

● PSF Treasury Dept.

HENRY MORGENTHAU, Jr.

1939

Make up two balance sheets, one as of March 4, 1933, the other as of January 1, 1939, showing assets and liabilities; the net amount of debt, deducting money loaned on the basis of being paid back.

On the 1939 balance sheet give credit for \$2,000,000,000 Soldiers' Bonus which was a debt in 1933, but not included..

On both sheets show the number employed - the number unemployed.

The average annual wage paid to industrial workers in 1932.

" " " " " " " " " 1938.

(Not simply the hourly rates for the two years).

All other information that would be included in the balance sheet of a business with a statement from the President along the lines of the statement

(2)

made by the President of a corporation to the stockholders, which should include the number of people who were unemployed and who we must continue to take care of owing to the fact that relatives were not able to support them as they had in the past; the problem of unskilled labor, etc.

3

Show what has been done to stimulate and rebuild Foreign trade; effect of social legislation, not only at the moment but what it will do for the country in the future; CCC Camps should be looked upon as schools for citizenship, at which young men are taught various trades, as well as preliminary training in the arts and sciences, in order to develop the proper ratio between skilled and unskilled labor, which is now very much out of balance on the side of unskilled labor, and which is our most serious unemployment problem.

4) Annual Wage - following industries:

1. Railroads.....	\$1,735
2. Petroleum refining.....	1,688
3. Machine tools.....	1,656
4. Iron and steel works and rolling mills.....	1,628
5. Cash registers, adding and calculating machines, and other business machines.....	1,584
6. Motor vehicles (including bodies and parts).....	1,578
7. Agricultural implements.....	1,572
8. Typewriters and parts.....	1,211
9. Building construction.....	1,180
10. Retail trade.....	915
11. Clothing industries.....	867
12. Textiles.....	807
IBM (Endicott - All wage earners).....	1,877
IBM (All factories - All wage earners).....	1,851

Talk with the President about:

5

I believe we should do everything possible to prevent a European war until England and France are prepared to meet it. In the meantime I think the people in the United States should strive for peace, but I also believe that peace is so important to the future of the world that we should be prepared, and willing, to fight for it if necessary.

In presenting this thought to Americans we must understand that the United States will stand to lose more in the case of a general war than any other country, because another world war will make it necessary for the United States to participate in a much bigger way than we did in the last in order to maintain our type of civilization.

6

We must educate the people in the interior of our country with the importance of doubling our Navy so that we can protect our two long coast lines.

Talk with the President about:

7

Quick action preparedness program. The local Chambers of Commerce to survey the industries in their localities and ascertain what each one can manufacture with their present equipment, and as long as manufacturing is now on a forty or forty-four hour a week basis the equipment and buildings are idle the rest of the time.

Assign to each manufacturer a certain amount of manufacturing which he will agree to do on a cost plus basis; the cost to be figured the same as the cost in his business, and the profit would be limited to the amount that would cover any extraordinary overhead, over and above the regular overhead.

Wherever it is possible to find the necessary talent to do the work, these plants would be put on extra shift; where it is not possible in the community to secure skilled labor, regular employees would be asked to volunteer to work an additional hour each day and possibly Saturday forenoon in the plants that are on a five day week. In order to help the program along the labor unions might

(25) (8)
see their way clear to allow those volunteers who work over time to work at the regular rate.

When these various parts are made and inspected, they should be sent to the respective plants which are in the business of manufacturing munitions of war, and those companies, who are experienced in the art would do all the assembling and final testing.

This would not only speed up the program and save the government an enormous amount of money, but the psychological effect in Europe would be of unestimable value, when it is announced that the entire American machinery and tool equipment was going to be utilized outside the regular hours so as not to interfere with the production of peacetime goods, and placed at the disposal of the government in order to speed up the building of munitions of war. Of course, editorial comments would call attention to the fact that the United States manufactures 50% of all of the goods manufactured in the world, which would convey to Europe the story with all this equipment at the government's disposal, we can

67 9
manufacture as much in the way of munitions of war as the rest of the world combined, and in my judgement, plus your personal influence, would start certain people thinking seriously about peace rather than war.

Another good effect as I see it, in having a check-up by the local Chambers of Commerce it would make the citizens of every community conscious of the serious side of a European war and might lead to make them more co-operative in helping to carry out the plan of re-arming for peace.

(10)
From time to time the war supply factories ~~are~~ put on an exhibition of how quickly they can assemble and turn out a gun as the result of the facilities of the companies making parts for them, and various other articles.

Have the airplane companies combine in an exhibit at the New York and San Francisco Worlds Fairs, and put on an exhibition of how quickly they can assemble an airplane. Invite the press to be present whenever these demonstrations are given and publish to the world the United States can turn out an airplane every so many hours. They can assemble the plane and fly it away and have a certain number of the planes brought back, torn down and re-assembled and have the exhibition go on during the entire length of the Fairs. This will not only show foreign countries what we can do in building equipment to protect our country, but they will also understand that these companies are in the business for selling these to other countries.

11
Talk with the President about:

Consideration be given to developing markets in foreign countries. Germany is fast getting control of the trade in the Balkins, Baltics and Scandanavian countries, and I know from personal interviews with Rulers and Leaders in the foreign countries that the majority of them prefer to do business with the United States.

I recommend the selection of three experienced business men, as military attaches, working direct from and reporting to Washington, of course, co-operating with our regular organizations in the various countries.

12
Talk with the President about the exchange of undesirable Germans in this country for desirable Jews and Catholics in Germany. Financial arrangements to be equal.

Talk with the President about:

93

Blocking German and Italian money in the United States.

14

Talk with the President about:

Invitation to the King of Sweden.

(13)

Talk with the President about:

Turning relief over to the States. Let each State raise its own money within the State, the Federal Government to lend no more money for relief except for self liquidation propositions. The States to furnish work for unskilled labor. *continue present tax rates and start reducing debt*

Concentrate on training mechanics in CCC Camps, and when business again becomes normal we will be able to supply the demand for the companies which require skilled mechanics.

Extend unemployment insurance until it is on a basis that will remove fear from the mind of the working people.

Talk with the President about:

16
who print
Rulers and Heads of foreign countries, ~~in~~ the United States.

Conditions in the smaller countries, solving unemployment by putting more people on the land to earn their living.

Discuss the Jewish problem.

Discuss the possibility of buying land from northern Mexico.

Show the President copy of letter written to Europe.

PSF: *Margenthan*
filed
personal

THE WHITE HOUSE
WASHINGTON

January 27, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

What do you think of giving me two trial balance sheets -- one as of March 4, 1933 and the other as of January 1, 1939, showing assets and liabilities; net amount of debt, deducting money loaned on basis of being paid back?

On 1939 sheet give credit for \$2,000,000,000 soldiers' bonus, which was a debt in 1933, but not included.

F. D. R.

—

PSF: *Morgan*

THE WHITE HOUSE
WASHINGTON

~~CONFIDENTIAL~~

January 27, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

At a guess -- or hunch -- the conclusions drawn from this report are overdrawn. The facts may be correct but I doubt whether "one spark would cause an explosion" or that "the régime will not fight a big power".

F. D. R.

THE SECRETARY OF THE TREASURY
WASHINGTON

January 26, 1939.

My dear Mr. President:

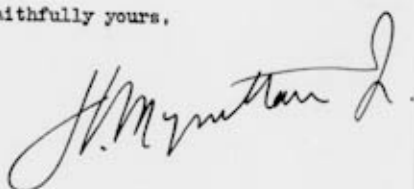
I am enclosing herewith a very confidential report from Mr. Tyler of the League of Nations, who has made a second trip in Italy for me. I think you will be interested in its contents.

You will undoubtedly remember that Mr. Tyler was very solicitous of our keeping secret that he is doing special work for the United States Treasury.

Faithfully yours,

The President,

The White House.

A handwritten signature in dark ink, appearing to read "H. M. Lyndall", is written over the typed name "The President,". The signature is fluid and cursive, with a large, sweeping "L" at the end.



THE SECRETARY OF THE TREASURY
WASHINGTON

February 6, 1939

MEMORANDUM FOR THE PRESIDENT:

Countervailing Duties on German Products

By memorandum dated November 28, 1938, I advised you that I had before me a Treasury Decision giving notice of the imposition of countervailing duties on certain imports from Germany under Section 303 of the Tariff Act of 1930.

The countervailing duties are required by reason of so-called "barter" transactions through which the importation into the United States of dutiable merchandise from Germany is financed by means of premium prices for certain products, particularly cotton and copper.

Investigation of the current operation of the barter transactions has satisfied the Treasury that the German Government, by restricting imports, fixing import prices, regulating the method of paying for imports and controlling the disposition of the proceeds of payment, is bestowing a valuable privilege or grant in connection with about half the dutiable merchandise exported from Germany to the United States.

On or about November 28, 1938, you referred the matter to the Attorney General for an opinion. About December 10, 1938, I learned that an opinion had been submitted to the Attorney General for signature. I was also informed that the Attorney General desired to hand the opinion to you personally.

On January 31, 1939, I learned that the opinion had not been delivered to you but was being retained in the Department of Justice with a memorandum in the file saying that no action in the matter was required at this time. You will remember that the State Department suggested that the opinion be withheld until Mr. Rublee returned from Germany.



*file
personal*

THE SECRETARY OF THE TREASURY
WASHINGTON

*BSF
HMF*

FEB 16 1939

Dear Mr. President:

In order that you may be advised of the status of the proposed new building for the War Department, I am sending with this note a brief statement of the status of the project to date, with a photograph of the perspective drawing of the first unit and a plat indicating the relation which the new building will have to the other buildings in that area.

Faithfully yours,

Wm. M. Smith

The President

The White House

ENCLOSURE 87069

FROM
TREASURY DEPARTMENT
PROCUREMENT DIVISION
PUBLIC BUILDINGS BRANCH
FORM 8722

2-7-59
(Recipients please destroy this tag.)

AS- Maly.
(Divisions and types of
initials.)

SPD 2-10422

February 7, 1939

COMMENTS RELATIVE TO THE PROPOSED NEW
BUILDING FOR THE WAR DEPARTMENT
WASHINGTON, D. C.

The proposed new building for the War Department, to be located in the area generally referred to as the "Northwest Rectangle", is to occupy the space between 21st and 23rd Streets and C Street and the proposed E Street, South.

After a thorough study by the Procurement Division, the exact location on the property has been approved by the National Capital Park and Planning Commission and the design has been passed upon by the Commission of Fine Arts and highly commended. A plat of this area and a photograph of the perspective of the first unit are attached.

