

DIARY

Book 180

April 17 - April 21, 1939

- A -

	Book	Page
American Bankers Association		
See Banking Legislation		
Annenberg, Moe		
See Tax Evasion		
Appointments and Resignations		
Gibbons, Stephen B:		
Jesse Jones tells HMJr Walter Cummings has asked him		
to locate better-paying job - 4/21/39.....	180	403
HMJr consults Crowley - 4/21/39.....		407
Appointments and Resignations		
General Counsel:		
Paul, Randolph: Magill tells HMJr availability for job		
has been rumored - 4/20/39.....		317
Automobile Industry		
See Business Conditions		

- B -

Bab, Herbert J. G. (King's College - Cambridge, England)		
White comment on article entitled, "Outline of a		
sound economic program for American democracy securing		
thirty years of full employment" - 4/17/39.....		86
Banking Legislation		
American Bankers Association: Committee confers with HMJr;		
fear hearings on Brown bill at this time will result		
in general unsettled discussion - 4/18/39.....		191
Belgium		
See War Conditions		
Brown bill		
See Banking Legislation		
Bullitt, William C.		
Robinson, Beverly: HMJr tells Bullitt no Treasury job		
available - 4/17/39.....		66
Glass, Carter: Bullitt asks HMJr to search Treasury files		
for telegram to Wilson prior to signing of Versailles		
Treaty, stating that "he had that day promised to give		
French and British everything desired in way of loans		
and credits for next four months and could not break his		
word" - 4/17/39.....		67
Business Conditions		
Automobile Industry: Seltzer reports on - 4/17/39.....		48,138
a) Knudsen's request for Treasury endorsement of		
Seltzer discussed at 9:30 meeting - 4/17/39.....		116
Haas memorandum on situation for week ending - 4/17/39...		55

- C -

Canada		
See War Conditions		
China		
Bullitt approached by Wellington Koo (Chinese Ambassador in		
Paris) concerning financial aid to China - 4/18/39.....		135

- C -

Coast Guard
 War Conditions
 Customs Service
 See War Conditions

Book Page

- F -

Financing, Government
 "Government corporations and credit agencies - their past,
 present, and future": Haas memorandum - 4/17/39..... 180 78
 Finland
 See War Conditions
 France
 See War Conditions: French Plane Mission

- G -

General Counsel
 See Appointments and Resignations
 Germany
 See War Conditions
 Gibbons, Stephen B.
 See Appointments and Resignations
 Glass, Carter
 See Bullitt, William C.
 Government Bond, Security, and Commodity Markets
 See War Conditions
 Great Britain
 See War Conditions
 Gray, Carl (former President, Union Pacific Railway)
 See War Conditions: Railroads

- H -

Hansen, Alvin H.
 Reports on uncertainty of ability to act as Treasury
 consultant - 4/18/39..... 143
 Harris, Basil
 Slight difficulty with Customs discussed at 9:30 meeting -
 4/17/39..... 118

- I -

Italy
 See War Conditions

- L -

	Book	Page
Lending Agencies		
Lindsay Warren (Congressman, North Carolina) expresses concern to Hanes that all lending agencies may be placed under Commerce Department - 4/19/39.....	160	242

- M -

Missouri, State of		
Tax Evasion: Milligan, United States Attorney, Kansas City, confers with Irey and Graves - 4/20/39.....		320
Munitions		
See War Conditions		

- N -

Nicaragua		
Welles asks for preliminary conference between State and Treasury in anticipation of President's official visit - 4/19/39.....		244
Navy Department		
Harris memorandum: consults Navy, finds no coordination of interests; goes to New York City to find out how Shipping Control Committee was set up and how General Operating Committee (which took care of inland railroad transportation) functioned during World War - 4/20/39.....		342

- P -

Paul, Randolph		
See Appointments and Resignations		

- R -

Railroad Administration		
See War Conditions		
Railroads (inland transportation)		
See Harris memorandum - 4/20/39.....		342
Revenue Revision		
Blough-Shoup draft, No. 1, of tax statement - 4/17/39.....		1
a) Discussed with Bailie		
b) Magill's letter urging that statement be made and that it be "cast in terms of broad fiscal policies"....		16
Blough draft - 4/19/39.....		260
Robinson, Beverly		
See Bullitt, William C.		

