEMORANDUM

DATE

FROM:

SUBJECT:

- (m) The monthly savings to the borrower by virtue of $\frac{1}{2}\%$ reduction of interest rate is not sufficient to stimulate either a new class of home owner or a great increase in building.
- (n) Lenders are becoming bolder in their appraisals in connection with uninsured loans with a tendency to take their loans direct at the best yield possible, thus depriving the whole national housing picture of the benefits accruing from the enforcement of our standards.
- (o) Lenders do not receive the true 5% rate since they must bear foreclosure costs in connection with properties tendered to the Administrator.
- (p) Interest rates are being reduced voluntarily in the large money centers to as low as $4\frac{1}{2}\%$, and to reduce our maximum rate to $4\frac{1}{2}\%$ would not help the situation there, but would have a tendency to eliminate lending institutions in the smaller communities where rates have been generally higher than in large centers.
- (q) Our indices show that our business in large centers is holding even and would not be greatly affected either way by a reduction in interest rate.
- (r) Our indices also show that business is increasing in the secondary cities where rates in the past have been higher. A reduction in interest rate might tend to put a check on a continued increase in business.
- (s) Due to the delay in the passage of the recent amendments to the National Housing Act, we are just now changing our rules and regulations, forms, and procedure, to be effective July 1. This has a tendency to slow up business during the period of time that the mortgagees are re-adjusting themselves. To reduce the maximum interest rate at this time would cause further confusion and have a tendency to further slow up business. There will also arise a demand by borrowers for a wholesale reduction of the rate on their present loans which would further upset lenders and have a tendency to drive them from the insured mortgage program. To reduce our maximum rate at this time would be untimely.
- (t) The Federal Home Loan Bank Board has consistently refused to take steps to require that member banks reduce interest rates. Any reduction in the rate of this Administration should be accompanied by similar action on the part of the Federal Home Loan Bank Board if the movement to lower rates is to be effective.

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE June 21, 1939

Mr. Stewart McDonald, Administrator

In accordance with your instructions, I am setting down considerations in connection with the proposal to reduce the maximum interest rate on insured mortgages from 5% to $4\frac{1}{2}\%$.

Reasons for reducing interest rate:

- a) Yield on Government bonds and other AAA bonds has been reduced to a figure well below 5%.
- b) Our 5% rate, plus the $\frac{1}{2}\%$ insurance premium makes the cost to the borrower $5\frac{1}{2}\%$.
- c) The nature of the insurance guarantees lending institutions against ownership of real estate by substituting a $2\frac{3}{4}\%$ tax free debenture, which in itself is a good yield in the present market.
- d) Lending institutions may secure the initial service fee, which is an added income.
- e) Large purchasers of insured mortgages leave $\frac{1}{2}$ of 1% and in some cases $\frac{3}{4}$ of 1% to the originator as a service fee, giving a net yield to the purchaser of $4\frac{1}{2}\%$ to $4\frac{3}{4}\%$, which is an excellent yield in the present market. However, since a premium is being paid in many instances this yield may be reduced.
- f) There is testimony by financial leaders to the effect that $4\frac{1}{2}\%$ and 4% on this type of mortgage is a desirable rate.
- g) The tremendous surplus of idle money yielding nothing to the banks indicates that 4% or $4\frac{1}{2}\%$ yield is still very desirable.
- h) The reduction of interest rate would reduce the cost to the home buyer and perhaps stimulate home building.
- i) A reduction of interest rate would bring the monthly payment down to a point where a new level of purchasers might enter the home purchase market.
- j) Mortgage investments yielding more than $4\frac{1}{2}\%$ are scarce and there will be ample funds at this rate.
- k) The FHA is currently doing about as much business as all the State and Federal Building and Loan Societies put together. In other words, FHA is doing half of the home mortgage financing and has constantly set the pace for low interest rates which have been broken from 7 and 8% outside the large financial centers to between 5 and 6%. These building and loan societies are not equipped to make drastic reductions in interest rates because of securing their funds from

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE

CT:

the sale of shares and reductions by them must be made in an orderly manner or they will not cooperate and therefore, an abrupt reduction in interest rate might actually slow up new construction on this account.

) In the last analysis the FHA does not lend money, but its volume depends upon the voluntary cooperation of the lending institution and the program to get the best results has to be agreeable and satisfactory to the lender.

Number of
 A New Homes Started Each Week
 supplied by my office ~~weekly~~

Week Ending 1938 1939

January 7		1,569
" 14	↑	2,017
" 21		1,766
" 28	N	1,648
February 4	9	1,448
" 11		1,571
" 18		1,603
" 25	8	1,673
March 4	8	1,970
" 11	8	2,388
" 18	7	2,354
" 25	6	2,557
April 1	6	2,784
" 8	6	2,526
" 15	1,107	3,107
" 22	1,355	2,863
" 29	1,610	2,880
May 6	1,537	2,900
" 13	1,740	3,055
" 20	1,740	2,946
" 27	1,711	3,113
June 3	1,603	3,429
" 10	1,986	3,870
" 17	1,870	2,945
" 24	1,959	
July 1	1,959	
" 8	1,680	
" 15	1,986	
" 22	2,009	
" 29	1,897	
August 5	1,803	
" 12	2,304	
" 19	2,027	
" 26	2,192	
September 2	2,157	
" 9	1,847	
" 16	2,085	
" 23	2,084	
" 30	2,288	
October 7	2,229	
" 14	2,956	
" 21	2,448	
" 28	2,397	
November 4	2,447	
" 11	1,889	
" 18	2,324	
" 25	1,893	
December 2	2,658	
" 9	1,950	
" 16	2,073	
" 23	1,621	
" 30	1,310	

COPY OF LETTER TO SENATOR BYRNES
dated June 21, 1939 sent to
following:

92

Hon. Robert F. Wagner,
Chairman, Banking and Currency Com., Senate

Hon. Carter Glass,
Chairman, Appropriations Com., Senate

Hon. Pat Harrison,
Chairman, Senate Finance Committee

Hon. Alben W. Barkley
United States Senate

Hon. Sam Rayburn
House of Representatives

Hon. Edward T. Taylor
Chairman, Appropriations Com., House of Rep.

Hon. Robert L. Doughton
Chairman, Ways and Means Com., House of Rep.

Hon. Henry B. Steagall
Chairman, Banking and Currency Com., House of Rep.

Speaker of the House of Representatives

Vice President

June 21, 1939.

Dear Senator Byrnes:

I have your letter of the 19th in which you ask my position as to the provision of the "Work Relief and Public Works Appropriation Act of 1939" as passed by the House of Representatives (H.J.Res. 326) which would allot \$125,000,000 to the Public Works Administration for loans and grants for non-Federal public works.

I am opposed to this provision. It means simply that 165,000 men who are badly in need of work will have to be dropped from the Works Progress Administration rolls; men who in the great majority of cases are the sole support of families whose subsistence depends on this slender income. What will happen to most of these men is that they will be forced onto already overburdened direct relief rolls of cities, towns and counties, or, if these are insufficient to care for them, onto private charity.

I believe there is a better way to accomplish the laudable purposes of this bill. The great majority of people of this country have come to realize that there are certain types of public improvements and betterments which should be undertaken at times when there is need for a stimulus to employment. At such times the Federal Government should furnish funds for projects of this kind at a low rate of interest, it being clearly understood that the projects themselves shall be self-liquidating and of such a nature as to furnish a maximum of employment per dollar of investment.

There seems no reason why there should not be adopted as a permanent policy of the Government the development and maintenance of a revolving fund fed from the earnings of these government investments and used to finance new projects at times when there is need of extra stimulus to employment. Such times will recur in the future, as they have in the past, and there will always be need for public facilities and improvements in our natural resources which can be most profitably met by the use at times of greatest need of employment of the accumulated receipts of such a revolving fund.

At my suggestion, various departments and agencies of the Government have canvassed the situation to find projects which will meet genuine public needs - projects that can be put under way quickly and, of great importance, will be self-liquidating. They have found a variety of such projects which have stood the test of careful scrutiny and which hold the promise of a great volume of productive expenditure and employment. I believe this is a much sounder method of dealing with the problem than the diversion of \$125,000,000 of work-relief funds. All can be financed through the issuance of guaranteed securities by Government agencies with good prospect of repayment of both principal and interest through earnings.

I have caused estimates to be made of the extent of the field for investment of funds in revenue earning channels on a self-liquidating basis and in no way competitive with private enterprise. The estimates are, I believe, conservative. The types of projects I have in mind are listed below, together with the sums which, it is estimated, can be put to work to provide employment for men and

- 3 -

machines in diverse lines of industry within the coming fiscal year. These projects are in addition to programs already submitted.

	Program duration (years)	Total Amount of program	Loan disbursements fiscal year 1940
I. Federal Works Agency -			
(a) Non-Federal public works: Projects of the self-financing type to be financed by loans at sufficiently low rates of interest to stimulate borrowing for this purpose. The type of projects would be water-works, sewage disposal plants, bridges, hospitals, and other municipal projects.	2	\$350M	\$150M
(b) Express Post-Roads: Self-liquidating toll roads; bridges, high-speed highways and city by-passes.	4	750	150
(c) Railroad Equipment: Authority to purchase all types of railroad equipment which is to be leased to railroads at a rate which will return the cost to the United States over a period of years. Carriers would have the option to buy the leased equipment.	3	500	100
II. Department of Agriculture -			
(a) Rural Electrification: Expansion of present rural electrification program to reach a maximum of 1½ million rural families not now receiving electric service nor likely to receive such service in the near future.	7	460	20

	Program duration (years)	Total Amount of program	Loan disbursements fiscal year 1940
(b) Farm Tenant Program: Expansion of the self-liqui- dating portion of the program of the Farm Security Administration for tenant farm purchases, rehabilitation program, loans for minor improvements and repairs, loans to resettlement cooperatives, and loans for water facilities.	2	\$500M	\$250M
III. Foreign Loans - Extension of short and long- term loans to foreign govern- ments for the purpose of promot- ing our foreign trade. The proceeds of these loans would be spent in the United States and would be used for development and reconstruction purposes in the foreign country.	2	500	200
TOTALS		3060M	870M

This program would stimulate a greater amount of productive expenditure than is indicated by the total estimated loan disbursements of \$870 millions for the fiscal year 1940. Some parts of it will involve additional local expenditures not financed by Federal funds, and other indirect expenditures will be generated.

To give effect to the program outlined above, some supplementary legislation will be necessary. As a part, however, of the whole program for stimulating productive employment, I include another proposal which will not require legislation in addition to that now pending. This is the expansion of the public housing program of the

- 5 -

United States Housing Authority through extending its borrowing power by \$800,000,000. I have already indicated my approval of this legislation.

If you think well of such a program as I have outlined I shall be glad to confer with you and your colleagues and with Members of the House of Representatives. I am sending copies of this letter to the Chairmen of the Appropriations, Finance and Banking and Currency Committees of the Senate and to the Chairmen of the Ways and Means, Banking and Currency and Appropriations Committees of the House.

Sincerely,

(Signed) Franklin D. Roosevelt

Honorable James F. Byrnes

United States Senate.

THE WHITE HOUSE
WASHINGTON

38
June 21 ⁵¹/_{14 39}

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- 4 -

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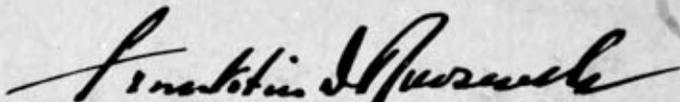
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- 5 -

United States Housing Authority through extending its borrowing power by \$800,000,000. I have already indicated my approval of this legislation.

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Sincerely,



Honorable James F. Byrnes
United States Senate.

June 21, 1939

The President gave the original of this to the Secretary and said , "Go outside and call up Welles."

(The original was returned to the President on 6/22; see copy of letter of transmittal attached.)



THE SECRETARY OF STATE
WASHINGTON

June 21, 1939.

MEMORANDUM FOR THE PRESIDENT

I return herewith the memorandum of June 15 on Italian countervailing duties submitted to you by Secretary Morgenthau which you referred to me on June 16. In addition to the information in that memorandum I am also in receipt of a letter dated June 16 from the Secretary of the Treasury indicating that the Treasury Department proposes to announce on June 21 that countervailing duties will apply to silk goods after the usual thirty day notice has been given.

In response to your request I submit the following comments:

1. The Italian Government has agreed to discuss the entire question of the facts and the trade procedures involved in the Treasury Department's findings on silk goods, cotton goods, woolen goods and leather goods and has agreed that a representative of the Treasury Department should visit Rome to discuss these matters. There is every reason to believe that the Italian officials expect to include silk goods in the discussions and the Treasury Department has indicated that it would have no objection to such discussions with respect to silk goods.

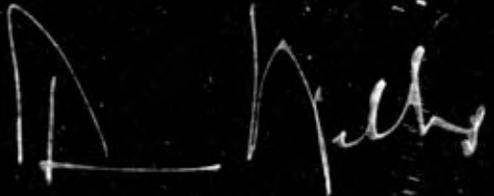
2. If, without waiting for these discussions to take place, the Treasury Department should issue a countervailing duty order with respect to silk goods, the effect might well be to upset the arrangements which have been made for the discussions and investigations by the Treasury Department representative who is to go to Rome. It might well be also that the result would be to precipitate some form of trade retaliation on the part of the Italian Government against American products.

3. The Secretary of the Treasury states that the information regarding Italian bounties on silk goods is

definite

definite whereas the information on the other types of goods is lacking in details, the clarification of which would facilitate the ascertainment or estimation of countervailing duties as required by law. It would seem reasonable to believe, however, that even as regards silk goods the Treasury Department would be wholly justified in withholding action until its representative could have visited Rome and made a report on the basis of his discussions.

4. For these reasons I strongly urge, therefore, that the Secretary of the Treasury be instructed not to issue the proposed countervailing duty order on silk goods from Italy until the Treasury representative has gone to Rome as arranged and has had opportunity to discuss all of the categories of goods under consideration with the appropriate Italian authorities.



Enclosure:

Memorandum from Secretary of
the Treasury, June 15, 1939.



DEPARTMENT OF STATE
WASHINGTON

June 21, 1939

My dear Mr. President:

With reference to our conversation of last night and Secretary Hull's conversation with you of this morning, I am submitting a memorandum on the Italian countervailing duty question.

May I remind you that Henry Morgenthau told me that he would sign the order giving notice that countervailing duties will apply to Italian silk goods at twelve noon today unless he had a written order from you to the contrary before that time. The matter, therefore, is very urgent.

Believe me

Faithfully yours,

A handwritten signature in dark ink, appearing to read "C. Hull", written over the typed name "Faithfully yours,".

Enclosure.

The President,
The White House.

June 22, 1939

My dear Mr. President:

I am returning herewith Mr. Welles' letter to you of June 21 with his memorandum to you of the same date, on the subject of imposing countervailing duties against Italian silk. This is the material you gave me at the White House yesterday.

Sincerely yours,

The President,
The White House.

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My dear Mr. President:

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Sincerely yours,

The President,

The White House.

June 21, 1939

MEMORANDUM FOR THE FILES:

In Miss Le Hand's office in the White House at 12:30 p.m. today, the Secretary, in the presence of Miss Le Hand, Mr. Foley and Mr. Cairns, telephoned Mr. Summer Welles at the President's request with respect to the proposed Treasury Decision imposing countervailing duties on silk exports from Italy. The Secretary explained to Mr. Welles that he was telephoning him at the President's request, and that he wished to emphasize that the proposed Treasury Decision related only to silk exports and to no other commodities. The President wished that point made explicitly to Mr. Welles.

The Secretary explained further that he was under mandatory duty to issue the Treasury Decision, that he had already granted the Italian Government 45 days time in which to consider the matter, and that they would receive an additional 30 days upon publication of the Treasury Decision. Mr. Welles asked if the Secretary could grant five or six days further extension. The Secretary stated that he would defer the issuance of the Treasury Decision until noon, July 1, in order to relieve the President of any embarrassment. It was expressly understood, however, between Mr. Welles and the Secretary that Mr. Foley's opinion with respect to the necessity of the issuance of the Treasury Decision on July 1 would be accepted without discussion by Mr. Welles.

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HC/op 6/21/39

-147h

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HC/ep 6/21/39

June 21, 1939
8:43 a.m.

HMJr: Hello.

Gordon
Rentschler: Hello, Henry. Good morning.

HMJr: How are you?

R: Oh, fine! How are you?

HMJr: I'm all right.

R: Good!

HMJr: Gordon, confidentially, we had a funny inquiry out of Brazil. It seems that they've been selling some cotton to Japan.

R: You've what?

HMJr: Brazil has been selling cotton to Japan.

R: Brazil is -- yes, they have been selling some.

HMJr: And -- on ninety-day paper.

R: Ninety-day -- I don't know about that.

HMJr: Well, that's what it is.

R: Yes. I know they've been selling some to Japan.

HMJr: And Brazil seems sort of annoyed that New York doesn't discount this Japanese paper.

R: I see.

HMJr: Now, what I'd like -- which raised the thought, I wondered how much Japanese paper is floating around New York, not only on merchandise that we've sold them, but are we doing a banking business for other countries?

R: I think, Henry, that I can find out pretty nearly that whole story without much difficulty, and I'll do it and call you back.

HMJr: Yeah, because it -- I think it's very sensible for us not to finance our competitors in cotton.

R: Quite right.

HMJr: And I.....

R: I tell you, I know this, the Japs here at this bank paid off all of their loan.....

HMJr: Yeah.

R:and sold their United States Governments and British Treasury bills to do it.

HMJr: Who did?

R: The Japs.....

HMJr: Yeah.

R: ---.....banks. We had here -- this is just for yourself, you -- but it gives you the picture.

HMJr: Yes.

R: We had here between four and five million dollars of Japanese bank loans.

HMJr: Yes.

R: Running to two or three different ones.

HMJr: Yeah.

R: And they were secured by -- they used to be secured by Jap bonds and other Jap obligations.

HMJr: Yeah.

R: And about a year ago I told them we'd feel more comfortable and I thought they would too.....

HMJr: Yeah.

R:if they secured them with American and British short-time Government obligations.

HMJr: Yeah.

R: And then they did -- they put in about fifty per cent of longs and about fifty per cent of shorts.

HMJr: Yes.

- R: Now, a few months ago they paid off our loans and sold the bonds.
- HMJr: Yeah.
- R: And now they're carrying cash balances.
- HMJr: Yeah.
- R: Now, the amount of bills, in our own case, we used to have about 20 to 25 million dollars worth of credits running to Japan.
- HMJr: Yeah.
- R: I'll check it up again this morning, but the last time I looked at it there was just a fraction of that. And then I'll check through and see. I can easily find out what might be going through the branches.
- HMJr: Yeah.
- R: Because it might well be that -- taking Brazil for instance, there may be certain -- may have certain lines that they'd use from time to time, and it may well be that some of that cotton went through us from Brazil to -- I don't think it would go to Japan because we can't cover exchange.
- HMJr: Yeah.
- R: But it might have gone through the Japs at Shanghai where they're paying cash for it.
- HMJr: Yeah.
- R: And there might be some cases where they are opening against the cash -- opening against their cash that they deposit here with us or with the branch down there. But you let me look it up and I can get a picture for you.
- HMJr: Supposing you look it up and give me the picture of what.....
- R: I can give you the picture without going too far with the other fellow.
- HMJr: That's right. And not only to what they're buying in other countries -- I mean, if they -- if they're trying to finance through New York, what -- if any --

how they're handling their situation in this country.

R: Yes, I see. Now in England they've quit -- they've stopped using any credits we have in England. That -- they stopped that about six months ago.

HMJr: Yeah, and I don't think the English are doing much financing.

R: No. Now, the big end of our credit at the present time is being used in Singapore for the purpose of bringing rubber and tin into this country.

HMJr: I see.

R: They're -- I -- but I'll get the whole story for you.

HMJr: Do that.

R: I'll get the whole story and then I'll give you a ring because it's easier to talk to you than to try to write it out.

HMJr: That's right.

R: What else is going on, Henry?

HMJr: Oh, plenty!

R: Are you going to win your fight on silver?

HMJr: Oh, I'm not.....

R: You're just going to sit on the sidelines there.

HMJr: I'm not worried about that bill. They -- I mean, thanks to the newspapers it's out in the open that it's a holdup game, you know?

R: Yeah, well, I think you've done pretty well in publicizing it, don't you?

HMJr: I think so, and I think the public is with us.

R: (Aside:) Get me the foreign silver, would you?

HMJr: I say, I think the public is with us.

R: Oh, I think the public is entirely in accord with not buying a nickel's worth of stuff abroad.

HMJr: Well, I didn't mean that. I meant for the Treasury just to sit tight and not to.....

R: Oh, yes. You sit tight on it.

HMJr: No - I -- I wouldn't mention the thought -- I meant for us to sit tight and not.....

R: That's one of the things you've got to keep your eye on. If we keep on buying this silver abroad -- at the Present time we're just buying -- we're buying it for the Japs, aren't we?

HMJr: I'm not sure. I'm not.....

R: I mean, there's quite a little by way of London.

HMJr: Yeah. Well, we're watching it very closely.

R: Yeah. I think they're feeding us quite a little.

HMJr: But the newspapers have been very helpful.

R: Yeah, I think it's all right.

HMJr: Yeah.

R: And I think your position is a hundred per cent right on it.

HMJr: Yeah, I think so. They -- I think we've got them where the hair is short.

R: Yeah, but I think that's a hundred per cent right.

HMJr: All right.

R: Well, Henry, I'll look this up right away and I'll give you a ring back either between now and lunch or else right after lunch.

HMJr: It isn't -- I mean, this isn't a matter of minutes. Take your time.

R: Yeah. Well, I'd rather get it -- I -- I'll get it pretty promptly for you.

HMJr: Thank you.

R: All right.

HMJr: Good bye.

R: Bye bye.

June 21, 1939
9:13 a.m.

Henry
Wallace: Yes?

HMJr: You called me yesterday?

W: Oh, I did, about something. For the moment it's slipped my mind.

HMJr: Well, if you think.....

W: Let me see -- oh, yes, I tell you what it was. (Talks aside: Can you get a copy of that press statement I was making this afternoon?) I wanted to read to you, if you had the time.....

HMJr: Well, I -- I'm just going to the White House. I'd rather call you back or have you send it over to me, if you don't mind -- if it's something long.

W: No, I tell you what it was. It was a statement I was putting out to the press on cotton policy.

HMJr: Oh!

W: It's been cleared with State Department, but I thought I'd like to read it to you too.

HMJr: Well, could I call you back when I come back from the White House?

W: That'll be fine.

HMJr: Thank you. Thank you.

June 21, 1939
10:58 a.m.

120

HMJr: Hello.

Operator: Senator O'Mahoney.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Joseph C.
O'Mahoney: Hello, Henry.

HMJr: How's the wide open spaces?

O: Fine and dandy.

HMJr: Are they?

O: Henry, I wrote a letter to the President the other day.....

HMJr: Yeah.

O:which I regard as rather important.

HMJr: Yes.

O: I think it's more or less down your alley.

HMJr: Well, it's on my desk. I don't know whether it's down my alley.

O: Uh-huh. Well, I sent it down to you this morning, and I'm calling.....

HMJr: Yes.

O:just to ask you to take five minutes off and read it.

HMJr: Well, for you I'll take an hour and five minutes.

O: All right. You do that, Henry, and then let me know what you think about it.

HMJr: Fair enough.

O: It has to do with the conclusions that I have reached, after all these studies up here over the year, and some other things. I know that you've been trying to do the right thing.

HMJr: Yes.

O: And I know that there are some other people around here who want to do something that will only get us in a worse mess.

HMJr: I see.

O: Read it, please.

HMJr: I'll do it with pleasure.

O: Thank you, Henry.

HMJr: Good bye.

June 21, 1939
11:33 a.m.

122

HMJr: Hello.

Operator: Secretary Wallace's line is busy; I'm waiting for him.

HMJr: Well, if I don't get him now, remind me of it.

O: All right.

HMJr: Thank you.

11:38 a.m.

HMJr: Hello.

Henry
Wallace: Hello, Henry.

HMJr: Yes, Henry.

W: Can you listen for about three minutes?

HMJr: Sure!

W: This is a statement which I would issue this afternoon
which I've cleared with the State.

HMJr: Right!

W: Secretary Hull.

"Numerous questions have arisen in regard to
relationship between Reciprocal Trade Agree-
ments program administered by Department of
State and certain programs, current and pro-
posed, administered by the Department of
Agriculture in the field of foreign trade.

"After consultation with the Department, I
believe:....."

You see, I'm issuing this.

".....I believe it appropriate, therefore,
to indicate the position of the two depart-
ments with reference to these questions.
Both departments, I believe, are agreed
that the Trade Agreement program represents

the soundest long-term approach to the solution of the foreign trade relations of the United States, including particularly the problem of disposition of our agricultural export surpluses.

"This program recognizes concretely the fundamental principal that a nation must buy if it expects to sell. Both departments, I believe, recognize, however, that other programs of a strictly agricultural character, involving conservation of our soil resources, are necessary to the advancement of agricultural welfare in the United States, and that these programs contribute to the solution of the export surplus problem and the welfare of the entire nation.

"With regard to an export subsidy on cotton, I am informed that Secretary Hull still stands on his statement of March 28, 1939, as follows:

'The Secretary of State when asked to comment on the President's statement of today on cotton exports said that of course the attitude of the Department of State, in support of our program for general economic restoration, is well-known. Secretary Hull said that we are earnestly carrying it forward and shall continue to do so. He said further that naturally if and when the President and the Secretary of Agriculture reach a decision to the effect that an emergency situation exists in a given instance, and that temporary emergency treatment in their judgment is necessary, he would cheerfully recognize and acquiesce in such a decision.'

HMJr: Yeah.

W: "There is no question in my mind that emergency conditions do exist with respect....."

I am speaking again with respect to agricultural surpluses arising to a large extent from present unsettled world conditions, and in the case of cotton from the enormous production of 19 million bales in 1937.

"Such a situation may require emergency action. Such action may include the strictly temporary use of export subsidies to enable the United States to maintain, during these unsettled times, its fair share of the export market, But undoubtedly a sounder approach to this problem of agricultural surpluses, which it must be recognized is not confined to the United States, is to be found in international collaboration looking toward an adjustment in basic maladjustments between the supply of these products and the exporting countries and the demand in the importing countries.

"With certain foreign countries now taking from the United States only a small fraction of their former imports of specific agricultural products, it is obvious that those departments of Government which have power to deal with this situation in one way or another should give the problem the most careful consideration."

This para -- this last paragraph is the only one which even -- which brings your department into the picture to some extent, perhaps. Where I say that it's "obvious those departments of Agriculture which have power to deal with this situation.....should give the problem the most careful consideration."

HMJr: Yeah. Well.....

W: I'll read that paragraph again.

"With certain foreign countries now taking from the United States only a small fraction of their former imports of specific agricultural products, it is obvious that those departments of Government which have power to deal with this situation in one way or another should give the problem the most careful consideration."

For instance, your Department might come in through -- well, the countervailing duty thing, and so on, various things of that sort.

HMJr: Yeah. Well, I'm glad -- I appreciate your reading it to me, Henry, but I'd rather not make any comment.

W: Uh-huh.

HMJr: I mean, I can't over the 'phone and I don't think it's up to me anyway, but I appreciate your courtesy.

W: Yes. Well, you have -- you have no objection to my putting it out this afternoon?

HMJr: None.

W: Yeah.

HMJr: None.

W: All right, fine.

HMJr: Thank you.

W: Good bye.

HMJr: Good bye.

June 21, 1939
2:35 p.m.

126

Operator: Tommy Corcoran is calling you.

HMJr: Who?

O: Tommy Corcoran.

HMJr: Right!

O: Right.

HMJr: Hello. Hello.

O: He'll be right on.

(Brief pause)

HMJr: Hello.

O: Mr. Corcoran.

HMJr: Hello.

Tommy
Corcoran: Mr. Secretary?

HMJr: Talking.

C: This is Tom, sir -- Tom Corcoran.

HMJr: Can I sell you a little silver?

C: (Laughter)

HMJr: That ought to help a small business man.

C: What I wanted to tell you was this.

HMJr: Yeah.

C: There's a fellow named Carl Bickel -- B-I-C-K-E-L.....

HMJr: Yeah.

C:who was the former head of the United Press.

HMJr: Oh, yes.

C: A fellow of about 55 now retired.

HMJr: Yeah.

C: He set up the United Press in South America in particular.

HMJr: Yeah.

C: He's been terribly excited about the South American business.

HMJr: Yes.

C: And is a -- and is a retired owner of Scripps-Howard.....

HMJr: Yeah.

C:with nothing to do except build local projects down in Sarasota, Florida.....

HMJr: For heavens sakes!

C:who could be probably used in a completely private capacity.....

HMJr: Yeah.

C:to help tremendously on the South American business.

HMJr: Fine!

C: He was in town this morning and I -- and I sent him over, just to tell some things he knew, to young Cotton.

HMJr: Yes.

C: And I wanted to tell you that I'd done that.

HMJr: Fine!

C: I think he's gone over to Cotton's office now.

HMJr: Fine!

C: I don't know whether you'd want to see him yourself.

HMJr: Well, that's just.....

C: But he's there if you should want to.

HMJr: Well, I'm on the way over to the White House.

C: Um-hm.

- 3 -

HMJr: And I'll get word to him. If he can stick around I'd like to see him.

C: He's worth -- I think, sir -- I think he has -- I mean, through that United Press connection.....

HMJr: I know.

C:I think he has something that might be useful to you.

HMJr: Fine!

C: Thank you, sir.

HMJr: I -- I got your message that you're for A. A. Berle for Secretary of the Treasury.

C: (Hearty laughter).

HMJr: It's O. K. with me. I think it's a good idea.

C: (More laughter). I thought you got my message that I wanted to have lunch with you sometime if I could this week.

HMJr: No, I didn't get that.

C: Well, may I give you that message now?

HMJr: Oh, sure.

C: May I come over sometime?

HMJr: Sure! I just -- I'll have to look up the calendar. I'd love it.

C: Yeah. All right, sir.

HMJr: Sure!

C: Thank you.

HMJr: Righto! Good bye.

June 21, 1939
4:16 p.m.

HMJr: Hello.

Stewart
McDonald: Yes, Mr. Secretary.

HMJr: Stewart, I thought you'd be pleased to know that in going over the -- this Recovery Program with the President I gave him your memorandum.

M: Yeah.

HMJr: And the President said that he will say nothing.....

M: Yeah.

HMJr:about reducing interest rates, but he will descend on you like a ton of bricks on the 31st of July.

M: O. K.

HMJr: See?

M: Thank you very much.

HMJr: That gives you a breathing spell.

M: You bet.

HMJr: All right.

M: Thank you very much. Say, Henry.....

HMJr: Yeah.

M: I forgot to tell you on that that we're starting three hundred houses a week -- three thousand houses a -- a month -- a week. You knew that, didn't you?

HMJr: A week or month or.....

M: A week -- a week. Three thousand houses a week; about five hundred a day.

HMJr: You told me five hundred a day.

M: That's right.

HMJr: That's right.

M: O. K. That's about twice what we did last year.

HMJr: Righto.

M: Good bye.

Memorandum of Conference at the White House

2:45 p.m., June 21, 1939.

Present: The President
Secretary Morgenthau
Mr. Gaston
Mr. Foley
Mr. Bell
Mr. McReynolds

The Secretary presented to the President draft of a proposed letter to Senator Byrnes suggesting the substitution in the Work Relief Bill, in lieu of the Public Works item, of a program involving self-liquidating projects to be financed by direct borrowings which would be guaranteed by the Government. After the President had made certain minor changes in the letter, he called Jesse Jones on the telephone and asked his opinion of the practicability of the proposed project to purchase railroad equipment for leasing to railroads. Mr. Jones stated that in his opinion there is no demand for such a project. The President stated that he would undertake to have ascertained from various railroads the extent to which they would utilize the equipment if it were made available and pointed out that since many of the smaller roads are now renting equipment from the larger roads at rates more than double the charges that would be contemplated under the proposed project, the demand for such equipment would seem to be obvious. The President reduced the amount of the estimate from \$750,000,000 to \$500,000,000 for the entire project and from \$250,000,000 to \$100,000,000 for the first years' dis-

- 2 -

bursements and also extended the duration of the program to three years instead of two. The President directed that the reduced estimates be discussed with Mr. Eccles, of the Federal Reserve Board. He also directed that an effort be made to ascertain what assurances could be obtained from the railroads that the equipment, if purchased, would be rented by them.

The President also called Jesse Jones and discussed the proposed project for foreign loans and Mr. Jones indicated that in his opinion such a project was not required because the R F C can provide adequate funds for this purpose under existing authority.

The President suggested the elimination of the proposed paragraph relating to the reduction of interest rates of Federal Housing loans.

The President stated that he had talked with Secretary Ickes about the question of extending the P W A program with the understanding that grants would be reduced to 25%. Secretary Morgenthau stated that there are three reasons he wished to urge why the President should not approve the extension of the P W A program as follows:

- (1) The President is already on record against it;
- (2) Any public works grant would kill this self-liquidating program; and
- (3) On a political and economic basis, the Secretary

- 3 -

stated that he envisaged a two or three billion revolving fund which would be sufficient to take care of the Federal and State needs of the country in times of economic pressure and that there would not be involved any sign of outright grants.

After a discussion of this point, the President suggested that he would like to amplify the statements in the letter to Senator Byrnes covering justification for the suggested program. He dictated a draft of the type of material he wanted inserted which was subsequently worked out and included in the letter as finally issued. Copy of that letter is attached.

* * *

THE WHITE HOUSE
WASHINGTON

June 21 ³¹
1939

Dear Senator Byrnes:

I have your letter of the 19th in which you ask my position as to the provision of the "Work Relief and Public Works Appropriation Act of 1939" as passed by the House of Representatives (H.J.Res. 326) which would allot \$125,000,000 to the Public Works Administration for loans and grants for non-Federal public works.

I am opposed to this provision. It means simply that 165,000 men who are badly in need of work will have to be dropped from the Works Progress Administration rolls; men who in the great majority of cases are the sole support of families whose subsistence depends on this slender income. What will happen to most of these men is that they will be forced onto already overburdened direct relief rolls of cities, towns and counties, or, if these are insufficient to care for them, onto private charity.

I believe there is a better way to accomplish the laudable purposes of this bill. The great majority of people of this country have come to realize that there are certain types of public improvements and betterments which should be undertaken at times when there is need for a stimulus to employment. At such times the Federal Government should furnish funds for projects of this kind at a low rate of interest, it being clearly understood that the projects themselves shall be self-liquidating and of such a nature as to furnish a maximum of employment per dollar of investment.

- 2 -

There seems no reason why there should not be adopted as a permanent policy of the Government the development and maintenance of a revolving fund fed from the earnings of these government investments and used to finance new projects at times when there is need of extra stimulus to employment. Such times will recur in the future, as they have in the past, and there will always be need for public facilities and improvements in our natural resources which can be most profitably met by the use at times of greatest need of employment of the accumulated receipts of such a revolving fund.

At my suggestion, various departments and agencies of the Government have canvassed the situation to find projects which will meet genuine public needs - projects that can be put under way quickly and, of great importance, will be self-liquidating. They have found a variety of such projects which have stood the test of careful scrutiny and which hold the promise of a great volume of productive expenditure and employment. I believe this is a much sounder method of dealing with the problem than the diversion of \$125,000,000 of work-relief funds. All can be financed through the issuance of guaranteed securities by Government agencies with good prospect of repayment of both principal and interest through earnings.

I have caused estimates to be made of the extent of the field for investment of funds in revenue earning channels on a self-liquidating basis and in no way competitive with private enterprise. The estimates are, I believe, conservative. The types of projects I have in mind are listed below, together with the sums which, it is estimated, can be put to work to provide employment for men and

machines in diverse lines of industry within the coming fiscal year.

These projects are in addition to programs already submitted.

	Program duration <u>(years)</u>	Total Amount of <u>program</u>	Loan disbursements fiscal year <u>1940</u>
I. Federal Works Agency -			
(a) Non-Federal public works: Projects of the self-financing type to be financed by loans at sufficiently low rates of interest to stimulate borrowing for this purpose. The type of projects would be water-works, sewage disposal plants, bridges, hospitals, and other municipal projects.	2	\$350M	\$150M
(b) Express Post-Roads: Self-liquidating toll roads, bridges, high-speed highways and city by-passes.	4	750	150
(c) Railroad Equipment: Authority to purchase all types of railroad equipment which is to be leased to railroads at a rate which will return the cost to the United States over a period of years. Carriers would have the option to buy the leased equipment.	2 3	700 500	500 100
II. Department of Agriculture -			
(a) Rural Electrification: Expansion of present rural electrification program to reach a maximum of $1\frac{1}{2}$ million rural families not now receiving electric service nor likely to receive such service in the near future.	7	460	20

- 4 -

	Program duration (years)	Total Amount of program	Loan disbursements fiscal year 1940 <u>350</u> \$250M
(b) Farm Tenant Program: Expansion of the self-liqui- dating portion of the program of the Farm Security Administration for tenant farm purchases, rehabilitation program, loans for minor improvements and repairs, loans to resettlement cooperatives, and loans for water facilities.	2	\$500M	
III. Foreign Loans - Extension of short and long- term loans to foreign govern- ments for the purpose of promot- ing our foreign trade. The proceeds of these loans would be spent in the United States and would be used for development and reconstruction purposes in the foreign country.	2	500	200
TOTALS		3060M	870M

This program would stimulate a greater amount of productive expenditure than is indicated by the total estimated loan disbursements of \$870 millions for the fiscal year 1940. Some parts of it will involve additional local expenditures not financed by Federal funds, and other indirect expenditures will be generated.

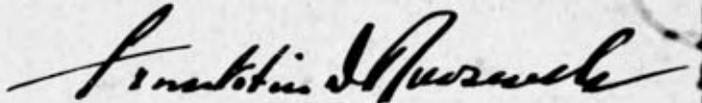
To give effect to the program outlined above, some supplementary legislation will be necessary. As a part, however, of the whole program for stimulating productive employment, I include another proposal which will not require legislation in addition to that now pending. This is the expansion of the public housing program of the

- 5 -

United States Housing Authority through extending its borrowing power by \$800,000,000. I have already indicated my approval of this legislation.

If you think well of such a program as I have outlined I shall be glad to confer with you and your colleagues and with Members of the House of Representatives. I am sending copies of this letter to the Chairmen of the Appropriations, Finance and Banking and Currency Committees of the Senate and to the Chairmen of the Ways and Means, Banking and Currency and Appropriations Committees of the House.

Sincerely,



Honorable James F. Byrnes
United States Senate.

June 21, 1939

FOR THE SECRETARY:

Ben Cohen is telling newspapermen not to bet that the Mead Bill will be sidetracked. He also is telling them that, in his opinion, the Bill should be broadened to insure not only loans made by banks, but also commercial loans made by "an approved list" of insurance companies, investment houses, industrial financing concerns, etc. This is to circumvent the argument of the bankers that they should not be the ones who make capital advances to business. Secretary Hopkins has said that he will make a statement on the Mead Bill and these ideas may be embodied in his statement.

ESD

TREASURY DEPARTMENT

133

INTER OFFICE COMMUNICATION

DATE June 21, 1939

TO The Secretary

FROM Mr. Hanes

This is a better draft than the one I gave you last night.

June 20, 1939

To: The Secretary
From: Mr. Hanes

The Senate Finance Committee made the following changes in the bill passed by the House:

1. They extended the privilege of the credit of up to 80 percent of the 1926 estate tax to the estates of decedents dying in the Philippines and other possessions, treating them the same as taxpayers in the States.
2. Also, they allowed corporations and individuals a deduction for charitable contributions made in possessions of the United States in the same manner as is now allowed under the income tax for charitable contributions made in the United States.
3. They adopted an amendment to allow taxpayers beginning with the calendar year 1939 the option of adopting last-in first-out principle of inventory valuation.
4. With respect to the excise tax on cosmetics and toilet articles, the Committee recommended that where a producing company held less than 75 percent of the stock of a selling company, transactions between them would be prima facie at arm's length. The Committee also adopted an amendment, which was suggested to accomplish the same purpose as the foregoing amendment, which in effect provided that selling expenses and similar expenses might be deducted in computing the base upon which the excise tax on cosmetics applies.
5. They decided that in the case of a domestic corporation doing business through affiliated subsidiaries in foreign countries, permission should be granted to file consolidated returns.
6. The Committee decided that in the case of lawyers and others receiving in one taxable year income from personal services performed over a period of at least five preceding years, the maximum tax would be the amount which would have been imposed if the pro rata amounts had been taxable in each of the years during which the income was earned.
7. They decided that provided the Treasury should approve the provision and it could be drafted in time, insurance companies (other than life and mutual) would be allowed the same deductions from gross income as are allowed other corporations.

- 8. They decided to extend, from December 31, 1939, to December 31, 1940, the date for consummation of tax-free reorganizations of public utility holding companies ordered by the Securities and Exchange Commission.
- 9. The Committee decided that in the case of undistributed profits tax, provide that the renewals of debts shall not be considered new debts as is the case under the present Internal Revenue regulation following the report of the House managers in 1938. This involves an amendment to section 27 (a) (4) to read that indebtedness represented by a renewal obligation issued after December 31, 1937, will be classed as indebtedness for the purposes of section 27 (a) (4).
- 10. (The House Bill provided that when the Commissioner of Internal Revenue determines that a corporation is in an unsound financial condition, it may purchase its outstanding obligations at less than the issue price without realizing taxable income.) The Committee decided that where a Federal agency agrees to make a loan to a corporation for this purpose, the determination by such agency that the corporation is in an unsound financial condition shall be accepted by the Commissioner.
- 11. They extended the time for filing 1939 capital stock tax returns from July 31, 1939, to September 30, 1939.
- 12. They voted to permit persons claiming refunds on processing taxes to file such claims up to January 1, 1940. This privilege previously expired in 1937.
- 13. The Committee decided to terminate the requirement that lawyers file returns as to the formation of foreign corporations which was enacted in the 1937 Revenue Act.
- 14. The Committee adopted an amendment under which taxpayers receiving loans from the Commodity Credit Corporation may at their option report the loan as income in the year in which the loan is made, instead of reporting such amount as income in the year in which the cotton taken over by the Commodity Credit Corporation is sold.

J. W. H.

June 22, 1939

To: Mr. Blough

From: Mr. Hanes

At the meeting of the Ways and Means subcommittee today, after the passage of the tax bill in the Senate, the cosmetics tax question came in for quite a bit of discussion. Because of the complicated political nature of this question, and because of the recognition of the fact that we were licked in our opposition to the cosmetics amendments by a majority in the committees of both houses of Congress, it seemed foolhardy to hold up passage of the entire revenue bill on a question the result of which is a known and foregone conclusion.

However, I do feel that this is an important question, and stated to the subcommittee of the Ways and Means that it is one to which the Treasury should give the closest study with a view to making a complete report to the Congress not later than January 1, 1940. I have promised the subcommittee of the Ways and Means that I would be personally responsible for having such a study made, and with this end in view I direct you to take this matter under your personal supervision and make a complete study of the entire cosmetics tax situation. This study should involve the closest observation of the methods of manufacture, sales, advertising, gross profits, net profits, and financial condition of all the units in the industry reporting.

I would like to do a good job on this study as I feel very definitely that we have been victimized by a political lobby which took us by surprise since we had been led to believe that the legislative and executive branches of the Government were in agreement that no changes in the excise taxes would take place at this session of Congress.

This matter places us in a very embarrassing position with all the other manufacturers now suffering from sales or excise taxes. I will ask you to keep me posted from week to week on the progress being made on this study so that I can report such progress to the Chairman of the Ways and Means Committee.

J. W. H.

Copy to Sec. Morgenthau.

TREASURY DEPARTMENT

143

INTER OFFICE COMMUNICATION

DATE JUN 22 1939

TO Secretary Morgenthau
FROM Mr. Foley

For your information.

Various representatives of small business and several individuals appeared today before a Subcommittee of the Senate Committee on Banking and Currency and testified in favor of the Mead bill. Those testifying included Roland Jones, representing the National Association of Retail Druggists; Carl P. Bloom, representing the Wearing Apparel Board of Pennsylvania; George A. Gottlieb and Henry Modell, representing the Small Business Men's Association of New York; William I. Shuman, representing the New York State Federation of Little Business; William Stoddard, a former Boston banker, and Ralph Nugent, of the Russell Sage Foundation.

The witnesses testified that the banks are not adequately supplying the credit needs of small business enterprises and that in many instances sound business enterprises are unable to obtain either short or long term loans. Various witnesses stated that this forced small business men to resort to loan sharks and that they are unable to compete with chain stores and other large business enterprises which are able to obtain credit at very low rates of interest.

William I. Shuman, representing the New York State Federation of Little Business, and a former chief national bank examiner, stated that conflicting policy and lack of coordination among the office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation,

- 2 -

State Bank Supervisory Agency, and, to a certain extent, the Reconstruction Finance Corporation, are partially responsible for the failure of banks to make loans to small business enterprises.

William Stoddard, a former Boston banker, stated that there is a very definite need for supplying medium sized business enterprises with a means of obtaining semi-permanent capital. He stated that there is a field where expanding business enterprises find themselves unable to supply their capital needs by short term bank loans and at the same time have not reached a size where they can float issues of stock. He cited the case of a New England textile company which found itself in this situation, and stated that to his knowledge there are many other companies in the same predicament. He suggested that provision be made in the Mead bill for the establishment of local organizations to supply the capital needs of such enterprises.

Ralph Nugent, of the Russell Sage Foundation, presented very convincing data to show that banks are not now supplying the credit needs of small business. The data presented showed that small business men are forced to resort to industrial banking companies, small loan companies, personal loan departments of banks, and similar organizations, and to pay rates of interest ranging from 7 to 60 per centum per annum. He stated that the small business borrower's position is today worse than at any time since 1929 and heartily endorsed the Mead bill as a solution of this problem.

E. J. Fh.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 22, 1939.

145

TO Secretary Morgenthau
FROM Mr. Foley

For your information.

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

Former Senator Brookhart, representing the Little Business Men's League of America, testified in favor of the bill and suggested that it be amended to include the insuring of agricultural loans. Albert Benjamin, President of the Anglo-American Trading Company of New York, also testified in favor of the bill and stated that there is a need for additional credit facilities for small business men, particularly in the importing and exporting trade.