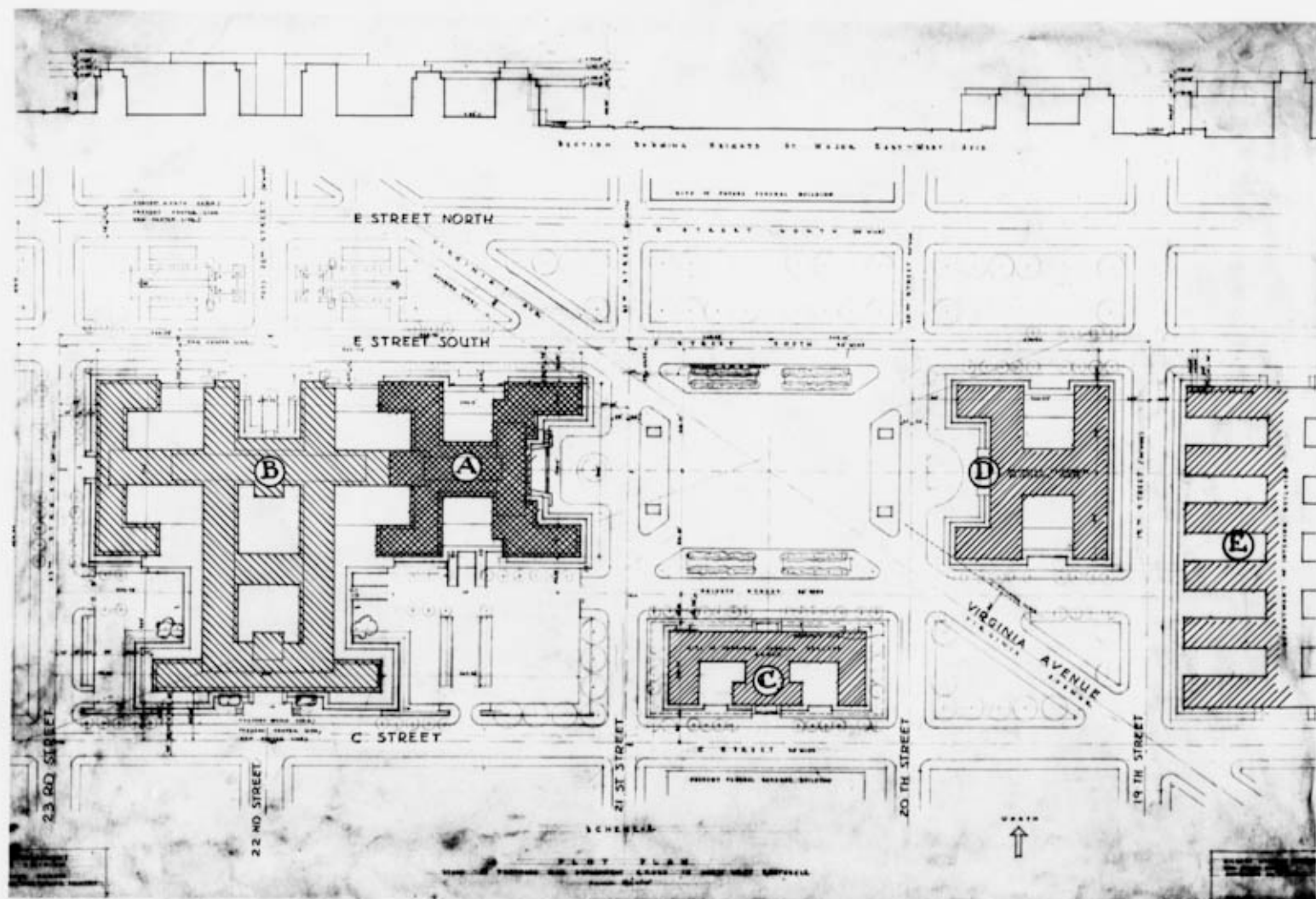
The project is divided into two units, the first of which is the easterly portion with its east and west axis passing through the intersection of the center line of Virginia Avenue with the north and south axis of the building of the Federal Reserve Board. So located, and with its northerly facade on a line with that of the south building of the Interior Department, a plaza is formed, measuring approximately 500 feet from the east to the west, and extending in the north and south direction, with Virginia Avenue as an important traffic lane passing diagonally through this open space.

The present authorization is for the first or easterly unit only, which as now proposed will accommodate the offices of the Secretary of War, the General Staff, and Branches of the Service most closely related thereto. The limit of cost under the present authorization is \$10,815,000, which includes acquisition of the site for the entire project.

The first unit is seven stories high and the effective floor space (offices and storage) is 270,000 square feet; the future construction of the second unit will bring the total effective floor area to 1,098,775 square feet.

The study for this project entailed careful consideration of the relation to be maintained between the first and the second units which as originally intended were to be connected by only a tunnel; as now worked out, the two units will be directly connected on every floor, thus making the two buildings in effect an integral unit.

In designing this project great care was exercised to evolve a plan which would take into consideration the relation of the building to the Lincoln Memorial. By the choice of a scheme having mostly open courts, long unbroken facades are avoided; and by employing the device of a re-entrant angle in the corner toward the Lincoln Memorial the effect of the great bulk of the building is minimized from this point of view.



A FIRST UNIT WAR DEPT. BUILDING.
B SECOND UNIT WAR DEPT. BUILDING.

C PROPOSED FEDERAL RESERVE ANNEX.
D PROPOSED DEPT. OF INTERIOR ANNEX.

E DEPT. OF INTERIOR SOUTH BUILDING.



THE SECRETARY OF THE TREASURY
WASHINGTON

February 22, 1939.

My dear Mr. President:

I beg to acknowledge receipt of your memorandum of February 17th enclosing a copy of a letter from Mr. Frederic Delano.

I am enclosing herewith a summary of the meeting that Mr. Delano refers to. I would like to have an opportunity to discuss this with you on your return as I think the subject is too important to be dismissed without further consideration.

Yours sincerely,

M. M. Mathews

The President

(Via White House pouch)

BSF

ATM

*He
Personal*

*Should be President
at lunch -
about this*

February 14, 1939

To: The Secretary
From: Mr. Hanes

J.W.H.

The following is a summary of the opinions expressed at the meeting yesterday on financing power projects through an agency of the Treasury. These opinions are all stated in full in the transcript accompanying this summary.

<u>Name</u>	<u>Statement</u>
Frederick Delano	Expressed the opinion that this Bill "would raise particular hell" in Congress during a period which is going to be crucial for the Administration. He suggested revising it to cover only completed projects, but to embrace any self-liquidating asset in order to remove the emphasis on power.
Mr. Burlew (Interior)	Agrees with Mr. Delano that an attempt to pass such a Bill at this time would be unwise.
Mr. Smith (Power Commission)	Said the Commission has not formally passed on the plan. His attitude during the meeting was one of helpfulness provided the Power Commission was given real authority.
Mr. Blandford (TVA)	Said his Board had not considered the plan, but that his personal preference was for an attempt to do this financing within the framework of existing agencies, notably TVA and Reclamation without concentrating financing authority in a new agency.

Captain Marshall
(Army Engineers)

Sees no objection to the Bill.

Mr. Cohen
(Power Policy
Committee)

Said in a statement filed after he had been called away from the meeting that he supported the underlying theory of separating self-liquidating assets and thought the machinery for doing so should cover new projects as well as existing ones, and that the Secretary of the Treasury should be the financing officer with power to review the financial statements of the projects through any device he chooses.

EXCERPT FROM TRANSCRIPT OF MEETING RE
GOVERNMENT POWER CORPORATION HELD IN
MR. HANES'S OFFICE FEBRUARY 13, 1939.

Hanes: I want to get an expression here - Mr. Delano, I know, has got something he wants to say - as a matter of fact, I'd like to have each agency here express, if they would, just their viewpoint as to the general policy of this thing, because I think the President is interested to have all the agencies of the Government express a frank opinion as to the general policy, not the specific bill or the provisions thereof.

Mr. Delano, have you got anything?

Delano: Yes. I realize - I hate to say anything that may seem derogatory when I know men have worked very hard to solve a very difficult problem. But, fundamentally, as I see it, the next six or eight months are exceedingly critical months for this Administration, and I would hate to see a bill introduced in Congress which to my mind would raise particular hell.

Now, that isn't - that doesn't mean that I am against the idea of not treating as debt self-liquidating assets. I think that they ought to be handled separately. And perhaps if it had been two years ago or three years ago we could have done just what we're contemplating now.

What I'd like to suggest is that we try to remove from this bill the features of it which will be particularly contentious. I think one thing that would help would be to make it only apply to completed projects. Anybody who has ever known construction on a large scale knows that costs often greatly exceed estimates. And if you're going to have a general authorization to cover costs and even capitalize the operating expenses during development, which is considered a very improper thing by conservative corporations, why, you're going to be up for a tremendous lot of criticism.

And then I think the question of the great emphasis on water power is going to raise a good deal of question. Here's the T.V.A. that just after a long hard battle has made an adjustment on water power

that is, I think, going to have a good deal of benefit in smoothing the ruffled feathers of a good many big corporations; but I think when - just as soon as this bill is introduced in its present shape, they'll say, "Well, here's the thing all over again; they're going into a general development of water power and competing with private corporations."

Well, I pretend to be and I think I am a liberal, but I'm - John Dewey defined a liberal - he said a liberal was a man who was able to see both sides of the question, and I think it is awfully important to see both sides of the question, especially in the next six or eight months. I would a great deal rather see a bill that permitted the development - or the reimbursing of the Treasury for construction of self-liquidating projects, and that might include toll bridges, transmission lines, housing, reclamation, irrigation, water works; those are things that occur to me. But I would then like to put it on a basis which even the intense partisans on the opposite side cannot upset. Say, "Why, you admit that the Panama Canal cost over 400 million dollars; you admit that that has an earning basis. Now, instead of having that part of the debt of the United States, we propose to reimburse the United States for that expenditure and let it stand on its own feet."

Hanes: Dig (?) itself out.

Delano: Yes, dig (?) itself out.

And so with other things. I hope - I'm not trying to knock this idea at all.

Hanes: That's exactly what we want, the frankest sort of expression, because we're not helping anybody if we've got some secrets here. We have certainly got none. We're just carrying out the instructions given us by the President.

And I'd say again that if there is any confusion in anybody's mind - I heard the President talk about this thing at some length, and if there is any confusion in somebody's mind that he was thinking, or we were thinking, in terms of issuing bonds to the full extent of the cost of any project, why, get it out of your mind right now, because it's

just not in the cards.

Delano: I think what I have said is in keeping with Secretary Morgenthau's quote from the President's message.

Hanes: Well, thank you, Mr. Delano.

Now, Mr. Burlew, would you like to express an opinion?

Burlew: I agree in the main with Mr. Delano, for various reasons he's given, and particularly for the irrigation features. And I don't see where the security of the reclamation projects adds anything to the bonds, because we've got a revolving fund which we spend from year to year. That's my principal question - is just what security the reclamation fund would bring to these bonds.

Hanes: You think there is some doubt as to the wisdom of the Administration trying to pass any sort of legislation at this particular time which would contemplate the recapitalization or reimbursement of the Treasury for funds already put out on completed projects?

Burlew: Yes, sir.

Hanes: Who will speak for the Federal Power Commission? Do you want to speak for them, Mr. Smith?

Smith: I don't believe we can speak for the Federal Power Commission at this time. Mr. Seavey, our Acting Chairman, was supposed to be here and was taken ill, so we're pinch-hitting for him, and I'd better not - I haven't discussed this feature with him.

Hanes: Do you (Blandford) want to say a word for the T.V.A.?

Blandford: Well, I would like the record to indicate that neither the staff nor Board of Directors has had time adequately to explore the proposed bill or, more recently, the second draft, and cannot picture at the moment the full implications of the proposal.

It should be said that, while the opinion is somewhat personal and curbstome, there is complete subscription to the paragraph quoted from the President's budget

message, and as a matter of fact in our fiscal planning and our conversations with the Bureau of the Budget we have been moving rapidly in that direction within our own statutory authority.

Whether some present prospect - and on that I'm inclined to support Mr. Delano - whether some present prospect of considerable extension of the number of agencies administering such projects - I think it would be very profitable and appropriate to explore such an interesting, constructive formula as has been tentatively expressed in this bill. I think it is realistic to come back to the realization that there are two agencies, practically, for the purposes involved here - the Bureau of Reclamation and the T.V.A. - and as I hastily go over this bill I inevitably think in terms of almost amendment of the T.V.A. Act; almost every paragraph suggests some question. And from that viewpoint it is a bit exciting, with all our other distractions.

And whether some immediate necessity of progress along this line - I think our studies should include, in the absence of a large number of new agencies working on water projects, the exploration of moving in the direction of the President's budget message under the respective statutes of the two agencies, cooperating perhaps in its financing plans with the Bureau of the Budget, as an alternative, until some more larger picture develops.

