



*file  
confidential*

TREASURY DEPARTMENT

WASHINGTON  
December 5, 1939.

*BF  
Mugenthan  
Treas.*

Dear Mr. President:

I have pleasure in transmitting herewith a memorandum submitted to me, which refers to our discussion of yesterday in regard to the inquiry made by the Minister of Sweden with respect to the disposal of Finnish gold. I shall not fail to keep you informed of any further developments in the premises.

Sincerely yours,

*H. M. Mugenthan Jr.*  
Secretary of the Treasury.

The President,

The White House.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 5, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

~~STRICTLY CONFIDENTIAL~~

This morning I telephoned Vice President Knoke of the Federal Reserve Bank of New York and informed him of the Secretary's proposal of yesterday, made in answer to the inquiry of the Minister of Sweden in regard to the possible purchase by the United States Treasury of Finnish gold in Stockholm.

Mr. Knoke called me back this afternoon to let me know that the Federal Reserve Bank had today received a cablegram from the Bank of Sweden instructing the sale of \$5,900,000 in gold from its earmarked account with the Federal Reserve Bank. As a supplemental transaction, the Bank of Sweden had instructed the Federal Reserve Bank to credit the account of Finland's Bank with \$5,000,000. It thus appears that the Bank of Sweden is taking Finnish gold in Europe, selling its own gold in New York, and making dollars available to Finland here.

We do not yet know whether the proposal developed yesterday may also be utilized.

The Swedish Minister presented to Secretary Morgenthau a message received today from the Swedish Foreign Office which reads in translation "Rooth for Merle Cochran, Treasury. Do you buy Swedish or Finnish gold with delivery Stockholm".

While the Treasury has not done this so far, Secretary Morgenthau proposes, subject to approval of the President, that the United States is ready to buy any amount of Finnish gold in Stockholm and to pay for it on delivery in Stockholm, provided that

- (a) Bank of Finland pays all expenses of transportation and insurance from Stockholm to New York, shipping the gold on first available steamer from Bergen
- (b) Pending arrival of gold in New York, the Bank of Sweden segregate corresponding amount of Sweden's gold earmarked with the Federal Reserve Bank of New York in favor of the United States Treasury to constitute a guarantee for full delivery of the gold in the United States by Finland.
- (c) That preliminary safe conduct for the gold through Norway be obtained.

OK  
JHR

M. Morgenthau  
Dec 4<sup>th</sup> 1939

Handwritten initials



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personal*

THE SECRETARY OF THE TREASURY  
WASHINGTON

*PSF  
HMF*

December 6, 1939

MEMORANDUM FOR THE PRESIDENT:

A conference was held in my office this morning in which Acting Secretary of the Navy Edison, Admiral Furlong, Capt. Kraus and Warren McLaine represented the Navy, and Mr. H. R. Sutphen and Mr. Spear represented the Electric Boat Company of New York. Commissioner Guy T. Helvering, John L. Sullivan, Ed Foley and Charles Kades also participated.

The general position of the Treasury Department in relation to the closing agreement technique as applied to contracts under the Vinson-Trammell Act was discussed. The primary question was whether or not the Internal Revenue Bureau would execute a closing agreement permitting the Electric Boat Company to charge off as obsolescence one half of a construction cost of a new building and new plant facilities estimated to cost slightly over \$600,000. Mr. Sutphen stated that all machinery and equipment to be installed in the new building was standard and that no special tools or equipment were required for this contract.

After stating what we would be willing to do in regard to obsolescence of special tools and equipment acquired for the particular contract, I then explained to them that under the law we could not allow any other rate of charge-off for depreciation and obsolescence than the standard rates in force in the Bureau and now applied to factory construction of all types.