- S -

Security Markets, Protection of		
See War Conditions		
Spain		
Cochran reports Spanish Government wants cotton credit financed by Export-Import Bank - 4/18/39.....		127, 218
a) Cochran informed matter will be considered only upon regular presentation - 4/19/39.....		319

- S -

	Book	Page
Stabilization Fund		
HMJr and Rayburn discuss pending bill - 4/18/39.....	180	195
HMJr and Bankhead discuss pending bill - 4/18/39.....		198
Statements by HMJr		
Blough-Shoup draft, Number One, of tax statement to be made by HMJr before Committee on Ways and Means - 4/17/39.....		1
a) Discussed with Bailie		
b) Magill's letter urging that statement be made and that it be "cast in terms of broad fiscal policies".....		16
Blough draft - 4/19/39.....		260

- T -

Tax Evasion		
Conference; present: HMJr, Hanes, McReynolds, Foley, Irey, and Helvering - 4/18/39.....		168
a) Lansing, Michigan; Harrisburg, Pennsylvania; Atlantic City, New Jersey; Nashville, Tennessee, et cetera, to be investigated; narcotics may also be involved		
Annenberg, Moe: Progress of case discussed in conference with Foley and Helvering - 4/18/39.....		174
Missouri; State of: Milligan, United States Attorney, Kansas City, confers with Irey and Graves - 4/20/39		320
Taxation		
See Revenue Revision		
Treasury Bulletin		
Bell asks for Congressional authorization; Gaston reports Treasury has authorization to charge for it which implies authorization to issue - 4/18/39.....		166

- V -

Viner, Jacob		
Hutchins (President, University of Chicago) approves assigning Viner to Treasury in event of war - 4/19/39		282

- W -

War Conditions		
Belgium: Cochran reports Government is in full agreement regarding consultation provided consideration is given to the special position of their country - 4/17/39....		41
Canada: Butterworth reports Osborne (Bank of England) has sailed to arrange with Canadian monetary authorities concerted measures in event of war - 4/18/39.....		124
Coast Guard: Harris reports on precautions taken - 4/19/39.....		225

	Book	Page
War Conditions - (Continued)		
Customs Service: Special functions in event of war: Graves' memorandum - 4/19/39.....	180	276
Finland: Minister asks informally concerning loan in case of war - 4/19/39.....		243
French Plane Mission: Glenn Martin, Baltimore, reports strike situation may delay delivery of planes - 4/18/39.....		187
a) HMJr asks Secretary Perkins to investigate - 4/19/39.....		292
Germany: FDR asks State and Treasury to study the stopping of draft payments, most of which are sent by immigrant families in United States - 4/19/39.....		285
Great Britain: Financial measures to be put into operation a) Bewley given opportunity to review exchange of cables - 4/17/39.....		17
Jesse Jones consulted about proposed loans against foreign-held American securities; agrees "Reconstruction Finance Corporation has power to make loans to a corporation organized in this country and acting on behalf of the British Government against British-owned American securities requisitioned from British residents" - 4/17/39.....		33
a) Justice asked for opinion as to legality - 4/18/39.....		122
Butterworth reports satisfaction of British Treasury with progress in negotiations - 4/17/39.....		34
Butterworth reports British Treasury policy (although not stated in documentary form) will be to permit foreign balances, et cetera, to be withdrawn in orderly fashion and to extent that circumstances will permit - 4/19/39.....		237
Justice confers in informal opinion of Treasury counsel that Reconstruction Finance Corporation can make loans to a corporation organized in United States *****; such loans to be secured by British-owned American securities ***** - 4/20/39.....		334
(Actual opinion: page 345)		
a) Postponement of cable so that neutrality legislation may not be prejudiced, as requested by Hull, discussed by Treasury group - 4/20/39.....		335, 339, 340
Italy: FDR asks State and Treasury to study the stopping of draft payments, most of which are sent by immigrant families in United States - 4/19/39.....		285
Munitions: HMJr again asks Attorney General for opinion - 4/19/39.....		203, 239
Railroad Administration:		
HMJr asks that study be made of set-up as organized during last war - 4/20/39.....		336
Memorandum explaining legal set-up - 4/21/39.....		357
Railroads:		
HMJr plans to consult Carl Gray (former President, Union Pacific Railway) and Daniel Willard (President, Baltimore and Ohio Railroad) - 4/21/39.....		392

