

For all of these reasons, it is our belief that
 when action has been taken to abolish
 the assumptions as to future issues of government
 securities, the Congress should ^{then} give prompt attention
 to a revision of the high interest
 rates. The two actions seem to us to be
 interdependent and it is believed that
 action in both would improve our
 tax system.

June 27, 1939

To: The Secretary

From: Mr. Hanes

This is the original from which I will read tomorrow, if it meets with your approval.

Herbert Gaston has some reservations as to whether the latter part of the statement conforms to Treasury policy. In my opinion it does but I want to be sure. Will you be good enough to call me at my house tonight after you have finished with it?

dictated over the 'phone
by JWH - 6-27-39: 6:50 P.M.
typed-JR

During your recent hearings relating to tax revision for the purpose of encouraging business enterprise, Secretary Morgenthau made the statement that "We should by all means pass legislation to make it impossible in the future to issue any more tax-exempt securities. This having been accomplished first, it would then be fair and logical to reexamine the question of whether the present surtax rates on very large incomes may not be so high that they discourage the limited number of individuals subject to them from taking normal business risks."

It is my purpose today to present the facts and outline the considerations which have led the Treasury Department to urge that the issuance of tax-exempt securities in the future be discontinued.

In addition, I wish to present and discuss some facts bearing upon the reexamination of surtax rates mentioned by the Secretary.

On January 19, 1939, as on previous occasions, the President recommended that private income from all government securities hereafter issued be made subject to the general income tax laws of the nation and of the several states. Shortly thereafter the Special Committee of the Senate on Taxation of Governmental Securities and Salaries held extensive hearings. Since the data submitted at these hearings covering information on all important phases of the subject are readily available, I propose to confine myself to the essentials. I shall, however, submit for the record a number of additional exhibits.

The proposal of President Roosevelt and Secretary Morgenthau to bring to an end the issuance of tax-exempt securities is by no means an innovation. Practically every President and every Secretary of the Treasury since the adoption of progressive income taxation has urged the elimination of tax-exempt securities. Presidents Harding, Coolidge, and Hoover, and Secretaries of the Treasury Glass, Houston, Mellon, and Mills each urged that the issuance of tax-exempt securities be discontinued.

It is important to have clearly in mind that the exemption under discussion is exemption from income taxation of interest to be received by private persons on government bonds to be issued in the future.

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It is not suggested that interest on outstanding issues be taxed. No tax on any unit of government is involved; nor is the taxation of any income received by a government being considered. Failure to keep these facts clearly in mind has sometimes resulted in misunderstanding of the problem.

Furthermore, it should be recognized that the principal aspect of the tax-exempt interest problem lies in intergovernmental exemption. The Federal Government subjects interest on most of its obligations to its personal surtax while exempting interest on all its obligations from the normal tax on individuals and corporations. State governments generally exempt interest on their own obligations, but commonly tax the interest derived from obligations of other states. (See Exhibits 1 and 2.)

Interest on state and local obligations has been fully exempt from Federal income taxation, and interest on Federal obligations has been fully exempt from state and local income taxation (except when included as part of the base for state corporate excise taxes). Only a small segment of the problem would be touched if the Federal Government taxed interest on its own obligations and if states taxed the interest on state and local securities, so long as the states continued to exempt interest on Federal securities and the Federal Government continued to exempt interest on state and local securities.

Probably the most practical approach to the whole problem is to analyze the distribution of gains and losses growing out of existing tax exemption. The underlying gain is that received by persons with large incomes who hold tax-exempt securities and thus reduce their income taxes.

The Federal Government and most state governments have progressive income tax rates which increase as the amount of taxable income increases. As a result, tax-exempt securities of course afford a greater tax saving to persons with large incomes than to persons with small incomes.

Considering the Federal income tax alone in the case of the man with \$2,000 or \$3,000 of taxable income, a dollar of wholly tax-exempt interest would give the same net return as \$1.04 of taxable interest since the taxable interest is subject only to the 4 percent normal tax. In the hands of a taxpayer with \$50,000 of taxable income, however, that same dollar of tax-exempt interest is worth \$1.45 of taxable interest since the taxable interest would be subject to 4 percent normal tax and a 27 percent surtax. The value of tax exemption continues to increase with the size of the income of the person receiving it.

For an individual with \$100,000 of taxable income a dollar of tax-exempt interest is the equivalent of \$2.44 of taxable interest. At the top of the rate scale (\$5,000,000) a dollar of tax-exempt interest is the equivalent of \$4.76 of taxable interest. The effect of taxes imposed by the states is to increase further the differences in tax savings. (See Exhibits 3 and 4.)

Tax savings of this character are obviously inconsistent with the purpose of progressive income taxation, that is, to impose taxes in accordance with the principle of ability-to-pay.

There would be no injustice in this situation if persons with large taxable incomes received interest rates enough lower than those received by persons with smaller incomes to offset differences in tax savings. Such, however, cannot be the case. Persons with large incomes and persons with small incomes can buy the securities at identical prices. Furthermore, the available supply of public securities is so large that the prices paid for them are not determined by the value of the tax exemption privilege to persons in the high income groups.

At the close of the fiscal year 1938 the total volume of outstanding tax-exempt securities was \$63.884 million.

Governments and governmental agencies, their trust funds, sinking funds, and investment funds, and the Federal Reserve Banks held \$13,753 million. The remainder, \$50,131 million, constituted the net amount outstanding and available to private investors. It is estimated that as of June 30, 1937, the total holdings of all individuals amounted to \$19 billion. The remainder was held by banks, insurance companies, and other institutional investors. The manner in which the various categories of tax-exempt securities were distributed among the various investors is presented in the accompanying chart. (See also Exhibits 5 and 6.)

In 1922, former Secretary of the Treasury Mellon, writing to the Acting Chairman of the Committee on Ways and Means, referred to the "almost grotesque" and "anamalous situation" when "taxpayers have only to buy tax-exempt securities to make the surtaxes ineffective."

With the passage of years the "anomalous situation" noted by Secretary Mellon has become vastly more anomalous. In the interim the magnitude of the tax-exempt problem has greatly increased. Consider only the changes which have taken place during the last decade. In the middle of 1929, the gross volume of Federal, state and local tax-exempt securities was \$35,428 million.

By the middle of last year it had risen to \$63,884 million. In 1929, the Federal surtax rates on individual income, which one could avoid by the purchase of tax-exempt securities, ranged from 1 percent to 20 percent. Today they range from 4 percent to 75 percent. In 1929, individual income was taxed in 14 states with rates in no case exceeding 6 percent. Today individual income is taxed in 34 states with rates ranging as high as 15 percent. (See Exhibits 7, 8, 9, and 10.)

That persons with large incomes take extensive advantage of the possibility of tax saving through tax-exempt securities is clearly indicated by the available evidence.

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We have made an analysis of the cases of 25 individuals, each of whom in 1937 reported net incomes in excess of \$1,000,000. (See Exhibit 11.) These 25 individuals reported almost \$7,000,000 of wholly tax-exempt interest. Assuming that they reported all their tax-exempt interest receipts, it was found that these 25 taxpayers had approximately one-third more net income after paying their income taxes than they would have had if the tax-exempt securities had yielded 15 percent more in interest but had been subject to taxation. In one case an individual had 145 percent more net income than he would have had and other percentages ranged from 90 percent down to no increases in the case of 5 individuals.

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In other words, these 25 people as a group were profiting very substantially from tax exemption. This table shows clearly that large taxpayers do hold large blocks of fully tax-exempt securities, that they are deriving large benefits from holding such securities and that the progressive income tax rates are correspondingly nullified.

The tax saving to persons with large incomes due to the ownership of tax-exempt securities is directly reflected in a loss of revenue to governments imposing income taxes. The loss in revenue to state governments is less than the loss to the Federal Government because their income tax structures are not so steeply progressive nor are the rates imposed so high.

The actual loss in revenue to state governments cannot be readily estimated because of the wide diversity in the structure of the various state income tax laws and because of deficient information as to the distribution of holdings of tax-exempt securities. At the present time fourteen states have no income taxes. In those states which impose income taxes the revenue loss depends upon a variety of factors in addition to the rate structure. Generally, the wealthy states whose residents are large holders of government bonds lose relatively more revenue because of the tax-exemption feature of governmental securities than do the states with relatively low wealth and income.

Generally speaking, there is no direct revenue loss to political subdivisions of the states since they do not impose income taxes though some would be affected through their shares in state-imposed income taxes.

The loss to the Federal Government alone is estimated between \$179 million and \$337 million. These estimates are based on certain technical assumptions which are explained in Exhibit 12.

The individual income tax, which is the major progressive element in our tax system, yields relatively too small a proportion of the total tax revenue. In 1938, it accounted for less than 10 percent of total Federal, state and local revenues. (See Exhibit 13.)

The availability of tax-exempt securities and the consequent avoidance of income taxes may have had an important bearing on the character of the income tax rate schedule itself. For example, the surtax rates may be higher than would otherwise have been imposed, especially since one factor in setting the surtax rates appears to be the desire to collect from the taxable income of an individual some tax to make up for his tax-exempt interest. Such a method of setting rates results in great discrimination between taxpayers.

Tax savings by individuals from tax-exempt interest result also in gain to governments in the form of lower interest rates, since such individuals will pay for the tax-exemption privilege if they are obliged to do so. As has been pointed out, the difference in interest rates due to tax exemption is relatively small due to the large volume of tax-exempt securities available. The differential in yield between public and private securities is often attributable only in small part to tax exemption. The remaining portion of the difference in yield between public and private securities is due in general to the superiority of the public securities in safety of principle, assurance of income and marketability.

From the best evidence available we estimate that the difference in yield due to complete tax exemption varies from zero, or practically zero, for the shortest maturities up to about $1/4$ to $1/2$ of 1 percent for the longest. The yield differential of long-term partially tax-exempt Federal securities, that is, those that are exempt only from the Federal normal income tax, as compared with completely taxable securities of equal quality, is estimated at from $5/100$ to $15/100$ of 1 percent. (See Exhibit 14.)

Since in the higher brackets the Federal income tax is far heavier than any state income taxes, and since the interest on practically all long-term Federal securities is subject to the Federal surtax, the gain in lower interest rates is primarily to state and local governments. We estimate that the annual saving in interest costs to the Federal Government and Federal instrumentalities due to tax exemption is from \$19 million to \$50 million and that the saving to state and local governments ranges from \$40 million to \$105 million.

It should be noted that the saving in interest costs is due to the existence of the income taxes as well as to tax exemption.

The income tax, by taxing interest on bonds but exempting such interest as is derived from government securities, placed those government securities in a preferred position. This enabled governments to borrow below the market rate. In the absence of an income tax, the exemption would be valueless. Thus, in effect, the Federal Government by imposing a high income tax is substantially subsidizing the state and local governments by making possible lower interest rates on their obligations. Similarly, the state governments are subsidizing, although to a considerably lesser extent, the Federal Government and, in some states, the local governments.

The discontinuance of the tax exemption privilege would mean only the removal of these subsidies.

The saving in interest cost to the Federal, state and local governments resulting from tax exemption is not a net saving. As already noted, the exemption results in loss of revenue which is greatest in the case of the Federal Government, less for state governments, and minor for local governments. Thus, balancing the saving in interest cost against the loss in revenue, the localities are the biggest governmental beneficiaries of the exemption of interest from income taxes. The positions of the states vary, some losing and some gaining. The Federal Government is a heavy loser.

Governments combined - Federal, state and local - are on balance substantial losers.

An analysis of the effect of discontinuing the issue of tax-exempt securities by different layers of government should not, however, obscure the importance of approaching the problem from the national viewpoint. In the final analysis our taxpayers are not divided into Federal taxpayers, state taxpayers and local taxpayers. All citizens are taxpayers directly or indirectly to all three types of governments. Since all governments combined lose on balance, the taxpayers lose on balance also, although some specific groups of taxpayers may gain.

The mass of people who make up the taxpayers and general public lose in still another way.

To the extent to which the interest rate on tax-exempt securities is lower than it would be if they were taxable -- as pointed out the differential is not large -- the mass of people who pay income taxes at very low rates, if at all, lose in lower interest on these securities without being able to benefit from savings of income taxes. Indeed, the tendency is to discourage the very people who should place their savings in public securities from doing so.

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Likewise to the extent to which tax exemption affects their incomes through lower yields of government bonds, insurance companies are obliged to charge higher premiums, while bank savings yield lower returns, and the earnings of charitable and educational ~~institutions~~ endowments are diminished. It is not intended here to imply that it would be a social benefit for governments to pay higher interest rates, but rather to indicate that gain to governments through lower rates is by no means pure gain to the mass of taxpayers and the public.

To sum up, tax exemption benefits the taxpayers having large incomes, local governments, and a few states. Everyone else loses.

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In addition to the fiscal effects of tax exemption, the tax savings available to persons in the high income brackets through tax-exempt securities have extremely important economic effects. These are probably more important in determining the final balance of gain and loss than are those which have been mentioned. These economic effects grow out of the normal and legitimate efforts of people to enlarge their gains and reduce their losses. So long as individuals with large incomes can obtain a higher net return from low-yield tax-exempt government securities than from taxable high-yield corporate securities, it is to be expected that they will make large investments in government securities and avoid taxable investments.

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This is of great importance because they are precisely the people who, because of their ability to assume risks, should use their funds for industrial undertakings.

The effect of tax exemption upon investment is due to its value to individuals in high income classes. An individual with a \$50,000 income would have to derive a yield of 4.3 percent from a taxable security to afford him the same yield after Federal income tax as he obtains from a 3 percent wholly tax-exempt security. For individuals with \$100,000 the taxable yield would have to be 7.3 percent and for an individual with a million dollars the taxable yield would have to be 12.5 percent to match the net yield of a 3 percent wholly exempt security.

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In view of these circumstances it is to be expected that individuals with large means will avoid taking risks by investing in tax-exempt securities. Industry is thus handicapped in competing with tax exempts for the capital of individuals in the higher income brackets.

The effect of tax-exempt securities on the willingness of persons with large incomes to assume the risks of industrial undertakings is particularly unfortunate because of recent investment developments. In the past half-century institutional investment through insurance companies, banks and other investment organizations has expanded. Such institutions are unwilling to risk the money of their depositors and policyholders in equity capital.

Our laws have, in fact, prevented them from so doing. As a result, the equity capital necessary to attract savings into investment as senior capital has been lacking. Persons with large incomes are the logical source of such equity capital. The attractiveness of tax-exempt securities combined with the high surtax rates has greatly ~~diminished~~ diminished the willingness of persons with large incomes to risk their capital since the return after tax is likely to be no greater and may be less than can be derived from tax-exempt securities.

Thus far I have discussed the effects of existing tax exemption upon the finances of our governments and upon the economy in general.

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We may now turn to the question of eliminating tax exemption with regard to future issues of government securities. Both the increased costs of government and the increases in revenue will be realized gradually. (See Exhibits 15 and 16.)

Interest costs to state and local governments would increase only as existing securities were retired and new ones were issued to finance new projects. If it be assumed for the sake of simplicity that the new state and local issues exactly equal those retired, half the outstanding securities will not be replaced until after 1950 and the full effect will not be felt for nearly 50 years.

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Assuming that the taxation of future issues of securities will result in a $\frac{3}{8}$ of 1 percent increase in interest rates, state and local interest costs would be increased, by 1945 for example, by only \$23 million (\$0.18 per capita) or $\frac{2}{10}$ of one percent of 1938 state and local expenses. At the end of 50 years when all tax-exempt securities now outstanding will have been retired, interest costs would be increased by only \$69 million (\$0.53 per capita) or less than $\frac{3}{4}$ of 1 percent of present state and local expenditures. (See Exhibit 17.)

To carry the analysis of increased interest costs further, we have calculated the probable effect of the proposed legislation on local property tax rates in 13 cities with a population in excess of 500,000. These cities are the large local borrowers. In these calculations recognition was given to the fact that all local debt service is not paid from property taxes. Moreover, full allowance has been made not only for the city debt but for the city's share of all overlapping local debt. Our computations indicate that if tax exemption had been discontinued last year the increased cost of borrowing would result by 1950 in an additional tax rate ranging from 5 cents per \$1,000 of assessed valuation in New York City to 23 cents in Buffalo.

Even in the year of final maturity the increased tax rate would in no city amount to more than 53 cents per \$1,000 of assessed valuation.

Estimated increase in the property tax rates of 13 cities having a population above 500,000, resulting from the taxation of future issues of municipal securities

City	:1936 tax:	Estimated rate increase in: 1/		
	: rate :	: 1940 :	: 1950 :	: Year of final maturity
	:(actual):			
New York	\$ 27.14	\$0.01	\$0.05	\$0.23
Chicago	95.20	0.04	0.12	0.53
Philadelphia	20.24	0.02	0.11	0.35
(etroit	27.90	2/	0.08	0.29
Los Angeles	32.06	0.02	0.11	0.22
Cleveland	28.61	0.04	0.20	0.24
St. Louis	26.89	0.02	0.13	0.19
Baltimore	21.69	0.01	0.07	0.17
Boston	37.74	0.04	0.17	0.22
Pittsburgh	37.14	0.04	0.22	0.42
San Francisco	26.76	0.02	0.12	0.21
Milwaukee	32.27	0.05	0.17	0.18
Buffalo	33.96	0.04	0.23	0.29

Assumes an increase in the interest rate of 3/8 of 1 percent.
Less than 1 cent.

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Among the other probable consequences of the adoption of the proposed legislation, the refunding operations of state and local governments require special consideration. Refunding is usually undertaken for one of three reasons. Governments may wish to refund at low rates bonds issued some years earlier when interest rates were higher. A government in default may wish to refinance its obligations. A government which has failed to accumulate adequate sinking funds or has dissipated funds previously accumulated may find it necessary to meet principal repayments and postpone retirement of its debt.

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Every indication points to the conclusion that the proposed legislation will, in general, have little effect on the refunding operations of state and local governments. Refunding of callable bonds is likely to be small because less than 10 percent of state and local bonds carry the "call" feature. Moreover, recent declines in interest rates have been so marked that refunding of callable bonds would continue to be profitable notwithstanding some increase in the cost of borrowing.

The volume of state and local debt involved in default of interest or principal has at no time in the recent depression been large and has already been corrected to a substantial degree.

Refunding due to deficits of sinking funds will probably be unimportant in the future because of the steady trend from "term" to "serial" bonds and because of more stringent regulations of sinking fund practices.

Much of the hardship that might result in refunding could be prevented by permitting the new obligations to be tax-exempt up to the maturity date of the obligation being refunded. This and other types of special treatment are discussed in a memorandum on the problem of refunding which I am submitting for the record.

(See Exhibit 18.)

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In the interest of tax justice and the efficient operation of our economy the Treasury Department urges that the issuance of tax-exempt securities be discontinued in the future. If Congress feels that the subsidy that states and localities now enjoy should be continued in some form, it may be accorded directly without producing the great inequities and the highly undesirable effect on enterprise which result from the issuance of tax-exempt securities.

I turn now to the question of the personal surtax rates on the higher income brackets.

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It has been shown that tax exemption tends to undermine the progressive character of a surtax rate schedule and further, it has been noted that the surtax rates may be higher than they would be if there were no tax-exempt income.

In considering the economic effects of high surtax rates, it is desirable that we have a clear picture of what the surtax rates are, how they compare with earlier rate schedules and how many people are affected by them.

The level of Federal income tax rates at the present time compared with the levels in 1916 just before the war, in 1918 at the highest peak during the war, and from 1925-31 at the minimum point after the war, is shown on the accompanying Chart. No.2.

It is difficult to make any exact or highly meaningful comparisons of the rate burden by simply comparing the maximum rates, due to the differences in the point at which that maximum was reached. The peak was reached at \$2,000,000 in 1916, at \$1,000,000 in 1928, at \$100,000 in 1926 and at \$5,000,000 in 1938. (See Exhibit 19.)

In analyzing income tax rates it is important to distinguish between bracket rates and effective rates. The bracket rate is the statutory rate applied to any specific segment of income while the effective rate is the average rate on all of the net income.

In measuring tax burdens the effective rate is much more significant than the bracket rate. The use of bracket rates gives an inflated picture of the actual burden. For example, a person (married man with two dependents) with net income of \$50,000 pays a top bracket rate, normal and surtax combined, of 31 percent, while his effective rate of tax is 17-2/10 percent. A similar person with \$100,000 net income pays a top bracket rate of 59 percent but an effective rate of only 32 percent.

In analyzing the economic effects of the tax, however, the bracket rate is often more significant than the effective rate.

The taxpayer's decision as to what investment he should make, for example, will depend on the tax that will be imposed on the additional income from that investment and not the average tax that will be imposed on all of his income.

In considering the surtax rates, it should be borne in mind that income is subject to taxation in thirty-four states in addition to the Federal tax. The combined rate, however, cannot be derived by adding the Federal rate and the state rate. State income taxes are deductible from income in computing Federal tax. Likewise, Federal income taxes are usually deductible from income in computing the state tax. In order to show what the actual combination of maximum rates may amount to, we have made computations for individuals at various levels of income in several states.

The results are shown in the following table:

Federal and state individual income taxes on the top \$100 for selected amounts of surtax net income and for selected states

State	\$100,000			\$1,000,000		
	Federal tax	State tax	Combined Federal and state taxes	Federal tax	State tax	Combined Federal and state taxes
Arizona 1/	\$57.88	\$ 1.90	\$59.78	\$75.15	\$ 1.12	\$76.27
California 1/	51.92	12.00	63.92	64.60	15.00	79.60
Georgia	57.24	2.99	60.23	74.65	1.77	76.42
Idaho 1/	56/97	3.44	60.41	74.45	2.04	76.49
Iowa	57.76	2.11	59.87	75.05	1.25	76.30
Louisiana 1/	57.50	2.55	60.05	74.85	1.51	76.36
Minnesota	56.43	4.36	60.79	74.02	2.60	76.62
Mississippi	55.17	6.50	61.67	71.06	6.50	77.56
Montana	58.01	1.68	59.69	75.25	.99	76.24
New York 2/	54.28	8.00	62.28	69.92	8.00	77.92
North Carolina	54.87	7.00	61.87	70.68	7.00	77.68
Oklahoma	56.70	3.90	60.60	74.24	2.32	76.56
Virginia	57.23	3.00	60.23	73.72	3.00	76.72

States marked with asterisk allow Federal income tax as a deduction; other states do not. It should be noted that in the states allowing the Federal income tax as a deduction for the state income tax, the state tax on the top \$100 of \$100,000 income is greater than the state tax on the top \$100 of \$1,000,000 income. This results from the fact that state income tax rates, unlike the Federal rates, are not progressive at the high levels of income and that the deduction of Federal tax for state income tax purposes is greater for the top \$100 of \$1,000,000 income than for the top \$100 of \$100,000 income.

Tax on stated amount considered as one share of community property.
Includes one percent emergency tax.

Another fact of significance regarding large Federal taxpayers is that while the number of returns above \$100,000 was only 4,719 in 1936, or .16 of 1 percent of the taxable returns, these individuals received 6.85 percent of the net income reported on such returns and paid 40.45 percent of the tax. Other information as to taxpayers with incomes of \$100,000 and over is shown on the accompanying chart. In 1937, 4,150 persons reported incomes of \$100,000 or over. The maximum number of persons reporting incomes of \$1,000,000 and over was 513 in 1929 and the minimum number was 20 in 1932. The number was 206 in 1916, 21 in 1921, and 49 in 1937. Similar variations appear for other income levels. (See Charts 3 and 4, Exhibit 20.)

Although large incomes are an important source of revenue, the amounts of these incomes subject to taxation at the top surtax rates are relatively small. Only one individual had^{\$} been subject to the 75 percent rate since it was established. Consequently, moderate reductions in such rates would result in only a minor loss of revenue. The amount of revenue which would be lost by reducing surtax rates to various maximum points is indicated in the accompanying Chart. No. ⁵~~4~~. For example, if we examine the line representing 1939 income, we see that the loss of revenue would be about \$1,200,000, if the maximum rate were reduced to 70 percent, about \$12,600,000, if it were reduced to 60 percent, and about \$44,800,000 if it were reduced to 50 percent.

These loss figures are based on the assumption that reducing the surtax rates would have no effect on the tax base. It is our belief that the effect over a period of years would be to increase the base. The pressure to put funds in tax-exempt securities and keep them there would be decreased. The inducement to avoid the income tax would be lessened. More important, enterprise would be encouraged with the diminution in the deterring effects of heavy taxation.

While we are, of course, ~~more~~ interested in the maintenance and increase in the public revenue, a much more important consideration is the health and expansion of the economy.

I have already pointed out the role which investment in enterprise plays in our economic life. I should like to stress again the importance of that investment. The employable population of the country is increasing each year at a rate of about 600,000. Several thousand dollars of capital are required to give employment to each person. It is, accordingly, highly important that conditions be made favorable to such investment.

I have already pointed out how the existence of tax-exempt securities acts to discourage the investment of venturesome capital.

It is perhaps unnecessary to point out also that even aside from tax-exempt securities the effect of high income tax rates is similarly to discourage investments of this kind. The effect of high taxation in discouraging investment in securities having substantial elements of risk as compared with safe securities may be indicated by an illustration. Let us assume that a person in investing funds has an opportunity to secure a 3 percent net rate in an investment that is free of risk. Let us assume also that he has an opportunity to place his funds in an investment in which there is a 50-50 chance that the principal invested will deteriorate so as to be worth only 50 cents on the dollar at the end of ten years.

In this case if there is no tax and if the investor requires no bonus for taking the risk, the gross interest rate required in the case of the second investment would have to be 8.14 percent per annum to be equal to the 3 percent rate free of risk. Now let us consider the case, if an annual 60 percent income tax is in effect. The gross interest rate on the risky investment would have to be 14.44 percent to make it equal to the risk-free investment.

High surtaxes are sometimes defended on the grounds that persons with large incomes hoard their funds, neither spending nor investing them. It is urged that a high tax by bringing the money into circulation would help to restore prosperity.

Hoarding of the type mentioned takes place only during limited parts of the business cycle. The deterring influence of heavy taxes would operate to create permanently the very situation that is sought to be corrected temporarily. That is, when heavy taxation discourages investment, the result is likely to be more idle funds rather than less.

The fact that the top surtax rates apply only to a few persons does not mean that they affect the investment decisions of only those persons. The psychological effect of having the high surtax rates continually discussed in the press and in private conversation is unfortunate since taxpayers whose incomes are much too small to be subject to such rates are inclined to consider their tax burdens as if they were subject to them.

For these reasons I ~~recommend~~ the reduction of surtax rates in the higher brackets. To just what point they should be reduced is a matter for your consideration.

JR

GRAY

Paris

Dated June 28, 1939

Rec'd 2:30 p.m.

Secretary of State,
Washington.

1208, June 28, 2 p.m. (SECTION ONE).

FOR THE TREASURY.