Several members of the National Small Business Men's Association testified against the bill. They stated that sound business enterprises can not obtain ample credit and that the Mead bill would only serve to subsidize inefficient enterprises and encourage unfair competition. All of these witnesses expressed disapproval of the policies of the present Administration. The President of the Association, D. F. Emery of Akron, Ohio, refused to disclose the number of members of the Association and its organizational details, and other witnesses were equally vague.

Donald Woodard, an economist of Moody's Investment Service, presented a statistical study of American corporations. This study showed that 40 per cent of the entire corporate business in this country is done

- 2 -

by corporations with assets of less than \$1,000,000, such corporations numbering some 400,000. The study revealed that the working capital ratio, i. e., the ratio of current assets to current liabilities, is much greater for large corporations than small corporations and that whereas the larger corporations have almost recovered from the effects of the depression upon their working capital position, the working capital position of smaller corporations is becoming progressively worse from year to year. The study also showed that small corporations in their financing rely upon short term credits to a much greater extent than do larger corporations.

S. 14 7L

June 22, 1939.

Secretary Morgenthau

Mr. Foley

For your information.

Further hearings were held today by a Subcommittee of the Senate Banking and Currency Committee which is considering the Head bill.

Former Senator Brookhart, representing the Little Business Men's League of America, testified in favor of the bill and suggested that it be amended to include the insuring of agricultural loans. Albert Benjamin, President of the Anglo-American Trading Company of New York, also testified in favor of the bill and stated that there is a need for additional credit facilities for small business men, particularly in the importing and exporting trade.

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- 2 -

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(Initialed) R. E. F., Jr.

GFR:ims

June 22, 1939.

Secretary Morgenthau

Mr. Foley

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

Former Senator Brookhart, representing the Little Business Men's League of America, testified in favor of the bill and suggested that it be amended to include the insuring of agricultural loans. Albert Benjamin, President of the Anglo-American Trading Company of New York, also testified in favor of the bill and stated that there is a need for additional credit facilities for small business men, particularly in the importing and exporting trade.

Several members of the National Small Business Men's Association testified against the bill. They stated that sound business enterprises can not obtain ample credit and that the Mead bill would only serve to subsidize inefficient enterprises and encourage unfair competition. All of these witnesses expressed disapproval of the policies of the present Administration. The President of the Association, D. F. Emery of Akron, Ohio, refused to disclose the number of members of the Association and its organizational details, and other witnesses were equally vague.

Donald Woodard, an economist of Moody's Investment Service, presented a statistical study of American corporations. This study showed that 40 per cent of the entire corporate business in this country is done

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by corporations with assets of less than \$1,000,000, such corporations numbering some 400,000. The study revealed that the working capital ratio, i. e., the ratio of current assets to current liabilities, is much greater for large corporations than small corporations and that whereas the larger corporations have almost recovered from the effects of the depression upon their working capital position, the working capital position of smaller corporations is becoming progressively worse from year to year. The study also showed that small corporations in their financing rely upon short term credits to a much greater extent than do larger corporations.

(initialed) M. H. F., Jr.

GFR:ims

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 22 1939

TO Secretary Morgenthau
FROM Mr. Foley

For your information.

Mr. Leonard P. Ayres, Vice President of the Cleveland Trust Company, appeared today before a Subcommittee of the Senate Committee on Banking and Currency and testified concerning the economic aspects of the Mead bill. It is his belief that the insurance of loans to business would not be likely to contribute to more rapid recovery.

Mr. Ayres, who is a statistician, stated that during the period between 1909 and 1929, 60 per cent of all business enterprises operated at a profit, whereas at the present time only 30 per cent of such enterprises are operating at a profit. He stated that periods of recovery in the past have always been characterized by great increases in the marketing of common stock equities and that conditions should be restored so that the sale of equity capital in business enterprises will be enlarged. It is his belief that the issue of common stock equities would be increased, and recovery aided, if issues of less than \$1,000,000 were exempted from the registration requirements of the Securities and Exchange Commission, and if income from stocks were taxed less heavily than income from bonds or other investments.

P. H. F. L.

RE RAILROAD EQUIPMENT PROGRAM

June 22, 1939.
10:00 A. M.

Present: Mr. Hanes
Mr. Bell
Mr. White
Mr. Foley
Mr. Gaston
Mr. McReynolds
Mr. Currie
Mr. Lochhead (very brief period)

H.M.Jr: Hello, Currie.

Currie: Good morning, Mr. Secretary.

H.M.Jr: How are you? We're in a kind of jam. Come up here and sit down.

Currie, you see, the impression was gotten over to the President by - I don't know who was doing the talking - they mentioned, kept mentioning your name, that you had this man out on the road and that you have contacted the railroads and that you knew that they wanted this thing. And then the President said, "Well, get Currie to give me the names of the railroads." And there we are, see?

Now, this letter that goes up only mentions a hundred million. Now, we are doing this supposedly as a Fiscal and Monetary Committee. Which is the best way from your standpoint? Should I - because Mr. Eccles mentioned it in his speech, did mention it in Boston on Saturday, didn't he?

Currie: Just in the form of railway equipment, I believe, but nothing specific at all.

H.M.Jr: No. Well now, do you want me to take it up with him and say, "Well now, what railroads are there? The President wants to know"?

Currie: I think the....

H.M.Jr: You see, I'm the person - in the Treasury, when something like this is recommended to the President, if it isn't there, it's my responsibility. I can't go all the way down and say, "There was a meeting Monday night and the men misunderstood you, so forth and so on." But there seemed to be a misunderstanding

- 2 -

here as to what you claimed.

Now, from your standpoint what we want is this. The President - at 11:00 o'clock this will be out, that he recommends this thing, and there is a hundred million dollars worth of business. Now, as I understood, everybody said he could defend his particular item, and I understand - I think Bell said so - they'll be looking to you to go on the Hill and defend this thing.

Currie: Well, that was made clear the other night, that I didn't think I'd be able to; and I don't know where the impression got around that I had a man on the road, because I certainly haven't got such a person.

McR: Didn't you say you had somebody out making inquiries, that someone was making inquiries?

Currie: One of my assistants had been going around town working on the technical details, question of the age of cars and the repair costs, but I haven't had any authority - I couldn't go out contacting roads; I'd be exceeding my authority badly if I did such a thing.

Now, Mr. Secretary, the history of this thing - this was worked up for Mr. Eccles a year ago and at that time he did recommend it to the President, in the spring of 1938. Since then, and more recently, he has felt that although the idea is sound, it's a good one, it probably is not politically feasible, there will be a lot of opposition, so he's been stressing more the possibilities of working out loans from the RFC. Now we put that in, as you remember, the initial form as a possible suggestion for the President's consideration; he could either do this or he could do that.

H.M.Jr: We had (a) or (b) and he took (b).

Currie: He took (b).

H.M.Jr: That's right.

Currie: I don't think Mr. Eccles would feel he is actually sponsoring or that he proposed or recommended this

- 3 -

plan at this time. It's in the realm of a suggestion to the President. I don't think he'd feel, being in the Federal Reserve, that - I can't speak for him, but I'm just assuming what he would feel - that he can go out and do all the contacting and pushing through and sponsoring and preparing the testimony and things like that. That's outside his bailiwick. On the other hand, I have talked to Mr. Hopkins, who is quite enthusiastic about the thing, who is prepared to assume sponsorship, who is prepared to get people down here, railway men and equipment people, and talk to them. And I said I'd be glad to help in any way I could, on the side - to help him in any way I could.

- H.M. Jr: Well, do you mind, Bell or somebody, because I wasn't here, unfortunately - isn't it - wasn't it or is it your understanding that each one of these items - that there is somebody that's going to go up on the Hill and defend them?
- Bell: Yes. I thought we talked to Currie the other night - that he would be the one to defend it, because we were trying to talk to the people who would have to defend these items. That's the reason we wanted them to give their best estimates, something they would defend before a committee. If I'm not correct on that....
- Foley: That's right.
- Gaston: Is there somebody in ICC who could defend this idea?
- Currie: We discussed that the other night. Mr. Foley particularly asked me about that point, a question on the technical testimony. I have one or two men that might be permitted to go up - Mr. Terbourg.
- Foley: That's right. And I asked you whether, even though Eccles was not in favor of this, you thought you could do this. You said yes.
- Currie: Yes. Of course, that depends on the Board - whether they'd sanction it.

Then, I think there might be people - if Commerce really assumes sponsorship of this thing, I assume

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they'd have people over there that would be prepared to see it right through. And Mr. Hopkins said that he is prepared to take sponsorship of it, actually do the contacting and interviewing. He's meeting with the president of American Car and Foundry and president of American Locomotive tomorrow morning, I happen to know.

H.M.Jr: Are those the people that would like to see this thing go through?

Currie: The equipment people would naturally be the most enthusiastic.

Foley: The most benefited by it.

Currie: So he thought he'd see them first, see if he could talk in terms of price, see what they could do on a large order spread over time, and then talk to the border-line roads, the roads we know are in need of equipment.

H.M.Jr: Well, unquestionably - as I say, I didn't join in the conversation because I wasn't present, but they quoted you at least twice during the day to the President as being the father and mother of this plan, and last night the President said, "Well, get Currie and give me the list of the roads."

Currie: That was a grave misunderstanding, Mr. Secretary, because it was no more than a bright idea. I mean I couldn't do more than that with it.

White: Let's put it this way. Would you be willing to defend your estimates and your position on the basis of the data which is available?

Currie: (Nods yes).

White: That's all you said. That's a very different thing from saying he has promises, guaranties from railroads that they will take this equipment.

McR: I don't know that anybody said he had such promises.

Gaston: I didn't get that impression.

McR: It wasn't my impression that anybody told the President that.

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- Gaston: My understanding was that when the President asked for names, he asked for names of roads that would be a potential market for this equipment.
- McR: I don't think the President understood at all that there would be any promises from railroads.
- H.M.Jr: Look at your notes, Mac. The smaller roads - there were several roads mentioned by name.
- Well now, look....
- Currie: I have a table prepared of the roads on the age of their equipment.
- H.M.Jr: All right, look, this is - as I say, I don't know how they work over in the Fed. The boys know how I work here. The Treasury is in a jam on this thing. Publicly I'm committed to it, you see. I'm committed to everything. I'm publicly committed. Now, let's get busy and see if there are any railroads that want to do this thing, and what I'd like you to do, as far as - and you're on the spot right over - along with the President of the United States. Therefore, what I would like you to do for the President and for the Treasury is to find out from Hopkins whether he - not so much the railroads, and so forth, but how far he'll go; and then, if you can find out, I'll contact him. But I'd like you to contact him first. Then let's - I mean we work under this terrific pressure, and if he'll go to bat and if he'd like me to call him up - but I think if you could get over there now and see him as soon as possible.... Have you got access to him?
- Currie: Yes.
- H.M.Jr: And I think the truth is always the best, and tell him what the situation is, and then if he'd want to assume this part of the program and would be willing to defend it on the Hill, fine and dandy. But I don't want to have Jimmy Byrnes call hearings and, let's say, start on this thing Monday and then have nobody willing to defend this thing. We've just got to make the best of what appears at the moment - of a bad bargain. Now, maybe it's all right. Fortunately, it's only down for a hundred million.

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But if you'll do that today, so that in the next 24 hours we can have somebody get busy who will contact the railroads as well, then we can comply with the President's request so that he can have a list of the railroads. And then if you tell me, "Mr. Hopkins would like to talk to you," or "will you call Mr. Hopkins?" I'll do it. So we can get busy and find out what railroads there are, so that within a reasonable time we can give the President what he wants, so he can say, "Well, there are so many railroads that want this thing," if that is so.

- Currie: Yes. I think that is very important before we go ahead, that we have at least an indication that they would be interested in taking so many freight cars if they could get them at such and such a price.
- H.M.Jr: I thought Mr. Eccles, when we had the (a) and (b) - I thought he leaned toward the Government corporation for this.
- Bell: Oh, he did.
- H.M.Jr: I thought that he leaned toward the Government corporation rather than through the RFC, at our last meeting.
- Bell: The President said, "I favor (b)," and both Mr. Delano and Mr. Eccles said, "I go along with that." It's in my notes.
- H.M.Jr: You wrote up the notes. That's what I thought.
- Currie: I think I certainly would like to tell Mr. Eccles about this.
- H.M.Jr: Will you tell Eccles the whole story, and maybe he'll want to jump in and say he'll do it.
- Currie: That would be fine.
- H.M.Jr: But I don't want - the way it is now, the President, you and I are responsible. You see? Now, somebody's got to go up on the Hill and defend this thing. I

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want to know who will actually talk to the railroads and who will do this job. I'm sorry I wasn't here.

Foley: How about Frank Wright in the RFC?

Currie: I haven't talked to him recently. Last year he was in favor of loans from the RFC, not this proposal. But Mr. Delano, I know, is in support of this proposal.

H.M.Jr: I think we're all right on everything else.

Currie: Well, I'll get right after that, Mr. Secretary, and let you know.

H.M.Jr: Has anybody else got any other ideas?

Thanks for coming over. Will you call me personally?

Currie: Yes, I'll get in touch with you as soon as I have something to report.

H.M.Jr: Thank you very much.

(Currie leaves)

Anybody want a last word?

Gaston: Only that I didn't understand that the President got any such definite impression as that there were certain roads that were in the market and ready, guaranteeing that they were ready to lease equipment.

H.M.Jr: Well then, why should he have asked for the names, Herbert?

Gaston: I should suppose he'd want to know what are the types of roads that have the minimum of equipment and worn out equipment, where there would be a potential market for good new cars at a low leasing rate.

H.M.Jr: Certain names were mentioned and he said, "Well, I want...." - he said, "Get Currie to give you...." The statement was made that Currie had a man out on the road contacting the railroads and that there are these - I mean on this sort of thing I don't -

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my memory hasn't failed me yet. And then the President said, "Well, tell Currie that I want a list of those railroads."

Well, we've been on the spot before and I'm not going to let this thing spoil a plan which is a wonderful plan, and I think it's going to do a lot of good.

Harry, what - to leave this thing - what's the next move now on the silver thing? What happens next?

White: Well, apparently there is a possibility that the tax discussion may take place, as you probably know, on the floor, which would postpone this other. But if you had a chance to see the papers this morning....

H.M.Jr: Yes.

White: Plastered over the papers.

H.M.Jr: I did, but I'm not....

White: Beyond that, I'm not familiar....

H.M.Jr: You or Foley - do you think there's any use of my talking to anybody?

White: I don't.

Foley: Not this morning.

H.M.Jr: Now, you people know what I'm doing. I'm sitting tight. Let me see if I can get the President and tell him that. You stay a minute on this equipment thing.

(On White House phone) Hello. - the President, please.
 - - - Hello. - the President. - Thank you. - - Yes. -
 Well, I would kind of like to talk to him before
 10:30, before my press conference, if you could send
 that slip in, please. - Thank you.

Lochhead: There have been quite a few inquiries in Philadelphia whether they'll hold the Mint open after the usual closing hour on June 30th to take transfers. I told

- 9 -

them we don't know of anything - I mean business as usual unless they hear something to the contrary.

H.M.Jr: You know my policy on Nellie Ross. McReynolds takes care of her.

Lochhead: I don't think it has to go as far as that even.

H.M.Jr: All right.

Well, Currie's - he'll get busy and we'll see what happens.

JUN 22 1939

My dear Mr. Secretary:

Reference is made to my letter of June 16, 1939, in reply to your communication of June 14, 1939 (EA 611.653/103) with further reference to the proposed imposition of countervailing duties on certain imports from Italy.

In my letter I stated, among other things, that this Department had communicated by cable with the Supervising Treasury Attache at Paris in respect of the name of the Treasury representative who will go to Rome and the date of his arrival in that city, and that your office would be furnished with that information upon receipt of the Supervising Treasury Attache's reply.

I am informed by cable of June 19, 1939, from the Supervising Treasury Attache at Paris that the names of the representatives of this Department who will go to Rome to confer with the Italian officials are Bernard Wait, William A. Conkright and N. Paterniti. They will arrive in Rome on June 25.

I am enclosing a copy of the cable sent today to Mr. Wait.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable

The Secretary of State

File to Mr. Thompson

ECC/EG/ep 6/22/39

By hand

COPY

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RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

June 22, 1939

Dear Mr. Secretary:

In connection with the transfer to your Department of Commodity Credit Corporation and its management, under the President's First Plan on Government Reorganization, the RFC stands ready to cooperate with you in the interest of its continued economical and efficient operation.

The administrative expenses of Commodity Credit Corporation from 1935 to 1939 have been less than 1/4 of 1% of the aggregate principal amount disbursed on loans and commitments. This low operating cost has been possible only by using the Agency force of the RFC, as well as the advice and counsel of its executives in the Washington office. The service has been rendered on a reimbursable basis without profit or loss to the RFC.

Most commodity loans have been made by local banks under arrangements by Commodity Credit Corporation and the RFC to take the loans up on demand, or on specified dates.

I do not know what your plans are, but in the interests of efficiency and economy the RFC will be glad to continue serving Commodity Credit Corporation on a reimbursable basis.

It is my impression that 3,000,000 loans to a million and a half farmers have, upon the whole, been handled in a manner satisfactory to the borrowers, as well as the banks, warehouses, and others that have cooperated in making the loans.

Sincerely yours,

(Signed) Jesse H. Jones

Chairman

Honorable Henry A. Wallace
Secretary of Agriculture
Washington, D. C.

June 22, 1939
9:03 a.m.

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HMJr: Hello.

Operator: They expect Mr. Currie in about a half hour.

HMJr: All right. See if he's at his home.

O: All right.

HMJr: Don't call me until you get him.

O: Right!

9:10 a.m.

HMJr: Hello.

Lauchlin
Currie: Good morning, Mr. Secretary.

HMJr: How are you?

O: Fine, thank you.

HMJr: Currie, you'll be pleased to know that the President
signed a letter last night.....

O: Yes?

HMJr:it goes up -- to be released by the White House at
eleven o'clock, -- to the Hill on this recovery program.

O: Oh, really?

HMJr: Yes.

O: Oh well, that's.....

HMJr: Now.....

O:that's splendid!

HMJr: Now, in discussing the thing -- I wasn't here when the
boys asked you about the railroads, or what railroads
would borrow, you see?

O: Yeah.

- HMJr: And that was the program that the President questioned the most closely. And they said -- where -- he said -- "Where did you get it from?" And they said, "Lauchlin Currie."
- C: Yes.
- HMJr: They didn't say Eccles, they said Currie. That's why I'm calling you.
- C: (Chuckle)
- HMJr: Now, the President asked last night and he'd like to have a list of the railroads that you know will use this device of getting new equipment.
- C: Well, you know, Mr. Secretary, that I've been very handicapped in doing with that -- anything with that, because the -- Mr. Eccles has kind of lost some interest in it, so I couldn't very well go out and contact the railways.
- HMJr: Well now.....
- C: I spoke to Mr. Hopkins about a week ago about it -- the conversation; he took a great deal of interest in it and he said he'd like to follow it up. He had some people on his Advisory Council and he was a very good friend of Mr. Kelley's and I think he -- he has been taking some.....
- HMJr: Well, the boys told the President -- I mean, when I -- my men last night told the President flatly that you've been contacting, that you had somebody out, and that you could furnish the names of the railroads that would borrow.
- C: I can't do that, Mr. Secretary.
- HMJr: Gee, that's terrible!
- CC: I mean, we -- we know the -- the borderline roads. We think that it would be profitable to them to rent on a short-term lease at a low rate.
- HMJr: I'll ask the -- when they come in at nine thirty. I can't remember whether it was Foley or McReynolds or Bell, but one of them quoted you as saying that you had a man out and that you could name the railroads.
- C: Well, I don't see how he could have said that because I haven't had any -- I haven't contacted any -- any of the

railroads at all. I've been indirectly sounding out some of the equipment people. Now there's two equipment men coming down to the Commerce tomorrow. Bill Thorp is going to talk to them, - the President of the American Locomotive, the President of the American Car and Foundry and Mr. -- and the Baldwin President is coming down the first of the week. They thought they'd sound out the equipment people first, where they get a good reduction on a very large order over a period of years and then take up the question with some of the borderline roads, like the Illinois Central, the B. and O., and others.

HMJr: But -- but you can't give the President a list. When you say you can't -- Currie -- I can't remember -- there were four of our men. I don't know which one, but one of them quoted you and quoted you to the President. I didn't because I.....

C: That's very unfortunate that he -- he certainly must have misunderstood me on that because I.....

HMJr: And he mentioned the name definitely that Currie has this list and has contacted them and so forth and so on. I'm sorry.....

C: You see, I had no authority to contact anybody on the outside and talk about this thing at all. I mean, I might have got in trouble for doing such a thing.

HMJr: Yeah.

C: And.....

HMJr: Well, after my men come in, I'll find out which one said it and -- I'm sorry for you, but I'm more sorry for the President.

C: Yes. I mean, it makes it even more important that we try to.....

HMJr: Because they.....

C:push this thing through I suppose.

HMJr: Two or three times -- I mean, they said, "Currie has the answer."

- C: Dear, dear, dear, dear. All I had, Mr. Secretary, was the bright idea, you know. I mean, I've done a lot of the technical work.....
- HMJr: Yeah.
- C:in working out the details and how it might be set up and how this objection might be met and how that. But I mean, I haven't had any authority or permission to go out and see if I -- it could be sold.
- HMJr: Well, who did you see the night that you were here -- wasn't it Monday night?
- C: That was a -- quite a big gang. I was in there just while they were discussing the railway thing. All -- it was all your people.
- HMJr: Well, I -- I.....
- C: Bell, McReynolds, Gaston.....
- HMJr: I don't question you, but I wish I had talked to you myself.
- C: It is a shame, yes.
- HMJr: Yeah. All right, Currie.
- C: That has actually gone in the program and is gone? That has actually gone up to.....
- HMJr: Yes.
- C:the Hill?
- HMJr: Yes.
- C: Well, we've got to pull it off then, don't we?
- HM Jr: What?
- C: We'll have to pull it off.
- HMJr: Yeah. You're on the spot.
- C: I am. (Laughter)
- HMJr: Because everybody -- well, the President was told it was you. Now, I didn't tell him that because I couldn't. I'll find out; I'll call you back after ten o'clock.

C: I'm afraid that won't help. I wouldn't be interested because -- on what basis I've said that.....

HMJr: Excuse me?

C: I say, I'm afraid that won't help an awful lot the immediate problem if I know who said it, but I would be interested.

HMJr: Well, would you do this. Would you come over to the office at ten and I'll have here whoever is here and let's see if we can't make good for the President. That's what I want to do.

C: Yes.

HMJr: I'm not interested in who said what, but I want to make good for him.

C: Yeah.

HMJr: So would you drop over here if you have.....

C: Yes, I'll do that.

HMJr: Thank you.

C: All right. Thanks.

June 22, 1939
9:20 a.m.

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Hull's
Secretary: Just one moment please, Mr. Secretary. Secretary
Hull is coming right on.

HMJr: Hello. Hello.

Operator: He'll be right on.

HMJr: Hello.

Cordell
Hull: Hello.

HMJr: Hello, Cordell.

H: How are you?

HMJr: I'm pretty well.

H: That's good.

HMJr: And you?

H: Fine!

HMJr: There are two things that I'd like to have your advice
and approval if you think well of them.

H: Yeah.

HMJr: One, the Finnish Minister has been in here two or three
times talking to us about his Government getting a
Government loan from the United States and he wanted
me now to sound out the Democratic leaders confidentially
to find out, and if they asked us formally for such a
loan, would they have a good chance of getting it through
Congress.

H: Yeah.

HMJr: I think I mentioned this to you before. I'm not sure.

H: I -- I don't remember about it. I guess you have.

HMJr: Well, I -- maybe I did to some of your people.

H: Yeah.

HMJr: Now, I spoke to the President about it and he said pro-
vided that they spend all the money in the United States
he had no objection to my sounding out the Democratic
leaders.

H: Yeah.

HMJr: How -- do you.....

H: That would be for Congress to authorize you?

HMJr: Yes, sir.

H: Yeah.

HMJr: Treasury -- Government to Government authorization from Congress.

H: Yeah. Well, I would write the check in just a little more with that Russian-Finnish situation.

HMJr: Fine!

H: The Russians have made demands on them, as I stated one day in the Cabinet.....

HMJr: Yeah.

H:for control of those Islands in the Gulf of Finland.

HMJr: I understand.

H: And so on.

HMJr: Well, I don't -- I don't want to do it unless you're.....

H: Well.....

HMJr:you'd be entirely happy about it.

H: Yes. Of course, we all sympathize very much with the Czechs and with the soundness of their credit.

HMJr: Well, this is the Finns.

H: How's that?

HMJr: Finland.

H: I mean the Finns, I didn't mean the Czechs, of course.

HMJr: Yes.

H: Suppose I check -- check on -- on the -- those other points a little and then I'll call you back.

- 3 -

HMJr: Yes, would -- now, number two: would you care to have me take up with the Russians, after six years, the question of their debt and try to come to a settlement with them?

H: Yes.

HMJr: Now, that's -- and now I'm -- I'm raising that.

H: Yes. Well, now I'll call you back on that.

HMJr: On both.

H: We may say that at one time.....

HMJr: Yeah.

H:the Ambassador, Russian Ambassador, agreed with what all of us together over there in the White House and here talked up.....

HMJr: Yes.

H:as a method of settlement.

HMJr: Yes.

H: They agreed -- he agreed on that but he couldn't get his Government to.

HMJr: Well.....

H: I don't know where that proposition is.

HMJr: On the Russian debt thing, I simply figured that if I got nowhere again why there would be nothing lost.

H: Yeah.

HMJr: If we were successful -- great!

H: Yeah.

HMJr: I think there's a chance of extending the trade between the two countries on quite a large scale.

H: Oh, they could buy hundreds of millions from us to a fine advantage to themselves.

HMJr: Yes, and.....

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- H: I'll call you back on these two things, Henry, sometime -- sometime a little later.
- HMJr: Well -- at -- at your convenience. But I don't want to do either unless you're entirely happy.
- H: Well, I'll give you anything I've got that would be helpful to you.
- HMJr: Thank you very much.
- H: Yeah.

June 22, 1939
11:40 a.m.

HMJr: Hello.

Operator: Mr. Welles. Go ahead.

HMJr: Hello.

Sumner
Welles: Good morning, Henry. How are you?

HMJr: Oh, wonderful! How are you?

W: Good! I'm equally wonderful.

HMJr: (Laughter) I'll sell out for five cents. What's your price?

W: No, I'll be a little more demanding, I think.

HMJr: I hate.....

W: Henry, Listen.....

HMJr: Yes.

W:with regard to our conversation of yesterday.....

HMJr: Yeah.

W:Yesterday evening I had a telegram from Bill Phillips in Rome saying that your Treasury man was due to arrive on the 28th of June.

HMJr: Yeah.

W: Now, my very urgent request is that instructions be sent to him to proceed immediately.

HMJr: Yeah.

W: Because if he gets there the 28th he'll only have 48 hours before the dead line, and that doesn't help.

HMJr: Well, today is Thursday.....

W: Today is Thursday, the 22nd.

HMJr: I'll tell him to be there -- well, he -- Monday morning.

W: Could you do that?

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HMJr: I'll order him there Monday morning.

W: Fine! Thanks a lot.

HMJr: I thought he'd gone.

W: So did I. But this -- this gives a reasonable time.

HMJr: Well, you'll be satisfied if he's there Monday morning?

W: Yes, indeed.

HMJr: Well, he'll be there.

W: But that means that -- ready to begin work Monday morning.

HMJr: Well, I'll tell him to get there -- I'll tell him to arrive in Rome Sunday.

W: That's fine. Then he can start in Monday morning.

HMJr: I'll tell him to get an order he is to be -- arrive in Rome Sunday.

W: Thank you very much indeed. That will settle that.

HMJr: Righto!

W: Thank you, Henry.

HMJr: Good bye.

W: Good bye.

June 22, 1939
11:41 a.m.

HMJr: Ed, Sumner Welles just called up and says he got a letter -- it came from Bill Phillips, that our Treasury man wasn't going to arrive in Rome until the 28th.

Ed
Foley: I see.

HMJr: Please issue instructions to whoever's job it is that he should arrive in Rome on Sunday, the 25th.

F: The 25th.

HMJr: Ready to go to work on the morning of the 26th.

F: All right, sir. I'll take care of it right away.

HMJr: Arrive in Rome on Sunday, the 25th.

F: And be prepared to start on the 26th.

HMJr: Yeah.

F: All right, sir.

HMJr: That's a "must" order.

F: I'll do it right away.

HMJr: Right.

F: Yeah.

June 22, 1939
3:20 p.m.

HMJr: Hello.

Operator: Mr. Messersmith is at an official luncheon.

HMJr: Well.....

O: He'll call you when he comes in.

3:52 p.m.

George S.
Messersmith: Yes, Mr. Morgenthau.

HMJr: Hello, Mr. Messersmith. I had Mr. Merle Cochran in this morning.

M: Yeah.

HMJr: And he suggested that I call you and find out whether the State Department has or has not given their formal approval to assigning him to the Treasury.

M: Oh! Well, I told him to tell you that I thought I wouldn't bother you with it. He said he was going to see you -- that we find that we can assign him under the law here to the Department and then detail him to the Treasury.

HMJr: Fine.

M: It's just a matter of form, you know.

HMJr: I see.

M: And we would -- he would get his salary as a foreign service officer here, you see, assigned to the Department.

HMJr: Yes.

M: But that doesn't make any difference.

HMJr: Well.....

M: To all intents and purposes, you see, he would be -- he's altogether over in your department.

HMJr: Fine. And the other matter.....

M: What's that?

HMJr: The other matter that he raised which I think would be nice, that if before he did come over he could be given the rank of Counselor.

M: Oh, yeah. (chuckling)

HMJr: What?

M: Well, he raised that with me and we talked it over in the Board yesterday and it's -- it really doesn't make very much sense, you know, because he's a foreign service officer of class one.....

HMJr: Yeah.

M:and the -- in giving him the distinction that you're conveying -- that you're giving him as -- giving him this important assignment in the Treasury, it seems to me is more than any designation that he can get. And it's almost impossible for us -- the title of Counselor is given to a man in the field, you know.

HMJr: Well I don't know. I -- I'm unfamiliar.

M: What's that?

HMJr: I'm not familiar with those things.

M: No. Well, we tried to find yesterday a way by which we could do it, but I really don't see how we could do it. I'm still studying that part of it.

HMJr: O. K.

M: We're trying to do what we can, you see, but.....

HMJr: Well, that's -- that's your business. I'm just.....

M: Yeah.

HMJr: He could..... raising it, and it's something that he would like, if he could.....

M: Yeah. Well, I'll -- I tell you, I want to do it if we can do it.

HMJr: Well, I'm just -- I'm not pressing it, but.....

M: Yeah.

HMJr:I'm just raising raising the point.

M: Yeah.

HMJr: And if not he'd-- I told him this, that there was no use coming to a definite agreement with the Department until we had a Stabilization Fund, see?

M: Yeah. Right! Yeah.

HMJr: The way it looks now, I don't know whether I'll have one on the First of July or not.

M: (Chuckling) Well, I hope that they'll stick -- quit their fooling.

HMJr: So he thought he'd stick around and wait and see what happens.

M: Well, I.....

HMJr: And that's what I advised him.

M: Well, that's not a bad idea. There's no reason why he shouldn't do that. His wife is sick anyway.

HMJr: I -- he wanted to know different things about Bullitt and so forth, and I told him nothing.

M: No, I wouldn't. He wants to forget those things. I'll have a good talk with him when he comes.

HMJr: Now, I figured that that wasn't up to me.

M: No, sir. No.

HMJr: I mean, that's none of my business.

M: No. Well, and he wants to forget all about that.

HMJr: Right.

M: Yeah.

HMJr: Well, I think some.....

M: Well, so far as we're concerned, Mr. Secretary, why he can -- we'll be glad to make him available to you here.

HMJr: Fine!

M: There won't be any difficulty about that.

HMJr: Now, here's the thing. We can't pay him any extra money when he's in Washington. You see?

M: No.

HMJr: He's raised that.

M: Well, I don't see -- he's just like any other officer. I -- I'm here and my salary is cut in half by my being here. His salary at least remains unchanged, you know.

HMJr: I can't -- what I can do and what my people tell me is perfectly proper, that we could assist him, sort of on the cancellation -- would be give him a sum which he could use for the cancellation of his lease, et cetera, et cetera.

M: Yeah.

HMJr: I mean, we have the right to give people money.....

M: Yeah.

HMJr:who are in the foreign service abroad.....

M: Yes.

HMJr:to spend, and he could use that money, which will help him.....

M: Yeah.

HMJr:cancel his lease.

M: Yes.

HMJr: Now that, I'm willing to do and do cheerfully.....

M: Yes.

HMJr:which I think is fair. Don't you?

M: Yes, that's all right.

HMJr: But when he comes back to Washington my people advise me that.....

M: Yes, I think it would be difficult. Yeah.

HMJr: Yes, that.....
M: Yeah.
HMJr:that -- we never do that.
M: No.
HMJr: And I guess you don't do it.....
M: No, sir. We don't do it either. No.
HMJr: Well, he ought to know that.
M: No, he can't expect that. No.
HMJr: All right. Well, thank you very much.
M: Good bye.
HMJr: Good bye.

June 22, 1939
4:15 p.m.

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HMJr: Hello.

Operator: Senator Harrison.

HMJr: Hello.

Pat
Harrison: Hello.

HMJr: Pat?

H: Yeah.

HMJr: My heartiest congratulations!

H: Oh, hello, Henry. How are you, sir?

HMJr: Fine!

H: Well, we got through without any trouble.

HMJr: Oh, you're wonderful!

H: We got through all right.

HMJr: Won't you take hold of my Stabilization Fund bill now?

H: What's that?

HMJr: Won't you put through my Stabilization Fund bill for me now?

H: Well, they got back on it now.

HMJr: Have they? I think you did a magnificent job, Pat.

H: Thank you, Henry. I think you fellows did a wonderful job and you had -- you showed a lot of "guts". And I've just got so in my old age I admire "guts".

HMJr: Well, I admire a southern gentleman.

H: Well, good luck to you, Henry.

HMJr: And that's what you are and I think that through the whole thing you've showed great patience and today you've had your reward.

H: Well, everything worked out all right.

HMJr: Good bye.
H: Good luck to you.

June 22, 1939

10:50 am

Present:

Mr. Hanes
Mr. Gaston
Mr. Foley
Mr. Lochhead
Dr. White
Mr. McReynolds
Mr. Bernstein
Mrs. Klotz

HM, Jr.: Gentlemen, this is terribly important.

I called up the President and told him that silver was selling at half a cent above the market. He said, Well, let's hold everything.

He said, Now I am going to write a letter to the Vice President on Monday that while it's none of my business what the Senate does, but six Senators are holding up -- you fellow better make some notes -- are holding up the Relief Bill, the Stabilization Bill and the Tax Bill.

Now, the President said when it comes to the Relief Bill, the Tax Bill, we just got to have it. Stabilization Fund, we can re-enact it. This is the second time he has said this. He does not seem to understand what will happen if the Stabilization Fund Bill does not pass. I said, in the first place the men all go off the payroll and I think the Tripartite goes out the window. I said, furthermore under the present law we are buying silver under the Thomas amendment, but after the first of July we will be buying under the Silver Purchase Act which only directs me to buy silver when it is in the public interest and will it be in the public interest to buy silver after the first of July?

He said, Well, get me everything together so I can use it to base a letter. So I said, Mr. President, there are ways we can circumvent some of these things if we did not have a Stabilization Bill or I

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show you various things that can happen and point out the way we can circumvent. So he said, Well, make it just as black as possible.

This is terrifically important! The reason I asked Hanes in, I wanted him naturally to know what's going on in case they ask you on the Hill, but I want to pin this on Archie Lochhead and Foley. How busy are you, White, today on getting ready this stuff for Wagner?

Mr. Foley: He will probably have a breathing spell today because it's gone over.

HM, Jr: Well, the President did not ask me to include in this memorandum about unemployment. I would throw that in gratuitously and show him that that bill is going to go out. Guess I had better not. He did not ask us.

The thing I want to show -- he is asking, and I ask you, to draw on your imagination so he can make this thing just as strong on Stabilization Fund. I am going to say on the first of July I will have to notify these countries that we can't carry out our gentlemen's agreement on the Tripartite. Is that right?

Mr. Lochhead: It's being operated at the present time under Stabilization.

Dr. White: I would want to think that over.

HM, Jr: I will tell you what you fellows do: draw me up two kinds of memorandum; one, which is what will happen and what we could do. You can do this, that and the other thing. Then we will slide around it a little bit. See? But I would be ready early tomorrow morning to sit down with you people. I will say 9 o'clock if you people will come in with this thing and let's get this thing because the President is leaving. I think we ought to get it over to him -- he's going to write it Monday; he's leaving tomorrow afternoon. I wonder if we should get it over still tonight? I think it's terribly important. I think we ought to get it over tonight. Or is that crowding you too much?

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Mr. Foley: You want a memorandum from you to the President?

HM, Jr: Memorandum from me to the President.

Mr. Foley: stating what the position of the Treasury will be if these powers are not extended.

HM, Jr: If the Tax Bill and the Stabilization Fund are not passed by June 30th. That's what he is asking us, and he said paint it as black as possible.

Dr. White: And you want to leave out the Relief Bill?

HM, Jr: He said the Relief Bill.

Mr. Foley: That's the least important, I think, Mr. Secretary, because these other powers lapse and our relief stuff, if it isn't passed July 1, they still have some funds they can use until these other funds are available.

HM, Jr: I don't want to be immodest, but would like to draw attention that I don't leave a stone unturned on these things and the President seems to be under the impression that it is not important if the Stabilization Fund just dies on the first of July; it can be re-enacted.

And Mac, for me -- this has nothing to do with this -- I want you, if you ever were good, and you are good, at your work, to find a way for me -- and this is not an if, and or but -- how I can take care of the men on the Stabilization Fund out of some other Fund in case it does not pass. This is not for the President, but for me. In other words, if the Bill does not pass -- is the Emergency Banking Roll still in existence?

Mr. McReynolds: No. We have no Emergency Banking Roll. We would have to put them on regular

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rolls. Would have to be done by Executive Order in most of the cases. But I will get the roll and find out how it is.

HM, Jr: And tomorrow morning I want to know so I can -- you have got to find me a way how I can pay these men on the first of July. They have got to be paid, because I don't want it to happen like in Alcohol Tax that for three months they were without pay. You haven't thought about it?

Mr. McReynolds: No, I haven't, but they can be paid. In order to make them eligible you may not be able to pay if there is more than -- well, we may not be able to pay more than \$9,000 or \$10,000 in any case.

HM, Jr: Well, there isn't any one but Archie. Archie goes on as Assistant to the Secretary, so he's taken care of.

Mr. McReynolds: The others can be taken care of and it will take an Executive Order to make them eligible, but it can be done in that way. But I will get the roll and

HM, Jr: Congress would not be interested. Nobody would be interested in that except myself because they are cruel and they don't care, but I want them taken care of and I don't want them to worry.

Dr. White: I will pass that on with your permission.

HM, Jr: If they can't do it any other way, I personally will advance their salary and lend them the money personally, but they will be taken care of, one way or another.

Now you fellows go out and do a job. Make this thing dramatic. Tripartite goes out the window! Sterling -- we don't know where she will go! As the President said, that six fellows can hold up the whole thing is a most outrageous performance and I will tell

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Mr. Foley: I am not worried about the tax bill going on today, but I would be terribly worried if they moved the Relief Bill ahead of Stabilization, but I don't think they can because they won't be ready, so if we come back on the calendar Friday, then with the Relief Bill behind us, they will have to take some action on the Stabilization Bill.

HM, Jr: But, Ed. What I am worried about is that they won't let the Tax Bill pass and that's what the President is worried about.

Mr. Hanes: They will pass the Tax Bill today.

Mr. Foley: Biffle told me they would have the Tax Bill off the floor tonight and if it wasn't for the La Follette amendments it would be through in 20 minutes.

Dr. White: I wonder if emphasis should not be confined exclusively to the Stabilization Fund.

HM, Jr: If these gentlemen are right, -- we will know by tonight if they are right or wrong -- then it's all Stabilization.

Dr. White: If they heard your last remark it would be infinitely more effective!

HM, Jr: The President told me to do nothing and say nothing on silver today.

Mrs. Klotz: That's right. "Hold everything on silver today."

Dr. White: And I wish you would not make your remark outside, because you are buying silver and you are buying it in the public interest and you would have a difficult time proving it was in the public interest on Monday and not on Tuesday.

HM, Jr: You will be surprised, Harry.

Mr. Gaston: We have tackled more difficult things than that.

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HM, Jr: I think if we get through the Tax Bill today, then the whole Treasury will go to work on this Stabilization thing. I hope Hanes is right!

Mr. Hanes: Senator Barkley told me last night that he just had to get the Tax Bill before they could move a thing, because if it went over to next week there was no possibility of getting your Stabilization out.

HM, Jr: I hope you are right. But I know McCarran and Thomas and they may hold the whole business up because from their standpoint, if they had the Tax Bill and a Relief Bill, and the Stabilization Fund all backed off

Mr. Hanes: ... they could drive a bargain.

HM, Jr: That's right.

Now, gentlemen, we meet tomorrow morning on this thing at 9 o'clock.

oOo-oOo

GROUP MEETING

June 22, 1939.
9:30 A. M.

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

H.M.Jr: Did you (McReynolds) get my memorandum about these three plaques for these battleships?

McR: Several of them.

H.M.Jr: When do I get the plaques? Where is the hitch?

McR: Well, Herbert's got to get something....

H.M.Jr: Well, I think it's ridiculous; I've asked for this now for six months, and I can't get three plaques for three battleships.

McR: Well, I got hold of the Procurement boys and they wanted the wording, wanted to know whether they were to be other than just plain plaques, what inscription on them, and....

H.M.Jr: Well, Mac, before I go home tonight I want the order, I want the design, I want the thing finished - before I go home tonight - and I'm not going to take any more excuses. I wait six months to get three plaques. If necessary - I don't have to go outside the Government to get them, do I?

McR: No, no.

H.M.Jr: It seems that somebody....

McR: They can make them.

H.M.Jr: You know my - I like to ask for a thing once. These people have done this thing, and I've got to ask

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over and over again for three plaques for three battleships. Perfectly ridiculous. I mean I....

McR: Have you any definite idea about the form of the plaques?

H.M.Jr: Well, the whole thing - my God, can't the Treasury organization - I told you to ask Admiral Peoples. What?

McR: I did that. I asked Ned Bruce. I couldn't get any enthusiasm on anybody's part. They all wanted to be told what to put on, what form we wanted.

H.M.Jr: Well, what have I got assistants for? At 9:30 tomorrow morning I want three plaques, and somebody around here can write something. I mean they got - we got one for the Crown Prince of Denmark to put on the Post Office at Rhinebeck, because the President wanted it.

(On phone) Tell Mr. Hanes I'm waiting.

Mac, please - 9:30 tomorrow morning, the finished thing - the design, everything finished. Somebody around this place ought to be able to - I'm not going to write it myself.

Who is missing here?

Klotz: Hanes and Foley.

H.M.Jr: (On phone) I'm waiting for Hanes and Foley. - - Where's Foley?

Will you have it in at 9:30 tomorrow morning, the finished thing, everything? - if I've got to pay for it myself.

McR: I'll give you something if I have to write it myself. It won't be much if I have to do it myself. I'll get it done for you.

H.M.Jr: Hasn't the Navy got some people? Well, anyway, Mac, out of the whole Treasury organization there ought to be....

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McR: We'll have something for you.

H.M.Jr: Herbert, you got anything?

Gaston: No, I haven't got anything.

H.M.Jr: What?

Gaston: You'll hold a press conference, I suppose, at 10:30 this morning.

H.M.Jr: Yes.

Gaston: And I don't think I'd better go across the street.

H.M.Jr: Well, check to make sure, because if the boys press me on this thing I want to be able to say he'll do it at 11:00 o'clock at the White House.

Gaston: Say we won't do it at this time.

H.M.Jr: I'll say they'll have to get it from the White House.

Gaston: Have to get it from the White House. Said probably would have it by Friday.

Duffield: (Nods nothing).

Gibbons: Did you get the report from Bullitt on Wait in Paris? Did he give you that?

H.M.Jr: Yes.

Gibbons: Oppie told me about it. In answering it.... Seemed to be pretty bad.

H.M.Jr: Well, I gave it to somebody, I don't know who.

Gibbons: I haven't seen it.

H.M.Jr: Who did I....

Gibbons: Want me to handle it, to check him up?

Klotz: It was so bad?

H.M.Jr: It was a letter. Who can find out....

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- Klotz: It's there (pointing to stack of correspondence on back table).
- H.M.Jr: No. Will you speak to me about it afterwards. I don't know just where the letter is. Let me get the letter. It was a formal letter.
- Gibbons: I took the liberty of asking Corman if he had a report on it. He said no. Apparently Wait hadn't reported it.
- H.M.Jr: Let me get hold of Bullitt's letter.
- Gibbons: Nothing else.
- Haas: I have nothing.
- H.M.Jr: Harry?
- White: Senator Wagner called up yesterday and wanted us to prepare a statement for him that he might use on the floor, as his own, not as a Treasury statement, on Senator Thomas's bill. Now, that bill includes the demand for increased use of silver, on which we can get him something. It also includes a demand that gold in the stabilization fund, a billion and a half of that gold plus 500 million in the free gold, be set aside as a special fund to be used for the reduction of outstanding debts as bills run off, et cetera. Do you want to say anything about that or take any position on it?
- H.M.Jr: My thought is that as far as I am concerned I'm going to be a sphinx. The President of the United States told me he personally would handle this matter with Key Pittman yesterday, and he also told me he wanted - in discussing this thing, he wants to make the neutrality legislation part of the bargain.
- So, as far as the Treasury is concerned, my position is that on the evening of June 30th I will consult with the President as to what price is to be set, if we have the legislation, the Thomas amendment. Now, if we don't have the legislation, then on the first of July I'll go and see the President and say, "Now, we are acting under a mandate of Congress

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to buy if it is in the public interest, and then the question is what we'll do - well, is it in the public interest to buy any silver?"

Now, as of the night of June 30th, if they pass this thing, then we act one way. On July 1st, it's a question, is it in the public interest to buy any silver? But as far as I'm concerned, I don't want to drop any hint at all as to what my position is.