	Book	Page
War Conditions - (Continued)		
Security Markets, Protection of:		
FDR confers with HMJr, Wallace, Jones, Frank, Eccles, and Hanes - 4/18/39.....	180	205
a) Foley memorandum: "Authority to close banks and security exchanges upon the outbreak of war abroad" - 4/18/39.....		207
Murphy reports on legality of Treasury proposed arrangement for protection of Government bond, security, and commodity markets - 4/19/39.....		298
War Risk Insurance: D. W. Bell reports on - 4/17/39....		18
Bell discusses at 9:30 meeting - 4/17/39.....		110
War Loan Staff, Treasury Department		
Bell memorandum - 4/20/39.....		328
War Risk Insurance		
See War Conditions		
Willard, Daniel (President, Baltimore and Ohio Railroad)		
See War Conditions: Railroads		

Discussed with E. Butler Blough
Monday April 17.
(7-11-38 Blough - Rhoads draft) 1

When I appeared before this Committee on March 24th, I said that the Treasury would soon be ready to submit its recommendations for changes in the tax system. Your Chairman, Representative Doughton, together with Senator Harrison, have expressed a desire to receive the recommendations for action at this session.

In my statement today, I desire to place chief emphasis on the effects of fiscal policy on business. The healthy functioning of the country as a whole depends in the last analysis upon the healthy functioning of the wage-earners and business's of the country. We must rely upon business to provide employment for at least the great bulk of our growing population of men ^{and women} of working age. At the present time we are still in a period of incomplete recovery with a large volume of unemployment. To get complete recovery the businessmen who pull the levers which put our productive resources into operation must be willing ^{and able} to go ahead, and especially to invest in the future of American productive enterprises. The basic need of today, as it has been for some time, is to foster the full application of the driving force of private capital.

In view of this situation, it is clearly in the public interest to seek out and remedy those aspects of fiscal policy

- 2 -

which may be placing obstacles in the way of complete business recovery, without losing sight, however, of the underlying problem of tax justice that is so important to long-run business prosperity and public welfare.

It seems to me that the chief fiscal obstacle to the willingness of businessmen to make the long-time commitments that are necessarily involved in investment is uncertainty as to the general fiscal policy of the Government. Almost everyone believes that the budget must be balanced eventually, but there is no firm indication of when or how it is to be balanced. Businessmen know that there will probably have to be higher tax rates in the future, while they are uncertain when they will be imposed or where they will fall. Furthermore, when there is no well-defined policy to set limits to expenditures, fears develop that they will get out of control and become larger than anyone wants to see them, with perhaps disastrous financial results.

My principal recommendation, therefore, and one which I shall discuss at some length, is that so far as possible a definite fiscal policy as to revenues and expenditures be adopted for the next five years, in order to reduce the uncertainties which have operated to paralyze business initiative.

In connection with this recommendation, I should like to discuss the function and application of the equalizing of revenues

- 3 -

and expenditures, which is referred to as balancing the budget. Both the revenue side and the expenditures side are important; neither can be planned without careful consideration of the other. There is nothing inviolable or sacred about the equalizing of revenues and expenditures; it must be judged by what it accomplishes. Its primary value derives from the necessity it raises of weighing the benefits of spending against the sacrifice and cost of paying the bill, since, under a properly operated budget system, full provision must be made for financing expenditures at the time they are authorized.

A good deal of misunderstanding of our Federal budget arises in connection with expenditures for long-term public improvements. Expenditures for a Panama Canal or a Boulder Dam are certainly not in the same class as expenditures for current operations. It has long been recognized in State and local finance that expenditures for socially productive public improvements can properly be financed by borrowing, and such governments customarily separate the capital budget from the current budget. I do not mean to imply that I approve the financing of capital expenditures by borrowing as a generally preferred policy, or that there are no necessary and proper limits to public capital expenditures. It should be clear, however, that investments of government, like investments of private individuals, are not one of the items to which the standard of balanced revenues and expenditures need be applied.