Apparently convinced that the decision of the Senate on the monetary bill is political and that a compromise will finally be reached, the French financial press of today refrains from making any profound analysis of the possible results of the decision. However, it is evident that the opinion is generally held here that the devaluation powers of the President possess an emergency value which should not be abandoned under present world conditions. AGENCE ECONOMIQUE briefly comments that the vote against the renewal of the President's powers might well bring forward certain exchange problems which have lately been lying dormant. This paper noted that certain operators sold dollars here yesterday fearing that the President might suddenly decide to devalue in case the House confirmed the Senate decision.

(END SECTION ONE).

BULLITT

KLP

JR

GRAY

Paris

Dated June 28, 1939

Rec'd 2:40 p.m.

Secretary of State,
Washington.

1208, June 28, 2 p.m. (SECTION TWO).

In the view of L'INFORMATION the significance of the Senate vote is less monetary than political. This paper considers that if the decision is upheld it would have regrettable consequences. It predicts that such a development would tend to strengthen the dollar and thus attract still more unwanted gold to the United States. As do many financial sheets, L'INFORMATION points out that such a decision would only seem to "disarm" the President, for the reason that he would still be able to increase the price of gold, unless this authority is also withdrawn.

LE TEMPS observes that if the Senate decision is upheld it would indicate that the United States leans towards stabilization, and that it would be of particular importance to the franc as the possibility of a reduction in the value of the dollar, "had constituted up to now, the principal element of uncertainty in the international monetary situation." (It is believed that this was written

by

-2- #1208, June 28, 2 p.m. (SECTION TWO) from Paris.

by Germain Martin who is temporarily replacing Jenny,
the financial editor).

BULLITT

KLP

CJ

GRAY

PARIS

Dated June 28, 1939

Rec'd 2:34 p.m.

Secretary of State,
Washington.

1208, June 28, 2 p.m. (SECTION THREE).

Commenting on the vote to increase the price of silver JOURNEE INDUSTRIELLE doubts that the triumph of the "silver men" will be of long duration. In this respect this paper contends that it is not "brilliant politics" to increase the price of silver in view of the fact (one) that this metal "is completely devalorized and without any monetary utility", (two) that the American Treasury already possesses 25,000 ounces "which it does not know what to do with" and (three) of the futility of prolonging the "fiction" that the dollar could be covered with silver to the extent of 25% when the United States holds more than 60% of the world's gold stock.

BULLITT

KLP

JUN 28 1939

U.S. DEPARTMENT OF STATE

WASHINGTON, D.C.

RECEIVED

ED4

GRAY

LONDON

Dated June 28, 1939.

Received 1:43 p.m.

Secretary of State
Washington

914, June 28, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

The negotiations between the Polish Delegation and the British Treasury drag on. The Poles initially asked for 18 million pounds for armaments, 12 to 18 million pounds for raw materials, 24 million pounds in cash. They will be pleased and surprised if they get half of this total.

The Poles have also asked the French for armament and raw materials, credits and cash totalling 2 billion francs.

The British Treasury would like the French to go joint account with them. The French point out that in the past couple of years they have already given Poland credits totalling 2,700,000,000 francs. The British counter by pointing to the assistance to Turkey.

However, it is evident that British and French assistance to Poland will be coordinated and will most likely be along the following lines:

- (1) Credits for armaments, the particular purchase
to

EDA - 2 - #914, June 28, 5 p.m. from London

to be made from each credit to be conditioned by the rearmament program of England and France;

(2) Credits for raw materials. These may take the form of placing raw materials within the confines of Poland, the ownership remaining with the British and French Governments respectively, repayment arrangements to come into effect as the materials are used;

(3) Credits for Polish munition enterprises.

My own impression is that probably the British and French Governments will give substantial assistance to Poland for military purposes. They will not, for reasons previously reported, give sufficiently to satisfy the Poles but enough to keep them in line.

One incident has occurred in the Anglo-Polish negotiations which may have significance for the future. When the Polish Delegation pressed its claim for cash the British Treasury suggested that they devalue the zloty. The Poles replied that in that case also they would need money for the creation of a stabilization fund. Thereupon the British Treasury did not pursue the matter further. My own hunch is that if (repeat if) the European situation holds together this summer the British and French Government's may well approach us with some scheme for facilitating the devaluation of the currencies of such countries

EDA - 3 - #914, June 28, 5 pm. from London

countries as Poland, Turkey, Greece, Rumania on the
plea that it is desirable and necessary to take the
offensive in the economic and financial fields to create
a larger area for freer trade.

KENNEDY

KLP

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JUN 28 1950

TREASURY DEPARTMENT
Office of the Secretary
Internal Section of the President

RECEIVED
JUN 28 1950
Division of
International Finance

JR

PLAIN

London

Dated June 28, 1939

Rec'd 1:26 p.m.

Secretary of State,
Washington.

RUSH.

913, June 28, 7 p.m.

FOR SECRETARY OF TREASURY FROM BUTTERWORTH.

1. The British Treasury states that it has received in the past few days rumors from Italy regarding possible devaluation by one or both of the axis powers, but it regards these merely as rumors, confirmation of which cannot be obtained.

The British Treasury further states that the rumors regarding currency action in Danzig are even less substantiable but probably spring from the various actions by the Danzigers to injure Polish interests.

Incidentally the French Financial Attache got in touch with me to inquire about the dollar devaluation powers. He expressed the hope that the new legislation would contain such powers because he feared that the movement of capital from Europe to the United States would receive a new impetus should the potential threat of any further dollar devaluation be entirely removed.

2. After

-2- #913, June 28, 7 p.m., from London.

2. After an idle morning the dollar became actively bid in the late afternoon due to the recurrence of reports of German activity in Danzig and Slovakia. The dollar ^{appreciated} declined to 468 1/8 at which point the British authorities intervened.

The silver fixing was not very large and the buying came from India which apparently regarded the 40 cent American price as a fixed one. The fixing price declined to 18 3/16, the point at which the Indian buying limit could be met.

There was a large demand for gold today and the 150 bars which were sold at fixing were prorated to buyers on a 28% basis. Eighteen were married and the British fund gave one hundred.

KENNEDY

CSB

RECEIVED

JUN 28 1938

INTERNATIONAL TRADE
 DEPARTMENT
 100 WALL STREET
 NEW YORK, N. Y.

JR

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London

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KENNEDY

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RECEIVED

JUN 28 1938

TO: VARIOUS DEPARTMENTS
OFFICE OF THE SECRETARY
TREASURY DEPARTMENT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 28, 1939, 4 p.m.

NO.: 1210

FOR THE TREASURY DEPARTMENT.

Today there was again not much trading, such as there was being on a small scale, and without any important rate modification. In unofficial dealings this morning the dollar was firm, this afternoon being moderately offered on the official market. Apparently there was no intervention by the fund. The security market was nervous and pessimistic because of Daladier's description of the international situation before the Chamber yesterday. There were moderate losses in all securities.

BULLITT.

EA:LWW

RECEIVED
JUN 29 1939
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

June 28, 1939
10:08 a.m.

HMJr: Hello.

Operator: Ambassador Bullitt.

HMJr: Hello.

Bill
Bullitt: Hello, Henry.

HMJr: How are you?

B: Fine! How are you?

HMJr: I'm very well.

B: Good!

HMJr: Bill.....

B: Yes.

HMJr:the American Counsel at Milan sent in a cable.....

B: Yes.

HMJr:that he had picked up from an American manufacturer.....

B: Yes.

HMJr:that both the Italians and the Germans were thinking of simultaneously devaluing on the first of July.

B: Yes.

HMJr: Today's paper carries a dispatch in the New York Times that there's talk in Danzig that they're going to devalue on the first of July.

B: Yes.

HMJr: And I wondered that -- whether you couldn't sort of look into this and see whether this is just a rumor. But the way we picked it up through a Milan manufacturer, plus a local bank, it looks as though there might be something to it.

B: That's right.

- 2 -

HMJr: And if you could pass it along to Paul Reynaud and maybe he's got something.

B: Yes. Well, Henry.....

HMJr: Yes.

B:I'll be seeing him this evening and I'll be seeing everybody else in the course of the day.

HMJr: Good!

B: And I'll get you all the information there is on that by this evening and let you have a telegram.

HMJr: And the other thing, you see on account of the pending legislation, if we knew that it was going to do this, this would help the President to get through this legislation.

B: Yes.

HMJr: You see?

B: What is the position on that? What's happened in Committee?

HMJr: Well, the House has not yet appointed a Committee. They meet today.

B: I see.

HMJr: Then they appoint a Committee and then they go into conference.

B: Yes.

HMJr: And I believe that the House is going to stand pat, but I don't know.

B: Yes.

HMJr: But the situation is -- well, it -- I think it's one of the blackest pages in American history.....

B: Yes.

HMJr:to see that these silver fellows and these so-called conservatives could get together and sell out the President.

B: That's tough.

HMJr: Hello?

- 3 -

B: Do you think you're going to be able to get it changed?

HMJr: Well.....

B: Do you think you can shift the Senate over?

HMJr: Between now and Friday night?

B: Yes.

HMJr: I have grave doubts about it.

B: Yes.

HMJr: I have grave doubts whether we can get anything between now and Friday night.

B: Well now, Henry, what's that going to do to your Tripartite?

HMJr: I don't think it'll -- for you, Bill -- for your guidance, I don't think it'll do anything, but I'm not saying that publicly.

B: Quite right.

HMJr: Hello?

B: Quite right. I say, quite right.

HMJr: In fact, I'm saying the opposite. I'm throwing out hints that I may have to cancel the Tripartite.

B: That's right.

HMJr: But for your guidance that is not so.

B: That's right. Fine!

HMJr: See?

B: Yeah. Bully, Henry. Well I'll get after that right away.

HMJr: O. K.

B: Fine!

HMJr: Thank you.

B: But look here.....

HMJr: Yes?

B: What's the news on the neutrality legislation?

HMJr: I -- I have absolutely nothing and as far as it -- well, they're -- they're having the fight in the House. I'm not up on it, Bill.

B: Yeah.

HMJr: I'm not -- I'm not -- I'm not up-to-the-minute on it.

B: Fine. All right. Well, good luck to you, Henry.

HMJr: Thanks. Same to you.

B: Good bye.

HMJr: Good bye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 28, 1939, 11 p.m. (Rec'd 7:27 a.m. June 29)

NO.: 1216

PERSONAL FOR THE SECRETARY OF THE TREASURY.

With regard to the matter about which you telephoned me: I saw Reynaud, Rueff, Daladier and Bonnet and asked them about it, but no one of them had heard the rumor, nor did they have the slightest indication that it might be contemplated that such action be taken.

BULLITT.

EA:LWW

ED4

GRAY

LONDON

Dated June 28, 1939

Received 1:43 p.m.

Secretary of State
Washington

914, June 28, 8 p.m.

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EDA - 2 - #914, June 28, 5 p.m. from London

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EDA - 3 - #914, June 28, 5 pm. from London

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KENNEDY

KLP

RECEIVED

JUN 28 1950

TREASURY DEPARTMENT
Office of the Secretary
Technical Division of the Treasury

June 28, 1939

4:00 pm

Present:

Chinese Ambassador Hsi.

Ambassador: Most kind of you to receive me. I know you must be terribly busy.

HM, Jr: Yes, it is a busy time.

Ambassador: I just want to lay before you a telegram from Dr. H. H. Kung.

HM, Jr: (Reading aloud) "In view of report Senate favors terminate foreign silver purchase, please informally ascertain whether Treasury objects if we sell silver forward at London (stop) Telegraph immediate reply since action if done should precede probable price decline (stop) We have six million ounces for July shipment which we would of course prefer sell to Treasury. (Signed) H. H. Kung."

Ambassador: This came early this morning. May I leave this?

HM, Jr: Oh, yes. Surely.

Ambassador: I know that you must be very busy and I don't want to trouble you, but Mr. Kung wanted me to reply as soon as I can, so I suppose you have certainly, no objection.

HM, Jr: Can't have any objection.

Ambassador: But I know without American Government purchases, probably the price would go down very, very rapidly.

HM, Jr: I can't make any forecast, Mr. Ambassador. You have seen what the Senate has done.

Ambassador: I have, Mr. Morgenthau.

-2-

HM, Jr: I can't make any forward commitments on the purchase of silver and will have none after the 30th of June until I see what Congress does.

Ambassador: Yes, sir.

HM, Jr: We just served notice -- for your information -- on the Canadian Government that we cannot renew our agreement for July.

A mbassador: How about Mexico?

HM, Jr: We have had none since March a year ago. We broke that March a year ago. The only other one we had was Canada and we have sent word to them we can't renew it.

Ambassador: There is no chance of this 6,000,000 ounces?

HM, Jr: That's been offered to me by somebody before for your Government.

Ambassador: Yes. Mr. Hsi, who was with Mr. Chen last year.

HM, Jr: He spoke to Mr. Lochhead.

Ambassador: He probably sent a wire.

HM, Jr: A couple of days ago; must have been last week. And at that time I told him I could do nothing. I can't! The first thing my lawyers asked me, "Have you any forward commitments?" I said, No; none.

Ambassador: I know. You must forgive me for coming to you at this time.

HM, Jr: I understand. That's your business. I have a motto, "Nothing ventured, nothing gained."

Ambassador: Very kind.

HM, Jr: And I appreciate, that is I can imagine, your feeling and I would like to do what I can, but, you

-3-

see the situation I am in.

Ambassador: I was talking to the State Department on the question of neutrality. They said the matter is in the "laps of the Gods". What happened yesterday gave the same feeling, in this monetary thing.

HM, Jr: The laps of the Gods must be very tired.

Ambassador: May I leave this entirely to you and I trust some day in the Senate the Gods may change. Thank you for giving me this opportunity.

oOo-oOo

TELEGRAM FROM CHUNGKING

JUNE 27, 23:00

URGENT

IN VIEW OF REPORT SENATE FAVORS TERMINATE FOREIGN
SILVER PURCHASE PLEASE INFORMALLY ASCERTAIN WHETHER TREASURY
OBJECTS IF WE SELL SILVER FORWARD AT LONDON (STOP)
TELEGRAPH IMMEDIATE REPLY SINCE ACTION IF DONE SHOULD
PRECEDE PROBABLE PRICE DECLINE (STOP) WE HAVE SIX
MILLION OUNCES FOR JULY SHIPMENT WHICH WE WOULD OF
COURSE PREFER SELL TO TREASURY.

H. H. KUNG

June 28, 1939.

June 28, 1939
12:12 p.m.

264

HMJr: Hello.

Operator: Colonel Harrington.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

F. C.
Harrington: Good morning, sir.

HMJr: How are you?

H: All right, thank you.

HMJr: Colonel Harrington, the easiest way -- I'm a little hesitant about how to start, but the easiest way is just to tell you what happened. Sunday night I had dinner with the President and Mrs. Roosevelt at Hyde Park.

H: Yes.

HMJr: And we got on this question of Self-Help Cooperatives, and I, as you know, am tremendously interested in pushing the thing, and I asked the President about expanding the program which he is now for. And I made the suggestion that if your organization - they start a bureau can take on Miss Lonigan and put her at the head of it.

H: Yeah.

HMJr: And the President said, "Fine!" He said, "Call up Colonel Harrington," using your nickname, which I -- not -- don't know you well enough to use.....

H: I hope you will feel that you do, at any rate, sir.

HMJr: Anyway, he said, "Call up Pink and tell him that this is all right."

H: Yes.

HMJr: Now, I don't like to do things this way, but I'm just passing the thing along and telling you just how it happened.

H: Yes.

HMJr: And.....

H: Well, suppose you let me go into that, will you, Mr. Secretary.

HMJr: Fine!

H: And get in touch with you about it in a day or two?

HMJr: All right.

H: I'm in the middle of this jam, you know.....

HMJr: I know you are.

H:on the appropriation for next year.

HMJr: I know you are.

H: And I'll -- well, I'll communicate with you about it after the next weekend, if that's all right.

HMJr: After this coming weekend.

H: Yes.

HMJr: Right! Now the point -- the thing that I've sold, of course to the President is ah -- starting just as rapidly as possible, other Self-Helps, similar to the Washington-Richmond one.

H: Yes.

HMJr: But you'll be seeing him when he gets back tomorrow and I do hope that when you talk to him about the other things at the proper time you'll raise this.

H: I will indeed.

HMJr: But that was what took place and he is personally, and Mrs. Roosevelt are tremendously sold on this Self-Help thing.

H: Yes.

HMJr: The interesting thing is he is, for some reason, not particularly sold on these food stamp plans.

H: Yeah.

HMJr: But he's tremendously sold on the Self-Help thing.

H: Yes.

HMJr: And of course Mrs. Roosevelt has this Self-Help project down near Scott's Run that she's so much interested in, and -- so if you, as soon as you're above water, if you would call me, I'd appreciate it.

H: I certainly will.

HMJr: Thank you so much.

H: I'll do that.

HMJr: Thank you.

June 28, 1939
12:22 p.m.

HMJr: Hello.

Operator: Secretary Hull for you.

HMJr: All right.

Hull's
Secretary: Secretary Morgenthau?

HMJr: Talking.

Sec'y: Just a moment please, sir.

HMJr: Hello.

Cordell
Hull: Hello, Henry.

HMJr: Hello, Cordell.

H: I had a bunch of zinc people off in a room.....

HMJr: That's all right.

H:and tried to convince them that they didn't need only so much time.

HMJr: I see. Number one, we've dropped the price of silver again to $38\frac{1}{2}$ cents. Hello?

H: Yes, sir.

HMJr: We're following the price down on the London market. You see?

H: You're following it?

HMJr: I'm following it. I mean.....

H: Yes.

HMJr:this is about what London dropped. In fact, it dropped a little bit more.

H: I see. What you -- what you -- what's the -- that's just the course of it on the world market?

HMJr: Yes.

H: Unaffected.

HMJr: Un -- well, that's what -- it was a cent and a half or more -- about a cent and six-tenths lower in London this morning.....

H: Yeah.

HMJr:than it was yesterday, so we dropped our price a cent and a half.

H: I see.

HMJr: Now, the thing that's bothering me, every time -- every month about this time we send a letter to Canada.....

H: Yeah.

HMJr:telling them that we will buy in the succeeding month, this case in July,.....

H: Yeah.

HMJr:a million, two hundred thousand ounces of silver.

H: What kind of an agreement have you got that causes that?

HMJr: Well, it's just a month to month agreement with the Central Bank of Canada.

H: Yes.

HMJr: Now, we haven't -- we've held this letter up, and I thought that the courteous thing to do would be to notify them that the letter would not be coming pending action on the part of Congress because.....

H: Yes. I -- I'd just tell them that we're waiting -- that we're -- that we're waiting the outcome of pending legislation.

HMJr: Now would you have somebody in the State Department tell them that or do you want us to do it?

H: Well, it's all right for -- it's all right for you to.....

HMJr: Well, I'd rather the State Department would let them know.

H: Well, now, we can do that if you say so.

- 3 -

HMJr: Well -- well I -- if -- if they would, if they'd notify them that there'll be no letter forthcoming, pending this legislation.....

H: Yes.

HMJr: You see?

H: Yes.

HMJr: And if any of your boys want to ask any questions, if they'll call up Archie Lochhead.....

H: Yeah, Archie Lochhead.

HMJr: Yes, in my office; he can give them any of the details.

H: Well, I think probably we would want to go into a few phases so we might answer the questions.....

HMJr: Right!

H:of the Canadians.

HMJr: But I thought it might be -- it's discourteous just to hold the letter and not make any explanation.

H: We're not under obliga -- we're not under any treaty obligation?

HMJr: None.

H: Yeah.

HM Jr: It's just the understanding.....

H: Yeah.

HMJr:that each month at this time they can stop or we can stop.

H: Yeah. Exactly.

HMJr: But the letter should go.

H: Exactly.

HMJr: And not going, I'd like to make an explanation.

H: Yes, all right, Henry. I'll get it to them right away.

HMJr: Thank you.

H: Yeah.

HMJr: Thank you.

June 29, 1939

My dear Mr. President:

I am sending you herewith a memorandum which was given to me this afternoon by Lauchlin Currie, on the railroad situation.

Yours sincerely,

The President,
The White House.

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A. W. ...
June 29, 1939.

274

LEASING OF RAILROAD EQUIPMENT

1. The urgent need for new railroad equipment.

The number of freight cars owned by railroads is at the lowest point since 1907. Of the existing supply, some 45 percent is over twenty years of age. Over 70 percent of the steam locomotives are twenty years of age or older, and only 3 percent are under ten years of age. Any marked recovery in business and railroad traffic would run into a bottleneck in this field which would precipitate advance buying, duplication of orders, and inventory speculation in general. The railroads are currently retiring about 100,000 freight cars a year and around 1,000 locomotives. Repair costs are excessively high not only because of the age of the rolling stock but also because of the antiquated and run-down condition of the railroads' machine shop equipment. In the interests of recovery, efficiency and economy, as well as of national defense, our railroad transportation system should be modernized and its carrying capacity increased.

2. Why railroads are not buying new equipment.

The railroads today have adequate equipment in physical terms to care for current levels of traffic. There would, however, be very substantial savings from the substitution of modern equipment for old, high-repair cost equipment. These savings are not being realized because of the straightened financial condition of the roads and because of the very understandable reluctance of the managements and directors to increase further at this time the fixed debt of the roads, or to deplete their cash resources.

3. How the deadlock may be broken.

Certain roads, in order to achieve the economies of new equipment while avoiding the incurrence of debt, have entered into leasing arrangements with the equipment makers. The equipment makers, however, are in no position to grant favorable terms or maturities for such leases in any sizeable volume. It is proposed, therefore, that the government, through the RFC, should undertake to purchase equipment upon the specifications of the roads, and lease the equipment on favorable terms and for varying periods to meet the varying necessities of different roads.

The powers to let contracts and to lease will not supplant, but rather will supplement, the present loaning powers of the RFC. They will provide the government with financial instruments of the utmost flexibility to meet the varying requirements of the strong, weak, and bankrupt roads. With the addition of these powers the railroad in need of equipment may purchase it directly or through the RFC; may assume full title immediately or only upon the completion of the lease; may lease for long or short terms on either an irrevocable or revocable basis. Moreover, these new powers will provide a means not hitherto

available for the rehabilitation of older equipment, for the modernization of the machine equipment of railroad shops, and the scrapping of obsolete equipment will be facilitated. Finally, through the pooling of orders and the stimulation of a large-scale program, substantial economies in the making of equipment will arise and it is expected that a part of these economies will be passed along to the railroads in either lower purchase prices or leasing rates than are now available to any one road.

4. Three illustrations of how the leasing arrangement might work.

a. At one extreme might be the straight hire-purchase arrangement whereby a road may enter into a contract with the RFC to lease a certain amount of equipment of certain specifications, title to revert to the lessee upon completion of lease.

b. At the other extreme, it is possible that the lease may be granted for a term as short as three to five years, renewable yearly thereafter, at current short-term rates of interest, until the original cost to the government is repaid, whereupon title will revert to the lessee. This might be called a revocable acquisition lease. Under such an arrangement the railroad would forfeit its equity rights upon failure to renew the lease. Special provision might also have to be made to ensure that the equipment was maintained in good repair.

c. A railroad short of cash may have a substantial block of equipment in need of major repairs. It cannot, however, pledge such equipment as security for a new loan. In such circumstances, under the proposed new powers, the RFC may contract to purchase the equipment, have the repairs carried out, and lease this equipment to the road.

5. Advantages to the roads.

The chief advantages to the railroads of a leasing arrangement are as follows:

a. They need not incur a fixed debt.

b. They need not put up 20 percent of the initial cost, as is the customary practice now, and cash resources can be released for urgently-needed expenditures on the way and structures.

c. Annual charges will be lower because of the economies of large-scale purchasing, because of greater standardization, because of the low interest rates on government-guaranteed obligations, and because of tax savings.

d. They can rehabilitate older equipment and modernize machine shops without incurring debt or depleting their cash resources.

6. Protection of the Government's interest.

The Government's interest could be protected in the following ways:

a. Any reductions in prices consequent upon large orders would provide protection for the Government's investment.

b. Specifications of roads for equipment they will lease must be approved by the RFC.

c. The minimum term of lease will be sufficiently long for the lessee to acquire at least a significant equity right, which it will sacrifice on failure to renew the lease and which will pass to a new lessee.

d. In the case of the shorter-term leases, a special charge could be made for the purpose of accumulating a fund available for the financing of major repairs.

June 29, 1939.

MEMORANDUM

TO: Secretary Morgenthau
 FROM: Mr. Gaston

SUBJECT: Interdepartmental meeting on loan program.

At a meeting at your home on Wednesday evening, June 28, 1939, there were present the following persons:

Secretary Morgenthau
 Secretary Wallace
 Jesse Jones, Chairman of the R.F.C. and Administrator-Designate of the Federal Loan Agency
 John Carmody, Administrator of the Rural Electrification Administration and Administrator-Designate of the Federal Works Agency
 Allan Johnson, who is to be General Counsel of the Federal Works Agency
 Thomas H. MacDonald, Chief, Bureau of Public Roads
 C. E. Baldwin, Assistant Administrator of the Farm Security Administration
 Lowell Mellett, Executive Director of the National Emergency Council
 Lauchlin Currie, Economist of the Federal Reserve Board, in his capacity as Economic Adviser of the President's Fiscal and Monetary Advisory Committee,

and the following from the Treasury Department:

Ed Foley, General Counsel,
 D. W. Bell, Fiscal Assistant to the Secretary,
 Harry White, Director of Monetary Research, also in his capacity as adviser to the Fiscal and Monetary Committee,
 George C. Haas, Director of Research and Statistics,
 Eugene Duffield, Assistant to the Secretary,
 John W. Hanes, Under Secretary,
 Herbert E. Gaston, Assistant Secretary.

The purpose of the meeting, as previously announced, was to discuss the new self-liquidating loan program in preparation for the President's

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press conference of Friday, June 30th, at which persons directly responsible for the administration of various phases of the program are to explain them to the press.

A buffet supper was served. After the supper you outlined briefly the purposes of the meeting as above and your remarks were supplemented by Mr. Mellett. You then called upon Mr. Haas to explain a chart showing the source of funds in public purchase of guaranteed securities, their channeling through a new loan corporation, of which the Secretary of the Treasury is to be Chairman and the other members the Secretary of Agriculture and the Administrators of the Federal Works and Loan Agencies, the distribution of the funds to Farm Security loans, Rural Electrification Administration loans, self-liquidating highway loans, non-Federal public works, railroad equipment and foreign loans. Mr. Haas explained that the chart corresponded to the draft of a bill which had been prepared for submission to Congress.