White: Yes, that's quite clear and I think quite defensible. I wasn't referring to silver. I think that's what I understood as to the position you were going to take. I am referring now to that section of the bill which relates to the use of gold for the purpose of retiring outstanding debt. Now, we have a choice either of saying nothing at all or of taking the position - this is for Wagner to come out on the floor with, not....

H.M.Jr: Well, my position and the position of the President of the United States is that the ultimate use of the gold in the stabilization fund, the two billion dollars - the ultimate use will be to retire the outstanding debt. That's obvious. Does that answer your question?

White: Yes. The reason I'm asking is, I don't think my position and yours is the same. I want to give them yours.

H.M.Jr: You're giving them the position of the President of the United States.

White: I want to give them the Treasury's position.

H.M.Jr: The position of the President of the United States and the Secretary of the Treasury is that the ultimate use of the gold in the stabilization fund - solely will be used for retirement of the outstanding debt.

White: That's not wholly clear in that bill. That's what they want. The only question is, what is "ultimate"? They are not asking in that portion of the bill for anything different. They want to let the bills run off. Now, the position you take and I'll give is that you're not ready....

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- H.M.Jr: No, I'll go further - for use either in the stabilization fund or retirement of the debt and for nothing else.
- Bell: You made that quite clear in your August 6 speech.
- H.M.Jr: (On phone) Send in word to Hanes's secretary it's important that he be here, please.
- Bell: You said when the stabilization fund had served its purpose you would use the fund to retire debt.
- White: Well, when it will have served its purpose - I think that's a vulnerable position, but that's the one I'm going to give if that's what you want.
- H.M.Jr: Well, unquestionably that's the position that I've taken - I've said this now for about three years running.
- White: O. K.
- You might be interested in trade reports, because the comparison is rather significant. If we compare our trade for the first four months of this year, which is the latest figure that we can get for other countries as well as our own, with the exception of Australia, which is a small competitor, the United States exports have dropped more than any other of the leading countries and our imports have risen much more than any other country - substantially more, with the exception of Sweden.
- H.M.Jr: Now, could I have that on one page.
- White: Well, it is; it's just a table.
- H.M.Jr: Please.
- (White hands table to Secretary)
- H.M.Jr: Let me see if I've got it. Our exports have dropped substantially more, and our imports have....
- White:risen substantially more.
- H.M.Jr: Right.

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White: With the exception of Australia.

(Hanes comes in)

Hanes: Sorry. Telephoned old man Doughton.

H.M.Jr: All right. I want you to get this.

White: Capital continues to flow out.

H.M.Jr: Twenty-one million.

White: And I'd like to take up the question of the dumping cases, unless you're in a hurry, in which case I can postpone it.

H.M.Jr: Postpone it.

Now, just for the record, I want to know if - I want to get this on the record, and it's very important. Who saw Currie Monday night and who got assurances from Currie as to what the railroads would do in the way of borrowing money to buy new equipment?

White: Well, I saw him first, talked to him while waiting until some of the men who were with the Committee were interviewed, because according to your instructions we didn't want to get them together. And I stepped out to talk with him for a while until they got through, and then he waited about an hour until they were through with everybody else and then he came in and the whole Committee spoke to him.

H.M.Jr: Well, to the best of your recollection, or anybody else's recollection, what statements did he make in support of this plan?

White: He made a lot.... At the time? I couldn't - I'm so familiar with the statements in support of it, that whether he made them at that point or at any other point, I don't know. But there is the whole - there's his written statement right in the memorandum. The report that went to the President is a complete defense of that position.

H.M.Jr: Well, to the best of your recollection, what is it?

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- White: As to what he said that night?
- H.M.Jr: That night or any other.
- White: On what are the merits of the plan, what is his defense of the plan?
- H.M.Jr: As to the need, not as to the merit.
- White: As to the need.
- H.M.Jr: The need.
- White: His position was that the good roads have adequate and surplus of freight cars. In fact, they loan out, they hire, they lease out their surplus cars to less prosperous roads. And the poor roads have a great deal of equipment in which the upkeep is greater than would be the estimated price at which this corporation could lease the new equipment on a yearly basis; and that the inducement for those railroads to lease this new equipment, again at these low figures, would be the fact that it would be less than the upkeep, plus the fact that they get an equity in the particular equipment that they hire by virtue of the arrangement by which they pay depreciation as well as the interest cost.
- H.M.Jr: May I interrupt? But what I'm trying to get at is, what assurances did you get from Currie that there was a market for this, a need?
- White: Oh, it's only his opinion. Assurances from him? He couldn't give any assurances. He hasn't had any....
- Bell: He did say this, Harry, that he had a man who had traveled all over the country and had interviewed many of the railroad officials, particularly the smaller and weaker roads, and he said that they were paying at the present time a dollar to a dollar and a quarter a day for cars which they are renting from the larger roads which you state have the surplus. Now, he contended that this organization that we are proposing here could build new cars for about twenty-five hundred dollars and rent them for less than half what they are now paying as rent to the larger carriers. He thought a hundred thousand cars could be built and rented

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in the year 1940, for 40 or 50 cents a day; that fifty thousand cars could certainly be built, and there would be less surplus in the following year; and that there were several thousand locomotives that could be built.

White: I don't remember that, but if you....

Bell: Is that about right, Ed?

Foley: That's right. He said there were two schools of thought. The larger roads said there wasn't any need because they were renting their surplus equipment to the weaker roads. The weaker roads said they were paying a dollar or more a day for cars from the larger roads and there was a great need. So you have the conflicting stories and you just had to take your choice.

White: Well, there was some support - well, there's more support of the over-all picture, not as to the specific figures, because his man has made a study, probably the most comprehensive study that's been made of the equipment in existence, the length of years in which that same equipment has been in existence, and the need for - the number of cars which would be needed at a given flow of traffic, and the amount of traffic that might be needed under given conditions. And they conclude several things. They conclude - one is that the equipment over much of our railroad system is very old and very bad and that these companies would gladly acquire new equipment if they were financially able to do so, and many others would buy more equipment.

H.M.Jr: What companies?

White: Didn't specify.

Bell: He gave as one example the Denver and Rio Grande.

White: That was the only one he mentioned. If there were others, I don't remember them.

H.M.Jr: Well, as I remember it, one or two of you gentlemen reported this to the President, mentioning Currie

- 10 -

by name, saying he had this.

Foley: Both of us - Dan and I both said that.

H.M.Jr: All right, and you remember last night the President said, "Get hold of Currie and let him give us the names of the railroads that want to do this."

Foley: Yes.

H.M.Jr: Well, I called up Currie this morning and told him this. Currie said, "I have no names." He said, "I've contacted no railroads." He said, "I just had a...." - I think he used the word "happy idea - happy thought."

White: I didn't understand him to say he contacted railroads, but he did say....

H.M.Jr: Well, I wasn't there. These people were. Now, Mac took this, and this is what we told the President of the United States, that he had a man out on the road, that he had contacted the people.

McR: That's right. He unquestionably said that.

H.M.Jr: Now, this morning I called him up. He said, "Well, I just had a happy thought." He said, "The Chairman has lost interest in this." He said, "I haven't contacted a single railroad." And he said, "This is terrible."

So I said, "Currie, I can't remember because I wasn't there, but one or two of our men quoted you a number of times to the President. Now the President wants you to give us the names of the roads." And Currie said, "I have no names." He said, "The Chairman has lost interest." He said, "About a week or ten days ago I went around to see Mr. Hopkins and asked him if he'd take it up. Mr. Hopkins was interested. But," he said, "I can't give you any names. I haven't contacted anybody. It's just a happy idea."

Foley: I asked him if he would appear before the Committee and defend it and he said, "Yes." And I said, "I thought - can you defend that even though Eccles isn't in favor of it?" He said, "Yes."

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H.M. Jr: Here's the position I'm in. I go to the President of the United States, asking for - after five of my people investigate this thing: McReynolds, Bell, White, Foley and Gaston - and I tell him that this is all right. Now I call up Currie and he tells me - I don't know the exact phrases - he's got a happy thought, he's got no facts, nothing. And I've got to take this. I can't say, "I had five men say this thing and now they can't give you the names of the railroads and there is no railroad that is going to borrow." And I'm in the worst position I have ever been in almost since I've been in Washington.

White: Have they done the same thing with the other estimates, with regard to toll roads and the others? All we did in each case, as I understood it, was call in the man who knew most about it or who was working on it, to get his estimate as to what he thought would be the case. I don't think we made any attempt in any of the cases, though some of them didn't lend themselves to it, to find out whether we could have this, whether it would work out. When we put down 500 million dollars of loans, we didn't find out whether those companies would buy it. We assumed that was a situation in which it could go through.

Bell: We did make it quite clear, Harry, to whoever we talked to that the estimates they were furnishing to this group would have to be defended by them before a committee in Congress, and that we wanted them to be sure they could defend them and not get the President out on a limb.

White: Certainly said that several times; I don't know whether to Currie....

Bell: We said that to everybody.

H.M. Jr: The President personally called Jesse Jones on the foreign loan. He cleared that. I cleared with Stewart McDonald. So everything has been cleared except this one.

It's exactly the same as though I was president of a corporation and my sales staff said, "Now, Mr. Morgenthau, if you spend a million dollars for advertising we can sell 50 million dollars worth of shoes, because the market is there. I place my advertising

- 12 -

and I find that the market isn't there. Well, I know what would happen in a private corporation.

I've never been in a position like this before.

White: I don't quite see the point, if I may say so, Mr. Secretary.

H.M.Jr: Well, if you don't see it, Harry, then there's something the matter with you. For one year you've been selling this yourself to me.

White: I've been saying it was an excellent idea. Now, do you presume that for one moment we can go around to various railroads and ask them if, as, and when such a plan goes into effect, under what conditions they would participate? Would that be our privilege? And consequently, we set this up as an idea which is worthy of consideration and value, and that's the way it was sent the President. And it still remains a good idea.

H.M.Jr: Oh, Harry, don't talk like that to me, don't tell me to have the President of the United States to recommend a form of corporation to do things when we don't know whether there is a single railroad that wants to borrow. And these people have been told they are to go up to defend this thing. I mean there's a limit to my patience and also I have a slight amount of intelligence. I've asked Currie to come over here at 10:00 o'clock, and as I told Currie, I'm on the spot and I want help now, in order that we can make the best of this thing. I mean I talked very quietly to Currie - I mean Currie doesn't work for me - and I want to do the best job that I can in order to get the President out of this hole.

McR: Now, Currie said that he....

H.M.Jr: I didn't contact Currie. And Currie was on the phone and he said - I mean just kept repeating - I don't know what he said to you gentlemen, and I've got no right to hold Currie to anything, but you people saw him and I'm relying on you people.

Gaston: He said he had been studying this matter, I think, for something over a year, gathering a great deal of statistics on the amount of railroad equipment

- 13 -

and the need for railroad equipment....

McR: Well, Herbert....

Foley: Herbert said last night, Mr. Secretary, when we went back, as I remember it, that we hadn't gotten the names of the roads.

H.M.Jr: Well, the President has asked us to.

Foley: He told that to the President last night after we went back, said, "Mr. President, we didn't get the names of the roads that would use this stuff."

Gaston: No, I didn't say that.

H.M.Jr: No, he didn't - excuse me.

Foley: Was it you (Bell)?

Bell: I said to the President that I had not checked the figure of expenditures for 1940, which he suggested might be rechecked, but I said, "It's less - your figure is less than what Currie originally gave us." So he said, "Well, all right, we'll accept it then, if it's less than what he said." So the President reduced it.

Gaston: Very certainly said that we were satisfied that you could lease that amount of equipment.

Bell: And it was based on a study of this man who has been around the country - they had contacted people in the Interstate Commerce Commission, and he mentioned Mr. De Groot by name, who was satisfied that it could be done. He mentioned one typical example of the Denver and Rio Grande, equipment of which was built in 1896 and in a terribly dilapidated condition.

White: I got a very different impression out of his testimony. I was there during his testimony. I know exactly how he feels. It so happens I remember very clearly what he said. He stated - he mentioned this Rio Grande as being one of the illustrations of the type of road that could use the equipment. He mentioned the fact that the large roads had a surplus and that they were opposed to the idea.

- 14 -

He made clear the fact that his estimates were based on an over-all study, and the fact that his man had been going around gathering statistics and data. And I don't remember him saying at any time - it will be up to him to say whether or not he did - but I definitely don't remember his saying at any time that he contacted railroad men over the country to find out whether they want this or not. In fact, I remember him saying something to the contrary, that he hadn't, and - well, he'll be here, he can speak for himself. But that's my recollection of it. In fact....

McR: Harry, it seems to me that the key to this lies in the fact that Currie's statement - Currie's statement was that someone for him, not he himself, had contacted not only the roads but the manufacturers of railroad equipment.

White: Railroad equipment, yes.

McR: He said, "You'll find the manufacturers of railroad equipment with statistics as to the amount of equipment in existence and its age, and they'll prove to you...."

Foley: He said they'll testify.

McR: "...and they'll testify as to the need for new equipment. And the smaller roads will do the same thing."

H.M.Jr: He said that this morning.

White: That's very true. That's a very different thing from saying he went around or his men went around to railroads to find out how much equipment they would use.

H.M.Jr: That's what we told the President.

White: That's not what he said.

H.M.Jr: I didn't tell him, because I couldn't. But, as I told Currie, his name was used two or three times by two of our people in reporting what he said. Now, furthermore, in Mr. Eccles' speech in Boston on Saturday, this is one of the things that he

- 15 -

recommends, and if you'll remember, when we went over the program, I was against this thing because I didn't have enough things and I wanted to leave it with the RFC and see what we could do. But that's neither here - and when we get all washed up, whatever it is, I'll take it, the way I always do. But I want to try to make the best of what seems like a very bad bargain. And I'm going to caution everybody extra, extra, that this whole discussion in this room mustn't get out of this room.

White:

Well, but I think there is a certain amount of misunderstanding. Despite the fact that my continued reiteration of that might be irritating, I think it is important enough to make clear just what the position is that Currie has taken in this and the position I have taken in this, and I take it the position that Committee had taken in recommending these measures. They had never gone - we never - one of the things that we didn't know was how much they could use. As a matter of fact, that night Currie thought they could use 350 million, and you remember I said - I was pressing for him to reduce it, said, "We don't know, you don't know; let's make it 200 million - more certain." I said, "After all, you're discussing how much they would use from an economic point of view, not because you have any leases in your pockets."

H.M.Jr:

What is the figure in the President's letter? How much?

White:

Two fifty that night; I don't know what....

Foley:

A hundred million. He cut it in two.

H.M.Jr:

Well, the point....

Bell:

But Currie did have 250.

Foley:

After he talked to Jesse Jones, he cut it in two.

H.M.Jr:

But the point is that we go over there - two of these gentlemen, I can't remember who, told the President and kept quoting Currie that he had somebody out on the road contacting the railroads,

- 16 -

and said that these railroads said so and so.
Am I right, Ed?

- Foley: Dan Bell, Herbert Gaston and I talked to the President. I talked first. I said there were two schools of thought. The big roads were leasing their surplus equipment to the small roads, and they were satisfied there wasn't any need for this. There were the small roads that were paying a high rental charge to the big roads, and they would say there was. And there were the two schools of thought and you had to pay your money and take your choice. I think those were the exact words I used. Then Dan talked and a little bit later Herbert talked a little about it.
- Gaston: I think I merely repeated that Currie said the larger roads would be opposed to this because they had at this time surplus equipment; that he anticipated that with a pick-up in freight traffic there would be a shortage and there would be an ultimate demand for a large number of ordinary freight cars.
- Foley: That's right. I think Dan went on from there, and then he called Jesse Jones.
- Haas: Mr. Secretary, on this, when I made the rounds of these reporting companies, Hardy, who is President of the American Car and Foundry, told me this was his idea when Woodin was here - tried to get it over and somebody killed it. He was still enthusiastic when I called him.
- Foley: He brought it to the PWA in 1933.
- Haas: I think he said Ickes killed it.
- Foley: Sure he did. Hardy was too close to American Car and Foundry.
- Gaston: I didn't understand Currie to say there was an assured market in the sense that any of these smaller roads had assured anybody that they would lease cars, but he said he did know it to be a fact that some of the smaller roads were leasing cars from the richer roads at a high - at a dollar a day.

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- H.M.Jr: That isn't what these gentlemen told the President.
- White: I would go further and say he definitely did not know whether they would. He was basing it entirely on these grounds that you stated, on a study of what they were doing, what the traffic was. In other words, it's an economic study, not a field study. He's not in a position to make that field study.
- Gaston: I understood that it's an economic study. I understood him to say he had made some of these contracts with some of the railroads and gotten these different points of view.
- White: That's right. Last year Mr. Eccles was interested in it and they had some railroad men come down here and Eccles had Currie in on the discussion, and that was, so far as I know, the sole contact that he had with any men who would be actually the ones to make a decision as to whether or not they want equipment or do not want equipment.
- Gaston: I understand the central idea is to build something now that surely will be needed later.
- White: Sometime in the future - in the near future; and that he had hoped they would take 300 million or 350 million, thought they would take 350 million dollars worth of equipment. And after some discussion we reduced it to 250 or 200, I don't know.
- H.M.Jr: (To Kieley) Is Mr. Currie here?
- Kieley: Yes.
- H.M.Jr: Well, I wish - I'll see him in a minute.
- That isn't what was told the President, is it?
- Bell: I don't remember the exact words that were said, but I thought what Herbert said was along the line that he had made a sufficient study and contact with the industry and the people concerned to enable him to make an estimate of this kind, that there was a market, there would be a market.

- 18 -

H.M.Jr: Well now, I'd like Bell and White and Foley.... -
you (Viner) care to stay?

Viner: (Nods no).

H.M.Jr:Gaston and Hanes - if you'll stay, and we'll
talk this thing over now with Currie.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 22, 1939, 4 p.m.

NO.: 1177

FOR THE TREASURY DEPARTMENT.

The statement of the Bank of France published today (dated June 15) shows that commercial advances decreased by 878,000,000 francs. There was a decrease of 1,072,000,000 in note circulation, and a decrease of 40,000,000 in deposits. Gold cover ratio was 64.21% as compared with 63.72%.

On the exchange market quiet conditions continue to prevail. A substantial amount of sterling was again obtained by the fund. On the security market yesterday there was a more cheerful tendency but in today's trading this was lacking, and there were generally lower prices.

There is a semi-official denial in the financial press of rumors that the Government envisages reimbursement of the 4% 1925 exchange guaranty loan in connection with a foreign loan issue.

According to the press Bonnet told the Chamber Foreign Affairs Committee yesterday that the Board of Directors of the BIS had not been consulted about the Czech gold transfer and that the matter had been handled by the

President

- 2 -

President of the Bank. He added that the French directors had protested against the transfer. Bonnet also told the Committee that the position of the French Government had not changed with respect to the Spanish gold deposited here and that he had undertaken to hasten the judicial proceedings which would decide the question of its disposition.

During May revenue from indirect taxation was about 92 million francs more than budgetary estimates; for the month of May this year budgetary revenue was about 509 millions more than for the same month last year.

END MESSAGE.

WILSON.

RECEIVED

MAY 28 1938

INTERNATIONAL BANKING CORPORATION
OFFICE OF THE SECRETARY
60 WALL STREET, NEW YORK

EA:LWW

This should
all be filed
together as of
June 22 in
gen'l diary

REPORT
PROJECTED TRANSPORTATION SYSTEM
PROPOSED BY
J. L. KEESHIN

THE
Carlton
WASHINGTON, D. C.

211

June 22, 1939

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

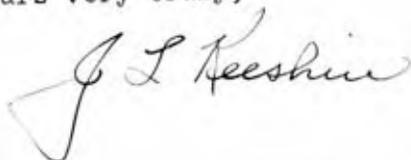
My dear Mr. Secretary:

The enclosed rather hastily prepared recommendations are offered for your consideration in connection with the establishment of motorized transport throughout Southwest China, pursuant to our recent conversation.

It is with sincere regret that preservation of my properties compel me to forego undertaking this most difficult but interesting task. I have given the problem considerable thought and can recommend to you personnel capable of handling this important administrative assignment. Of course, I shall be glad to act in an advisory capacity and give them the benefit of the experience of myself and associates to the end that their mission would succeed.

Your thoughtfulness in offering me this opportunity is most sincerely appreciated.

Yours very truly,



Enc.

In the selection of a competent man to head up the organization as contemplated in these proposals. I am assuming that constant and diplomatic liason must be maintained with representatives of the various governments, both civilian and military, and provincial authorities; the various transport and communication agencies, i.e., rail, water, mail, air, telegraph and radio; highway engineers, i.e., construction, maintenance and bridge; industrial and agricultural interests. In addition to the foregoing requirements, such a man must possess to a marked degree tolerance and understanding combined with firmness and demonstrated leadership that will assure loyalty and respect; complete and detailed knowledge of the mechanical and operating problems, and above all, a man thoroughly familiar with transportation in all its phases. Resourcefulness and natural ability are essential if the operations are to be conducted in the most economic and expeditious manner.

Qualified transportation men possessing these essential attributes are few in number, in my opinion, and those men whom I might suggest are presently well placed. Nevertheless, I should like to offer the following suggestions and recommendations.

In view of the very limited time within which to analyze the problem of the magnitude of that presented, and the lack of information concerning the manner of operation, ownership, i.e. whether or not transportation is to be conducted on a revenue basis or on an emergency expense basis, and if on a revenue basis, whether or not the present plans should lead toward the establishment of a permanent agency of transport, and if so, on what basis. If on an emergency basis, whether or not essential goods are to be moved irrespective of costs. Other questions come to mind concerning adequate housing and subsistence with proper medical care for large groups of men, the procurement of necessary supplies and equipment and a complete study of the class of traffic to be handled.

While the above questions are of the utmost importance in a proper approach, and particularly in the selection of personnel, the actual physical operations, in my opinion, could well be conducted through the office of an executive head in direct control of the properties. The form of organization I believe could be divided into the following classifications:

1. Superintendent of Operations
2. Superintendent of Maintenance
3. Supply Agent
4. Accountant

The superintendent of operations to establish operating control under the direction of a chief dispatcher in constant communication via a two-way short wave radio with all strategic points and through dispatchers at each such point. Units should

be dispatched in caravans having in mind barrack, supply and road facilities in their direction of travel. Also military protection when necessary. Each caravan should be under the supervision of a boss-driver with two-way short wave radio equipment capable of reaching the nearest control dispatcher. Mobile maintenance unit might be similarly equipped.

Through the use of radio reports to control dispatchers at thirty-minute or hourly intervals, giving location and trip progression reports, there would result complete picturization of all traffic through the office of the chief dispatcher, effecting centralized dispatch control for the entire operation.

It is conceivable that the superintendent of operations would also be in complete charge of terminals, warehouses and drivers' quarters. There follows an exhibit portraying the complete operation, location and classification of shops and assignment of the various classes of equipment, with due consideration to the terrain, climate and road conditions of each locality.

— Legend —

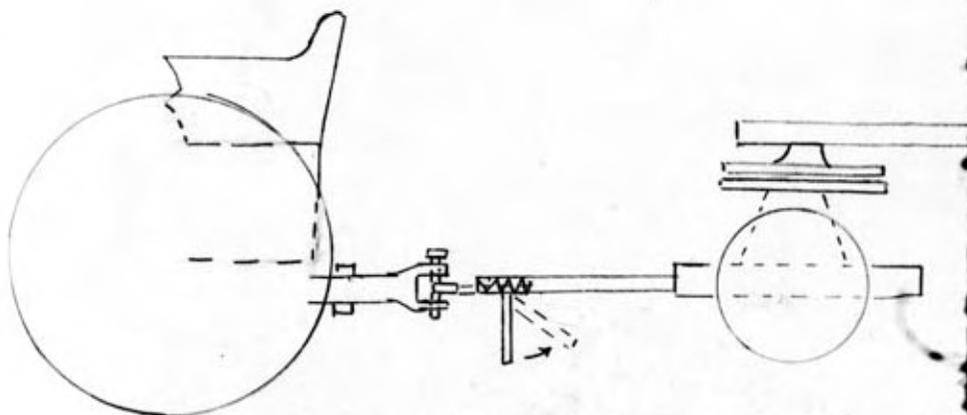
-  Central Shop "AA"
-  Major Shop "A"
-  Major Shop "B"
-  Mobile Shop "C"
-  Mobile Shop "D"
-  Subsidiary Harbic Equip.
-  GMC Equip.
-  Dodge Equip.
- *B Suspension (See Note) Bridges



Section A
LASHO to MANDALAY

NOTE: Sections A, B, C and D, as shown herein are more fully described in the following text.

1-14



INTERNATIONAL

Industrial Tractor

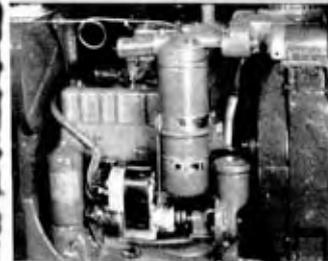
I-14



LOW-COST POWER for Factory-Shop-Yard



International engine cylinders can be replaced without removing the engine from the chassis.



The oil filter, air cleaner, and high-tension magneto are readily accessible.



Step plates are a convenience when getting on and off the tractor or for driving the tractor while standing.

It is doubtful if any item of power equipment has ever received immediate and universal reception tendered the International industrial tractor. Today these fleet nimble units are doing every type of mobile power work in factory, shop and yard, for municipal, highway mowing and maintenance, about airports, railroad platforms and scores of other applications.

Further proof of the performance of these junior members of the International Harvester industrial power family is the addition of those where individual I-11's have been placed in service. Scores of street sweepers have designed equipment for them. Street maintainers, brush and shovels and loaders, cranes, snowplows, sprayers, rollers, and flushers, special firing and skid-loading device, trailers, power mowers, and many other types of equipment are in operation.

The International I-11 is a very economical tractor to operate. It will work continuously day in and day out on about a gallon of gasoline an hour. In fact, many owners claim they are maintaining tractor schedules on from 6 to 8 gallons a day.

The I-11 is of the same high-quality construction as other International Harvester industrial products—International trucks, wheel and crawler tractors. This compact unit embodies all the distinctive features that have gained such wide popularity for the larger units. The tractor is only 99 inches long from tip to tip, slightly over 1 foot wide, and turns within a circle having a radius of 3½ feet.

The engine embodies all the distinctive features of the larger engines. Cylinders are replaceable; the main and connecting-rod bearings are of precision-type, steel-backed, removable shell construction; main shaft is drilled for pressure lubrication; air cleaner, fuel strainer, and oil filter protect the engine.

The heavy-duty crankshaft, made of special chrome-nickel steel, has unusual strength to withstand the stresses of hard and continued tractor service. It is drop-forged and electrically heat-treated. The most accurate and modern practices are employed throughout its machining and hardening and every crankshaft is accurately balanced in motion and at rest.

The International I-11 is one of a family of five models of wheel-type tractors. They are backed by nearly thirty-five years of engine and tractor-building experience and more than a century of manufacturing activity. Continued performance of International power is assured by a nation-wide network of more than 200 authorized industrial dealers and Company-owned branches in the United States and Canada, located in principal industrial centers.

(Below) Fleets of International tractors are rapidly taking over lumber hauling and other transportation jobs in factories and about the yards.



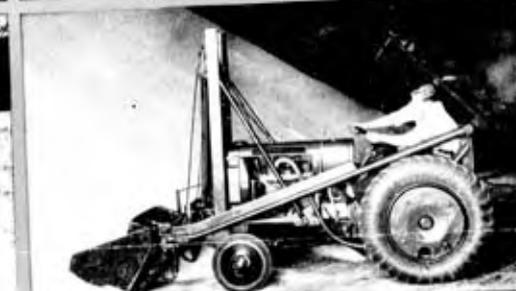
(Below) Fleets of Model I-14 tractors are speeding freighting operations at many river and ocean ports.



In many communities I-14 and snowplow combinations open sidewalks and drives following snowstorms.

Municipalities of all sizes find year-around use for International I-14 tractors—pulling road maintainers, loading trailers, operating snowplows, shovels, brushes, and many other pieces of equipment.

(Below) The nimble I-14 tractors—flexible, mobile power for pushing, pulling, hoisting, and hauling.



A handy device for factories, foundries, and municipalities for loading material in quick order.

Ats, removers, and similar grounds built and maintained completely by International I-14 tractors and the variety of operating equipment designed to operate with them.



International Industrial Power for Every Power Job

WHEEL TRACTORS



The I-14, handy power for factory, shop, and yard.

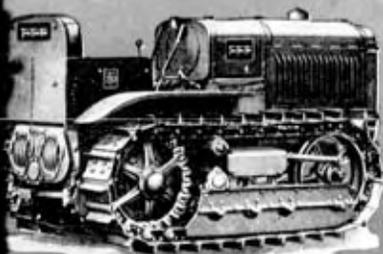


The Model 20 is used in practically all branches of industry.

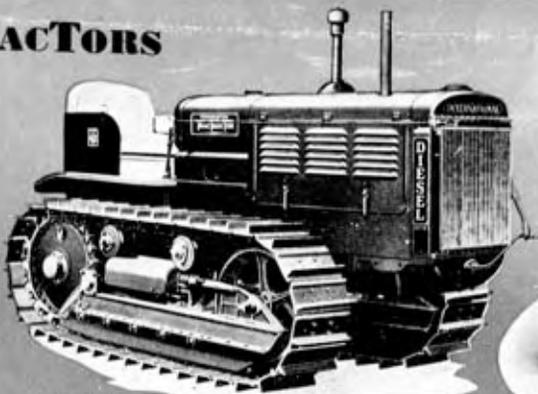


The I-30, larger member of the International family of wheel-type tractors.

TRACTRACTORS



International T-30 TracTractor, smallest of six models of TracTRACTORS. The range of models meets all requirements calling for crawler-type power.



International TD TracTractor, one of three models powered by Diesel engines. International Diesels can be started as readily as gasoline engines of corresponding size.

POWER UNITS



PD-80 Diesel power unit. International Diesel power units are available in sizes from 1 1/2 to 100 horsepower.

Brief Specifications

International Wheel-Type Industrial Tractors

MODEL	I-14	20	I-30	I-40	10-40
Maximum engine horsepower	22	31	45	58	74
Engine Speed, r.p.m.	2000*	1000	1250	1750	2200
Number of cylinders	4	4	4	6	6
Bore, in.	3	4 1/4	4 1/4	5 1/4	6 1/4
Stroke, in.	4	5	5	5 1/2	6 1/2
Forward speeds, m.p.h.	3 1/2, 6, 10 1/2*	2 1/2, 4, 7, 10	2 1/2, 4 1/2, 7, 10 1/2	2, 3 1/2, 5 1/2, 7 1/2, 10 1/2	2 1/2, 4 1/2, 7, 10 1/2, 14, 17 1/2
Reverse speed, m.p.h.	3 1/2	3	3 1/2	3	3 1/2
{Pulley speed, r.p.m.	740	645	750	645	645
{Belt speed, ft. p.m.	2593 1/2	2575	2995	2825	2810
{Pulley diameter, in.	13 1/4	15 1/4	15 1/4	16 1/4	16 1/4
{Pulley face, in.	6 1/4	7	7	7	7
Power take-off shaft speed, r.p.m.	530 1/2	513 1/2	600 1/2	553 1/2	513 1/2
Front wheels (pneumatic tires)	6.00-9	5.50-20	5.50-20	7.50-20	7.50-20
Tread, front, in.	39 1/2	52	52	54	54
Rear wheels (pneumatic tires)	11.25 x 24	11.25 x 24	11.25 x 24	12.75 x 24	12.75 x 24
Tread, rear, in.	42 1/2	62	69 1/2	70	70
Turning radius, in.	103	174	180	201	201
Wheelbase, in.	60	78	78	85	85
Length overall, in.	99	123	121	139	139
Height, steering wheel, in.	52	62	62	70	70
Fuel tank capacity, gallons	11	21	25	31	31
Approximate shipping weight, lbs.	3200	6700	7550	8725	9200

*At engine speed of 2000 r.p.m. At engine speed of 1400 r.p.m., forward speeds are 2 1/2, 4 and 7 1/4 m.p.h., and reverse speed, 2 1/2 m.p.h. {Supplied at extra cost.

{Dual pneumatic tires. Rear tread shown is distance apart of center lines between tires.

{At engine speed of 1400 r.p.m.

Regular Equipment

High-tension magneto with automatic impulse starter, pintle hook drawbar, spring cushion seat, hand and foot brakes (foot brakes with parking lock I-14), foot accelerator, muffler, air cleaner, oil filter, radiator curtain, starting equipment (I-10—Diesel—only).

Special Equipment

Lighting equipment, belt pulley, fenders (regular on I-14), power take-off (regular on I-14), special wheel and tire equipment, steering brakes (I-14 only), tire pump, etc.

INTERNATIONAL HARVESTER COMPANY
180 NORTH MICHIGAN AVE. CHICAGO, ILLINOIS

346-CC. 3-28.
PRINTED IN UNITED STATES OF AMERICA

"A"
From Rangoon to Lashio, the terminus of the Burma Railroad, there are two means of transportation; namely the subject railway and the highway. The relative proportion of the total tonnage consigned into the interior by either agency is unknown.

Dodge units now and contemplated are suggested for use over this six hundred and seventeen mile highway. The total number assigned to be determined by the percentage of total tonnage to be carried by this agency.

Rangoon to Lashio is approximately six hundred and sixteen miles. We feel that a truck-rail combination whereby semitrailers are loaded on flat cars and transported by rail to terminus where tractors haul the loaded units beyond terminus to its final destination could be incorporated eventually in this operation. This method has been successful in freight operation in America. We submit herewith prints which are typical of those in use today.

It is further recommended that this operation be converted as soon as possible to a tractor-trailer (articulated) service, using same type of equipment as is specified for Section "B" - Lashow to Tsanyeh, thereby completing an eighteen hundred mile operation uniformly divided as to power units expediting all movements into and out of the interior after consolidation of freight. This recommendation is to permit of continuity of operation regardless of location of power unit failure, provided emergency tractor equipment is made available at strategic positions.

"B"

Beyond Lashio everything to be transported is dependent upon motor transport for movement into the interior. Therefore, from Lashio to Tsanyeh, where the Chengtu highway joins the Kweiyang highway, a distance of approximately twelve hundred miles, it is assumed that a tractor-trailer (articulated unit) operation is most logical.

Where the recently built suspension bridges are located and whose capacity is limited to a ten ton load, it is suggested that shuttle trucks be permanently assigned to relieve semi-trailer units of the excessive loading above the ten ton limit. For suggested methods to accomplish this as an alternative to hand labor or where time is a vital element, we submit the attached folder.

From Kunming to Tsanyeh, where highway division is made, seems a more logical terminus of tractor-trailer operation, a total distance of 1,171 miles from Lashio, the railhead.

Alternates

1. Rangoon to Tsanyeh..... 1,787 miles
2. Lashio to Tsanyeh..... 1,171 miles

"C"

From Tsanyeh eastward encompassing Kikiang, Yuanling, Chingsa, Hengyang, Kweian, Liuchow and Chengnankwan, embracing approximately twenty five hundred miles of main highway, it is suggested that the motor trucks assigned to this area be the GMC-AC403 type.

"D"

From Tsanyeh northward encompassing Chingking, Sian, Lanchow (including Chengtu) embracing approximately twenty three hundred miles of main highway, it is suggested that Dodge Chrysler TH-47s be assigned to this area. This suggestion is made with a view toward as ideal a maintenance situation as can be accomplished where various makes and models of equipment is specified.

Should the volume of freight at Lashio from Rangoon by both rail and truck exceed the capacity of the tractor-trailer units, the 160" wheel base Dodges could be equipped with sleeper cabs so that they could continue on to Tsanyeh over Section "B" as additional equipment over this section.

Lack of information on the total mileage or tonnage in and out of Russia precludes a definite assignment of trucks to that area. Therefore, a readjustment of the total mileage embraced in Section "C" can be made so that Dodge units only, along with International articulated units, would move within the sections "A", "B", "D" and northwest beyond Langchow. This would assure a uniformity of servicing and repairs and precludes the necessity of duplicating repair parts in all shops and warehouses.

OPTIONAL PROCEDURE TO OPERATION IN SECTION "B" SHUTTLE

SERVICE

(Refer to 2nd paragraph section "B")

If lading on semi-trailers, without road tractors, is sufficiently within the safe limits of suspension bridge capacity, I. H. C. tractor Model I-14 with drawbar, fifth wheel and dolly could be used to negotiate bridge, tractor recoupling to semi-trailer after crossing, eliminating time lost in load transfer.

The superintendent of maintenance, in my opinion, should be in charge of the truck assembly plants at Rangoon, Burma and Haiphong, French Indo China, as well as shops of the several classes as noted on the map exhibit and on following pages, and located as follows:

1 Central Shop		Kweiyang
2 Major Shops Class "A"		Shiakwan Hangchung
10 Major Shops, Class "B"		Lashio Tsanyeh Chengtu Lanchow Sian Chungking Yuanling Changsha Liuchow Chengnankwan
5 Mobile Shops, Class "C"	Between	Lashio and Shiakwan
	"	Tsanyeh and Lanchang
	"	Yuanling and Changsha
	"	Hanyang and Liuchow
	At	Kunming
14 Mobile Shops, Class "D"	Between	Lashio and Shiakwan
	"	Shiakwan and Kunming
	"	Chengtu and Hangchung
	"	Kweiyang and Chungking
	"	Hangchung and Lanchow
	"	Mahtsanping and Yanling
	"	Lanchow and Sian
	"	Liuchow and Chengnankwan
	"	Hangchow and Chungking
	"	Lunchow and Mahtsanping
	"	Chungking and Yuanling
	"	Hanyang and Lunchow
	At	Lunchang

S H O P S

We have segregated shops into four classes designated as A, B, C, and D. This in addition to a main shop to be established in the headquarter city of Kweiyang. It is proposed that the Kweiyang shop be fully equipped with all necessary machinery to properly overhaul trucks, truck-tractors, and trailers. It should be equipped with a full line of woodworking machinery to take care of all body work. Woodworking machinery enabling complete body repairs should also be included in the equipment for the shop to be located in the town of Shiakwan, approximately 845 miles from Kweiyang. Additional facilities for body repairs are suggested for inclusion in the shop machinery in the town of Hangchung, some 800 miles to the north of Kweiyang. These main shops are designated on the map as Class A.

Shops designated as Class B are general repair shops but without woodworking machinery for body repairs. The Class C mobile shops are large repair shops at important intermediate points where heavy grades, road construction, or extreme climatic conditions indicate the need thereof. The Class D mobile shops are smaller repair shops where ordinary running repairs could be effected.

Again referring to the map exhibit you will observe that the suggested assignment of equipment has been made with a view toward adapting automotive equipment to the anticipated conditions and yet maintain uniformity in a given region. With this thought in mind the mobile ordinance repair shops are suggested for the eastern region or Section C on the map exhibit, specifically to care for the four-wheel drive GMC's assigned to that region. All shops, other than the general shops and the shops at Shiakwan and Hangchung, will be equipped with a full line of tools but without woodworking machinery.

There follows a list of the electrical equipment considered essential to effect electrical repairs. Also a list of machine shop machinery and tools that the shops should be equipped with. The tool room in each shop should not only issue tools to the mechanics and men but should maintain and repair batteries and in addition do brake work.

The three large shops planned for body repairs should be equipped to take care of all cushion and tarpaulin repair work. They should also be equipped to do all classes of painting.

-2-

It is further suggested that each of the shops in Classes A, B, and C and the general shop at Kweiyang be furnished with a mobile wrecker equipped with a winch, driven through power take-off. These wreckers to be used in bringing disabled units to larger shops for repairs.

The larger shops, Class B, contemplated at Changshaw and Liuchow may not be advisable although the selections are strategic due to their location at rail heads. Operations in the contiguous area may present insurmountable difficulties at this time.

MAINTENANCE EQUIPMENT FOR SHOPS

ST-232 Autolite Voltage & Current Regulator Tester
Armature under cutters
Fuel pump vacuum and pressure testers
Armature growler testers
Bear Condensor Testers
Weidenhoff electric test bench
Lantz Phelps exhaust gas tester
Set voltage regulator tools
Electro magnet
Soldering iron furnace
Set Carburetor tools
Set Field forms
Armature winding jig
Armature baking oven
Small arbor press
Commutator soldering jig
Armature lathe

BODY SHOP

Marquett Arch welder
Large metal shear
Blacksmith forge
Set Blacksmith tools
Large drill press
36" Band saw
Large electric grinder
Model 6 American rip saw
Large Northfield jointer
Set Body tools, cutters, etc.
1/4" electric drill
3/8" " "
Large cross cut swing saw
Mortis machine
1/2" Electric drills - Heavy Duty
Electric metal cutter
Large hand metal snips
Punch press

MACHINE SHOP

Set spiral reamers
Set Hone tools
Hydraulic brake cylinder hone set
Sunner Honing machine
Reamer lathe drive
Valve hard seat grinders
1/2" electric drills
Valve C lifters
Set valve guide reamers
Valve spring testers
Souix valve grinder
Quick-way valve refacer
Conn. rod aligner
Quick-way line boring outfit

MACHINE SHOP (CONTINUED)

22

Machinist vise
Set numbering & lettering stamps
Set valve insert tools
Metal motor rebuild stands
Cylinder boring bars
Set Starrett Micrometers - inside & outside
Work benches
Paint spray gun
Front axle rebuilding rack
Differential rebuilding racks
20-ton Hydraulic press
Motor test stands
Motor test panels with gauges
Differential rebuild racks
Large emery & buffer (electric)
12" American lathe
16" South Bend lathe
Tool rest grinder - No. 12
Clutch rebuilding outfit
Drill presses
Piston grinder
Chain hoist & swinging beam
Ring gear rivet set
Crankshaft grinding machine
Set 1/16" to 3/4" high speed drills
Cleaning tank with burners
Power hack saw

TOOL ROOM & BATTERY DEPT.

Brake lining riveting machine
Tungar battery chargers
Battery separator cutter
" plate burning racks
Set battery moulds
Vise and stand
Battery high rate discharge
5/8" electric drill
1/2" " "
20-ton Hydraulic jack
Weaver wheel aligner
Oil pressure tank and hose
Blackhawk portable hydraulic press
Set heavy duty sockets
Set SAE Dies 1/4" to 2"
Set USS " 1/4" to 1"
Set SAE Small Dies 1/4" to 3/4"
Set USS " " 1/4" to 3/4"
Set SAE Taps
Set USS "
Set Pipe dies & stock 1/8" to 1"
Tubing cutter & flaring tool
36" pipe wrench
Ford bushing remover
Snap-on gear puller
Ford valve lifter

Brake anchor box wrench

1 Int. sleeve puller
1 Branding iron
1 Lead melting pot
1 Set drill bits
1 Set front axle alignment gauges
1 Pair large calipers
1 Timing gear puller set
1 Pneumatic fender tool & adapters
1 Steering wheel puller
1 Compression gauge
1 Set screw extractors
1 Set valve seat cutters & pilots
1 Expansion reamers
1 Fender jack
1 Rear axle sleeve puller
4 Extension cord stands

GENERAL SHOP

1 Spark plug cleaner
1 Small grinder & buffer
2 Large air compressor
3 Welding & cutting outfits
1 Large vise
1 Work bench
40 Metal tool lockers
3 Chain hoists
3 Heavy duty floor jacks
1 Tube vulcanizing plates
1 Electric sewing machine for making tarps
1 Cutting and fitting table
1 Set ring and eyelet dies
2 Tube vulcanizing plates
1 Air tire spreader
1 Paint spray
1 Portable spray outfit
1 Electric sewing machine
3 Work benches (repairing & making seats)
1 Air hammer for riveting
1 Frame straightening rack
1 Set vulcanizing moulds and equipment
2 Electric Grease Guns
4 Oil pump tanks
8 Stand jacks
2 Paint spray outfits
1 Portable spray outfits
1 50-gal. portable gas tank
1 Diff. & trans. jack

SUPPLY AGENT

The supply agent's duties, in my opinion, should embrace the securing of adequate housing facilities for bothmen and machinery, employees' subsistence, the securing of essential material and supplies including fuel and oil, tires and spare units, as well as shop machinery and tools, and the establishment of proper medical facilities throughout the area to be served.

ACCOUNTANT

It is recommended that accounting be centralized at Kweiyang for all departments, with division accountants strategically located, as action and necessity arise.

GENERAL

In connection with equipment specifications, it is noted that fuel capacity is unusually low for the mileage and I believe separates fuel supplies, and I am firmly of the opinion that safety fireproof gasoline tanks of not less than No. 12 guage steel with proper air control pipe to assure air cushion in tank of 12% to 15% even when full, will eliminate seepage and loss of fuel due to changes in temperature and altitude; such tanks on smaller units should have a minimum capacity of 60 gallons, larger units, 80 gallons.

EQUIPMENT DATA (2)

500 Ford "95s" - "COE" (Mercury engine) 239 cubic inches

100 complete with Ford stake bodies, 134" wheelbase
 50 complete with wood bodies
 Balance to be built locally

Final drive #125 Eaton Dual ratio 8.00 and 5.83 to 1

3rd Group - 1015 units - Purchased

500 Dodge TH-47 (same as 2nd 500) except Pintle Hook and Rear "Army" bumpers
 Search light (swiveled) Bodies 12' X 7' X 42" complete

515 GMC - AC-K 353, 4 wheel drive
 G.V.W. 12,000 lbs. 1573/4" wheelbase
 Net payload 5,000 lbs 228 engine

Transmission GMC 350 with dual ratio transfer box 1.1 and 1.87 ration to 1

Final timken front F.30B-28-4, 4000 lbs "B" rating
 Rear 53,616, 9000 lbs
 6.67 to 1 ratio

200 D-50 International tractors
 Maximum gross weight on tractor 17,000 lbs (FB215 engine 97 HP)
 278.7 cubic inch

Final Eaton Axle 7.16 to 1

200 Trailmobile semi-trailers (6 ton normal capacity 50% overload 9 ton maximum)

22' x 8' x 48" open top stake

Axle - Timken, 13,000 series

SHOP EQUIPMENTNot Mobile

- 8 complete (Main) 15 kilowatts powered complete with machine tools
- 6 complete (large auxiliary) 10 kilowatts powered complete with machine tools

For 1st thousand Dodge and GMC and 3rd five hundred Dodge and two hundred Internationals, tractors and trailers and units now in service

There is contemplated a duplication of above for purchase when, as and if 500 units for Ministry of War are purchased

Not Mobile

Supposed to be now existing for service and maintenance of 1000 Tung Oil units under supervision of Mr. Grove. This shop is designed and designated as Central shop located at Kweyoung. Auxiliary light repair shops already purchased and probably in operation - scattered along routes.
(Tung Oil Units - 500 Dodge and 500 Fords)

Mobile

- 35 "Couse" GMC 4 wheel drive (elaborate wrecker)
- *10 GMC (Military) heavy units, consisting of two units,
Power and tools, machine tools and equipment
- 15 Supply trucks

The above is to be GMC 4 wheel drive to be used between front lines and central shops for servicing especially contemplated 500 units for the Ministry of War and the 500 (purchased) 4 wheel drive GMCs.