I do hope there will be ample opportunity to explore the relation of this proposed bill to our own statute.

Burlew: I hope the same thing for the Bureau of Reclamation.

Wolfson: I walked out, Mr. Burlew. I wonder if you made mention that Bonneville is interested in how this thing turns. It's in the Department, but on a different basis than Reclamation.

Blandford: We mentioned Bonneville before in listing the number of projects.

Actually, in terms of administering this thing year

in and year out, it seems the big bulk of the relationship is with I.V.A. and the Reclamation Bureau, imposing a lot more legislation and a lot more facilities and agencies on two agencies at least one of which is just feeling its way out through some very complex situations and reviewing policies and checking with a considerable number of agencies at the present time.

Hanes: Well, is there anyone else that wishes to be heard from? Captain, do you want to say anything?

Marshall: The only thing I could say for the War Department is that, though it has only had a brief period to examine the provisions of this bill, it has given it some study and is aware of no objection to the general purpose of the bill. This bill applies to very few projects already constructed by the War Department, although it does apply to some - will apparently apply to several projects now authorized but not yet constructed, and we can so far see no serious objections to financing self-liquidating features of future projects in the manner proposed by the bill; as far as the War Department is concerned, it seems to be a matter of financing, and we see no objection to it.

Hanes: Thank you, sir.

Anybody else want to say anything about the policy matter?

(The following statement was submitted by Mr. Ben Cohen, who was called out during the discussion:)

"I am sorry that I was called out of the meeting and could not hear all of the discussion about the underlying theory of the proposed bill. I think, however, that it is extremely important that some machinery be created for the separation of the self-liquidating portion of the public debt from the balance, and that that machinery should cover new projects as well as those already constructed. Moreover, I think that it would be better to have the control over the financing of self-liquidating projects concentrated

in the Secretary of the Treasury, who would be acting for the President. This would not, however, involve a duplication by the Treasury of the work of the agencies concerned but would involve a review of their work. If the data submitted is not sufficient, the Treasury or any agency that the Treasury might use would not itself set about gathering new or additional data but would merely require the agencies concerned to submit more adequate data."

P.S.F. Morgenthau

THE WHITE HOUSE
WASHINGTON

March 8, 1939.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

F. D. R. - LONGHAND

Int. Rev. Coll. - Florida
John Fahs in place of J. Ed. Larsen

Ask Jim Farley & H. M., Jr.

Andrews concurs with Pepper
Let Pepper know

Can we put Larsen into Treas. or at
least offer him job here. Lawyer.
Now gets \$7,000. C'd we start him
at \$5,000 with chance to progress to
7 or 8



THE SECRETARY OF THE TREASURY
WASHINGTON

My dear Mr. President:

I have received your memorandum of March 25th, accompanying a letter to you from Senator Pat Harrison, dated the 24th.

I am also in doubt as to how you should answer Senator Harrison's letter. It may be helpful to you in preparing a reply if I review the facts as I know them. On February 17th, while you were aboard the special train at Key West, you told the Press in substance that business and industry need not fear any new taxes at this time. At my Press conference on February 23d, the first conference I held after your tax statement was made public, I told the Press that I was pleased by your statement and that for my part I should like to see the committees of Congress look into the tax law for the purpose of discovering whether there were any deterrents to business which could be removed. The following day at Des Moines, Harry Hopkins advocated also the removal of tax deterrents to business. On the same day, the 24th, Bob Doughton issued a statement approving what I had said and offering to cooperate.

I had not discussed the matter with Harrison up to that point, but I had sent him a summary of what I said at the Press conference. He came to see me the following week and he and Doughton on March 3d sent me a joint letter expressing approval of your tax statement, my statement, and that of Hopkins and offering cooperation.

John Hanes and I saw you on March 8th and presented our tax ideas and you arranged for a conference with Harrison and Jere Cooper (Doughton being away) the following day. Our recommendations to you included the substance of the material later furnished to Harrison.

At the conference on March 9th, Harrison referred to a proposal to repeal the excess profits, capital stock, and undistributed profits taxes and to substitute a revised corporate tax schedule, not as his suggestion but as one that he had heard. To your question whether the present revenue could be preserved under such a revision, he said that he thought it could be.

I had been careful not to give out to the newspapers any details whatever as to what I regarded as tax "deterrents." Nevertheless, it was widely known that various business organizations had suggested changes of this character and speculation in the Press after my Press conference of February 23d and Harry Hopkins' speech centered around these particular suggestions. This would certainly offer adequate ground for Harrison's statement that he had heard these things suggested.

- 2 -

In view of this background, I do not think that we can successfully maintain the proposition that these ideas originated with Senator Harrison. I should not myself want to avoid responsibility for initiating the suggestion that the corporate tax structure be revised. It was not done at Pat Harrison's suggestion. It was my own idea.

I am enclosing herewith my idea of a letter in answer to Senator Harrison's letter of March 24th.

Faithfully yours,

Henry M. W. M. M. M.

The President,

The White House.

March 25, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

I don't quite know how this letter from Pat Harrison should be answered.

The point of the whole thing is that suggestions for the repeal of "deterrent taxes" were made by Senator Harrison. These, as I remember it, anti-dated any statement by you that the subject was being studied.

Thinking back I know you will remember that the repeal of the excess profits and capital stock tax was seriously considered both a year ago and two years ago without any particular objection on the part of either yourself or myself. This was based, of course, on some assurance that the amount of their yield would be made up to the Treasury in some other way. Therefore, there can be no serious objection to a statement on our part to the above effect. But I hesitate to have you or Hanes propose a substitute tax for these two because of the difficulty of getting a fair substitute tax without revamping the whole tax structure.

When we come to the change in the "spread the loss" tax, I am not ready to take a position because I have no information as to which corporations would be helped or hurt by it -- and we must be very certain that any action on this would not enure merely to the benefit of the very large corporations.

In regard to the fourth proposed change, however -- the elimination of what is left of the undistributed earnings tax, I do not see how you and I can forget or bury the fact that two years ago one of the principal reasons for advocating the undistributed profits tax was to prevent very rich people from leaving their earned income in corporations controlled by them, with the effect of avoiding both personal and corporate income tax payments.

That is a matter of fundamental principle.

For this reason I hate to see you put in the hole of proposing these changes. It seems to me perfectly clear that the origin of the proposed changes was Senator Harrison himself. Frankly, the political mistake, made while I was with the Fleet, was in falling into Senator Harrison's trap. Obviously he tried -- and tried with some success -- to make it appear that the Treasury was listing taxes which it believed to be deterrent or recommending their repeal, or recommending a substitute or substitutes for them.

In regard to these substitutes, it is all very well to say "add the necessary amount to the straight percentage corporation taxes. But if you do this, you and I know that you will either step on the toes of the 153,000 small corporations or you will step on the toes of the one thousand very big corporations. Why put your head into that noose?

The mistake made was that in the first instance we did not pin this thing on Senator Harrison, offer every kind of assistance and, in good faith, give him our opinion on what would be the result of any change which he had asked us to study.

In the last analysis the amount involved in the proposed changes is negligible. We are all agreed that the corporations as a whole will continue to pay the same amount of money into the Treasury. We cannot allow the Administration to get behind any change which will restore old abuses.

F. D. R.

RECOMMENDED
IT BEING
IF SUBMIT
OPARONAL
MAY THE
WINDS
THE OIL
BROOK

J. T. HARRISON, MISSISSIPPI
CHAIRMAN

United States Senate

COMMITTEE ON FINANCE

March 24, 1939.

THE WHITE HOUSE
MAR 25 9 05 AM '39
RECEIVED

Dear Mr. President:

I am in receipt of your letter of March 21 and the enclosed data prepared by the Treasury Department.

Only because inferences might be drawn from certain parts of your letter that the enclosed data prepared by the Treasury Department was based on my suggestions, am I reiterating what I told you at our last conference, namely: that I had not seen and had no definite knowledge until our conference of the suggestions and revenue estimates based thereon, both of which were prepared by the Treasury Department for purposes of discussion and study. I did not know until I received the photostatic copy of the proposals and estimates that the suggestions - "repealing the \$2,000 limitation on the deduction of net losses for other income" and "allowing the three year carry-over of net losses" had been made or were under consideration.

I had read in several of the newspapers rumors that the Treasury Department intended to suggest the repeal of the capital stock tax, the excess profits tax and the undistributed profits tax, and the substitution therefor of a flat corporate tax. I did not know definitely that these suggested changes were Treasury proposals until our conference on March 9, when we exchanged views, and at which time we were all agreed that regardless of what might be finally evolved and recommended, the smaller corporations would continue to receive the same fair and beneficial treatment that they

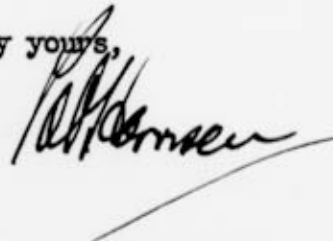
#2 - The Honorable Franklin D. Roosevelt, President.

have received in prior tax laws, and that the total of taxes paid by corporations to the Treasury should not be lowered by any change in the laws.

At our conference I asked for the Treasury proposals and the revenue estimates based thereon, because of my desire to know exactly what they were and in order that I might study the suggestions with a view to cooperating in the formulation of any fair program of tax legislation that might be suggested by the Treasury Department.

I appreciate your sending me this data, and I assure you of my sincere desire to cooperate wholeheartedly in effectuating the purposes announced by the Secretary of the Treasury -- to aid business through the modification or elimination of any provisions of our tax laws which act as a deterrent to business.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "R. H. Taft", with a long, sweeping horizontal line extending to the right below the name.

The Honorable Franklin D. Roosevelt,
President of the United States,
The White House,
Washington, D. C.

March 27th 1939



PSF
HMP

Dear Mr. President:

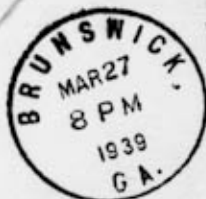
I received your memorandum of March 25th today with enclosed letter from Senator Harrison.

In order to make any helpful suggestions to you how to answer Senator Harrison, I would appreciate your sending me a copy of your letter to him. I was very sorry not to be able to say goodbye to you. I hope by the time this letter reaches you, you will have entirely recovered from your cold.

Elinor joins me in sending our best regards,

Sincerely yours,

Henry Myerthan Jr.



Special Delivery - Air Mail

To The President
The White House
Washington
D.C.

Special Delivery - Air Mail

Personal and Confidential
from
Henry Morgenthau Jr.

THE SECRETARY OF THE TREASURY
WASHINGTON

April 12, 1939

Dear Missy:

I don't know whether this scandal sheet, "The Week", has been brought to the President's attention. If it has not, I think he will enjoy reading it.

Yours sincerely,

BMH

Miss Marguerite Le Hand,
Secretary to The President.



No. 308.....

THE WEEK

28 VICTORIA STREET.
LONDON, S.W.1TELEPHONE:
ASSEY 1954

DAYS OF SURRENDER.

Almost unbeknownst to the British public, the situation has passed within the last ten days into a new and much graver phase than is currently suggested: the European power position is being stood on its head in a way not yet hinted at publicly even by the most "alarmist": as a result of the action of the London Government since the Romanian appeal of Saturday week, we are moving out of a phase in which it was a question of how much the British Government might be prepared to do to organise the "grand collective alliance" or "peace front" against the Axis attack, towards a phase in which it is a question of just how isolated the British are going to be against a possible "collective alliance" directed against them.

Bombshell for Paris.