Mr. MacDonald was then called upon to explain the self-liquidating program for highways. He produced copies of a report just issued from the press giving the results of a cooperative survey conducted in forty-six states by the Bureau of Roads in conjunction with the highway departments of those states. The only states omitted from the survey were New York and New Jersey, whose highway departments, Mr. MacDonald explained, have available fairly adequate data on their systems. Mr. MacDonald outlined the character of projects which would be susceptible of development, in whole or in part, as self-liquidating works. These include a through highway from Boston to Washington or Richmond, parts of which could be handled on a toll or other self-liquidating basis, various tunnels and bridges and city arterial developments combining circuit by-passes with depressed arterial highways through cities. In connection with the latter type of project it was explained that the plans called for depressed thoroughfares through the hearts of cities for which it would be necessary to take a minimum of 300 feet and in connection with which there could be excess taking of depressed-value real estate for development to yield a profit. One of the plans shown as typical is for such a development in and around Baltimore. Chicago has already entered an application for a similar development from the Lake westward along Congress Street, but Mr. MacDonald remarked that the plans submitted for Chicago were not adequate nor satisfactory at present. As to some parts of these projects, notably the northeastern seaboard arterial highway, the toll device could be used. As to other projects it was explained that it would probably be necessary to earmark future state receipts from gasoline and motor vehicle taxes for service on the obligations in order to put them in the self-liquidating class.

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Mr. MacDonald also told of a project being promoted in Los Angeles by the promoter of the Bay Bridge at San Francisco, which is one of a system of arterial highways for the use of which special tags would be sold to make the projects self-sustaining. Mr. MacDonald occupied the half hour from 8:30 to 9:00 with his explanation, including display of various charts and pictures. At that hour the meeting recessed to listen to the radio broadcast of the Louis-Galento fight, which terminated at exactly 9:30.

At that time Mr. Mellett, after consultation with you and with me, made the suggestion that Mr. MacDonald summarize his explanation in ten minutes just as if he were doing it for the press conference. This MacDonald did, using about fifteen minutes and presenting the material in a somewhat crisper fashion.

Chairman Jones was then called upon to discuss railroad equipment and foreign loans. The substance of his remarks was that he didn't know whether there was or was not any great need for either of these types of loans; that his organization would be willing to make them if they got the applications; that he thought they already had the authority to make loans in both these classes and had in the past been doing something along these lines, but that the granting of additional authority and new mechanism probably wouldn't do any harm.

Mr. Carmody was then called upon to discuss both non-Federal public works and the Rural Electrification program. He began, however, with a discussion of railroad equipment loans in the form of a reply to Mr. Jones. His manner was somewhat exuberant and cheerfully pugnacious. Advancing on Mr. Jones he remarked that he was an old railroad man and that he thought he knew something about railroads. He said that while he was working on the railroad Mr. Jones was making a million or so in real estate in Texas and that while he approached the railroad equipment problem from the standpoint of a man who knew railroads, Mr. Jones seemed to approach it from the standpoint of a real estate man. He stated it was his belief that the railroad plant was badly run down; that their policies had been governed by bankers and real estate men and not by the operating men; that the operating men would like to have new and better equipment but that the directors and bankers would not let them have it; that there was great need, particularly for re-equipping the railroad shops all the way from the Atlantic Seaboard west to the Mississippi River and that if the problem were attacked energetically a great deal of useful and necessary work could be furnished. He said the automobile industry was a shining contrast with the railroad industry; that Walter Chrysler had taken a chance and spent a lot of money to buy the latest mechanical equipment for making cars and that while everybody said he was crazy the result was that he introduced new economies in production

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that made the expenditure well worth while. He said the railroads could do the same thing if they had the brains and vision to do it. Jim Hill, he said, was another real estate man who ran a railroad. The railroads, he added, are all busted except maybe Harvey Couch's railroad. "Harvey", he said, "is coming to town tomorrow to see me, but I understand he saw you today." (This was a reference that could not be mistaken to R.F.C. loans to Couch, a former associate of Jones in the R.F.C.)

Passing to non-Federal public works he said of course it was going to be difficult to get localities to take self-liquidating loans when they had been accustomed to getting handouts, but that after they found they couldn't get the handouts, he thought they would come in for the loans. He said of course Mr. Ickes doesn't believe that, because he likes to give away money. Mr. Carmody interspersed his remarks with somewhat belligerent questions addressed to Mr. Jones, with gestures, to none of which Mr. Jones replied. Just after he had taken his fling at Secretary Ickes you interrupted him to ask that he please omit the personalities. You said that we were all here together to do what we could on this program and to get ready to sell it to the newspapers. Mr. Jones asked why all the attention to the newspapers since he thought selling the program to Congress was our chief objective. Mr. Mellett replied that the newspapers would have a great deal to do with selling the program both to Congress and to the public, both of which were necessary.

At this point Mr. Carmody resumed his remarks passing to Rural Electrification and telling of the satisfactory progress of that program. He still held the floor but apparently had completed his expositions when you asked Mr. Mellett who was to take up the next explanation.

Mr. Mellett called on Secretary Wallace who brought forward Mr. Baldwin and Mr. Baldwin told how funds could be used in the expansion of the rehabilitation and other loans of the Farm Security Administration. He said that the borrowers from the Administration had made an excellent record in repayment of their loans, but added that due to the careful budgeting of these loans, the small amounts in which they were made and the great amount of advice and assistance given, ~~that~~ the service costs averaged about \$40 a year on average loans of \$600, thus exceeding by \$10 a year the five per cent interest return on the loan. Questioning developed, however, that the character of this service was such that it should not be wholly charged to expense of loans but was rather in the nature of a social rehabilitation service. He told how the net asset position of most of these families had been very substantially increased as a result of the loans.

There followed some general and group discussions, after which the meeting broke up. After the others had left you talked for a few minutes with Lowell Mellett and me on the events of the evening. You expressed your regret at the Carmody episode and we all agreed that you could do nothing less as host than to interrupt his most personal remarks.



GROUP MEETING

June 29, 1939.
9:30 a.m.

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

H.M.Jr: Mac, in order that we can see these different people - I'm seeing at 11 o'clock the big staff, am I not?

McR: Yes.

H.M.Jr: All right. Well then, in order to run this thing off, tell Dr. Parran's people to be here at 11:30, and at 11:45 the architects.

McR: Yes, sir.

H.M.Jr: Huh?

McR: Yes, sir.

H.M.Jr: Dr. Parran's people at 11:30, architects 11:45.
Anything else?

McR: Waesche reported to me on the golf course that that special appropriation for Coast Guard for additional boats and things of that kind was out; the only thing they were getting was the Kodiak station, the rest of it was put out by the White House.

H.M.Jr: By the White House?

McR: Yes.

H.M.Jr: What do they mean by the White House?

McR: That Waesche was informed it was the President's budget - it was the President's decision they'd have to delay the other, that he'd give them only the

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Kodiak station.

H.M.Jr: Have you asked the Bureau of the Budget yourself?

McR: I have not.

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

McR: I will.

H.M.Jr: I mean "the White House" is sort of a generic term these days.

McR: Yes. Covell called me....

H.M.Jr: Well, Mac, let's keep moving. I'm under awful pressure today, I mean. But ask, and let's get it....

McR: I'll ask them. Now here's a letter I think you want to sign to Harry Hopkins. Nell didn't get it in time.

H.M.Jr: What is it?

McR: It's on this.... (words fade off).

H.M.Jr: What does it say? What's the purpose of it?

McR: Well, it's fixing - I wrote it last night - Foreign Trade Zone Board asks....

Gaston: Permitting the City of New York to make further improvements in the free zone at Staten Island.

H.M.Jr: Let me sign it, then you leave it here. What happened last night?

McR: Maybe I haven't been awake long enough - maybe because I was awake too soon - 8:30 today.

Now, Dr. Phillips recommended a chap named Arthur Webb - Customs, New York - to be appointed as Deputy Surveyor.

H.M.Jr: All right. Well, you and Steve and Herbert Gaston decide it. I mean it's a question of appointment....

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Gibbons: It's too old. He's out.

McR: Yes, I think you have to turn it down. Steve recommends against it.

H.M.Jr: All right. O. K.

McR: That's all.

H.M.Jr: Now, McReynolds, this is the instruction from the President on the question of Military Intelligence, Naval Intelligence, and Justice. I hand it to you and I want to acknowledge it and tell the President I have carried out his orders. And I take it that cuts out the stuff - reporting to Messersmith; I don't know.

Now, who are you (Hanes) leaving the question of Greenlee, of Indiana - who will carry that for you?

Hanes: I've got - Harold Graves is making a report on that, and he's got - you said in about a week or ten days you'd be ready.

Graves: Yes. That investigation is in progress now. I'm afraid the investigators have run into some things that they've got to go into pretty thoroughly - for instance, this fellow's interest in the liquor business.

H.M.Jr: Tch, tch, tch!

Graves: And they have evidence that he hasn't been paying his income taxes.

H.M.Jr: The question is, is it profitable?

Graves: I think it has been profitable. So that investigation may take a few more days, Mr. Hanes.

H.M.Jr: All right. Will you send a memorandum for me to General Watson, a progress report that we're investigating it and we have found enough stuff to make us feel we've got to go into it more thoroughly.

Graves: That's it.

H.M.Jr: Mrs. Klotz, being systematic, wants to know what

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Mr. Bell did about George Harrison's coin collection.

- Bell: I've tried three times to get him. Never been able to get him on the telephone. There is still a note on my desk to call him up.
- H.M.Jr: And this Commodity Credit - were you going to do anything about the interest rate or wait until the first of July and then take up the question?
- Bell: Well, we handled the 95 million dollars on cotton. You have a memorandum in your file; I dictated one. On the other, Jesse Jones called you and asked you to take no action until he had a talk with you.
- H.M.Jr: Well, after the first of July that authority goes to them, doesn't it?
- Bell: Yes, but I think Jesse will still have a hand in it, because he has three members on the Board of Directors.
- H.M.Jr: Well, let's take it up around the fifth of July.
- Bell: All right.
- H.M.Jr: And did somebody send the Chairman of SEC a copy of the letter of the Canadian Minister of Finance? Did that go over?
- White: It left my desk a week ago.
- H.M.Jr: I mean to Chairman Frank.
- Foley: The copy of the letter or the reply?
- H.M.Jr: Copy of the letter.
- White: The copy of the letter is going to be sent with our contemplated reply.
- Foley: Contemplated reply.
- H.M.Jr: How about getting this over to the Chairman of SEC? Well, please send it.
- White: They're all there.

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H.M.Jr: And to the Federal Reserve - and to the Fed of Washington.

Foley: Here's a copy to the SEC.

H.M.Jr: And to the Federal Reserve.

Foley: Yes, sir.

H.M.Jr: Huh? It's good I keep these boys....

Foley: This is the one to Frank. Have to make up one for Eccles.

H.M.Jr: Yes, Eccles. Can that go today?

Foley: Yes.

H.M.Jr: Anything else?

McR: Did Ed ever find out the title of that amendment that you....

H.M.Jr: Oh yes.

Foley: We won.

H.M.Jr: What?

Foley: We won.

H.M.Jr: I don't know who "we" is, but here's twenty cents.

Foley: Herbert Gaston and I.

Hanes: Didn't get in at the right time. I thought I was slipping in at the right time.

H.M.Jr: Once it started - "we want to get in anyway." But the interesting thing is that there is no public works program in the relief bill, is there?

Foley: That's right.

Gibbons: Didn't Herbert or Mac tell you about the five cases of stones that were found in place of opium being stored down in Treasury? That stuff was brought

over for a two years' supply; the War Department wanted it.

H.M.Jr: Yes.

Gibbons: They're Italian stones put in, I think, aboard ship.

H.M.Jr: It's been downstairs for two years?

Gibbons: No. The Army asked for a two-year supply of opium in case of war, and we went through with an arrangement, and it's nearly two years. And these shipments were made in January.

H.M.Jr: You mean they were never opened?

Gibbons: They weren't opened. They were put into the Treasury vault under customs regulations. I didn't know anything about it. As soon as I found out about it, I changed it. I changed it some time ago. Everything has been opened that's put in. It was first brought down from New York to the Treasury vault, then taken back.

H.M.Jr: Who paid for it?

Gibbons: The company paid for it.

McR: It isn't ours.

Gibbons: It isn't ours. It belongs to three companies. But the funny thing is, it's Italian stones according to the Smithsonian Institute, which analyzed it. The opium - it was a very fine piece of work. The carpenter cut out under the box and put in the opium.

H.M.Jr: But they're Italian stones.

Gibbons: They're Italian stones.

H.M.Jr: That's something.

Gibbons: Out of about 400 cases, there were five of them.

H.M.Jr: Anything else?

Gibbons: Got it right on top, you know, all the time.

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- McR: Got a ship's carpenter.
- H.M.Jr: And we get on top every two years.
- Gibbons: About that.
- H.M.Jr: Anything else?
- Gibbons: That's all, except that stuff that's been in the New York Tribune and New York Times.
- H.M.Jr: Well....
- Gibbons: Of course, it's something that - the law will have to be changed.
- H.M.Jr: Well, I haven't - I've just got to keep moving this morning, if you don't mind.
- Lochhead: Sterling is a little under pressure. London has lost two million dollars.
- H.M.Jr: Harry?
- White: You may be interested in this sentence in the cable from France: "Surprise is expressed in the French Press that apparently the United States and Great Britain have forgotten their ardor for development of liberal international commercial transactions in the consummation of this barter deal." It's a cable which merely expresses the view that they think it runs counter to our commercial policy.
- H.M.Jr: Well, I want to say for myself and Mr. Jesse Jones - I don't know, I can't talk for anybody else - that neither he nor I have the slightest idea as to what that barter deal is; and he, as - Commodity Credit having to handle it, no one has done him the courtesy - leaving me out - but he doesn't know a single thing - the Commodity Credit is going to handle it - about how that thing is going to be done. I wouldn't believe it if he hadn't told me himself. I mean I'm used to being walked over, but I thought that certainly.... And they've got to get the cotton from Commodity Credit.
- Lochhead: They have to have legislation to get it.

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H.M.Jr: Did that clear the Commercial Policy Committee?

White: No, unless it was at some confidential, secret meeting.

H.M.Jr: Tell you what you do. Would you write a letter to Mr. Hull and say that the United States Treasury has read in the paper of this barter deal, and inasmuch as Commodity Credit is involved and inasmuch as we are the sole stockholder of Commodity Credit, would somebody in the State Department do me the courtesy of letting me know the details of this thing?

White: I'll write it.

Gibbons: Could you excuse me? I've got a man waiting.

H.M.Jr: Sure.

(Gibbons leaves)

White: Dr. Jacobsen has been around Washington seeing a great many people, and....

H.M.Jr: And also bring in that I am surprised that this barter deal was never brought up at the - what do you call it?

White: Executive Committee of Commercial Policy Committee.

H.M.Jr: Yes. Make sure that it wasn't, and then....

White: I'll check.

H.M.Jr: I just want to put that down. But I'd like that to go today. I mean what's the use - and I'd say, "What's the use of having the - of the Treasury having a representative on that Committee?"

White: They might say that wasn't a commercial transaction.

H.M.Jr: Oh, nuts! Nuts!

White: Or might say it's a military transaction.

H.M.Jr: Oh well....

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White: I mean they might say it.

H.M.Jr: Well, that's not....

White: Jacobsen has been around here a good deal and has been apparently successful in getting across certain ideas of his. We wrote a memorandum on his idea and himself, which, if you listened to him, I'd like to have you read. If you didn't listen to him, why, don't bother reading it.

H.M.Jr: Well, he told me about all the good Swedish watering places.

White: No, this has nothing to do with that.

H.M.Jr: And when he got all through, he admitted I'd better go to Denmark.

White: Then I'll just file this.

H.M.Jr: Right.

White: With your permission.

Klotz: Wonderful.

H.M.Jr: No, I - that was part of the conversation.

White: Well, as long as he didn't tell you his ideas as to what's wrong with America....

H.M.Jr: Don't worry. All right?

White: That's all.

H.M.Jr: He told me about the Tivoli and Copenhagen, and where you get the best Smorgasbord.

White: I shouldn't be surprised if he knows a good deal about it.

H.M.Jr: All right, Harry?

White: That's all.

Gaston: About "that," you said.

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White: About "that." Underline the "that."

Gaston: Yes.

H.M.Jr: Now, can't - when do you want to do this thing?

Hanes: Byoff?

H.M.Jr: Yes.

Hanes: I don't know. I think you asked me about it the other night, and Harold is ready to report on it, so if you've got time....

H.M.Jr: Let's do it now. That saves another meeting.

Graves: You want me to tell you about it now?

H.M.Jr: Now.

Graves: We've been ready for a week with this report to the Department of Justice in which we recommend prosecution of Byoff and Schenck, who was the pay-off man in this transaction.

You recall that you asked Mr. Hanes, Mr. Foley and I to advise you before this report goes as to whether the nature of the thing was such that you would be warranted in sending some special communication from yourself to the Attorney General. So far as the income tax phases of the case are concerned, I think we are in accord that there is nothing in the case that would warrant your sending anything to the Attorney General. And, if you approve, the report will go over in the routine order.

H.M.Jr: I'll approve it if Mr. Hanes says he approves it.

Hanes: If not - as I understand it, you're not sending any recommendation that anything be done on income tax.

Graves: We are recommending prosecution of Byoff and Schenck.

Hanes: But not on account of the income taxes.

Graves: On account of the income tax violation; that is, violation of the revenue law.

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Hanes: I thought it was on account of the bribery job.

Graves: No, that's a thing which I think Mr. Foley has in hand collaterally, but so far as this report is concerned, it's been confined strictly to the violation of the revenue laws.

Hanes: I didn't get that understanding. But that's all right.

H.M.Jr: Do you want to go into it further?

Hanes: No, I'm satisfied. Not a bit, no.

H.M.Jr: Do you (Foley) want to say anything?

Foley: I think it ought to go over in the regular way.

H.M.Jr: Didn't you fellows meet this morning?

Hanes: Not on this. No, that was on the President of Louisiana University.

H.M.Jr: Oh well, I don't know anything about it. Well, just let me ask you this. I mean I'm not trying - I thought that's what you meant on this, that you were going to report on this. Well, am I rushing you too much?

Hanes: No.

H.M.Jr: Well then, restate how the thing is going to go over.

Graves: This goes over as a recommendation for the prosecution of Byoff, who received, as you know, a bribe,

H.M.Jr: I know.

Graves:for failure to return the amount of that payment as income, and also recommending the prosecution of Schenck for violation of the revenue laws, in that he obstructed the investigation, he lied about what happened, he attempted to conceal the true character of these transactions. Of course, we can't hold Schenck for failure to report income. His income isn't affected. But his prosecution is recommended on that ground.

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- H.M.Jr: Well, is that all right with you (Foley)?
- Foley: It's perfectly all right with me. We talked about this, Harold and Phil and I, about two weeks ago and I asked Phil to give me a separate memorandum on the bribery end of it. But the case isn't clear enough, Mr. Secretary, so that we should take it out of the ordinary method of handling cases of this character and bring it formally through you to the attention of the Attorney General. I think it ought to go over through the Commissioner to the....
- H.M.Jr: Normal.
- Foley: ...Assistant Attorney General in charge of taxes, in the regular way.
- H.M.Jr: Well, I'm satisfied.
- Is there something I should know about President Smith of Louisiana?
- Foley: Yes, I think so. The day before yesterday the Attorney General called me at home and he asked me what we had on J. Monroe Smith, the President of the University of Louisiana, who had absconded and apparently embezzled state funds down there. He said that he had gotten a degree, an honorary degree, in fear and trepidation while he was down there. He had called us up and asked if we were about to spring anything, because he was going to take an honorary degree and he didn't want to have any taint on it.
- H.M.Jr: That's the darndest one I ever heard in my life.
- Gaston: Practical politics.
- Graves: And he was told at the time that we had this man under investigation.
- Foley: But the matter was in the field, we didn't have anything in Washington.
- H.M.Jr: He was told that before he took the degree?
- Graves: Yes.

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White: He must have wanted it badly.

H.M.Jr: What price degree!

White: What price degree!

McR: Apparently he didn't like it, because he wants to go ahead on this.

Foley: He made a very pious speech down there about cleaning up gangsterism, racketeering and pirating, all the rest of it, in the United States, and all the newspapers down there took him to task and said editorially that if the Attorney General really is in earnest and wants to do something, here is an open field and this is his opportunity. So he called the day before yesterday at a quarter of eight and asked me to find out if we had something.

H.M.Jr: In the morning? God, did he get you?

Foley: Yes, he got me.

H.M.Jr: Aren't you glad you're in the Treasury?

McR: No argument there.

Foley: I came down - I told him that I didn't know of anything but I'd find out, and he said, "Call me at the office at half past nine." So I spoke to Mac and we got hold of Elmer. Elmer said he had a report, and I called the Attorney General and told him that and he said, "Well, that's fine, get it over to me as soon as you can." I told him the lawyers hadn't looked at it and we were going to go over it that afternoon and I'd let him know later in the afternoon. Well, his secretary called about 2:00 o'clock and then he called me later that evening over the White House wire and asked me how the matter stood, and I told him that we found that we didn't have anything that we could turn over to him, but we were asking the agents to fly up from New Orleans and we were going to talk to them in the morning, and if there was anything I'd let him know.

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We have a prima facie case of tax evasion in connection with a rather small item. Weiss is the architect for the public improvement down there - designing - and this is not Seymour, this is Leon: no relation apparently - architect for the construction of these improvements that are being financed down there. A check drawn by Smith payable to Weiss's architectural firm was endorsed by the firm, found its way back into the University account, and bonds issued by Smith, this President of the University, to Weiss were found in the amount of \$20,000 in Smith's account with Fenner and Beane. There was no reference to the payment of the \$20,000 from Weiss to Smith in Smith's 1936 return.

H.M.Jr: You call that a small item?

Foley: Well, in terms of these millions of dollars that these fellows deal in, it is relatively small.

Graves: In terms of the transactions that he was involved in, it is relatively small. That is, he embezzled apparently large sums from the state.

Foley: So we had a meeting in Johnny's office this morning - Elmer, Mac, Harold, Phil Wenchel and myself - and we decided that we'd make this information that we have available to the Attorney General at once, since he's asked for it, and we'd treat this case not as a precedent, but one out of all routine. Here is a fellow who has obviously absconded, he's obviously a crook, and the state machine down there is in the process of turning over and Earl Long is getting in and Leche is getting out, and the whole thing is on dead center; and if the Attorney General can be given something so he can start a Grand Jury investigation, I think that the whole house of cards will fall and people will come in and talk and they'll make out a record not only of this income tax fraud but also of embezzlement and violation of state law that will force that group down there to go ahead.

H.M.Jr: What does he do with his honorary degree?

Foley: I don't know.

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Lochhead: Foley, have you checked up on American University yet?

Foley: On American University? On account of Mac?

Lochhead: Yes.

Klotz: Who said that?

(Hearty laughter)

Foley: Johnny got called back - the Secretary called Johnny in here and we didn't get to that one this morning.

Hanes: I think it is fair to say that both Harold Graves and Helvering do not want this to be a precedent for turning cases over to the Department; but this does seem like an unusual case.

H.M.Jr: You approve of this?

Hanes: Oh yes, I think it ought to go over. He asked for it. It would be pretty embarrassing not to give it to him.

Foley: And the letter is going to state that the investigation hasn't been completed but we are making available to him what information we have in accordance with his own request.

Hanes: We've got some more cases which I understand are going to continue under investigation and we'll give it to him as fast as we can get it.

H.M.Jr: Well, as they develop, I'd like to be kept advised. All right, Harold?

Graves: There is - you've asked me to look into a number of things and report to you. I think perhaps it might be best for you to let me have fifteen minutes sometime.

H.M.Jr: All right. Mrs. Klotz, put it - I'll let you know during the day. I'll give you a couple hours notice.

Graves: I'm in no hurry at all. I thought perhaps you'd like me to report.

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H.M.Jr: 3:30?

Graves: Fine.

H.M.Jr: George? Whoever did that chart, please compliment them, will you?

Haas: Thank you.

H.M.Jr: And have it brought in here, because I may want to show it to the President. Will you? Give it to Kieley.

Haas: To bring it in? We were making some changes on it.

H.M.Jr: Well, have it ready from noon on, will you - from 1:00 o'clock.

Haas: From 1:00. All right. I'll see to it. It may run into some difficulty.

H.M.Jr: Well, you can - I've got to keep moving.

Foley: You have a memorandum from the President in connection with that proposed legislation of Senator Hayden's in regard to the creation of a Federal Land Authority.

H.M.Jr: I know.

Foley: The President says that he doubts if anything can be done, but make it the subject of a special group - Eccles, Delano, et al. The powers that Hayden is seeking are in our bill, the bill that we discussed last night.

H.M.Jr: Yes.

Foley: And if you would like to have me go down and talk to Hayden and show him that....

H.M.Jr: Swell.

Foley:I think I can get Hayden's support for this highway - I mean our proposal in lieu of this highway proposal.

H.M.Jr: I'd just wait now until this WPA thing is finished, is through. If it's definitely finished.... I'd see him whenever he'd see you.

- 17 -

Foley: All right.

H.M.Jr: All right?

Foley: And then I think - yes, that's right - then we'll give a report to the President.

There is a loophole in Section 303, the countervailing duty section of the Customs laws. The statute says that if merchandise manufactured or produced in the particular country is found to be subsidized in so far as its exportation to this country is concerned, then it is your duty to impose countervailing duties. Now, Germany is importing from Bulgaria tobacco and then subsidizing the export of that tobacco to the United States. Now, that is a situation that is outside the statute and it is a situation that may continue to grow as Germany develops this barter arrangement of hers. And what she'll do is take coffee that she gets from Brazil and then subsidize it and then send it in here.

What I would like to know is whether you want us to prepare a suggested amendment....

H.M.Jr: Yes.

Foley:and a letter of transmittal for you.

H.M.Jr: Definitely.

Foley: All right.

One final thing. There is before Congress now the legislation to provide for the complete independence of the Philippines. There is a provision that after 1946 in a special fund in the Treasury will be paid an amount sufficient to insure payment of principal and interest on the Philippine and municipal obligations of the Philippines. And then there is a proviso that if at any time the Secretary of the Treasury determines that it would be a hardship for the Philippines to make the payments for that special fund, then they shouldn't be made. I think that that proviso should be stricken from the legislation, because it imposes upon you a duty that may result in the United States being called upon to pay these bonds eventually.

- 13 -

H.M.Jr: Will you talk it over with Bell and....

Foley: Well, we have, and Danny wanted me to bring it up because he thought there was a question of policy involved. I feel that the proviso should be stricken out. If after you make such a determination that it is a hardship for the Philippines to make the payments, there is a default on the obligations, the holders of the obligations are going to ask the United States to make good on the ground that you were responsible for the default.

H.M.Jr: Johnny, you got any opinion on it?

Hanes: No.

H.M.Jr: I can't give you - if you and Bell are in agreement, I'm willing to take your advice.

Foley: I think you ought to sign this letter.

Bell: I think it's a question whether the United States is responsible for these obligations. I think the Attorney General has ruled that we are probably morally responsible, but I don't know that a decision of this kind....