A policy of balanced budgets requires that over the years the aggregate expenditures must be met by a corresponding volume of taxes. There is, to be sure, no inherent reason why taxes must exactly balance expenditures each year any more than each month or each week. In periods of temporary depression it is inevitable that there will be deficits. Frequently revenues decline and expenditures increase too rapidly to make possible immediate achievement of a balance by tax increases. Measures to achieve balance should become effective gradually with no sudden change. Furthermore, in such times it is justifiable to permit a fiscal deficit to appear for the sake of the stimulus which new spending may give to business activity. A logical and necessary counterpart of this practice is that in years of very active business more taxes should be collected than are necessary to meet current expenditures, so that the Government is prepared for the strain of new emergencies and is not burdened by a high aggregate of taxation for the servicing of debts.

Fiscal deficits are thus defensible only if they are not continuous and if there are intervening periods of substantial fiscal surpluses. It is easy to exaggerate, moreover, the stimulating effect of a fiscal deficit on business activity. The impact of the flow of Federal funds is encouraging to

- 5 -

business activity, but businessmen give consideration also to the inevitability in the future of higher taxes designed to liquidate these deficits, and to the danger of long-continued, increasing expenditures. To what extent the stimulus derived from the expenditure is offset by the depressive influences of anticipating the future, I do not know; but I am convinced that the general prospect of indefinitely continuing Federal deficits and an indefinitely growing Federal debt is one which on the whole leads businessmen to keep our industrial machine from making investment commitments.

I must, therefore, earnestly call to your attention the desirability of adopting a definite financial plan looking forward to an equalization of revenues and expenditures in an early year and to an excess of revenues available for debt retirement when business reaches a period of high activity. It is clear that the budget cannot be balanced this year or next. The sudden reduction of expenditures or increase in revenues necessary to immediate balancing of the budget would have very undesirable effects even if it were possible. If we are not to drift planlessly, however, it is necessary that Congress point the way with a well-developed, resolutely adopted fiscal plan which would look forward to reaching a point of approximate balance within the next three or five years and to

- 6 -

creating a sizable surplus when business reaches a point of substantially full recovery.

Such a fiscal plan will of necessity call either for lower expenditures or higher taxes. The existing tax system is a powerful one, having been greatly strengthened by the tax laws passed in 1932 and subsequent years. In years of high business activity, the revenue under the present system may rise sufficiently to balance the present level of expenditures. There is no reasonable prospect, however, that the present tax system will produce enough revenue to equal expenditures at the present level over a period of years, good and bad.

The adoption of a financial plan such as I have suggested is not an easy matter. The crux of our expenditures problem lies in relief and armament expenditures which in 1938 accounted for approximately \$ or percent of the total expenditures. There is little hope for a reduction of armament expenditures in the near future. All major European countries are on a deficit financing basis and all are devoting a much larger proportion of their expenditures to armaments than we are. We may be faced at any moment with the necessity of joining the armaments race. Likewise, the minimum needs for relief are so dependant on business conditions that they cannot be anticipated with any high degree of accuracy.

On the revenue side, we cannot reasonably hope to apply substantially higher tax rates this year in view of business conditions.

Nevertheless, it is very important to do everything possible to plan the expenditures and revenues in the direction of a balanced budget to be achieved within the next three or five years. It is highly desirable that the expenditures program adopted by Congress be limited to the dimensions which can be readily financed over the years by the present tax structure or by such revised tax structure as you are prepared to enact into law.

It is difficult to devise a program suitable for present conditions. The time has come, however, to face the problem. It is important that every proposed expenditure be scrutinized with the general fiscal problem in mind. If, when the expenditures plan is complete, the present tax system is inadequate to produce a fully balanced budget over the years, new revenue should be provided. It does not seem desirable that any increases in tax rates should become effective immediately. I therefore suggest that there be placed on the statute books this year to become effective next year, sufficient tax levies to meet anticipated expenditures so that barring unforeseen situations a balance may be achieved over the next three to five

years. It would be understood that if business conditions changed for the worse, the imposition of the increased taxes should be reconsidered next year before any collections were made.