Since the British newspapers give scarcely a hint of it -- nor the French papers either for that matter -- it is hard for British and other observers to grasp the full depth and power of the effect upon French opinion of first, the British Government's refusal of the Soviet proposals for immediate conference of the anti-aggressor powers, secondly the British Government's refusal to offer Poland terms adequate to bring Poland into even a joint declaration, third the British Prime Minister's Thursday statement declaring that he welcomed German economic expansion and was opposed to the formation of a bloc against the Axis, and finally the open encouragement from London to Mussolini to proceed with his claims against France.

"Nothing from London"

For at least three days and nights after the Birmingham speech, with the Soviet offer already made in Moscow, and every prospect of the whole Axis drive being blocked at Bucharest and all other points, French opinion was veering swiftly to out-and-out support of collective Franco-Russian-British action which would have rallied the smaller powers.

The realisation that -- as a French commentator put it -- "the stiffening of Mr. Chamberlain at Birmingham was merely the first stage of rigor mortis", has tilted the entire French position.

Exactly according to the German and Italian aims already referred to weeks ago in this correspondence, the rift between London and Paris has widened with startling speed. It is now a major factor in the situation.

Rush-hush

At this point occurs a curious phenomenon: nobody will speak -- publicly -- of this horrifying development, for the reason that those "friends of the Axis" in London and Paris who favour the split do not want to reveal the game too soon, and those on the other hand who are trying

even now to heal it, are afraid to talk about it because it might "play into the hands of the Axis". The Axis however is perfectly well-informed on the subject, since it has at least one French Cabinet Minister directly on its payroll, and has in London highly-placed allies who do not (with some notable exceptions) even ask to be paid. In any case, it is desirable to report frankly on the real position.

In a situation which it is optimistic to refer to as "the gravest since 1914", for it is the gravest since 1917, outstandingly significant points are these:-

The "Tory revolt".

The Birmingham speech was made under pressure of an incipient "Tory revolt". On the Saturday of that week -- when the Rumanian appeal and the Soviet offer of immediate action were already in the British Government's hands -- the "rebels" were apparently genuinely confident that the Birmingham speech "meant something".

On that Saturday, their leaders were declaring that "if Chamberlain doesn't stiffen now he will be out". Mr. Nicolson, prominent among the "rebels" on the Government side of the House went so far as to write a little piece for the Spectator explaining that this time it was genuine.

The "capitulators", who had "seen nine-and-thirty leaders of revolts" -- after Austria, after the bombing of British ships by Italy off Spain, after Berchtesgaden and on the night of Godesberg -- were almost entirely unperturbed. They refused the Soviet offer immediately, and refused the Rumanian appeal.

Then Memel went, and then the Rumanians had to capitulate to the extent of accepting the Trade Pact. Poland was obviously tottering on the edge of capitulation: especially when they learned that in the middle of last week the Foreign Office had informed foreign correspondents that "the Poles want too much" -- meaning a straight guarantee. (Since, if there had been any serious intention to resist, the British Government would have been falling over itself to offer the Poles anything they would take, the effect of this extraordinary formulation in Whitehall may be imagined).

The Italian Intrigue

As the eastern bastions crumbled, "Tory revolt" flared again: but this time, instead of the strategic "retreat to Birmingham", there was a more effective riposte. The Italian intrigue, first publicly launched in the Daily Mail, was brought into the centre of the whole affair.

By Monday of this week, it was being semi-officially "explained" at the Foreign Office that

- (1) Poland cannot be defended without Soviet co-operation, and is therefore no use as an ally unless the Soviet Union is an ally too.
- (2) It is true that such an alliance would "wipe the floor" with any combination opposed to it, but "we must always remember" that in Warsaw there are "certain hesitations about co-operation with Moscow".
- (3) Questioned as to whether the objections were really in Warsaw and not very much more in London, the Foreign Office sighed and giggled and said that of course there "are certain elements in the Cabinet who" etc etc etc.
- (4) But in any case "we know definitely from Mussolini" that any co-operation with the Russians would preclude any "sympathetic attitude towards us in Rome".

Doing the Runciman.

At the same time there began to appear in the British and French

press -- which a few days before had been publishing jolly pictures of Stalin and Voroshilov -- articles "doubting" the strength of the Soviet Army, the Soviet airfleet, etc. etc. etc., precisely along the lines of the "Lindbergh conversations" at the time of the September surrender. By the time Mussolini had launched his claims on France, the Times -- and still more the British Embassy in Paris -- were "doing the Runciman" and demanding French surrender to "these reasonable claims" exactly according to the plan of "Runcimanisation" outlined early this year in this correspondence and hotly denied then by all and sundry.

Stresa and Four Power Pact.

Behind the Italian intrigue in London immediately re-formed itself the grotesque alliance which has existed for years (and frequently been commented on here) between the "Stresa frontists" who imagine that they are "pulling Mussolini out of the Axis", and the Four Power Pacters who know very well that the purpose of concessions to Mussolini is to find a way, via Rome, to Berlin; whose aim, that is to say, is not opposition to Berlin, but an approach to Hitler through Mussolini, with France ultimately playing fourth fiddle in the Four Power combination.

The flaw in the first theory is that it is an illusion. The flaw in the second is that while it is intended to lead to a position in which the British Government will have "muscle in" at last to a place "on the board" of the Berlin-Rome-Burgos-Tokyo company, what it really leads to is a progressive weakening of the positions held against the Axis by Britain and France, and hence the acceleration of the rate at which the Axis approaches the moment when Gott will strafe England.

The alternative.

Subscribers are constantly writing to ask us whether the people who support these catastrophic policies are fools or villains, and if neither, why they go on the way they do. So far as the first part of the recurrent question goes, it is really immaterial whether people are villains behaving foolishly or fools behaving villainously; and in any case there is a point where stupidity and villainy come to very much the same thing. So far as the reason why they behave as they do, particularly during the past week, it is relatively simple: for the alternative to these policies of disaster is that co-operation with the Soviet Government which these same people rejected (despite the reports of Balfour and Buchanan) even in the darkest hours of 1918 when their own advisers assured them that co-operation with Lenin would certainly damage the Germans and might turn the scale of the war, and rejected again on Saturday March 18th 1939 when the Germans were reaching for the Rumanian Pact and the domination of Poland.

Paris-Rome.

Statements that there had been simply "preliminary" conversations between the French and Italian Governments on the question of surrender to the Italian claims before Mussolini's speech, are inaccurate. There had been -- with British assistance -- detailed conversations conducted first by Baudoin and then by Lagardelle.

The suggestion that Laval should go to Rome to clinch the capitulation was made exactly fifteen days ago, personally, by Herr von Ribbentrop to M. Beaujeu-Lafitte, former Minister in the Sarraut Government.

The point is of especial significance, because it is proof of the fact -- already sufficiently well-known in other quarters -- that the supposed "uneasiness" of Berlin over the "Italian approach to France", which has been given such a play in the capitulationist press in Britain, is the merest moonshine, the whole plan of the Mussolini approach having been discussed between the Italian and German Governments, and actually pre-arranged upon the French by Ribbentrop himself, a fortnight ago.

M. Bonnet's lack of taste.

The logical -- not the British-theoretical -- consequences of the abandonment of eastern Europe and the pressure on France to accept the Mussolini claims, were very quickly and unpleasantly evident in London in the conduct of M. Bonnet during the Lebrun visit.

The first thing that happened was that M. Daladier telephoned to Bonnet and suggested -- under pressure of the public opinion then prevalent in France in favour of quick and strong Anglo-French-Soviet action -- that M. Bonnet had better urge the British Government to "get on with it". M. Bonnet replied that he was not proposing to do anything of the sort: that he entirely understood the hesitations of his London friends: that he thought the Soviet proposal was just as "premature" as the British did, and that he would fall in entirely with the British attitude.

M. Daladier, possibly under the pressure of the bottle, raged at M. Bonnet, ordered him to do as he was told.

Whereupon, cool as you please, M. Bonnet replied that he would do as he chose, and if dear Edouard wished to object, why then dear Georges would say a word or two to this person and that about just precisely what happened at this and that particular moment of the Staviaky scandal and why and by whom so-and-so was suicided etc etc. Thus, for once at least, the famous blackmail which is supposed (incorrectly) to be the sole reason why Daladier has to keep Bonnet in his Cabinet at all was brought into operation.

Talking to Flandin.

All this however was regarded as good clean fun compared with what happened next. For next M. Bonnet, having effectively silenced the absurd Daladier, proceeded to put himself in communication with M. Flandin. In fact during the greater part of his visit to London, M. Bonnet was reporting not to the French Government but to M. Flandin, who in turn -- as a Munichois cent pour cent and avowed capitulator -- was in direct communication with Herr von Ribbentrop.

Via M. Flandin, M. Bonnet sounded out Herr von Ribbentrop once again on the possibilities of a quick Franco-German deal at the expense of the Entente Cordiale, at the expense of the continuance of democratic institutions in France, and in favour of French "neutrality" on der Tag when Hitler "goes for London".

The "better element" among the British thought this sort of thing -- conducted from London itself -- hardly in "the best possible taste" and ostentatiously cut M. Bonnet at the India Office Ball. Even the capitulators, themselves hand-in-glove with Berlin and Rome, were a trifle chilled by M. Bonnet's behaviour, judging that at the best it tended to "give the gang a bad name" and confirm the suspicions of M. Bonnet spread in such "un-

helpful" news services as The Week, and at the worst might expose the whole game in unpleasant fashion just as things were "simmering down" after Prague and the Birmingham move.

In France

Although neither M. Bonnet nor M. Daladier can be taken as to any serious degree representative of French mass opinion, there is no question that the inactions of the British Government, plus its support for Mussolini's claims, strengthened the hand of the capitulators in France, by shocking and confusing patriotic opinion.

It is significant of the situation within France that around the emergency decrees there is still a sort of equilibrium between the forces: sufficient at least to prevent the decrees for the moment being used not for national defence but for strike-breaking and for the final removal of the improvements in working class conditions achieved by the People's Front.

Observers in Paris believe that even under present circumstances, it would be impossible for Bonnet to carry out his pro-Nazi capitulationist policy "to the end" without facing social revolution in France, and for this reason the process of "trussing and hamstringing" the public by means of the emergency powers would have to go a great deal further than it has yet gone before anything of the kind could be seriously contemplated.

This was in fact pointed out by von Ribbentrop to M. de Brinon, Bonnet's agent, when the two met in Berlin several weeks ago. It was demanded by Ribbentrop on that occasion that France "in order to convince Germany of the sincerity of her intentions and her friendship, must "make certain internal adjustments, including the suppression of the Communist Party and a more vigorous restraint of press freedom".

This is of course the method traditionally employed by the Germans in their advance: attacks upon the left being carried out as a rule under the cover of "a strong national stand against aggression", and thereafter, the patriotic forces having been muzzled and trussed, and if possible provoked into strike action or something of the kind by attacks from the right, it is possible for the capitulators "within the gates" to carry out the surrender without further trouble.

It would be untrue to say that this situation -- or anything like it -- has yet been reached in France, and indications from Paris still suggest that despite the disastrous character of the Phippe-Bonnet policy, the resistance of the patriotic left and of the army High Command is being sufficient at least to delay the process: with the possibility that they may not only delay it but actually defeat the whole policy -- this in turn depending of course on the degree to which the policy is defeated "at the source": namely in London.

London turmoil

By Tuesday night of this week, the situation at the London end had

again become so bad that again the "Tory revolt" was in progress, and the talk of a Government under Lord Halifax was revived. It appears to be true that under the influence of the Bishop of Ripon, Lord Halifax has within the past three days committed himself more definitely than ever before to opposition to the policy of Mr. Chamberlain, and has gone to the length of expressing also certain views on the personal and political character of Mr. Chamberlain in general, which would seem at least, to make it somewhat difficult for Lord Halifax to continue any longer his policy of acting as a sort of "stooge" for the Prime Minister, continually taking the edge off attacks upon the Government by the suggestion that "after all Halifax is all right".