*These ten units have electric welder and acetylene welder as well as machine tool equipment.

OFFICE CORRESPONDENCE

DATE June 23, 1939.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

I called Mr. Bolton at 11:20 a.m. to give him the replies to the questions asked by him on June 19. We were ready, I told him, to receive a ~~request~~ request from the Irish Currency Commission for the earmarking of gold. The transaction would, of course, require the approval of our directors but I was hopeful that such a request would be acted upon favorably upon receipt, but, of course, I could not give him any definite assurances on this. Details as to the form of instructions in case the transaction was agreed upon, the channel through which to be given (possibly Bank of England or the Irish Minister in Washington), would, of course, have to be worked out. Our charge for earmarking would be 1/2 per mil per annum as is customary in cases where we carry no account. On this question of an account I had to repeat what I had already said on June 19; it was not our custom to take foreign accounts other than those of foreign central banks. Accordingly we would not be prepared to take an account from the Irish Currency Commission. His third question as to whether any gold received by us for account of this commission would come under the terms of our general export license we had discussed, I said, with the Treasury lawyers and we were all satisfied that our license would cover the Irish Currency Commission's gold just as it covers the Bank of England's gold. In this connection I wanted to refer him to the Provisional Regulations under which this

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 23, 1939.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.TO: L. W. Knoke

FROM:

2

license was issued, copy of which was sent to him the last time on July 8, 1937 and its receipt acknowledged by the Bank of England by letter of July 16, 1937. In reply to his fourth (tentative) question, namely, would the Treasury be willing to sell gold to the Irish Currency Commission, I stated again that I was personally confident that the Treasury would not be disinclined.

Bolton had just learned from one of the American banks in London that closing of our banks on Saturdays during July and August was under consideration. Was it likely to happen? I replied that no final answer could be given until after the New York Clearing House Association had voted on this matter at the next meeting scheduled for this afternoon. I had learned, however, in the street that the chances for voting in favor of closing were better than 2 to 1. Assuming that all members of the New York Clearing House Association would vote in favor of closing, our directors would presumably decide similarly with regard to this bank at their next meeting next week. I had tentatively drafted a cable this morning, I said, which we would send to all our foreign central bank correspondents in case closing was decided upon and in which we would advise them of the action taken by this bank and the Clearing House banks.

As regards the situation in Europe, Bolton thought there was no change. They were still having some tension. Normal business was reduced all over Europe. Bankers and traders were doing no

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE June 25, 1939.

TO L. W. Knoke

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM _____ 3

business unless practically forced. There were no news about the Far East and the feeling was growing in the city that the British Government was taking things lying down too much.

LWK:KW

RECEIVED

JUN 26 1939

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

JR

PLAIN

London

Dated June 23, 1939

Rec'd 1:30 p.m.

Secretary of State,
Washington.

887, June 23, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

Business on both the foreign exchange and stock markets continues restricted, the general attitude being one of caution and watchful waiting for further developments in the Far Eastern situation.

The British fund has sold practically no dollars in the past two days but continues to support sterling by giving gold at the fixing. Yesterday it gave 62 of the 133 bars sold and 13 were married. Today the total dealt in was 172 bars only 3 of which were married, and the British fund gave practically all of the balance of 169 bars.

The silver market is calmer spot being 19 7/16 D and forward 19-1/2D at today's fixing.

CSB

RECEIVED
JUN 23 1939
KENNEDY
TREASURY DEPARTMENT
Office of the Secretary
Federal Reserve System

EG

GRAY

Berlin

Dated June 23, 1939

Rec'd 8:50 a.m.

Secretary of State,
Washington.

541, June 23, 11 a.m.

NUMBER 39 FOR TREASURY FROM HEATH.

I spoke with Puhl, Acting Vice President of the Reichsbank yesterday who said he had had a further interchange of telegrams with Lamont (Embassy's 494, June 14, 2 p.m.) whose latest request had been for Puhl to meet him in Evian the end of June to discuss the situation of defaulted Austrian dollar bonds. Puhl said that his attendance at the International Chamber of Commerce meeting at Copenhagen and the Reichsbank meeting of June 30 made such an encounter impossible and that he had cabled suggesting that Lamont meet him at Brussels on July 4.

He also remarked that he hoped very much that "the situation" would permit him to attend the next meeting of the Standstill creditors scheduled to be held in New York next October.

KIRK

CSB

RECEIVED

JUN 23 1939

TREASURY DEPARTMENT
OFFICE OF THE ASSISTANT
SECRETARY FOR EUROPEAN AFFAIRS

Noted

F. Dietrich



DEPARTMENT OF STATE
WASHINGTON

June 23, 1939.

My dear Mr. Dietrich:

In connection with our telephone conversation of this morning, regarding the instruction to Butterworth to make a cabled report on the disposition of Czechoslovak gold in London, I am enclosing copies of three despatches which have been received from the Embassy in London on this subject. I am also making a further check of our files to see if there is anything else on this subject.

In the meanwhile, the cable to Butterworth has gone on.

Sincerely yours,

Leroy D. Stinebower,
Assistant to the Adviser on
International Economic
Affairs.

Enclosures:

- No. 2387 of April 3
from London.
- No. 2731 of May 23
from London.
- No. 2742 of May 25
from London.

Mr. Frank Dietrich,
Mr. Lochhead's Office,
Treasury Department.

TRIPLICATE

No. 2387 London, April 3, 1939.

SUBJECT: The Impounding of Czechoslovak Assets
in the United Kingdom

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to telegram No. 346 of March 16, 7 p.m., and subsequent reports regarding the impounding by the British authorities of Czechoslovakian assets in the United Kingdom, and to transmit herewith copies of the various instructions issued by the British Treasury and the Bank of England to the banking institutions in the United Kingdom, which are self-explanatory.

There is also enclosed a copy of the "Act to postpone the making of payments out of certain banking

accounts

8-10/

accounts and certain transfers of securities and gold connected with the Czecho-Slovak Republic; and for purposes connected with the matters aforesaid", together with copies of the official debates which took place in the House of Commons and the House of Lords on March 22, 23 and 27, 1939.

Incidentally, the passage of this Act illustrates the speed at which the British Parliamentary machine can be driven. Only four Parliamentary days were needed to complete the passage of the legislation through both Houses. This rapidity of passage has only been exceeded in recent years by the emergency legislation of 1931, which required three days, and the Abdication Act, which required two hours.

The speeches in the House of Commons and the House of Lords contained little information that was new. However, the Chancellor of the Exchequer did make clear that of the £3,250,000 which had been drawn by the Czechoslovak authorities on the £10,000,000 credit in the Bank of England (which arose out of the arrangements reported in despatch No.2163 of February 27, 1939), £750,000 was drawn against the £4,000,000 refugee allotment and £2,500,000 against the loan allotment.

Mr. Boothby's speech, which may be found in columns 1320-1324, undoubtedly produced the Bank of England's circular dated April 3, 1939 (Enclosure 6).

In view of the present European situation, the British monetary authorities have not yet formulated

any

-3-

any specific plan of dealing with the Czechoslovak assets thus impounded, the extent of which was reported in telegram No.382 of March 21, 7 p.m.

Respectfully yours,

For the Ambassador:

Herschel V. Johnson
Counselor of Embassy

Enclosures:

- 1-2. Copies of letters dated March 15 and 17, respectively, from the Chancellor of the Exchequer to the Governors of the Bank of England;
3. Notice dated March 20;
- 4-5. Circulars dated March 22 and 25, respectively;
6. Bank of England's Circular dated April 3;
7. Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act, 1939 (Chapter 11);
- 8-9. Texts of debates in the House of Commons on March 22 and 23, respectively;
10. Text of debate in the House of Lords on March 27.

A TRUE COPY
OF THE ORIGINAL

WV

WWE/BKW

Enclosure 1 in despatch No.2387 of April 3, 1939
from the Embassy in London.

(COPY)

TREASURY CHAMBERS.

13th March, 1939.

Gentlemen,

Current events in Czecho-Slovakia make it necessary in the public interest to follow an exceptional course in certain particulars which have been the subject of discussion between us, and I now write to ask you to be good enough to comply with the three following requests, viz.:

1. That you will not make any further payments out of the two special accounts relating to the Government gift and advance to Czecho-Slovakia until the Treasury request otherwise.
2. That you will not make to the order of that Bank any exceptional transfers out of the ordinary course of business without reference to the Treasury.
3. That you will furnish me confidentially with particulars of sterling balances, gold and other assets that you may hold on behalf of the National Bank of Czecho-Slovakia or the Government of that country.

His Majesty's Government will indemnify you in respect of your compliance with this request and will ask Parliament for all necessary powers.

I need not say that the problems which have arisen will be examined with the least possible delay

with

The Governor and Deputy Governor,
Bank of England.

-2-

with a view to definite decisions being reached on
the appropriate course of further action.

I am,

Gentlemen,

Your obedient Servant,

(Sd.) JOHN SIMON.

Enclosure 2 in despatch No.2387 of April 3, 1939
from the Embassy in London.

(COPY)

TREASURY CHAMBERS,
Whitehall, S.W.1.
17th March, 1939.

Gentlemen,

In continuation of my letter of the 15th instant, His Majesty's Government consider that it is desirable that banks and other financial institutions who hold balances, securities or gold on behalf of persons in the former Czecho-Slovak Republic, including the former Czecho-Slovak Government and the National Bank of Czecho-Slovakia, should not make any payments from such balances or part with securities or gold without the assent in writing of His Majesty's Treasury.

I am to request that you will be so good as to communicate immediately with the financial institutions concerned, adding that His Majesty's Government will indemnify them in respect of their compliance with this request and will ask Parliament for all necessary powers.

I am,

Gentlemen,

Your obedient Servant,

(Sd.) JOHN SIMON.

The Governor and Deputy Governor,
Bank of England.

Enclosure 3 in despatch No.2387 of April 3, 1939
from the Embassy in London.

(COPY)

CONFIDENTIAL

CZECHO-SLOVAKIA

Notice to Bankers and others concerned, relating to the
Chancellor of the Exchequer's letter dated
17th March 1939.

1. The request made by the Chancellor of the Exchequer relates only to balances, securities and gold held on behalf of residents* in Czecho-Slovakia. It does not therefore relate to the assets of any citizen of the former Czecho-Slovakia Republic not so resident. The Chancellor's request does not relate to the payment of commercial debts nor to remittances to residents in Czecho-Slovakia other than by debit to the account of a resident in Czecho-Slovakia.

2. The Bank of England have been authorised by H.M.Treasury to grant permission for certain transactions. IN ANY CASE OF UNCERTAINTY OR OF AN APPARENTLY ABNORMAL TRANSACTION APPLICATION SHOULD BE MADE TO THE CHIEF CASHIER'S OFFICE, BANK OF ENGLAND; but where a Banker or firm is satisfied that a transaction falls properly under one of the following headings the Bank of England's permission may
be

*Throughout this notice the phrase "residents in Czecho-Slovakia" means -

1. The Government of the Czecho-Slovak Republic.
2. Any Corporation incorporated under the law of that Republic.
3. Any person ordinarily resident in the territories of that Republic on the 15th March 1939.

be assumed without further reference -

- (a) The amount of any bill of exchange accepted prior to the 15th March 1939 by a firm in the United Kingdom on behalf of a resident in Czecho-Slovakia may on maturity be debited to the account of that customer.
- (b) Any cheques drawn or instructions for payment issued before the 15th March 1939 may be acted upon.
- (c) Any payment is permitted which is necessary to meet a debt or obligation to a British subject or to a person in the United Kingdom (other than a person resident in Czecho-Slovakia). Any payment necessary to meet a debt or obligation to a person (other than a British subject) in a country abroad should be referred, but permission will be freely given in suitable cases.
- (d) Assets belonging to British subjects resident in the territories of the former Czecho-Slovak Republic may be freely disposed of. Assets belonging to nationals of other countries so resident should not be disposed of without reference, but permission will be freely given in suitable cases.

20th March, 1939.

Enclosure 4 in despatch No.2387 of April 3, 1939
from the Embassy in London.

(COPY)

CONFIDENTIAL

CZECHO-SLOVAKIA

With reference to Paragraph 2(c) of the Notice dated the 20th March 1939, payments to British subjects or to a person in the United Kingdom (other than a person resident in Czecho-Slovakia) should be permitted without reference only in respect of debts or obligations arising out of a contract made before the 15th March 1939.

Monies, gold and securities received on and after the 15th March 1939 may, provided that they are held on a new account, be freely disposed of, but this provision shall not apply to funds forming part of balances, etc., held on behalf of residents in Czecho-Slovakia on the 14th March 1939 which by permission in certain cases have been transferred since that date to similar accounts.

22nd March 1939.

Enclosure 5 in despatch No.2387 of April 3, 1939 from the Embassy in London.

(COPY)

CZECHO-SLOVAKIA

Certain questions have been raised regarding the Circular sent out at the request of the Bank of England on the 23rd instant.

As regards paragraph (1), it should be pointed out that this is not intended to refer to Exchange Contracts, which are covered by the special circular of the 22nd instant.

As regards paragraph (2), this should be interpreted as dealing with moneys, gold and securities received after close of business on the 14th March, not on and after the 15th March. As regards moneys, gold and securities which have already been received since the 14th March, the Receivers should put themselves into touch with the Payers to ascertain whether such moneys, gold and securities were held on behalf of residents in Czecho-Slovakia on the 14th March, 1939. The onus of saying whether moneys, etc., hereafter are to be held for new or old account is on the Payer and not Receiver and must be clearly indicated at the time of payment or delivery.

Proceeds of Treasury Bills, bullion, securities and assets other than commercial bills held for account of
residents

-2-

residents in Czechoslovakia at close of business on 14th March can only be credited to old account, and remain blocked and subject to permission of the Bank of England.

Commercial bills are free and proceeds may be placed to free account.

25th March, 1939.

Circulated by the Foreign Exchange Committee.

(COPY)

CZECHO-SLOVAK FINANCIAL OBLIGATIONS.

The Governor and Company of the Bank of England are authorised to announce that His Majesty's Treasury desire to obtain information in regard to certain financial obligations due from Czecho-Slovakia to British holders (including persons ordinarily resident or ordinarily carrying on business in the United Kingdom) and held by them at the close of business on the 14th March, 1939. This request for information does not, of course, imply that the Treasury accept any responsibility for obtaining satisfaction in regard to such obligations.

Forms on which information should be given can be obtained from the Bank of England and its branches or through the medium of any other bank in the United Kingdom. These forms should be completed and sent to the Chief Cashier's Office, Bank of England, London, E.C.2, envelopes being marked "Czecho-Slovak obligations."

The financial obligations in regard to which it is desired to obtain information are the following:-

- (a) Loans issued by the Czecho-Slovak Government, by any public authority in Czecho-Slovakia or by any corporation incorporated before 15th March, 1939, under Czecho-Slovak law;
- (b) Shares or participations in any corporation incorporated before 15th March, 1939, under Czecho-Slovak law;
- (c) Balances with banks in Czecho-Slovakia as at the close of business on the 14th March, 1939;

(d)

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(d) Miscellaneous financial obligations such as interest-bearing or revenue-producing claims on persons or institutions in Czecho-Slovakia (but EXCLUDING TRADE OBLIGATIONS).

NOTE.

1. Information is not required at present in regard to trade debts or any debts other than those described above. These must not be included in any return.
2. The individual items of information given will be treated as strictly private and confidential and no information other than the totals of each category will be made available for publication.
3. Banks and financial institutions which have already reported their claims should not report them again.
4. Obligations due from Sudetenland should not be included.

Bank of England, London, E.C.2.

3rd April, 1939.

Embassy at London, England.

2 & 3 GEO. 6.

Czecho-Slovakia
(Restrictions on Banking Accounts, &c.)
Act, 1939.

CH. 11.

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CHAPTER 11.

An Act to postpone the making of payments out of certain banking accounts and certain transfers of securities and gold connected with the Czecho-Slovak Republic; and for purposes connected with the matters aforesaid.

[27th March 1939.]

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1.—(1) Until the Treasury by order direct that this subsection shall cease to have effect, it shall not be lawful—

Postponement of certain financial obligations.

(a) for any person carrying on the business of banking in the United Kingdom with whom on the fifteenth day of March nineteen hundred and thirty-nine the Government of the Czecho-Slovak Republic, or any person being a body corporate incorporated under the law of that Republic, or any person (not being a body corporate) ordinarily resident in the territories of that Republic, or any person on behalf of the said Government or any such person, had an account, to make any payments out of that account without the consent in writing of the Treasury or some person authorised by the Treasury for the purpose; or

- (b) for any person, who on the said date held in the United Kingdom on behalf of the said Government, or any person being a body corporate incorporated as aforesaid, or any person (not being a body corporate) ordinarily resident as aforesaid, any securities or gold, to part with the securities or gold without such consent as aforesaid.
- (2) Where on or after the said fifteenth day of March and before the commencement of this Act any person has refused to do any act which he could not lawfully have done if this Act had then been in force, the refusal shall be deemed to have been lawful.
- (3) The Treasury may agree on such terms as they think fit to indemnify any person against any loss or damage suffered by him—
- (a) by reason of his refusal to do any act on or after the said fifteenth day of March and before the commencement of this Act, if he intended and reasonably believed the refusal to be in compliance with any request made by the Treasury with respect to banking accounts, gold and securities connected with Czecho-Slovakia; or
- (b) by reason of his refusal to do any act after the commencement of this Act, if he intended and reasonably believed the refusal to be in compliance with the provisions of this Act.
- (4) Any money required by the Treasury for the purpose of fulfilling any agreement made under the last foregoing subsection shall be charged on and issued out of the Consolidated Fund of the United Kingdom or the growing produce thereof.
- (5) If in any period of three months beginning on the first day of January, April, July or October any sums are issued under the last foregoing subsection, the Treasury shall, as soon as may be after the expiration of that period, lay before Parliament an account of those sums.
- (6) In this section—
- (a) the expression "securities" includes stocks, shares, annuities, bonds, debentures and debenture stock, and any certificate or other

- document of title relating thereto, and Treasury bills;
- (b) the expression "gold" means gold coin or gold bullion;
- (c) references to the refusal to do any act shall be construed as including references to failure to do the act.
- 2.—(1) This Act may be cited as the Czecho-Slovakia (Restrictions on Banking Accounts, &c.) Act, 1939. Short title and extent.
- (2) It is hereby declared that this Act extends to Northern Ireland.

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ORDERS OF THE DAY.

CZECHO-SLOVAKIA (RESTRICTIONS ON BANKING ACCOUNTS, &C.) BILL.

Order for Second Reading read.

3.45 p.m.

The Chancellor of the Exchequer (Sir John Simon): I beg to move, "That the Bill be now read a Second time."

This is the urgent Bill which I mentioned to the House at Question Time a day or two ago. As the House knows, it arises from action which we have asked the banking institutions to take, and, I think, is generally approved by the sense of the House. The Bill is a very simple one and does nothing more than validate the compliance with the requests that have been made to banks and to holders of gold, or securities which they are holding, on Czecho-Slovakian account. The House will, no doubt, remember that I informed hon. Members of the communication we made to the Bank of England in that respect, and I think it was later in the week that I was able to inform them that we had also communicated in the same sense with the joint stock banks and other financial institutions in order to block transfers which otherwise might be called for from this country to Czecho-Slovakia.

The action which we then asked for has been universally complied with, and we have no case in which any objection has been raised. On the other hand, as the House will understand, the authority of Parliament is needed before the action which we asked them to take could become valid, and those institutions are naturally entitled to have from Parliament—if Parliament is prepared to give its approval—the authority which will make their action unchallengeable; and if there be any case in which they could be held responsible this Bill will afford them an adequate indemnity. I do not anticipate that there will be any case for an indemnity, because if we alter the law of this country on a subject of that sort it would appear to me that these institutions would have a perfectly good answer to anybody who claimed the transfer of the property they held.

That is the whole object of this Bill, because it is not possible to go further

than that and to settle details at the moment. This is a very complicated business and will require close examination, no doubt both as regards what we owe to Czecho-Slovakia and what is owed from Czecho-Slovakia to this country, and, except in very general terms, I do not believe that it is possible for anybody to say at this moment how the accounts will work out; but knowing, as we did, that there was in this country a substantial amount on Czecho-Slovakia account, and knowing that there were also securities and balances in the charge of these British institutions, it did appear to the Government and myself to be right at once to ask that an embargo should be put on their transfer, and then, at the earliest moment, to come to the House and ask Parliament to ratify and approve it. I am sure that I shall have the approval of my right hon. Friend the Member for Gorton (Mr. Benn), who is always so watchful over points of constitutional procedure. I do not think the Bill can be a matter of controversy, and I hope very much that before the end of the week we shall have got this authority, and that things will be on a legal footing.

Mr. Logan: Suppose this Bill does go through, as I believe it will, any refugee having any money invested or in a banking account have the power of drawing upon that account through the English banks?

Sir J. Simon: I am obliged to the hon. Member, who has mentioned an important matter. If he will just let me go on to say something more about the present position I think that will be the best way of dealing with his point. I was going to observe, by way of introduction to that part of the matter, that of course there has already been drawn from London out of that fund of £10,000,000 which the House will recall, a sum of something like £3,250,000. I am not sure that I have ever made it plain to the House that that £3,250,000 which passed from the Bank of England to Czecho-Slovakia before these recent events—the invasion of Czecho-Slovakia by Germany—was composed in part of drawings from what we may call the free gift, £4,000,000, which was directly to assist refugees, and in part from the other amount, which was in the nature of a loan and which the former Czecho-Slovakia Government had

[Sir J. Simon.] undertaken to repay. That is the case. It appears to me that, so far as the amount is in the nature of part payment of loan, we should be entitled to regard it as an amount to be recovered. On the other hand, as far as this large sum of £4,000,000 to help refugees can be devoted to that purpose it ought to continue to be devoted to it. I think that is a principle on which we ought to try to act.

I would like to inform the House that there is one rather special reason which I wish to make clear now. Hon. Members will know that there is a most important body which is co-ordinating the various private societies and enterprises working in relation to the refugees and which has collected a very substantial sum of money, and that over this committee there presides a very distinguished figure, Lord Hailey. I have had a letter from Lord Hailey calling attention to the fact that that committee, which is helping refugees to come to this country, is in danger of exhausting its immediate resources and suggesting that it would be a very great help to the work which it is trying to do if it were possible to contemplate that this £4,000,000 would continue to be available in some way or other for the assistance of refugees. As the right hon. Gentleman opposite suggested, such a proposal might involve legislation, but I do not think it would be objected to by the House.

This free gift of £4,000,000 was to help refugees from Czecho-Slovakia who might need currency in sterling or in foreign exchange, to enable them to go. Already something like £750,000 of that sum has been actually used for that purpose. Mr. Stopford has been out in Prague and has been in close touch with the Treasury, and a very substantial amount of assistance has been given in the form of foreign exchange to a large number of refugees. So far, so good. His Majesty's Government think that this money should still, if possible, remain available for the general purpose for which it was intended, the provision of foreign exchange for refugees. But we must, of course, see that there are adequate safeguards that the money will be really used for the purpose for which it was dedicated. As I have said, I have had a letter from Lord

Hailey, who is chairman of that co-ordinating committee of voluntary societies, asking whether the voluntary societies can continue to arrange to help refugees who have already left Czecho-Slovakia or have got all their arrangements made to leave for this country, on the basis that the balance of this £4,000,000—£3,250,000—would not be regarded as withdrawn owing to the changes that have taken place in Europe, but would, by one means or another, continue to be available to provide for the needs of those refugees, in particular for the passage money to pay for their tickets if they are going by steamer, or for the landing money which they will require when they leave their temporary place of settlement in Europe.

Mr. Wedgwood Benn: Does that mean that the funds of the Prague Institute will dry up?

Sir J. Simon: The right hon. Gentleman means the refugee institute?

Mr. Benn: Yes.

Sir J. Simon: That is a matter on which, no doubt, we shall get more information, but I think we ought to proceed in the spirit of that letter and enlarge our purposes, if necessary, as regards the £4,000,000. We shall not fail to assist every case that can be assisted, but it looks as though the need, which is certainly not less than it was before, would be better expressed if we regarded those efforts of the voluntary societies as included; and perhaps that is the best answer to Lord Hailey's question. A good deal of thought has been given to this matter and there is a good deal of real sentiment about it, and it will probably be along those lines that we shall be able most practically and effectively to give this help.

Sir Ernest Shepperson: Can the right hon. Gentleman say whether it is possible now for a Czech to leave Czecho-Slovakia? We have been led to believe that no further passports are being given, and that they are bound to stop in their own country.

Sir J. Simon: That is a matter that can be looked into, but it does not invalidate what I was saying that this money can be used in many other cases in order to assist refugees who have already left and

are still without the means to provide themselves with transport or with the necessary landing money. If we are prepared to devote this £4,000,000 to such a purpose, limiting it strictly to the cases of refugees who are eligible, we shall be acting in accordance with the spirit and the intention of this House. This matter is one which has greatly exercised the mind of His Majesty's Government. I hope that hon. Members will appreciate my point that there will be plenty of cases in which assistance would be very valuable in the form of foreign exchange, and I hope that we shall be able to make arrangements to meet that sort of case, even although it may go beyond the particular class of case for which the money was provided.

That is all I can usefully say now. I have explained to the House that this is a very urgent matter for the purpose of protecting the banks. It is not right to ask the great institutions to abstain from acting in accordance with the demands made upon them by those who have deposited funds with them and then to leave those institutions to face the racket. If the Bill is passed, they will have a good answer, and the result will be that we shall have to answer for it. That is right, because this House is prepared to do it. I hope that we shall get the Bill through rapidly. I have no doubt that all sorts of difficulties will have to be got over before the matter is finally concluded, because this is a very complicated business. I hope that the principle of the Second Reading will be accepted by everybody. I am very much encouraged by indications I have already received that this request which I have urgently made is one which the House would like to see met.

4.0 p.m.

Mr. Pethick-Lawrence: In normal circumstances I am always very strongly opposed to hasty legislation. Unless there is a wide measure of agreement between all parties in the House it is never possible to carry a Bill with great speed, and that wide measure of agreement is in itself a sort of danger, because when there is no opposition any point that may have been overlooked is liable sometimes to go by default. My experience of Bills carried through the House with great expedition is that very often they are not wholly satisfactory. Sometimes they are found subsequently to include proposals

which the House had no intention of including, and sometimes they are found to be quite ineffective for carrying out the purpose which the House wanted fulfilled. Though that is my general view, I am not in the least dissenting from the view that there are occasions which are so abnormal and where celerity is so much of the essence of the matter that the usual procedure must be departed from and quick action must be taken. In such cases it is of supreme importance that the whole House should address itself to three questions: First of all, whether the Bill does in fact achieve the purpose for which it is designed; secondly, whether at the same time inadvertently it achieves other purposes which may be most undesirable; and, thirdly, whether it carries as a consequence developments for the future which may be entirely unforeseen.

I have applied my mind, as far as is possible for an outsider who has no inside information, to this very serious and grave Bill. It seems to me that in one respect the Chancellor of the Exchequer was not quite fair to the House. He did not give any description of the Bill. He said it was to implement a decision which he had asked the Bank to take. That was putting the cart before the horse. The real fact is that the Government, having come to the conclusion that it was necessary to take an exceedingly important and grave step, and in order to see that their intention was not frustrated, gave on Monday last or during the week-end an instruction to the Bank, or made a request to the Bank in anticipation of subsequent action by this House, and today the House is called upon to pass this Bill, and if it passes the Bill it is not because of that instruction by the Government but because the House in its entirety approves of the principle of the action which the Government have taken. The Bill is incidentally also an indemnity to the Bank for what has already been done.

It is no good pretending that it is not a very grave and very stern Bill. As far as I know this is absolutely unprecedented action on the part of the Government. It is action taken in view of a very grave emergency but it is action which I do not think has ever been taken before in peace time. Therefore the House should devote its attention to the three points that I have mentioned. It is particularly

[Mr. Pethick-Lawrence.]

important that all Members of the House should bring their minds to bear on the question, because owing to the hasty character of the legislation Members are deprived of the assistance which is usually afforded to them by expert persons throughout the country who, knowing the facts better than any Member of Parliament can know them, are generally able to advise Members of this House. We have to act to-day without that advice.

As far as I can see the Bill does achieve the main purpose which the Government have in view. That main purpose, as I understand it, has nothing whatever to do with the Government loan or gift of £10,000,000 to Czecho-Slovakia. I am not taking the smallest exception to the very interesting and important remarks of the Chancellor of the Exchequer. The House was only too anxious to hear what he had to tell us and what was the Government view with regard to the £10,000,000, but I think the Chancellor will agree that what the Bill is concerned with is not in any way that £10,000,000. It is concerned with entirely different sums of money, which for other reasons are at the present time either at the Bank of England or in other banks to the credit of the Government of Czecho-Slovakia or of certain firms, companies, and private individuals in Czecho-Slovakia. Looking at the Bill without possessing any inside knowledge and with only a limited experience, it does seem to me that the Bill covers the necessities of the case. If any Members of the House think otherwise I hope they will take this opportunity of expressing their views. I will not say that if they fail to do so they must "for ever after hold their peace," but, at any rate, now is the moment for them to speak, for the day after to-morrow it will be too late.

I come now to the second of my two questions: Does the Bill, in doing what it is obviously the intention of the Government and the House to do, at the same time do nothing undesirable? According to my information the instructions given to the Bank earlier in the week did produce certain consequences which were not intended. Persons who had come to this country from Czecho-Slovakia and who were residing here found themselves in a peculiar predicament. When they went to the Bank for small sums for ordinary

expenses to carry them through the week, they found that they could not withdraw the money. That was not the wish or the intention of the Government but that is what happened. Naturally the banks, having received this rather sudden request from the Government, were anxious not to break in any way the intention of the Government, and they put an embargo on the drawings. I am given to understand that now the text of this Bill is before us—presumably in the form in which the Bill will pass into law—these people will not be subject to such consequences. There will, however, be border-line cases, and no doubt the Government will do anything they can to prevent undue hardship arising by accident as a result of the passing of the Bill.

In my judgment most important of all is the question, what ulterior consequences may flow from this action? It is quite impossible to disguise from ourselves that the Bill will not be regarded with exceptional favour and approval by the Reich Government. It is designed obviously to prevent the Reich Government taking undue advantage, so far as this country is concerned, of the military occupation of Czecho-Slovakia. Therefore it is the duty of the Government and of this House to make sure that they are prepared to face such action as may be taken in retaliation. In the Debate a few days back I pointed out that foreign affairs to-day were like a game of chess. A player starts with a plan but it is necessary for him to alter that plan according to the moves of the player on the other side. It is necessary, before rigorous action is taken, to make sure that you are in a position to make a later move if an intermediate move by your opponent is intended to upset your plan. It would be most improper for the Government to explain to the House in detail what they will do on some subsequent occasion if the Reich Government take a certain course, how they will meet this, that and the other, but I think it is up to the Government to tell us in broad general terms that they have given detailed and meticulous consideration to this point, and have come to the conclusion, in taking this very grave step, that if there is any attempt to meet it by retaliatory action they are in a position to act so that the retaliatory action will do no injury to this country. The House is entitled to that general assurance. I

recognise that this moratorium, as it is in effect, is desirable, and even necessary, but I consider that it is a very grave action, and I ask for an assurance from the Government that they have contemplated all the consequences that may flow from it.

4.15 p.m.

Lieut.-Colonel Sir A. Lambert Ward: I should like to congratulate the Chancellor of the Exchequer on the promptitude which he has shown in introducing this legislation, and, as the case is one in which speed is the essence of the contract, on the still greater promptitude which he has shown in giving instructions to the banks to take the necessary executive action, which has been done. It is true that, as was pointed out by the right hon. Gentleman the Member for East Edinburgh (Mr. Pethick-Lawrence), this is an unprecedented case as far as this country is concerned, but it is not unprecedented in the world; it is not unprecedented in Europe. Most countries have already taken similar steps with regard to British balances lying there, and I think it is regrettable that action was not taken earlier by our Government to put those countries which had placed an embargo on British balances in a similar position. The Chancellor will no doubt say that the answer is simple—that there were no balances in this country to block. If that be so, he is even more to be congratulated on having taken time by the forelock—on having locked the stable door before the horse has escaped.

With regard to the balances and gold which are still lying at the Bank of England and in joint stock banks in this country, I think we can be perfectly easy in our minds as regards the balances in gold in the name of the National Bank of Czecho-Slovakia, because the National Bank of Czecho-Slovakia is every bit as much a Government institution as is the Post Office of Czecho-Slovakia. With regard, however, to private balances, private funds and private securities which are at the moment in this country, I do not feel quite so easy in my mind. Ever since the occupation of Sudetenland, a good many Czechs have been getting money out of the country. No one can blame them for that. They have seen what has happened to the Jews in Germany and Austria; they have seen those

unfortunate people turned out of the country penniless; and, as any provident-minded men or women would, they have been endeavouring to get a little money into the country to which they expected to have to fly in the course of a very few weeks or months. When the occupation of the Sudeten area took place, many people in Czecho-Slovakia realised that it was more than likely that similar action would be taken in regard to the rest of the country, and when they got a certain amount of money away into the country to which they would have to escape, they were only taking what might be regarded as a reasonable precaution.

The transfers of money from there to here have, as far as I have been able to find out, mostly taken one of three forms. Either an account was opened with a British bank, or lease of a strong box was taken at one of the numerous safe deposits in this country. That, however, in the majority of cases, meant paying a visit to this country, and a great many of these people have not been able to do that. The third method, which has been adopted by people in a small way who were fortunate enough to have a friend or relation in this country on whom they could rely, has been simply to put their securities into a registered envelope and address it to a friend over here, accompanying or preceding it by a letter asking their friend to be kind enough to look after their money for them. Such is the confidence which people abroad have in the honesty and integrity of people in this country that that sort of thing, I am told, has gone on to an amazing extent.

I want to ask the Chancellor of the Exchequer what is going to be the position of a refugee arriving in this country, who has money here, but who finds on arriving here that he cannot obtain it. In spite of the fact that no one is now allowed out of Czecho-Slovakia, refugees are undoubtedly slipping over the frontier in two or three directions. They have slipped over in considerable numbers into Poland, and have also been getting into Yugoslavia. In a short time, probably, some of these unfortunate people will be arriving here, and they will find that their balance, which has been placed in a bank in London or elsewhere in this country, has been blocked; or, if they have money at a safe deposit, they will not be allowed access to their strong box; or, if they

[Sir A. Lambert Ward.]
 have sent securities to a friend, that friend, if he interprets this legislation as he should interpret it, will not be allowed to hand them over to the original owner. Nor will anyone be in a position to advance money on the security of that property, because at any moment the Treasury may insist that securities held privately which belong to Czecho-Slovak nationals must be declared, and, if necessary, handed over and placed in the general hotch-potch of Czecho-Slovak money.

Sir J. Simon: Perhaps my hon. and gallant Friend will forgive me for interrupting him, because I do not want other Members of the House to dwell on this difficulty. I had that point most clearly in mind when I helped, as Chancellors of the Exchequer do, to draft this Bill, and partly for that reason there is introduced, and I think there must be introduced, a provision that this embargo, the prohibition to pay out, shall not operate without the consent in writing of the Treasury. It is essential that we should put some confidence in the administration of the Treasury, who are naturally in touch with the banks, and I have not the slightest doubt that if any such cases arise, they will be dealt with on their merits. They must be dealt with on their merits, and I think the House may trust us to deal with them properly and rapidly.

Sir A. Lambert Ward: I am very much obliged to the right hon. Gentleman; he has met the case that I had in mind. What I particularly wanted was an assurance that refugees who arrive here owning money of their own will be placed in a position in which they can live in reasonable comfort, and not become a charge on their friends or on refugee funds which have been subscribed for that purpose.

4.26 p.m.

Mr. Mander: We on these benches desire to give hearty support to this Bill, and congratulate the Government on the celerity with which they have acted. It shows that, if necessary, we can act in this country just as rapidly in the protection of our interests as can those in the Fascist States. I understand that the German Government have already been collecting gold and securities from the Prague National Bank in lorries, and

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 taking them away, which shows that we over here were right in acting at the earliest possible moment. It is a very different situation from what happened in the case of Austria. Then there was no question of taking any such action, and I understand that all the funds belonging to the Austrian State were taken over automatically by Germany. There is another matter, which I can only just mention in a word, but which I feel sure the Chancellor has in mind. I trust that, in the case of Memel, he will, if necessary, act in exactly the same way and with the same celerity as in this case.

In the case of Austria, of course, attempts were made by the German Government to put pressure upon Austrians who had money over here, by putting them in concentration camps and asking them to say where their money was banked in England and to sign cheques handing it over to the German Government; and no doubt a number of these poor people were obliged to accede to that pressure. The present proposals will make it impossible to exercise that pressure, because obviously the money is not going to be paid out, whatever the owner may do. A good many changes have already taken place in the control of Czech businesses in Germany, and instructions have already been sent to banks here notifying those changes. That is another reason for stopping the whole thing short.

When the whole question is balanced up, and the necessary compensations and adjustments are made on the two sides, I take it that there will be left over in this country a substantial sum in favour of what was the Czecho-Slovak Government. I hope that a considerable amount of that money will be used, as far as may be necessary, for the support of refugees, and I should also like to throw out a suggestion. I do not know whether it is practicable or not, but I think it may be worth considering. It is that, if there is left available a still further sum belonging to Czecho-Slovakia, with which it is not quite clear how to deal, the Government might at any rate consider placing it in trust for the provisional Czecho-Slovak Government which possibly will be formed, as in the old days, in America, pending the time when Czecho-Slovakia comes into her own. They will then have awaiting them a nest-egg in the form of their own funds,

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 which they can take over when, as it surely will, the free democratic State of Czecho-Slovakia arises once again.

I should like to put one or two questions to the Chancellor of the Exchequer, though I think that in his intervention just now he made the position clear. I gather that in all reasonable cases refugees, both those in this country at the present time and those who may arrive later, if they can prove their case, will be permitted to draw out their resources here. There is also the case of persons in Czecho-Slovakia who own property in this country as shareholders in companies. Could it not be arranged for such persons, provided they can prove that prior to 14th March, let us say, they owned such property, and disregarding all changes since, that facilities should be given to them to draw out funds to which they may be entitled? Another question which has been raised is as to whether it will be possible for persons having money in the blocked account to move it from one bank to another, providing that it remains blocked. I cannot see any objection to that. We shall do everything possible to facilitate the passage of this Bill at the earliest possible moment, and I hope the Government, in all their dealings with this grave international crisis, will show the same spirit of action and resolution as they have in this case.

4.31 p.m.

Mr. Petherick: In common with other hon. Members who have spoken, I welcome this Bill. I share with the right hon. Gentleman who spoke from the Opposition Front Bench some nervousness over the Bill being thrust through with such haste, but in this case I recognise that haste is absolutely essential. My first point is quite a small one; it may be a Committee point, but I should like the Chancellor to take note of it. Under Sub-section 1 of Clause 1, persons in this country who own securities are not allowed to part with them without the consent of the Treasury. At the end of that Sub-section, the words "securities or gold" are used, and further on, securities are defined as including

"stocks, shares, annuities, bonds, debentures and debenture stock, and any certificate or other document of title relating thereto, and Treasury bills."

I wonder whether that covers the case of an ordinary commercial firm in this country which has money owing to

Czecho-Slovak banks or exporters of Czecho-Slovak goods. Could my right hon. Friend give some indication of the amount of Czech balances which it is envisaged that this Measure will cover? Could he subdivide it into two—how much is owing to the National Bank of Czecho-Slovakia and how much to firms and private citizens in this country? I would like to reinforce the plea of the hon. Member for East Wolverhampton (Mr. Mander) on the subject of Memel. It is a different case, but I think it is well worth examination. Although it may not be possible for the Government to give an answer during this Debate, I hope they will consider it. There was one point on which I did not agree with the hon. Member. He suggested that, after the allocation which my right hon. Friend has made, any balances which may be left should be, perhaps, held over in trust for a possible Czech refugee government. I do not think that is either advisable or possible. It would not be possible to tell whether that government in fact represented the Czech people, because no mandate would be given to them, and it would be very difficult for a government, or shall we say the trustees who might hold this surplus, to know anything about the personalities of the refugee government.

Mr. Mander: I really did not mean that a lump sum should be handed over to this Provisional Government. I meant that it should be held in trust for the day when there should arise once again a Czech government in Czecho-Slovakia.

Mr. Petherick: I understood the hon. Member, when he mentioned a refugee Czech government being in existence, to mean that the trust fund should devolve on that government, and not to be held for the eventual government which might be set up for the State of Czecho-Slovakia, or Bohemia. The Chancellor of the Exchequer mentioned that some £4,000,000 would be, in effect, allocated to the refugees, and he mentioned a co-ordinating committee of refugees. I hope he will give an assurance that His Majesty's Government will be represented on the board, because it would not be right for any body to have such an amount under its control without any Treasury representation whatever. I hope the Bill will pass through all stages, here and in another place, at the earliest possible moment.

4.36 p.m.

Mr. Edmund Harvey: I want to support the plea made by the hon. and gallant Member for North-West Hull (Sir A. Lambert Ward) with regard to the effect of this Bill on private individuals. I think it is an almost unexampled thing in the history of our legislation to pass a Bill taking away the rights of private individuals, not through any fault of theirs but for the fault of another State, of which in some cases they are the victims. It surely is a most lamentable thing that we should do this, and I hope that, before the House parts with the Bill, the Chancellor will see his way so to amend it that we shall materially safeguard the rights of private individuals who will suffer—I am sure, against his wishes—under the Bill.

Sir J. Simon: What sort of individual has the hon. Member in mind?

Mr. Harvey: Clearly, both refugees in this country and in other countries, and members of private business firms who did not wish to have themselves incorporated in the Reich, and were in no way responsible, but who are compelled to go on living where they are in Czecho-Slovakia, and who may have accounts in this country. Why should they have to suffer for the misfortunes that have fallen on the country?

Sir J. Simon: They have not.

Mr. Harvey: But their accounts will be blocked.

Sir J. Simon: Special cases will be considered by the Treasury. I cannot define such cases except by saying that if there is such a case it will be dealt with on its merits.

Mr. Harvey: If you are doing injustice, it is not sufficient to say, "I will consider, in special cases, whether I will remove that injustice." I entirely agree with the intention of the Government, in seeing that money which was granted to the Czecho-Slovak State does not go to another State for which it was never intended, and that money meant for the Czecho-Slovak banks is not taken away by the banks of another country, but why should the honest individual, who is in no way concerned with the horrible events that have occurred, have to pay the penalty of coming as a suppliant for justice? The Treasury should see that small

sums can be drawn on an account without special application to the Treasury. If a poor doctor has come with a few hundred pounds to this country and he wants £5, has he first to make a special application to the Treasury? All of us who have to deal with refugees know that, with the greatest good will—and there is good will on the part of Government officials—it takes weeks or months to see that everything is all right before any grant is made. I am sure the Noble Lord opposite knows the immense difficulties that have to be faced. I do not doubt the good will of the Government in this matter, but I beg that, before the Bill takes its final form, the utmost will be done to see that it does not involve an injustice to individuals which I am sure no Member wishes to come to pass.

4.40 p.m.

Mr. Boothby: I am not sure whether the hon. Member for the English Universities (Mr. Harvey) was referring to Czechs in Czecho-Slovakia or in this country.

Mr. Harvey: Both.

Mr. Boothby: There is a great difference between the two. With regard to Czech nationals in Czecho-Slovakia, they might get a portion of any money the payment of which was sanctioned by the Treasury, but I doubt whether it would be very substantial. With regard to Czech nationals who have the good fortune to live in this country, I think they may congratulate themselves, even if they have, for a brief period to live, if I may put it vulgarly, "on tick," that they are out of Czecho-Slovakia and in this country.

I do not find myself in agreement with my right hon. Friend the Chancellor on every subject, but in this case I would most sincerely congratulate him on the speed with which he has acted, and the great courage he has shown. The annexation of Czecho-Slovakia has undoubtedly affected British interests. The Chancellor has dealt with the direct British Government interest in this matter, arising out of our payment of £3,250,000, and he has dealt with it in a manner highly satisfactory to hon. Members on both sides. Hon. Members would wish that, in so far as it is practicable and possible, the bulk of this money should be applied to the assistance of the refugees; and I am sure the Chancellor met the desire of the House in this

matter. But there are British banks and others doing business in this country who also have credit balances in Czecho-Slovakia, and they must not suffer either. It is clear that the realisation of these balances held by British firms, institutions, banks and individuals in Prague has been made quite impossible by what has taken place. Even if the debtor in Czecho-Slovakia wished to pay, he undoubtedly would not be allowed to do so.

I do not want to detain the House for long, but I would like to make one or two suggestions as to what should be, or might be, done with the very considerable sum of money of which my right hon. Friend is now possessed—which will prove in the end, I believe, to be much more substantial than was originally thought. Many people in the City originally thought that the sum involved, belonging to private concerns, would be £2,000,000 or £3,000,000. I think that ultimately it will be found to be considerably larger than that. I would suggest that, as this is a matter of the greatest urgency, a register should be made as speedily as possible of all Czech holdings in London and all British holdings in Prague. Then you will be able to ascertain the balance between the money owed and the money now held, or blocked, in this country.

I think it is important to set up as soon as possible some kind of clearing institution to deal with these important questions as quickly as possible, either in the form of a public trustee, or some other institution set up by the Government, empowered to decide what money should be distributed in the immediate future to those who have immediate claims. It is obvious that you cannot have a fluid situation continuing indefinitely, where such a large sum of money is involved, and where considerable hardship may be caused in the immediate future to comparatively small creditors. I suggest that nothing should be liberated from the fund until such a balance sheet has been established; and therefore the sooner that balance sheet is made up, the more satisfactory it will be from every point of view.