Another aspect of general fiscal policy that is of considerable importance to businessmen contemplating investment is the problem of Federal-State fiscal relations. More than half the national total ~~of~~ tax revenues are received by State and local governments. There is no unity or ordered relationship between the Federal fiscal system and the State and local fiscal systems. Federal expenditures to care for need and stimulate business in depression may have to be larger than would otherwise be necessary because State and local governments are reducing expenditures and paying off debts. Overlapping taxes have grown increasingly numerous as both Federal and State governments reached out for new revenue sources. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results of our anarchic fiscal relations have become increasingly unsatisfactory to the governments and increasingly irritating to taxpayers. The complexity and confusion of tax laws and uncertainty as to future fiscal relationships have in all probability acted as deterrents to businessmen contemplating expansion or the establishment of new businesses.

There has been much consideration of this problem but little in the way of concrete accomplishment. The most promising means

- 9 -

I know of to achieve greater understanding of the problem and action on it is for Congress to enact legislation creating a small, temporary national commission. Such a commission should be made up of men having the highest possible level of ability and public confidence and representing not the Federal, State and local governments as such, but the national interest at large. Their function would be to study intergovernmental fiscal policy in its many ramifications and report to Congress, perhaps in two years. I suggest to Congress the creation of such a commission at this session.

I pass now from the general fiscal policy problem to the tax problem. Continuing the emphasis of the preceding section, we may inquire into what ways the tax system may be revised to help open the door to business enterprise without violating any fundamental tenets for a sound tax system. I would like to emphasize four general ways in which the tax system might be made more attractive to enterprise.

(1) The first way is to make the chances for reward in hazardous undertakings more attractive than they now are, compared to safe investments. Our present tax system, especially in the income tax, contains features which operate against hazardous investments. There are a number of these which might well be altered without decreasing the equity of the system

and, indeed, with some resulting increase in equity. I shall not discuss these features in detail but shall only indicate some of the outstanding possibilities. The issuance of tax-exempt securities might be eliminated. Allowance might be made for business losses to be carried forward and offset against income in future years. Corporations might be allowed to deduct capital losses from their ordinary income. Somewhat greater deduction of capital losses, perhaps in the carry-forward provisions, might be allowed individuals. Dividends received by individuals might be made exempt from the normal tax. The top rates in the individual surtax schedule might be reduced. The tax studies that we have carried on indicate that all of these changes would operate in the direction of removing penalties that are imposed on investment in new and hazardous enterprise.

(2) A second way in which to make our tax laws less of an obstacle to investment and business expansion is to avoid heavy taxation on a business that is suffering loss or is trying to make good the income drain caused by recent losses. Some examples of changes which would operate in this direction are:

- 11 -

elimination of the capital stock tax; allowance of a business loss carryover to future years; increase in the deductibility of capital losses by corporations and of capital losses in general.

(3) A third type of change designed to increase the relative attractiveness of more hazardous investments is to remove impediments to the issuance of capital stock as compared to the issuance of bonds. New enterprise typically finds it more difficult to borrow than to sell stock and hence is discouraged by the discrimination in our tax laws against equity capital. Among changes which would tend to eliminate this discrimination are the elimination of the capital stock and excess profits taxes and the allowance of a substantial dividend credit to individuals.

(4) Finally, investment would be protected against discouragement if increases in revenue were to come as far as possible from nonbusiness taxes and if nonbusiness taxes were selected so as to place the least check on consumer spending without discouraging investment. A change which would increase the revenue for the future in harmony with this principle and would also substantially increase the fairness of the tax system is to coordinate the estate and gift taxes into

- 12 -

one tax, which might then be imposed at higher rates. Another source of additional revenue which would tend to have only relatively unimportant adverse effects on business would be to raise the income tax rates on the middle brackets.

It was pointed out earlier that emphasis on fiscal changes to remove obstacles to business should not diminish the fundamental equity of the tax system. The changes previously mentioned will, in my opinion, add to rather than detract from tax equity. There are other changes which need to be made in the tax system in order to increase its fairness. One such change would be to eliminate excessive depletion deductions for oil and gas wells and certain types of mines. As the Treasury has often pointed out, a large amount of revenue can be recovered by closing this loophole. Another change is to bring the capital gains tax rates on individuals closer to the rates on other incomes. This could be done without substantial discouragement to investment, provided the capital loss deductions were made more generous, as previously mentioned.