The "rebels" believed last night -- and for all anyone knows may still be believing by this evening -- that they have secured from the Labour leaders an agreement not to object to a "Premier in the Lords", if and when they succeed in breaking the Cabinet split wide open and openly backing Halifax.

Although all such "revolts" are liable -- in the absence of any serious push from the Labour side -- to collapse overnight or over lunch, it is true that the situation has now reached a point of such extreme gravity that even what have been called "the great ivory headed masses of the Tory Party" are, so to speak, turning in their sleep. It was thought to be of extreme significance on Tuesday night that Sir Samuel Hoare was beginning to speak gravely of his touch of flu and allowing the suggestion to be made that he might be confined to his bed for at least a fortnight.

This was taken as an excellent barometer of the gravity less of Sir Samuel Hoare's physical health than of the political health of the Prime Minister, which must be judged shaky indeed if Sir Samuel feels himself compelled to withdraw from the scene until the cat has jumped one way or another.

Grave and gloomy as the situation is, it is still true that a rapid and total reversal of "Chamberlainism" in British foreign policy could even now recover a great deal of the ground lost, and build -- with the Russians and the French -- a "front" against the aggressors which would cause an indefinite slowing down of the "Goering plan" of "elastic attack" referred to here three weeks ago and carried out with deadly efficiency since then.

(Subscription rates to THE WEEK 3/- half-yearly, 16/- yearly. Foreign rates 12/- and 24/-. U.S.A. and Canada and Dominions where Air Mail rates of 3d per oz. do not apply 10/- and 20/-. Dominions where Cheap Air Mail rates are in force 13/- and 26/-. Printed and published by Claud Cockburn at 28, Victoria Street, London, S.W.1.

THE SECRETARY OF THE TREASURY
WASHINGTON

PSF
HMP

file
personal.

April 13, 1939

My dear Mr. President:

I am inclosing herewith Harlan
Miller's article. I thought you might
enjoy reading his reference to Lady
Lindsay and the Chatfield-Taylors and
the Battle of Yorktown.

Yours sincerely,

Henry

The President,
The White House.

APR 13 1939

Over the Coffee

By
Harlan Miller

'GILT OFF THE DOME: Most generals here have offices at the War Dept. resembling those of small town freight agents; grim, but tidier . . . With about \$38 worth of second-hand furniture . . . I'm told more wrong phone numbers are dialed in the Capital than anywhere in America . . . The average Congressman pays 53 cents for his lunch at the Capitol; his tip averages 8 cents.



U. & U.
Lady Lindsay

I have been . . . long memory taken to task for speaking lightly of Sen. Cotton Ed Smith. "You ought at least to respect his age!" writes an indignant lady. Does that mean that we will have to take Senators Rush Holt (West Virginia) and Bilbo (Mississippi) more seriously when they're 70 than we do now? Egad!

Calm, regal, American-born Lady Lindsay, wife of the British Ambassador, gets a little out of patience occasionally with some of the more la-de-da members of the British Embassy staff. She thinks that even if they are diplomats and attaches they might attend to business a little more diligently.



"—Yorktown's bad for Britons"

One recent week-end when things were popping and sparks were flying back and forth across the Atlantic and the Embassy air was electric, she observed that several of the young men in striped pants were away. On the following Tuesday she encountered one of them.

"Where were you last week-end?" she asked curiously.

"Oh, I was week-ending at the Chatfield Taylors near Yorktown."

"I seem to remember," said Lady Lindsay, "that we British once lost a war at Yorktown!"

PSF
HML

THE WHITE HOUSE
WASHINGTON

PSF
HMP

~~CONFIDENTIAL~~

April 18, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

This I take it is the
Order which will be kept in
your safe ready to be signed
at any time.

Please, however, read
the opinion of the Attorney
General.

F. D. R.

Executive Order regulating transactions
in foreign exchange, transfers of
credit, payments, and the export of
coin, bullion and currency. Also
letter from the Attorney General.

STANDARD FORM No. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM

The White House
Washington

BSF
HMF

NIGHT LETTER

U. S. GOVERNMENT PRINTING OFFICE 73762

April 25, 1939.

HON. HENRY MORGENTHAU
1133 FIFTH AVENUE
NEW YORK, N. Y.

MANY HAPPY RETURNS OF THE DAY STOP IT MAKES ME HAPPY THAT
YOU ARE EXACTLY MY AGE STOP WE ARE BOTH APPROACHING MIDDLE
LIFE WITH VIM AND VIGOR AFFECTIONATE REGARDS

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE
WASHINGTON

PSF
HMP

CONFIDENTIAL

May 3, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you speak to me about
Ernest Angell?

F. D. R.

*file
personal*

THE WHITE HOUSE
WASHINGTON

*PSF
HMP*

May 4, 1939.

MEMORANDUM FOR

THE PRESIDENT

The Secretary of the Treasury telephoned to say that he is going to attempt to collect statistics from agencies other than WPA to show how many people were at work in April due to activities in FHA and RFC, etc. He says he is sure we will find a very large number of people were at work as the result of government aid, direct and indirect. He believes somebody should take the aggressive side instead of apologizing. He thinks too much of this has been done.

The Secretary would like to know if you approve of his doing this.

G.

THE WHITE HOUSE
WASHINGTON

*BF
Ming
Treas*

May 13, 1939.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me about
this on Monday at lunch?

F. D. R.

*file
confidential*



THE SECRETARY OF THE TREASURY
WASHINGTON

May 11, 1939

My dear Mr. President:

Mr. Hanes, Mr. Bell and I met with Mr. Jean Monnet Monday night, at my house, and discussed the French debt to the United States.

The French pre-armistice cash loans, as you will notice from the inclosed statement, amounted to \$1,970,000,000. Her post-armistice debt for cash loans amounted to \$1,027,000,000, and for war and relief supplies, \$407,000,000. These figures represent the original debts and do not take into consideration the accrued and unpaid interest nor repayments made by France before and after refunding of its debt.

If we should follow the very tentative suggestion of Mr. Monnet and forgive the pre-armistice debt of \$1,970,000,000, this would leave France still owing us \$1,434,000,000.

Mr. Monnet's thought was that we might arrange some barter deal for the \$407,000,000 of war and relief supplies, leaving a net \$1,027,000,000 to be repaid us in cash.

If we should follow through with Mr. Monnet's suggestion and take up the British debt, we find that their pre-armistice cash loans amounted to \$3,696,000,000 and their post-armistice cash loans only \$581,000,000. Therefore, I raise the question at this time, before we proceed further with Mr. Monnet, whether it would be feasible to apply the Monnet formula to the British and other Governmental debts to the United States.

Mr. Monnet has grave doubts as to the wisdom of raising the French debt question at this time and we share his doubts.

-2-

Mr. Monnet is waiting to hear from me and I shall be glad to have your views before proceeding in these conversations.

Faithfully yours,

Myrthau J.

The President,
The White House.

**STATEMENT SHOWING AMOUNT OF FOREIGN INDEBTEDNESS TO THE
UNITED STATES UNDER VARIOUS CLASSIFICATIONS**

(In thousands of dollars)

	Prearmistice cash loans	Postarmistice		Total obligations originally acquired	Repayments of principal prior to refunding	Original net principal debt	Debt as refunded 1/	Payments on funded debt		Amounts due and unpaid			Total debt May 1, 1939
		CASH LOANS	WAR AND RE- LIEF SUPPLIES					Principal	Interest	Principal	Interest	Moratorium annuities	
Funded debts:													
Belgium	171,780	177,434	29,973	379,087	2,087	377,030	417,780	17,100	14,490	26,600	43,356	5,329	449,060
Czechoslovakia	--	51,974	29,906	91,880	--	91,880	185,071	19,830	--	17,870	--	2,011	165,729
Estonia	--	--	13,999	13,999	--	13,999	16,466	--	1,247	859	3,681	402	20,737
Finland	--	--	8,282	8,282	--	8,282	9,000	878	4,309	--	--	--	8,249
France	1,970,000	1,027,478	407,341	3,404,819	54,689	3,340,130	4,025,000	161,350	38,650	284,346	250,399	33,515	4,150,825
Germany (Austrian in- debtedness)	--	--	24,056	24,056	--	24,056	24,615	863	--	1,840	--	139	25,012
Great Britain	3,696,000	581,000	--	4,277,000	202,182	4,074,818	4,600,000	232,000	1,232,770	202,000	893,899	106,928	5,419,388
Greece	--	27,167	--	27,167	3	27,164	32,497	961	1,697	5,440	1,929	752	34,068
Hungary	--	--	1,686	1,686	--	1,686	1,983	74	423	93	388	46	2,365
Italy	1,031,000	617,034	--	1,648,034	354	1,647,680	2,042,000	37,100	5,787	80,200	12,945	9,858	2,022,745
Latvia	--	--	5,132	5,132	--	5,132	5,889	9	621	346	1,420	166	8,546
Lithuania	--	--	4,962	4,962	--	4,962	5,432	235	1,002	264	1,230	150	7,650
Poland	--	--	159,687	159,687	--	159,687	207,344	1,287	19,311	10,350	46,066	5,018	259,502
Rumania	--	25,000	12,911	37,911	1,799	36,112	66,560	2,700	9,000	29	--	536	63,991
Yugoslavia	10,605	16,175	24,978	51,758	728	51,030	62,850	1,225	--	2,275	115	--	61,741
Total	6,979,385	2,533,263	722,612	10,135,460	271,822	9,863,638	11,704,487	475,632	1,320,516	641,283	1,255,427	164,854	12,710,628
Unfunded debts:													
Armenia	--	--	11,960	11,960	--	11,960	--	--	--	--	11,343	--	23,303
Cuba	10,000	--	--	10,000	10,000	--	--	--	--	--	--	--	--
Liberia	--	26	--	26	26	--	--	--	--	--	--	--	--
Nicaragua	--	--	432	432	142	290	--	--	--	--	--	--	--
Russia	187,730	--	4,871	192,601	--	192,601	--	--	--	--	192,771	--	385,372
Total	197,730	26	17,263	215,019	10,168	204,851	--	--	--	--	204,114	--	408,975
Total	7,077,115	2,533,289	740,075	10,350,479	281,990	10,068,489	--	--	--	--	--	--	13,119,304
Repayments:													
Belgium	--	2,008	54	--	2,087	--	--	--	--	--	--	--	--
Cuba	10,000	--	--	--	10,000	--	--	--	--	--	--	--	--
France	--	64,689	--	--	64,689	--	--	--	--	--	--	--	--
Great Britain	130,011	72,171	--	--	202,182	--	--	--	--	--	--	--	--
Greece	--	3	--	--	3	--	--	--	--	--	--	--	--
Italy	--	354	--	--	354	--	--	--	--	--	--	--	--
Liberia	--	26	--	--	26	--	--	--	--	--	--	--	--
Nicaragua	--	--	142	--	142	--	--	--	--	--	--	--	--
Rumania	--	1,799	--	--	1,799	--	--	--	--	--	--	--	--
Yugoslavia	--	728	--	--	728	--	--	--	--	--	--	--	--
Total	140,011	141,783	196	--	281,990	--	--	--	--	--	--	--	--

1/ Includes \$1,715,556,244.36 on account of interest accrued prior to funding and \$127,226,078.44 interest funded under debt agreements.

THE WHITE HOUSE
WASHINGTON

RF
Ming
Treas

May 13, 1939.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me about
this on Monday at lunch?

F. D. R.

file
confidential



THE SECRETARY OF THE TREASURY
WASHINGTON

May 11, 1939

My dear Mr. President:

Mr. Hanes, Mr. Bell and I met with Mr. Jean Monnet Monday night, at my house, and discussed the French debt to the United States.

