

PSF

LEON HENDERSON

Subject File

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PSF

Box  152

~~152~~ 

1-2
P5F
Henderson
THE WHITE HOUSE
WASHINGTON

~~CONFIDENTIAL~~

June 1, 1939.

MEMORANDUM FOR

HON. LEON HENDERSON

I asked the Treasury for information in regard to relative per capita tax figures for the United Kingdom in comparison with the United States.

I have been given the enclosed and gravely doubt its accuracy.

In the first place, the data is taken for different years, and, in the second place, I am reasonably certain, though I cannot prove it, that there is a much greater difference than the \$113.74 per capita tax here and \$117.98 in England.

In regard to the comparison of financing armament programs, there is lacking a statement of the comparative American figures.

Please note on Page 3 that it is said that in the figures of local taxes for the United Kingdom only property taxes are included.

THE WHITE HOUSE
WASHINGTON

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To me this Treasury statement
is rather unsatisfactory. Can you
get someone to get me something
better?

F. D. R.

THE SECRETARY OF THE TREASURY
WASHINGTON

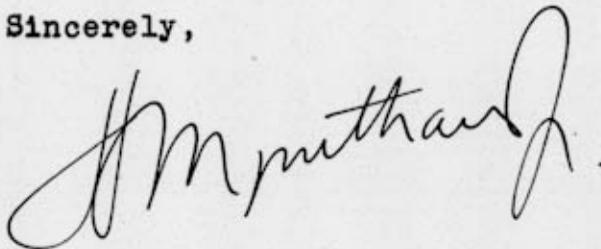
May 31, 1939

My dear Mr. President:

Last Thursday you asked Hanes and me for some specific information and I take pleasure in forwarding it to you herewith.

If there is any additional information you would like to have, please let us know.

Sincerely,

A handwritten signature in cursive script, appearing to read "H. M. Puthoff". The signature is written in dark ink and is positioned below the word "Sincerely,".

The President,
The White House.

MEMORANDUM

June 23, 1939

TO: The President

FROM: Leon Henderson

SUBJECT: Hanes report to Morgenthau, June 13, 1939 on tax bill.

You asked me to give you my slant on the Johnnie Hanes' report on the tax bill (memorandum to Morgenthau from Hanes, herewith returned).

I received this but a couple days ago, and since the tax bill is being rushed along with numerous changes, I will shoot on the topic generally.

Specifically:-

1. I do not believe it will stimulate, incite or incite much business. It will help psychologically.
2. I feel that the loss of revenue is much greater than the Treasury estimates. (The exactness of some of the estimates in the Hanes memorandum is unwarranted.)
3. I "view with alarm" some of the changes being rushed through without adequate consideration and hearing. This goes particularly for the "last in - first out" inventory basis. The Treasury always has opposed this since it permits corporations to arrange their values to escape income taxes.
4. I am firmly convinced that the omissions are much more serious than the changes, since the will to remedy will be much weaker next year. I raise the question, "when do we deal with tax exempts and middle income increases." Also, these \$100 million revenue to be gotten by proper depletion allowances for mines and oil wells.
5. I am especially disappointed that your repeatedly maintained position on undistributed profits has been completely ignored.
6. I believe the changes in social security tax burdens completely overshadow all the present changes as "business stimulants." We could help by going much further in this direction.

Note - * Randolph Paul will give me some ideas re your suggestion on stock dividends tax and undistributed profits. H

7. I am scared about rumors of some recent changes being made by Treasury rulings, particularly on lowering valuations of securities held by large estates. If true, and I believe you should inquire about this, it runs counter to desirability of increasing estate taxes.

8. I have a firm feeling that the New Deal was out-manuevered, that you were put "behind the eight ball" by public announcements of persons who can not handle the political aspects of tax revision, that the Treasury tax staff is not sympathetic to giving you expert help in achieving your aims.