I think we should continually have in mind that as a general principle of fairness we ought to increase the proportionate part played by direct taxes that can take account of individual differences in the power to support government. The chief

- 13 -

examples of such taxes are the individual income and estate and gift taxes. The Federal reliance on such taxes should be especially great since State and local governments are not able to use them nearly as effectively as is the Federal Government. We should look forward eventually to eliminating from our Federal tax system the manufacturers' excises and other miscellaneous excise taxes which tend to be shifted directly to consumers. However, in view of the present revenue needs of the government and the fact that these taxes have been in operation long enough so that the businesses affected have in general become adjusted to them, I recommend that they be continued.

Greater simplicity in the tax system would remove irritants to business and would also be beneficial to taxpayers and the government in general. Our revenue system cannot hope to be very simple if it is to be equitable and is not to be excessively burdensome at any point. However, major moves in the direction of simplicity are possible.

One move is to substitute a single corporation tax on net income for the four different corporation taxes now imposed. These corporation taxes are a capital stock tax and an excess profits tax enacted in 1932, a remnant of the 1936 undistributed profits tax, and the ordinary income tax. The capital stock tax

- 14 -

is not based on the actual value of a company nor is the excess profits tax actually a tax on excess profits. Both depend largely on the ability of management to forecast profits. In its present form, the undistributed profits tax is practically meaningless. The corporation tax system would be greatly simplified, its justice measurably increased and the burden on new and uncertain enterprise diminished, if all four taxes were consolidated into a single flat tax on corporate incomes with some concession in rate to corporations having less than perhaps \$25,000 net income.

Another way to increase the simplicity of the tax system would be to remedy the irksome situation that the taxpayer faces due to Federal-State tax conflicts. This has been discussed previously.

In discussing choices of desirable tax measures, I have spoken as if we could pick and choose among good tax measures and bad tax measures. This choosing will always be possible to some extent, of course, but as the proportions of tax revenues to national income rise, the choice becomes more restricted. Already we are more seriously restricted than we are apt to realize. Anyone who tries to formulate a program for raising large amounts of additional tax revenue, even assuming some business recovery, will see how restricted we are. Any

substantial further growth of total expenditures, even if only for debt service, is likely to narrow the choice almost to the vanishing point; we must guard against being pushed to the place where virtually all considerations of encouragement to business and fairness must give way in order that we may use every feasible tax to its administratively practicable limit.

In this survey of possible changes in taxes, I have not discussed any of them in detail. If you are interested in following them further, my staff and I are prepared to work with you and to furnish information as to their operation.

In closing, I would like to stress that if we are to give businessmen the reassurance necessary to remove obstacles to investment and expansion, it will be necessary to go beyond a few specific measures that may remedy points of local irritation. These are important, but it is even more important to approach the problem of fiscal policy from the broad viewpoint and to lay down a well-defined plan leading towards a balanced budget. Only then will the basic fiscal deterrent to business be removed.

CENTURY CLUB
7 WEST FORTY-THIRD STREET
NEW YORK

17th April 1939

Dear Henry:

Shoup has told me of
his further conferences with
you and with Blough
regarding the statement.

May I say again that I
think it is very impor-
tant that you make it;
and that it be cast in
terms of broad fiscal

me of the tough jobs.

Sincerely -

Roosevelt Magerl

policies, not merely of specific amendments, nor merely of "business appeasement." In this uncertain world, a clear statement of your fiscal convictions will do a lot of good.

If I can do you any service, by looking over drafts or by making suggestions, I shall be glad to do so.

The best of luck to you in these hard times in

April 17, 1939

At the suggestion of the Secretary, Mr. Bewley called today and saw Mr. Lochhead.

Mr. Bewley was given an opportunity to review the recent exchange of cables between the British and the United States Treasuries and stated that he had been requested to stay over for a few days in order to be available for the checking of any technicalities which might arise. He is going up to New York and will endeavor to obtain copies of the documents arriving on the QUEEN MARY and will be back in Washington on Friday.

In the course of the conversation it was brought out that the informal opinion of the Treasury Counsel regarding possible borrowing by the British Government against securities under the Johnson and Neutrality Acts was simply an informal expression of opinion by Treasury counsel and was not to be construed as any commitment or indication of intent by the Treasury or any other Government agency to make such loans available.