H.M.Jr: Well, let's lay it over until we can think about it. If Bell isn't satisfied and Hanes hasn't had a chance to see it, let's let it lay over.

What's the fellow that handles Philippine bonds?

Duffield: Buckner?

Foley: Buckner.

H.M.Jr: Maybe he'll give me a party. Maybe he'll give me a party.

Hanes: You and Senator Walsh.

McR: That particular girl is all washed up, though.

H.M.Jr: Well, you seem to have inside information.

Strike one - Mac is blushing. O. K., Mac, you'll get even with me tomorrow.

- 19 -

Duffield: Do you want the usual fiscal year end mimeograph, just reciting the figures?

H.M.Jr: Yes, sure.

Duffield: Raymond Leslie Buell.

H.M.Jr: Oh God!

Duffield: You just told me to remind you, that's all.

H.M.Jr: I know. Better get it off my.... - 3:45.

Duffield: That's all.

H.M.Jr: He went to work for Fortune.

Duffield: That's all.

H.M.Jr: Herbert?

Gaston: If there is to be a friendly presentation of the railroad equipment thing at the Friday morning conference, it may be that the Office of the Assistant Secretary of War could be helpful.

Klotz: That's very subtle.

H.M.Jr: You'll have to draw me a picture some other time. I don't....

Gaston: One of the things they have investigated in connection with their preparedness program is the sufficiency of the transportation equipment, and it would be an interesting angle.

H.M.Jr: I think it's got to be done by Jones - the President and Jones have got to sit down and come to an understanding.

Foley: That's right.

H.M.Jr: The two of them have just got to come to an understanding. Any other thing?

Bell: I think Jesse will do a better job than he did last night. He just didn't want to open up.

- 20 -

- White: He couldn't do worse.
- Bell: He couldn't do worse. He just didn't want to talk last night.
- H.M.Jr: Well, I'm sure he'll do a better job after he's talked to the President.
- Johnny?
- Hanes: I'm leaving, I believe, one piece of unfinished business here in connection with the tax bill, which I think the staff ought to know about. I believe the only thing that you suggested in your statement before the Ways and Means Committee that hasn't been attended to is the question of setting up this committee by the Congress to study the tax problem. Now, I've written a letter to both Pat Harrison and to Doughton....
- H.M.Jr: Yes.
- Hanes:and I've talked with both of them several times, and they're sympathetic with the idea and want to do it themselves. But there is some jealousy, as there always is, between those two committees as to who's going to do it. And I suggested that the resolution be drawn and that money be appropriated for such a study by the joint committee of the two Houses in conjunction with the Treasury. Now, just how they'll decide that I don't know.
- H.M.Jr: Well, who will you leave it with?
- Hanes: Well, I hadn't thought about who we'll leave it with, but I - they're both familiar with it and I've written both of them a letter, and I don't know just who is the proper one to leave it with. I haven't got anybody with....
- H.M.Jr: Well, leave it with Mac to follow through. Is that all right?
- Hanes: All right. I'll show Mac the letters I've written to both Doughton and Harrison, and to Stam. Stam is thoroughly familiar with it and Stam's got four alternative proposals that he's going to submit

- 21 -

to Doughton and Harrison. Now, what we've got to do, the main thing - about all that remains to be done is to get Doughton and Harrison into some sort of agreement as to who's going to do it.

H.M.Jr: Well, if you'll leave it with Mac and then....

Hanes: I think the resolution ought to be passed, and they can get unanimous consent to pass it through both Houses, and it wouldn't take a minute to do it, if we could just get them in agreement. And I haven't been able to. I think they're pretty nearly in agreement, but I can't say they are. X X X

H.M.Jr: Well, where is my partition on the 45 billion? Where is that? That's tied up, too, isn't it, with that TVA amendment?

Foley: Yes. It's in conference.

H.M.Jr: Well, can somebody give that a whirl on the 5th of July? Huh?

Foley: (Nods yes).

H.M.Jr: Now, what....

Hanes: You're in sympathy with getting the resolution through?

H.M.Jr: Oh, sure.

Hanes: Well, that's what I took from your statement, that you wanted to follow it through. Now, it's in good shape up to this point, but I just haven't been able to get them in agreement as to what the resolution is going to call for as to the committee to be assigned. X

H.M.Jr: Now, will you do this? I'll just need a minute or two, and then I'm seeing you and Preston Delano, am I?

Hanes: 10:00 o'clock, yes.

H.M.Jr: Well, you want to go right on now?

Hanes: Yes.

H.M.Jr: All right. Let's see, who sits in on that?

CONFIDENTIAL

JUN 29 1939

My dear Mr. Dunning:

I wish to express my thanks for your letter of June 5, 1939 in which you give your views with regard to the matters that I discussed some time ago with Mr. Towers. I sincerely appreciate your offer to cooperate with us in the problems we have been discussing.

It occurs to me that it might be worth while to discuss further some of the technical details of the problems which would inevitably arise should it become desirable to attempt a cooperative program for the protection of the security, ^{and money} and commodity markets of both countries in the event of acute disturbances abroad. With that in view I suggest that a small group of experts from the two Treasuries, and any other agencies that might be appropriate, confer on this matter either in Ottawa or Washington. I should be glad to have your views with respect to this suggestion.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable Charles A. Dunning,
Minister of Finance,
Ottawa, ^{Ottawa, Canada,} Canada.

BDW BECHER:smh
6/29/39 E.H.Fh

FILE COPY



OTTAWA, June 5, 1939.

CONFIDENTIAL.

Dear Mr. Morgenthau,

Some time ago at your request I arranged to have Mr. Graham Towers, Governor of the Bank of Canada, go to Washington to discuss with you the problems involved in protecting the security, commodity and money markets in the event of war in Europe, and the measures that might be taken in that event with particular regard to preventing panicky marketing and utilization of assets in our respective markets. I was glad to have Mr. Towers discuss with you these important problems because they had already been the subject of consideration and concern on my own part. Promptly upon his return Mr. Towers reported to me fully upon his discussions and the questions which you had raised, but unfortunately the pressure upon me during the last few weeks has been exceedingly heavy because of the rush to conclude the work of Parliament. Parliament, however, prorogued on Saturday evening and I now take the first opportunity I have had to reach decisions and to give you the benefit of our conclusions.

I will now deal seriatim with the various points raised by you.

1. In regard to the impounding of the foreign securities of our nationals, while we have made no plans whatsoever in this connection, I think I can assure you that in the event of such action being taken that we will be able to cooperate with the authorities of the United States in a way which will be entirely satisfactory from your point of view.

2. Assuming that Canada does not impound foreign securities owned by our nationals, I do not see how our Government will be able to supervise or control the actions of Canadian owners of

2.

United States securities. However, your problem in respect to Canadian owners of United States securities will, it seems to me, be simply a minor extension of your own domestic problem. In any case the volume of such securities will not be large, and in many cases they represent investments of long standing which are no more likely to be affected by panic than the investments of United States citizens.

I should add that if the United States instituted certain regulations affecting its own nationals, there might perhaps be ways in which Canada could cooperate to prevent evasion of these regulations by Canadians or by others operating through this country. If you have any suggestions in this regard, we should be very glad to give sympathetic consideration to them.

3. The remarks made in the preceding section are applicable also to the case of European nationals who may hold securities in safekeeping in Canada, either in their own names or in the names of Canadian holding companies. In other words, I think the Canadian Government, while it could not take the initiative in supervising or interfering with the sales of such securities, might be able to cooperate in preventing evasion of United States regulations. It is also possible that we might cooperate to prevent evasion of regulations made by the country of which the European investor is a national, if that country were an ally in any war.

4. In regard to commodity markets, I do not see any likelihood of Canada being a disturbing factor but I would be glad to hear from you if you visualize any difficulties in this respect.

In general, therefore, the position which I have outlined amounts to this. If we should decide to impound foreign-owned securities, we will certainly be willing to cooperate with you; and if we do not do so we will be glad to consider any request for assistance and cooperation which you may care to make.

5.

I trust that I have dealt with all the points raised by you with Mr. Towers and that I have left no doubt or uncertainty as to what our attitude will be.

Yours very sincerely,

A handwritten signature in cursive script, likely belonging to J. Edgar Hoover, written in dark ink. The signature is fluid and somewhat stylized, with a long, sweeping tail on the right side.

Hon. Henry Morgenthau,
Secretary of the Treasury,
WASHINGTON, D.C.

CONFIDENTIAL

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Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable Charles A. Dunning,
Minister of Finance,
Ottawa, Canada.

BB:R
6/23/39
E. V. L.

JUN 29 1939

My dear Mr. President:

I am enclosing for your information a copy of a confidential letter which I have received from The Honorable Charles A. Dunning, Minister of Finance of Canada, dated June 5, 1939. I am also enclosing a copy of my reply.

I shall keep you informed of any arrangements looking to the conference between the two countries.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

✓
Enclosures

HLW:BB:neu
6/26/39

By hand

JUN 29 1939

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Enclosures

HDW
6/29/39

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Enclosures

MDW:BB:msu
6/26/39

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Enclosures

HDW:BB:mau
6/26/39

JUN 20 1939

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Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable
The Secretary of State

Enclosures

2011
7/10/39
L.M.K.
FILE COPY

JUN 29 1939

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The Secretary of State

Enclosures

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The Honorable

The Secretary of Agriculture

Enclosures

HDN 6/29/39 R + L
FILE COPY

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Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable
The Secretary of Agriculture

Enclosures

7/20/39
HDW:sm
6/23/39

E. H. H.

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Enclosures

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Enclosures

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6/26/39

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Enclosures

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Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable Jerome Frank,
Chairman, Securities and
Exchange Commission,
Washington, D. C.

Enclosures

2/27/49
HDW:m
6/24/39

E. M. J. h
FILE COPY

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Enclosures

7/2/39
HJW:sp
6/24/39

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Enclosures

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6/26/39

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Enclosures

HDW:BB:smm
6/26/39

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Sincerely,

(Signed) H. Morgenthau, Jr

The Honorable Marriner S. Eccles,
Chairman, Board of Governors of
the Federal Reserve System,
Washington, D. C.

Enclosures

BB:meu
6/29/39

E.H. 76

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Enclosures

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Enclosures

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(Signed) H. Worgenthaler, Jr.

The Honorable Marriner S. Eccles,
Chairman, Board of Governors of
the Federal Reserve System,
Washington, D. C.

Enclosures

BB:meu
6/29/39

June 29, 1939

3 pm

Present:

Mr. Foley
Mr. McReynolds
Mr. Gaston
Mrs. Klotz

HM,Jr: Do you (McReynolds) recommend Stevens?

Mr. McR: In comparison with anybody else I have talked to outside of Dawson, I think he is the best prospect we can get.

HM,Jr: You have not answered me yet.

Mr. McR: I haven't made up my mind whether he ought to be appointed or not; whether he has experience enough to do much good.

HM,Jr: Herbert?

Mr. Gaston: So far as business qualifications are concerned, I haven't the slightest doubt he's a very high type, able fellow. The only doubts I have are on matters of politics and business connections. He's a Republican, mildly sympathetic to the Administration; thinks well of the management of the Treasury Department, but apparently does not think much of the Administration policies in general. He's pretty well tied in with corporate connections that involve tax difficulties. Those are my only doubts. As to his qualifications

HM,Jr: I think you have sized him up beautifully. That's the way I sized him up. I said, "Did you vote for Mr. Roosevelt in 1932?" "No." "Did you vote for him in 1936?" "No." "I won't ask you if you will vote for him next time. We might just as well stop here." He said, "I am not very proud of that." He kept saying two or three times "very sorry to take our time"; kept apologizing. Said, "I did not want to come over as a salesman, but I have three

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different kinds of dress goods I want Mrs. Morgenthau to have." I said, "Well, I will break my rule and I will accept it." He's the fellow who gave her those terrible six pairs of cotton stockings.

But he is the kind of a fellow, if we got into a war I would like to have down here.

Mr. Gaston: Right!

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 29, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Data on wheat export sales and other market information, reported by Federal Surplus Commodities Corporation.

June 10: International demand for grains disappointing, and Argentina seems anxious to sell its surplus.

Dry weather prevailed in western Europe during the week, but the outlook continues favorable for a big harvest in the Danube River basin and Rumania.

June 12: Export demand for North American wheat improved somewhat and it was estimated that about 500,000 bushels had been worked to the United Kingdom, mostly Manitobas.

June 13: Liverpool established new season's lows, depressed by Argentine re-sale wheat, but firmed later in the session on improved demand for Australian parcels.

June 14: Export sales of North American wheat estimated at 750,000 to 1,000,000 bushels, which includes Manitobas to the United Kingdom and Continent and some American Hard Winters afloat or already in store.

Heavy rains in Canada, and conditions in western Canada are reported best in several years.

June 15: Export business in North American wheat today estimated at 2,000,000 bushels, making a total of around 3,000,000 bushels in past few days. Today's business included five cargoes of Manitobas to the United Kingdom and some scattered Manitoba parcels.

Argentine shipments estimated at 6,797,000 bushels, the largest since 1937, and compared with 4,861,000 bushels a week ago.

June 16: Export business rather slow, with sales today estimated at about 300,000 bushels, mostly Canadian wheat sold to the Continent.

Moisture conditions in Canada are reported 106 per cent of normal. The wheat crop in Kansas and surrounding territory is turning out better than expected, and estimates for Kansas have been raised as much as 20,000,000 bushels.

June 17: No data on export sales.

The recent decline in prices, resulting largely from crop improvement in this country, has carried Chicago July down 8 cents from the season's high, and narrowed the premiums of Chicago over Winnipeg and Liverpool.

June 19: Foreign markets easy due to weakness here and small demand for wheat in United Kingdom.

The Chicago-Winnipeg July difference narrowed to 9 7/8 cents, versus 13 1/2 cents a week or ten days ago. Chicago July has declined to 14 1/8 cents over Liverpool, against 19 cents a few days ago.

June 20: No data on export sales. Inquiry small for actual wheat in United Kingdom.

June 21: During past four weeks world wheat shipments have amounted to about 64,500,000 bushels, which is the largest for a 4-week period in several years.

June 22: No export sales data. In 10 months Canada has cleared approximately 135,000,000 bushels of wheat and flour, which is double the amount for the same period last season.

June 23: No export sales data. Shipments of wheat from Argentina in June are expected to run three times more than in June last year.

June 24: No export sales data.

It is estimated that the world carry-over of wheat this year may amount to 1,250,000,000 bushels, which would be the largest on record. Last year's carry-over was 595,000,000 bushels. There is a possibility that the carry-over in the United States may not exceed 250,000,000 bushels.

June 29, 1939
2:54 p.m.

General
Craig: Mr. Secretary.....

HMJr: Hello, General.

C: General Craig. Mr. Secretary, my time is very short. I'm leaving here early on Saturday morning.

HMJr: Yes.

C: And I'm not going to be able to get around to shake your hand.....

HMJr: Yes.

C:and to tell you that I thank you more than you know, and your men know, for your courtesy and consideration, and that I wish you all the luck in the world.

HMJr: Well, that's terribly nice, General. My association has been most pleasant with you and I hope that in the long life you and Mrs. Craig still have to lead that it will be a most happy one.

C: I thank you, sir, and I hope I'll see you some day when you're not bothered and when you've gotten rid of all this misery and stuff that we're all going through.

HMJr: Well, I -- I hope that at the end of 18 months that I'll get a couple of years off.

C: All right, sir. I'll be seeing you, following you, and I want to thank you, Mr. Secretary.

HMJr: Thank you so much. The best of luck and my best regards to Mrs. Craig.

C: Thank you, sir.

HMJr: Good bye.

C: Good bye.

June 29, 1939
4:30 p.m.

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Operator: Go ahead.

HMJr: Hello.

Lowell
Mellett: Hello.

HMJr: I'm against any loans to railroads, how are you?

M: Well, being a railroad man, I don't feel that way.

HMJr: How much did you earn a month on the railroad?

M: Huh? I used to sell apples on a -- on a local train.

HMJr: (Laughter)

M: Say, Henry, the -- Wallace just called me and asked about the time and -- and I explained that it was going over at least until Wednesday.

HMJr: Yeah.

M: Right?

HMJr: That's what I told.....

M: And he wanted to know about what time on Wednesday. I told him it wasn't really fixed for Wednesday, but it wouldn't be before that.

HMJr: That's right.

M: Well now, -- and he said that he might not get back to town before one o'clock on Wednesday himself.

HMJr: Well, he gave me all that and I turned him over to you.

M: This morning -- or today?

HMJr: He called me about an hour ago and I -- asked me all these things and.....

M: Why would he call me then?

HMJr: And I said, "Call up Lowell Mellett. It's in his hands."

M: Is it in my hands? Well tell me this, have -- has there been any notification to Carmody and others that they are not expected there tomorrow?

HMJr: I think it would be nice if you'd let them know that.

M: Well now, they haven't -- did they expect to be there tomorrow?

HMJr: No, I -- I left it purely in the air.

M: You think it's necessary to let them know then?

HMJr: I think it would be sort of nice if you would.....

M: Well then.....

HMJr:tell them that it's been postponed.

M: Well then, the only ones I'd let know would be merely Jones and Carmody.

HMJr: Yeah. That's right.

M: Because the others are subordinates.

HMJr: That's right.

M: Righto!

HMJr: O. K. Good bye.

RE MONETARY LEGISLATION

June 29, 1939.
3:15 P. M.

Present: Mr. Foley
Mr. Bernstein
Mr. White
Mr. Lochhead

H.M.Jr: Hello, gents. Got it all fixed?

Lochhead: Trying to.

H.M.Jr: Sit down, please.

(Pretending to read from ticker clipping) McCarran says that you're a so and so (to Bernstein).

Bernstein: Pittman hasn't said anything, I understand, because he can't think of anything mean enough.

H.M.Jr: I see. You just came back from that conference?

Bernstein: No, I was with Archie.

White: Oh, you mean with - well, we've just been up to see Somers.

H.M.Jr: Yes.

White: Yes.

H.M.Jr: How did you get along?

White: He wanted some more ammunition, and he assimilated it, and I think he'll play the ball well. He says he is becoming convinced, although we shouldn't push him too hard - he is becoming thoroughly convinced that the devaluation - that the stabilization without the devaluation is of no use; that it is all right with this Secretary, and if anybody can give him a guaranty or a bond that this Secretary will continue, that's different, but if some other Secretary comes in then he may undertake risks with the stabilization fund. He's trying to make allowance for this Section 8 and 9, prepare for it ahead of time. He said he doesn't know, and the way he feels is that if they're not going to get the power to devalue, the hell with the whole thing. And he says that's what he's going to say until 11 hours and 59 minutes.

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H.M.Jr: Well, I never saw the President in a better humor. He's having a good time.

White: Mr. Secretary, the more I think over Bernstein's point, the more I think he is perfectly right. I'm not fooling on that. I don't think he could crawl out of it the other way.

(Hearty laughter)

Foley: Got him oversold. Now he's going to be a menace.

H.M.Jr: Harry, I just can't keep up with you.

White: It all hinges on the word "market price," and I think unquestionably the price the Government pays for silver is not the market price. The market price is the world price, and what they have done by throwing out foreign silver - they have reduced the market price, increased the amount on which a tax could be collected. And I think they're going to worry - that's what they're worrying about, and they're not going to let them have the amendment. Somers says that one of the things they'll offer in return for....

H.M.Jr: The tax?

White: They'll offer to include a prohibition of the tax in the bill in return for devaluation and 66 cents. Somers also said that the President doesn't want to pay more - I don't know whether he got that from you or whether he got it from somebody else, but he says the President insists he won't pay more than 66 cents.

H.M.Jr: I'm just dividing - taking 40 from 77 - get 37.

White: Not 40, Mr. Secretary, because if they throw out the foreign purchase of silver, it might be 30.

H.M.Jr: Well, let's say 37 cents. That leaves 40 cents; you deduct 20, so you're right back to about 67.

Bernstein: Right back to 57.

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White: They lose ten cents by their maneuvering.

H.M.Jr: The President liked the statement. I was over there for about half an hour. Can I tell these boys what he said?

Foley: Sure.

H.M.Jr: The President said, "This morning I got...." - don't anybody ever breathe this - he said, "I was good. I saw Barkley and the others, and with my right arm I said, 'Not one inch will I give in, not an inch!' But with my left hand I said, 'Boys, come and get it.'"

How can you defeat a man like that? He says, "With my strong right arm - - - boys, come and get it." Just like this, you see? Oh God, that was - he was marvelous. Oh, he's having a great time out of this. I think he's having a great time.

White: You might be interested in this, in answer to Pittman. He claims that the copper mines depend for their profitable operation on the price for silver. So we traced the prices at which they're quoted the last few days. The Sunshine Silver Mining Company, which is all silver - the stock rose 25 percent in three days. The Anaconda Copper Mine dropped 2 percent, the Phelps-Dodge dropped 2 percent, and so on. I mean that the - indicating that the price for silver is a negligible factor to these copper companies.

Lochhead: Harry, do you realize that if you allow them 77 cents for silver and put these 300,000 miners back to work, you won't have to keep them on relief.

H.M.Jr: That's what he claims.

Lochhead: Balance the budget.

White: That would be bad.

Lochhead: You wanted the memorandum on how we purchase foreign silver under the Silver Purchase Act.

H.M.Jr: Oh yes.

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Now, what have you got here?

Bernstein: Beg your pardon?

H.M.Jr: What are you all doing, what are you here for?

Bernstein: You asked for a memorandum showing how we could purchase domestic silver under the Silver Purchase Act after June 30 if the powers aren't extended, and we have a memorandum that shows how that is done, together with the regulations that you would issue.

H.M.Jr: Is that just one - this one thing here?

Bernstein: The memorandum on top, and the regulations underneath are regulations that you would issue.

H.M.Jr: That would give them five months again?

Bernstein: The regulations do not spell that out.

H.M.Jr: I think we'd better give five months on the domestic thing. I don't want to give Pittman and McCarran a chance to say that I am unfair on the domestic. But on the foreign, just take spot silver.

Foley: You mean if the powers aren't continued.

H.M.Jr: Supposing they don't pass any legislation between now and midnight.

Foley: . Yes.

H.M.Jr: Well then, under the Silver Purchase Act I can buy foreign silver. It specifically mentions that.

White: If you don't buy futures, they'll drop pretty sharply.

H.M.Jr: For who? Well, the more they drop the better. The way I'm thinking today, domestically I don't want these fellows to say, "Well, Morgenthau is just making it impossible; for a couple years he's been giving these fellows five months to run it through." So I'd continue the same thing. But on the foreign

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thing - any foreign-mined silver, I'd make the fellow come with the bar, and the day he brings the bar we'll decide whether we want it. This is the way I'm thinking this afternoon. And that would force the foreign price of silver down. That's the way we talked this morning.

Lochhead: That's right, and it can be done - a decision made today, and you can change your mind tomorrow.

H.M.Jr: I'm afraid to do something - up to now Pittman can't put his finger on me and say, "Morgenthau, this isn't" - he has nothing to put his finger on; each day the price dropped for silver, it hasn't gone down quite as much as the price went down in London, hasn't gone down quite as much as in London. But if I'd change the domestic regulations, he'd have something on me.

Bernstein: This thing will mean that you proceed precisely as you did under Presidential proclamation, with one exception, and I might mention it. Under the Presidential proclamation, the proclamation states that it is for a particular period of time, let's say for one year, for six months, with power - the President reserves the power to revoke the proclamation at any time. Now, as we have this set up here, you don't state any termination. You just say that you'll buy silver, newly-mined domestic silver mined after July 1, and you'll pay 64 or whatever price you want to pay. And you can change the price at any time. Now, that's the way you proceed under the - with respect to gold.

H.M.Jr: All right. Now, will somebody find out for me, are the Mints going to be open Saturday and Monday?

Bernstein: I have - that's the question I now have.

H.M.Jr: Are the Mints going to be open?

Bernstein: Presumably they would not be open on Saturday. The 30th is Friday. And the question that comes up is, do you want them open until midnight or do you want them to close at the normal business hour?

H.M.Jr: Normal.

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Bernstein: Normal business hour.

H.M.Jr: What's the normal business hour?

Bernstein: 4:30.

H.M.Jr: And would they be open Saturday normally?

Bernstein: Normally the Mints are not open Saturday, and in this particular instance, Saturday being July 1, it becomes immaterial.

H.M.Jr: Why?

Bernstein: Well, the cut-off date is June 30th, Friday.

H.M.Jr: Supposing we had a bill, that everything was normal; I mean what would be the perfectly normal thing to do? Supposing there was no pending legislation. What?

Bernstein: The Mint would be closed over the week-end.

H.M.Jr: The Mint would be closed. That would be the normal thing. Are they closed every Saturday?

Bernstein: I wonder.

H.M.Jr: Do you mind - just let me make a test of this.

(On phone) The Directoress of the Mint.

What's her name?

Foley: Mrs. Ross.

Bernstein: They may be open Saturday.

White: That's a new term.

H.M.Jr: The English language hasn't reached....

White: It's flexible.

H.M.Jr: Don't you ever read Time magazine?

June 29, 1939
3:36 p.m.

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Leland
Howard; Mr. Secretary.

HMJr: Mr. Howard.

H: Yes, sir.

HMJr: What time do you close the mints, normally, on Friday?

H: On Friday at four-thirty in all the institutions, I think, with the exception of San Francisco, and that's four o'clock.

HMJr: Now, what is the common practice in regard to Saturdays?

H: Well, the -- all the institutions are closed on Saturday. Of course, the guard force is -- force is there, except in New York and they leave enough force there to handle any business that comes in, like boats to be unloaded, or anything of that nature.

HMJr: Well, do you ever take silver on Saturdays?

H: Ah -- no. In New York they make take silver on Saturdays, yes. That would -- but they do not receive newly mined silver there, as you know.

HMJr: Yes, but not newly mined?

H: Not newly mined.

HMJr: But the normal thing then would be all the mints would be closed on Saturday?

H: Yes, sir.

HMJr: Is that right?

H: Yes, sir.

HMJr: O. K. Thank you.

H: Yes, sir.

HMJr: Thank you.

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White: By the way, I did forget that Somers did say this. He said, "The President insists on 66 cents. He won't take any more."

H.M.Jr: Won't take any more?

White: "He won't give any more. But will he throw me out if I come with 70? He won't throw me out."

H.M.Jr: What?

White: "If I come with 70." So I guess he's going to try to settle at 70.

H.M.Jr: The one time I've called the Directress....
(On phone) Hello.

Operator: Mrs. Ross has gone for the day. Mrs. Wilkins is there - her secretary.

Lochhead: Call for her assistant.

Bernstein: Howard.

H.M.Jr: Is there a Mr. Howard there?

Operator: Mr. Howard? I think he's there.

White: He's the assistant.

Lochhead: He's taking Mrs. O'Reilly's place.

H.M.Jr: First time I've called her in about two years.
(Conversation with Mr. Howard follows:)

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Lochhead: We never make contracts for Saturday delivery.

H.M.Jr: He needs a little coaching.