The French pre-armistice cash loans, as you will notice from the inclosed statement, amounted to \$1,970,000,000. Her post-armistice debt for cash loans amounted to \$1,027,000,000, and for war and relief supplies, \$407,000,000. These figures represent the original debts and do not take into consideration the accrued and unpaid interest nor repayments made by France before and after refunding of its debt.

If we should follow the very tentative suggestion of Mr. Monnet and forgive the pre-armistice debt of \$1,970,000,000, this would leave France still owing us \$1,434,000,000.

Mr. Monnet's thought was that we might arrange some barter deal for the \$407,000,000 of war and relief supplies, leaving a net \$1,027,000,000 to be repaid us in cash.

If we should follow through with Mr. Monnet's suggestion and take up the British debt, we find that their pre-armistice cash loans amounted to \$3,698,000,000 and their post-armistice cash loans only \$581,000,000. Therefore, I raise the question at this time, before we proceed further with Mr. Monnet, whether it would be feasible to apply the Monnet formula to the British and other Governmental debts to the United States.

Mr. Monnet has grave doubts as to the wisdom of raising the French debt question at this time and we share his doubts.

-2-

Mr. Monnet is waiting to hear from me and I shall be glad to have your views before proceeding in these conversations.

Faithfully yours,

Myrthau J.

The President,
The White House.

**STATEMENT SHOWING AMOUNT OF FOREIGN INTERESTS DUE TO THE
UNITED STATES UNDER VARIOUS CLASSIFICATIONS**

(In thousands of dollars)

	Preambition cash loans	Postambition		Total obligations originally acquired	Repayments of principal prior to refunding	Original net principal debt	Debt as refunded 1/	Payments on funded debt		Amounts due and unpaid			Total debt May 1, 1939
		CASH loans	WAR AND Re- lief supplies					Principal	Interest	Principal	Interest	Moratorium annuities	
Funded debts:													
Belgium	171,780	177,434	29,873	379,087	2,087	377,080	417,780	17,100	14,490	26,600	43,356	5,329	449,080
Czechoslovakia	--	61,974	29,906	91,880	--	91,880	185,071	19,830	--	17,670	--	2,011	165,729
Estonia	--	--	13,999	13,999	--	13,999	16,466	--	1,247	859	3,681	402	20,737
Finland	--	--	8,282	8,282	--	8,282	9,000	878	4,309	--	--	--	8,249
France	1,970,000	1,027,478	407,341	3,404,819	64,689	3,340,130	4,025,000	161,350	38,680	284,346	250,399	33,616	4,160,825
Germany (Austrian in- debtedness)	--	--	24,056	24,056	--	24,056	24,615	863	--	1,840	--	139	26,012
Great Britain	3,696,000	581,000	--	4,277,000	202,182	4,074,818	4,600,000	232,000	1,232,770	202,000	893,899	106,928	5,419,388
Greece	--	27,167	--	27,167	3	27,154	32,497	981	1,897	5,440	1,929	762	34,566
Hungary	--	--	1,686	1,686	--	1,686	1,983	74	423	93	388	46	2,365
Italy	1,031,000	617,034	--	1,648,034	364	1,647,670	2,042,000	37,100	5,767	80,200	12,945	9,858	2,022,745
Latvia	--	--	5,132	5,132	--	5,132	6,889	9	621	346	1,420	168	8,546
Lithuania	--	--	4,982	4,982	--	4,982	6,432	235	1,002	264	1,230	150	7,650
Poland	--	--	159,667	159,667	--	159,667	207,344	1,287	19,311	10,350	46,065	5,018	259,502
Rumania	--	25,000	12,911	37,911	1,799	36,112	66,560	2,700	29	9,000	--	536	63,991
Yugoslavia	10,605	16,175	24,978	51,758	728	51,030	62,850	1,225	--	2,275	115	--	61,741
Total	6,979,385	2,533,263	722,812	10,135,460	271,822	9,863,638	11,704,487	475,632	1,320,516	641,283	1,255,427	164,854	12,710,628
Unfunded debts:													
Armenia	--	--	11,960	11,960	--	11,960	--	--	--	--	11,343	--	23,303
Cuba	10,000	--	--	10,000	10,000	--	--	--	--	--	--	--	--
Liberia	--	26	--	26	26	--	--	--	--	--	--	--	--
Nicaragua	--	--	432	432	142	290	--	--	--	--	--	--	--
Russia	187,730	--	4,871	192,601	--	192,601	--	--	--	--	192,771	--	385,372
Total	197,730	26	17,263	215,019	10,168	204,851	--	--	--	--	204,114	--	409,675
Total	7,077,115	2,533,289	740,075	10,350,479	281,990	10,068,489	--	--	--	--	--	--	13,119,304
Repayments:													
Belgium	--	2,003	54	--	2,057	--	--	--	--	--	--	--	--
Cuba	10,000	--	--	--	10,000	--	--	--	--	--	--	--	--
France	--	64,689	--	--	64,689	--	--	--	--	--	--	--	--
Great Britain	130,011	72,171	--	--	202,182	--	--	--	--	--	--	--	--
Greece	--	3	--	--	3	--	--	--	--	--	--	--	--
Italy	--	364	--	--	364	--	--	--	--	--	--	--	--
Liberia	--	26	--	--	26	--	--	--	--	--	--	--	--
Nicaragua	--	--	142	--	142	--	--	--	--	--	--	--	--
Rumania	--	1,799	--	--	1,799	--	--	--	--	--	--	--	--
Yugoslavia	--	728	--	--	728	--	--	--	--	--	--	--	--
Total	140,011	141,783	196	--	281,990	--	--	--	--	--	--	--	--

1/ Includes \$1,715,556,244.38 on account of interest accrued prior to funding and \$127,226,578.44 interest funded under debt agreements.

ACCOUNTS AND DEPOSITS
May 11, 1939

THE WHITE HOUSE
WASHINGTON

June 1, 1939.

MEMORANDUM FOR

DANO

FOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F. D. R.

Letter enclosed from Mr. A. W. O'Connell,
O'Connell Packing Company, P.O. Box 5624,
Kenton Station, Portland, Oregon, in re
petition to the Secretary of the Treasury
to secure a reclassification of imported
canned meat dog foods.



*file
personal*

THE SECRETARY OF THE TREASURY
WASHINGTON

*PSF
HMP*

June 13, 1939.

Dear Boss:

I got your note.

I am in favor of dog food.

I think this Argentine stuff is a lot of baloney, but that will do for dogs who can't get fresh meat.

My people have fixed up some words for the barker from Oregon. Personally I ignore all dogs that bark. I advise you to do the same.

I lick your hand,

Affectionately,

DANO.

The President,

The White House.

(His mark)

(Message communicated through Henry Morgenthau, Jr., Secretary of the Treasury.)

THE WHITE HOUSE
WASHINGTON

*BSF
HMP*

~~CONFIDENTIAL~~

June 13, 1939.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me about
this?

F. D. R.

Longhand memorandum from the President:
H. M., Jr.

Bring figures tomorrow on cash
outgo to farmers up to July 1, 1940.

And I am to talk it over with
Wallace and then with Sen. Bankhead
and Sen. Russell.

F. D. R.

THE SECRETARY OF THE TREASURY
WASHINGTON

PSF
HMP

June 13, 1939

My dear Mr. President:

I am inclosing herewith an
up-to-the-minute progress report from
John Hanes in connection with the tax
bill.

Yours sincerely,

Wm. V. Rothman

The President,
The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 13, 1939

TO Secretary Morgenthau
FROM Mr. Hanes

The subcommittee of the Ways and Means Committee on Internal Revenue taxation at its meetings on Monday, June 12, 1939 made the following decisions with respect to matters to be included in the revenue bill:

1. Net Loss Carry-over.

- a. It was agreed (in the absence of objection) that losses should be carried over from 1939 to 1940, to be first used for computation of income for the year 1940.
- b. It was agreed (in the absence of objection) that a net operating loss may be carried over from one year to the two succeeding years. (Mr. O'Donnell estimated loss of revenue from a two year carry-over from business years like 1939, of \$23.6 million).
- c. As a part of its consideration of the matter, it was understood by the Committee that capital losses would be excluded in computing net operating losses.
- d. It was agreed in the absence of objection that personal holding companies should not be allowed this new operating loss carry-over.

2. Capital Stock and Excess Profits Tax.

- a. It was agreed (in the absence of objection) that the undistributed profits tax should not be extended beyond 1939 (Revenue loss estimated by Mr. O'Donnell at \$17.5 million) and that the rate on corporations above \$25,000 should be 18% (revenue increase with proposal in b. below estimated by Mr. O'Donnell at \$65 million assuming banks and insurance companies to be included in general treatment).

- b. As to corporations under \$25,000, it was agreed (in the absence of objection) that the rates in the present law with respect to these corporations should be continued.
 - c. It was first agreed tentatively (in the absence of objection) that the dividing line between large and small corporations should be upon net income and not upon normal tax net income. On further consideration it was agreed that the dividing line should be on normal tax net income which is net income less interest on partially exempt Federal obligations and less the credit for intercorporate dividends.
 - d. It was agreed that banks, China and Trade Act companies, insurance companies and corporations in possessions shall be treated like other corporations as to rates and that mutual investment companies shall be taxed at a flat 16% regardless of the size of income with the same credit for distributed income which these companies now receive.
 - e. It was agreed (in the absence of objection) that foreign corporations engaged in trade or business within the United States are to be taxed at 16%, instead of 19% as in the present law.
 - f. It was agreed (in the absence of objection) that the present provisions taxing foreign corporations not engaged in trade or business in the United States shall be continued. They are now taxed at 18% upon withholding income except dividends and at 10% upon dividends.
 - g. It was agreed (in the absence of objection) that the special treatment given under present law to corporations in bankruptcy or receivership, joint stock land banks and rental housing corporations shall be eliminated so that these corporations will be treated like all others.
3. Elimination of the \$2,000 limitation on corporate capital losses.
- a. It was agreed (in the absence of objection) that there shall be no limit on deduction of long term losses by

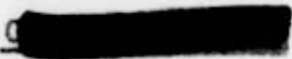
corporations (Mr. O'Donnell estimated revenue loss at \$49 million).

- b. It was agreed (in the absence of objection) that there shall be a limitation on the deductibility of short-term losses so that they can only be applied against short-term gains for the taxable year with a one-year carry-over for use against short-term gains in the next year. (Mr. O'Donnell estimated revenue loss at \$1.4 million).
4. It was apparently agreed by the Subcommittee that all of the foregoing proposals shall first become operative for taxable years commencing in 1940.
5. Mr. O'Donnell estimated the net revenue loss from all of the foregoing proposals at \$16.7 million.
6. It was agreed by vote that the excise taxes and postal rate provisions shall be extended for two years.
7. Hendler case
It was agreed (by vote) that a provision to eliminate the problems created by the Hendler case relating to assumption of indebtedness in corporate reorganizations shall be included in the bill.
8. Koshland & Gowran cases
It was agreed (in the absence of objection) that a provision to eliminate the problems created by the Koshland and Gowran cases relating to the taxation of stock dividends, shall be included in the bill.

John W. Hanes.

THE WHITE HOUSE
WASHINGTON

June 16, 1939.


MEMORANDUM FOR H.M. Jr.

A little sparrow tells me that a gentleman named Schwartz, formerly of the Chicago Daily News, is now with your publicity department and he is alleged to be getting news for the Chicago Daily News.

Will you have Herbert check?

F.D.R.