TREASURY DEPARTMENT

WASHINGTON

18

701-

Apr. 17, 1939

WAR RISK INSURANCE

The Annual Report of the Secretary of the Treasury for the fiscal year 1914 (pages 4 to 8) first makes reference to the Government undertaking to provide war risk insurance. There was a serious situation existing as a result of the European War at that time and the Treasury entered the situation in order to exert its powers for the benefit of the Nation and to assist in solving the problems then confronting the country. A series of conferences were determined upon and announced on August 7, 1914. A conference was called by Secretary McAdoo at the Treasury on August 14, 1914 between leading bankers, businessmen and steamship and railroad managers. A list of those attending the conference appears in the annual report of the Secretary referred to. The conference adopted the following resolution in relation to war risk insurance:

"RESOLVED, That this conference urge the United States Government to establish a bureau of war risk insurance, to be administered under the direction of a suitable Government department by a board of three or five members, which shall assume the risks of war on American vessels and American cargoes shipped or to be shipped thereon, whenever in the judgment of the board it shall appear that American vessels or shippers on American vessels are unable in any particular trade to compete on equal terms with the vessels or shippers of other nationalities by reason of the protection offered such other carriers or shippers by arrangements for war indemnity through their

"Governments, and that such board have power to fix rates of premium subject to change to each country or for each class of cargo.

RESOLVED, That the present opportunity to extend American foreign trade and the opportunity now to begin the creation of a mercantile marine under the United States flag is so great that this conference appeals to Congress by immediate and effective legislation and by necessary changes in our navigation laws to make it possible for our citizens without discrimination to buy and operate ships under American registry in foreign trade on equal competitive terms with all other maritime nations."

Congress promptly passed legislation which was approved on September 2, 1914, to authorize the establishment of a Bureau of War Risk Insurance in the Treasury Department. This Bureau was established in the Treasury on the day following approval of the Act with William C. Delaney, an experienced insurance broker, as director. Policies were issued through the Custom Division of the Treasury, since collectors of customs came in close contact with the shipping business. This greatly facilitated and simplified administration of the Act.

The original Act of September 2, 1914 was solely to meet the existing emergency and the President was authorized, whenever in his judgment the necessity for further war insurance by the United States shall have ceased to exist, to suspend the operations of the Act, and in any event the Act expired as to new insurance two years after its passage except that the President was given discretion to continue it in existence for purpose of adjusting losses for a further period of not exceeding one year. The Act was extended by the President and would

have expired by limitation on September 2, 1917. However, on March 5, 1917 the Act was amended extending its operations to September 2, 1918, and on July 11, 1918 it was further amended so as to suspend the operation of the Division of Marine and Seamen's Insurance at the end of six months after the "end of the war", this term being defined as the date of proclamation of exchange of ratification of the Treaty of Peace, unless the President should by proclamation declare a prior date, in which case the date so proclaimed shall be deemed to be the "end of the war". Subsequently, the President by proclamation declared the "end of the war" with Germany to be July 2, 1921. On June 12, 1917 provision was made for the issuance of insurance against war risks on masters, officers, and crews on American merchant vessels (seamen's insurance). On October 6, 1917 a further amendment to the original Act provided for benefits to soldiers and sailors, such as provision for allotments and family allowances, compensation for death or disability, etc.

While the Bureau of War Risk Insurance was originally set up to handle insurance on cargoes and seamen, it was enlarged as a result of the entry of the United States into the War to cover insurance on soldiers, sailors and marines. Eventually in 1921 with the enactment of veterans' legislation, the Bureau of War Risk Insurance was transferred and merged into an independent agency, the Veterans Bureau, now the Veterans Administration.

A summary of activities under marine and seamen's insurance as shown in the Annual Reports of the Secretary of the Treasury for

1920 and 1921, is as follows:

(1920 Report, page 201)

"Marine and seamen's insurance

"As insurance provided for American vessels and their cargoes and for masters and crews of American vessels covered war risks only, it was possible to terminate these features of the Bureau's work soon after the signing of the armistice. The rates for both types of insurance were withdrawn on January 4, 1919.

"From September 2, 1914, when the Bureau was created, to June 30, 1920, the marine section wrote insurance on American hulls and cargoes aggregating \$2,067,291,993. The net premiums received amounted to \$46,741,508.96 and salvage \$63,734.88. The net profit of these operations, representing the excess of premiums and salvage over expenses and paid and estimated losses was \$17,030,197.11.