9. I believe revenue could be raised by "vanishing exemptions."

10. I hope some day we will tax income other than that received from tax-exempts at the top instead of the bottom. In other words, if an \$105,000 income has \$100,000 tax-exempt, the \$5,000 should, in equity, bear the rate of the bracket in which the total \$105,000 income falls.

Loss of Revenue

The Treasury estimates \$15.7 net loss of revenue.

I'll bet a hat the loss carry-over will be nearer \$100 million than the \$23.6 million Treasury estimate.

The "last in - first out" inventory basis and the other administrative change, allowing deduction for income taxes paid to foreign countries, will together probably run \$50 million.

Administrative Changes

(a) The administrative provision permitting the valuation of inventories on what is called an "in-and-out" base. This permits corporations to so arrange the value of their inventories as to save themselves large sums in income tax. The large corporations, I believe, have been pressing for this change for some years and it is my knowledge that the Treasury in former years has been strongly opposed to this change. The acceptance by the Treasury of this administrative change is difficult to understand especially at this time when there is so much concern over the size of the deficit. This administrative change makes our tax structure more regressive and I do not see wherein it can have much stimulative effect upon business activity.

(b) The second administrative provision relates to the deducting from income tax paid to the United States any income taxes paid by American concerns to foreign countries. On the face of it

this looks like a substantial loss of revenue inasmuch as Americans have about \$7 billions of direct investments in foreign countries. However, the press reports may not be an accurate description of the administrative revision. Further comment would require more information on the actual wording of the proposed change.

The other administrative changes proposed in the House and Senate committees may also be harmful to our tax structure, but I can not comment on them intelligently without further information and study.

In view of the number of administrative changes which were made within a very brief period without public hearings, there is serious doubt whether they all received adequate discussion, if any.

Treasury Ruling

While discussing taxes I should like to mention something that may not have come to your attention. An important change by Treasury Decision has been made in the Treasury's handling of estate taxes within the last few months. The rule requiring that securities in an estate should be valued for estate tax purposes at the market value was removed so that now securities will be valued presumably at the price they would bring if actually sold at forced liquidation values. In other words, an estate with 400,000 shares of DuPont would have those shares valued not at the quoted price on the appropriate date, but on what is negotiated as being the price that such shares would have sold at if they were dumped on the market that date. It is my understanding that this change was ordered by Mr. Hanes. A small block of shares under these rulings would pay the market value, whereas a large estate consisting largely of securities could negotiate a lower tax liability per share. A change of this kind is in direct contradiction to the express desire of the Treasury to increase income from estate taxes and violates accepted canons of tax equity.

I have the feeling that the administrative changes being made in both the tax legislation and recent tax regulations under the guise of removing deterrents and simplifying procedure are weakening the revenue producing capacity of our tax structure and are doing so without adequate preliminary discussion. However, I can not make any definite evaluations without more information and study. The subcommittee hearings are not available to me yet.

Undistributed Profits Tax

You have consistently taken the position that you did not oppose the repeal of the undistributed profits tax providing that the abuse it was designed to meet - tax avoidance - was adequately met in other ways. The tax is now being repealed and yet no attempt at all has been made to prevent tax avoidance. Section 102, for example, remains unchanged, although there are grave doubts concerning its effectiveness in its present form. Pat Harrison promised last year to hunt for something adequate.

The exemption from the personal income tax of income derived from the ownership of property in the form of undistributed profits strikes at the very heart of the principle of progressive taxation according to ability to pay, to which the American people are committed. Many of the nation's wealthiest individuals may now, through the simple device of permitting their income to be retained by the corporations whose policy they control, escape their proportionate contribution to the general expenses of the Government and pay, through the flat corporate income tax, no higher proportion of their income than the poorest stockholder in a corporation.

FROM 1923 TO 1929, SOME \$32 BILLIONS OF INCOME ACCRUING TO INDIVIDUALS, AND YET RETAINED BY CORPORATIONS REPORTING NET INCOME, ESCAPED THE PERSONAL INCOME TAX. During much of this period the maximum surtax rate was 20 per cent. It is now 75 per cent and consequently the incentive to retain earnings is far greater.