FDR/dj

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

PSF
HMP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 19, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Japanese trade

~~Confidential~~

1. Japan still has a highly unfavorable balance of trade with the world (excluding trade with the yen bloc - Manchuria, Kwantung and China), amounting to 575 million yen (\$190 million) in 1938. Japan's trade during the first four months of 1939 was more unfavorable than during the same period of 1938, indicating that there has been a worsening of Japan's trade position this year.

Both exports and imports have been down sharply from the high levels of 1937.

Japan's Foreign Trade
(excluding China, Manchuria, and Kwantung)

(In millions of yen)

	Exports	Imports	Excess of Imports
1936	2,035	2,370	330
1937	2,384	3,345	960
1938	1,524	2,099	575
First 4 months of 1937	715	1,164	449
" " " " 1938	469	684	214
" " " " 1939	450	701	251

2. United States exports to Japan have been maintained at a high level until this year. United States exports to Japan in 1938 were only 17 percent less than during the peak year of 1937, although Japan's total imports had dropped 37 percent. In the first four months of 1939, however, Japan's purchases in the United States were down 20 percent in comparison with the same period of 1938, while Japan's total imports were about the same value as during 1938. (It is too early yet to tell whether the drop of United States exports during the past few months represents a shift of Japanese purchases to other parts of the world or whether it represents a drop in total Japanese purchases.)

Secretary Morgenthau - 2

Our imports from Japan were 38 percent lower in 1938 than in 1937, similar to the change in the world's imports from Japan, and have remained at this lower level during 1939.

3. Silk prices have risen sharply in the past few months, but Japan's receipts from silk have barely been maintained because of the decline in volume. Japanese exports of silk in the first four months of 1939 were in value about the same as during the same period of 1938 but the quantity of silk exported dropped from 131,000 quintals to 103,000, a decline of about 25 percent. During recent months the price of Japanese silk has risen from \$1.75 a pound at the first of the year to an average price of \$2.75 per pound in May. Since the first of June there has been a decline in the quotations for silk (June 15 it was \$2.50).

The sharp rise in the price of silk during the last few months has been attributed to the following reasons:

(a) Domestic consumption of cotton, wool and rayon has been sharply curtailed in Japan and as a result the Japanese have been buying large quantities of silk for their textile needs. It has been estimated that a third of the total silk crop of this year has already been absorbed for domestic uses.

(b) The silk producing industry of Japan has been putting sharply reduced quantities of silk on the market, probably due to a labor shortage and the generally poor conditions of agricultural production under war-time conditions.

(c) The Japanese Government is now taking steps to maintain lower prices for silk in the world markets and is attempting to restrict domestic uses. Japan fears that a high price for silk may encourage the use of substitute products.

Japan's exports of silk in value were only 10 percent lower for the whole year 1938 in comparison with 1937. The quantity was about the same as in 1937, the reduction in value being attributed to the lower prices for silk.

United States takes about 90 percent of Japan's silk exports. During the first four months of 1939, Japan ex-

Secretary Morgenthau - 3

ported to us 16 percent less silk in quantity, compared with the same period of 1938, but the silk was 8 percent more in value.

4. Japan's imports of cotton in 1938 were cut in half from the previous year. Her imports of United States cotton were down about the same percentage as total cotton imports.

Japanese Exports of Silk

	Exports to U. S.		Total exports	
	(In million Yen)	(In thousand quintals)	(In million Yen)	(In thousand quintals)
1936	334	427	393	503
1937	325	380	407	473
1938	298	393	364	477
1938 (4 mos.)	76	102	99	131
1939 (4 mos.)	82	86	98	103

Japanese Imports of Cotton

	Imports from U. S.		Total imports	
	(In million yen)	(In million quintals)	(In million yen)	(In million quintals)
1936	372	5.9	850	15.2
1937	306	4.2	851	13.8
1938	166	3.2	437	9.4
1938 (4 mos.)	55	1.0	128	2.6
1939 (4 mos.)	61	1.2	140	3.1

United States Trade with Japan

	Exports to Japan	Imports from Japan	Excess of Exports or Imports (-)
	(In millions of dollars)		
1936	204.3	171.7	32.6
1937	288.3	204.2	84.4
1938	239.6	126.8	112.8
1938 (4 mos.)	91.6	40.8	50.8
1939 (4 mos.)	74.9	39.5	35.4

JAPAN CONFIDENT OF BALKING BRITAIN

Tokyo Doubts United States
Will Take Part in Measures
to End Tientsin Blockade

By HUGH BYAS

Wireless to The New York Times.

TOKYO, June 17.—An item that does not figure in diplomatic utterances here but plays a potent part in motives is prestige. The Japanese are confident that as a result of their challenge the British Empire's prestige in Asia will be outshone by Japan's.

Even a decade ago such confidence could not have been mustered. It is a result of the success of Japan's continental policy since she challenged the world over Manchuria in 1932.

When the Japanese talk of building a "new China" it is a new Japan, filled with self-confidence, that speaks. Almost every act of Japan's policy since 1931 has been opposed by a Western power intrinsically stronger than Japan, but none has carried its opposition beyond diplomatic protests.

Intoxicated by this record the Japanese press and public are unable to conceive failure at Tientsin. A considerable reading of the Japanese press has shown this confidence is based on two quite practical opinions:

First, while Britain is able to inflict heavy economic damage on Japan, economic sanctions are double-edged, so Britain must think twice before beginning.

Second, Britain cannot send a fleet to Singapore because conditions in Europe tie her hands and therefore she does not have power to challenge Japan in the Far East.

It is being assumed, possibly prematurely, that Britain is diplomatically isolated. Press dispatches from Tientsin declare the French there are in "manifest cordial sympathy" with Japan's blockade. The Japanese will not be greatly influenced by French action in any event but they are being told that the United States, if not exactly sympathetic, is determined not to be entangled. It is clear, says Domei, the Japanese agency, that Washington will not participate in retaliatory measures.

Italy's support is assured, Domei asserts, if an international conference is held.

To complete the picture of the impending triumph it is added that the British Government is divided between two policies, one represented by Sir Archibald Clark Kerr, British Ambassador to China, who favors strong measures in support of China, the other by Sir Robert Craigie, the Ambassador to Japan, who, according to the Japanese version, recognizes Japan's power and advises cooperation.

Japan's Price for Accord

TOKYO, June 17 (AP).—The commander of Japan's North China army was quoted in Tientsin dispatches tonight as declaring that Britain's unconditional abandonment of her support of General Chiang Kai-shek's Chinese government was Japan's price for settlement of the Tientsin crisis.

According to Domei, Japanese news agency, the commander told Japanese correspondents he had repelled efforts of British authorities to interview him since the blockade began. These efforts had been made both directly and through third powers, he said, "but I re-

Continued on Page Twenty-five

JAPAN CONFIDENT OF BALKING BRITAIN

Continued From Page One

jected them all because I could see no possible value in them."

"This is no mere local issue," he continued. "It will never be settled until Britain drops her pro-Chiang policy."

[The commander's name was withheld in the dispatches, but General Gen Sugiyama, former Minister of War, was named commander in North China last December and no replacement has been announced. The Tokyo Cabinet yesterday approved the stand of the North China commander on the blockade of the British and French Concessions in Tientsin, in effect vesting him with full powers to handle the crisis.]

The commander said delivery of the four Chinese held by the British would not be enough now to settle the dispute. Rejection of a Japanese demand for surrender of the four, charged with killing a local official, brought on the blockade.

"The crux of the question is

whether Britain is ready to make unqualified revision of her China policy," the commander said.

Domei quoted the commander as saying Britain would need cooperation of the United States to make any economic reprisals against Japan effective but that such cooperation was "extremely doubtful."

In Tokyo the British Ambassador, Sir Robert Craigie, called on the American Chargé d'Affaires, Eugene H. Dooman, to discuss the Tientsin situation, but the talk was described as merely an exchange of information. There was no indication that any American action was imminent and talk of American mediation at Tientsin, heard yesterday in official quarters, subsided.

Experienced observers believed a complete British-Japanese deadlock had been reached in which neither could back down without tremendous loss of prestige. "Face" being of such vital importance in the Orient, it was believed that a retreat by either side would have far-reaching effects on the Japanese-Chinese war and the course of Far Eastern events.

New Terms for Kulangsu

Wireless to THE NEW YORK TIMES.

HONG KONG, June 17.—Goro Uchida, the Japanese Consul Gen-

eral at Kulangsu, the international settlement off Amoy, has arrived at Taihoku, Formosa, en route to Amoy with fresh instructions from Tokyo for settlement of the dispute with the foreign area, which is facing a food shortage.

He indicated the Japanese attitude was hardening, but there is no sign that the settlement is prepared to subordinate itself to Japanese authority.

Kulangsu Still Blockaded

SHANGHAI, June 17 (AP).—Dispatches from Amoy, South China, report that Japan is maintaining a

strict blockade of Amoy's international zone on Kulangsu Island, with passage permitted only to junks that fly special Japanese flags and are registered with Amoy naval headquarters. Chinese junk owners hesitate to display the flag for fear of reprisals on reaching Chinese-controlled territory, where they obtain food supplies.

Previously food reached Kulangsu from Amoy, but this has been stopped. Food supplies awaiting distribution on Kulangsu jetties have been sent back. The price of necessities has risen 50 per cent in Kulangsu.

PSF,
Morgenthau
June 23, 1939

Memorandum for the President
From Leon Henderson

Henderson's slant on
Subject--Hanes report to Morgenthau-June 13, 1939 on Tax Bill.
Attached is the memo to the President from Morgenthau
and the report from Hanes.

See:Leon Henderson's folder-Drawer 2-1939



THE SECRETARY OF THE TREASURY
WASHINGTON

PSF
Morg
J. M. Smith

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,

J. M. Smith

The President,
The White House.

Enclosures



OTTAWA, June 5, 1959.

~~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

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.

8.

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 dark ink, appearing to be "J. Edgar Hoover", written in a cursive style.

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

~~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, 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, Ontario, Canada.

HDW:BB:meu
6/26/39



THE SECRETARY OF THE TREASURY
WASHINGTON

July 10, 1939

My dear Mr. President:

Now that your Self-liquidating Program has been launched on the Hill, it seems to me that it is equally important to get everybody behind it at this end of Pennsylvania Avenue.

Therefore, I am taking the liberty of making the following suggestion: that you call together on Tuesday afternoon, the way you used to, your Cabinet plus the heads of all the various Independent Agencies and on this occasion give the men who are responsible for making this program work an opportunity to explain it. Then if you personally will give half as good a sales talk to this group as you did last week to a certain gentleman, I have no doubt that this program will get the support that it needs from this end of Pennsylvania Avenue.

Yours sincerely,

Henry

The President,
The White House.

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THE SECRETARY OF THE TREASURY
WASHINGTON

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MEMORANDUM TO THE PRESIDENT.

July 19, 1939.

You will remember that on June 7th you transmitted a letter from the Secretary of the Interior, who had brought to your attention one he had received from Mr. S. H. White of London.

In this connection I think you will be interested in seeing the enclosed memorandum from Mr. D. W. Bell.

J.M.H.



TREASURY DEPARTMENT

WASHINGTON

July 14, 1939.

TO THE SECRETARY:

The attached letter dated May 15, 1939, from a Mr. S. H. White of London, England, addressed to Mr. Ickes, and Mr. Ickes' letter of May 29, 1939, transmitting it to the President, were sent to you by the President on June 7, at which time he asked you to speak to him about the suggestion made in Mr. White's letter.

It does not seem to me that this is a sound suggestion. I certainly do not believe that we should tie our currency system or any part of it to foreign debts.

The net effect of this suggestion would be to convert the British debt to the United States which is now represented by long-term obligations on account of which payments are now in default, into a fiat currency. The ultimate payment of this and other foreign debts depends upon the ability of the debtors to transfer to the creditors, directly or indirectly, goods, services, or gold in payment of annual service charges over a period of years. The redemption of this proposed currency would, therefore, rest upon the ability of the debtor nation to redeem definite annual amounts of the proposed currency in goods, services, or gold.