The Acting Secretary of the Navy stated that our refusal to enter into such a closing agreement would postpone for a long while the construction of these boats, although subsequently Mr. Sutphen acknowledged that the 23 boats provided for in this contract could be manufactured in the existing plant but without the secrecy that would be assured by the construction of the addition to the plant. When I suggested to the Acting Secretary of the Navy that the proper solution was for the government to build these plants and then lease them to private industry, the Acting Secretary of the Navy remonstrated that this would be far more expensive for the government because under the closing agreement the government would not be obliged to pay any part of the construction costs. Repeatedly it was explained to the Acting Secretary of the Navy that any deduction for unreasonable depreciation or obsolescence would result in the government paying for such construction because a proportionately larger amount of actual excess profit would be retained by the contractor. I constantly reiterated that we could not treat one taxpayer differently than we treated all taxpayers.

At this point the representatives of the Navy Department reverted to the case of the Consolidated Aircraft Corporation and stated that they had just received new proposals contemplating an entirely different type of closing agreement. I explained to the Acting Secretary of the Navy that the appropriate officials at the Internal Revenue Bureau would suspend any other work they are now engaged in and hold themselves in readiness to consult with the representatives of the Navy Department and representatives of the Consolidated Aircraft Corporation on any new proposals the contractor wished to make. And I further stated to Mr. Edison that at the conclusion of these negotiations I would be glad to meet with the representatives of the Navy and the Consolidated Aircraft Corporation if that was deemed desirable.

At the close of the meeting I again emphasized the fact that the closing agreement technique could not in any way be used to circumvent the clear intent of the Vinson-Trammell Act and afford to any taxpayer more than he was legally entitled to, and offered to Mr. Edison the support and influence of this Department in any legislation he might see fit to propose to Congress to provide funds for the erection of needed additional facilities to expedite the national defense program.

Although this matter was not discussed in the meeting, it is submitted that the problem which faces the War and Navy Departments can be solved in either of two ways:

- (1) By erecting plants similar to the "shadow factories" in Great Britain and leasing such plants to private industry and by expanding existing navy yard and arsenal facilities; or
- (2) By constructing or financing the construction of such plants as part of a federal public works program under the Federal Works Agency.

It is my considered opinion that it would be far better to spend millions for defense than to use the tax laws to subsidize private munitions makers.

*H. M. Guthrie, Jr.*

*PSF Mang. Treas.*

THE WHITE HOUSE  
WASHINGTON

*Gold*



December 13, 1939.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

What is the status of  
Joe Pew's income tax case?

F. D. R.

DECLASSIFIED  
By Deputy Archivist of the U.S.  
By W. J. Stewart Date MAR 16 1972



THE SECRETARY OF THE TREASURY  
WASHINGTON

*BSF  
HMP  
file  
12-20-39*

December 21, 1939

My dear Mr. President:

I think you should know the following facts.

The meeting between Henry Wallace, Louis Brownlow, William H. McReynolds, Herbert Gaston and myself will not take place this morning.

Wednesday afternoon I learned from the news ticker that Governor Hill of F.C.A. had resigned and Dr. Black appointed in his place. I then telephoned Henry Wallace and said it was useless for us to meet.

I feel very badly that I was not given the opportunity to carry out your wishes as telephoned to me Sunday evening by Bill Hassett, namely, that Henry Wallace and I meet and talk over the Farm Credit situation before Governor Hill resigned.

Sincerely yours,

*Henry Magrath Jr.*

The President,  
The White House.

PSF

inquiries

December 25, 1939.

Dear Hen:-

Thank you for the  
loan of many cigarettes at  
Cabinet meetings.

A very Merry Christmas  
to you.

As ever yours,

THE WHITE HOUSE  
WASHINGTON

ISF  
HMG

December 26, 1939

MEMORANDUM FOR LAUCHLIN CURRIE

To read and return for our  
files.

F. D. R.

Enclosure

Ready  
LC.



PSF: Margott

H. M. J.

THE WHITE HOUSE  
WASHINGTON

December 28, 1939.

MEMORANDUM FOR

H. M., JR.

Ed Flynn's brother - John H.  
Flynn for Appraiser of Port. Put  
through now.

F. D. R.