I would like to answer one statement of my hon. Friend sitting behind me with regard to the Czech National Bank holdings in London. It is very important that all the assets of private institutions in Czecho-Slovakia should be treated as one

unit together with the assets of the Czech National Bank. By Czech law, as it prevailed before the occupation, every resident, firm, or individual in Czecho-Slovakia was obliged to deliver all foreign devizen to the Czech National Bank, which in effect became the owner of all such devizen. Every holding had to be disclosed to, and registered at, the Czech National Bank; and no bank in Czecho-Slovakia and no individual citizen had the right to dispose of it without the permission of the Czech National Bank. Therefore, for all practical purposes, you can say that all foreign devizen was in fact owned by the Czech National Bank, which to-day has a complete check on all devizen held in London. Had it not been for the action of the right hon. Gentleman the Chancellor of the Exchequer, this devizen would be finding its way back to Prague, and into the pockets of the Nazi party, at this very moment.

There should be a single fund established as quickly as possible of all the Czech assets in London, in order to pay off those British creditors who either left funds in Czecho-Slovakia or invested funds in Czecho-Slovakia, relying upon the assurances of the British Government and the other Governments signatory to the Munich Pact. This is a point well worth making. There are a number of British investors, and other investors, who, after the Munich Pact, regarded Czecho-Slovakia in some respects one of the safest places in which to put their money.—[Laughter.]—Hon. Gentlemen may laugh. I know it may be said that the average investor is not a very intelligent person; but to the ordinary man, who is not a trained politician, it seemed that Czecho-Slovakia was going to become a sort of Switzerland, with a four-Power guarantee of its frontiers, and everything else. It was to be a veritable harbour of refuge for capital in Central Europe. I think His Majesty's Government at one time sincerely believed that this was going to be the case.

Mr. Ede: They believed it.

Mr. Boothby: I think they did. But it has not turned out to be the case; and it ought to be borne in mind that a lot of private investors, not actively engaged in politics, genuinely believed, when they read the terms of the Munich Pact, and

[Mr. Boothby.]
the declarations of the Governments concerned, that Czecho-Slovakia was a reasonably safe place in which to invest money. These people ought now to be protected from the consequences of their action. Every person—and I would apply this to Czech residents in this country as well as to British subjects—who can prove assets held in Prague ought now to be paid out of the fund, at the last quoted rate of exchange prevailing prior to the seizure of Czecho-Slovakia. This applies particularly to Czech bonds.

Czech sterling bonds lying in London will, of course, be paid in full out of the fund. But there is one technical point I would like to put to the right hon. Gentleman. The Czech Government repurchased about half of their outstanding bonds in the City of London, and these bonds are back in Prague. I do not want to see them realised now for devizen in the London market by the German Government. I, therefore, suggest to the right hon. Gentleman that he ought to consider whether it would not be advisable that while paying out of the fund which must be established those Czech bonds still held in London, dealings in Czech bonds on the Stock Exchange should be temporarily suspended. I certainly do not want to give any money arising out of the situation in Czecho-Slovakia to Germany at the present time.

I feel, and I am sure the House as a whole feels, that there is really great necessity for speed in this matter. We are rightly giving an indemnity to the Government and to the banks in respect of the wise, courageous and quick action they have taken. But it is very necessary, especially in view of what my hon. Friend above the Gangway said, that the position arising out of the credits held at present by British citizens in Prague, and by other citizens resident in this country, should be cleared up at the earliest possible moment, and that the minimum of hardship should be involved.

I beg of the right hon. Gentleman, if he contemplates, as I imagine he does, setting up a fund, that this should be done, and the fund distributed as quickly as possible. Even after all the creditors have been paid off, there will still be, according to my information, a substantial balance lying in London to the credit of His Majesty's Government, or rather to

the credit of the fund. The question will then arise, as the hon. Member who spoke for the Liberal party pointed out, as to what is to be done with the surplus, which I have no doubt at all will exist, even after all existing claims have been fully met out of the fund. I think we would all desire that these credits should be maintained in a suspense fund of some kind, either for the use or benefit of refugees, or for such other purposes as this House and His Majesty's Government may at a later date determine. One thing is perfectly certain, in view of what is happening in Europe now, and that is that the refugee problem is not going to diminish with the passage of time; and it may well be that the Government will be glad in a few months, or a few years time, to have this money at their disposal.

4.54 p.m.

Colonel Nathan: I join with other hon. Members in congratulating the Government on doing something highly unconstitutional, and doing it very speedily. I am glad that the Government have come to the House so swiftly with a Bill for the confirmation of their action. I should like to pay my tribute to the Treasury for its alertness and for the speed of its action in this matter, and for the courage it has displayed in acting without legislative sanction. There is one point which I confess occasions me a little anxiety with regard to this Bill, the whole purpose of which, naturally, I support. As my right hon. Friend the Member for East Edinburgh (Mr. Pethick-Lawrence) said, this is an important thing to do, and it is a very unusual method of procedure. The City of London depends for its financial reputation upon the fact that money deposited here can in normal circumstances be withdrawn at will. I would ask the Chancellor of the Exchequer whether he would consider prefacing the Bill by a Preamble stating that the seizure of Czecho-Slovakia by Herr Hitler was a breach of a solemn undertaking, and that the British Government regard that seizure as unlawful and do not recognise it. That would give a basis for this Bill, which it is very desirable to have, so as to show, if nothing else, that this is a very exceptional occurrence taking place under most unusual conditions. Perhaps the Chancellor of the Exchequer will be good enough to give the matter some thought.

There are a number of small points in the Bill to which I wish to draw attention.

The Bill, especially in view of the short time available for drafting it, seems to be admirably adapted to its purpose. But there are one or two points in it which seem to provide some loopholes. For instance, in Clause 1, Sub-section (1, a), the persons who are prohibited are persons carrying on the business of banking. Bankers are prohibited from making payment out of accounts to persons ordinarily resident in Czecho-Slovakia. I do not know whether a "person carrying on the business of banking" would include an acceptance house. If I am right, there would be nothing to prevent the meeting of an acceptance for the benefit of a person ordinarily resident in Czecho-Slovakia. Obviously, the draftsman has been alert on this point as he has proceeded with the Bill, because in the next paragraph he makes another restriction with reference to any person or persons ordinarily resident in Czecho-Slovakia by including "any securities or gold." Even so he has not covered the whole of the ground. There are certain amounts of gold and securities held by Czecho-Slovak subjects here in the vaults of banks, in private safes in banks and minor banks, and also in private safe deposits.

As far as gold or securities deposited by a person in a safe, or a bank or a safe deposit are concerned, the bank or owner of the safe deposit does not hold the securities or gold for the Czecho-Slovak at all. He is merely in the position of the hirer of the safe, and under this Bill there will be nothing that I can see to prevent the Czecho-Slovak depositor from going to the bank or the safe deposit, opening his safe and removing his gold and securities, the reason being that the bank and the safe deposit are not persons who hold the gold or securities, but simply, in the circumstances I have indicated, the hirers of safes. They have no answer under this Bill to any action that may be brought against them by the depositor. That I conceive to be the position.

While it is true that there are relatively large balances in this country and deposits of gold, they are by no means the only sources of sterling which the German Government would like. It is within my experience that the German Government have, in the case of German subjects, called upon them, if they have

been insured with a British insurance company, to apply to the British insurance company to accept a surrender of the policy against the payment of a surrender value in sterling. The German subject has been very unwilling to do that. He has to act under the compulsion of the Government under whom he lives, and the same thing, I imagine, will apply to the Czecho-Slovak. Where the Czecho-Slovak subject has a life insurance in this country, the German Government will call upon him to surrender the policy and hand over the sterling proceeds to the German Government. Great pressure is brought to bear upon such persons to act in the way I have indicated, a pressure which they find it impossible to resist.

There are substantial book debts due from this country to Czecho-Slovakia and they are not covered by the Bill. I would suggest the desirability of covering them speedily, because the German Government have a pretty little habit of appointing commissars, or persons of some such kind, to control businesses within German territories—and Czecho-Slovakia is now within German territory for this purpose—and the commissar then comes to the English debtor and says, "I am the person who is authorised to clear the debt and I am the only person authorised. Pay it to me." Some rather misguided people sometimes do it, though if they took the decision of the courts they would probably find that they were under no such compulsion. It may be desirable to cover, in addition to the matters mentioned in the Bill, the insurances and book debts which I have mentioned. Another hon. Member has referred to shares held in British companies. I wish that some restriction could be placed—I do not think it would be difficult to devise a formula—on dealings in shares in English companies by persons ordinarily resident in Czecho-Slovakia.

I have heard with a great deal of appreciation, as no doubt have others, what the right hon. Gentleman has said with regard to refugees and the application of funds for their assistance. As he said, that question does not, strictly speaking, arise under the Bill, and I will not mention it except to express my appreciation. But there does arise a question about refugees which has been touched upon more than

[Colonel Nathan.]
 once and was referred to by the Chancellor of the Exchequer himself, and that is the operation of their banking accounts. The Chancellor gave an explanation as to how the Bill would work, which may be satisfactory to a number of Members, especially those who raised the question, but the matter is not by any means so simple as all that. I hope the right hon. Gentleman will not allow a general rule to be made that Czecho-Slovak refugees in this country may at once draw out the whole of their banking accounts. Very often the German Government brings pressure to bear upon refugees in this country to draw out money and remit it to Czecho-Slovakia or to Germany, and it is only on condition of the refugee acting in that way that they will either allow some near relation to leave Germany or refrain from putting some relation into a concentration camp. In fact it is a method of blackmail, and I am sure notwithstanding what the hon. Member for the Combined Universities (Mr. E. Harvey) has said, that the refugees will welcome the fact that they are prohibited from drawing their money out except with the consent of the Treasury, because it is a complete reply by them to the pressure brought to bear on them by the German Government. One could multiply instances in which the pressure is so great that the Czechs, although they have fled from Czecho-Slovakia, are only too glad to be prevented from drawing their own money.

The hon. Member also referred to the position of persons who have not left Czecho-Slovakia but are still there, and he commiserated with them as unhappy persons whose private rights were being interfered with. I do not hesitate to say that those private traders who are still in Czecho-Slovakia and who have bank deposits here are only too glad to have them blocked, because it is a complete answer when they are called upon to transfer their balances to Czecho-Slovakia, and when they do transfer them they do not get what they have drawn from the British bankers; they get Czech currency only. There will undoubtedly be a large sum available to be dealt with and I very much hope, though it is not contemplated by the terms of the Bill, which is merely of a negative character, that the Government will introduce legislation in the near

future under which a clearing arrangement will be established. What should be done with any ultimate balance is a matter that can be considered when the balance has been ascertained, but I am sure it will be a matter of profound gratification to those in this country to whom money is owed from Czecho-Slovakia to know that there are resources to which under proper clearing arrangements they will look for reimbursement. I hope we may be told that legislation directed to that end is contemplated in the not too distant future.

5.7 p.m.

Captain Cazalet: I also warmly welcome the Bill. Naturally it is bound to lead to certain complications, but I accept the fact that the Treasury must be given authority and power to deal with those complications that arise. I think the mere fact that balances cannot be withdrawn without the consent of the Treasury will be the greatest protection to many individuals in Czecho-Slovakia and elsewhere who have balances in this country. I knew several cases in respect of Austria where individuals were forced to sign papers transferring their balances in this country to the German bank. There is only one point that I want to stress. If I understood the Chancellor of the Exchequer aright, out of the original £10,000,000 loan and gift to Czecho-Slovakia so far only £3,250,000 has been expended. Some of it has already been spent on refugee work. Am I to understand that the part which has been spent on refugees is going to be counted as part of the £4,000,000 gift which we have promised to make for refugee work. I was very glad to hear, in regard to the remaining part of the £4,000,000, that the Government will give a wider and more generous interpretation as to the way in which it is to be spent in assisting the refugees. I hope that the co-ordinating committee and the Czech committee will be given the greatest possible latitude in dealing with this sum. It is impossible to exaggerate the work that the Committee have done and are doing for refugees and they alone can know what are the circumstances of the refugees. Some of them are not in Czecho-Slovakia. Some are in Hungary and Rumania. I know of some who are in Holland. These people, for whom we have direct responsibility—

Mr. Deputy-Speaker (Colonel Clifton Brown): I think the hon. and gallant Gentleman is going a long way outside the scope of the Bill.

Captain Cazalet: I was only referring to a specific point which the Chancellor raised. I hope that the Czech refugees who are not in this country, and have no means whatever of getting to this country or to the Dominions, for whom we have a direct responsibility, will be allowed to be assisted out of this £4,000,000. I am grateful for what the Chancellor has said and I hope the Government will come to some decision quickly and generously on the point.

5.10 p.m.

Miss Rathbone: I join with other speakers in congratulating the Government on the celerity with which they have acted. I share the fears of my colleague in the representation of the Combined Universities that it may work hard on some individuals who would not be able to draw their balances, but I recognise that it is a necessity. May I submit this small point? It would be a still further advantage if a balance which a refugee now in Czecho-Slovakia has in a London bank could be transferred to another bank. It may fall into the hands of the Gestapo, and then pressure may be brought to bear on him and, although it is true that the blocking of his balance in one bank may be one safeguard, it is really a greater safeguard if he can conceal from the German authorities as far as possible the amount of his potential resources. What would be the difficulty of permitting a transfer from one banking firm to another if the balance remained blocked?

I am glad to hear that the Chancellor of the Exchequer intends to reserve the whole of this money, but I was rather astonished to hear several Members say they anticipated that at the end there would be a considerable credit, and various suggestions have been made as to how the amount left in the fund should be used. Why is it anticipated that there will be more than enough, or indeed enough, to deal with the problem of the refugees? What happened last week has enormously increased the number of potential refugees. Up to last week it was anticipated that there were something like 6,000 or 7,000 persons who might for their own safety leave Czecho-Slovakia. Of that number only about

2,000 have reached this country and only about 1,000 have reached other countries, thanks to interminable delays in the Foreign Office making up its mind as to its policy and conducting negotiations for the loan, and to delays in the Home Office. To many of us it is a bitter thought that thousands of those refugees are now probably in the hands of the Gestapo.

Mr. Deputy-Speaker: We cannot have a Debate on refugees as a whole.

Miss Rathbone: I was only referring to that very briefly to make this point, that many have not got out for whom it is too late, and that there are about 250,000 Jewish refugees now in Czecho-Slovakia. All this money will be wanted and more than wanted. We have now to deal with a number of potential refugees infinitely larger than we expected to deal with only a brief 10 days ago. It may or may not be possible to extricate those people, but probably the whole of those 250,000 Czecho-Slovakian Jews are likely soon to be subjected to the Nuremberg laws. It is most essential that we should not only regard this £4,000,000 as a debt of honour to be kept for the use of refugees from Czecho-Slovakia. We have also to consider what is going to happen to the £4,000,000, or what has not been expended of it, which was not a gift but a loan. We do not want to make money out of this miserable affair. Out of the whole of the money originally intended for the assistance of refugees only £4,000,000 was for the emigration of refugees.

Mr. Deputy-Speaker: The hon. Member is really getting out of order now.

Miss Rathbone: I was just finishing. There was £8,000,000 allotted for the assistance of refugees in some shape or another, and all this money will be wanted.

5.16 p.m.

Mr. F. Anderson: I desire to raise a few points which have not so far been touched upon. I want to raise the question of industrialists who reached this country before 15th March with the object of establishing new industries in the Special Areas. These people have entered into certain commitments, and I want to ask whether they are entitled to have these commitments met without having to make application to the bank where

[Mr. Anderson.] they have accounts in this country. The Bill refers to residence and qualifications—it says "ordinarily resident."

Sir J. Simon: Are the people to whom the hon. Member is referring in this country now?

Mr. Anderson: Yes, they arrived about the 12th March. I think the Treasury have already had some correspondence with regard to the points I am putting. These people are industrialists and have entered into certain commitments. What is their position? From my knowledge of what has been done it appears that nothing has been said for these people in regard to their application to the bank for the release of money from their accounts in order to meet these commitments. Two applications have been made, and the bank, a well known bank, is not in a position to say what can be done. Is that position covered by the Bill? Is it one of the points which will have to be considered on its merits by the Treasury? If these people who are entering this country to establish new industries have on every occasion to go to the Treasury for the purpose of obtaining sanction to spend money in certain ways it will make it impossible for them to carry out their business ideas.

My second point is this. Some persons have arrived—I am not speaking of ordinary refugees but of people who desire to establish industries in this country—after 15th March. What is their position? I have had a case in the last day or two of a person who has many thousands of pounds in a bank in this country. He has had to go to the bank and say that he wants permission to pay his hotel bill. Surely it cannot be intended that such a person has on every occasion to make application to the Treasury in order to meet his hotel expenses? What is going to be the position of people who have arrived after 15th March? Is there going to be a general acknowledgment that they can establish their businesses, and that in the circumstances they will not be asked, every time they want £100 or £200 from the bank, to go to the Treasury for sanction? I would like these points cleared up, because there are a number of industrialists, from Czecho-Slovakia in particular, who are in this predicament to-day and unless the matter is cleared up serious injury might be caused to these

people, who are anxious to establish in this country industries which will find useful employment for many of our people.

5.22 p.m.

The Financial Secretary to the Treasury (Captain Euan Wallace): The right hon. Member for East Edinburgh (Mr. Pethick-Lawrence) began his remarks by saying that the Bill is a stern measure. I agree; it is, for we are living in stern times. That is the justification for the Bill. He asked whether there was any precedent for this form of legislation in peace time. The answer is that as far as this country is concerned there is, so far as I know, none; but it must be recognised that other countries have frequently done precisely what we are doing in this Bill by means of exchange restrictions. Therefore I do not think that our withers should be unduly wrung on that score. The right hon. Gentleman went on to ask whether the Bill was concerned with other accounts and other balances besides the £10,000,000 concerned in the Government free gift and loan, about which we have recently been legislating. It is, but the House must recognise that the effect of the Bill is to block—and it does block—the accounts relating to the £10,000,000, both the £4,000,000 gift and the £6,000,000 loan. Hon. Members will also realise that this legislation, which is to deal with an urgent situation, must deal with it on broad lines, and I do not suppose that anyone will assume that the provisions of the Bill represent finality in dealing with this difficult problem.

A question which has agitated hon. Members in all parts of the House, and which has been raised by the hon. Member for Whitehaven (Mr. Anderson), is, to put it in a perhaps rather flippant way, the difficulty at the present time for the Czechs to cash cheques. It is an unfortunate situation, but it is only temporary. It is the direct result of an obligation to bring in legislation quickly and in general terms. I may say without disclosing any confidences that the right hon. Member for East Edinburgh approached me on the subject two nights ago. I have made some general and some particular inquiries into the whole position. I understand that where individual applications have been made to get money out of the banks by people resident in this country, who obviously have every right to get money out, the applications have been

dealt with expeditiously by the Treasury, generally within 24 hours. If any hon. Member has any cases of this kind—they are probably bound to arise—and will communicate with the chief cashier of the Bank of England or the Treasury we will do everything we can to put the matter right and see that their cases are dealt with. As regards the particular point put by the hon. Member for Whitehaven, people who came from Czecho-Slovakia before the 15th March are not within the scope of the Bill at all, and they should have no difficulty whatever in dealing with any money or assets they have in this country.

Mr. Anderson: Only to-day a person who arrived on 12th March went to the bank and has only been granted a few pounds, whereas he required £200 or £300. The bank people say that they are not at liberty to do any more.

Captain Wallace: I, of course, accept what the hon. Member says, but I give this assurance to him in all good faith, that we will deal with these cases as expeditiously as we can. The House will recognise that in a Measure of this kind, introduced as a matter of urgency, difficulties of this kind are bound to crop up in the first few days. The right hon. Member for East Edinburgh talked about the ultimate consequences of this legislation. My right hon. Friend appreciates the attitude which the right hon. Gentleman took on this matter and his unwillingness to press us for any detailed reply. When he asks whether we have contemplated the consequences of any retaliatory action, I would point out that foreign balances in Germany are at this moment subject to exchange restrictions, and retaliatory action is going on at the present moment.

A question which has been raised is the amount of the assets of the Czecho-Slovakian Government which are held in this country. We do not know what they are, and it will obviously take some time to find out, but I would like hon. Members not to get any exaggerated idea as to the amount these assets may be. We have had a number of speeches dealing with aspects of this question which, if I may say with all respect, deal with operations subsequent to this Bill, and therefore I hope hon. Members, notably my

hon. Friend the Member for East Aberdeen (Mr. Boothby), will forgive me if I do not attempt to deal in detail with a number of extremely interesting suggestions which have been made regarding our future action. As the hon. Member for East Aberdeen said, speed is the essence of the case, and we have been obliged to act in what perhaps might seem a rather rough and ready manner.

I have listened very carefully to the Debate this afternoon, and I am glad that I have failed to discover in any part of the House the view that there is any other method of dealing with the present situation save the method that we have adopted of putting an embargo on those assets which would be liable to be transferred out of this country. In these circumstances, I hope the House will now give the Bill a Second Reading, remembering that on this occasion my right hon. Friend and I have been obliged to cut into one of the days allotted to the Opposition, and that any time which we spend on this Bill is taken away from the time available for the discussion of another very interesting subject.

Mr. Mander: Will the right hon. and gallant Gentleman be good enough to deal with the question of moving a blocked account from one bank to another? Would it be permissible for that to be done?

Colonel Nathan: Would the right hon. and gallant Gentleman also look into the question I raised as to safes in banks and safe deposits?

Captain Wallace: Certainly, I will look into that point and also the other interesting points raised by the hon. and gallant Member for Central Wandsworth (Colonel Nathan). All I will say to him at the moment is that the most important thing, and the object of this Bill, is to stop the big loopholes, and that we are doing, although we may have to let some small ones remain. I assure the hon. and gallant Member that any suggestions that may have been made in this Debate, or that may be made outside, will not go unconsidered. As regards the question put by the hon. Member for East Wolverhampton (Mr. Mander), certainly we shall consider the question of the removal of blocked accounts from one bank to another, while keeping them blocked. If they are accounts belonging to people in

[Captain Wallace.]
Czecho-Slovakia, obviously it cannot be done unless they give authority. If the people are in this country, we shall consider every case on its merits, as we are anxious to do, and as, in fact, we shall be obliged to do, because the whole effect of the Bill will be inevitably to give us a large number of individual cases to deal with as a result of the general measure for the protection of these assets in this country.

Miss Rathbone: I was sorry to hear the right hon. and gallant Gentleman say that the question of allowing a blocked account to be transferred from one bank to another will be considered only if the refugee is already in this country. There may be cases where he is not in this country and yet may be able to make his wishes known, through relatives or organisations in this country, in a completely unmistakable manner. This is a matter on which some of those who have had practical experience with regard to this subject feel strongly that it would be a safeguard if the balances could be transferred from one bank to another.

Captain Wallace: If it is possible for somebody who is not here to give us his consent in an unmistakable manner, I am certain that the Treasury will consider that individual case on its merits.

Mr. E. Harvey: I should be obliged if the right hon. and gallant Gentleman would give some further information regarding the present restriction on banks paying out even small amounts to refugees. I am sure the Government do not wish to cause any hardship in those cases, and therefore, before the Treasury have decided on the question of the withdrawal of larger amounts, would it not be possible for general instructions to be given to the banks that they are not precluded from paying out small amounts that may be urgently required in order to provide maintenance?

Captain Wallace: I do not think I can say more than I have done on that matter. In reply to the hon. Member for Whitehaven, I sought to make it clear that we recognise these hardships and are anxious to deal with them as rapidly as we can. We think we are doing that. It would defeat the object of the Bill if we were able to drive a coach and four through the general instructions that we

have given to the banks regarding the blocking of accounts. Therefore, these cases *ex hypothesi* must be dealt with as individual cases.

Question, "That the Bill be now read a Second time," put, and agreed to.

Bill read a Second time.

Bill committed to a Committee of the Whole House for To-morrow.—[Major Sir James Edmondson.]

CZECHO-SLOVAKIA (RESTRICTIONS ON BANKING ACCOUNTS, ETC.)
[Money].

Considered in Committee under Standing Order No. 69.

[Sir DENNIS HERBERT in the Chair.]

Resolved,

"That, for the purposes of any Act of the present Session to postpone the making of payments out of certain banking accounts and certain transfers of securities and gold connected with the Czecho-Slovak Republic, it is expedient to authorise the issue out of the Consolidated Fund of any money required by the Treasury for the purpose of any indemnity given under the said Act."—[King's Recommendation signified.]—[Captain Wallace.]

Resolution to be reported To-morrow.

CONSOLIDATED FUND (No. 1) BILL.

Order for Second Reading read.

Motion made, and Question proposed,
"That the Bill be now read a Second time."

ANTI-TUBERCULOSIS SERVICE, WALES AND MONMOUTHSHIRE.

5.37 p.m.

Mr. James Griffiths: I am sure that all hon. Members, not only those who come from Wales, but hon. Members from every part of the Kingdom, would desire that my first words this afternoon, in opening the Debate on the report of the Committee of Inquiry into the Anti-Tuberculosis Service in Wales and Monmouthshire, should be to express our gratitude to the hon. and learned Member for Montgomery (Mr. C. Davies) and his colleague, Dr. Coutts, for the work they have done in hearing and collecting evidence, and in presenting an extremely valuable report. I wish, on behalf, I am sure, of all Members of this House and also on behalf of the people

Enclosure No. 8 to despatch No. 2387 of 3 APR 1939
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House of Commons
22, March, 1939.
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251

ORDERS OF THE DAY.

CZECHO-SLOVAKIA (RESTRICTIONS
ON BANKING ACCOUNTS, ETC.)
[Money].

Resolution reported,

"That, for the purposes of any Act of the present Session to postpone the making of payments out of certain banking accounts and certain transfers of securities and gold connected with the Czecho-Slovak Republic, it is expedient to authorise the issue out of the Consolidated Fund of any money required by the Treasury for the purpose of any indemnity given under the said Act."

Resolution agreed to.

CZECHO-SLOVAKIA (RESTRICTIONS
ON BANKING ACCOUNTS, ETC.)
BILL.

Considered in Committee.

[Sir DENNIS HERBERT in the Chair.]

CLAUSE I.—(*Postponement of certain
financial obligations.*)Motion made, and Question proposed,
"That the Clause stand part of the Bill."

3.55 p.m.

Mr. Pethick-Lawrence: I should like to ask the Chancellor of the Exchequer whether, after having had the opportunity of considering the points raised yesterday, he has any further statement to make with regard to them. There were several questions which I raised myself, including the relationship of the Bill to the Government loan and gift to Czecho-Slovakia; and there was also the question raised by my hon. and gallant Friend the Member for Central Wandsworth (Colonel Nathan) relating to possible procedure in the case of sums of money that are held in safe deposits.

3.56 p.m.

The Chancellor of the Exchequer (Sir John Simon): I think it will be convenient if I answer the question of the right hon. Gentleman at once. We had a discussion yesterday, in which we went over the ground pretty fully. A number of points were made, and a number of questions were asked. My right hon. and gallant Friend the Financial Secretary, at the end of the Debate, dealt with most of them, but I agree that there are one or two to which it would be right to make reference now, because I desire by every means in

my power to get general and as far as may be universal authority for the passage of this urgent Bill. First, as to the question which the right hon. Gentleman has just repeated regarding the relation between the amount of £10,000,000 standing to the credit of the National Bank of Czecho-Slovakia at the Bank of England and the present Measure, I agree with him that it is desirable to make the plainest possible statement on that subject, and I think the correct answer would be as follows: As the Committee know, the £10,000,000, to the extent of about £3,250,000, has been drawn upon, and, therefore, £6,750,000 or thereabouts remains in the Bank of England at the present moment to the credit of the National Bank of Czecho-Slovakia. This balance of £6,750,000, held at the Bank of England for the account of the National Bank of Czecho-Slovakia, comes directly and precisely within the provisions of this Bill, and I think the right hon. Gentleman indicated that he thought it did, but he wished to be assured that it did. That balance is covered by the terms of the Bill, and is blocked, being an account held for a corporation incorporated under Czecho-Slovakian law, just as completely and effectively as any of the other accounts dealt with by the Bill. The position, therefore, will be, as soon as Parliament has passed this Measure, that that account will be held blocked in exactly the same way as any other account which is blocked by the Bill. That is a matter on which we ought all to be perfectly clear, and I am very glad now to have the opportunity of giving the answer for which the right hon. Gentleman asks.

One or two other matters were mentioned in the Debate with regard to which, perhaps, it would be well that I should make a statement. With regard to the question of moving money from one blocked account to another, which was raised by the hon. Lady the Member for the English Universities (Miss Rathbone), and was also mentioned by the hon. Member for East Wolverhampton (Mr. Mander), I think the best way to deal with it is to recognise that, if such a case does present itself, it must, of course, be judged on its merits, but permission will be given in all cases where it is clear that the money will remain blocked; we could not, of course, allow it to pass out of control. We shall be prepared to deal with these cases according to their merits.

COMMISSIONS (1938 STATISTICS).

Mr. Parker asked the Secretary of State for Air what was the total number of commissions granted in 1938, showing separate figures for cadet entry, short-service entries, ex-apprentice cadets, airman pilots, and warrant officers?

Sir K. Wood: During the calendar year 1938, 1,571 appointments to commissions in the Royal Air Force were made from the sources specified below:

	1486
Cadets	66
Short Service Entrants (All Branches)	1,339
Apprentices	11
Airman Pilots	77
Warrant Officers	19
University Entrants	59
Miscellaneous	

* The 1938 entry to commissioned rank from airman pilots was anticipated towards the end of 1937, and the number was 10.

I was asked an important question about payments to industrialists who have come over here from Czechoslovakia. The hon. Member who put the question said that some came over here before 15th March and others have come since that date, and have started businesses here. Some, I am very glad to say, are starting businesses in the Special Areas. The hon. Member asked whether people who have done that would find themselves held up in their business transactions by the terms of the Bill or whether he could get an assurance that that would not be so. My right hon. Friend the Financial Secretary dealt with the point, but I would repeat it because it is important. It would be plainly impossible in such cases for these people to carry on their negotiations with the banks if they had to go to the Treasury each time they wished to make a payment. Nor would that be necessary. Therefore the answer to the hon. Member is this, that where the Treasury are satisfied that there is a proper case for more general permission to enable business to be carried through properly, such permission will be given to draw on the blocked account; and it can be given in a general form which will not require that every one should come back for permission every time.

A question was asked about safe deposits. The hon. and gallant Member for Central Wandsworth (Colonel Nathan) and another hon. Member mentioned it. I have been looking into the matter and I thoroughly understand the importance of the suggestion that there might be a loophole to be stopped. We must clearly have in our minds what is the nature of the safe deposit business. It is the very essence of a safe deposit business that it should give to each person who rents a strong box or a safe, first of all, a key, by means of which he can get in and out and others cannot, and, secondly, that the safe is one which he opens and shuts as he pleases without the permission or authority of the proprietor or anyone else, and that he alone knows what is inside. I do not think that the safe deposit business could go on if there was any alteration in that fundamental arrangement. I therefore question very much whether the suggestion made could very well be carried out. I think it would be a very difficult matter as a practicable proposition, and while I see the importance of testing the point and we shall watch

it, I do not think it is possible for us at this moment to put forward a practicable proposal in regard to it.

I think it is much more important to have this Bill quickly operating and effecting its main purpose than to have an elaborate Bill which produces a lot of difficulties. The hon. Member for the English Universities (Mr. E. Harvey) thought that the Bill might inflict injustice on individuals in this country who had come from Czechoslovakia and on individuals in Czechoslovakia itself. I am entirely at one with the moral principle that you should not do wrong so that right may come. I do not want to inflict injustice on individuals any more than the hon. Member does, but I think that the matter is not really quite as serious as he supposes. We are taking every step to consider both classes of cases. As regards persons who have come over here from Czechoslovakia, I am confident that we have in the Treasury an organisation which will deal with the cases which arise extremely promptly. As regards those in Czechoslovakia, I am not quite convinced that we are necessarily serving their interests if we say that we will facilitate the withdrawal of money which stands to their account. I think that that is the general feeling of the Committee.

Miss Rathbone: I am not clear from the statement made yesterday whether the money, the balance, will be available for refugees who have not yet become refugees or only for those who are already refugees. That is not settled in the Bill. Is the whole £10,000,000 and not merely the £4,000,000 intended for the benefit of refugees inside or outside Czechoslovakia, and will the Chancellor of the Exchequer consider arranging that the whole £10,000,000 will eventually be available for refugees?

Sir J. Simon: I must be careful here, because this is getting very near the territory which the hon. Lady was informed by Mr. Deputy-Speaker yesterday was forbidden ground. I can only answer in a sentence. The matter was mentioned yesterday and is not strictly the subject-matter of the Bill. I referred yesterday to Lord Hailey's Committee. I have now communicated with Lord Hailey in accordance with what I said yesterday, and I have reason to believe that my communication is welcome to that

[Sir J. Simon.]

committee. We cannot discuss here how much will be available to assist refugees, because strictly speaking the Bill does not deal with that subject. It is a Bill which blocks various credits and assets in this country and prevents their being drawn away. It does not make positive provisions as to what is to be done with them. That is a matter which will have to be considered further. It may be that if we are going to make the sum which we provided in the earlier Measure to assist refugees available in the new circumstances, we may need legislation to authorise it. That is a matter which is being examined and I cannot do more now than say that I entirely share the view of hon. Members generally that we ought to try to devise a useful way of employing this money sympathetically for the refugees, as far as we can.

Mr. F. Anderson: It may be inopportune to ask the question straightaway, but there are Czech subjects who have sent money to this country in various ways, and it has been turned into bar gold. Is any provision made that when these people arrive in this country they can withdraw their assets when they are in bar gold?

Sir J. Simon: If I followed the hon. Member's question correctly, I must answer that I am not quite clear how the Bill would apply, because of course the Bill is in the nature of a prohibition addressed to certain classes of persons—to banks, to finance houses, to any person who is answerable on an account. I will look and see whether the case mentioned is covered, and I dare say if the hon. Member will speak to me or to the Financial Secretary about it we can clear the matter up entirely. I shall be glad if we can now carry this Measure with the general good will of the Committee. It has been rightly described by hon. Gentlemen opposite as an important Measure, and if we can pass it with general assent I believe that we shall add very greatly to its force.

Mr. Bracken: I want to raise a technical question. I am told that a number of Czecho-Slovakian subjects have insurance policies in London. If these policies are to be surrendered at the behest of the Nazi dictators in Czecho-Slovakia and the proceeds forwarded to Czecho-Slovakia, surely that is against the policy which the Chancellor of the Exchequer expressed to us just now.

Sir J. Simon: The point was mentioned yesterday by the hon. and gallant Member for Central Wandsworth. It is a point which has been looked into, and I think that the answer must be the same as the answer I gave to another question about safe deposits. We have examined this possible loophole. The really important thing here is to make sure that the big and important assets are covered and that that should be done rapidly in a practical way. It is conceivable that there may be a case or two that we shall come across that is not covered, but I do not think that without a very great deal more examination we can make provisions of that sort. It is a very technical matter on which we should have to consult many people. I do not think that the proceeds can be anything at all in proportion to the important sums which we are engaged in putting under an embargo.

Mr. Boothby: There was one point which I raised yesterday, and that was in reference to the outstanding Czech sterling loans, of which the Czech Government did repurchase about half. If the Chancellor will bear that in mind I shall be very glad.

I would like also to make one correction in my observations yesterday with regard to British investments in Czecho-Slovakia. When I referred to these investments I was not, of course, referring to British investments in industrial companies, or in real property in Czecho-Slovakia, which have been seized by Germany for the time being, and which obviously come under a completely different category. I was referring to British balances in Czech banks in the form of cash and bonds against which we now hold equivalent assets. A clear distinction must obviously be made between the two. I also threw out a suggestion to set up some form of public trust to administer this fund, but an hon. and learned colleague told me afterwards that if we could deal only with the Treasury, the whole matter would be handled much more expeditiously and satisfactorily, and I entirely agree.

4.15 p.m.

Mr. Bellenger: I want to raise a point which was put previously in the form of a question, and it has been put again by the hon. Member for North Paddington (Mr. Bracken). There has been, at any rate as far as Germany is concerned, a considerable amount of life insurance

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Nutrition

1494

done, either directly with British insurance companies or through German companies and then by way of re-insurance here. German subjects have had to cash policies and transfer the proceeds to Germany. I do not know how far that applies to Czecho-Slovakia, but I would urge the right hon. Gentleman to look into it as it may involve a substantial sum. I would like to know whether Clause 1 covers the case of branches of foreign banks operating in London, and whether they will be indemnified in the same manner as British banks.

Sir J. Simon: Yes, it covers bank branches in London whether they are foreign banks or not.

4.16 p.m.

Mr. Mander: There is the point I put yesterday, the case of business men in Czecho-Slovakia who, in connection with their businesses, hold balances over here. It may be that under the new German administration the whole ownership has now been changed, that these people have been dispossessed and the shares deemed in Czecho-Slovakia to belong to somebody else. If those individuals come over here and satisfy the Treasury that before 14th March, or whatever was the date of the invasion, they did own such property, will it be possible for them to obtain possession of it?

4.17 p.m.

Mr. Edmund Harvey: I desire to thank the Chancellor of the Exchequer for the information he gave to the Committee, and for the spirit in which he gave it. If the country realises that this Bill, in spite of the seemingly harsh form it takes, is designed to operate in the interests of the Czechs themselves, it will make all the difference to the way it is received. The Bill seems harsh, but all the difference is made by the fact that we realise that the Government, in introducing this Measure, propose to act as trustees in the interests of the original holders of the money. Where it is the money that once belonged to the Czecho-Slovak State, it will be held blocked for a time, and ultimately used for the benefit of the Czech people, and where it was held by Czech individuals, the Government, in blocking it now, regard themselves as trustees, and there will be no attempt to confiscate the property. I am glad to have the assurance that there will be expedition in dealing with the requests of refugees for leave

to draw from their accounts. That will relieve the anxiety of these people, many of whom are very poor.

The Chairman: Before the Debate goes further, I ought to say that on Clause 1 of the Bill we ought not to discuss what will be the administration or policy of the Government.

4.19 p.m.

Sir J. Simon: I see that, and I will endeavour to put my answer to the hon. Member for East Wolverhampton (Mr. Mander) in a form that will not transgress. As the Clause provides that certain things may be done with the consent of the Treasury, it is rather difficult not to consider possible cases and the way they are likely to work out. The hon. Member for East Wolverhampton put the case, for example, of a Czecho-Slovak subject who came over here, and was able to show the authorities that a balance or an asset, which was standing blocked under this Bill, was his, and that he wanted it. I do not feel any doubt that, assuming that it was a genuine application, the Bill would not operate to prevent him from getting his property.

Question, "That the Clause stand part of the Bill," put, and agreed to.

Clause 2 ordered to stand part of the Bill.

Bill reported, without Amendment; read the Third time, and passed.

[Mr. Lees-Smith.]
opposite, are taking towards the new science of nutrition which the medical profession has lately adopted.

The first fact that these medical men who are bringing this question of nutrition before the country are impressing on us, is that they believe that our whole sense of perspective on this question is still distorted. They insist that by far the most important element in the health and well-being of the people at large is the actual intake of food—the right quantities and the right proportions by which people should build up their muscles, bones, sinews and blood—and that if this intake is insufficient, or in the wrong proportions, we produce jerry-built bodies. Their view, broadly, is that half the people are sent into the world with jerry-built bodies, and that no amount of tinkering and dosing will give them a sound structure in which to pass the rest of their lives. This fact of the importance of nutrition as against other elements has been rather strikingly revealed by the number of inquiries taking place on the housing estates of the country, particularly those where slum populations have been taken. It was found in an inquiry in 1933, and in others since, that when you take a slum population and put it in a new housing estate, if the rents in that estate are substantially higher than the rents that were paid in the slums, the death rate actually goes up; the fact that less is spent on nutri-

how much it weighs, and then judging by its general appearance. This method is carried out by medical officers of health, nurses, teachers and anybody else who may be interested. The Chief Medical Officer to the Board published a short time ago his annual report on the health of the school child, and there he gave particulars for the year 1937 of the routine medical examination among elementary school children with regard to their nutrition. These are most important figures. By this method it is found that the nutrition of 15 per cent. of the children is excellent, that of 74 per cent. is normal, that of 10 per cent. slightly abnormal and that of .7 per cent. —really only about one in almost 200— is bad. Those are the results of the Board of Education.

The doctors who are responsible for the policy of nutrition say that these results are not only wrong, but that they are fantastically wrong; they are wrong by 100 per cent. They put forward, in order to maintain that position, their alternative method which leads to extraordinarily different results. I am not a doctor, but I have tried to understand this alternative method, which broadly comes to this. They calculate the actual quantity of proteins, vitamins, carbohydrates and minerals, and so on, required by a child at different ages in order that it may have a full and complete standard of nutrition. They then calculate what it actually costs per week to buy the food which will contain the ingredients for this proper standard of nutrition and they come to the conclusion that, if the family is not sufficiently well off to be able to spend that particular sum of money upon the food week after week, you may say with absolute certainty that in 90 per cent. of the cases the children in that family will suffer from malnutrition. They say that the best and by far the safest policy for the Board of Education to pursue would be to feed and to give free milk to all children coming from these families in that standard range of income. Even if, occasionally, they made a mistake and in some child who had a sufficient standard of nutrition, the money would not be wasted. The only reason might be that the mother of the child would be living on margarine and tea.

The figures of Sir John Orr are classic and I am going to quote the figures of the British Medical Association because

Enclosure No. 9 to despatch No. of 3 APR 1939

Embassy at London, England.

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House of Commons
23, March, 1939.
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HOUSE OF LORDS.

Friday, 24th March, 1939.

The House met at a quarter past four of the clock, the EARL OF LUCAN on the Woolsack.

CZECHO-SLOVAKIA (RESTRICTIONS ON BANKING ACCOUNTS, ETC.) BILL.

Brought from the Commons; read 1st; and to be printed.

CHINA (CURRENCY STABILISATION) BILL.

Brought from the Commons, endorsed with the Certificate from the Speaker that the Bill is a Money Bill within the meaning of the Parliament Act, 1911; read 1st; and to be printed.

CONSOLIDATED FUND (No. 1) BILL.

Brought from the Commons, endorsed with the Certificate from the Speaker that the Bill is a Money Bill within the meaning of the Parliament Act, 1911; and read 1st.

House adjourned at eighteen minutes past four o'clock.

HOUSE OF LORDS.

Monday, 27th March, 1939.

The House met at a quarter past four of the clock, the LORD CHANCELLOR on the Woolsack.

BUSINESS OF THE HOUSE.

THE FIRST LORD OF THE ADMIRALTY (EARL STANHOPE): My Lords, I beg to move the Motion that stands in my name.

Moved, That Standing Order No. XXXIX be considered in order to its being suspended until the House do adjourn for the Recess at Easter.—(Earl Stanhope.)

On Question, Motion agreed to: Standing Order No. XXXIX suspended accordingly.

CANCER BILL.

Read 3rd (according to Order), with the Amendment, and passed, and returned to the Commons.

CZECHO-SLOVAKIA (RESTRICTIONS ON BANKING ACCOUNTS, ETC.) BILL.

Order of the Day for the Second Reading read.

LORD TEMPLEMORE: My Lords, the circumstances which gave rise to this Bill will be familiar to your Lordships. Czecho-Slovakia had various financial obligations to this country and possessed certain financial assets in this country, and until it might be possible to make arrangements for meeting the obligations it seemed proper to His Majesty's Government that a temporary embargo should be placed on the assets. My right honourable friend the Chancellor of the Exchequer accordingly approached the Bank of England, the joint stock banks and other financial institutions, and requested them to block Czecho-Slovak accounts, gold and securities. Although the action for which the Government asked was taken promptly and efficiently, statutory authority is needed in order to validate that action and to render the position of

[Lord Templemore.] banks and financial institutions unchallengeable. That is the purpose of this Bill—to put this restriction on a statutory basis, to validate the action taken in compliance with the Chancellor's request before the Bill passes into law, and to indemnify any person in the event of his suffering any loss or damage as the result of his compliance with the Chancellor's request or the provisions of the Act.

The Bill consists of two clauses, the only operative clause being Clause 1. The first subsection provides for the temporary blocking of banking accounts, gold and securities in this country which were owned on March 15 by the Czecho-Slovak Government or any persons ordinarily resident in Czecho-Slovakia on that date, or any body corporate incorporated under the law of Czecho-Slovakia. It will continue in force until the Treasury issues an order that it shall cease to have effect. Subsection (2) provides that where, on or after March 15, any person has refused or failed to do any act which he could not lawfully have done if the Bill had passed into law, his refusal or failure shall be deemed to have been lawful. This subsection will validate the action taken by banks in conformity with the Chancellor's request. Subsection (3) provides for the indemnification of banks and other persons for any loss or damage they may have suffered as the result of complying with the Chancellor's request or with the terms of the Bill after it is passed into law. The fourth subsection provides that any sums payable by way of indemnification shall be charged on the Consolidated Fund, and the fifth subsection enacts that a quarterly return of sums so paid shall be laid before Parliament. Your Lordships will observe that the Treasury have authority to waive the embargo in cases where it sees fit, and this authority will be so employed as to avoid the infliction of any injustice or damage to interests in this country.

There are one or two details about which I think your Lordships may wish to have a few words of further explanation. Part of the resources of the National Bank of Czecho-Slovakia held in London consisted of the balance of the £10,000,000 advanced to Czecho-Slovakia under the Czecho-Slovakia (Financial Assistance) Act, passed the other day. Of this sum about £6,750,000 remains undrawn. This £6,750,000 is composed, in part, of

£3,250,000, being the balance of our free gift of £4,000,000 to Czecho-Slovakia, and in part of the balance of the other amount which was regarded as a loan and which the Czecho-Slovak Government had undertaken to repay. That part of the money still undrawn, which represents part of the loan, is a debt due to His Majesty's Government, and it therefore seems proper to suspend all payments from that account.