The amount of currency now in circulation in the United States is approximately seven billion dollars. The amount of the British debt to the United States is approximately five billion dollars,

including accrued and unpaid interest. If this suggestion to issue currency against the British debt were adopted, the outstanding currency of the United States would be increased by five billion dollars, or to \$12,000,000,000, which, under present conditions, is certainly more currency than is needed to meet the demands of trade and commerce. In view of the flexibility of our currency system, which expands or contracts in accordance with the demands of trade and business, the issuance of this additional currency could have but one of two effects. Either it would alarm our people concerning our monetary system and would cause great hoarding or a run to commodities and other property, or the currency would be returned to the Federal Reserve Banks, which would make those banks carry the foreign debts to the amount of the currency so returned, without any corresponding return in the form of interest. If this is sound then we should pay off all our public debt through the issuance of currency.

I do not believe that any such settlement as proposed by Mr. White would be, as he contends, "of vast moral and material benefit to both countries and would enhance the value of contractual obligations between all peace seeking and democratic countries." It might be just the opposite. I recommend that the letters be filed without any further action.

Enclosure.

sub



THE SECRETARY OF THE INTERIOR
WASHINGTON

May 29, 1939.

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My dear Mr. President:

I showed you this letter on Thursday and you expressed the desire to have it. I have acknowledged it and am enclosing it for whatever use you may care to make of it.

Sincerely yours,

Harold I. Peters

Secretary of the Interior.

The President,
The White House.

Enc.

787, IBEX HOUSE,
MINORIES, LONDON.

15TH MAY, 1939

HON. HAROLD L. ICKES, ESQ.,
SECRETARY OF THE INTERIOR,
WASHINGTON, D.C.,

DEAR SIR,

MAY I BRING TO YOUR NOTICE THE FOLLOWING SUGGESTIONS
SENT TO MEMBERS OF THE BRITISH GOVERNMENT:

"THE FOLLOWING PROPOSAL SUGGESTING, IN PRINCIPLE, A
SOLUTION OF AN IMPORTANT MATTER AFFECTING BOTH THE UNITED
STATES AND THE UNITED KINGDOM, FROM THE VIEWPOINT OF AN
AMERICAN CITIZEN WOULD BE MOST OPPORTUNE IF IT IS PUT
FORWARD AT THIS TIME.

THE CONGRESS OF THE UNITED STATES COULD AUTHORISE
THE ISSUANCE OF FEDERAL RESERVE NOTES FOR THE FULL AMOUNT
OF THE WAR DEBT, SECURED BY AN EIGHTY YEARS NON-INTEREST
BEARING UNITED KINGDOM BOND ISSUE TO BE AMORTIZED IN THE
FOLLOWING MANNER :-

$\frac{1}{2}$ OF 1% ANNUALLY FOR 10 YEARS,
 $\frac{1}{4}$ OF 1% ANNUALLY FOR THE NEXT 10 YEARS,
1% ANNUALLY FOR THE NEXT 10 YEARS,
1 $\frac{1}{2}$ % ANNUALLY FOR THE NEXT 10 YEARS,
1 $\frac{1}{2}$ % ANNUALLY FOR THE NEXT 30 YEARS AND
2% ANNUALLY FOR THE LAST 10 YEARS.

UNITED STATES CURRENCY ISSUED AGAINST THESE BONDS
WOULD MATERIALLY REDUCE TAXES AND THE DEFICIT THERE; THE
CURRENCY WOULD BE ANNUALLY CANCELLED AS AMORTIZATION PAY-
MENTS ARE MADE.

IN THESE ANXIOUS TIMES THIS SETTLEMENT WOULD BE OF
VAST MORAL AND MATERIAL BENEFIT TO BOTH COUNTRIES AND
WOULD ENHANCE THE VALUE OF CONTRACTUAL OBLIGATIONS BETWEEN
ALL PEACE SEEKING AND DEMOCRATIC COUNTRIES".

YOURS FAITHFULLY,

S. White



THE SECRETARY OF THE TREASURY
WASHINGTON

July 26, 1939

My dear Mr. President:

I thought you would be interested in knowing that I appeared, this afternoon, before the House Democratic Steering Committee. The following are the members of the Steering Committee:

James G. Scrugham, Nevada
Chairman

William I. Sirovich, New York
Secretary

Harry P. Beam, Illinois

Clarence Cannon, Missouri

Jere Cooper, Tennessee

Robert Crosser, Ohio

Wall Doxey, Mississippi

Charles I. Faddis, Penna.

Jed Johnson, Oklahoma

Marvin Jones, Texas

Charles Kramer, California

William H. Larrabee, Indiana

John W. McCormack, Mass.

Howard W. Smith, Virginia

Malcolm C. Tarver, Georgia

Ex Officio Members:

William B. Bankhead, Ala.
Speaker

Sam Rayburn, Texas
Floor Leader

John W. McCormack, Mass.
Chairman, Caucus

Robert L. Doughton, No. Car.
Chairman,

Ways and Means Committee

Edward T. Taylor, Colorado
Chairman

Appropriation Committee

A. J. Sabath, Illinois
Chairman,

Rules Committee

Patrick J. Boland, Penna.
Whip

The purpose of calling me before this group was to try to get me to approve of the so-called Starnes' Public Works Bill which would in effect provide \$350,000,000 grants for public works.

I concentrated my effort in talking in favor of your Self-liquidating Public Works Program.

On leaving, after quite a lengthy session, several

-2-

members were kind enough to say that I won over the majority of those present to your program.

Yours sincerely,

J. M. Smith

The President,
The White House.

THE SECRETARY OF THE TREASURY
WASHINGTON

July 27, 1939

My dear Mr. President:

I thought you would be interested in reading the inclosed clipping from today's Wall Street Journal.

Yours sincerely,

W. M. Guthrie

The President,
The White House.

JUL 27 1939

Surplus Cash Penalty**Treasury Will Enforce Regulation to Drive Earnings Into Dividends****Shows Administration Determined to Block Accumulations, Despite Surtax Defeat****Wants 70% of Income Moved**

WASHINGTON—The Roosevelt administration, having lost the undistributed profits tax, is still at war upon what it regards as unreasonable cash accumulations by corporations.

When the profits tax was repealed, President Roosevelt served notice that he regarded many such accumulations as an avenue of tax escape, which he intended to close.

Yesterday the Treasury issued regulations to implement that policy. The regulations indicate an intention of close enforcement of section 102 of the Revenue Act.

Section 102 imposes penalty taxes for "unreasonable accumulation of earnings or profits to avoid surtax." The penalty taxes are 25% on the first \$100,000 of undistributed income and 35% on undistributed income in excess of \$100,000.

The Regulations

Indicative of the scope of the new regulations was the Treasury's instructions to its staff that examining officials shall recommend application or non-application of the penalty tax section in all cases where a corporation has distributed less than 70% of its annual earnings as dividends. The rules pointed out, however, that an even higher distribution of profits did not entitle a company to automatic exemption if its report showed "unreasonable" accumulations of cash or quick assets.

The instructions drawn up by the bureau and approved by Secretary Morgenthau declared that the following classes of corporations "will be given close attention to determine whether section 102 is applicable":

1. Corporations which have not distributed at least 70% of their earnings as taxable dividends.

2. Corporations which have invested earnings in securities or other properties unrelated to their normal business activities.

3. Corporations which have advanced sums to officers or shareholders in the form of loans out of undistributed profits or surplus from which taxable dividends might have been declared.

4. Corporations, a majority of whose stocks is held by a family group or other small group of individuals, or by a trust or trusts for the benefit of such groups.

5. Corporations the distributions of which, while exceeding 70% of their earnings, appear to be "inadequate when considered in connection with the nature of the business or the financial position of the corporation" or corporations with "accumulations of cash or other quick assets which appear to be beyond the reasonable needs of the business."

Average "Standard"

It was stated at the Treasury that the figure of 70% distribution of earnings in dividends which is set up as a standard in the regulations was selected because it was found to approximate the average dividend distribution of all corporations.

Section 102 has been in the revenue act for years but Treasury found enforcement difficult. The undistributed profits tax was a stronger weapon than section 102 to force distribution. The profits tax was largely repealed in 1938 and completely in 1939. In 1938 section 102 was strengthened in such a way as

Please turn to page 2, column 2

1	MACHINERY AND TOOLS
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19	Most Commodities Higher
19	Wheat Markets Extend Recovery

Surplus Cash Penalty

Continued from First Page

to put burden of proof on a corporation that an accumulation was not unreasonable.

The section of the law added in 1938 stated that "the fact that the earnings or profits of a corporation are permitted to accumulate beyond the reasonable needs of the business shall be determinative of the purpose to avoid surtax upon shareholders unless the corporation by the clear preponderance of the evidence shall prove to the contrary."

In the case of holding or investment companies, moreover, the law specifies a direct presumption that they were formed or operate to avoid surtax.

Section 102 More Limited

While the existing language of the statute, if held constitutional, would greatly broaden the Treasury's power to proceed against alleged violations of the statute, the applicability of section 102 is clearly much more limited than the undistributed profits surtax which applied to virtually all corporations.

It can be stated definitely, moreover, that Treasury officials do not view section 102 as a substitute means of enforcing maximum dividend distribution by corporations as a whole—now that the undistributed profits tax no longer applies—but rather as an implement against corporations which apparently withhold dividends for tax purposes.

Treasury officials stressed that classifications set up yesterday in the new regulations did not mean that all or any large proportion of corporations in these categories would be subject to the penalty levied under section 102. The classifications, it was asserted, were merely a guide to internal revenue field agents as to the types of corporations whose tax returns must be examined for possible evidence of violation of the section.

The classifications are, nevertheless, sufficiently broad to embrace a wide section of corporations and were interpreted here as pointing to an intensive effort to prevent large surplus accumulations by corporations in cases where such accumulations are not clearly needed for business purposes.

The regulations provide that on the first four of the five classes of corporations listed above, the internal revenue examining officers' report in every instance shall contain a specific recommendation for the application or non-application of section 102. The instructions also provide that each internal revenue agent and field division of the bureau's technical staff shall designate an employee to pass personally upon the recommendations of the examining officers.

BSF
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August 4, 1939

President sends to Bullitt for his information and return THE COMMENT prepared by the following: Feis, Morgenthau, Lauchlin Currie on memorandum from a French Banker friend of Daladier which Ambassador Bullitt had previously sent to the President.

See: Bullitt folder-Drawer 1-1939



HEADQUARTERS

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personal*

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

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TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

1 September, 1939.

From: Secretary of the Treasury Morgenthau.
To : President of the United States.

Depending upon weather, I expect to arrive in United States either Sunday or Monday evening. I would appreciate knowing your plans as I would very much like to see you at your earliest convenience and amongst other things discuss next Tuesday's financing. So far I have not disgraced you as a sailor, but I am making no promises.

Best regards,

Morgenthau



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personal*

ADDRESS THE COMMANDANT, U. S. COAST GUARD
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TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

1 September 1939.

THE WHITE HOUSE
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From: Secretary of the Treasury.
To : President of the United States.

Expect to berth 150 miles off St. Johns, Newfound-
land, G.M.T. noon, Saturday. Weather conditions permitting,
Coast Guard plane will pick me up at sea and fly me via Halifax
and Boston to Washington. Am in constant communication with
the Treasury.

Best regards,

Morgenthau

TELEGRAM

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The White House
Washington

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St Johns N F 330pm Sept 3 1939

The President

The White House

Arrived St Johns will reach Washington some time tonight ready
and anxious to reassume my duties best regards.

Morgenthau

355pmd