The reimposition of a high undistributed profits tax in conjunction with a reversal of Eisner vs. Macomber (exempting dividends on common stock paid in the form of common stock from taxable income) if it could be obtained, would, as you imply, permit corporations to retain cash and yet enable the Government to tax income from property according to ability to pay. However, it may be doubted whether making stock dividends taxable income would facilitate greatly the reimposition in the near future of the undistributed profits tax. Actually corporations can, and, in 1936-37, did pay dividends in non-cumulative preferred stock, which was taxable income. The real drive for repeal came not from the desire of corporations to retain cash but from the desire of individuals to escape taxes.

However, legislation declaring as taxable income the distribution of corporation earnings in the form of common stock would offer an opportunity for the Supreme Court to reconsider the Eisner vs. Macomber case and, if the legislation were upheld, make it somewhat easier at some future date to revive the undistributed profits tax.

Something of a minor order might and should be done to amend Section 102. It may be possible to delete the words denoting the intent to avoid taxes and substitute a more objective criterion as prima facie evidence of excessive retention of earnings than "the reasonable needs of the business."

Vanishing Exemptions

Increases in revenue could be obtained, without broadening the base, if exemptions were progressively reduced for higher incomes. Exemptions are supposed to reserve minimum incomes for necessitous family expenses. It does not follow that a taxpayer in the high brackets needs the exemption,-- so it might be eliminated, thus providing more tax revenue.

PSF: Henderson

August 5, 1939.

Dear Leen:-

That is a mighty nice letter of yours and I have talked with Jerry and he says he will stay on until January first. That will help both him and you to carry on with the program and keep the SEC clicking.

I hope you will get a little vacation yourself. After I come back from my cruise, I want to take up a number of things with you.

Always sincerely,

Honorable Leen Henderson,
Securities and Exchange Commission,
Washington, D. C.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

LEON HENDERSON
COMMISSIONER

August 2, 1939

Dear Mr. President:

When I came to SEC, at my request you asked Jerome Frank to become Chairman until October first, 1939, with the expectation that I should succeed him.

I believe the interests of the SEC and the New Deal would be better served if Jerome continued on, and I sincerely hope you will ask him to stay at least another year. He has always insisted that he could not afford to stay later than January first, 1940, and I'm sure his financial drains are very heavy. Even three more months would be well worth while.

Jerry has handled himself splendidly as Chairman, and my admiration for his brilliance and high capacity is constantly on the increase. We have a tremendously important schedule ahead,- we are breaking new ground in utilities, reorganization, and with brokerage bank proposals for customers protection. We are just starting on the new Maloney over-the-counter regulation, and have the new Barkley trust indenture to set up, as well as to draft investment trust legislation for the next session.

In my opinion, the SEC is really clicking, and I want it to keep on. Jerry is going away on his vacation today, and I understand he is coming in to see you for a minute. I hope you can mention the matter to him today,- otherwise he might use his vacation for some plans after October first.

Sincerely,

PSF: Henderson

Subject File

File
Confidential

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

September 26, 1940

MEMORANDUM:

To: The President
From: Leon Henderson

This is to inform - not to bother you.

After meeting with you today, the Commission will hold an important meeting on organization difficulties - at the urgent suggestion of Nelson, Hillman, Chester Davis and myself, particularly. The prospective meeting may not be mentioned in our conference with you, but I thought a little outline for you might be helpful - just in case

You know from Chester Davis, who is handling my interest in chemicals also, of the attempt to ignore TVA in the building of increased ammonia facilities. The present system of clearing contracts through Knudsen, without adequate reference to other Commissioners, is partially responsible for this. You asked Knudsen to clear for the Commission, but this was before we had Nelson and the functions of a Coordinator of Purchases were outlined.