The House will also observe that the criterion for the application of the embargo is residence and not nationality. Thus, although the assets of persons ordinarily resident in Czecho-Slovakia are blocked, there is nothing to prevent a Czech resident in this country from drawing on his bank balance in the normal way, or a national who was not ordinarily resident in Czecho-Slovakia on March 15 from drawing on his bank balance in that way. Refugees who were ordinarily resident in Czecho-Slovakia on March 15 and since then have been able to come to this country do fall within the scope of the Bill; but it has already been announced that His Majesty's Government have no desire to prevent refugees in this country from operating their bank accounts, and the Treasury will consider all such cases with the utmost sympathy. I beg to move that the Bill be now read a second time.

Moved, That the Bill be now read 2^d.—
(Lord Templemore.)

LORD STRABOLGI: My Lords, this Bill is a very important one, as I am sure the noble Lord who has introduced it recognises, and I have been asked by my noble friends to say a few words about it. The position of course is that His Majesty's Government have not recognised the annexation of Czecho-Slovakia and we do not, amongst other measures, propose to pay out the assets held in this country on account of the Czecho-Slovak Government or other persons or corporations in Czecho-Slovakia. Now I want to make it clear at once that we as a Party supported this Bill in the other House and we offer no opposition to it here, but it raises certain matters of principle and also certain details that I will venture to put to the Government and perhaps they will be good enough to give me such answer as they are in a position to give.

I am sorry that, in a way, there is loss of Parliamentary control in that the next initiative lies with the Treasury. I think it would have been better if the Treasury, having had to come to Parliament for an indemnity for those who made illegal orders—I am using the word in no obnoxious sense at all; they had to act quickly and that is appreciated—it would have been better, I repeat, if the Treasury had had to come to Parliament to repeal the Bill, if so desired later on. I do not want to make a great deal of that because the circumstances are unusual and I hope they will be unusual in the future.

The other matters I venture to raise are as follows—and they are all germane to the substance of this Bill. Under the Bill we do put an embargo on certain property and gold in this country which the heirs of the Czecho-Slovak Government might choose to claim. The first question I would like to ask the noble Lord is this. Have we any information about the intention of the Reich Government with regard to the external loans to Czecho-Slovakia? In perfectly good faith the Czecho-Slovak Government raised loans on London and other money markets. Are these to be cancelled? Or is responsibility for them to be assumed and, if not, do we propose to take any reprisals if they are repudiated? If these loans are repudiated it will be simply a matter of one more act of robbery affecting British nationals who purchased these bonds and script in perfectly good faith; and we can, if we wish, take very serious reprisals.

As your Lordships are well aware, the economic situation of Germany is vulnerable and if we are to have more of this kind of robbery affecting our own nationals, I suggest that it is the duty of His Majesty's Government to take reprisals. In connection with this matter I am going to venture to suggest to your Lordships that a policy of pinpricks will be useless. This is not a pinprick. This is a necessity. I do not criticise the Bill. If we are to do this thing properly, if we are going to use economic means, to bring justice to our own nationals, then I suggest it will have to be done in a complete manner. In this connection I think we ought to have, as soon as possible—I do not press for it this afternoon, but I think it is due to British business and

industry—a statement from the Government, one way or the other, as to what their trade policy with regard to Germany is going to be in the future.

On that I venture to make a very few observations. There are plenty of reasons why we should continue to trade with Germany. My Party have always, as a matter of principle, advocated trade with all countries irrespective of the form of government which rules them. We pressed for years for trade with Russia and we consider that a great mistake was made in not opening the channels of trade with Russia much sooner. On the other hand, we have plenty of reasons now not to encourage British trade with Germany. The Federation of British Industries conducted a mission to Germany and made a tentative trade agreement with the corresponding body in Germany. I do not want to express any opinion about that. In certain circumstances apparently, they were going to combine with German industrialists in regard to trade in foreign markets. That may have been a good agreement or it may have been a bad agreement. It has now been held up or abandoned. A trade mission which was to have gone to Berlin, we are told, is no longer to be sent. What I suggest is that further guidance is required. Is it the policy of the British Government to encourage trade with Germany or do they propose to follow the example of the United States of America, which very promptly—just as promptly as the British Government have acted on this occasion—used their tariff powers practically to stop all trade coming into the United States from German factories?

I cannot refrain from reminding your Lordships that when the Russian Government some years ago arrested and brought to trial certain British subjects who were connected with the Vickers engineering concern, we promptly broke off all economic relations and, I think I am right in saying, diplomatic relations as well. The thing was done wholeheartedly and although I did not on that occasion agree with it, I could understand it. I could understand it now if we decided not to encourage any economic relations with Germany; but we ought to know the policy of His Majesty's Government, and we ought to know soon. I suggest that it is only fair to our own nationals, whose business it is to keep

[Lord Strabolgi.]

their workpeople in employment and encourage trade.

In this connection may I ask the noble Lord—I venture to give notice to the Treasury that I intended to raise this matter—whether it is a fact that British firms owning banking accounts and other assets in the part of Czecho-Slovakia known as Sudetenland have so far been unable even to secure an application of the Anglo-German Payment Agreement of 1934 and 1938 to these claims? Is it true that six months after the invasion—or the occupation by agreement—of Sudetenland this property of British nationals is still blocked and held? Following on that, have the Government information of the amounts due to British merchants from firms in the rest of Czecho-Slovakia, the part just invaded? Is there to be some clearing house arrangement? I have read the report of the debate in another place and I understand that help will still be given to Czecho-Slovakian refugees—which I am very glad to know is to be given—and that original creditors will be entitled to recompense from these funds which are now blocked. Will there be some clearing house arrangement to enable British merchants who have perfectly good debts which they cannot recover in the ordinary way to be compensated? The next question I want to ask is what is going to happen in regard to Czecho-Slovak Government bonds held outside this country? Are they going to be unloaded on to the London Stock Exchange? Is there going to be any embargo against that sort of transaction?

Reverting for a moment to the general principles which affect this Bill, I think Czecho-Slovakia now might be described as a German Colony. It has been annexed. We are picking out this annexed territory and putting an embargo on sums held in this country by firms there. Why pick out this particular territory. In logic I should have thought there was no particular reason. Why, in other words, should we encourage banking, insurance and other facilities with Germany as a whole as things are to-day? The Germans have obviously no sort of inhibition on their side. I observe that they are anxious to trade with anyone and everyone. They trade with Russia, and they trade with Mexico. They buy oil annexed by Mexico or expropriated from

British companies. I understand that weapons now arming the Republican forces in Spain came from Germany, and Germany is supplying arms to China. In fact their need for foreign currency is so great that they will trade with anyone. But is that any reason why we should encourage our bankers and insurance brokers and others to do business with Germany?

My next question is whether other countries are taking similar action. Are our good friends the French taking similar action. There may not be Czech banking accounts and deposits in Paris—I do not know—but I should like to know whether the British Dominions or India are affected in the same way. I know that there was considerable trade between the old Czecho-Slovakia and British India, so presumably there would be considerable balances held in Indian banks on behalf of Czecho-Slovak subjects. I hope, too, that if the usual devices are followed of putting Nazi Commissars in charge of Czech businesses, they will not be allowed to come along here and ask for assets held on account of the former owners to be handed over to them. If that is attempted I presume steps will be taken or suggested to prevent it.

Finally, although this is a matter only of principle, and I do not suppose is of great material importance, I should like to ask whether it is proposed to take similar action with regard to Memel. We did a very large amount of trade with Lithuania through Memel and I presume some money is held on account of that. Is it proposed to take action in regard to that money held in this country? The events in Memel, of course, have only happened in the last few days and perhaps the noble Lord may not be in a position to-day to say anything about it. If so I would not press it. But if he can give any information it would be of interest to those engaged in trade with that territory who are likely to suffer injury. Apart from those questions which I put in a perfectly friendly way, we on this side of the House support this Bill. We are able to congratulate the Government on their prompt action and we hope it may be a promise of equally prompt action if other emergencies arise.

LORD TEMPLEMORE: My Lords, I am obliged to the noble Lord for his general support. He has raised a good

many questions, and although I do not complain about that I think some of them were rather outside the scope of the Bill—his question, for instance, about whether we are going to trade with Germany—and I am afraid I cannot give an answer to that now. He asked me whether the German Government had assumed responsibility for the Czecho-Slovak internal debt. On that I have to tell him that my information from the Foreign Office is that we have no information on that point yet. He then asked me whether it was a fact that British firms who owned banking accounts and other assets in Czecho-Slovakia last September had been unable to get payment. When the Sudetenland became part of Germany, bank accounts and other assets became subject to the ordinary German exchange control, and therefore to that extent it is true to say that the payment has been restricted.

His next question was whether France and our Dominions had taken similar action to restrict payments out of the Czech accounts. I am informed that the French Minister of Finance has sent a circular to the French banks to ask them to block Czecho-Slovak accounts. No Bill has yet been introduced into the French Parliament and the amounts concerned are said to be very small, but legislation will be introduced if the necessity arises. As regards the Dominions and the Government of India, they have all been informed of the action taken by His Majesty's Government in the United Kingdom, but we have not yet heard whether any of them propose to take similar action.

As regards his last question concerning Memel, that happened such a short time ago that I have to say I cannot give him an answer at this moment. My noble friend the Earl of Plymouth is in his place, but I think I am right in what I say; that we do not know yet what we shall do in that case. In conclusion I may say that we can make no announcement about what we shall do to protect British interests in Czecho-Slovakia until the situation is much clearer. This Bill and the Government action refer, however, only to Czecho-Slovakia and not to our trade policy with Germany, which does not arise under this Bill on this occasion. I hope I have answered the points which the noble Lord raised.

LORD STRABOLGI: Before the Question is put, might I ask the noble Lord

whether he overlooked the question of the Czecho-Slovak bonds and the possibility of their being unloaded on the London market?

LORD TEMPLEMORE: Yes, I had forgotten to answer that question. I have not been able to obtain an answer to it.

LORD STRABOLGI: It is engaging attention?

LORD TEMPLEMORE: Certainly it is engaging attention, but I have not been able to obtain the information.

On Question, Bill read 2nd; Committee negatived; Then, Standing Order No. XXXIX having been suspended, Bill read 3rd, and passed.

[Lord Templemore.]

The Fund so constituted and managed will be used solely for exchange operations—for example, the purchase and sale of Chinese dollars with the object of evening-out fluctuations in the sterling value of the Chinese dollar. For instance, if there is a temporary demand for sterling on the part of holders of Chinese dollars, which might otherwise depress the exchange value of the Chinese dollar, the Fund will be able to provide the sterling required. Conversely, if there is a demand for Chinese dollars which might otherwise cause the Chinese dollar to appreciate unduly, the Fund will be able to meet this and so replenish its holdings of sterling. This function of minimising fluctuation is, as will be evident to your Lordships, very similar to that of our

fluctuations in the exchange value of their currency, in which a British trade, important even now, and potentially yet more important after the present hostilities have come to an end, is conducted. I beg to move that this Bill be now read a second time.

Moved, That the Bill be now read 2^d.
(Lord Templemore.)

LORD SNELL: My Lords, when this Bill was being considered in another place its main principles received the support of friends of ours there. I have, on behalf of my noble friends in this House, to say that we give to the main principles of this Bill our general support and feel gratified that this gesture of help to a sorely-tried nation is at last being made. Any help that we can give to the Bill during its remaining stages we shall be glad to contribute.

On Question, Bill read 2^d and committed to a Committee of the Whole House.

House adjourned during pleasure.
House resumed.

ROYAL COMMISSION.

The Royal Assent was given to the following Bills:

Defence Loans,
Mining Industry (Welfare Fund),
Bacon Industry (Amendment),
Czecho-Slovakia (Restrictions on Banking Accounts, etc.),
Kirkcaldy Corporation Order Confirmation,
Ministry of Health Provisional Order Confirmation (South Staffordshire Joint Hospital District),
Ministry of Health Provisional Order Confirmation (Blackburn),
Ministry of Health Provisional Order Confirmation (Hastings),
Ministry of Health Provisional Order Confirmation (Leyton),
Ministry of Health Provisional Order Confirmation (Luton Extension),
Maryport Harbour.

House adjourned at eight minutes before six o'clock.

enclosure No. 10 to despatch No. of 3 APR 1939
from the Embassy at London, England.

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SOURCE: PARLIAMENTARY DEBATES, NUMBER:
House of Lords
27, March, 1939.
London, Cols. 416-424.

Czechoslovakia

254

DUPLICATE

*EA
copy*

LONDON, May 23, 1939.

N o. 2731.

SUBJECT: Czechoslovak Assets in the United Kingdom.

Geo F. 51/1939

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to despatch No. 2387 of April 3, 1939, regarding the impounding of Czechoslovak assets in the United Kingdom and to paragraph numbered 2 of telegram No. 694, May 16, 9 p.m. and 712, May 19, 5 p.m. and to transmit herewith a Hansard text of questions asked in the House of Commons on May 22 together with the answers made thereto.

Criticism has been directed at the British Treasury on two scores: first, its failure clearly to indicate that

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exploratory negotiations are now in progress with a German delegation headed by Herr Rutter of the German Foreign Office to determine whether a basis for agreement exists in the matter of liquidating Anglo-Czech financial obligations and secondly, its decision not to apply the Czechoslovakia (Restrictions on Banking Accounts, etc.) Act, 1939, to gold held in London by the Bank for International Settlements on behalf of the Czechoslovak National Bank. As regards the former the criticism was perhaps avoidable as the enclosed article from the City column of the Times of May 23 implies. As regards the latter the critical comment has been confined to the opposition parties and newspapers and appears to be without legal basis in view of the provisions of article I of the Brussels Protocol:

"The property and assets of third parties, held by any other institution or person, on the instructions, in the name or for the account of the Bank for International Settlements, shall be considered as entrusted to the Bank for International Settlements and as enjoying the immunities laid down by the articles above mentioned by the same right as the property and assets which the Bank for International Settlements holds for the account of others, in the premises set apart for this purpose by the Bank, its branches, or agencies."

It will be noted, however, that the Parliamentary Secretary of the Treasury did not give a direct answer to Mr. Strauss' questions as to "why the British Directors on the Bank for International Settlements, Mr. Montagu Norman and Sir Otto Niemeyer, did not inform the Government of this proposed transfer and whether they agreed as members of the Bank for International Settlements for this transfer

to

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to take place." The answer that the Chancellor of the Exchequer "has no means of knowing" about such matters is founded on the theory that the Bank of England is not a national but a private institution. In point of fact its private character only comes to the fore on occasions of this kind when it serves the Treasury's convenience.

Respectfully yours,

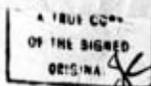
For the Ambassador:

Herschel V. Johnson
Counselor of Embassy

Enclosures:

1. Parliamentary Debates, Hansard of May 22, 1939, Columns 1927-1930, in quintuplicate.
2. Article from the City column of The Times of May 23, 1939, entitled "Czech Assets in London", in quintuplicate.

WVH/JC



COMMONS Oral Answers 1928

CZECHO-SLOVAKIA (ASSETS,
GREAT BRITAIN).

57 and 58. **Mr. G. Strauss** asked the Chancellor of the Exchequer (1) whether he will give an assurance that no part of the money held under the Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act, 1939, will be released to the German Government either directly or through the Bank for International Settlements without the prior approval of Parliament;

(2) whether gold amounting approximately to 800,000 ounces, held in London in the name of the Bank for International Settlements on behalf of the Czech National Bank, is an account falling within the provisions of the Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act, 1939; and whether any transfer in respect of this deposit has recently taken place?

59. **Mr. Sandys** asked the Chancellor of the Exchequer whether any conversations or negotiations have recently taken place between British Government officials and representatives of the German Government or of German financial interests, regarding the disposal of Czecho-Slovak gold or other assets held in this country?

The Financial Secretary to the Treasury (Captain Crookshank): Assets held to the order of the Bank for International Settlements do not fall within the Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act, and any mandate of the Bank for International Settlements for the transfer of such assets, of course, has to be complied with. Indeed, having regard to the undertakings given by His Majesty's Government for the protection of the assets of the Bank for International Settlements embodied in the Hague Protocol of 1930 and the Brussels Protocol of 1936, assets held to the order of the Bank for International Settlements could not properly have been made subject to such restrictions as those imposed by the Act. His Majesty's Government

have no power, either under the Act referred to or otherwise, to obtain information as to the assets held by the Bank for International Settlements or any other private institution for the account of individual customers, and I should like to make it clear that my right hon. Friend has no means of knowing whether the facts are, or are not, as stated by the hon. Member for North Lambeth (Mr. G. Strauss).

As regards assets blocked by the Act, the position is that they cannot be released except with the consent of the Treasury. The Treasury has not consented to the release of any such assets except in the case of amounts to assist refugees from Czecho-Slovakia and for the payment of trade debts due under contracts made before 15th March last. Apart from such individual cases, there will be no general release of such assets unless and until a satisfactory arrangement has been made in regard to financial obligations due from Czecho-Slovakia to British holders.

Informal conversations are taking place between the Treasury and representatives of the German Foreign Office and German Ministry of Economics in regard to the assets covered by the Act and cognate questions. The object of these conversations is to see whether a basis exists for more formal discussions which would be held early next month.

Mr. Strauss: May I ask whether, in point of fact, assets to the value of approximately £5,000,000 or £6,000,000, held by the Bank for International Settlements on behalf of the Czecho-Slovakian National Bank, have been transferred to the German account, in spite of the fact that the Prime Minister designated this that the Prime Minister designated this that the Prime Minister designated this story as a mare's nest? May I also ask why the British directors on the Bank for International Settlements, Mr. Montagu Norman and Sir Otto Niemeyer, did not inform the Government of this proposed transfer; whether they agreed, as members of the Bank for International Settlements, for this transfer to take place and, finally, whether the Bank for International Settlements is the only institution in the world which has recognised the transfer of Czecho-Slovakia to Germany?

Captain Crookshank: I think that a careful study of the reply I have given will answer all the questions which the

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hon. Member has put. As I have said, it is beyond the power of my right hon. Friend, because he has no means of knowing whether the statements made by the hon. Member are correct or not.

Mr. Sandys: May I ask whether, in regard to these negotiations, it will be made quite clear that they in no wise constitute a *de facto* recognition of Germany's annexation of Czecho-Slovakia; and, secondly, whether it is a fact that since the taking over by Germany of the Czecho-Slovakian and Austrian shares Germany with Italy is now in control of the bank?

Captain Crookshank: I am afraid that I cannot answer the last question without notice. As regards the first part, these are purely informal conversations between officials to see whether there is a basis for more formal discussions to deal with matters arising out of the act.

Mr. Sandys: May I have an answer to my supplementary question? Did the Government make it quite clear, or will they now make it quite clear, that these negotiations, which are of some importance, do not in any way constitute a change of policy as regards the non-recognition of the German position in Czecho-Slovakia?

Captain Crookshank: That is a question which raises a much wider issue. I cannot imagine that informal discussions between officials would be held by any body to involve a change in major policy.

Sir Percy Harris: Is there not the danger that while the informal discussions and talks are going on, action will be taken by the German Government?

Captain Crookshank: As I have explained, no action can be taken in this matter. Apart from such individual cases as those to which I have referred, no general release of these assets will be made by the Treasury.

Mr. A. Henderson: In view of the fact that His Majesty's Government have two representatives on the board of the Bank for International Settlements, will not the right hon. Gentleman express the Government's disapproval of the suggestion that any part of the assets of the Bank for International Settlements belonging to the late Czecho-Slovak Government should be transferred to a Government which has no right to them?

Captain Crookshank: I think the hon. and learned Gentleman had better refresh his mind as to the position under the Protocols under which the Bank for International Settlements acts.

Mr. Benn: May I ask the Prime Minister whether he was in possession of this information when he described the speech of the right hon. Member for Carnarvon Boroughs (Mr. Lloyd George) as a mare's nest?

The Prime Minister: I did not describe the speech as a mare's nest. I described an account to which the right hon. Gentleman had referred as a mare's nest, and I said that on the basis of information supplied to me by the Treasury.

Mr. Aneurin Bevan: Under what part of the Protocols does Czecho-Slovakia lose its status with the Bank for International Settlements, and under what part of the Protocols is the status of Czecho-Slovakia transferred to Germany?

Captain Crookshank: I have not said anything about the status of Czecho-Slovakia. I merely said what is the position of the Bank for International Settlements with regard to any assets it may have.

Mr. Bevan: If the assets are transferred, will not Czecho-Slovakia lose its status there?

Mr. G. Strauss: In view of the very unsatisfactory nature of the reply, I intend to give notice that I intend to raise this matter on the Adjournment at the earliest opportunity.

PAPER: THE TIMES

NUMBER:

CITY: LONDON

DATE: MAY 23 1939

CITY NOTES

CZECH ASSETS IN LONDON

THE SUGAR SHORTAGE

Captain Crookshank's statement regarding the Czecho-Slovak assets in London, made yesterday in answer to a series of questions in the House of Commons, confirmed the interpretation which was given in these columns on Saturday. As we pointed out, the Government cannot in any way block any assets held here by the Bank for International Settlements, and the question for whose account any such assets may be held is not one with which the Government can concern itself. Captain Crookshank reminded the House that in any case the Government had given special undertakings for the protection of B.I.S. assets in London under The Hague Protocol of 1930 and the Brussels Protocol of 1936. The immunities of the B.I.S. under the 1930 agreement were unconditional and complete, and Article I of the Brussels Protocol lays down that:—

"The property and assets of third parties, held by any other institution or person, on the instructions, in the name or for the account of the Bank for International Settlements, shall be considered as entrusted to the Bank for International Settlements and as enjoying the immunities laid down by the articles above mentioned by the same right as the property and assets which the Bank for International Settlements holds for the account of others, in the premises set apart for this purpose by the Bank, its branches, or agencies."

It is clear enough in the circumstances that whatever has been done or will be done with the Czech gold deposit (believed to amount to between £5,000,000 and £6,000,000), the Government can hardly be called to account. On the other hand, there does not seem to be any strong case for withholding information (which presumably could be obtained) concerning the decision taken by the B.I.S. If, as is reported, the B.I.S. has transferred the Czech gold deposit to the Reichsbank, there could be no harm in saying so.

The B.I.S. is not, after all, answerable to or controlled by the Government, and may be guided by quite different considerations. Account must be taken of the very large body of votes controlled by the Axis Powers, and account must also be taken of the fact that, to quote a note to the last balance-sheet, "the capital, reserves, and surplus are represented, to a large extent, by assets in countries where exchange restrictions now prevail." It only requires a moment's consideration of the countries in which exchange restrictions prevail to appreciate that the Bank may not be in quite the same position as the British Government, and may indeed have made special arrangements of its own. The matter is, however, sufficiently bound up with public policy to suggest the desirability of giving any information which reasonable can be given.

A Needless Air of Mystery

As regards the gold balances held here on direct Czech account—which do concern the British Government—it seems that an unnecessary atmosphere of mystery has been created. The Government was naturally quite entitled to deny the statement made in one quarter that the Treasury had transferred gold held through the B.I.S. to Germany, and that this was the result of the conclusion of negotiations with Herr Wohltat. But it could have done no harm to add that in fact preliminary negotiations with Herr Rüter were taking place. It is, to say the least of it, difficult to conceal for many days the presence in London of delegates who have very wide circles of acquaintance in London, and rumours were inevitable.

Actually no reasonable person could do anything but approve efforts to negotiate concerning the blocked gold and balances. For it would be difficult to contemplate keeping these assets blocked indefinitely, and equally difficult in practice to use them for settlement of ex-Czech debts to British nationals—which is the only useful purpose they could serve—except by negotiation with the Germans.

The Treasury is in fact fulfilling an essential and valuable purpose in conducting these negotiations, and it would have been quite easy to point this out when the matter was raised in the House of Commons. As it was, however, the obscure nature of the replies given only succeeded in creating an air of mystery and suspicion where nothing of the kind was justified. After all, there is no question of making any special or spontaneous concessions to Germany. To refuse to negotiate would be merely a matter of vindictiveness without any practical object, and no question of the recognition of Germany's annexation of Czecho-Slovakia is involved. Whether it will be possible to reach agreement remains to be seen, but certainly it is the only method of attempting to combine the satisfaction of British creditors with reasonable fairness to the individual Czech owners of sterling

TRIPLICATE

LONDON, May 25, 1939.

No. 2742.

SUBJECT: Czechoslovak Assets in the United Kingdom.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to despatch No. 2731 of May 23, 1939, regarding the questions which have arisen out of the British Government's action in impounding Czechoslovak assets in the United Kingdom and to transmit herewith copies of further questions asked in the House of Commons on May 23 and 24 together with the answers made thereto.

It will be noted that in emphasizing the non-governmental character of the Governor of the Bank of England's position as a Director of the Bank for International

Settlements

Regraded Unclassified

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Settlements the Chancellor of the Exchequer went very far - so far, in fact, that further grounds for future criticism have doubtless been thus laid bare. It will also be noted that the question of recognition of the new status of Bohemia and Moravia has come to the fore and that the Prime Minister has stated "that the question of recognition is being considered in connection with the future representation of His Majesty's Government in Prague".

No doubt the solution to both the recognition and the financial problems will be affected by the considerations of policy set forth in the last paragraph of my telegram No. 734 of May 24, 8 p.m.

Respectfully yours,

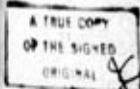
For the Ambassador:

Herschel V. Johnson
Counselor of Embassy

Enclosure:

1. Parliamentary Debates, Hansard of May 23, 1939, columns 2088-2092, and May 24, 1939, columns 2284-2288, in quintuplicate.

WWB/JC



55. **Mr. A. Henderson** asked the Chancellor of the Exchequer what information he has received as to the intention of the German Government to repudiate Czecho-Slovak Government debts?

Sir J. Simon: In the course of the conversations referred to in the reply given yesterday to my hon. Friend the Member for Norwood (Mr. Sandys), it has not appeared that there is any intention of repudiating Czecho-Slovak Government debts.

Mr. Henderson: Is the right hon. Gentleman aware of the statement that was made by the French Finance Minister two or three days ago in the French Chamber, in which he stated that the German Government were contemplating the repudiation of these debts and that the French Government proposed to raise the tax on German imports into France?

Sir J. Simon: I have not had my attention called to that, but I think the hon. and learned Gentleman will regard the information I have given him as being more positive than that.

53. **Mr. Pethick-Lawrence** (for Mr. Dalton) asked the Chancellor of the Exchequer the purpose of the conversations now taking place between His Majesty's Treasury and representatives of the German Government regarding the disposal of Czech balances held by the Bank of England and other institutions and persons in this country; and whether he will undertake that no part of such balances shall be paid over to the German Government, or to the Reichsbank, or to any subsidiary or agent thereof without the previous consent of this House?

Sir J. Simon: In reply to the first part of the question I would refer the hon. Member to the reply given by my right hon. Friend the Financial Secretary to the Treasury to the hon. Member for North Lambeth (Mr. G. Strauss) yesterday. In reply to the second part of the question, there will, as stated in that reply, be no general release of assets

unless and until a satisfactory arrangement has been made in regard to financial obligations due from Czecho-Slovakia to British holders. If an agreement is reached, it will be laid before Parliament in the usual way.

Mr. Pethick-Lawrence: With regard to the first part of the answer, do I understand from the Chancellor of the Exchequer that when the Governor of the Bank of England, in his position as a director of the Bank for International Settlements has to come to a decision, that he makes no report whatever to the Treasury, and that therefore the Treasury and the Chancellor of the Exchequer are ignorant of most important international events that are happening in the Bank for International Settlements?

Sir J. Simon: I think the right hon. Gentleman is referring to a matter which was mentioned at Question Time yesterday, and I am very glad of the opportunity to deal with it in a short answer. There are two quite distinct things. There are, as the House knows, the assets, which have been blocked in this country, held on behalf of and at the order of Czecho-Slovakian institutions or individuals. Those we hold, and except in the case of helping refugees and the like we do not part with them, and we are engaged in seeing whether we cannot, by means of those assets, repay the debts due from Czecho-Slovakia, to provide a fund that will continue to be available for refugees, and to meet the claims of British holders who had, for example, bank balances in Czecho-Slovakia before the German annexation. That is the object of the discussion I have mentioned.

The other matter is, as I understand, an asset—it was gold, I think—which was held by the Bank of England for the Bank for International Settlements at Basle. I should like to make it plain to the House that the Treasury did hear indirectly that it was believed that the German Reichsbank was seeking to get from the Bank for International Settlements an amount of gold with which it had been entrusted by the Czech National Bank; but the House will appreciate that that was a matter quite outside the blocking of Czech assets. Consideration was given in the Treasury to the question whether His Majesty's Government could in any way intervene. We had no desire to see the transfer made, but the matter was

quite outside the Czecho-Slovakia (Restrictions of Banking Accounts) Act and it was clear that no such intervention would be possible in view of the formal and explicit undertakings given in the Protocols of 1930 and 1936 as to the immunity of the assets of the Bank for International Settlements from every form of interference and restriction.

Replying directly to the question put to me, it is certainly not the fact that the Governor of the Bank of England reports to the British Government on a matter of this sort. It is a mistake to suppose that the Governor of the Bank of England serves on the Board of the Bank for International Settlements as a nominee of the British Government. That is not so at all. He is there as governor of one of the central banks, just as other eminent bankers who serve on the Board. I had this information, but not from the Governor of the Bank or the Bank. It came, indirectly, I think from a Continental source. As soon as I heard it I considered with my advisers whether there was any way in which we could put restraint on the matter. It was plain there was not, and it is clear that the London bank has got to obey the mandate given to it by its customer the bank in Basle.

Mr. Pethick-Lawrence: Are we to understand that in a matter of this supreme international importance the Governor of the Bank of England acts entirely in his individual capacity, and that he does not officially inform the Government; and even if the Government only heard of it unofficially, how could that justify the Prime Minister in the very sweeping statement he made last Friday that the whole matter of this payment to Germany through the medium of the Bank for International Settlements was a mare's nest?

Sir J. Simon: There is no difficulty in understanding that. The statement that was made in the newspaper was that the British Treasury had agreed to release this sum. That was not true. The statement made by the right hon. Member for Carnarvon Boroughs (Mr. Lloyd George) was that the Treasury had agreed to the transfer. He pointed to me and said that I, as Chancellor of the Exchequer, had sanctioned the transfer. I had done nothing of the kind. Nobody had ever asked me

[Sir J. Simon.]
for leave and I had not given leave. If it had been within my power I would not have given leave, but the matter was wholly outside my power, and in the circumstances I thought the right hon. Gentleman's statement was a monstrous suggestion to make.

Mr. Sandys: Are we to understand from my right hon. Friend's reply that no Czech assets under the Act will be released without the prior consent of this House?

Sir J. Simon: Without the prior consent of the Treasury. I stated in my first answer that we certainly shall not release any assets at all except for the purposes which I have mentioned, and about which, I trust, there is no difference of opinion.

Mr. Benn: The Chancellor of the Exchequer said he would lay such an agreement before the House. What did he mean by that? Will he recollect that we had an unfortunate experience of his private arrangements for loans for Czecho-Slovakia, under which money was lost?

Mr. Stokes: Is it not about time that the Government took over the Bank of England?

Mr. G. Strauss: Do we understand that the Bank for International Settlements are holding this gold in trust for the people of Czecho-Slovakia, and by handing it over to another nation that has annexed Czecho-Slovakia they were, in fact, committing a breach of trust, and that our Government, hearing about it and agreeing to the transfer, are, in fact, conniving at a breach of trust committed by the Bank for International Settlements?

Sir J. Simon: If the hon. Member will excuse me he is getting this matter quite wrong. The question was whether the Bank of England, which held a particular asset, had to obey the mandate of its customer the Basle Bank and hand that asset over. I did not know then, and I do not know now, what is the state of the account between the bank in Basle and Czecho-Slovakia. Why should I know? It has nothing to do with me. I told the House perfectly candidly that indirectly the Treasury had some information that

this might be the result, and we did everything we could to find out whether we had a means of stopping it, and I do not think the House of Commons could expect me to do more than that.

Mr. De la Bère: Why should the House of Commons be ignored by the Treasury?

Mr. Pethick-Lawrence: Was it candid of the Treasury to inform the Prime Minister that it was a mare's nest? I can understand it being said that what the right hon. Member for Carmarvon Boroughs had said was terminologically inexact, but to suggest that the whole thing was a mare's nest is surely very far from the facts.

Sir J. Simon: I am afraid that I must ask the right hon. Gentleman to look at what was stated. It was stated in the Press and stated in this House that the Treasury had been facilitating, or authorising, or assisting this transfer. There was not a syllable of truth in that statement, and I think my right hon. Friend the Prime Minister was perfectly justified in saying what he did say.

Mr. De Chair: In view of the fact that Germany repudiated the Treaty, along with other Treaties, how can she have any claim on the Bank for International Settlements at Basle, which was set up in connection with the Reparation Clauses of the Treaty of Versailles?

Sir J. Simon: Officially, all that I am aware of is that a bank in London was called upon to hand over that which had been deposited with it by a bank in Switzerland, and that is all I am concerned with, and, I should have thought, it is all that anyone who understands banking could only be concerned with. London will not remain the banking centre of the world for long if banks do not obey the cheques and orders of their customers.

Mr. Kirkwood: Are the British Government going to hand to British citizens the money which they invested in Czecho-Slovakia and have now lost?

Sir J. Simon: The object of blocking this money and of the discussions now going on is to secure that Czecho-Slovakian funds here shall be made available to repay debts owing by Czecho-Slovakia to citizens in this country.

Enclosure No. 1... to despatch No. 472 of MAY 25 1939
from the Embassy at London, England.

PARLIAMENTARY DEBATES
House of Commons
23 May 1939.
London. Cols. 2088-2092.

NUMBER:

CZECHO-SLOVAKIA (ASSETS,
GREAT BRITAIN).

23. **Mr. Sandys** asked the Prime Minister (1) whether he will assure the House that His Majesty's Government will not enter into any formal discussions with the German Government on the subject of the release of Czecho-Slovak assets in this country unless they are satisfied that they will not thereby be according *de facto* recognition to the German annexation of Czecho-Slovakia;

(2) why Treasury officials have been permitted to enter into conversations with the German foreign office on the subject

2285

Oral Answers

24 MAY 1939

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2286

of the release of Czecho-Slovak assets in this country, in view of the fact that the German Government has no authority or status to negotiate in a matter solely concerning Czecho-Slovakia; and whether the Czecho-Slovak legation in London was informed or consulted before the conversations began?

The Prime Minister: The informal conversations which have taken place did not imply *de facto* recognition of the new status of Bohemia and Moravia, and my hon. Friend will have appreciated from the answer which I have just given to the hon. Members for Nuneaton (Lieut.-Commander Fletcher) and South-West Bethnal Green (Sir P. Harris) that the question of recognition is being considered in connection with the future of the representation of His Majesty's Government in Prague. It will be understood from what I have said that there was no occasion to consult the Czecho-Slovak Legation in London in connection with the informal conversations referred to.

Mr. Sandys: Arising out of the answer. First, may I ask whether it is not a fact that when informal negotiations are contemplated, as indicated in the Prime Minister's answer yesterday, there is not a danger that these informal conversations will in fact imply a *de facto* recognition? Secondly, is it not a fact that the Czecho-Slovakian Legation still enjoys full diplomatic status, and would it not be normal to consult and inform them before entering into formal negotiations with other Governments?

The Prime Minister: I have explained that the question of the *de facto* recognition of the new status of Bohemia and Moravia was being considered in connection with the future representation of His Majesty's Government at Prague, and not in connection with any formal discussions.

Sir A. Sinclair: Is it not quite inconsistent with the policy of collective resistance to aggression that His Majesty's Government should be considering the question of recognising the German annexation of Bohemia and Moravia? Will the Prime Minister not give us an assurance that the Government will not recognise the German annexation?

The Prime Minister: I have said that the matter is being considered.

Mr. Bracken: Is the right hon. Gentleman aware that "informal conversations" is only a euphemistic description of conversations between Treasury officials and the Germans regarding the property of the Czech people, the savings of 20 years, which are to be handed over to the Germans? Surely, if these are called informal conversations it is a great reflection upon England because they certainly could not be formal.

Mr. A. Henderson: Were any representatives of the Czecho-Slovakia Bank associated with these conversations?

The Prime Minister: Not with the informal discussions. I think they would be with formal discussions.

Mr. Sandys: Can the Prime Minister give us an assurance that no *de facto* recognition will be given without this House first being consulted?

The Prime Minister: I cannot give such an assurance.

Mr. Attlee: Are we to understand that the Government are contemplating giving formal recognition to the annexation of Czecho-Slovakia by Germany?

The Prime Minister: No, Sir. I did not say that. I am not sure whether the right hon. Gentleman was in his place when I gave the earlier answer. I said that the position was being considered. The question of giving an assurance as to what we would or would not do before asking the House is another matter altogether.

Mr. Attlee: I think this is a point upon which the House wants to be clear. Can we have an assurance that no decision will be taken in this matter until the House has had an opportunity of discussing it?

The Prime Minister: I cannot give that assurance, and it is not usual for an assurance of that kind to be given, as the right hon. Gentleman knows. The House has its own way of expressing its approval or not.

Mr. Attlee: The Prime Minister will realise that it is not usual to have one Government forcibly seized by another.

Mr. Sandys: In view of the fact that the Prime Minister told the House after the annexation of Czecho-Slovakia that

[Mr. Sandys.]
the Government did not recognise the legality or the validity of the act—an announcement which was received with widespread approval, may we now have a statement that the House will be consulted before that policy is reversed?

Mr. Benn: Are the Government still pursuing a policy of appeasement?

Mr. Attlee: In view of the very unsatisfactory replies we have received I give notice that I will raise this matter on the Adjournment on Friday.

45. **Mr. Sandys** asked the Prime Minister whether, before the Government consent to the release of any Czechoslovak assets in this country which are covered by the Czechoslovakia (Restrictions on Banking Accounts, etc.) Act, 1939, an opportunity will be afforded for consulting the opinion of the House?

The Prime Minister: I would refer my hon. Friend to the reply given yesterday by my right hon. Friend the Chancellor of the Exchequer to the right hon. Member for Edinburgh, East (Mr. Pethick-Lawrence).

Mr. Sandys: In view of the fact that the Chancellor of the Exchequer did not answer this point yesterday, may I ask my right hon. Friend, while there can be no objection to the release of money of this kind to assist refugees or to satisfy British claims, whether we may be assured that any balance that may be left over will not be released for transfer to Germany without prior consultation with this House?

The Prime Minister: I understand that my right hon. Friend said that if an agreement was reached, it would be laid before Parliament in the usual way. The purpose of the agreement would be to ensure that British holders of these bonds, etc., would be paid their due rates of interest. My right hon. Friend said that if an agreement was reached, it would be laid before Parliament in the usual way.

Mr. Benn: What is meant by "in the usual way"?

The Prime Minister: It would be laid before Parliament, which would probably have an opportunity of taking cognisance of it.

Mr. Benn: Before it became effective?

The Prime Minister: When the point had been reached. The position is that the Treasury are empowered under the Act to restrict balances and assets pending a satisfactory agreement being made.

Mr. Sandys: The point of my question was to find out whether, apart from these perfectly unobjectionable releases, we could be assured that no money would be released to Germany—that is not the matter to which my right hon. Friend referred—without this House first being consulted.

The Prime Minister: I can say this, that there is no intention of releasing money to Germany.

Mr. Bracken: What is the point of an agreement with Germany? We are, I presume, exchanging real assets in London for promises of the German Government. Would the Prime Minister tell us whether he thinks that is a satisfactory arrangement, and whether he would not prefer to retain assets rather than to have promises?

CIVIL AIR GUARD.

25. **Mr. Perkins** asked the Secretary of State for Air the total number of men under the age of 25 who have been unable to learn to fly under the Civil Air Guard scheme owing to the Civil Air Guard being full up; and the total number of women over the age of 25 at present under instruction under the Civil Air Guard scheme, or holding A licences as a result of training under this scheme?

The Under-Secretary of State for Air (Captain Harold Balfour): Applicants to join the Civil Air Guard are not required to state their age at the time of application, but only when examined for vacancies for definite enrolment. The total number of women over the age of 25 at present under instruction is 338. Of this total, 118 are in possession of pilot's licences of whom 59 have gained their licences since joining the Civil Air Guard.

Mr. Perkins: Has there been any alteration in the scheme?

Captain Balfour: After consultation between the Ministry and the Civil Air Guard it has been approved that as long as there are men whose age may render them suitable for entering one of the categories for service in the Royal Air Force.

SOURCE: PARLIAMENTARY DEBATES,
House of Commons,
24 May 1939.
London. Cols. 2284-2288.

NUMBER:

262

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: June 23, 1939, 11 a.m.

NO.: 474

FOR BUTTERWORTH.

You are requested by the Secretary of the Treasury to send him by telegram to reach him not later than the morning of June 26 the whole account of the disposition of the gold held in London for Czechoslovakia.

HULL.

RECEIVED

JUN 24 1939

THE SECRETARY OF THE TREASURY
WASHINGTON, D. C.
RECEIVED

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 23, 1939, 5 p.m.

NO.: 1185

FOR THE TREASURY DEPARTMENT.

Today on the exchange and security markets business was almost at a standstill. There were no important changes recorded.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: June 23, 1939, noon

NO.: 542

I refer to my telegram No. 506 of June 16, 4 p.m.

Yesterday Heath had a talk with Puhl, the administrative head of the Reichsbank under Funk. Puhl said that under the new statutes there is no change in the system which has governed the operation of the Bank for the last six months. He insisted, however, that the formulation of the new Reichsbank law and the publicity which was given to it did offer some protection against radical demands for further weakening the Bank's position and policies. After Schacht was dismissed, he said, there had been a strong effort to make the Central Bank merely a subsidiary department of a ministry - the Economics Ministry - as is the case of the U.S.S.R.'s Central Bank. As for the provision which gives full power to decide to the Reichsbank President instead of leaving it subject to the directorate's majority vote, Puhl said that it was an "irony of history" under the previous system, because of Schacht's dominating personality he exercised dictatorial control, whereas under Funk, who had dictatorial powers under the new law, decisions in practice were reached only after the Board had been consulted and had agreed.

Es

- 2 -

As for the provision which permits the Chief of State to increase the amount of the "working credit" (100,000,000 marks) of the Government with the Reichsbank, Puhl remarked that while apparently a check against Government extravagance and inflation is removed thereby, France's experience and that of other countries had shown that ~~again~~ if a government is determined to pursue inflationary policies, formal checks of this nature were worthless. However, a safeguard remained, he said, in that merely a request of the Minister of Finance was not sufficient to increase the working credit; the Chief of State himself must issue a written order.

Furthermore, Puhl said, the new statutes of the Reichsbank in his opinion are a (omission) for conservative capitalist methods, in that against opposition it was finally decided that the Bank should remain a stock company in which the shares were privately owned.

There were no American shareholders of the Reichsbank, as far as Puhl knew, with the possible exception of shares held by Germans who had emigrated to the United States in the last few years. People in England and Holland hold the greater part of the foreign owned shares of the Reichsbank, he said, and in his opinion the foreign shareholders were in a better position under the new scheme in that they were sure of getting the full transfer of the same dividends

on

- 3 -

on their investment as before. He added that there was even some possibility that they might receive increased earnings in the future, since there was no legal limitation on dividends on the Gold Discount Bank shares which they would receive.

END SECTIONS ONE, TWO AND THREE.

KIRK.

EA:LWW

PARAPHRASE, SECTION FOUR OF TELEGRAM NO. 542 OF
JUNE 23, 1939, FROM THE AMERICAN EMBASSY, BERLIN

The statement was made that since the new tax certificates were legal tender in certain instances, the weekly statements of the Reichsbank on note issue and sight liability of the Reichsbank no longer presented a full picture of monetary circulation. Puhl replied that so far the certificates which had been issued had been completely absorbed for the following purposes: (a) medium-term investment in the case of class two, three-year certificates; (b) long-term investment because of the tax privileges attached to them in the case of class one certificates. Therefore up to the present there had been no increased monetary circulation from these certificates. Puhl admitted that if there are heavy issues of these certificates in the future there would be presented dangers of inflation. However, he insisted that to prevent any such development the Reichsbank was carefully following their issuance. Puhl stated that the tax certificates should be looked on as an interim measure, the purpose of which was to facilitate borrowing by the Government during the present period of extraordinary financial needs of the Government.

It is requested that this telegram be repeated to the Treasury as Heath's No. 40.

KIRK.

EA:LWW

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: June 23, 1939, 6 p.m.

NO.: 548

FOR TREASURY FROM HEATH. No. 41.

The disclosed public debt of the Reich increased 1,140,000,000 marks during March. Nearly one-half of the increase (516,000,000 marks) was a "paper increase" in the sense that it did not represent new borrowing but merely the issue of Reich bonds in exchange for old Austrian internal bonds. Subtracting this amount the net increase in the Reich debt as a result of new borrowing was 624,000,000 of which 620.5 million was in the form of short term debt (treasury bills) and 3.5 million marks the net increase in long term debt.

The March debt statement enables a correction in my estimate of the Reich expenditures during the fiscal year ended March 31, 1939 given in my No. 25, May 9, 6 p.m. That estimate of 26.6 billion marks was based on a forecast that net Government borrowing in March would be 700,000,000 marks. This forecast was too high by 74,000,000 marks but on the other hand the approximate calculations of the year's debt increase were too low by 34,000,000. My revised minimum estimate of Reich expending for the last fiscal year is accordingly slightly reduced to 26,558,000,000 marks. It is still my belief, however,

that

- 2 -

that there was some hidden borrowing, taking the form of increasing delays of payment on orders of the Government, and so on. Therefore the foregoing estimate may well be below the expenditures which actually were made.

The disclosed debt of the Reich rose 11,578,000,000 marks to a total of 30,676,000,000 marks during the fiscal year ended March 31, last. Of this increase however, 1,342,000,000 was a "paper increase" caused by the issuance of Reich bonds for old Austrian internal obligations and presumably offset by the acquisition of the assets back of those obligations.

Subtracting these conversion bonds the disclosed net borrowing of the Reich during the fiscal year was 10,226,000,000 marks. The monthly average of net government borrowing during the year was therefore roughly 853,000,000 marks. Net government borrowing during March - 624,000,000 marks - fell below this average but March is a month of unusually heavy tax payments.

KIRK.

EA:LWW RECEIVED

MAY 24 1938

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

June 23, 1939

Dear Henry:

Your tax bill has now passed successfully through both Houses of Congress. One of the major tasks in which we have been so deeply interested since I came to work with you is therefore completed.