Well, I'm going to read this stuff, and the chances are that some of you will get a call to be here maybe at 8:30 tomorrow. I want to read it and then ask you some more questions. And in the meantime, with the help of White, I take it you (Bernstein) are going to write a brief on taxes.

White: Yes. I'm sold on the idea.

H.M.Jr: Well, that's marvelous.

White: Source of revenue.

Lochhead: But Bernstein has been forced over to the other side already.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 6-29-39

TO Secretary Morgenthau
FROM Mr. FoleyRe: Purchase of newly-mined domestic silver
under the Silver Purchase Act.

Under Section 3 of the Silver Purchase Act the coinage mints could be instructed to purchase newly-mined domestic silver. There have been drafted and are attached hereto regulations which would establish the procedure for such purchases. Such procedure would be similar to that heretofore followed by the mints in receiving newly-mined domestic silver under the proclamations of the President and the regulations which have been drafted follow very closely the regulations issued under such proclamations. Under the proposed regulations the purchase of silver pursuant to instruments of transfer, that is, for future delivery, may either be permitted (as occurs under the present set-up) or denied.

The regulations contain no termination date, but provide that they may be revoked or modified at any time. The regulations also provide that the purchase price is subject to change simply on notice to the mints. Under the present set-up the proclamation and the regulations contain termination dates, but the President could have changed the price at any time by modifying the proclamation and regulations.

The silver tax statute makes express exemption for the deposit of silver pursuant to presidential proclamation. Such exemption will not apply to the purchase of newly-mined domestic silver under the Silver Purchase Act, and it seems fairly clear that tax returns will have to be filed in connection with such sales. It is, however, doubtful whether under the statute any tax will actually be due on such sales.

E. W. F. H.

(this was not read)

SECTION 80.1. Scope.—These regulations relate to the purchase by the United States coinage mints of silver mined in the United States or any place subject to the jurisdiction thereof pursuant to the provisions of section 3 of the Silver Purchase Act of 1934.

SEC. 80.2. Authority for regulations.—These regulations are issued under the Silver Purchase Act of 1934 (48 Stat. 1178) and section 161 of the Revised Statutes.

SEC. 80.3. Definitions.—As used in these regulations—

The term "person" means an individual, partnership, association, or corporation.

The term "United States coinage mints" means the following mints: United States Mint, Philadelphia, Pa.; United States Mint, San Francisco, Calif.; United States Mint, Denver, Colo. And whenever authority is conferred in these regulations upon a "mint" such authority is conferred upon the person locally in charge of the mint, acting in accordance with instructions of the Director of the Mint or the Secretary of the Treasury.

SEC. 80.4. Forms.—Any form, the use of which is prescribed in these regulations, may be obtained at any United States mint or assay office or at the Treasury Department, Washington, D. C.

SEC. 80.5. Revocation or modification.—The provisions of these regulations may be revoked or modified at any time.

SEC. 80.6. Silver which will be purchased.--The United States coinage mints, under the conditions hereinafter specified, and subject to the appropriate regulations governing the mints, are hereby authorized to purchase silver which any such mint is satisfied has been mined on or after July 1, 1939, from natural deposits in the United States or any place subject to the jurisdiction thereof.

Such mints are also authorized to purchase silver which forms a part of a mixture of domestic, secondary, and/or foreign silver provided such mints are satisfied that the aggregate amount of such mixture so purchased does not exceed the amount of such mixture which has been mined on or after July 1, 1939, from natural deposits in the United States or any place subject to the jurisdiction thereof.

SEC. 80.7. Affidavits.--Every person depositing silver under the provisions of these regulations shall file with each deposit a properly executed affidavit on form TSP-1 and supporting affidavit or affidavits of the miner or miners on form TSP-2 or TSP-2A, whichever is appropriate, containing the information called for in such forms and executed under oath before an officer duly authorized to administer oaths.

SEC. 80.8. Evidence which may be demanded.--Persons depositing silver under the provisions of these regulations shall furnish such further evidence as may from time to time be requested by any United States coinage mint or the Director of the Mint, including affidavits, sworn reports, and sworn abstracts from books of account of any mines or any or all smelters or refineries handling such silver.

SEC. 80.9. Purchase price.--The United States coinage mints shall pay for all silver purchased by them in accordance with these regulations $64.64\frac{1}{4}$ cents per fine troy ounce without deduction for mint charges. This price may be changed by the Secretary of the Treasury without notice other than by notice of such change mailed or telegraphed to the coinage mints.

SEC. 80.10. Records.--Every person depositing silver under these regulations, and every person owning or operating a smelter or refinery at which silver to be deposited under these regulations is mixed with secondary or foreign silver, or both, shall keep accurate records of all acquisitions, by mining or otherwise, and of all dispositions of silver mined on or after July 1, 1939, including, among other things, records of the date when such silver was mined, acquired, and disposed of. Such records shall be preserved for at least 1 year after the last delivery and made available for examination by a representative of the Director of the Mint upon the request of such representative.

SEC. 80.11. Reports.--Every person depositing silver under these regulations shall file with the Director of the Mint, on or before the 25th day of each month after the deposit is made, a report on form TSP-3 covering the preceding calendar month, provided that the first report shall cover the period from July 1, 1939 to the end of the calendar month preceding the report. Such reports will be executed under oath before an officer duly authorized to administer oaths and shall contain all of the information called for in such form.

SEC. 80.12. Agreement relating to records.—Every person depositing, under these regulations, silver which has been mined with secondary or foreign silver, or both, at a smelter or refinery other than that of the person making the deposit, shall, upon request by any United States coinage mint or the Director of the Mint, also file with each deposit of such silver an agreement properly executed under oath by a duly authorized officer of such other smelter or refinery, that the records will be kept as provided in these regulations, and that such records will be available for examination by a representative of the Director of the Mint for at least 1 year after the last delivery.

Secretary of the Treasury.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 29, 1939

TO Secretary Morgenthau
FROM A. Lochhead

Re: Procedure under which silver is purchased
by the Federal Reserve Bank of New York
as fiscal agent of the U. S. under the
Silver Purchase Act of 1934

SPOT SILVER

- (1) Spot silver is silver for delivery the same day or the next working day.
- (2) All such silver to be eligible for purchase must be in bars of 1,000 ounces, having a fineness of .999, and bearing the mark of a refinery located in the United States.

FORWARD SILVER

- (1) Forward silver is silver purchased for delivery up to five months.
- (2) Such silver to be eligible for purchase must be in bars 1,000 ounces and of a fineness of .999. The seller must give the country of origin, state that the silver is being refined in the U. S., and any other pertinent information regarding the silver that may be requested.

There are no printed or public regulations regarding the purchase of silver under the Silver Purchase Act and the qualifications and conditions mentioned above can be changed at any time and in any manner by the Treasury without prior notification.

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TAX

Section 10(a) of the Silver Purchase Act provides for the payment of 50% of the profit on the sale of silver, payable by the transferor. Affidavits on Form 2 with the necessary Internal Revenue stamps representing the tax are filed with the Federal Reserve Bank of New York within 30 days after delivery of the silver. In the case of producers a letter is forwarded by them to the Federal Reserve Bank of New York stating that their returns are being made in the regular monthly silver tax report to the Treasury directly.

When silver is transferred and no profit is made or a loss results the usual affidavit on Form 2 must be filed with a 1¢ Internal Revenue stamp attached.

CANADIAN AGREEMENT

The only agreement to purchase silver in effect at the present time is that with Canada for 1,200,000 ounces monthly, which expires June 30, 1939. The silver purchased under this agreement is new production for delivery within thirty days and bids are made daily at the price set for the day by the Treasury. The marks of Canadian refiners on the silver delivered are accepted by us.

On June 6th, the Federal Reserve Bank of New York forwarded to the Treasury a copy of a letter received from the Bank of Canada stating that the Bank of Canada would be glad to renew the arrangement for the month of July, 1939. Up to the present time no reply to this letter has been sent to the Federal Reserve Bank of New York.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 29, 1939.

TO Secretary Morgenthau
FROM Mr. Foley

For your information.

Mr. Jesse Jones, Chairman of the Reconstruction Finance Corporation, appeared today before a Subcommittee of the Senate Committee on Banking and Currency and testified concerning the Mead bill.

Mr. Jones stated the Mead bill would not effectuate an increase in the lending operations of the Reconstruction Finance Corporation and that any business man who can give reasonable assurance of his ability to repay a loan can now obtain it from the Reconstruction Finance Corporation. He stated that 37 per cent of the loans made by the Reconstruction Finance Corporation have been in amounts less than \$5,000, 71 per cent in amounts of less than \$25,000, 83 per cent in amounts of less than \$50,000, and 91 per cent in amounts of less than \$100,000. In response to a question of Senator Wagner, who pointed out that the 5 per cent interest rate charged by the Reconstruction Finance Corporation is much higher than the rate at which large business enterprises can obtain capital from commercial banks and thus tends to place small business at a disadvantage, Mr. Jones stated that he did not believe that the 5 per cent rate is excessive.

It is his opinion that banks want to lend and are trying to lend but that they are frequently subjected to "outmoded, unintelligent, and officious" criticism by bank examiners and that more cooperation from bank examining

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agencies would help to loosen credit. He stated that the lending record of the Federal Reserve banks shows that they are not in sympathy with direct loans to industry. In reply to Senator Mead, who pointed out that Marriner S. Eccles, Jerome Frank, Ernest G. Draper, and others had testified that there is a distinct need for additional credit facilities for small and medium sized business enterprises, Mr. Jones indicated that he was not impressed by their testimony.

No mention was made, either by Mr. Jones or members of the Committee, of the proposed lending program for self-liquidating projects outlined by the President in his letter of June 21, 1939, to Senator Byrnes, Chairman of the Special Senate Committee to Investigate Unemployment and Relief, in reply to his communication of June 19 requesting the President's attitude with respect to the transfer of certain relief appropriations to the Public Works Administration.

Mr. Harry L. Hopkins, Secretary of Commerce, is scheduled to testify before the Committee at an early date.

E. N. - 7h.

June 29, 1939

noon

Present:

Mr. Lochhead
Mr. Duffield
Mrs. Klotz

I told Lochhead to drop the price of silver one-half cent, making it 38 cents.

*See also
original 360*

Secretary Morgenthau

Mr. Foley

Re: Purchase of newly-mined domestic silver
under the Silver Purchase Act.

Under Section 3 of the Silver Purchase Act the coinage mints could be instructed to purchase newly-mined domestic silver. There have been drafted and are attached hereto regulations which would establish the procedure for such purchases. Such procedure would be similar to that heretofore followed by the mints in receiving newly-mined domestic silver under the proclamations of the President and the regulations which have been drafted follow very closely the regulations issued under such proclamations. Under the proposed regulations the purchase of silver pursuant to instruments of transfer, that is, for future delivery, may either be permitted (as occurs under the present set-up) or denied.

The regulations contain no termination date, but provide that they may be revoked or modified at any time. The regulations also provide that the purchase price is subject to change simply on notice to the mints. Under the present set-up the proclamation and the regulations contain termination dates, but the President could have changed the price at any time by modifying the proclamation and regulations.

The silver tax statute makes express exemption for the deposit of silver pursuant to presidential proclamation. Such exemption will not apply to the purchase of newly-mined domestic silver under the Silver Purchase Act, and it seems fairly clear that tax returns will have to be filed in connection with such sales. It is, however, doubtful whether under the statute any tax will actually be due on such sales.

B:meu
1/29/39

NEWLY-MINED DOMESTIC SILVER REGULATIONS

OF

, 1939*

Treasury Department,
Office of the Secretary,
, 1939.

Code of Federal Regulations
Title 31 - Money and Finance
Chapter I - Monetary Offices
Part 80 - The Newly-Mined Domestic
Silver Regulations of
, 1939

Sec.

- 80.1 Scope
- 80.2 Authority for regulations
- 80.3 Definitions
- 80.4 Forms
- 80.5 Revocation or modification
- 80.6 Silver which will be purchased
- 80.7 Affidavits
- 80.8 Evidence which may be demanded
- 80.9 Purchase price
- 80.10 Records
- 80.11 Reports
- 80.12 Agreement relating to records

* Sections 80.1 to 80.12:- subsec. (b) (2) sec. 43, 48 Stat. 52 and 342; 50 Stat. 4; 31 U. S. C. 221 (Supp. 4, 31 U. S. C. 221); Act of _____, 1939 (Public No. _____); R. S. 161 (5 U. S. C. 22).

SECTION 80.1. Scope.--These regulations relate to the purchase by the United States coinage mints of silver mined in the United States or any place subject to the jurisdiction thereof pursuant to the provisions of section 3 of the Silver Purchase Act of 1934.

SEC. 80.2. Authority for regulations.--These regulations are issued under the Silver Purchase Act of 1934 (48 Stat. 1178) and section 161 of the Revised Statutes.

SEC. 80.3. Definitions.--As used in these regulations--
The term "person" means an individual, partnership, association, or corporation.

The term "United States coinage mints" means the following mints: United States Mint, Philadelphia, Pa.; United States Mint, San Francisco, Calif.; United States Mint, Denver, Colo. And whenever authority is conferred in these regulations upon a "mint" such authority is conferred upon the person locally in charge of the mint, acting in accordance with instructions of the Director of the Mint or the Secretary of the Treasury.

SEC. 80.4. Forms.--Any form, the use of which is prescribed in these regulations, may be obtained at any United States mint or assay office or at the Treasury Department, Washington, D. C.

SEC. 80.5. Revocation or modification.--The provisions of these regulations may be revoked or modified at any time.

SEC. 80.6. Silver which will be purchased.--The United States coinage mints, under the conditions hereinafter specified, and subject to the appropriate regulations governing the mints, are hereby authorized to purchase silver which any such mint is satisfied has been mined on or after July 1, 1939, from natural deposits in the United States or any place subject to the jurisdiction thereof.

Such mints are also authorized to purchase silver which forms a part of a mixture of domestic, secondary, and/or foreign silver provided such mints are satisfied that the aggregate amount of such mixture so purchased does not exceed the amount of such mixture which has been mined on or after July 1, 1939, from natural deposits in the United States or any place subject to the jurisdiction thereof.

SEC. 80.7. Affidavits.--Every person depositing silver under the provisions of these regulations shall file with each deposit a properly executed affidavit on form TSP-1 and supporting affidavit or affidavits of the miner or miners on form TSP-2 or TSP-2A, whichever is appropriate, containing the information called for in such forms and executed under oath before an officer duly authorized to administer oaths.

SEC. 80.8. Evidence which may be demanded.--Persons depositing silver under the provisions of these regulations shall furnish such further evidence as may from time to time be requested by any United States coinage mint or the Director of the Mint, including affidavits, sworn reports, and sworn abstracts from books of account of any mines or any or all smelters or refineries handling such silver.

SEC. 80.9. Purchase price.--The United States coinage mints shall pay for all silver purchased by them in accordance with these regulations 64.64¢ cents per fine troy ounce without deduction for mint charges. This price may be changed by the Secretary of the Treasury without notice other than by notice of such change mailed or telegraphed to the coinage mints.

SEC. 80.10. Records.--Every person depositing silver under these regulations, and every person owning or operating a smelter or refinery at which silver to be deposited under these regulations is mixed with secondary or foreign silver, or both, shall keep accurate records of all acquisitions, by mining or otherwise, and of all dispositions of silver mined on or after July 1, 1939, including, among other things, records of the date when such silver was mined, acquired, and disposed of. Such records shall be preserved for at least 1 year after the last delivery and made available for examination by a representative of the Director of the Mint upon the request of such representative.

SEC. 80.11. Reports.--Every person depositing silver under these regulations shall file with the Director of the Mint, on or before the 25th day of each month after the deposit is made, a report on form TSP-3 covering the preceding calendar month, provided that the first report shall cover the period from July 1, 1939 to the end of the calendar month preceding the report. Such reports will be executed under oath before an officer duly authorized to administer oaths and shall contain all of the information called for in such form.

SEC. 80.12. Agreement relating to records.--Every person depositing, under these regulations, silver which has been mixed with secondary or foreign silver, or both, at a smelter or refinery other than that of the person making the deposit, shall, upon request by any United States coinage mint or the Director of the Mint, also file with each deposit of such silver an agreement properly executed under oath by a duly authorized officer of such other smelter or refinery, that the records will be kept as provided in these regulations, and that such records will be available for examination by a representative of the Director of the Mint for at least 1 year after the last delivery.

Secretary of the Treasury.

CJ

GRAY

PARIS

Dated June 29, 1939

Rec'd 2:58 p.m.

Secretary of State,
Washington.

1220, June 29, 6 p.m.

FOR THE TREASURY.

A pessimistic atmosphere regarding developments in the international political situation prevailed on the exchange and security markets today. Exchange transactions were on a small scale and without any special feature or important change in rates. Rentes lost about 75 centimes, and various revenue securities were down from one to 5%.

Bank of France statement dated June 22 published today showed increase of 566,000,000 francs in commercial advances. Circulation down 328,000,000. Deposits up 536,000,000. Ratio of gold reserve 64.12% compared with 64.21% (END SECTION ONE).

BULLITT

WWC

JR

GRAY

Paris

Dated June 29, 1939

Rec'd 3:05 p.m.

Secretary of State,
Washington.

1220, June 29, 6 p.m. (SECTION TWO).

A message from Amsterdam to the Financial press announces the issue there on July 4 of 6 million florin, 4-1/2 per cent, 20 year bonds of Compagnie francaise des Petroles at 97-1/2% being half of a loan of 12 million florins. The other half is said to have been issued abroad.

It is announced in the press that under a decision handed down yesterday by the first chamber of the Civil Tribunal the case of the Spanish gold held by the Bank of France will come up for examination on July 6 and 7. It is also stated that a group of French creditors has demanded sequestration of the gold as guaranty for certain French credits in Spain notably for the reimbursement of bank notes issued during the Spanish civil war and declared invalid by a recent decree of General Franco.

BULLITT

WVC

CJ

GRAY

PARIS

Dated June 29, 1939

Rec'd 3:06 p.m.

Secretary of State,
Washington.

1220, June 29, 6 p.m. (SECTION THREE).

According to the AGENCE ECONOMIQUE the Court of Appeal of Poitiers will on July 4 examine opposition lodged against the judgment rendered by the Court of La Rochelle on June 21 handing over the gold and valuables of Bilbao banks reported in my telegram 1197 of June 26.

Little comment appears today regarding the action of the Senate on the monetary bill. JOURNEE INDUSTRIELLE expresses the view that failure to extend the President's powers would almost certainly lead to serious disturbance in the tripartite monetary agreement as well as in the sterling bloc countries and compel the British to seek a substantially lower level of stability for the sterling. Thus, it concludes, the stabilization of several years would be in danger as the result of political maneuver.

L'INFORMATION considers that a sudden and tortuous halt of silver purchases abroad might lead to political upheavals through the ruin of China at a dangerous moment,

lead

-2- #1220, June 29, 6 p.m., (SECTION THREE) from Paris
lead to chaos in Mexico and, economically, deprive foreign
countries of dollars required to pay for American goods.
This paper is convinced, however, that Washington realizes
too well the seriousness of the international situation to
add to the world trouble. (END MESSAGE)

BULLITT

GW:WWC

RECEIVED

JUN 30 1946

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 567

DATE: June 29, 1939, 6 p.m.

Reference is made to the Department's No. 250 of June 28, 12:00 M., and to No. 42 for the Treasury from Heath.

With reference to the rumor that an early devaluation of both the lira and the mark is presaged by the refusal of the Bank of Italy to grant exchange risk insurance on exports to Germany, I consulted an authoritative source. I am inclined to believe my informant was sincere when he stated that it is not Germany's intention to devalue the mark at present, and I am inclined to accept as factual the following explanation of the action by the Bank of Italy.

During the past year, according to my information, Germany's debt to Italy has become increasingly larger under the clearing agreement which regulates trade and payments between them; the Italian authorities are somewhat restive and concerned with reference to this situation. By refusing to grant exchange risk insurance on until Italy's blocked balance in Germany is reduced to normal Italian imports into Germany, the Bank of Italy put into practice a measure of discouraging Italian imports with-

out

out actually holding up a certain amount of exports to Germany until the blocked balance of Italy in Germany could be reduced by increasing proportionately Italian imports of German products. The action by the Bank of Italy, according to German information, applies to two other countries in which Italian blocked balances have accumulated, as well as to Portugal and Germany. It was also stated by my informant that the Bank of Italy had obvious reasons for not giving a "real" explanation for its action in refusing to grant exchange risk insurance on exports of Italian goods to Germany but this was the explanation which appeared in certain articles in the Italian press.

German trade with Italy (including Austrian trade) has been almost balanced recently, according to statistics of the Reich. The value of exports from Germany to Italy was 99.6 million marks, and imports from Italy were valued at 100.4 million marks. So far this year the level of trade has been about the same as that of last year; however, for the first four months of this year, Italy occupied first place as a supplier of imports into the Reich, due to the decline in the trade of Germany with other countries, while in 1937 and 1938 she was in fourth place. However, besides German imports from Italy, German tourist expenditures in that country have been heavy and Italian laborers

in

-3-

in Germany have made heavy remittances to their own country. These items have the same effect on the balance of payments as imports from Italy and serve to explain the present indebtedness on payment account on the part of Germany to Italy.

That monetary and trade authorities in Italy have become restive because of this situation has been the subject of various other reports, which indicates that arrangements with reference to trade and payments between Italy and Germany are not (repeat not) always characterized by the broad spirit of accommodation which we might expect to be a characteristic of the economic relations between the Axis partners.

It has been admitted all along by German central bank and economic authorities that the value of the mark must inevitably be readjusted at some time. However, it has been insisted by everyone with whom I have recently talked that it was impossible for this to occur until there was enough political "appeasement" to bring about an understanding between the principal trading nations with regard to standards of international currency as well as with regard to trade. Schacht frequently repeated this thesis. Extensive changes and readjustment of the tariff and price control system would presumably be entailed by the
devaluation

-4-

devaluation of the mark. I believe that the Reichsbank and the Economic Ministry have given some study and thought to such an eventuality. However, it is my impression that no important Government institution has worked out concrete plans for such a development.

END OF MESSAGE)

KIRK

EA:EB

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 1228

DATE: June 30, 1939, 5 p.m.

FOR THE TREASURY DEPARTMENT

There was a moderate strengthening of sterling today on the exchange market, and it is our understanding that for the first time in several weeks the French control made a few small sales. After the receipt of news that the Colijn Government had resigned, the florin was offered. There continued to be a depressed atmosphere on the security market. There was a drop of about 50 centimes in rentes.

French financial press remarks that no speculative operations have taken place in dollars since last Monday because everybody knows that if the dollar were devalued the British authorities would not wait twenty-four hours to "align" sterling to the new American parity. Furthermore, that it may be taken for granted that France would desire to avoid the economic and commercial upheaval that would follow a change in the sterling-franc and franc-dollar parity.

BULLITT

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome, Italy

No.: 243

DATE: June 30, 1939 9 p.m.

Reference is made to Department's telegram no. 58 of June 28, 1939, noon.

The explanation is given by the Director of the Italian Foreign Exchange Institute that the decision which has been made by the Italian Government to stop guaranteeing exchange rates on clearing transactions with Germany was made because a large balance due to Italian exporters has been accumulated in the Italo-German clearing account. Although the trade balance is in Germany's favor, the fact that tourist expenditures and other non-commercial items are credited to the German account results in an unfavorable clearing balance as of June 23 in the amount of 380,000,000 lire against Germany. Last November the clearing situation was approximately in balance, and this accumulation has developed since that time. It is said that the cause of the accumulation is the delay, resulting from the operation of the German four-year plan, in filling orders for shipment to Italy, particularly orders for machinery. Italy did not feel that it was justified

justified in continuing the exchange guarantee, although it was expected that the disequilibrium would correct itself. With reference to a similar decision regarding Portugal, the director's explanation was less clear. (Italy's balance with Portugal is unfavorable to the extent of 85,000,000 lire compared with 33,000,000 a year ago.) He stated that the intention was to discourage^a/relatively large disequilibrium, both with reference to balances owed to Italy and balances owed by Italy.

He stated that the reasons for the Italian action were purely technical and that they had no connection with the lira. He scouted rumors of the devaluation of the lira.

Although it is agreed that the lira is over-valued at the present time, skepticism is revealed in conversations with banking and diplomatic contacts on rumors which are periodically recurrent with reference to early devaluation. It is unlikely, however, that if devaluation were planned it would be admitted in advance.

PHILLIPS

RECEIVED

1951

INTERNATIONAL BANKING CORPORATION
NEW YORK

EA:EB

RECEIVED
JUN 30 1939
TREASURY DEPARTMENT
DIVISION OF INTERNATIONAL FINANCE
U.S. DEPARTMENT OF THE TREASURY

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
NO.: 1228
DATE: June 30, 1939, 5 p.m.
FOR THE TREASURY DEPARTMENT

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RECEIVED
Treasury Department
JUL 1 1939
Division of
International Finance

EA:EB

JR

PLAIN

London

Dated June 30, 1939

Rec'd 2:48 p.m.

Secretary of State,
Washington.

922, June 30, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The British Treasury's half-yearly statement of gold holdings issued today shows that the exchange equalization account held 49,490,000 fine ounces and the Bank of England 30,459,000 fine ounces on March 31. Valued at \$35 an ounce the combined total was \$2,798,215,000 or a decrease in the six months September 30 to March 31 of \$650,300,000 which compares with a decrease in the previous six months, i.e. March 31, 1938 to September 30, 1938 of \$730,170,000. For previous figures see my 1479, December 30, 5 p.m.; 578, of June 30, 1938, 6 p.m.; 814, December 30, 1937, 9 p.m.; and 412, June 28, 1937, 7 p.m.

Valued at 148 shillings 6 pence for both dates the loss in the six months September 30 to March 31 was pounds 138 million. The magnitude of this loss has surprised

-2- #922, June 30, 7 p.m., from London.

surprised the city which had estimated the reduction in the gold holdings at pounds 110 million at the most. The market appears however to realize that the various estimates of the losses during the last quarter of 1938 (SEE section 1 of my 42, January 10, 6 p.m.) were too low and that at the time of the transfer of gold from the Bank of England to the exchange equalization account in January the accounts gold stocks must have been "considerably less than pounds 50 million".

Nevertheless the press attempted to take an optimistic view of the present strength of the fund as the following quotations illustrate: **Einzig** in the FINANCIAL NEWS: "Although the national gold reserve is now far lower than it has ever been since the Treasury started publishing figures two years ago, it is still ample to meet any contingency. The exchange accounts stock of pounds 367,500,000 should be more than sufficient to withstand any pressure upon sterling which might develop in a new international crisis." The FINANCIAL TIMES (money market notes) contains the following paragraph: "The severe pressure on our exchange over a period of one year, during which more than pounds 280 million of nomadic capital has departed, has left our gold stocks still at the respectable figure of pounds 594 million." The City
Editor

-3- #922, June 30, 7 p.m., from London.