Nelson has thought - so have Stettinius, Davis, Hillman and myself - that clearances should logically be in his bailiwick. Everything Nelson handles he carefully checks with the other Commissioners, so that all designated responsibilities can be met. Knudsen's people - and to a lesser extent Stettinius - are less careful, and many things get by without proper attention. Examples, in addition to the ammonia plant case, are: (1) lumber for the cantonments, which runs prices up tremendously. Knudsen's men (and to a lesser extent Stettinius' expert) tried to handle, and Nelson has had to salvage the situation; (a) location of plants between the Rockies and the Mississippi. Davis, Nelson, Budd, Hillman and myself are trying to carry out

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your ideas, but frequently the Army and Navy want to give us only a few minutes to approve a site already negotiated - in which negotiation Knudsen's man has participated.

Knudsen also wishes to control priorities, which you assigned to Nelson in your order setting up the Coordinator of Purchases. Knudsen and Nelson have talked about this conflict - in a friendly way - but the issue is not resolved.

The issues involved are quite important - I believe we can handle them, but there's a little dynamite in the situation.

Leon

*File
Personal*

THE WHITE HOUSE
WASHINGTON

*PSF Henderson
Henderson*

September 28, 1940.

MEMORANDUM FOR
THE PRESIDENT

Leon Henderson telephoned last evening to call your attention to the attached story which appeared in the Washington News last night.

He said he and Nelson Rockefeller have been convinced that some of the Republicans are working on Knudsen - particularly Sloan, who came out for Willkie last week.

Leon said that the chief opposition has come from Morgenthau, and that they have had difficulty with the Treasury. The other day they gave Knudsen a ruling and in it they went out of their way to attack the policy of lending which the Commission has been working out. Knudsen told Foley that if he had any more of it he was going to quit.

Leon thought you should know this before Knudsen comes in on Monday or Tuesday.

Defense Group May Ask Showdown Soon

By CHARLES T. LUCEY

The National Defense Advisory Commission, blocked repeatedly in speeding the nation's rearmament program by the opposition—direct and undercover—of inner New Deal officials, may appeal to President Roosevelt soon for a showdown.

Some of the industrial leaders brought here to put the multi-billion-dollar defense drive in high gear so far have refrained from anything like an open break out of a sense of fairness to the President in time of an election campaign.

But alleged persistent sniping at the commission's efforts may force an air-

ing of these conflicts. Resignations of some of the outstanding men with the commission are possible.

New Dealers at first seemed to appreciate that a Defense Commission headed by such well-known business men as Messrs. Knudsen, Stettinius and Budd constitute a valuable political asset for the President. It was a

set-up calculated to inspire public confidence that rearmament was in competent hands.

ATTITUDE CHANGE

In early months, they went "all out" to co-operate with the industrial leaders. But in more recent weeks a change of attitude is reported—about the time New Dealers began talking about Mr. Roosevelt's re-election being "in the bag."

Friction developed points to the need for a flat declaration of policy by the President himself on the commission's authority. If obstructionist tactics persist, it is said, there probably will be executives now serving without pay, who will find it convenient to return to private businesses which, in many cases, they have reluctantly neglected.

RESIGNATION SURE

Even if no break comes before the election, some resignations immediately

thereafter are virtually certain.

Chief opposition has come from Treasury Secretary Morgenthau. Illustrative of this was the difference between commission and Treasury on excess profits tax bill section dealing with amortization of new factories built for defense work. The Senate saw it the commission's way.

SHIPMENTS ABROAD

Some commission members also feel the President should make a clear statement of his policy, for the commission's benefit on furnishing planes and munitions to England.

In Congress there is growing criticism of shipment of arms and equipment at a time when many believe the country's own armed forces are far from adequately equipped. Unless the issue is clarified, the commission rather than the President who is held to be rightfully responsible, may be in the line of fire on Capitol Hill.

6 Priests a 'Family,' Zoning Board Decides

Reversing a ruling by the Acting Inspector of Buildings, the District Board of Zoning Adjustment held yesterday that six priests of the Congregation of the Holy Ghost and of the Immaculate Heart of Mary, Inc., at 1615 Manchester Lane n.w., constituted a "single family" within the zoning regulations.