Your constructive leadership has been an inspiration to me. I have never been associated with anyone more devoted to the public interest. Your conscientious performance of duty as exemplified in your daily work as Secretary of the Treasury, your courage and unselfishness, have become as apparent to others as they have always been to me.

I realize that I will never be able to properly impress upon you my gratitude for the opportunity of serving as your Under Secretary during this important period.

With warmest regards, believe me,

Faithfully yours,

(Rgd) John Hans

The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury

JWH:jr

retyped 6-29-39

June 23, 1939

MEMORANDUM FOR THE FILES

After the meeting at the White House on the proposed legislation for the self-liquidating program of public works, Senators Barkley and Wagner, and Secretary Morgenthau and Foley stayed behind to discuss with the President the filibuster on the Stabilization legislation. Senator Wagner told the President that Senator McCarran had sent him word that he would drop the fight if the President would agree to increase the price of silver from 64.64 cents per ounce to 76 cents per ounce. The President flatly refused to go along with such a proposal. Then Senators Wagner and Barkley told the President that they were of the opinion that the fight would be dropped by Senators McCarran and Pittman if the President would authorize them to announce that the price of 64.64 cents per ounce now being paid for newly-mined domestic silver would be continued for an additional period of one year after June 30, 1939. Mr. Foley assured Secretary Morgenthau that legally the proclamation could be issued for a period of one year or longer. Secretary Morgenthau then suggested to the President that he go along with such a proposal since he was giving up very little and obtaining much. The President countered that he would be willing to sign a proclamation on June 30, 1939 extending the price of 64.64 cents per ounce for newly-mined domestic silver for an additional period of six months, and would agree on December 31, 1939 to extend it again for an additional period of six months. Senators Barkley and Wagner indicated to the President that it would be more palatable if it

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could be done all at once on June 30. The President pointed out that he didn't like to have a pistol held to his head, and preferred to do it in two periods of six months each since he didn't want to create the precedent of doing it for longer periods. He pointed out that next year they would come back and say since you have done it for a year, this next time you should do it for two years, or maybe for three years, and he wanted to avoid such a situation if possible. Senators Barkley and Wagner then indicated that they should be authorized, if necessary, to tell Senators Pittman and McCarran that the President would sign a proclamation on June 30, extending the price of 64.64 cents per ounce for newly-mined domestic silver for an additional period of one year if the situation, in their opinion, required it. The President went along with this, but cautioned them not to use the one year assurance unless it was absolutely necessary.

Senators Barkley and Wagner indicated that the fight, in all probability, would be abated upon the giving of such assurance, and action on the amendments and final passage of the bill could be expected early next week.

E. W. H.

RE STABILIZATION FUND BILL

June 23, 1939.
11:05 A. M.

Present: Mr. Gaston
Mr. Foley
Mr. White
Mr. Bernstein
Mr. Lochhead
Mr. Viner
Mr. McReynolds

H.M.Jr: So I don't have to read it out loud, give Mac a copy.

(All read silently draft of letter from President to Vice President)

Here's one suggestion on the top of page 3. "This would occur at the very time when, because of the condition of international affairs, there may be an even greater need for gentlemen's agreements of this sort"?

White: The difficulty is that this agreement would still remain. It's very difficult to get away from that. This would not break the agreement. Herbert had a happy thought of handling it this way.

H.M.Jr: I had this happy idea of bringing in "gentlemen's agreements."

Gaston: It tends to weaken the force of the Tripartite Accord; it makes it less important than we'd like to have it appear, I think.

Foley: "Understanding"?

Lochhead: Got to have a word like "voluntary agreements" or something.

H.M.Jr: Well, it isn't important. It's a peach of a letter. It's a peach of a letter. I don't have to have it. It's not important. It's a peach of a letter.

Now, have you got a memorandum?

White: I have. We have time to cut out, change anything you want to, before 12:00.

H.M.Jr: (After reading silently for a minute or two) I think

- 2 -

my best bet is just to leave it - you know, these memorandums - I always go on the assumption that they some day will see the light of day.

White: I think it's better to give as much of that orally as you can and indicate that you didn't want to write it. That's my own feeling. I think you can give it orally much more effectively. It isn't on the record, you don't have to pull your punches so much.

H.M.Jr: This is a peach of a letter, and I'm delighted.

Viner: That ought to get out of the files here, too.

H.M.Jr: Which?

Viner: Oughtn't to be any carbon copies.

White: This isn't a candle to some of the things we've said in our files.

H.M.Jr: Where are you going?

White: I've got to get something up to Wagner by 12:00 o'clock. May I be excused now?

H.M.Jr: Let's take a vote on it. All those in favor of excusing Harry....

Gaston: No.

Viner: No.

H.M.Jr: Harry, wait a minute. This letter for the President to sign to the Vice President, the decision being wholly his - I mean there's nothing in here that....

White: No, I feel that it shouldn't ever - I'm dubious about its being sent unless as a last, last resort, because it means that he'll make some substantial enemies, and in the kind of legislation to come - but that's his decision.

H.M.Jr: No, that wasn't my question. I'm glad to have it.

White: Excuse me.

- 3 -

H.M.Jr: My question is, if he sends it, the decision being entirely his, are you entirely satisfied with the letter?

White: Oh yes.

H.M.Jr: What?

White: Quite. Entirely.

H.M.Jr: Thanks, Harry. Harry, don't work Saturday and Sunday.

White: Thank you.

H.M.Jr: That's all I've got.

Note: This was not
sent to the President
-11
67-2-17

MEMORANDUM TO THE PRESIDENT:

With the possession of the present powers the Treasury feels it can meet any reasonable emergency that may arise in the field of international monetary affairs. Should the powers be permitted to lapse, this would not be the case. In the event of an acute political crisis the Treasury would have inadequate facilities, for example, for preventing panic conditions in the exchange market such as might have occurred during the Munich episode had the Treasury not stepped into the breach.

Failure to continue the Stabilization Fund and the powers to alter the gold content of the dollar will, aside from its possible repercussions on international currency relationships and weakening the foreign monetary systems by stimulating a flow of speculative funds to the dollar, ~~would~~ have a profound and far reaching effect on the role the Government plays in its control of the monetary system. The power that the Government has acquired during the last six years in controlling the country's monetary system would begin to revert to Wall Street and to the private banks via the Federal Reserve Bank of New York.

On the surface the change would not be noticeable but actually the maneuvering for control of the monetary systems which has been going on throughout the world between private banking systems on the one hand and the governments on the other hand would again be cast in favor of the privately owned banks in the United States. There are innumerable ramifications to the day to day control over foreign exchange, and to the authority related to the possession and existence of the Stabilization Fund and executive power to devalue the dollar. For this power to pass from the hands of the Government would in time greatly enhance the subtle yet potent power of the private banks over monetary matters.

Although the effects may not be immediate, the United States monetary system will soon realize that important monetary decisions have been transferred from Washington to New York. The Federal Reserve Bank of New York has already

- 2 -

given evidence that it would welcome the lapse of the powers and they fully recognize the fundamental importance of the change which we cannot emphasize too strongly goes far beyond the questions of who carries out the day to day operations.

C
O
P
Y

Dear Mr. Vice President:

In my letter of January 19, 1939, I wrote to you of the need for extending the Stabilization Fund and the power to fix the metallic content of the dollar. Since that time the House of Representatives has passed a bill (H.R. 3325) extending these powers until June 30, 1941. That bill has been reported out by the Senate Committee on Banking and Currency and is now before the Senate for consideration.

As you know, under the existing Silver Proclamation, which expires on June 30, 1939, the Government is paying 64.64¢ cents an ounce for newly-mined domestic silver, as compared to 43 cents for silver of foreign origin. I am informed that a small group of Senators is preventing any vote being taken on H. R. 3325 and on the proposed amendments to the bill until a commitment is made that the Government will pay an even higher price for domestic silver mined after June 30. I have given the matter careful consideration and it is my considered judgment that in the present situation a higher price for domestic silver is not warranted and that I would not be justified in yielding to this demand. Of course, the situation would be different if Congress by legislation should fix the price to be returned for domestic silver. Congress has the opportunity to express its views as to whether a price higher than the prevailing price should be returned for domestic silver by voting on the amendments which have been offered by Senators McCarran, Thomas and Pittman.

Whatever may be the decision of the Congress on this question, however, I feel that I should be remiss if I failed to point out the serious consequences that would flow from a failure to extend before June 30, 1939, the Stabilization Fund and the power to fix the metallic content of the dollar.

The need for the continuation of the Stabilization Fund has been recognized by the Congress and the public. Failure to renew the Stabilization Fund powers would deal a serious blow to international monetary stability and to the protection and advancement of American agricultural and commercial interests. Only one group would profit by the termination of these powers, namely, international currency speculators. The powerful weapon which this country, in conjunction with other democratic countries, has been developing for more than five years to help maintain some measure of stability in international exchange and to check the predatory tactics of foreign exchange speculators would be gone overnight. The resulting monetary uncertainty, with its threat of increased currency fluctuations, would greatly hamper American and international commerce and industry.

In September, 1936, amidst universal acclaim in democratic countries, Great Britain and France joined us in the Tripartite Declaration. Soon thereafter Belgium, Holland/^{and}Switzerland declared their adherence to it. No one can question the great contribution which this Accord has made to stability and equilibrium in the international economic and monetary fields. The possession of these

- 3 -

powers made possible the negotiation of the Tripartite Accord and the failure to renew them would inevitably menace the monetary equilibrium to which the Accord has contributed so powerfully. This would occur at the very time when, because of the condition of international affairs, there is an even greater need for an arrangement of this sort between the great commercial countries.

I am convinced that the existing power to change the gold content of the dollar is essential to the proper protection of American domestic and foreign trade against the danger of depreciation of important foreign currencies. The views of this Administration on this matter have been fully presented to the Senate through the testimony of the Secretary of the Treasury and similar conclusions were voiced by Senator Wagner in his speech on the floor of the Senate on June 19.

It is urgent that Congress express its views on these matters on or before June 30. It seems too clear for argument that to obstruct a vote on the monetary bill now before the Senate does not promote the orderly process of democratic government.

For the foregoing reasons I urge most earnestly that the Senate act before June 30 on the monetary powers bill (H. R. 3325) now pending before it.

very truly yours,

Honorable John N. Garner,

President of the United States Senate.

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For the foregoing reasons I urge most earnestly that the Senate act before June 30 on the monetary powers bill (H. R. 3325) now pending before it.

very truly yours,

Honorable John N. Garner,

President of the United States Senate.

June 23, 1939.

MEMORANDUM FOR THE FILES

Secretary Morgenthau and Foley attended a conference at the White House at 5:00 P.M. today on the legislation for the self-liquidating program outlined in the President's letter of June 21 to Senator Byrnes.

There were present:

From the Senate -

Senator Alben W. Barkley
" James F. Byrnes
" Pat Harrison
" Robert F. Wagner

From the House of Representatives -

Representative Sam Rayburn
" Robert L. Doughton
" Edward T. Taylor
" Henry B. Steagall

From the Administration -

RFC - Jesse H. Jones and Claude E. Hamilton, Jr.
REA - John Carmody
Treasury - Secretary Henry Morgenthau, Jr., and
Edward H. Foley, Jr.
Bureau of the Budget - Harold D. Smith.

The President started the conference with a general recital of the objectives of his proposal. He then read the attached summary of the legislation, which was distributed. After some discussion, he read the attached memorandum on the reasons for the supplemental legislation, which was distributed. At the President's suggestion, the attached draft of the proposed legislation was also handed around to those present.

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Senator Byrnes, and Representative Rayburn pointed out that no powers should be included in the legislation which were not absolutely necessary. The President agreed, and designated Edward H. Foley, Jr., and Claude E. Hamilton, Jr., as a committee to get together and eliminate from the legislation any duplications or over-lapping of powers. It was agreed, after this was accomplished, that the bill would be made available to Senator Barkley and Representative Rayburn. Senator Barkley told Foley that he would call him tomorrow morning as soon as he was available. Claude Hamilton promised to study the bill over night and get in touch with Foley the first thing in the morning.

A discussion ensued as to the committees in the Senate and the House to which the bill should be referred. Since it contained no provisions for new taxes, and none for appropriations, it was generally agreed that the legislation should be referred to the banking and currency committees. However, Senator Barkley and Representative Rayburn promised to canvass the situation and indicate to Foley and Hamilton tomorrow definitely the committees to which the bill would be referred.

Senators Byrnes and Wagner indicated there would be strong objection from the isolationists to the provision for increasing the powers of the Export-Import Bank. The President recognized that this was an objection inherent in the proposal and suggested to Hamilton and Foley that they try to devise other ways of securing the ends suggested in the letter to Senator Byrnes and to limit the legislation to the extension of the life

- 3 -

of the Export-Import Bank to February 11, 1944, and to increase its lending margin by \$500,000,000.

Senator Byrnes pointed out that it would be impossible to add the legislation to the pending relief bill which would be marked up by his subcommittee tomorrow. In order to restrain pressure on the Floor to increase the \$125,000,000 which had been earmarked by the House for PWA projects, Senator Byrnes indicated that the legislation should be introduced as soon as possible. Senator Byrnes also suggested that additional time to consider the self-liquidating legislation could be obtained through the introduction of a Joint Resolution continuing the availability of all PWA and WPA funds for an additional month beyond June 30, 1939. It was agreed that this was a meritorious thing to do.

The meeting broke up a little after 7:00 P.M.

E. N. H.

NECESSITY FOR SUPPLEMENTARY LEGISLATION AS TOALL ASPECTS OF SELF-LIQUIDATING PROGRAM

1. Powers delegated to Commissioner of Public Roads. The existing authority of the Commissioner of Public Roads is derived from the various federal-aid acts pursuant to which the Bureau of Public Roads approves projects submitted by state highway departments and makes grants in aid thereof. Hence, it is necessary that power be conferred upon the Commissioner of Public Roads on behalf of the United States Works and Finance Authority to be created by the proposed Self-liquidating Projects Act of 1939 to construct, operate, and maintain federally owned highways and bridges and charge and collect tolls for the use thereof. Other powers which are necessary in order to carry out the functions of a program of self-liquidating toll roads, bridges, high speed highways and city by-passes are conferred by the bill.
2. Powers delegated to Commissioner of Public Works. Under existing provision of law the Commissioner of Public Works will be limited in his powers to those conferred upon the Federal Emergency Administrator of Public Works by the Work Relief and Public Works Appropriation Act of 1938. This Act contains restrictions relating to the time in which funds can be allotted for projects, the date on which such projects must be completed, and the receipt of applications by public bodies which make it essential for a well-rounded program to confer powers as provided in the proposed Self-liquidating Projects Act of 1939. In addition, certain powers and duties which enable the Commissioner of Public Works to keep the securities which he purchases on a self-liquidating basis are imposed. It is also, of course, necessary to have legislation in order to provide the Commissioner of Public Works with funds to carry out on behalf of the proposed United States Works and Finance Authority any program of non-federal public works as the funds of the Public Works Administration are said to be exhausted.
3. Powers delegated to Reconstruction Finance Corporation as to railroad construction. Existing powers of the Reconstruction Finance Corporation to finance railroads are limited to loans in aid thereof and, consequently, supplementary legislation is necessary to authorize the Reconstruction Finance Corporation on behalf of the United States Works and Finance Authority to enter into contracts for the construction of new rolling stock which can be leased or sold on the installment purchase plan to the railroads or to companies presently engaged in leasing equipment to railroads.

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4. Powers delegated to Rural Electrification Administration.

Under existing legislation the program of the Rural Electrification Administration is limited to \$40,000,000 per year for the next seven years. In addition, the Rural Electrification Act contains quota and interest rate restrictions and other limitations which make new legislation advisable. It may be noted that the present program is also limited to the use of funds appropriated by Congress. The bill permits the Rural Electrification Administrator to make loans on behalf of the proposed United States Works and Finance Authority and does not affect the powers of the Administrator.

5. Powers delegated to Secretary of Agriculture. It seems advisable to include in the bill legislation expanding the self-liquidating portion of the Bankhead-Jones Farm Tenant Act rather than to amend that Act. In order that this program may be coordinated with the other phases of the self-liquidating program and because the Act not only provides the Secretary of Agriculture with additional funds but also establishes a revolving fund which is available to the Secretary of Agriculture for loans under the Bankhead-Jones Farm Tenant Act on behalf of the United States Works and Finance Authority.

6. Powers delegated to Reconstruction Finance Corporation in relation to the Export-Import Bank of Washington. Supplementary legislation is also required in order to provide for short and long term loans to foreign governments for development and reconstruction purposes in the foreign country. This is pretty clear.

The Export-Import Bank of Washington is a banking corporation organized under the laws of the District of Columbia (D.C. Code, title 5, sec. 261). It was organized pursuant to Executive Order No. 6581, February 2, 1934. The Certificate of Incorporation, as amended April 3, 1936, provides, in section 2, that the term of existence of the corporation shall be ten years from the date of its incorporation. Therefore, by the force of its own charter, the bank will cease to exist as a corporate entity at the close of business on February 11, 1944.

By section 9 of the Act of January 31, 1935, 49 Stat. 4, the Export-Import Bank of Washington was continued as an agency of the United States until June 16, 1937. By section 2 of the Act of January 26, 1937, 50 Stat. 5, it was continued as an agency of the United States until June 30, 1939. By the Act of March 4, 1939 (Pub. No. 3, 76th Cong.), it is continued as an agency of the United States until June 30, 1941.

By section 9 of the Act of January 31, 1935, 49 Stat. 4, the Export-Import Bank of Washington was given power, in addition to its existing charter powers, and without limitation as to the total amount of obligations thereto of any borrower, to discount notes, drafts, bills of exchange, and other evidence of debt for the purpose of aiding in the financing and facilitating exports and imports and the exchange of commodities between the United States and any foreign country or the agencies or nationals thereof.

In view of the limitation on the power of the Export-Import Bank which is underlined above it is very doubtful whether making a loan to a foreign country with a view to enabling it to develop its industrial activities falls within the scope of the authority which the bank now has.

It also seems necessary to have supplementary legislation in order that sufficient funds will be available to the Export-Import Bank.

The Act of March 4, 1939 (Pub., No. 3, 76th Cong.), added a proviso at the end of section 9 of the Act of January 31, 1935, 49 Stat. 4, which limits the amount of obligations which the Export-Import Bank of Washington may have outstanding at any one time to \$100,000,000. The same proviso authorizes the Reconstruction Finance Corporation to supply the capital for such obligations, when requested by the Secretary of the Treasury, with the approval of the President, through loans or by subscription to preferred stock.

The existing powers of the Reconstruction Finance Corporation are also limited to making loans "in order that the surpluses of agricultural products may not have a depressing effect upon current prices of such products, the corporation is authorized and directed to make loans, in such amounts as may in its judgment be necessary, for the purpose of financing sales of such surpluses in the markets of foreign countries in which such sales cannot be financed in the normal course of commerce; but no such sales shall be financed by the corporation if, in its judgment, such sales will affect adversely the world markets for such products: Provided, however, That no such loan shall be made to finance the sale in the markets of foreign countries of cotton owned by the Federal Farm Board [Name changed to Farm Credit Administration by Executive Order No. 6084, Mar. 27, 1933] or the Cotton Stabilization Corporation." (Reconstruction Finance Corporation Act, Sec. 201 (c)).

Likewise, it would appear that section 5(a) of the Reconstruction Finance Corporation Act in terms and intent permits the Reconstruction Finance Corporation to make foreign loans only in connection with exports and not to further the industrial development and economic reconstruction of any foreign country.

Proposed "Self-liquidating Projects Act of 1939."

The purpose of this draft bill is to increase employment without increasing the public debt or present appropriations by providing a method for financing on a self-liquidating basis (1) construction of Federal express post-roads, (2) loans for non-Federal public works, (3) construction and leasing of locomotives, freight cars and other railroad rolling stock, (4) loans for rural electrification, (5) loans to farm tenants, sharecroppers and migratory farmers for the purchase of farms, livestock, seeds and other necessary equipment, and for rural rehabilitation, and (6) loans for industrial development in Latin America and elsewhere which will stimulate productive enterprise in the United States.

I

Title I of the bill creates a non-stock government corporate instrumentality called the United States Works and Finance Authority. The Authority consists of the Secretary of the Treasury, the Secretary of Agriculture, the Federal Works Administrator and the Federal Loan Administrator. These members of the Authority exercise their functions separately on behalf of the Authority. In order to avoid the necessity for action as a Board and to coordinate and supervise the activities of the Authority, provision is made for the appointment by the members of the Authority of a Managing Director. The Managing Director exercises all powers not specifically granted by the bill to other officers in the Government.

The Authority has the following principal functions:

- (1) To construct and operate post-roads, highways, bridges, tunnels and airports for the use of which it is empowered to fix tolls and other charges;
- (2) To make loans to states and municipalities and other public bodies at low interest rates for the construction of non-Federal public works;
- (3) To make contracts for the construction of rolling stock and to lease with or without the option to purchase such rolling stock;
- (4) To make loans for the purpose of financing rural electrification; and
- (5) To make loans and carry out the self-liquidating features of the farm tenancy and rural rehabilitation program contemplated by the Bankhead-Jones Farm Tenant Act.

To provide the Authority with sufficient funds, power is conferred upon it to issue bonds or other obligations guaranteed as to both principal and interest by the United States. The Authority may not have more than

\$750,000,000 of these bonds outstanding at any one time for the toll roads and bridges, not more than \$350,000,000 for financing non-Federal public works, not more than \$500,000,000 for the acquisition of rolling stock, not more than \$500,000,000 for the farm tenant and rural rehabilitation program, and not more than \$460,000,000 for the rural electrification program.

As a means of preventing the industries which will benefit from the operations of the Authority entering into unlawful combinations to fix prices, the ability of the Authority to sue for treble damages under the Sherman Act is made clear and unambiguous. In this connection the submission of identical bids is made prima facie evidence of an agreement to fix prices. This carries out a much needed sanction recommended by the President in his message to Congress of April 29, 1938.

The Authority is also given power to organize under the laws of the various states operating corporations to assist it in constructing and operating its enterprises and to utilize such corporations as well as Federal, state, and local officials and agencies in carrying out its functions.

In connection with the powers of the Authority relating to railroad equipment, it is provided in the bill that the Reconstruction Finance Corporation, on behalf of the Authority, may enter into contracts for the purchase of old rolling stock either for lease or resale in its existing state or for rebuilding, repairing or scrapping the same. This will enable the Authority to aid in disposing of old rolling stock to agencies of the Government such as the War Department which can utilize scrap iron.

The bill eliminates the existing restriction for rural electrification loans which establishes state quotas and which requires an interest rate on such loans equal to the rate on 10 year Federal bonds. Otherwise, it leaves untouched existing legislation relating to rural electrification and to the farm tenancy and rural rehabilitation program. The \$40,000,000 appropriation to the Rural Electrification Administration for the fiscal year 1940 is left available to that Administration.

The President is authorized to transfer not to exceed \$100,000,000 from existing appropriations for the farm tenancy and rural rehabilitation program to the Authority for self-liquidating loans. Of the amount so transferred the Authority may also use for administrative expenses such amounts as the Director of the Bureau of the Budget may approve. The amounts so allowed by the Bureau of the Budget for administrative expenses are to be included in the budget estimates for the fiscal year 1941 so that the Authority may be maintained upon a self-liquidating basis.

The bill contains provisions relative to the use and disposition of moneys of the Authority in such a manner that, after adequate provision has been made to assure the self-liquidating character of the projects constructed and financed by the Authority, its revenues and receipts may be used as a revolving fund for further improvements and loans subject to the limitations of the bill.

The Comptroller General is given power to examine all the financial transactions of the Authority but only for the purpose of reporting to Congress departures from the provisions of the Act.

No appropriation is made or required by the bill for the Authority which is authorized to use from the proceeds of the sale of its obligations such amounts for administrative expenses as the Director of the Bureau of the Budget is willing to approve.

II

Title II of the bill extends the powers of the Export-Import Bank of Washington and provides it with funds to enable it to make loans not to exceed \$500,000,000 to any foreign government not in default in the payment of its obligations to the United States. Such loans are intended to aid in the industrial development of such countries and thereby to provide a new market for productive enterprise in the United States with its accompanying advantages. The total amount which may be loaned to any one government may not exceed \$100,000,000.

The bill also continues the functions of the Export-Import Bank of Washington until February 11, 1944, this being the expiration date of its charter under the laws of the District of Columbia; by Executive Order, however, the President can terminate its authority prior to such date.

The method provided for such financing will not require additional appropriations, since available funds of the Reconstruction Finance Corporation are utilized.

Confidential Draft Bill for
Self-liquidating Works Program

A BILL

To provide for the construction and financing of self-liquidating projects, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Self-liquidating Projects Act of 1939."

TITLE I

United States Works and Finance Authority

SECTION 1. There is hereby created a body corporate of perpetual duration to be known as the United States Works and Finance Authority (herein called the "Authority"), which shall be an agency and instrumentality of the United States with its office in the District of Columbia and with power to function in any place, and the members of which shall consist of the Secretary of the Treasury, the Secretary of Agriculture, the Federal Loan Administrator, and the Federal Works Administrator. The Authority shall appoint an officer to be known as the managing director of the Authority. The managing director shall receive a salary of \$10,000 a year to be paid by the Authority, ^{be} subject to the direction and control of the Authority, and shall exercise all powers of the Authority not delegated by this Title to any other officer.

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General Corporate Powers

SEC. 2. Subject to the provisions of this Title, the Authority shall have power:

- (a) To sue and be sued in its corporate name and in this connection sue in the appropriate district court of the United States for the recovery of damages pursuant to the provisions of Section 7 of the Act entitled "An Act to protect trade and commerce against unlawful restraints and monopolies," approved July 2, 1890; and whenever the Authority shows in such suit that any bidder has submitted a bid or bids identical with bids submitted by any competitor in response to a particular invitation for bids, such bids or such prices shall be presumed to have been a result of or in furtherance of an agreement to fix prices, and the existence of such agreement shall for purposes of such civil suit be regarded as proved, unless the non-existence thereof is established to the satisfaction of the trier of fact;
- (b) To adopt, alter, and use a corporate seal, which shall be judicially noticed;

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- (c) To use the United States Mails in like manner as the executive departments of the Government;
- (d) To acquire by gift, purchase, exchange, or by the exercise of the power of eminent domain, or otherwise, and to hold, lease (as lessor or as lessee), use, sell, exchange or otherwise dispose of real property necessary or convenient for carrying out any of its functions hereunder;
- (e) To acquire, hold, and dispose of personal property for any corporate purpose, including the power to purchase prospective or tentative awards in connection with the taking of real property by the exercise of the power of eminent domain;
- (f) To enter on any lands and premises for the purpose of making surveys and examinations;
- (g) To make contracts and to execute all instruments necessary or convenient to carry out any corporate purpose;
- (h) With the approval of the Secretary of the Treasury, to incur indebtedness, to borrow money and to issue debentures, bonds or other obligations, including interim receipts and certificates,

- 4 -

as hereinafter provided (any of the foregoing instruments being herein called the "bonds"), to provide for the payment of the bonds and the interest thereon and to provide for the rights of the holders thereof;

- (i) With the approval of the Secretary of the Treasury, to sell or otherwise dispose of any securities acquired on behalf of the Authority, and in connection with any such sale to make such contracts and agreements, including covenants and conditions for the repurchase at par of any such securities in the event of a default in the payment of the interest thereon or principal thereof, as seem advisable;
- (j) To utilize the services of federal, state and local agencies and their employees and, notwithstanding any other provision of law, to reimburse such agencies and their employees for services rendered for such purposes;
- (k) To organize under the laws of the District of Columbia or of any State or Territory and to make loans and advances to a corporation or corporations (herein called "operating corporations") to aid the Authority in carrying out its corporate purposes;

- 5 -

- (l) To use its moneys from whatever source derived for any corporate purpose;
- (m) To perform all acts and to do all things necessary or convenient or desirable to carry out the powers now or hereafter conferred by law.

Specific Powers as to Post-road Improvements

SEC. 3. Subject to the provisions of this Title, the Commissioner of Public Roads on behalf of the Authority shall have power:

- (a) To construct, reconstruct, alter, better, extend, improve, repair, maintain, and operate post-roads, highways, grade-crossings, parkways, bridges, viaducts, tunnels, airports, traffic terminals, and other transportation facilities, including works, undertakings or projects incidental thereto or to encourage the use thereof, with a view to promoting interstate commerce, aiding in the national defense, facilitating the use of the mails, or promoting the general welfare (all or any part of any of the foregoing and appurtenances thereto, such as land, rights in land, water rights, buildings, equipment, and machinery, being herein called a "post-road improvement");
- (b) To fix, maintain, and collect tolls and other charges for the use of any post-road improvement

- 6 -

which shall be sufficient (after making reasonable allowances for operation and maintenance expenses, for the amortization of the cost of such post-road improvement, and interest thereon, and for depreciation to the extent not provided for by amortization, and contingencies,) to provide for the payment of such amount of bonds and interest thereon as may have been issued to provide funds for the post-road improvement.

- (c) To acquire, make, produce, buy, and sell building materials, supplies, and equipment, and use or lease the same so far as necessary to carry out its corporate purposes;
- (d) To use the tolls and other charges collected by it for further post-road improvements to the extent the same are not needed by the Authority in the judgment of the managing director to meet reasonable allowances for operation and maintenance expenses or for the amortization of the cost of post-road improvements, and interest thereon, or for depreciation to the extent not provided for by amortization and contingencies;
- (e) To adopt rules and regulations for the management and operation of post-road improvements.

Specific Limitations on Post-road Improvements

SEC. 4. The Commissioner of Public Roads shall not construct any post-road improvement, unless (a) he has submitted to the managing director an analysis indicating the estimated annual earnings of such post-road improvement from all sources will amount to over a reasonable period of time, having due regard to the possibility of a margin of error on the estimated revenues and expenses, making due allowance for operation and maintenance expenses and for depreciation to the extent not provided by amortization, and contingencies; and (b) the Commissioner of Public Roads and the managing director of the Authority are of the opinion that on the basis of such analysis the bonds proposed to be issued to finance the post-road improvement, together with interest thereon, may reasonably be expected to be paid out of such earnings.

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Specific Powers as to Non-Federal Public Works

SEC. 5. Subject to the provisions of this Title, the Commissioner of Public Works on behalf of the Authority shall have power:

- (a) To make loans at an interest cost to the borrower not to exceed two percent per annum, payable semiannually, to finance or aid in financing the construction, reconstruction, extension, or improvement of projects of the character heretofore financed by loan or grant or both by the Federal Emergency Administration of Public Works (such projects being herein called "non-federal public works");
- (b) To purchase securities to evidence loans for non-federal public works, and to exchange such securities for other securities if the Commissioner of Public Works shall determine that such exchange is advisable to assure repayment of any loan made hereunder or interest thereon;
- (c) To provide funds sufficient for the temporary operation of any non-federal public works for such period as it shall deem reasonable, if the Commissioner of Public Works shall determine that the same is advisable for the security of any securities acquired by it under this Act;

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- (d) To use the proceeds realized from the sale of any securities acquired by it under this Title or any other law for the making of further loans for non-federal public works to the extent such proceeds are not needed by the Authority in the judgment of the managing director to maintain the loans for non-federal public works on a self-liquidating basis.

Specific Limitations on Non-Federal Public Works

SEC. 6. The Commissioner of Public Works shall not finance or aid in financing any non-federal public works, unless (a) the Commissioner of Public Works has found and determined that the non-federal public works is economically sound and socially desirable, and (b) the Commissioner of Public Works and the managing director of the Authority are of the opinion that the loan which the Commissioner will make to finance or aid in financing such non-federal public works may reasonably be expected to be repaid, together with interest thereon, as the same shall become due.

Specific Powers as to Railroad Equipment

SEC. 7. Subject to the provisions of this Title, the Reconstruction Finance Corporation on behalf of the Authority shall have power:

- (a) To prepare plans and designs for the construction, rebuilding, or repair of engines, locomotives, tenders, freight and passenger cars of all types and classes,

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or parts thereof or appurtenances thereto (any or all of the foregoing being herein referred to as "rolling stock");

- (b) To enter into contracts for the construction, rebuilding, repair, or scrapping of any rolling stock upon such terms and conditions as may be agreed upon pursuant to public bidding or private negotiation;
- (c) To lease, with or without option to purchase, or to sell at home or abroad, upon such terms and conditions as it shall prescribe, any such rolling stock so acquired;
- (d) To enter into contracts for the purchase of old rolling stock for the purpose of lease or resale in its existing state or for the purpose of rebuilding, repairing, or scrapping the same for lease or resale.

Specific Limitation on Powers Relating to Railroad Equipment

SEC. 8. The Reconstruction Finance Corporation shall exercise its powers with regard to rolling stock with a view to recovering the cost to the Authority of such rolling stock with interest sufficient to reimburse the Authority for the cost to it of the capital required for such operations.

- 11 -

Specific Powers as to Rural Electrification Projects

SEC. 9. The Rural Electrification Administrator on behalf of the Authority shall have power:

- (a) To make loans to finance or aid in financing projects of the character heretofore financed by the Rural Electrification Administration (such projects being herein called "rural electrification projects");
- (b) To purchase securities to evidence loans made by it and use the proceeds realized from the sale of any securities acquired under this Title and, to the extent not otherwise pledged, under any other law for the making of further loans for rural electrification projects to the extent such proceeds are not needed by the Authority, in the judgment of the managing director, to maintain the loans for rural electrification on a self-liquidating basis;
- (c) To exercise the powers granted by this Title without regard to the provisions of subdivisions (b), (c) and (d) of section 3 and the last sentence of section 5 of the Rural Electrification Act of 1936.

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Specific Limitations on Rural Electrification Projects

SEC. 10. The Rural Electrification Administrator shall not finance or aid in financing any rural electrification project, unless (a) the Rural Electrification Administrator has found and determined that the rural electrification project will furnish electric energy to persons in rural areas who are not now receiving central station service and (b) the Rural Electrification Administrator and the managing director of the Authority are of the opinion that the loan which the Administrator will make to finance or aid in financing such rural electrification project may reasonably be expected to be repaid, together with interest thereon, as the same shall become due.

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Powers as to Rural Security Projects

SEC. 11. The Secretary of Agriculture on behalf of the Authority shall have power:

- (a) To make loans and otherwise to finance and furnish facilities for share croppers, and other individuals who obtain, or who have in the past obtained, the major portion of their income from farm operations, including rural rehabilitation loans, projects for the provision of additional water facilities, and farm tenant loans as provided for in Title I of the Bankhead-Jones Farm Tenant Act, approved July 22, 1937 (any or all of the foregoing being herein called "rural security projects");
- (b) To purchase securities to evidence such loans and to use the proceeds realized from their sale for the making of further loans for rural security projects to the extent such proceeds are not needed by the Authority, in the judgment of the managing director, to maintain the loans for rural security projects on a self-liquidating basis;
- (c) To allot and transfer sums available to the Secretary of Agriculture under this title to the bureaus and offices of the Department of Agriculture which the Secretary of Agriculture may call upon to assist or

cooperate in carrying out purposes of the Authority or for services rendered or to be rendered in connection therewith.

Limitation on Rural Security Projects

SEC. ¹²~~18~~. The Secretary of Agriculture shall not finance or aid in financing any rural security project, unless the Secretary of Agriculture and the managing director of the Authority are of the opinion that the loan which the Administrator will make to finance or aid in financing such rural security project may reasonably be expected to be repaid, together with interest thereon, as the same shall become due.

Bonds of the Authority

SEC. ¹³~~14~~. Subject to the provisions of this Title, the Secretary of the Treasury on behalf of the Authority shall have power:

- (a) To issue bonds of the Authority from time to time in one or more series, bearing such date or dates, maturing at such time or times, bearing interest at such rate or rates payable at such time or times, in such denomination or denominations, in such form, carrying such registration, conversion, or interchangeability privileges, subject to such terms of redemption, with or without premium, payable at such place or places, providing for the replacement of mutilated, destroyed, stolen, or lost bonds, executed and delivered in such manner, and containing and subject to such terms, covenants, and conditions as the Secretary of the Treasury may prescribe;

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- (b) To market bonds of the Authority, utilizing all the facilities of the Department of the Treasury now or hereafter authorized by law for the marketing of obligations of the United States and to sell the same at such price or prices as he deems in its best interests;
- (c) To issue bonds of the Authority in exchange for, or to retire from the proceeds thereof, any of its bonds then outstanding;
- (d) To purchase bonds of the Authority for investment or collection and for such purposes the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, the purposes for which securities may be issued under said Act, as amended, being hereby extended to include issuing such securities for the purpose of purchasing bonds of the Authority, or in exchange for bonds of the Authority as provided herein; and at any time sell any bonds acquired by him for investment under this section;
- (e) To treat as public debt transactions of the United States all retirements or purchases of, or dealings by, the Secretary of the Treasury in bonds of the Authority;

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- (f) To prepare such forms, including engraved plates, dies, bed pieces, and other materials as shall be suitable for bonds of the Authority, and for any expenses incurred in the preparation, custody, and delivery of bonds the Authority shall reimburse the Secretary of the Treasury.

Specific Limitations on Issuance of Bonds

SEC. 14. The Authority shall at no time apply the proceeds of outstanding bonds in amounts exceeding the following sums for the following purposes, in addition to sums available for such purposes from tolls, charges, and the sale of securities acquired in carrying out its functions hereunder:

- (a) \$750,000,000 for the purpose of carrying out post-road improvements;
- (b) \$350,000,000 for the purpose of aiding in financing the construction of non-federal public works;
- (c) \$500,000,000 for the purpose of providing funds for the acquisition of rolling stock;
- (d) \$460,000,000 for rural electrification projects;
- (e) \$500,000,000 for rural security projects.

The Authority shall not have bonds outstanding at any one time for all purposes in excess of the aggregate principal amount of \$2,560,000,000.

Security of Bonds

SEC. 15. The bonds of the Authority shall be direct and general obligations of the Authority, fully and unconditionally guaranteed, as to both principal and interest by the United States, and such guaranty shall be expressed on the face thereof. In the event that the Authority shall be unable to pay upon demand, when due, the principal of, or interest on, such bonds, or discharge any covenant made or indebtedness incurred by it, the Secretary of the Treasury shall pay the amount due by the Authority which is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the creditors so paid. The Secretary of the Treasury shall submit annually to the Bureau of the Budget an estimate of the amount which may be needed for such purpose during the succeeding fiscal year and shall include in his annual report the amount so paid by him.

Purchase of Bonds

SEC. 16. (a) The bonds shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers or agency or agencies thereof.

(b) With the approval of the Secretary of the Treasury, the Authority may purchase out of any funds available therefor any obligations of the United States including its own bonds at any price and may sell such obligations at any time. If the Authority purchases its own bonds it may hold the same for investment or retire and cancel them, as it shall determine to be in its best interests.

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Moneys of the Authority

SEC. 17. Moneys of the Authority from whatever source derived shall be deposited by it with the Treasurer of the United States or with any Federal Reserve Bank. The said Treasurer and the Federal Reserve Banks are hereby authorized to receive and hold the same in a special account or accounts in the name of the Authority and to disburse the same without further appropriation upon the check or other order of the Authority. Vouchers approved by the managing director for expenditures from such accounts shall be final and conclusive upon all officers of the Government, but, except as provided in this Title as to the fiscal year 1940, (a) no funds made available for administrative expenses of the Authority shall be obligated or expended unless and until an appropriate appropriation account shall have been established therefor pursuant to an appropriation warrant or a covering warrant, and all such expenditures for administrative expenses shall be accounted for and audited in accordance with the terms and provisions of the Budget and Accounting Act of 1921, as amended, and (b) all financial transactions of the Authority shall be examined by the Comptroller General of the United States at such times and in such manner as he shall prescribe for the sole purpose of making a report to the Congress of any supposed departure from the provisions of this Act, together with his specific recommendations with respect thereto. The Federal Reserve Banks shall also act as fiscal agents or custodians for the Authority upon such terms as may be agreed upon with the Authority.

Mode for Exercise of Eminent Domain

SEC. 18. (a) The Authority may exercise the power of eminent domain in any way the United States is authorized to condemn real property, including, but without limitation, the mode or method of procedure provided by an act entitled, "An Act To expedite the construction of public buildings and works outside of the District of Columbia by enabling possession and title of sites to be taken in advance of final judgment in proceedings for the acquisition thereof under the power of eminent domain", approved February 26, 1931, as amended.

(b) In any case in which the Authority has taken possession of any real property or interest therein during the course of condemnation proceedings and in advance of final judgment therein, it shall be lawful to expend moneys for the particular purpose for which the proceedings are instituted in demolishing existing structures on the land, improving the same, or in constructing new improvements thereon, notwithstanding the provisions of section 355 of the Revised Statutes (U.S.C. title 34, sec. 520), or any other law restricting the expenditure of public moneys upon land, the title to which has been acquired by the United States.

Reports

SEC. 1j. The Authority shall submit to the President and to Congress, in January of each year, a financial statement and complete report of the Authority for the preceding governmental fiscal year.

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The Authority shall at all times keep complete and accurate accounts of all its operations, including all funds expended or received for the account of the Authority.

Penal Provisions

SEC. 20. (a) All general penal statutes relating to the larceny, embezzlement, conversion, or improper handling, retention, use or disposal of public moneys or property of the United States, shall apply to the moneys and property of the Authority and to moneys and properties of the United States entrusted to it, and all laws for the prevention of counterfeiting, whether penal or otherwise, shall apply to the bonds of the Authority.

(b) It shall be unlawful for any person to do any act or thing, or to enter into any conspiracy, collusion, or agreement, express or implied, with intent to defraud the Authority or wrongfully or unlawfully to defeat its purposes. It shall be unlawful for any individual, association, partnership, trust, or corporation to use the words "United States Work and Finance Authority", or any combination of these six words, as the name, or part of a name, under which he or it shall do business. Any person who violates any provision of this subsection shall be guilty of an offense against the United States, and, upon conviction thereof, shall be subject to a fine not more than \$10,000 or imprisonment not exceeding ten years, or both.

Appropriations

SEC. 21. (a) There is hereby authorized to be appropriated from time to time such sums as may be necessary to carry out the provisions of this Act.

(b) The President is hereby authorized to transfer not to exceed \$100,000,000 to the Authority from such portion of all unexpended balances of sums heretofore appropriated to the Secretary of Agriculture to enable him to carry out the provisions of Title I of the Bankhead-Jones Farm Tenant Act, the Emergency Relief Appropriation Act of 1938, or the Work Relief and Public Works Appropriation Act of 1939 which the President, in his discretion, shall deem desirable in order to enable the Secretary of Agriculture to carry out the functions to be exercised by him on behalf of the Authority under this Title.

(c) Administrative expenses of the Authority for the fiscal year ending June 30, 1940 shall be paid from such amounts as may with the approval of the Director of the Bureau of the Budget be reserved from the proceeds realized from the sale of bonds of the Authority for the payment thereof, any provision in this or any other law to the contrary notwithstanding.

(d) The amount of administrative expenses so paid from the proceeds of such bonds shall be reported to Congress by the Director of the Bureau of the Budget and included in the budget estimates for the Authority for the fiscal year 1941, in order to enable the Authority to maintain unimpaired the self-liquidating basis of its operations.

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TITLE II

Export-Import Bank of Washington

SEC. 201. Section 9 of the Act approved January 31, 1935 (49 Stat. 4), as amended, is hereby ^{amended} to read as follows: "Notwithstanding any other provision of law, the Export-Import Bank of Washington, a banking corporation organized under the laws of the District of Columbia as an agency of the United States, pursuant to an Executive order of the President, shall continue, until February 11, 1944, or such earlier date as may be fixed by the President by Executive order, to be an agency of the United States, and in addition to existing charter powers, and without limitation as to the total amount of obligations thereto of any borrower, endorser, acceptor, obligor, or guarantor at any time outstanding, said banking corporation is hereby authorized and empowered to discount notes, drafts, bills of exchange, and other evidences of debt for the purpose of aiding in industrial development or rehabilitation in foreign countries not in default on their obligations to the United States or its agencies, and aiding in the financing and facilitating exports and imports and the exchange of commodities between the United States and any of its territories and insular possessions and any foreign country or the agencies or nationals thereof, and, with the approval of the Secretary of the Treasury, to borrow money and rediscount notes, drafts, bills of exchange, and other evidences of debt for the purposes aforesaid. During the continuance of such agency, the Secretary of State and the Secretary of Commerce are authorized and directed to continue, for the use and benefit

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of the United States, the present investment in the capital stock of said banking corporation, and they are hereby authorized to use all of its assets, including capital and net earnings therefrom, except such earnings as may be required from time to time to pay dividends upon its preferred capital stock, and to use all moneys which have been or may hereafter be allocated to or borrowed by it, in the exercise of its functions as such agency. Provided further, That the Export-Import Bank of Washington shall not have outstanding at any one time loans or other obligations to it in excess of \$600,000,000, the capital for which the Reconstruction Finance Corporation, when requested by the Secretary of the Treasury with the approval of the President, shall supply from time to time through loans or by subscription to preferred stock. Not more than \$100,000,000 shall be loaned or advanced to any foreign country under the authority granted in this section, or under the charter authority of the Export-Import Bank of Washington."

June 23, 1939
9:50 a.m.

Operator: Operator.

HMJr: McReynolds, please.

O: Right.

(Brief pause)

O: Mr. McReynolds.

HMJr: Mac.....

William

McReynolds: Yes, Henry.

HMJr: Would you get the draft of the bill backing up the President's letter to Jimmy Byrnes and personally walk it over and put it in Kannee's lap?

M: A draft of the bill?

HMJr: The bill.

M: Yes, sir.

HMJr: I called Kannee. He knows you're bringing it. Now, there's one thing. I understand there were two alternatives in there.....

M: Yeah.

HMJr: One suggesting that the foreign money be put in the hands -- lending in the Treasury. I don't want it.

M: Yeah. You don't want that.

HMJr: I don't want that.

M: You don't want that. O. K. I'll take the other one. I'll -- I'll take it right over.

HMJr: Yes, and -- now, you see, Jimmy Byrnes called up last night. I wasn't here and he talked to Johnny Hanes.

M: Yes.

HMJr: Now, he hasn't got this thing and I suppose the President wants to send this draft up.

M: Yeah. Well, I'll -- I'll get ^{it} /in Kannee's hands in the next few minutes.