Editor of the TIMES by calculating the price of gold on September 30 at pounds 7 per ounce, and the holdings on March 31 at pounds 7/8/6D computes the losses in the six months at only pounds 95 million and points out that the gold stocks of pounds 594 million are still "very substantial judged by any standard but that of the abnormal period in 1937/38 when the influx of French and other funds temporarily inflated the accounts gold reserves" and asserts "it is difficult indeed to imagine circumstances in which the use of other than a minor portion of the pounds 594 million would be required." This writer further considers that "on balance the present gold reserves of the account probably stand much as they did at the end of March."

2. No silver was invoiced today. The price at fixing was 18 pence which is .03 pence less than the shipping parity at 38 cents an ounce. A fair amount of speculative selling was absorbed by Indian buyers and the price closed 1/16 up at 18 1/16D. The following quotation from the EVENING STANDARD sums up the market view; "The scare of the past few days is over. But it does show that while these artificial conditions exist we will always have scares For the moment the silver decision will calm the

-4- #922, June 30, 7 p.m., from London.

the situation once more and will prevent something like a panic in Mexico."

3. Lord Halifax's speech and the publication of the gold statement caused pressure on sterling today. The British fund gave only a few bars of gold at the fixing and the market was prorated at 18% of requirements Samuel Montagu being the principal buyer. Of the 69 bars dealt in 29 were married. The British fund however sold dollars at 4.68 1/8 all day, losing according to market estimates something between 10 and 15 million dollars in the spot market and perhaps 3 to 4 million dollars in the forward market where the three months' premium was held at 2 for a considerable time but was later allowed to go out to 2 1/4-1/2.

4. Another indication of nervousness is the increase in the Treasury bill rate today's tender averaging 17S as compared with 14S 6 1/2D last week, but half-year-end influences were also present. Stock prices though irregular were less affected, war loan closing unchanged at 93 1/2.

RECEIVED KENNEDY

HPD

JUN 30 1940
 RECEIVED
 DEPARTMENT OF THE TREASURY
 OFFICE OF THE ASSISTANT SECRETARY
 FOR TECHNICAL ASSISTANCE

6-30-39 282

The President,

The White House.

My dear Mr. President:

I have the honor to refer to your inquiry whether the provisions of H. R. 3325 will be sufficient to accomplish their purpose if enacted into law after midnight, June 30, 1939. In particular, your question is whether under such circumstances the powers which are conferred upon you by the bill will be extended by it so that they will not expire until June 30, 1941, unless sooner terminated by declaration on your part in accordance with the terms of the bill.

It is my opinion that the bill if enacted after midnight, June 30, 1939, will confer upon you the powers enumerated in it until June 30, 1941. As the Circuit Court of Appeals for the Eighth Circuit said in City of Restrice v. Nasslich:

"While there is some conflict of opinion on the subject, the decided weight of authority and the better opinion is that an amendatory statute is not invalid, though it purport to amend a statute which had previously * * * for any reason been held invalid. This question is quite fully considered, and all the authorities cited, in the recent opinion of the United States circuit court of appeals for the Seventh circuit in the case of Wire Co. v. Boyce (C.C.A.) 104 Fed. 172, to which we refer without citing the cases. Finding no error in the record, the judgment of the circuit court is affirmed."

- 2 -

In the Columbia Wire case, the Court for the Seventh Circuit said:

"In Jones v. Commissioner, Judge Cooley, writing the opinion, in response to the argument that an amendatory act which refers to a repealed or non-existing act must be invalid, said:

"This reasoning seems to us too refined for practical value. Under our constitution, the mode of amending a section of a statute is by enacting that the section in question "shall read as follows." The position of the section in the original statute is not changed, and there is no reason why subsequent amendments of the same section should not be made by reference to its number in the original statutes."

H. R. 3325, in so far as it relates to your question, extends certain powers granted the President by specified sections of prior acts of Congress to which specific reference is made. As the Supreme Court of Arkansas, in dealing with a similar question, said in Fenolio v. Sebastian Bridge District, 200 S. W. 501, "The law itself is not dead though the power conferred could no longer be exercised without further legislative action".

While there are some inconsistent decisions of state courts, I find no Federal decision in conflict with the view above expressed, and the great weight of authority fully supports that view. In re Rahrer, 140 U. S. 545; Baltimore & Ohio R. Co. v. Van Ness, 2 Fed. Cases 574; Patton v. The People, 229 Ill. 512; Attorney General v. Stryker, 141 Mich. 437; Lawton Spinning Co. v. Commonwealth, 232 Mass. 28; Crocker v. Crane, 21 Wend (N.Y.) 211; Anderson v. Douglas,

- 3 -

(Colo.), 186 Pac. 284; People v. Board of County Convassers (N.Y.), 37 N.E. 649; State v. Bailey, 42 Pac. 373; 59 C.J., page 856; Sutherland Statutory Construction, Vol. 1 (2nd Ed.) page 435.

The Congress has accepted this view in the past. The Settlement of War Claims Act of 1928, approved March 10, 1928, originally required that application for payment of awards under the Act be made within a period of two years after its enactment. The Act has been amended five times since 1928 by merely striking out "two years" and inserting in lieu thereof "four years", "six years", "eight years", "ten years", or "twelve years". The last two times that this Act has been amended in this respect (1936 and 1938) the extending Act has in each case extended the expiring provision after it had terminated.

Respectfully,

Attorney General.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City

NO.: 178

DATE: June 30, 1 p.m.

CONFIDENTIAL

I should appreciate it if you would inform me by telegraph regarding any action which may have been taken by Congress today on silver, together with an estimate of the situation resulting from that action as it applies to the future outlook for purchases of silver from Mexico. In the event that Congress takes no action today, I should like to have an estimate of effect on prospects of silver purchasing.

My purpose in making this request is that I should like to have some confidential information that will be timely, direct and accurate.

DANIELS

EA:EB

RECEIVED

JUN 30 1938

TELETYPE UNIT
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

JUN 30 1939

Dear Mr. Smith:

I have your letter of June 21, 1939, enclosing a copy of the letter dated June 9, 1939, from the Secretary of Agriculture and a copy of the proposed Executive Order authorizing and directing the Secretary of Agriculture to exercise on behalf of the United States any and all rights arising out of the ownership by the United States of the capital stock of the Commodity Credit Corporation. You request an expression of my views concerning the proposed Executive Order.

I believe that it is wrong in principle to place in the official of the Government who has administrative supervision over an organization such as the Commodity Credit Corporation the function of exercising any and all rights accruing to the holder of the stock. It seems to me that by having these rights exercised by someone outside the sphere of administration affords, through stockholders' meetings, a check upon the Corporation's activities and its administration.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

DWD:MLB
6-29-39

Honorable H. D. Smith,
Director,
Bureau of the Budget,
Washington, D. C.

June 30, 1939

MEMORANDUM FOR THE SECRETARY'S FILES:

The Secretary called Grace Tully at 5:45 and asked her to get the following message to the President before 7 P.M.

Ed Foley has an idea that the pending monetary legislation might be adequate to extend the President's powers which expire at midnight tonight even though the legislation was not enacted until after midnight. The Treasury lawyers have gone to the Justice Department, taking their memorandum on this point, and the Secretary has asked the Attorney General to give the President his opinion on this point before 10 P.M. tonight. The Secretary said that if the Attorney General agrees with Ed Foley, the President might get word to Barkley to hold the Senate in session until the bill is enacted even though enactment comes after midnight.

ESD

GROUP MEETING

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

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

H.M.Jr: Sit down, Mac. Good morning.

God, to get you lawyers out of bed - where's the General Counsel?

Bernstein: Haven't had a chance to check. I've been trying to get this tax provision from the Hill.

H.M.Jr: Have you got it?

Bernstein: We got it over the telephone. They must have left the "not" out, because as it now reads they make the tax applicable. We've got a messenger who is on his way down to get the bill itself.

H.M.Jr: I got old Somers out of bed and talked to him.

Let's see it.

(Kieley brings in paper and hands to Bernstein)

Klotz: That's probably it.

Bernstein: "...and no provisions of law taxing transfers of silver shall extend or apply to any delivery of silver to a United States Mint under this section."

H.M.Jr: (To Duffield) Get that to Carlton Shively.

Duffield: Yes. I've got the old provision here.

H.M.Jr: What? Just put in the word "no."

Bernstein: Put in "no."

- 2 -

H.M.Jr: "...and no." I want to do this to show him - so that Mr. Shively doesn't take it....

Duffield: Yes. I've got the old one. I'll send him both.

H.M.Jr: What does the old one say?

Duffield: The old one says "shall not extend to transfers of silver bullion by deposit or delivery to the United States Mint under the proclamation."

H.M.Jr: I see.

Gaston: Proclamation or executive order.

H.M.Jr: Now, you know what the agreement is. If they knock this out on a point of order, he's going to tell them on the floor that he'll get in an amendment making this not applicable to this. I'm going to read this.

"Each United States Coinage Mint shall receive for coinage into standard silver dollars any silver which such mint, subject to regulations prescribed by the Secretary of the Treasury, is satisfied has been mined subsequently to July 1, 1939, from natural deposits in the United States or any place subject to the jurisdiction thereof."

Gaston: Why subsequently to July 1? Why not subsequently to June 30th? It's subsequently to; you're leaving a day out.

Bernstein: Yes, they are doing that.

H.M.Jr: Good point.

Bernstein: Let me see how they had it in the original. We redrafted that section.

H.M.Jr: We've got a Bryanite in our midst - doesn't want them to skip a day.

Lochhead: They're working on a five-day week out there, Herbert, so it's all right.

- 3 -

H.M.Jr: "The director of such mint with the consent of the owner shall deduct and retain of such silver so received 45 per centum as seigniorage for services performed by the Government of the United States relative to the coinage and delivery of silver dollars. The balance of such silver so received, that is 55 per centum, shall be coined into standard silver dollars and the same or any equal number of other standard silver dollars shall be delivered...."

Is this the usual language?

Bernstein: That's the language from the first proclamation. The difficulty is, it will require supposedly actual coinage of the silver - that is, a return. We had taken care of that in the Gold Reserve Act amendments and in the later proclamations relating to newly-mined silver. I don't think it will present any problem, because these miners, or the smelting companies, are perfectly delighted to take a check as well as silver dollars.

H.M.Jr: "...and no provisions of law taxing transfers of silver shall extend or apply to any delivery of silver to a United States Mint under this section. The 45 per centum of such silver so deducted shall be retained as bullion by the Treasury or coined into standard silver dollars and held or disposed of in the same manner as other bullion or silver dollars held in or belonging to the Treasury."

Bernstein: According to that provision they'll be getting more than 70 cents, they'll be getting about 71 cents and a fraction.

H.M.Jr: Why?

Bernstein: Well, 45 percent of \$1.29 - they're getting 55 percent of \$1.29 plus, and I think that comes to a little over 71 cents, which is what we paid in that two-week period in 1935.

Gaston: April, 1935.

H.M.Jr: Get about 71 cents?

Bernstein: 71.11.

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H.M.Jr: The so and so's.

Well, you fellows will enjoy this. I spoke to the President last night. Barkley gave him all this - 45 per centum and the rest of this stuff. He said, "Come on, Barkley, talk English."

So he told him, "70 cents." And Barkley said....

(Foley comes in)

Good afternoon. How do you do.

And Barkley said, "Will you take this, Mr. President?"

He said to me, "I said five times, 'blankety-blank - no!' And Barkley says, 'My God, that's terrible. Well, what are you going to do?'"

"But," the President said, "I promise not to veto it."

Klotz: He's swell.

H.M.Jr: Isn't that wonderful? Didn't tell it as well this time? You don't approve it? Not as good?

Klotz: No, you're going downhill.

H.M.Jr: Well, you fellows - can you do anything about this?

Bernstein: Well....

H.M.Jr: Not to embarrass Mr. Foley - let him read it - you see, I always like to help him.

Gaston: Bernie, isn't it just a case of their reading it with the right language when they present the report?

Bernstein: I think the point you raised, Herbert, can be taken care of in this way. If they are extending the existing powers precisely the same way as they exist, the President has the power to receive silver for coinage, so he can if he wants to provide that he will receive silver mined on July 1 and also take care of the lag.

Gaston: That carries with it the language of Section 3 undisturbed.

- 5 -

- Bernstein: I should assume so. So the President could take care of this July 1 date and that would take care also of this other thing.
- H.M.Jr: Now, Ed, you fellows see that everything is going to run smoothly - this stuff. Better get right after this, because they're going to meet at 11:00, see? I think Bernie better be excused. And anything that the President has to do - get that all ready. And it has to go through the Attorney General, doesn't it?
- Bernstein: Well, if we do it under that provision. And my thought is that the President won't have to do anything. You'll have to issue regulations, and they don't have to get out today. You'll issue regulations prescribing
- H.M.Jr: Oh well, I think it would be a very nice gesture if I got out my stuff and it was all in tomorrow morning's papers. Don't you think so, Herbert?
- Gaston: Yes.
- H.M.Jr: And Ed? So they can't say, "Morgenthau is holding back." I'd rather have the whole thing released; I don't care how late Gene works tonight.
- Gaston: There is one little point, Bernie. If he has the power to make the proclamation - if that's extended under Section 3....
- H.M.Jr: Now, before we go into the situation, is your (Duffield) dog well?
- Duffield: My dog is well.
- H.M.Jr: And your wife is back?
- Duffield: Yes.
- H.M.Jr: That comes next.
- Duffield: No excuses left.
- Gaston: It might be a good idea to issue the proclamation anyway, and then that will double-check the question

- 6 -

of the tax transfers, it will put a double-clincher on it.

Bernstein: Of course, the advantage of not having a Presidential proclamation is, he isn't paying 71 cents for silver, Congress is paying it; he's just going along.

H.M.Jr: That's the way we want it.

Gaston: Then you have to issue a one-day proclamation to cover July 1.

Bernstein: Whether we have to do it by proclamation or can work it in some way....

H.M.Jr: I personally think if you're going to do it, I'd much rather have it - if it passes, have it all ready, sign the whole thing, so these fellows can't say I hung back and all the rest of the stuff.

Bell: Bernie, you say that the coinage of silver dollars is not mandatory?

Bernstein: It is under the language there in the same way that it was under the original proclamation. It doesn't say when you have to coin it.

Gaston: It's contradictory, because it says in the next paragraph that you can hold it in the form of bullion without coinage.

Bernstein: That's the 40 percent, or 45 percent; it reads as though the 55 percent that they get at some point has to be coined.

Bell: Coined and delivered to the seller, or deliver other silver dollars.

Gaston: It merely points out, doesn't say when.

H.M.Jr: We're sitting all right.

Foley: Yes, we're doing fine.

H.M.Jr: Anybody want to get up a hat pool as to whether the thing passes before midnight?

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Bell: I think it will.

H.M.Jr: What?

Bell: I think it will.

H.M.Jr: The thing which gave me a great kick today was the New York Trib. Have you seen it?

Foley: No. I saw the Times - "President Fights."

H.M.Jr: No, in the Trib. And this is by Jack Beall: "If this should go through (referring to the silver thing) and be approved by both Houses, it would effectively leave the Republicans holding the bag and put them in the light of raiding the Treasury for the benefit of the silver bloc." That's by Jack Beall in the New York Trib. Isn't that marvelous?

Klotz: That's wonderful.

Foley: Oh, you've had a grand press all the way through on this. Couldn't be better.

H.M.Jr: Now, shall we get back to earth?

McR: Here is Dan Bell's letter to the Budget about Commodity Credit. He's read that, as I understand it, to the Agriculture people and they are satisfied to say this.

Bell: That is, Paul Appleby said he wouldn't object to that last paragraph. As I understand it, he talked to the Secretary afterwards and the Secretary talked to you.

H.M.Jr: Yes.

"I have your letter of June 21, 1939, enclosing a copy of the letter dated June 9, 1939, from the Secretary of Agriculture and a copy of the proposed Executive Order authorizing and directing the Secretary of Agriculture to exercise on behalf of the United States any and all rights arising out of the ownership by the United States of the capital stock of the Commodity Credit Corporation.

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You request an expression of my views concerning the proposed Executive Order.

"I believe that it is wrong in principle to place in the official of the Government who has administrative supervision over an organization such as the Commodity Credit Corporation the function of exercising any and all rights accruing to the holder of the stock. It seems to me that by having these rights exercised by someone outside the sphere of administration affords, through stockholders' meetings, a check upon the Corporation's activities and its administration."

"....having these rights exercised by someone...." - wouldn't you say "by the Treasury" instead of saying "by someone outside"? Well, all right.

Bell: Is that the last sentence?

H.M.Jr: Is Smith going along with us on this?

Bell: I don't know. I haven't talked with him. I just assumed he'd send that along to the President with whatever recommendations he wants to make. But did Wallace talk to you about a meeting of the Corporation?

H.M.Jr: You know what Wallace wants.

Bell: Oh yes, I know.

H.M.Jr: Do you? What do you think he wants?

Bell: I think he wants complete control over the Commodity Credit Corporation. He wants Jesse Jones out of the picture and possibly Farm Credit.

H.M.Jr: Right.

Bell: He doesn't object to the Treasury being represented on the Board, but he'd like to have complete administrative control over the organization and all its activities. Probably part of its money for administrative expenses.

H.M.Jr: What did you say, Dan? Was it good?

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Bell: Why, I just added as an afterthought that he probably also wanted part of the Commodity Credit's money for administrative expenses of the Department of Agriculture.

McR: Johnny Hanes has mentioned a time or two to you and me both.... (words trail off indistinctly).

Do you want it taken care of?

H.M.Jr: He's not my constituent.

McR: The only thing is, he goes off today.

H.M.Jr: Is he one of the 175?

McR: No, he isn't on our roll. He was on Lowell Mellett's roll. He's dropping him because he hasn't got any more money. Johnny asked us to pick him up - I mean Bob Doughton asked us to pick him up.

H.M.Jr: Where am I going to put him?

McR: You'd have to put him some place where you have thrown somebody else out. That's just one of those Doughton cases you have to take care of.

H.M.Jr: Let's see what happens. The tax bill has passed.

McR: That's my attitude on it.

Klotz: Oh, did I hear something?

McR: You're firing 175 guys, and why in thunder you should pick somebody else up because somebody else, Lowell Mellett is dropping him, I can't see.

H.M.Jr: Why are you (Klotz) in favor of this appointment for Bob Doughton?

Klotz: I'm not. You misunderstood me.

H.M.Jr: Well, we've got another bill coming up on this question of tax-exempts. We'll make a new deal, we'll start fresh.

Klotz: We're learning.

- 10 -

McR: Start a new trade.

H.M.Jr: Sure, wait until that gets under way.

McR: That's Frank Wilson's memorandum about that....

H.M.Jr: Have you read it?

McR: Yes.

H.M.Jr: Is it all right?

McR: If we had the money. I tried to find out - we just got it this morning, and I tried to get hold of the Interior - Park Service, who would have to have the funds.

H.M.Jr: Well, check on it promptly.

McR: I don't know whether they've got any money.

H.M.Jr: First of July - new money.

McR: Well, Park Service is the one that would have to pay for it. New equipment for White House grounds.

H.M.Jr: I want Park Service to turn the President down on that. They wouldn't dream of it.

McR: O. K. It looks like a good proposition; won't cost too much.

H.M.Jr: Go to it, Mac. Call up Burlew.

McR: O. K. Well, first I'll get hold of the fellows who would normally do it. If they turn me down, I'll go to Burlew.

H.M.Jr: But let's have it done as soon as - while the President is here, as soon as possible.

McR: Yes, sir.

H.M.Jr: Anything else?

McR: Nothing else.

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H.M.Jr: I haven't turned Bob Doughton down. We're having a survey made.

Archie?

Lochhead: Nothing new.

McR: But he goes off the roll tonight.

H.M.Jr: That's all right. We've got a new bill up, too. Got to be practical around here.

White: Mac turned this over from the State Department. They want two men from the Treasury to go to Paraguay.

H.M.Jr: Hooray!

White: Now, I understand your opinion hasn't changed, your order hasn't changed, with respect to that.

H.M.Jr: What was my opinion?

White: That nobody goes down until you get some money.

H.M.Jr: That's right - until Danny Bell can find the money. He says there is no money.

Bell: No vacations this summer, Harry.

H.M.Jr: I told the President there was no money, that Danny Bell says so. He said it was up to Danny Bell to find it. If Bell finds it, it's O.K. with me. Entirely in his hands. I'm very serious. I'm serious about this.

Bell: What kind of people, tax people?

H.M.Jr: White people.

(Hearty laughter)

That slipped out. That was good. Dan, I liked that one.

White: No, I think there would be one from your outfit.

Bell: That's not inducement enough.

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H.M.Jr: That was very good.

White: Internal Revenue.

Klotz: Punster.

White: Well, I'll take it up with you Monday.

Bell: I should think the tax man might go all right on Internal Revenue.

White: They want somebody from Internal Revenue. It will have to be somebody who possesses a combination of expert knowledge that I don't know whether there would be somebody in Blough's division or somebody in Internal Revenue....

H.M.Jr: When is it scheduled for, Harry?

White: Well, they've asked for it - got it last week, but the State Department, I think, is saving us a little time. What they want you to do is to have - what they want us to do is to fill in the name on three application blanks or four, and then they'll select the man for you.

H.M.Jr: How long do they have to stay down there?

White: Not indicated. Probably several months, judging from the past.

H.M.Jr: It isn't one of the things you could do - get a boat ride down there, spend two weeks down there?

White: Maybe a good man could do it.

H.M.Jr: Take it under consideration, Harry.

White: That's an idea. I'll have to, yes.

H.M.Jr: Thank Mrs. Klotz.

White: The more I think of it, the quicker I think it can be done.

McR: George looks awfully interested over there.

H.M.Jr: He had Smorgasbord for last year, wasn't it, or was it two years ago? All right.

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Got any other good ideas, Harry?

White: No, that one is enough this morning.

H.M.Jr: All right. Ed?

Foley: I don't have anything.

H.M.Jr: Watch this thing very closely, will you, please?

Foley: Yes, I will.

Craves: I have nothing.

Haas: I haven't anything.

H.M.Jr: What?

Haas: I haven't anything.

Bell: Here is this letter to that Mr. Nelson in Chicago, for the President's signature. Don't know whether you want to take it over or want to see it.

(H.M.Jr. takes letter from Bell and hands to Mrs. Klotz)

The only other thing is that Congress has failed to appropriate the 119 million for Commodity Credit, and it may go over; they may appropriate it in the last deficiency bill and they may not appropriate it at all, meaning that that's a way the Committee has of cutting out funds and stopping the function of the Commodity Credit Corporation. Of course, what they should do is change the basic law, but I don't think the Appropriation Committee is going to attempt to do that; just going to fail to appropriate 119 million.

H.M.Jr: And then what?

Bell: That means the losses will be piled - will pile up and be charged to some future budget. Those people who are advocating an investment budget might take a look at this and see what will happen when we go to charge off an investment budget, et cetera.

H.M.Jr: Anything else?

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Bell: That's all.

H.M.Jr: How much you going to buy today in the bond market?

Bell: There are no instructions.

H.M.Jr: What?

Bell: They bought - last report I had, they bought a million and a half of the three million. Whether they did anything after the close, I don't know.

H.M.Jr: I'd give them up to three today.

Bell: O. K. That had some effect yesterday because we bought the securities that were not in the hands of the dealers, so they had to go out and pick them up. I think we might take a cue from that hereafter; we'll find out what the dealers do not hold and we'll give orders on those securities, which makes them go into the market and buy them.

H.M.Jr: Good heavens - I mean who's going to buy lunches for the Federal Reserve crowd from now on?

Bell: I don't know. But it had a lot of effect yesterday, buying them that way.

H.M.Jr: Did I skip you, George?

Haas: No. I have nothing.

Duffield: If you approve, I'd like to let a photographer for the American Bankers' Association's Magazine of Banking take a picture of your luncheon table downstairs.

H.M.Jr: No, no.

Duffield: That's all I have.

White: With the plaques on it. That's what they want.

Gaston: Debt plaques is what they want.

H.M.Jr: Just that, or do they want the room?

- 15 -

- Duffield: They want to take the table, to take the debt plaques.
- H.M.Jr: Just the table, but not the room.
- Gaston: They wanted to take a picture of you and some other people sitting at the table for lunch. I turned them down on that.
- Bell: You know what it's for. It's this 150th anniversary of the Treasury, and they want to show it, as I understand it, in pictorial review.
- H.M.Jr: But not the room.
- Duffield: Just the table.
- McR: That's a historical piece there. I think that ought to be permitted.
- Bell: And we'll have a chance to go over the proof, the description of each picture.
- H.M.Jr: All right.
- Gaston: I had a letter from my former Congressman, who had written on top of it "Please send this letter to the Honorable A. A. Berle, Assistant Secretary of State." I did so. I got a letter back from Berle. He said, "Thanks for your letter. To return the compliment, I am enclosing two letters I have received, with copies of my replies thereto." And these were letters from Brazilian bondholders complaining about South American loans, and Berle's reply said, "I don't know anything about this proposal to lend money to South America. I understand it originated in the Treasury Department. As far as we are concerned, we are doing everything possible to protect the interests of Brazilian bondholders."
- H.M.Jr: Well, I'd like to have that. I'll take that up at Cabinet.
- White: There were two; and he also said, "I have no part in it."
- H.M.Jr: I'd like to have that.

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White: It's on my desk.

Gaston: I sent them to you (White).

H.M.Jr: I want that this morning. I'm sick and tired....

White: A very curious....

Gaston: Very smart stuff.

White: A little over-smart.

H.M.Jr: Well, let me - I definitely want that. I'll write the letter this time to Mr. Hull, and she's going.

White: Well, this is from the Assistant Secretary of State.

H.M.Jr: Well, I've got no right to call down Berle, but I can treat with Mr. Hull. I'd like to have it.

White: There's a meeting of the Commercial Policy at 11:00 o'clock. I'm not sure what they're going to take up this morning. There was further reference to the pact being ratified by the Senate on the exchange. If you like, I can raise the question with respect to the consideration of it, or would you prefer not?

H.M.Jr: I wouldn't. I'd let it go. But I'm going to certainly take this up. The President of the United States is on record on these bondholders.

White: Well....

H.M.Jr: Yes, he is.

White: He is within, probably - the way he stated it, he's saying - it's the juxtaposition of the two, rather than the statement of itself. That is, he is in a position to say that the Government is doing all it can to protect the interests of bondholders.

H.M.Jr: Well, I'd like the clipping of the New York Times quoting the President on his statement on South American bondholders, the one where he talked about the money loaned them in the twenties.

Gaston: Yes.

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H.M.Jr: Do you know that? Well, you can look it up.

White: Made it last week.

H.M.Jr: I want that and Berle's letter. I know how to take care of those babies.