The Board instructed Building Inspector Oehmann to issue a certificate of occupancy for them to conduct a school there. Nearby residents had protested that the granting of the certificate would affect real estate prices.



PS F: Henderson *Leon Henderson
Jan - 2 -*

UNSIGNED

AIDE-MEMOIRE (Perhaps from Leon Henderson thru T. Corcoraan)

RE-Stating that the Securities and Exchange Commission
has been asked whether it would accept the trusteeship
of Associated Gas and Electric Company if Trusteeship
were tendered by the Court.
Memo came to file in Feb-1940

See: T. Corcoran folder-Drawer 2-1940

PSF: Henderson *Initial*
3-41

THE WHITE HOUSE
WASHINGTON

August 2, 1941

CONFIDENTIAL

MEMORANDUM FOR

HON. LEON HENDERSON

I tried to reach you by phone but no luck. The President told me to tell you that he told both Knudsen and Hillman just what he told you -- to keep the ball in play until he gets back!

The President also suggested that you might get in touch with Sam Rosenman when he comes down here next week.

GRACE G. TULLY

THE WHITE HOUSE
WASHINGTON

August 1, 1941.

MEMORANDUM FOR

THE PRESIDENT

Leon Henderson wants to know if you want to tell him anything to guide him as a result of your conference with Knudsen and Hillman yesterday.

G.

PSF Leon Henderson Folder

November 8, 1941

Personal and Confidential

Dear Henry:

This morning I talked with Leon Henderson about the changes made by your Committee in our Price Control Bill. Some of the changes struck me as being very serious.

The provision governing agriculture prices is entirely unworkable and unacceptable. Some time ago when Ed O'Neal was in to see me with Claude Wickard, I told Ed that I would accept 110% as a maximum but only for the purpose of helping to secure an average of 100% of parity the year round. I also told Ed and Claude that they could say that I would veto any bill which went beyond what we agreed upon. If the Price Control Bill comes up to me with a limitation on farm prices substantially higher than 110% of parity I will not be able to accept it.

The license provision, I understand, was completely stricken out by the Committee. This should be restored because I don't see how retail prices can be controlled in any other manner. The way the cost of living is going up now we will be under increasing pressure to do something substantial about it. As I remember, Hoover and Garfield used licenses to control food and fuel prices in the last war.

I am sorry the Committee weakened the Bill by other actions, but of these the one which concerns me most is the limitation on the buying and selling authority. It seems to me that you can't have effective price control without something like the original provision in the Bill.

I was very happy to be told by the legislative leaders this morning that the House will take up the Price Bill immediately after the Neutrality Bill is disposed of.

Very sincerely yours,

Honorable Henry B. Steagall
Banking and Currency Committee
House of Representatives

Complete file in Congress Folder.

~~4th Avenue "H"~~
PSF: Henderson

3-43

THE WHITE HOUSE
WASHINGTON

October 15, 1943.

MEMORANDUM FOR

ADMIRAL BROWN

I wish you would look into this personally.

If the Navy is afraid of a scandal in regard to this man, even though Admiral Robinson asked for his services, the Navy should equally avoid a scandal caused by their turning him down on the ground that his parents were born in Russia.

F. D. R.

Memo dated Oct. 13, 1943, to Morris Ernst from Leon Henderson re Nathan L. Halpern's application for a commission in the Navy.

Approved by
Walter D. White

October 15, 1945

Morris Ernst:

+ told you several times a whole stratum of young New Dealers felt they were barred from commissions and transfers to certain departments because they have worked for the Administration.

Here is a case I know about personally.

Leon

Leon

PSF Henderson

THE WHITE HOUSE
WASHINGTON

*file
personal*

8/22

FOR THE PRESIDENT

From Leon Henderson

The Defense Commission has an understanding with Bob Jackson about the oil cases. The Commission asked me to handle its part.

Thurman Arnold has told Ed Stettinius that you have, in effect, overruled both Bob and the Commission and told him to proceed with the suits.

This is so serious I believe Bob Jackson ought to be here for your discussion with us.

Leon.