HMJr: But I think it should go from the White House and not.....

M: I think so.

HMJr:from the Treasury.

M: Oh, yes, it should.

HMJr: Will you take care of it, please?

M: I certainly shall.

HMJr: Thank you.

June 23, 1939
11:39 a.m.

Operator: Go ahead.

HMJr: Hello.

Alben
Barkley: Is this Sir Henry Morgenthau?

HMJr: This is Henry Morgenthau, Jr.

B: Is your middle name McCarran?

HMJr: (Hearty laughter) Absolutely, I want to.....

B: Say.....

HMJr: Yeah.

B: We've got a situation over here. Probably you are familiar with it.

HMJr: I've been reading about it.

B: We've got this -- this double-pronged situation.

HMJr: Yeah.

B: Of course the Relief Bill is coming in here Monday or Tuesday.

HMJr: Yeah.

B: And that's got to go through by the 30th.

HMJr: Yeah.

B: Now that's -- between relief and this silver proposition, why it seems to me that relief takes precedence.

HMJr: Well.....

B: But I realize that you've got some -- something that expires down there too, the 30th. What is the situation now with respect to the law and also the proclamation fixing the present price of silver at 64.64?

HMJr: Well, here's the situation, Alben. On -- on the silver proclamation we -- the President has two devices. Now the one -- the silver proclamation works under is the so-called Thomas Amendment. You see?

B: Yeah.

HMJr: Which expires.

B: Expires next Friday?

HMJr: June 30th.

B: That's right.

HMJr: Now -- then we have the old Silver Purchase Act, which directs me to buy when it's in the public interest.

B: Yeah.

HMJr: And, on the first of July, I wouldn't have to buy any silver, domestic or foreign,.....

B: Yeah.

HMJr:if the President didn't want me to.

B: Yeah.

HMJr: You see?

B: Yeah.

HMJr: I don't have to buy any silver.....

B: Yeah.

HMJr:on the first of July, at all. Does that answer that?

B: Yeah. Now -- well of course, I don't -- you don't -- you don't know what would happen, whether you would or wouldn't?

HMJr: No.

B: But, of course, we can revive -- even after it expires, we can revive this Stabilization.

HMJr: Yeah, I think.....

B: And the devaluation.

HMJr: We can, but I think it would be very difficult.

B: Well, it might be, but as between getting -- if we can't get a vote through by the 30th, it looks to me like we're

going to have to sidetrack this bill and try to pass relief.

HMJr: Have you talked to the President recently?

B: I talked to him day before yesterday, and that's his view.

HMJr: Well.....

B: Now, here's what they're trying to do. I guess you know what they're trying to do.

HMJr: I'm not sure.

B: Well, Key wants you to raise the silver up to 77.....

HMJr: Yeah.

B:cents. He says this amendment here is providing for \$1.27.....

HMJr: Yeah.

B:which he claims is the monetary value of silver.

HMJr: Yeah.

B: That the Government ought not to make this profit that it's making out of buying silver at 64 cents and putting it out at \$1.27.....

HMJr: Yeah.

B:in the form of money.

HMJr: Of course, we put it out at \$1.29. I don't know whether....

B: Well, 29 -- whatever it is.

HMJr: Yeah.

B: What's a penny!

HMJr: That's right.

B: Between friends.

HMJr: Right!

- B: And so -- but what he really wants is 77, what it was up until December.
- HMJr: That's right.
- B: McCarran is apparently willing to take -- go ahead with the 64.64, which the President said he is willing to continue.
- HMJr: Yeah.
- B: But McCarran wants it put in the law.
- HMJr: Yeah.
- B: He doesn't know whether the President will do it or not.
- HMJr: Yeah.
- B: So -- what have you got on your mind about it?
- HMJr: Well, I -- I'm.....
- B: I don't see myself any -- I don't see any wisdom in undertaking to say in the law what the President shall pay for silver.
- HMJr: Well, let me -- let me tell you. I talked to the President about it Monday and I talked to him again yesterday.
- B: I tried to get you the other day and you were galavanting around over in New Jersey somewhere.
- HMJr: Well, I -- my oldest son graduated from Princeton.
- B: Oh, I see.
- HMJr: That comes before.....
- B: Well, I'll withdraw the word "galavanting".
- HMJr: Right!
- B: Yeah.
- HMJr: And -- incidentally, he graduated with honors.
- B: Fine!
- HMJr: Now, the President said he wanted to handle this silver thing with Key and try to make a deal with him on the neutrality.

B: Well.....

HMJr: See?

B: I don't know. Of course, I told him I didn't see how he could tie that in, because this thing has got to be decided before the Committee meets next Wednesday.....

HMJr: Yeah.

B:on that other.

HMJr: You mean on the neutrality?

B: Yeah.

HMJr: Oh, it does?

B: They postponed anything -- any action until next Wednesday.

HMJr: Well, now I don't.....

B: I don't know whether they'll even take it up then or not unless the House has acted.

HMJr: I'm not quite sure what you're asking me. If I was sure I'd -- I'd try to give you an answer.

B: Yeah.

HMJr: It's just -- what would you like me to say "Yes" or "No" on?

B: Well, I want to know what -- what you and the President are willing to do in regard to this silver price so as to see whether these people can be satisfied. They are threatening to prevent passage -- or anything -- if they can, I don't think they can; I think if it comes to the point where we've got to move to substitute the relief bill for this bill that the majority of the Senate will vote to do it.

HMJr: Yeah. How -- you have to go on the floor at twelve?

B: No, we're -- we met today at eleven. We're in session now.

HMJr: Well, I tell you what I'm going to do. I'm going to call up the White House and ask if I can -- go over there now, would the President see me and whether he'd call you up while I'm over there..... How's that?

B: Yeah.

HMJr: How would that be?

B: That's all right. I -- all I want to do -- you see he's leaving here today and won't be back until Wednesday.

HMJr: I'll ask him and I think he will.

B: And this thing's brewing here now and we've got these two things -- with a stop watch on them.

HMJr: Well, let me walk across the street and see if I can't get him to call you up right away.

B: Yeah. He told me he was willing to go ahead with the price like it is, but Key wants it 77, although it was introduced -- an amendment for \$1.29, or 27.

HMJr: Well, he hasn't.....

B: McCarran told me yesterday that if he -- if he was given any official assurance that he could rely on it would help and he says he'd try to put it in the law itself that it shouldn't be left at 64.64.

HMJr: Uh-huh.

B: And I told him I didn't see how he could insist on putting it any lower. I don't know what kind of assurance, whether he wants a letter or a statement or an announcement, that there'll be no reduction in the price. Now, those are the things that they are talking about over here. So he.....

HMJr: Well --

B: So he'll -- he'll talk to him about all those.

HMJr: I'm -- I'm going to -- the minute you hang up -- can he get you if he calls you?

B: Yeah, I'll be on the floor.

HMJr: I'll walk across. I'm sure he'll see me. I appreciate the opportunity of talking to you and I'll walk across the street and see if I can't get the President to call you.

B: All right.

HMJr: I see what you want.

B: But I -- I tell you this. I tell you, General Watson is going to try to get him to call me about another matter.

HMJr: Well, he can do both.

B: And so -- he can do both of them by phone.

HMJr: But the thing that bothers me is that I'm afraid that if we don't get this bill through that the business is going to get ahead of itself.

B: Well -- I'm anxious to get it through too and we've tried here two or three times to get an agreement before.

HMJr: Yes.

B: You see, Adams has offered an amendment to strike out the devaluation.....

HMJr: Yeah.

B:section.

HMJr: But if they put 64 and a half cents into the bill, McCarran would go along?

B: Well, he said so yesterday.

HMJr: Uh-huh.

B: That is, a minimum of that.

HMJr: I get you.

B: Yeah.

HMJr: Well, then let's -- give me a couple of minutes.

B: Yeah, all right. I've got plenty of time because we're going to talk all afternoon.

HMJr: Well, thank you.

B: Yeah.

HMJr: Thank you.

B: All right.

June 23, 1939
3:12 p.m.

HMJr: Hello.

Operator: Mr. Gibbons. Go ahead.

Stephen
Gibbons: Hello.

HMJr: Yes, Steve?

G: I wanted to check with you on something. You know this fellow Tripp has been trying to get Johnny Hanes, and Gaston, and McReynolds and myself to fly across the ocean.

HMJr: Yeah. I didn't know it, no.

G: Huh?

HMJr: I did not -- I didn't know anything about it.

G: And Waesche like a -- if you'll pardon the expression -- a damn fool, without consulting me or you or anybody else has accepted. Now I told him this morning I was going to disapprove. I asked him if he'd asked his wife. He said, "No." Well, I don't want to appear adamant on the thing and -- but he's got this reorganization on his shoulders that he's carrying the ball on, and we've got this appropriation for three new cutters and fifteen planes and I just felt that I wouldn't do a thing like that without consulting you. And I felt that it was a little bit -- I suppose they took him at a weak moment and he thought it would be a thrill or something, but at the same time I don't want to appear adamant and small in the matter. Now the President is letting Steve Early go. What is.....

HMJr: He's letting -- and he also -- Walton Moore is going.

G: Yes. Well, Walton, of course, is an old man and a bachelor, but I wouldn't go without consulting my wife.....

HMJr: No.

G:... ..or -- you know. But that isn't your affair or mine. However, I'm merely asking you as.....

HMJr: Well, I have no objection to his going.

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G: Well, I'll -- I'm going to tell him then to -- let him go. If he wants to go, all right -- but.....

HMJr: I have no objection.

G: I thought that he would consult either you or me, yes or no.

HMJr: Well, I -- I -- no one's.....

G: No -- no one said anything to you, no.

HMJr: No, you -- he didn't ask me. I.....

G: No. No, he called -- he called -- he had his office call Mac and Mac said, "I don't care what he does." In other words, personally, he didn't care but he didn't say anything.....

HMJr: That's up to you. I have no objection.

G: Well, I just -- you don't think -- I thought afterwards it might look as though I were rather small and that I was selfish and I was holding back for selfish reasons, but.....

HMJr: No, if he wants to go it's all right.

G: O. K. Well then, I think I'll approve it.

HMJr: Thank you.

G: O. K. Good bye.

June 23, 1939
3:15 p.m.

HMJr: Hello.

Operator: Gordon Rentschler.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Gordon
Rentschler: Hello, Henry.

HMJr: Yeah.

R: Gordon speaking.

HMJr: Righto!

R: I didn't get this information as quickly as I thought I would.

HMJr: That's all right.

R: But I want to give you just some high spots on it.....

HMJr: Yeah.

R:in our own branch business of Japan.

HMJr: Yeah.

R: We're down some four -- take on ex -- export bills.....

HMJr: Yeah.

R:from Japan, we're down from last year this time four million two to one million eight. That's stuff coming this way.

HMJr: Yeah.

R: Stuff going into Japan, five hundred and forty thousand dollars.

HMJr: Yeah.

R: Imports-unused credits are six hundred thousand. They are -- they are unused because they can't cover with exchange.

HMJr: Yeah.

R: We insist on having the dollars transferred to us at New York before they can use the credit.

HMJr: Yeah.

R: Now then, the total import finance is down to sixty thousand dollars.

HMJr: Yes.

R: And then in the -- in the local cash situation, we're down three million four dollars' worth again, and our total risk in Japan at the present time is down to five hundred and eighty-five thousand dollars.

HMJr: I see.

R: Now, I just thought I'd give you those figures because that would give you some -- a -- a picture of it.

HMJr: Yeah.

R: Now, with respect to export bills, this million eight, they are bills drawn on the United States, Great Britain, and South America, and represent about sixty per cent of the -- of credit to other first-class banks; they come in to us through banks, you see?

HMJr: Yeah.

R: Now the imports covering cotton from the United States and Peru, and silver -- there's some silver and other metals from Canada, they are ninety-day bills in every instance in which exchange is settled, that is dollars admitted from Japan in payment before funds are disbursed here.

HMJr: Yeah.

R: And that's the total item of all of those put together -- are down to five hundred and forty thousand dollars.

HMJr: I see.

R: Now, we know of no cotton that's going from -- through any bank that we could touch up here.

HMJr: Yeah.

R:from Brazil to Japan.

HMJr: I see.

R: There is a line of five hundred thousand dollars outstanding for cotton from Brazil to Shanghai that has not been used and we understand will probably not be used.

HMJr: I see.

R: Then, with respect to the other banks, I can't report in detail on them but I've chatted informally.....

HMJr: Yeah.

R:without telling them what I wanted.

HMJr: Yeah.

R: Just to check our own position.

HMJr: Yeah.

R: The only thing that I can find is the Chase Bank has some credit which they give for the purpose of the im -- importation of gold from Japan to the United States.

HMJr: Well.....

R: And everything else they have over there, they tell me, is on a covered basis, and I have reason to believe that's correct.

HMJr: I see.

R: Now, there's still some pulp shipments going over.

HMJr: Yeah.

R: But that's been practically held up. It's down -- it looks like in the last six months that probably there's just a third as much as has gone before.

HMJr: I see.

R: And of that there's-about forty per cent is going to Scandinavia.

HMJr: Yeah.

R: And about twenty-five per cent from the Pacific coast....

HMJr: Yeah.

R:and -- or from Canada.

HMJr: Yeah.

R: And the balance from the Pacific coast.

HMJr: I see.

R: So that our American exports on pulp are very markedly curtailed and as far as we can find out no American financing for it.

HMJr: I see.

R: Now, these accounted -- you'll find here with us a certain amount of bills outstanding from Mitsui and Company.

HMJr: Yeah.

R: And in checking back in them I find that they are for the purpose of bringing rubber and tin from Singapore....

HMJr: Uh-huh.

R:to the United States and in one or two instances to London.

HMJr: I see.

R: Apparently they are competing in there with the British.

HMJr: Oh, yes.

R: So it looks very much, Henry, as though the whole thing has died down quite completely in that trade between Japan and the United States, -- the figures when the year is up must show a very heavy shrinkage.

HMJr: Right.

R: Now then, one final thing, and that is on their loans in New York, not only to us but other banks.....

HMJr: Yeah.

R:we can't find any loans that they've got in the other banks.

HMJr: I see.

R: They've got credit balances with us now, about two and a half million dollars as against loans last year of about six million, and the only unpaid loan we have is a ten-day loan of two hundred thousand dollars.

HMJr: I see.

R: And that's secured by United States Governments.

HMJr: That ought to be good.

R: Now it -- it's ^{not} rather interesting that apparently they are not only doing business but again they're keeping out of this market to ask for accommodations.

HMJr: I see.

R: When they find that we're rather not interested in giving them accommodations, they don't want to be turned down.

HMJr: I see.

R: Now that's about the picture.

HMJr: O. K.

R: What else do you know, young fellow?

HMJr: Nothing I can talk about.

R: All right. Well, that's -- what you can't talk about won't do me any good.

HMJr: All right.

R: I hope you win on your silver though..

HMJr: Yeah. Key Pittman gets.....

R: YOU've got to watch that pretty carefully because you might find a lot of silver coming out of -- out of China, which, after all, is the Japanese silver.

HMJr: Well, they're having a good.....

R: I can tell you.

HMJr:a good time on the Hill calling me names, but.....

R: That's all right, but you can afford to be called names.

HMJr: That's right.

R: It's -- it's damned expensive not to be called names if that's what they're going to do with the money.

HMJr: That's right.

R: All right, Henry.

HMJr: Thank you.

R: I'll be away for a couple of weeks but Randolph will be here if there's anything that turns up that you want.

HMJr: All right.

R: All right, fellow.

HMJr: Good bye.

R: Good bye and good luck.

HMJr: Thank you.

(This is 6-23-39)

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as to Russian debts - I
have no objection to your
views -

I should say that Mr
ambassador Stanhart will
not, of course, replicate in any sense,
he will ~~not~~ urge them
to take matter up here -

(6-23-39 at Cabinet, Sec'y
Hull gave the above to 'Hop'.)

June 23, 1939

My dear Mr. Secretary:

Before talking with the representative of the U. S. S. R., I would appreciate if you would make available to Mr. Bell and Mr. Cotton the complete file on this Administration's negotiations with the Russian Government on both the Governmental and private debt in order that I may bring myself up to date.

I am asking Mr. Cotton to bring this letter over by hand and would appreciate your putting him in touch with the proper person in the State Department.

Yours sincerely,

The Honorable

The Secretary of State.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

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MEMORANDUM

June 23, 1939

To: Mrs. Klotz
From: Chief Wilson

For your information there is attached schedule of the President's trip to Hyde Park, June 23 and June 24, 1939.

Trip of the President
to Hyde Park, New York.

Friday, June 23, 1939.

Lv. Washington..(Baltimore & Ohio RR.)....11:25 p.m.E.S.T.

Saturday, June 24, 1939.

Ar. Highland, N.Y.(West Shore N.Y.C.RR.)...8:00 a.m.E.S.T.
(9:00 a.m.D.S.T.)

Members of the party;

T h e P r e s i d e n t .

Miss M. A. LeHand.
Mr. William D. Hassett.
Miss Grace Tully.
Mr. Henry M. Kannee.
Miss Roberta Barrows.
Mrs. Mary A. Eben.
Miss Louise Hachmeister.
Mr. Dewey E. Long.
Mr. Leo A. de Waard.

Secret Service Agents.

Newspaper men:

Mr. George E. Durno,	International News.
Mr. Douglas B. Cornell,	Associated Press.
Mr. Sandor S. Klein,	United Press.
Mr. Walter Trohan,	Chicago Tribune.
Mr. Felix Belair,	New York Times.
Mr. John O'Donnell,	New York Daily News.
Mr. R. L. Harkness,	Philadelphia Inquirer.
Mr. Bruce Pinter,	New York Herald Tribune.

Picture men:

Mr. George Skadding,	Associated Press Photos.
Mr. F. I. Thompson,	International News Photos.
Mr. John Tondra,	Fox Movietone News.
Mr. Urban Santone,	Paramount News.

Telegraph representatives:

Mr. C. S. Linkins,	Western Union Tel. Co.
Mr. T. B. Bowen,	Postal Telegraph Co.

Mr. D. I. Moorman, G.P.A.,
Baltimore & Ohio Railroad,
In charge of Transportation.

CONFIDENTIAL

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Baltimore & Ohio Railroad,
In charge of Transportation.

Regraded Unclassified

June 23, 1939

They overlooked inviting John Carmody to the 5 o'clock meeting at the White House tonight and I telephoned Kannee and asked him to suggest it to the President.

RE STABILIZATION FUND BILL

June 23, 1939.
9:10 A. M.

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

H.M.Jr: Now, what have you got for the President?

White: This is the memorandum. There are a couple of changes. It's being retyped, will be ready in a minute. But that's the gist of it.

H.M.Jr: "Memorandum to the President:

"The failure to continue the stabilization fund and the powers to alter the gold content of the dollar might have serious consequences for the following reasons:"

"....might have serious consequences"?

Well, I'll read what you've got first.

"1. I do not think I am exaggerating the possibilities when I say that if at this time we go back to the pre-1933 gold policy we may be spelling the doom of free exchange in the rest of the world. The apparent return to the fixed gold value would greatly increase the speculative security and attractiveness of the dollar to the foreigner and would stimulate continued flights of capital and gold to this country. The resultant persistent pressure on the monetary systems of foreign countries - which would become especially large during periods of acute political disturbance - would force countries either to depreciate their currency or adopt exchange controls in an effort to safeguard their gold stocks."

By the way, when do you go on the Hill?

Hanes: Not until next Wednesday.

H.M.Jr: Oh, then you have time this morning.

Hanes: Yes.

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H.M.Jr: You don't have to go any more.

Hanes: Going to vote on the bill now at 10:00 o'clock -
Senate amendment.

Lochhead: At 10:00?

H.M.Jr: Marvelous.

"2. Even if the pressure on foreign currencies were not sufficient to force certain foreign countries to depreciate, some foreign countries may wish to take advantage of our weakened bargaining position and permit their currencies to decline at the first opportunity. The most important bargaining weapon we have to prevent this contingency is the existence of the executive power to devalue the dollar. You may remember our negotiations with England last Fall in which we induced her to check the decline of the pound. In these negotiations our strongest weapon was the Presidential power to reduce the gold content of the dollar.

"3. Should an important foreign currency decline, either because the country wished to strengthen its trade position or because it was forced to do so in order to protect its remaining gold holdings, the effect would be serious to both our foreign and domestic trade. It would expose our domestic market to intensified foreign competition and would make it more difficult for our exporters to maintain our share of the world market.

"Our entire commercial policy is based on the premise and the expectation that the dominant type of world trade is conducted by free exchange. If a major group of countries drops free exchange we will be forced to completely alter our commercial policy and practices.

"4. The dollar will become a perfect exchange speculator's risk. The speculator can gain but cannot lose. The flow of gold to the United States may be only a trickle at first but sooner or later it would reach substantial magnitudes. In addition to the effect such a flow would have on weakening foreign monetary systems, it would give rise to widespread

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serious questions as to the wisdom of New Deal monetary policy and to the desirability and absurdity of piling up such enormous hoards of gold.

"5. The Tripartite Accord would cease to have any protective value and would in time become a dead letter. The basis of the Tripartite Accord lies in the possession of each country of reciprocal powers of monetary action. Any one familiar with international monetary situations will realize that there is not the slightest chance that other countries will follow our example of tying their currencies at this time to a rigid gold standard or to the dollar.

"In evaluating the harmful effects which may result from a lapse of the monetary powers it is important to bear in mind that the more significant aspects of these powers are the public's evaluation of the role which such powers play and not the technical day to day financial operations.

"Should these monetary powers lapse for a few days or a few weeks there may or may not be serious repercussions during that period. What will happen cannot be foreseen with certainty. Much depends upon the public's expectation as to the likelihood of the revival of those powers. It is entirely possible that the international exchange may remain stable for a considerable period after the lapse of some powers but sooner or later, particularly should a political crisis develop abroad, the effects will be felt. The danger of permitting the powers to lapse even for a short period is that should a quiet period ensue some people might interpret that as indicating a lack of need for these monetary powers and the opposition to the granting of these powers will thereby become strengthened."

This isn't what I want at all.

"It is true that should the present powers lapse the Treasury could execute most of the technical operations through other powers it possesses or through the Federal Reserve Bank. But if this were to be the procedure, then the power that the

- 4 -

government has acquired during the last six years in controlling the country's monetary affairs would revert to Wall Street via the Federal Reserve Bank of N. Y."

This is entirely - I don't know what's the matter with it. Don't tell me who wrote it. I don't have to hurt anybody's feelings. It isn't what I want.

White: Oh no. I wrote most of it - Bernie and I. Perfectly....

H.M.Jr: I mean the President can't use this. I mean he can't wade through it any more than I can. I thought we were going to give him a memorandum and a letter based upon the memorandum.

White: They said you didn't want the letter.

H.M.Jr: I said I did want it.

Foley: We have a letter. We decided last night, as a result of the passage of the tax bill and the assurance that we got from Biffle that they'd get it out either today or tomorrow, perhaps a letter wasn't necessary at this stage.

H.M.Jr: No, the President - supposing he - this is - I wouldn't see him again, and he wants this for Monday in case he should want to send a letter. Have you got a letter?

Foley: Yes. It hasn't been worked over.

Lochhead: Mr. Morgenthau, the point is, when we worked on this thing - is this. When you say, "If this expires tomorrow - I mean on the 30th - how are we blocked, what can't we do?" Unfortunately, we can do, or the Federal Reserve Bank can do, most of the little technical things, it can carry through. And I'll tell you rather an odd reaction I got yesterday when I was checking with Knoke. I said to him, "I want you to check up on the Tripartite as an agent, and if we haven't got the powers on the 30th what serious repercussions will it have?" Well, he came back and they checked up and they figured they could do most of the things that were necessary.

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Then he said, "I was speaking to George Harrison on this and," he said, "you know, if this thing doesn't go through on the 30th, we're back to a gold standard." And just the expression - I gathered that it would be very nice, that it would be just the very best thing that could happen, if the silver boys here did just exactly what they wanted to do. And so I'm afraid that it's not the Senate people that are not in the silver bloc that you can use pressure on. I think Thomas is doing exactly what they would like to do and haven't been successful in doing. In other words, Thomas is playing right into their hands by blocking it and I think that they are very complacent about it.

White: Let me say a word about this. It is easy to make - we may have - this is about the tenth draft - it is very easy to make a spectacular, effective statement. But that statement (a) would not be true; (b) would be vulnerable in case somebody else tells the President what might be done; and (c) there is this danger which troubled us: supposing that the powers do lapse; if you tell the President that certain things are likely to happen or will happen, and don't put in your qualifications, then it seems to me it looks pretty bad when those things don't happen, as they almost certainly will not happen. Therefore, I think the thing has to be couched bearing in mind (a) that we possess the effective powers under Section 8; (b) that the Federal Reserve Bank can do almost everything that we can do, and that we can do the rest of it; and (c) that nothing serious will happen if the thing does fall through, except in the larger political realm, which cannot be forecast.

H.M.Jr: Did you see what I said at my press conference?

White: No.

H.M.Jr: Why didn't you give them, Herbert, what I said at my press conference, so they'd know?

This is what I said: "The situation is a serious one. We like to think in the Treasury that we are ready for any emergency."

Viner: That's the attitude I think you should take.

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H.M.Jr: Harry?

White: Yes.

H.M.Jr: I say: "The situation is a serious one. We like to think in the Treasury that we are ready for any emergency." Now, that's the note that I struck.

I don't know. It looks as though you fellows haven't been together. I certainly made it most emphatic that I wanted a finished thing.

White: No, we worked together - Ed, Bernie and I.

Lochhead: There's a couple other aspects....

H.M.Jr: Who's done this (attached letter)? Whose work is this?

Foley: Bernie's.

H.M.Jr: By yourself?

Bernie: No, I worked it over with Harry, but Harry didn't see this last draft.

H.M.Jr: Well, let me read this, see if this approaches what I want. And you people have got to realize that it's difficult - I mean for me - my brain is tired; I've got the full responsibility here and I just - I mean I'm disappointed. Maybe this is what I want. Let's just see.

"In my letter of January 19, 1939, I wrote to you of the need for extending the powers relative to the stabilization fund and the fixing of the metallic content of the dollar. Since that time the House of Representatives has passed a bill (H.R. 3325) extending these powers until June 30, 1941. That bill has been reported out by the Senate Committee on Banking and Currency and is now before the Senate for consideration.

"As you know, under the existing Silver Proclamation, which expires on June 30, 1939, the Government is paying 64.64 cents an ounce for newly-mined domestic silver. I am advised that a small group of Senators have blocked, and threaten to continue to block, any vote being taken on H.R. 3325 and on the proposed

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amendments to such bill until I shall have made a commitment that the Government will pay an even higher price for domestic silver mined after June 30. I have given the matter careful consideration and it is my considered judgment that in the present situation I would not be warranted in proclaiming a higher price for domestic silver, and I cannot permit the threatened block to the passage of this much needed legislation to compel me to proclaim such higher price for domestic silver."

"....the threatened block"?

Viner:

"....the threat to block."

Foley:

I think that's an unfortunate usage of the word.

H.M.Jr:

Just make a note there. I'm thinking the block is the people that are opposing him. It isn't quite clear.

"....the threat to block the passage of this much needed legislation to compel me to proclaim such higher price for domestic silver. Of course, the matter would be different if Congress by legislation fixed the price to be returned for domestic silver. Congress has the opportunity to express its views as to whether a price higher than the prevailing price should be returned for domestic silver by voting on the amendments which have been offered by Senators McCarran, Thomas and Pittman.

"However, I feel it to be appropriate to point out the serious consequences that will flow from a failure to extend these monetary powers on or before June 30, 1939.

"The need for the continuation of the stabilization fund has been universally recognized by the Congress and the public. The expiration of the stabilization fund powers on June 30 will deal a serious blow to international monetary stability and to the protection and advancement of American business interests. Only one group will profit by the termination of these powers, namely, the international currency speculators."

This is what I wanted. This is a good letter. Did you help on this, Harry?

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White: Yes.

H.M.Jr: This is what I want.

"The powerful weapon which this country, in conjunction with other leading democratic commercial countries, has been developing for more than five years to help maintain some measure of stability in international exchange and to help minimize the predatory tactics of foreign exchange speculators will be gone over night. The resulting increased currency fluctuations and monetary uncertainty will greatly hamper international and American trade and commerce."

This is a good letter.

Hanes: Yes.

H.M.Jr: "In September 1936, amidst universal acclaim in democratic countries, this country joined with Great Britain and France in the Tripartite Declaration. Soon thereafter Belgium, Holland and Switzerland joined this Accord. No one can question the great contribution which this Accord has made to attain some measure of stability and equilibrium in the international economic and monetary fields. If this country had not had the powers which are now being permitted to expire, it would have never been able to participate in this Tripartite Accord. This country, economically and financially, is the most powerful member of the Tripartite Accord. If these monetary powers are now permitted to expire, this Tripartite Accord must inevitably cease to play the beneficial role which it has up to now performed, and at the very time when, because of the condition of international affairs, there may be an even greater need for an arrangement between the great commercial countries along the lines of the existing Tripartite Accord."

I think it is slightly repetitious. But this is what I wanted, and I've got it.

"I realize that there is some difference of opinion in the Congress as to the merits of continuing the existing power to change the gold content of the dollar. I am of the view that this power is essential to the proper protection of American domestic and

- 9 -

foreign trade against the depreciation, or the threatened depreciation, of the currencies of important foreign commercial countries. The views of this Administration on this matter have been fully presented to the Senate through the testimony of the Secretary of the Treasury and are also reflected in the address by Senator Wagner to the Senate on June 19. There also appears to be a difference of opinion as to the desirability of continuing the existing program relative to newly-mined domestic silver and as to the price to be returned therefor.

"I consider it to be of great importance that Congress express its views on these matters on or before June 30, and it seems too clear for argument that the measures now being undertaken to prevent the Senate from voting on the monetary bill and amendments now before it are not in the interest of the orderly process of democratic government.

"For the foregoing reasons I urge that the Senate take decisive action with respect to the monetary measure now pending before it."

Now, that's a swell letter. I'm delighted. I was....

White: Bernie wrote most of it. We helped him with the original draft.

H.M.Jr: Well, I don't....

White: Yes.

H.M.Jr: I just was bothered, because this thing is a good economic....

White: Performs a very different function.

H.M.Jr: Now, this is terribly important. Let's just stop a minute. With the exception of maybe a few phrases, I personally would cheerfully recommend that the President sign this. How about you (Hanes)?

Hanes: It sounds good to me. I'm not expert enough to know whether everything you are saying there is beyond doubt.

H.M.Jr: But as to the approach?

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Hanes: As to the letter, the approach, I like it very much.

H.M.Jr: Have you (Viner) had a chance to work it over?

Viner: First I've heard of it.

H.M.Jr: I see.

Viner: Sounds good to me. I'd like to read it carefully, but it sounds good to me.

H.M.Jr: What I'd like to do is this. Have you (White) had a chance to look at this carefully?

White: Not the final draft.

H.M.Jr: Would you do this for me, gentlemen, those who are working on it. Could you come back at 11:00 o'clock? It gives you an hour and a half. What? And weigh every word of this.

There is only one question, and the President can decide that. Does he want to sort of dare them to go ahead and vote on this silver price? I kind of like it. I like it. I think it's a damn good letter. Does anybody not like it?

Lochhead: Mr. Morgenthau....

Gaston: The only question in my mind is the desirability of....

Foley: If it's necessary.

Gaston: The only question in my mind is the desirability of sending any letter at all, because the leaders up there seem to be handling things pretty well, at least from the report that Biffle gave to Ed. Certainly I wouldn't send a letter out before Tuesday, if any is sent. I think it is good to have on his desk, and it would fit the situation even if we waited until Tuesday.

H.M.Jr: He asked for it Monday - whether it's Monday or Tuesday that he's leaving - I want to give it to him at 2:00 o'clock. He can put it in his pocket.

Hanes: I don't think you need a memorandum if that letter goes.

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- H.M.Jr: No. This bothered me. But this is all right. Now, Harry, to give you time before - do you want to argue for this?
- White: No, no, this served a different function. My understanding - we first worked on this letter and we got a first draft done, and then one of the boys joined them - I had to go out - called me in. They finished that draft. Then in the evening, when we were going to re-work on the accompanying memorandum, I heard that the letter was no longer necessary. So we dropped the letter and began working on the memorandum, which I understood fulfilled a different function. The memorandum was to inform the President of exactly what would happen in the event these powers lapsed. I didn't know it was - I thought you wanted to give him just what would happen.
- H.M.Jr: Somebody gave you the wrong information.
- White: I got that impression about the memorandum from being here. I thought you wanted to inform the President exactly what would happen.
- H.M.Jr: What I thought - I said - was, "Let's have a memorandum, but let's give him a letter and then the memorandum would be details supporting the letter."
- White: Yes, that's as I understood it. Then the letter dropped out, and I thought the memorandum was to be from you to the President, so....
- H.M.Jr: Well, it's a happy ending. It's a happy ending. And could you fellows come back at 11:00? I mean this is....
- White: For example, one of the most important reasons why we should object to the lapsing of the powers isn't in the letter and isn't something you could put in the letter.
- Foley: Nothing in there about relief. I don't think there should be.
- White: "It is true that should the present powers lapse the Treasury could execute most of the technical operations through other powers it possesses or through the Federal Reserve Bank. But if this

- 12 -

were to be the procedure, then the power that the Government has acquired during the last six years in controlling the country's monetary affairs would revert to Wall Street via the Federal Reserve Bank of N. Y."

H.M.Jr: Now, on that, not in the letter but by word of mouth, I'd like to get that in - in the memorandum to the President - that thought in a memorandum from me. And plus - and this - I'll pull a "Roosevelt" on you. It's been going through my mind that there was an element that would just as lief not see this thing pass and, in the room here, I wasn't thinking of the Fed of New York, I was thinking of the Federal Reserve Board.

White: Oh, I think both - for different reasons.

H.M.Jr: For different reasons. And therefore, there is always this undercurrent, and this thing that, if Harrison is right, we'll go back to a fixed dollar. Now, I think in this memorandum to the President - we might mark it highly confidential for him to see - put it in the form of gossip. I'd say, "It is gossip that the Federal Reserve of New York feel that if this thing fails to pass it will give them a great return of power; furthermore, that they seem to be under the impression that gold will go back once more to a fixed standard, and with all the implications, which I needn't enlarge on to you, Mr. President." I mean what it means - all the implications.

"And also it is my - my intuition tells me that I think it would not be entirely displeasing to the Federal Reserve Board to see this power lapse and have the whole thing thrown out, with the possibility that in the rescrambling they would gain considerable additional power, monetary power." See?

White: I'm a little more skeptical about the last part of the statement.

H.M.Jr: You heard how I put it. I said "intuition."
But that's for me to write - now, that kind of a thing.

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White: But the fight is between the New York Bank and you, and not - I mean on this matter.

H.M.Jr: All right. But this thing oughtn't to be very difficult to polish up. Jake, will you sit in with the rest? And then we won't do anything on relief, see? I think we'll let Harrison handle that.

Foley: Well, they don't expect to get the bill through on the 30th. They're going to ask for a continuation.

H.M.Jr: They don't?

Foley: No. So you're not going to get much help from that.

H.M.Jr: Well, that's all right. No, that....

Foley: They're going to extend the availability of the existing funds beyond the 30th of June.

H.M.Jr: That's in our favor, because the less things that Pat McCarran has to use to hold a pistol to the President's head, the weaker he is. That's the way I argue.

Foley: Oh yes, that's all right on strategy.

H.M.Jr: Now, he hasn't got the tax bill, and if he hasn't got the relief bill, then the only thing he's got is the price of silver, and he can't hold this thing up. Do you (Hanes) agree with me on that?

Hanes: (Nods yes).

Foley: I think they'll get rid of it today or tomorrow.

H.M.Jr: Fine, again, but I'm here today and I want to get this thing out of the way. When I walk over at 2:00 o'clock I want to hand this to the President. Then everybody can have a quiet Saturday and Sunday.

Gaston: I feel quite....

Foley: Herbert and I think there ought not to be any letter.

Gaston: I don't believe that a letter is the right thing in this situation. It seems to me that the thing

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that's needed most now is to get word to Pat McCarran and his crowd that if they continue acting up they are endangering any preferential price for domestic silver after July 1.

H.M.Jr: Herbert, if you don't mind, I'm not going to argue with you at this stage. The President said two things to me.

"Henry, let me handle the question of silver with Key Pittman, because I want to make a deal with him on neutrality." That's number one.

Number two. He said, "Please have a letter for me that I could send to the Vice President on Monday if I wanted to." So there's nothing to argue about. Right?

Gaston: No.

H.M.Jr: Now, on this sort of a fight, where the thing flows to him from all directions - just like I left him at 1:30 and at 2:30 Monday he three-quarters or half way promised Harold Ickes another Public Works Program of 500 million dollars; he told me he wanted to write the letter to Senator Mead, and at 4:00 o'clock the Public Works Program was out, and the letter went to Jimmy Byrnes. I mean the things move like chain lightning, and he's the center of the wheel, that's all. But I want to give him the tool in case he wants it, so that he can use it, that's all. On this thing his judgment is so much better than mine; all I want to do is give him the tool.

Gaston: Well, for that reason I felt we ought to give him a good memorandum and no letter. I was afraid that if he got the letter he would sign it, and it would be a mistake.

H.M.Jr: I like this letter. And if Harry could change the memorandum down to the....

White: Well, it would be very brief, just one paragraph stressing that point.

H.M.Jr: And I think, on second thought, no reference to the Federal Reserve of Washington.

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White: Yes, because that's the big issue, the one which is worthy of a fight.

H.M.Jr: Which?

White: Between New York and you, because that's between the Government and the central bank.

H.M.Jr: Now, will I see you gentlemen at 11:00?



*Read 1914
making 1914 1915*

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THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM TO THE PRESIDENT:

The failure to continue the Stabilization Fund and the powers to alter the gold content of the dollar might have serious consequences:

1. I do not think I am exaggerating the possibilities when I say that if at this time we go back to the pre-1933 gold policy we may be spelling the doom of free exchange in the rest of the world. The apparent return to the fixed gold value would greatly increase the speculative security and attractiveness of the dollar to the foreigner and would stimulate continued flights of capital and gold to this country. The resultant persistent pressure on the monetary systems of foreign countries -- which would become especially large during periods of acute political disturbance -- would force countries either to depreciate their currency or adopt exchange controls in an effort to safeguard their gold stocks.

2. Even if the pressure on foreign currencies were not sufficient to force certain foreign countries to depreciate, some foreign countries may wish to take advantage of our weakened bargaining position and permit their currencies to decline at the first opportunity. The most important bargaining weapon we have to prevent this contingency is the existence of the executive power to devalue the dollar. You may remember our negotiations with England last Fall in which we induced her to check the decline of the pound. In these negotiations our strongest weapon was the Presidential power to reduce the gold content of the dollar.

3. Should an important foreign currency decline, either because the country wished to strengthen its trade position or because it was forced to do so in order to protect its remaining gold holdings, the effect would be serious to both our foreign and domestic trade. It would expose our domestic market to intensified foreign competition and would make it more difficult for our exporters to maintain our share of the world market.

Our entire commercial policy is based on the premise and the expectation that the dominant type of world trade is conducted by free exchange. If a major group of countries drops free exchange we will be forced to completely alter our commercial policy and practices.

4. The dollar will become a perfect exchange speculator's risk. The speculator can gain but cannot lose. The flow of gold to the United States may be only a trickle at first but sooner or later it would reach substantial magnitudes. In addition to the effect such a flow would have on weakening foreign monetary systems, it would give rise to widespread serious questions as to the wisdom of New Deal monetary policy and to the desirability and absurdity of piling up such enormous hoards of gold.

5. The Tripartite Accord would cease to have any protective value and would in time become a dead letter. The basis of the Tripartite Accord lies in the possession of each country of reciprocal powers of monetary action. Any one familiar with international monetary situations will realize that there is not the slightest chance that other countries will follow our example of tying their currencies at this time to a rigid gold standard or to the dollar.

In evaluating the harmful effects which may result from a lapse of the monetary powers it is important to bear in mind that the more significant aspects of these powers are the public's evaluation of the role which such powers play and not the technical day to day financial operations.

Should these monetary powers lapse for a few days or a few weeks there may or may not be serious repercussions during that period. What will happen cannot be foreseen with certainty. Much depends upon the public's expectation as to the likelihood of the revival of those powers. It is entirely possible that the international exchange may remain stable for a considerable period after the lapse of some powers but sooner or later, particularly should a political crisis develop abroad, the effects will be felt. The danger of permitting the powers to lapse even for a short period is that should a quiet period ensue some people might interpret that as indicating a lack of need for these monetary powers and the opposition to the granting of these powers will thereby become strengthened.

It is true that should the present powers lapse the Treasury could execute most of the technical operations through other powers it possesses or through the Federal Reserve Bank. But if this were to be the procedure, then the power that the government has acquired during the last six years in controlling the country's monetary affairs would revert to Wall Street via the Federal Reserve Bank of N. Y.

The Relief Bill

It should also be noted that any Senate filibuster beyond June 30 will prevent consideration of the Emergency Relief Bill. The funds appropriated under the Emergency Relief Appropriation Act of 1938 will not be available for further obligation after June 30, 1939. If no action is taken by Congress prior to that time on the pending Relief bill, it means that WPA and all of its related activities (including Treasury Accounts, Disbursing and Procurement activities) will cease to exist at the end of this fiscal year. This will throw off the roles which are paid from the funds appropriated under this Act approximately 2,600,000 people.

*Read at 2:10
making, June 23.*

THE WHITE HOUSE
WASHINGTON

Dear Mr. Vice President:

In my letter of January 19, 1939, I wrote to you of the need for extending the powers relative to the stabilization fund and the fixing of the metallic content of the dollar. Since that time the House of Representatives has passed a bill (H.R. 3325) extending these powers until June 30, 1941. That bill has been reported out by the Senate Committee on Banking and Currency and is now before the Senate for consideration.

As you know, under the existing Silver Proclamation, which expires on June 30, 1939, the Government is paying 64.64¢ cents an ounce for newly-mined domestic silver. I am advised that a small group of Senators have blocked, and threaten to continue to block, any vote being taken on H. R. 3325 and on the proposed amendments to such bill until I shall have made a commitment that the Government will pay an even higher price for domestic silver mined after June 30. I have given the matter careful consideration and it is my considered judgment that in the present situation I would not be warranted in proclaiming a higher price for domestic silver, and I cannot permit the threatened block to the passage of this much needed legislation to compel me to proclaim such higher price for domestic silver. Of course, the matter would be different if Congress by legislation fixed the price to be returned for domestic silver. Congress has the opportunity to express its views as to whether a price higher than the prevailing price should

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be returned for domestic silver by voting on the amendments which have been offered by Senators McCarran, Thomas and Pittman.

However, I feel it to be appropriate to point out the serious consequences that will flow from a failure to extend these monetary powers on or before June 30, 1939.

The need for the continuation of the stabilization fund has been universally recognized by the Congress and the public. The expiration of the stabilization fund powers on June 30 will deal a serious blow to international monetary stability and to the protection and advancement of American business interests. Only one group will profit by the termination of these powers, namely, the international currency speculators. The powerful weapon which this country, in conjunction with other leading democratic commercial countries, has been developing for more than five years to help maintain some measure of stability in international exchange and to help minimize the predatory tactics of foreign exchange speculators will be gone overnight. The resulting increased currency fluctuations and monetary uncertainty will greatly hamper international and American trade and commerce.

In September 1936, amidst universal acclaim in democratic countries, this country joined with Great Britain and France in the Tripartite Declaration. Soon thereafter Belgium, Holland and Switzerland joined this Accord. No one can question the great contribution which this Accord has made to attain some measure of stability and equilibrium in the international economic and monetary fields. If this country had

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not had the powers which are now being permitted to expire, it would have never been able to participate in this Tripartite Accord. This country, economically and financially, is the most powerful member of the Tripartite Accord. If these monetary powers are now permitted to expire, this Tripartite Accord must inevitably cease to play the beneficial role which it has up to now performed, and at the very time when, because of the condition of international affairs, there may be an even greater need for an arrangement between the great commercial countries along the lines of the existing Tripartite Accord.

I realize that there is some difference of opinion in the Congress as to the merits of continuing the existing power to change the gold content of the dollar. I am of the view that this power is essential to the proper protection of American domestic and foreign trade against the depreciation, or the threatened depreciation, of the currencies of important foreign commercial countries. The views of this Administration on this matter have been fully presented to the Senate through the testimony of the Secretary of the Treasury and are also reflected in the address by Senator Wagner to the Senate on June 19. There also appears to be a difference of opinion as to the desirability of continuing the existing program relative to newly-mined domestic silver and as to the price to be returned therefor.

I consider it to be of great importance that Congress express its views on these matters on or before June 30, and it seems too clear for argument that the measures now being undertaken to prevent the Senate from voting on the monetary bill and amendments now before it are not in the interest of the orderly process of democratic government.

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For the foregoing reasons I urge that the Senate take decisive action with respect to the monetary measure now pending before it.

Very truly yours,

Honorable John N. Garner,

President of the United States Senate.

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RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

June 23, 1939

Dear Henry:

Your letter of the 9th received.

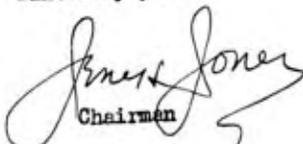
I told you several weeks ago that we were negotiating the sale of the San Francisco-Oakland Bay Bridge bonds. We have been trying to sell these bonds almost continuously for two years, but one thing after another interfered.

First it was an earthquake in California, then a bond market depressed because of uncertainties in Europe, then the threat of cancellation of insurance by London underwriters, then a refunding to provide funds for a bridge railway, then the ham and eggs movement in California, then dealing with a change of administration in California the first of this year, a public demand for a reduction in tolls and a demand for a lower interest rate on the bonds. The toll and interest rate reductions were accomplished through consummation of the sale.

Many factors were involved in dealing with this situation and it was a coincidence that the sale culminated the day it did. It was probably three weeks between the time we agreed to sell the bonds and the date the sale was concluded. We could not know how long it would take for the necessary actions, resolutions, et cetera, by the Toll Bridge Authority, bankers' counsel, our own counsel, et cetera.

We endeavor always to respect your suggestions in selling securities, and you have agreed with me right along that we should sell when the market will absorb them at satisfactory prices.

Sincerely yours,


Chairman

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