TREASURY DEPARTMENT

405

INTER OFFICE COMMUNICATION

DATE June 30, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Longer Treasury Bonds Down 1-3/4 Points

Since June Financing

Had the Treasury offered a long or even an intermediate long term bond on June 5, it is estimated that such bond would have sold at par or slightly below par in yesterday's market.

This conclusion is based on the recent rapid decline in Treasury bonds since the all-time high point attained on June 5, the day of the last Treasury offering. At the low point in yesterday's market, the six longest outstanding Treasury bonds recorded declines from June 5 averaging 1 point 22/32nds while individual issues declined as much as 1 point 26/32nds. These changes are shown in the accompanying table.

Price Record Six Longest Bonds

Since June 5

<u>Outstanding Bonds</u>	<u>Price June 5</u>	<u>Low Price June 29</u>	<u>Decline</u>
2-3/4% T/B of 1951-54	109.22	108.2	1 pt. 20/32
3 " " 1951-55	112.26	111.2	1 pt. 24/32
2-7/8 " " 1955-60	110.9	108.20	1 pt. 21/32
2-3/4 " " 1956-59	108.31	107.10	1 pt. 21/32
2-3/4 " " 1958-63	108.20	106.27	1 pt. 25/32
2-3/4 " " 1960-65	108.12	106.23	1 pt. 21/32
	Average Decline		1 pt. 22/32

Estimates on possible premiums above par on intermediate and long term bonds for the June financing ranged from 1-1/2 to 1-3/4 points. The decline of 1-3/4 points in longer term bonds would have completely wiped out such premiums and the new issue would have sold yesterday anywhere from 99-3/4 up to 100. Possible new bond offerings and estimated prices as of June 5 compared with yesterday are shown below.

Bonds That Could Have Been

Successfully Offered June 5

	<u>June 5</u>		<u>June 29</u>	
	<u>Estimated Yield</u>	<u>Estimated Price</u>	<u>Estimated Yield</u>	<u>Estimated Price</u>
2-1/8% 15-19 year bond	2.00	101.19	2.14	99.27
2-3/8% 21-26 year bond	2.28	101.18	2.38	99.30
2-1/2% 25-30 year bond	2.41	101.22	2.50	100.

Reasons For Decline

The reasons behind this rapid decline in governments are: (1) Technical reaction to the extremely rapid rise which amounted to about 3-3/4 points without interruption since the middle of April, (2) Profit-taking by those who felt the market was too high and, (3) In the last week the increasing uncertainties connected with the Far Eastern and European situations. At the present time the market is very thin and investors are hesitant to buy until they can see more clearly assurances of peace in Europe. With a clarification in the foreign situation large potential demand should develop.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

407

MEMORANDUM

June 30, 1939

To: Mrs. Klotz

From: Chief Wilson

For your information, the President
leaves Washington at 11:55 p.m. tomorrow
night for Hyde Park.

June 30, 1939

Just spoke to the President at 10:30 a.m., and told him that silver was up fractionally in London and I recommended that we leave the price as is and he said O.K.

Saw Steve Gibbons. I started the conversation with him by saying I was going to transfer Customs to Gaston. Following is our conversation:

Gibbons: That's terrible. It will give me a black eye when I leave on the 1st of September.

H.M.Jr: This is the first I knew that you were going to leave.

Gibbons: I thought I told you.

H.M. Jr: You did not.

Gibbons: I have this position in the bank in Patterson.

H.M.Jr: This is all news to me.

Gibbons: Gaston can't do anything that I haven't done. They put Ballinger on and take him off.

H.M.Jr: Well, Steve, we have gone along for six years and if you are going to leave in two months the last thing in the world I want to do is to give you a black eye. We will let it ride until after the 1st of September.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome

NO: 242

Date: June 30, 1939, 6 p.m.

FROM TREASURY ATTACHE WAIT FOR TREASURY

Payments made to silk exporters are, in substance, as previously reported. Exporters of raw silk to all countries are paid by the Government organization (Entenazionale Service) the difference between the fixed domestic price in Italy and the average price for white raw silk on the Yokohama New York markets. This figure is computed on the 15th and the last day of each month. Payments on manufactured silk exports are made on the basis of raw silk content according to the schedule contained in Decree Law No. 1267 of May 29, 1937. On exports to America an extra payment of lire 4 per kilo is made. For the year beginning July 1, 1939, the Italian domestic price is fixed at 127 lire per kilo. This is the same as that fixed for 1938. On June 15 the average Yokohama New York price was 99.33 lire. Therefore, the payment for the export of raw silk to the United States at the present time is 27.67 lire per kilo plus 4 lire, which makes a total of lire 31.67. The basis for payments is the price which prevails on the date of acceptance of the order rather than on the date of export.

Besides the above-mentioned payment, the amount of 20 lire per kilo is paid by the manufacturers' association (Ufficio Serico Italiano)

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on raw silk exports or raw silk used in exported manufactured articles. This payment constitutes a return of 13 lire which each buyer pays to the association for each 10 kilos of domestic cocoons plus lire 7 out of the association fund, which accumulates by reason of the fact that domestic sales do not receive a repayment. The 7 lire which is paid from the association fund represents the difference between the average New York Yokohama price of white silk and the lower export price for Italian yellow silk. Amounts of payments for the year beginning July 1, 1939, have not yet been fixed.

It is said by the Italian Minister of Foreign Trade and Exchange that the benefit payments are solely an agricultural measure and that their purpose is to encourage cocoon raisers by guaranteeing a profitable price to them for cocoons which will correspond to the benefits which are being paid in the United States to growers of cotton and wheat. He says that as the price level of Japanese silk rises, payments to exporters will decrease. He also says that exports are made at world price levels which do not cause injury to our trade, and that if Italian exports are curtailed because of a countervailing duty, imports into Italy from the United States will be curtailed to the same extent. It seems that the Minister was particularly concerned because of the fact that a countervailing duty might apply also to shipments from France, England and Switzerland of fabrics made from Italian silk. This would have the result of ruining Italy's raw silk business with those countries and turning it over to Japan. The Minister pointed out that it would be difficult to determine the

origin of silk in fabrics, that is, whether it was of Japanese, Italian or other origin.

It is my opinion that the payments fall under the provisions of section 303.

I am satisfied that the present situation with reference to import permits for cotton, leather, and wool does not come under the provisions of section 303. Such permits will be dealt with in a following report.

END OF MESSAGE.

PHILLIPS.

July 5, 1939.

My dear Mr. Secretary:

On behalf of the Secretary, I want to thank you for the paraphrase of telegram No. 242 from the American Embassy in Rome, dated June 30th, and dealing with the proposed countervailing duty on raw silk imports from Italy.

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

The Honorable,

The Secretary of State.

GNP:luf

July 5, 1939.

My dear Mr. Secretary:

On behalf of the Secretary, I want to thank you for the paraphrase of telegram No. 242 from the American Embassy in Rome, dated June 30th, and dealing with the proposed countervailing duty on raw silk imports from Italy.

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

The Honorable,

The Secretary of State.

GEF:lmf

July 5, 1939.

My dear Mr. Secretary:

On behalf of the Secretary, I want to thank you for the paraphrase of telegram No. 242 from the American Embassy in Rome, dated June 30th, and dealing with the proposed countervailing duty on raw silk imports from Italy.

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

The Honorable,

The Secretary of State.

GNP:lmf



DEPARTMENT OF STATE
WASHINGTON

July 1, 1939.

reply refer to
611.653/112

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a paraphrase of telegram no. 242 from the American Embassy in Rome, dated June 30, 1939, with reference to the proposed countervailing duty on raw silk imports from Italy.

Enclosure:

From Rome, no. 242,
June 30, 1939.

js

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 30, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Business Conditions and Prospects as Reported to Mr. Seltzer by T. J. Carney, President of Sears, Roebuck and Company, C. R. Morrison, Vice President in Charge of Sales of International Harvester Company, and C. G. Jarchow, Comptroller of American Steel Foundries Company

The views of these gentlemen directly reflect the current experience and immediate prospects of the industries and business enterprises with which they are associated: Mr. Carney expects Sears Roebuck sales to continue to expand through the fall. Mr. Morrison expects that the worst is over for International Harvester, but does not look forward to more than a moderate increase in the volume of his business for the next six months or so. Mr. Jarchow appears to be resigned to an indefinite continuance of bad business so far as railroad equipment is concerned.

I. Mr. Carney

(a) Current Volume of Business:

Sears Roebuck sales turned up last September and the company's business has been improving without significant interruption ever since. Part of the increase is due to the more liberal credit terms offered customers; but not all of it. During a recent period when total sales increased by 33-1/2 percent, there was a 20 percent increase in cash sales.

Another contributing factor to the growth in Sears' sales has been the ready availability of adequate stocks of goods. Department stores and local specialty stores have not been in as good position in this respect. Sears is able to shift merchandise from one territory to another if need be, and very little of their goods consists of style merchandise. They haven't been as greatly influenced as many department store operators and other distributors by war scares.

Secretary Morgenthau - 2

The improvement in the building trades is also credited with a significant contribution to the expansion in Sears' sales. The workers and their employers in these trades had been unemployed so much that virtually all of the income that they have recently been receiving has been going into necessitous consumption. It has been spent immediately upon receipt and much of it has gone into the kinds of goods sold by Sears. After these necessitous wants are satisfied, reemployment in the building trades will have a less stimulating effect because a significant fraction of the wages and other income received will be siphoned off for savings and debt reduction, instead of being spent immediately.

(b) Inventories:

Sears' inventories are about 9 percent higher than they were this time last year. Their merchandise commitments for this fall are some 40 percent higher. Their optimism respecting fall business is based upon their contacts with both their suppliers and the public.

(c) Fall Forecast:

Their adjusted forecast of fall business will be made shortly on the basis of responses received from their new catalogue, which will be sent out in about two weeks. This catalogue is being spruced up a great deal with colored illustrations, etc. Pending responses to the new catalogue, Mr. Carney is betting on good business right through to Christmas, beyond which he does not venture to guess.

Mr. Carney is somewhat concerned about the cotton situation, his recent figures indicating that in the cotton growing regions, the Federal subsidy has accounted for nearly all the farmers' cash income. But in the Middle West, apart from continued complaints from milk producers, farmers are in a rather cheerful frame of mind because their situation is much better than it was at this time last year.

War scares may interrupt the progress of business, but in the Middle West at any rate people are rather fed up with reading about repeated threats that do not materialize, and are unlikely to become seriously concerned again until the situation becomes overtly grave.

Secretary Morgenthau - 3

(d) Prices:

Mr. Carney looks forward to substantial price stability over the next several months, and this is one reason why he felt free to increase his firm's inventory position and commitments so considerably.

II. Mr. Morrison

International Harvester had a record year in 1937, and its business continued on an excellent level in the early spring of 1938 when most other lines of business were well in the doldrums. But, by April 1938, Harvester's business began to fall fast, and has continued to do so with virtually no interruption. The early months of 1939 were particularly dispiriting to the organization, the volume dropping as low as 40 percent below that of the corresponding periods of 1938.

But, although there has not been a single month to date in 1939 that has equaled the volume of the same month in 1938 in sales, the discrepancy between the two years has been narrowing recently. During the second half of the year, the comparisons will be made with the particularly unsatisfactory second half of 1938, so that the statistical picture from July on should be a little less discouraging.

Harvesters' inventories are extremely low at present. The company was caught with very large inventories in the spring of 1938 and has been trying to work them off ever since. Mr. Morrison looks forward to a very moderate degree of improvement during the next six months in production and sales.

III. Mr. Jarchow

American Steel Foundries is operating at about 25 percent of capacity as compared with an average of 12 percent during all of 1938.

There has recently been a somewhat small decline in the volume of orders.

Secretary Morgenthau - 4

No significant pickup in orders is anticipated in the early future. It is too late for new orders to do the railroads any good in the movements of this year's traffic; and the arch-bar replacement program, which helped to sustain the company's operations when other forms of new business were lacking, is nearly completed.

Low interest rates and easy availability of funds would not be of great stimulus in the ordering of new railroad equipment. What the rails principally need is not easy money but a good volume of traffic. If their traffic volume were at all crowding their facilities today, the railroads would be ordering large amounts of new equipment and would be experiencing no difficulty in financing these orders, believes Mr. Jarchow.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome

NO: 242

DATE: June 30, 1939, 6 p.m.

FROM TREASURY ATTACHE WAIT FOR TREASURY

Payments made to silk exporters are, in substance, as previously reported. Exporters of raw silk to all countries are paid by the Government organization (Entenazionale Serico) the difference between the fixed domestic price in Italy and the average price for white raw silk on the Yokohama New York markets. This figure is computed on the 15th and the last day of each month. Payments on manufactured silk exports are made on the basis of raw silk content according to the schedule contained in Decree Law No. 1267 of May 29, 1937. On exports to America an extra payment of lire 4 per kilo is made. For the year beginning July 1, 1939, the Italian domestic price is fixed at 127 lire per kilo. This is the same as that fixed for 1938. On June 15 the average Yokohama New York price was 99.33 lire. Therefore, the payment for the export of raw silk to the United States at the present time is 27.67 lire per kilo plus 4 lire, which makes a total of lire 31.67. The basis for payments is the price which prevails on the date of acceptance of the order rather than on the date of export.

Besides the above-mentioned payment, the amount of 20 lire per kilo is paid by the manufacturers' association (Ufficio Serico Italiane)

-2-

on raw silk exports or raw silk used in exported manufactured articles. This payment constitutes a return of 13 lire which each buyer pays to the association for each 10 kilos of domestic cocoons plus lire 7 out of the association fund, which accumulates by reason of the fact that domestic sales do not receive a repayment. The 7 lire which is paid from the association fund represents the difference between the average New York Yokohama price of white silk and the lower export price for Italian yellow silk. Amounts of payments for the year beginning July 1, 1939, have not yet been fixed.

It is said by the Italian Minister of Foreign Trade and Exchange that the benefit payments are solely an agricultural measure and that their purpose is to encourage cocoon raisers by guaranteeing a profitable price to them for cocoons which will correspond to the benefits which are being paid in the United States to growers of cotton and wheat. He says that as the price level of Japanese silk rises, payments to exporters will decrease. He also says that exports are made at world price levels which do not cause injury to our trade, and that if Italian exports are curtailed because of a countervailing duty, imports into Italy from the United States will be curtailed to the same extent. It seems that the Minister was particularly concerned because of the fact that a countervailing duty might apply also to shipments from France, England and Switzerland of fabrics made from Italian silk. This would have the result of ruining Italy's raw silk business with those countries and turning it over to Japan. The Minister pointed out that it would be difficult to determine the

-3-

origin of silk in fabrics, that is, whether it was of Japanese, Italian or other origin.

It is my opinion that the payments fall under the provisions of section 303.

I am satisfied that the present situation with reference to import permits for cotton, leather, and wool does not come under the provisions of section 303. Such permits will be dealt with in a following report.

END OF MESSAGE.

PHILLIPS.

got Cotton
Ed Foley

We told J. Jones that this
COPY *draft was O.K. July 6th*
Received on July 5th

423

June 30, 1939

Memorandum to Mr. Jones -

Conditions precedent to any arrangement to finance the exportation of cotton to Spain:

Written assurances from the Spanish Ambassador in the name of his Government that

- 1) the cotton shall be exclusively for domestic use in Spain; and
- 2) payments for the cotton will be made according to the terms of the agreement and that no claims will be asserted by the Spanish Government, the Bank of Spain or any Spanish financial or other interests against such payments for any reason resulting from the acquisition by the Government of the United States during 1938 of silver of Spanish origin.

In addition to the foregoing, we are advised by the State Department that prior to the completion of any financial arrangement involving the exportation of cotton to Spain, the Spanish Government shall meet the request hereto made to Ambassador Cardenas for general assurances regarding the treatment of American interests in Spain.

mo
WLP



PUBLIC BUILDINGS BRANCH

REPLYING QUOTE THE ABOVE SUBJECT, BUILDING, AND THESE LETTERS PB-

424

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

June 30, 1939

Dear Mr. Secretary:

As I left your office with the other men of the Public Buildings Branch who had assembled to say goodby, I determined to take the liberty of writing you a personal letter to express my admiration for what you have infused into the architectural work of the Treasury Department since you became its head. Before this letter could be written, the copy of your letter to Mr. Carmody reached me. It has touched me very deeply.

For years before the present administration came into being, it was quite evident that the design of public buildings under the Treasury Department was not what it should be, and you might wonder why that condition was not remedied long ago. My answer is that it took just that sympathetic and understanding attitude of yourself and Mrs. Morgenthau to produce what has been brought about.

It is with sincerest personal regret, which I am sure is shared by my colleagues, that the immediate influence which you and Mrs. Morgenthau have exerted will now be missing, but it is my hope that the ideals which you have sponsored and the things which your larger vision and deeper insight have accomplished, may now have been sufficiently established to hold the standards of Government architecture where you have placed them.

Sincerely yours,

LOUIS A. SIMON

Honorable Henry Morgenthau, Jr.

Secretary of the Treasury

Confidential

425

June 30, 1939

My dear Mr. Secretary:

At my request, Ambassador Oumansky called on me today.

I told him that we were ready to take up the question of the Russian debt and I would like to have him inquire of his Government whether they would care to do likewise. He asked me if we had any details as to figures and I said that I had not given that any thought as I preferred to wait for an expression from his Government that they also would like to discuss seriously the debt question.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

By hand

Confidential

426

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Confidential

427

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

June 30, 1939

10:30 am

Present:

Ambassador Oumansky, U. S. S. R.
Mr. Cotton

HM, Jr: Mr. Ambassador, the reason I asked you to come in

(At this point the Secretary offered the Ambassador a cigarette and the latter opening his cigarette case said, "Exchange, please. A barter." The Secretary took one of the Ambassador's cigarettes. The Secretary having closed his own case was interrupted while lighting his cigarette by the Ambassador saying, "The barter is one-sided so far, Mr. Secretary. You did not give me one. HM, Jr, laughing heartily, said, "Maybe that's what will happen. I haven't had one of these since I was in Turkey.")

Ambassador: Yes, Mr. Secretary.

HM, Jr: I want to ask you whether, after all these years, your Government would care to take up the question of debt negotiations between our two countries. I take it you would like to ask and, if they are, I am prepared to negotiate with you.

Ambassador: I see.

HM, Jr: And we would like to do it in Washington with you. If you want to ask me any questions

Ambassador: Well, you understand that this is not the kind of question that is answered off-hand.

HM, Jr: I understand.

Ambassador: I am sailing Wednesday on the QUEEN MARY. To tell you the truth and in very private, just between you and me, Ambassador Steinhardt, in a regular,

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academic way, raised that question. I recommended to him in his new activities to look rather ahead than back to old claims and counter-claims. I did not see yet the basis for revitalizing that question.

The statement you made me, I will report, of course, to Mr. Molotov and that will happen in less than two weeks, in person, but, of course, if besides the statement I could report some basis that, perhaps, would be very constructive.

HM, Jr.: Well, in the first place, I want to -- of course, I have discussed this with both the President and Mr. Hull, and they don't, for reasons -- Mr. Hull, I don't know; does not interest me -- he does not want Mr. Steinhardt to do it. His position, I think, is this: he wants the Treasury to do it. You see, he feels it's a Treasury matter. No reflection on Mr. Steinhardt.

Frankly, the only thing that I have to suggest is that if your Government after giving the matter careful consideration wants to approach us, then it would have -- it's a matter of good will. I think the details are always unimportant, but if your Government and my Government say now this is something we want to get settled and get out of the way so that we can improve the trade between our two countries; that's our objective, I think this thing can be accomplished. I am not interested in details. I mean, it's just a question if you and I said we are going to do this thing; we are going to get to an agreement; how shall you and I come together to an agreement; if you said you wanted it, if your Government wanted it -- having the view that we feel that a great deal of business could be done between the two countries once this thing was out of the way

Ambassador: You remember the story of the negotiations, Mr. Secretary.

Secretary M.: I was in on it.

Ambassador: You were, very much. I remember that. Remember well. You remember too at that time

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we showed interest for receiving a loan after settlement of claims and counterclaims and as a part of the settlement.

HM, Jr: Yes.

Ambassador: Without any prejudice, how my Government might react to that -- I am thinking aloud now.

HM, Jr: I understand.

Ambassador: And I am asking myself whether the interest of the Soviet Government in any loan today is the same as before. That is just thinking aloud. As to the other part, I share your opinion entirely that the potentialities are tremendous.

HM, Jr: Oh, yes!

Ambassador: Just yesterday I discussed the trade with Mr. Hull. I showed him figures, which I regret I did not take along with me today, showing that in 1938, for instance, we doubled our pledge by \$48,000,000 to over \$70,000,000. That this year again we will have something between \$50,000,000 to \$60,000,000 instead of the pledge of \$40,000,000. That unfortunately this discrepancy between imports and exports is growing catastrophically, discouraging our desire to go ahead. In this connection I would like very much for you to know that, Mr. Secretary.

I brought up the question of the manganese

HM, Jr: With Mr. Hull?

Ambassador: Yes. Just for your knowledge, I was not bringing that up as a practical matter, but it's an important one. Last year when we renewed our trade agreement we asked the American side to improve the balance. We don't have the idea of a net balance; not necessarily; we don't have the idea of any barter agreements or any entire balancing. We don't want to violate the economic needs of the country, but we ask you to improve it by acquiring something which you need for

-4-

your National defense and which we are anyhow supplying to the average of about 43% of everything you are buying, except managanese, from our country. Last year the American negotiators told us there are no appropriations for that. Now there are \$100,000,000 for four years and I submitted officially on the behalf of the Government to the Secretary our very modest requirement, extremely modest: for four years, 800,000 tons. That amounts in dollars to only 10 -- 10 to 12.

HM,Jr: A year?

Ambassador: No, for four years. Which cannot very much improve the balance, but still improves it by roughly \$3,000,000 a year.

HM,Jr: You mean you want to sell 800,000 tons over four years?

Ambassador: That's right. How you distribute it -- you might in event of emergency or in anticipation of any, accumulate at once more. It would be some improvement, but I agree with you entirely when you point out the potentialities of the trade. All these things are in disproportion to the real possibilities. Machine tools, perhaps some kind of raw materials too; perhaps some agreement with South America. These are things which I vaguely have and which I submit to the Government.

HM,Jr: Railroad equipment?

Ambassador: Hardly. Mainly machine tools. Well, let's put it this way, Mr. Secretary: the rest depends upon something very different. I speak very confidentially and very frankly.

HM,Jr: Please. This whole conversation. The fact that we have started this, I expect

Ambassador: It's good before I leave that we have this talk.

HM,Jr: We pride ourselves in the Treasury -- you don't read in the columnists what we all do in the Treasury. I don't work that way.

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Ambassador: I know.

HM,Jr: And I think the people who do, don't last very long.

Ambassador: Well, then, I want to make this statement. You know that we devote tremendous efforts to our National defense. So do you, but

HM,Jr: ... but not so big.

Ambassador: Not so big.

HM,Jr: Twelve percent of our money goes to National defense.

Ambassador: Yes. Well, in percentage, I think we are above that, but in actual figures much more than you. That's why we have peace so far.

Should there be in the application of the existing laws about what to sell foreign Governments as far as defense materials is concerned, should there be in your new National policy a discrimination between factors of war and factors of peace, should we feel that we can receive things we need, both for Navy and Army, well, in dollars, there are scores and scores of millions. So far it is rather discouraging. And when I go to see the appropriate division in the State Department and on behalf of some Committee that came to this country and wants to buy something, and which your Government knows that it never can be used against American interests, the answer is whether you are Germany or Italy or France or Russia, entirely equal terms. No friends. These refusals in terms of dollars already have meant great sums and are not entirely understood by our Government.

HM,Jr: What sort of things, for instance? Give me an example. Anything.

Ambassador: Right now something which I will discuss with Secretary Edison in half an hour.

HM,Jr: Those two battleships?

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Ambassador: Yes. Destroyers, rather, and with a battleship looming in the background and other things. These are scores of millions of dollars already. Other things. Just one instance: Amtorg has an order to acquire at once from General Electric or any other firm boilers -- boilers for our Navy. Not guns. Not ammunition. Not ordnance. Boilers! But, of course, modern boilers with high pressure and high temperatures. That's already I think about, if I am not mistaken, something above \$10,000,000.

HM,Jr: You can't get them?

Ambassador: Very doubtful. So far, no.

HM,Jr: Who says no?

A mbassador: Well, in half an hour I will know better. I will be able to answer that question. Of course there are developments there which are of military value or perhaps are considered military secrets and perhaps they are in this class. According to Mr. Green's office they are under this category and it is automatically applied to us. Well, I could quote many such things.

HM,Jr: (To Mr. Cotton) You know who he means by Green. Green over at the State Department.

Ambassador: Munitions Board.

HM,Jr: Of which I am a member.

Ambassador: Well, Mr. Edison's approach is the most intelligent and friendly one.

HM,Jr: He's an intelligent person.

Ambassador: It's a real pleasure to have to do with him. But probably there are some handicaps which prevent it.

So as to our trade of today, I would say before we would engage in -- besides the subject, rather this way, there are two things which already could be done to the great benefit, mutual benefit, smoothing out

-7-

the balance by acquiring the raw materials you need for your National defense and for which you already have some money appropriated; second, discrimination between factors of peace and factors of aggression, between friends and non-friends.

HM, Jr: I understand. Well, you know me well enough by now that I don't start anything like this unless I have a complete backing from the President.

Ambassador: I know that, Mr. Secretary.

HM, Jr: Because life is too short. Life is too short. You know that. At this stage, I don't waste my time on things unless it's something I have the complete backing of the President and I look forward, perfectly openly -- where are there any new channels for trade in the world. And I think that Russia offers us one of the best opportunities.

Ambassador: I think you are right.

HM, Jr: And possibly this may be an opportunity. Taking all the peice together and making one pattern which would bring to a better understanding...

Ambassador: I think you are perfectly right.

HM, Jr: You see? If we have troubles here, troubles there -- I don't know how your Government is. I know how ours is, but these groups sometimes think they are almost like foreign powers working here as to their identities.

Ambassador: I understand perfectly.

HM, Jr: So maybe this would be the opportunity for taking this picture puzzle and putting it all together. When we have something we will have something mutually advantageous to both countries.

Ambassador: May I ask you one frank question.

HM, Jr: You can ask it.

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Ambassador : Why should it be? Why should the debt question -- making a bad joke -- which is a dead question

HM,Jr: I understand.

Ambassador: In a sense internationally, everywhere. Why should that be in the picture?

HM,Jr: Well, that's a perfectly good question. Because I feel that having got that out of the way, that if it was a question of credits then we could take up the question of credits.

Ambassador: Of loans? Of financial loans?

HM,Jr: Yes. If that was necessary.

Ambassador: That is exactly the question which I will have to

HM,Jr: Is that an answer?

Ambassador: It is; yes.

HM,Jr: That's the only reason.

Ambassador: And the second question coming now: what does my Government think about the desirability of this financial arrangement, perhaps having in that picture exactly what you said -- putting the puzzle together. I understand that.

HM,Jr: Now another thing. If we are going to do this -- Finland certainly has got all kinds of favorable publicity on account of her position.

Ambassador: That's right.

HM,Jr: And I think it would be most helpful as far as this country is concerned, for public opinion if that was settled and a lot of these hurdles would disappear if the debt question was settled.

Ambassador: If I am asked -- and that will be

-9-

the first question I will be asked by Mr. Molotov, a very difficult one for you to answer right now is based on figures, the conditions. You could not, of course

HM, Jr: No. I am not prepared.

Ambassador: I realize that.

HM, Jr: No. Because until I get an indication from your Government that they are really interested, not just passing the time but they really want to do this, then -- I haven't got down to that. I don't want to.

Ambassador: That perhaps is the way to settle that difficult question of discrepancy in our export-import.

HM, Jr: It certainly, I think, would be a step in the right direction.

Ambassador: It's almost a three to one discrepancy.

HM, Jr: And it's getting worse?

Ambassador: Getting worse; yes. And already affecting our purchases. We are already discouraged. But one thing I want to emphasize, should those hurdles you mentioned, or I mentioned rather, in the defense materials would ever be overcome, we would not mind a passive balance.

HM, Jr: That is right.

Ambassador: We either will or won't. But you probably will not yet have an Act leaving the Secretary of the Navy or the Secretary of War more discretion in giving to friends the things they need. That's what Secretary Edison complained bitterly about.

HM, Jr: I don't know. I am not familiar to know what the troubles are. I don't know.

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Ambassador: We are very modest, by the way, in these things.

HM,Jr: I don't know. I mean, there is no reason why I should be in on that. I just don't know.

Ambassador: I just only want to tell you, Mr. Secretary, in this we feel, very frankly, we feel -- plenty of good will and right approach from many people and the higher we go, the better the approach, but when it goes down to the machinery then we hit obstacles.

HM,Jr: So do I.

Ambassador: At every step.

HM,Jr: So do I. You tell me why.

Ambassador: I don't want to come here to complain

HM,Jr: No good.

Ambassador: about your officials.

HM,Jr: I have the same complaint. , We make an agreement with Mr. Aranha. What's happened? What's happened?

Ambassador: Well, Mr. Secretary, I want to tell you that I certainly will not fail to report that is message number one in my report to the Government.

HM,Jr: And then, at your pleasure, we will take it up again. Now I want to ask you something.

(Miss Chauncey was excused from taking the balance of the meeting.)

June 30, 1939
8:55 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Andrew L.
Somers: Yes?

HMJr: Henry Morgenthau.

S: Oh hello, Mr. Secretary.

HMJr: How are you?

S: Fine!

HMJr: Are you at your office?

S: No, I was -- at the hotel.

HMJr: Oh! The reason I'm calling is this: We don't know how you people handle that seventy cents on account of the tax thing, you see?

S: Yes.

HMJr: Do you know in what form that's going to be?

S: Well, it's going to read somewhat like the Senate Amendment saying that -- making the percentages forty-five, fifty-five.

HMJr: Well, but do they take care of the -- of the tax on this?

S: And then at the end of the sentence.....

HMJr: Yes.

S:we added a comma and took care -- took care of the tax in a definite statement. Now, the one fear we have about that.....

HMJr: Yes.

S:is that they may throw it out on a point of order.

- HMJr: But -- you mean the -- the tax thing?
- S: Yeah.
- HMJr: Well, is there any way of our boys taking a look at it so that -- our lawyers?
- S: Why yes. I -- I think it ought to be ready in the House. The only copy I had was the -- the one I handed in late last night to the House -- for printing.
- HMJr: Yeah.
- S: And I think it ought to be there now.
- HMJr: Now, how can we get it?
- S: Through the document room.
- HMJr: Through the document room. All right, I'll have our boys go after that.
- S: All right, sir.
- HMJr: Now, if you're afraid of that, I have this suggestion to make which I'll check with my lawyers.
- S: Yes.
- HMJr: You see, under the present Thomas Amendment there are special provisions exempting domestic silver from the tax, you know.
- S: Yes, sir.
- HMJr: And in order to play fair with these boys, if they would let it go through as part of the Thomas Amendment without fixing the price and with the understanding that the President at midnight would fix it at seventy cents for two years.....
- S: Yes.
- HMJr:then that would take care of the tax thing, you see.
- S: Yes.
- HMJr: I'm just offering that entirely on my own.
- S: Yeah. Well, I don't know how that might affect the parliamentary situation, because this language happens

to be before us at the moment.

HMJr: I understand. But I mean, supposing it's thrown out?

S: Well, of course, if it's thrown out why then it would be -- be left to -- left to the discretion of the Secretary of the Treasury, and if you want I can state that I'm quite positive that you would continue to respect that as you have in the past.

HMJr: This -- well, I mean, if -- I'm just thinking if -- in order to protect them so that they can't say that there's any double dealing at this end, that's what I'm bothered with, you see?

S: Yeah.

HMJr: If this thing is thrown out, then I think the thing would be to get the President to say that he'd get out a proclamation for 70 cents.

S: Yes.

HMJr: And because, in the Thomas Amendment it particularly takes care of that tax.

S: Yes. Well, it was my thought that if that's thrown out on an amendment.....

HMJr: Yes.

S:I would assure the House that the Committee would, in the next day or two, bring in an amendment to the Thomas Amendment.

HMJr: I see.

S: And.....

HMJr: Well, that would take care of it.

S:take care of it that way.

HMJr: I'd much rather let the House fix the price the way -- after all this debate.

S: Yes.

HMJr: I'd rather let them fix it.

S: Yeah.

HMJr: So if you could bring in an amendment subsequently taking the other tax, that would be -- that will be even better.

S: Yes. Well, I think we might do that.

HMJr: I think your suggestion is better. Well, I -- you got a good press this morning.

S: Did I? I haven't seen it. I -- I just woke up; I didn't sleep so well.

HMJr: Oh, I'm sorry. I guess I woke you up.

S: No, you didn't, because I -- I have to be up and down in the House. This bill's coming up, I think maybe, at eleven o'clock and I want to be sure we get it through.

HMJr: Well then, you would have had to get up anyway.

S: Yeah.

HMJr: I'm sorry if I woke you.

S: No, you didn't.

HMJr: And -- it's coming up at eleven?

S: Yes, sir.

HMJr: It then -- is it -- the understanding it goes through the House first?

S: It goes through the House first and then over to the Senate.

HMJr: Fine! Well, we'll get this thing from the document room.

S: All right, sir.

HMJr: Thank you so much.

S: You're welcome. Good bye.

June 30, 1939
10:00 a.m.

HMJr: Hello.

Operator: Senator Barkley.

HMJr: Hello.

Alben
Barkley: Hello.

HMJr: How are you?

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

HMJr: Well, I see you did a good job last night.

B: Well, I think so if -- if we get it through. I don't know, they can prevent us from voting on it if they make up their minds, but I doubt if they do it.

HMJr: You don't think they'll let it go through?

B: Well, I mean, they -- they have the power to prevent it from going through.

HMJr: Oh!

B: If they decide to do it. They are meeting now, I understand, the Republicans, to decide what their course will be, but of course all they've got to do is to talk until midnight if they decide to do that and the thing's over.

HMJr: Uh-huh. Well, how about the Democrats?

B: Well, they'll be all right. We can vote -- if we get a vote on it, it'll carry.

HMJr: I see.

B: Yeah.

HMJr: But can they keep it from coming to a vote?

B: Yeah, they can do it.

HMJr: Oh!

B: Yeah.

HMJr: Oh!

B: You see, there's no way to force a vote if enough Senators want to talk to-just keep talking.

HMJr: Well, if -- is it the idea that the House will try and pass it first?

B: Yes, the House is going to pass it first. They may pass it within an hour after they meet.

HMJr: And then it comes over to you.

B: It comes over to the Senate.

HMJr: And then it depends upon.....

B: And we'll bring it up in the Senate, and.....

HMJr: Yeah.

B:we can soon find out whether they are going to try to filibuster.

HMJr: I see.

B: Yeah. I -- I frankly doubt whether they'll go to that extent, but they can do it if they desire to.

HMJr: You -- you've certainly got the Republicans on the spot, haven't you?

B: Well, yes. Absolutely. Now, they -- they got out on a limb.

HMJr: I'll say so.

B: Yeah. Of course, if they beat this thing why that means that -- though that -- that they've -- they're bound to make the silver people angry because they may have -- then the price of silver goes right back down to the market price.

HMJr: That's right.

B: And they're -- they're between the devil and the deep sea.

HMJr: That's right.

B: So that's the way the thing stands.

HMJr: Right!

B: But we got a -- we got a good -- good proposition in our conference report.

HMJr: I think so.

B: Yeah.

HMJr: I think so.

B: Well, I hope it goes through. We'll do our best.

HMJr: Yeah. Well, you've done a wonderful job.

B: Well, thank you.

HMJr: Well, I'm here.

B: All right.

HMJr: Good bye.

B: Good bye.

June 30, 1939
10:25 a.m.

445

Operator: Go ahead.

HMJr: Hello.

Frank
Murphy: Hello, Henry.

HMJr: Hello, Frank.

M: How are you?

HMJr: I'm fine!

M: Say, Henry, I've looked over a number of men for this tax job.

HMJr: Yeah.

M: There have been six or seven prominent persons.

HMJr: Yeah.

M: Some are well qualified and others are not, and among those that are qualified are some who we don't want.....

HMJr: Yeah.

M:in this Government, and some have been in the Treasury Department before.

HMJr: Yes.

M: Now the fellow that appeals to me the most of the number of candidates is Sam Clark.

HMJr: Just a minute, let me make a note of this. Sam.....

M: Sam Clark.

HMJr: Yeah.

M: He's now with the S.E.C.

HMJr: Yeah.

M: He graduated magna cum laude from Yale and he has had -- he's 38 years of age, has had an interesting law career for his years, and has done unusually good work here.

He's a careful, brainy, thoughtful.....

HMJr: Yeah.

M:thoughtful lawyer.

HMJr: Yeah.

M: He has integrity which is so necessary here.

HMJr: Yeah.

M: And he's devoted to the President. He's the brother of Dean Clark of the Yale law college who went on the Appellate Court.

HMJr: I see.

M: So his antecedents and contacts are very favorable.

HMJr: Good.

M: Now, I want you to check on him -- that you feel all right about him.

HMJr: May I do that?

M: Yes, indeed, before I'll do anything.

HMJr: Right!

M: But I think he's quite a person.

HMJr: Well, I'd like to have that opportunity if I may.

M: Yes, all right, Henry.

HMJr: Now, on this monetary legislation which we're watching every minute.....

M: Yeah.

HMJr:the form it's taking now would be -- if it passed the way it is, will be a procla -- will be, not a proclamation but rules and regulations by the Secretary of the Treasury rather than proclamation by the President, but it may switch any minute, you see? Hello?

M: Yes.

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HMJr: And if it goes back to a proclamation by the President we may want an opinion from you.

M: Oh.

HMJr: The way it stands now we'd -- we don't need one.

M: All right.

HMJr: But -- are you going to be here this afternoon?

M: I'll be here until four o'clock.

HMJr: Until four.

M: I expect to go to New York then.

HMJr: Well, we'll know, but the President is planning to stay and maybe even go up to the Capitol at midnight to sign this thing.

M: Well, I'll stay right on the job if it's necessary.

HMJr: And if you don't mind, I'd like to tip you off, he may want you.

M: Oh, well, then let me know -- will there be Cabinet meeting?

HMJr: Yes.

M: Well, let me know and I'll just stay available.

HMJr: Because if he goes up I should think he'd want you on hand if he's going up to do any signing at 11:59.

M: Yeah. Yeah.

HMJr: So I thought you might like to know what's in the wind.

M: Yes, well, I'd better be available.

HMJr: I should think so.

M: Oh, yes. All right.

HMJr: Thank you.

M: Thank you.

June 30, 1939
3:55 p.m.

HMJr: Hello.

Operator: Mr. Smith. Go ahead.

HMJr: Hello.

Harold
Smith: Hello.

HMJr: Morgenthau speaking.

S: Oh, yes, Mr. Secretary.

HMJr: I had a minute with the President after Cabinet and I asked him about my three Coast Guard Cutters.

S: Yeah.

HMJr: And my fifteen long-distance planes.

S: Yes.

HMJr: And I reminded the President that he'd promised me that if I could get the bill through that it was all right with him.

S: Yes.

HMJr: So, and then ^{he} said somebody in the Navy -- so -- somebody told him that these type of cutters were too big, and I said, "Well, they've worked out beautifully. We have seven of them; the Navy's crazy about them, and it takes three or four years to get them," and that he'd promised them to me. So he said, "Tell Harold to talk to me about it again."

S: (Laughter) Well, doggone it, you know how -- how he is sometimes.

HMJr: I know, and then the same on the long-distance -- the fifteen planes. He was all for those planes. He's promised me all this once, you know.

S: Yeah, I know.

HMJr: He promised it to me twice, you know.

S: I went through this rigmarole with the Secretary of the

Treasury -- or Secretary of Commerce, and I took those things back to him twice. I said, "All I'll do -- I'll be glad to do a clearing job," and he vetoed them.

HMJr: Well, would you mind doing it once more?

S: Yeah, I'll do it.

HMJr: O. K.

S: Yeah, I'll do it. I'll tell you what he -- or did Mac tell you what he said?

HMJr: No.

S: He said, "Now, I don't think they need any more of those large ships," I took the thing over with this in mind. I said, "Now here is the story and -- of the Coast Guard, and I have no way of valuating it because it's partly -- part of it is this national defense thing."

HMJr: Yeah.

S: And he said, "Well they don't -- they don't need those detectors. We're not going to get into war around here so fast that we wouldn't have time to make such an installation and they'll require additional personnel," and he went down the line on the whole thing and marked it off himself. I took the list over. He marked it off, every one of those items. He came down to the Kodiak base and I said, "Well now, as I understand it, the Navy is building a base there now and it would be economical if the Coast Guard is to have a base to tie in with that work."

HMJr: Yeah.

S: "Well," he said, "we'll leave that."

HMJr: Well he had cut a million or two out of the Treasury and gave two hundred and fifty million to Agriculture with the snap of a finger.

S: (Laughs) I know it. Of course, he -- he doesn't like that either, but I suppose he's stuck.

HMJr: Well, anyway. I spoke to him once more and reminded it to him.....

S: Yeah.

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HMJr:that he promised it to me on two different....
S: Yeah.
HMJr: Do you mind going through.....
S: I'll do it. You bet, I'll do it. I'll take it back to him.
HMJr: Thank you very....
S: Yeah, all right.
HMJr: Goodbye..

June 30, 1939
4:00 p.m.

Operator: Go ahead.

HMJr: Hello.

Ed
Foley: Hello, Mr. Secretary.

HMJr: Yes, Ed.

F: This thing's moving awful slow down here.

HMJr: Yeah, I know it is.

F: They got it up to a point of -- of a vote.....

HMJr: Yeah.

F:on the acceptance of the conference report in the House and they're -- Republicans are using all the tactics they can to keep them from voting.

HMJr: Yeah.

F: It may be an hour before they get to a vote.

HMJr: They're giving Hoffman the right to speak, I see, for an hour.

F: (Laughs) Well, he raised the point of personal privilege.

HMJr: Yeah.

F: And it's just tactics of delay.

HMJr: Yeah.

F: And it may be an hour or two before they actually get to a vote.....

HMJr: Yeah.

F:and then the bill will go over to the Senate side. They're going to try to hold the Relief Bill back and.....

HMJr: Well, You're behind time. They've taken it up in the Senate now.

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F: Oh, they've got it up on the Senate side. I -- I haven't been over there. I'm on the House side.

HMJr: Yeah, they're taking -- they've started to -- they've started it.

F: I didn't -- I didn't -- I didn't know they were.....

HMJr: Yeah.

F:going to do that until it came over from the House.

HMJr: No, they've started it already on the Relief Bill.

F: Uh-huh.

HMJr: We get pretty good service here on the tickers.

F: You get -- sure, you get quicker service than -- than it's possible for somebody to call in.

HMJr: Yeah.

F: And -- and report.

HMJr: Yeah.

F: When anything happens. Well, I.....

HMJr: What are you doing up there?

F: Well, I thought I'd come down and see what's going on. Do you want me to come back?

HMJr: Well, I -- are you doing any good up there?

F: No, I'm not doing any good. I'll come back.

HMJr: Is it air-conditioned up there?

F: Yeah, it's comfortable. (Laughs)

HMJr: (Laughs) Well, where do you -- I think you'd better be...

F: Do you want me back there?

HMJr: When you're one of these generals, you'd better be a little bit back from the front lines.

F: O. K. I'll come back.

HMJr: All right.

F: Yeah.

June 30, 1939
5:01 p.m.

HMJr: Hello.

Andrew
Somers: Hello, Mr. Secretary.

HMJr: Well, again you've come through beautifully.

S: Well, I hope it isn't too late. Now, I've just been over to the Senate.

HMJr: Yeah.

S: And Senator Austin was questioned as to what the Republicans' intentions were and he denied any knowledge of any attempt to filibuster or delay it.

HMJr: Yeah.

S: Of course, he might -- he might deny that.

HMJr: Yeah.

S: And nevertheless permit it to go on, but there's chance we have that they'll -- they'll pass it before they adjourn.

HMJr: Only one chance?

S: Well, it's an even chance.

HMJr: Well, they've got to get that Relief Bill out first, don't they?

S: Yes, they do.

HMJr: What?

S: They're on that now.

HMJr: They've got to pass that first.

S: Yes, and they're on that now, but they -- they shouldn't have any trouble with that Relief Bill.

HMJr: What's that?

S: I don't think they're going to have much trouble with that Relief Bill.

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HMJr: I, personally, am glad to see the Relief Bill go first.

S: Yeah.

HMJr: But I think if they'd shoved the money bill ahead of that and then not have passed the Relief Bill, I think it would have been bad business for the Party, don't you think so?

S: Well, it would have looked very -- very suspicious, yes.

HMJr: Yeah. But I see Key Pittman's come out in the conference report.

S: He did?

HMJr: He made a formal statement.

S: Well, that's fine.

HMJr: So.....

S: Well, I think all of my silver men here in the House.....

HMJr: Yeah.

S:supported it. We had a vote of 229 to 160.

HMJr: I think it's marvelous! I think it's marvelous! But you don't -- nobody knows what the Senate will do.

S: No, nobody can tell at the moment.

HMJr: I see. Well, I'm ever so much indebted to you.

S: Well, now, if -- of course, the only thing we can do is -- if they don't pass it, is to immediately reenact that legislation.

HMJr: Right!

S: And I guess we'll do that as fast as possible.

HMJr: Right. Well, you think we have to reenact it, huh?

S: We may have to.

HMJr: Well, you wouldn't -- when would you start that?

S: Well, I could -- I could start tomorrow morning.

HMJr: Tomorrow morning. That would seem to be the thing to do, wouldn't it?

S: Yeah.

HMJr: What?

S: Yes.

HMJr: See, if you could -- you could get it through the House tomorrow, couldn't you?

S: Well, I might. I might get it through the House tomorrow. I certainly ought to be able to get it through Monday.

HMJr: Yeah. Well, of course, the fellow that I blame on all of this is Carter Glass.

S: Oh, yes, he was the first -- he was the one to blame.

HMJr: Yeah. Yeah. Well, I'm ever so much obliged.

S: All right.

HMJr: You did a beautiful job.

S: Well, thank you.

HMJr: I'll be seeing you.

S: Yeah.

HMJr: Goodbye.

June 30, 1939
5:20 p.m.

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Leslie L.
Biffle:

Hello, Mr. Secretary.

HMJr: Can you tell me what you think is going to happen in the next couple of hours?

B: Yes, Senator -- I mean, Mr. Secretary.

HMJr: Yes.

B: The conference report on the Relief Bill is before the Senate and there's a filibuster on that. They're going to talk on that for three or four hours.

HMJr: On which?

B: On the Relief -- public works Relief Bill.

HMJr: On the Relief?

B: Yes. They've switched the filibuster from the Monetary Bill to this bill and they'll let it go through along about eleven o'clock. Holt -- Senator Holt now has the floor and will speak for an hour or an hour and a half, and they have the time allotted among different Senators to speak on the Relief Bill for some time yet.

HMJr: Now let me see, I don't think I've got this straight. You say you think that they'll filibuster on the Relief Bill until when?

B: Oh, until ten or eleven o'clock.

HMJr: And then let it go through?

B: And then let it go through.

HMJr: Then what'll happen to my money bill?

B: They're going to talk that -- on that until twelve o'clock then.

HMJr: And not pass it?

B: Not pass it. Yes, sir.

HMJr: That -- that's the program, huh?

B: That's the program at this time. I got -- I got that from the other side pretty straight.

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HMJr: What?

B: I got it from a very direct source on the other side.

HMJr: I see.

B: That's their purpose at this time.

HMJr: Uh-huh.

B: If there's any change in it may I call you?

HMJr: I wish you would.

B: I'll be very glad to, of course. I'll keep you advised as to just what's going on.

HMJr: But they're going to filibuster the Relief Bill until eleven.

B: About ten or eleven, yes, sir.

HMJr: I see. All right.

B: If there's any change I'll let you hear from me.

HMJr: Thank you.

B: All right. Good bye.

June 30, 1939
5:35 p.m.

HMJr: Hello.

Frank
MurphY: Hello, Henry.

HMJr: Frank.....

M: Yeah.

HMJr: Ed Foley has just been telling me about sending his people over to you -- I suggested it, and that this idea that this present legislative might hold -- legislation might be legal after twelve o'clock tonight.

M: Yeah.

HMJr: Well, that's a swell idea. I hope that there's something to it.

M: Well, I've sent for my two main men and they're on their way over here now, and I want your memoranda, and we're already at work on it.

HMJr: Well, that's wonderful!

M: And we'll stay with it and get it all worked out in advance.

HMJr: Well does it have to -- we'd have to know it by.....

M:by ten o'clock easily. We ought to know by then.

HMJr: Yeah, by ten o'clock.

M: And we may outsmart these fellows, you know.

HMJr: Well, it would be one of the smartest things that have pulled in a long time.

M: Yeah, we'll stay right with it, Henry. They're on their way over here now.

HMJr: Well, my hunch that they might -- that you might be useful wasn't so bad, huh?

M: Well, I don't know -- yeah, ^{why} it's the only thing to do.

HMJr: Yeah.

M: You know, we ought to be right on the job on a thing like this.

HMJr: That's right.

M: And I've got the cream of the Department coming over here, and we'll sit down very carefully.....

HMJr: Fine!

M:and work it out, I hope, successfully.

HMJr: You let me know.

M: You bet I will, Henry.

HMJr: And.....

M: Where'll you be -- home?

HMJr: Well I'm -- either home or at the office, and I have a White House phone at home.

M: All right, Henry.

HMJr: But I'll be back here by eight-thirty or nine, at the office.

M: All right.

HMJr: I'm coming back to the office.

M: All right.

HMJr: Good bye.

M: Good bye.

June 30, 1939
9:35 p.m.

HMJr: Hello.

Operator: Mr. Biffle.

HMJr: Hello.

Leslie L.
Biffle: Hello.

HMJr: Biffle?

B: Yes, Mr. Secretary.

HMJr: Morgenthau.

B: Yes, sir, Mr. Secretary.

HMJr: You're running this thing a little ahead of time, aren't you?

B: Yes, they agreed to let us have a vote on our Relief Bill. You got my message sometime ago?

HMJr: Oh, yes. I appreciate that.

B: And we took up the conference report and we're going to run along and see if we can't pass it tonight sometime.

HMJr: Uh-huh.

B: You know about a certain letter, do you, that's.....

HMJr: Yeah, I'm sitting here waiting.

B: Uh-huh.

HMJr: It hasn't been signed yet.

B: I see. Well.....

HMJr: You mean an opinion, don't you?

B: Yes. Uh-huh.

HMJr: What?

B: Yes, that's what I have reference to.

HMJr: Did -- did he talk to Barkley?

B: Yes.

HMJr: About -- within the last, what -- ten or fifteen minutes?

B: Within the last -- last ten or fifteen -- fifteen minutes. Yes, about ten minutes ago.

HMJr: Well, how much does that improve our chances?

B: Very much, I think.

HMJr: What?

B: Very much.

HMJr: They'll run right through the night on that.

B: We're going to stay all night.

HMJr: Uh-huh.

B: Continue after session.

HMJr: 'Atta boy!

B: We're going to see if we can't do something about it.

HMJr: If you run out of liquor up there, let me know.

B: All right, thank you, Mr. Secretary. (Laughingly)

HMJr: O. K.

B: They've been after us.

HMJr: What?

B: I say, they've been after me all day on it.

HMJr: On liquor?

B: Yes, you know it's -- they keep me pretty well run down on it, but we'll take care of that anyway.

HMJr: Are you serious?

B: Yeah. Oh, yes. Well, that's all right about that. Thank you though just the same. But I'll be able to reach you later and tell you what's been going on?

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HMJr: Sure !
B: All right. Fine !
HMJr: O. K.
B: Good bye.

June 30, 1939
9:39 p.m.

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Outside

Operator: Hello.

Ed

Foley: Hello.

O: Mr. Foley:

F: Yeah.

O: Mr. Kemp calling you from the Attorney General's quarters. There you are Mr. Kemp.

Edward G.

Kemp: Mr. Foley?

F: Yes, Mr. Kemp.

K: Oh, yes. I just wanted to tell you the Attorney General has signed that opinion and he's on his way over to the White House with it now.

F: Oh, I -- he's going over to the White House?

K: Yes.

F: I see.

K: I thought you'd want to know that.

F: Yes, I'm very glad. I thought he was coming to the Secretary's office and the Secretary would go with him to the White House.

K: Well.....

F: He's gone directly over to the White House?

K: Yes, I understand he's gone directly to the White House. Mr. Bell just brought the opinion in and he signed it and went right on over there.

F: All right.

K: Hey, wait a minute.

F: Yeah.

K: (Aside: Mr. Foley thought he was coming over first and then going with the Secretary of the Treasury, but he is going directly to the White House? Someone answers: Well, that I couldn't say.)

Well, now we're not so positive. He left here.....

F: Well, those were the arrangements.....

K:that's all.

F: I had arranged with the Attorney General that he'd come to the Secretary's office and the two of them would go together to the White House.

K: I tell you, he just went out with Joe Mulcahy. And I -- he didn't say a thing to me about going to the Secretary's office and I wouldn't wait too long. I think perhaps you'll find that he's going directly to the White House.

F: Fine!

K: He left here about four minutes ago.

F: Thank you very much.

K: All right.

F: Hello.

K: Mr. -- Mr. Bell thought it might be a good thing for the Secretary to go over to the White House and then if the General should come in he could follow him.

F: Well, I'll speak to the Secretary about that.

K: Yes. All right.

F: Thank you very much.

K: You're very welcome.

F: Good bye.