"The seamen section, from its beginning on June 12, 1917, to June 30, 1920, wrote insurance on the lives of masters, officers, and crews of American vessels aggregating \$322,782,391.82. The amount of net premiums received was \$843,563.49. The net profit on the policies covering these risks, representing the excess of premiums over expenses and paid and estimated losses, was \$470,700.81."

(1921 Report, page 415)

"Under the joint resolution of Congress (Public Resolution No. 64), effective March 3, 1921, the entire operations of the Marine and Seamen's Division would have come to an end six months after that date terminating the war, so far as certain acts of war legislation were concerned, or on September 3, 1921, but with the authority conferred by the amendment of July 11, 1918, the President has extended the period of activity of this division to December 31, 1921, for the purpose of adjusting outstanding claims.

"Since what is to be added to the record of this division during the six months ending December 31, 1921, will have but a negligible effect upon the figures in the grand total, a complete statement of the volume of business transacted by the Marine and Seamen's Division from

- 5 -

"September 2, 1914, has been included with the summary for the past fiscal year, and the whole is herewith presented as the accounting of the division's entire work.

"Statement of the appropriation: 'Losses on war-risk insurance of American vessels, their cargoes, etc.,' for the Marine and Seamen's Division for the period ended June 30, 1921.

Appropriation for payment of losses	\$50,000,000.00
Marine premiums and salvage added to this amount	46,803,873.84
Seamen's premiums added to this amount	<u>843,567.39</u>
Total	97,647,441.23
Marine losses paid	\$28,988,909.31
Seamen's losses paid	244,505.31
Installments due under adjusted seamen's claims	712.50
Marine losses outstanding	463,465.00
Seamen's losses pending	<u>67,290.00</u>
Total losses	<u>\$29,764,882.12</u>
Marine expenses	196,193.49
Seamen's expenses	<u>68,714.11</u>
Total expenses	<u>264,907.60</u>
	<u>30,029,789.72</u>
Net surplus out of appropriation and income	<u>67,617,651.51</u>
Net income (premiums and salvage)	\$47,647,441.23
Net disbursements (losses and expenses, paid and pending)	<u>30,029,789.72</u>
Net operating profit	17,617,651.51"

The foregoing figures indicate that there was a net operating profit of over \$17,000,000 on account of marine and seamen's insurance. This does not take into consideration the administrative expenses of

operating the Bureau of War Risk Insurance which were allocable to this class of business. These expenses undoubtedly amounted to substantial sums.

DWB

JUNE 22, 1934

REPORT ON THE FINANCES.

24

ADDITIONAL AMENDMENT OF FEDERAL RESERVE ACT.

In order to meet more fully the emergency created by the war, it was necessary to secure an amendment to the Federal reserve act empowering the Secretary of the Treasury to issue a larger amount of emergency currency than the old act permitted, and in consequence there was passed by the unanimous vote of the Senate and House of Representatives on the 4th of August, 1914, an amendment which authorized the Secretary, in his discretion, to allow national banks to issue a maximum of circulating notes equivalent to 125 per cent of their unimpaired capital and surplus, instead of 100 per cent, as the law then authorized. This amendment extended the benefits of the act to those national banks which did not have outstanding circulation equivalent to 40 per cent of their capital stock, as required by the old law. At the suggestion of the department, the amendment also provided that the banks should maintain on deposit in the Treasury a redemption fund in gold sufficient in the judgment of the Secretary of the Treasury, for the redemption of such notes, but in no event less than 5 per cent. The Aldrich-Vreeland Act provided that the banks should deposit only 5 per cent for redemptions, and even this might consist of lawful money. It was essential that the Secretary of the Treasury should have the power to compel the banks to maintain at all times a sufficient amount of gold in the redemption fund to protect the Government thoroughly against these large issues of paper money.

The Aldrich-Vreeland Act, as amended by the Federal reserve act and by subsequent amendment of August 4, 1914, has served a most useful purpose. The redemption of the emergency currency will not, I believe, present a difficult problem. Arrangements have been perfected in the department for a system of clearances between the banks which is expected to overcome the difficulties and inconveniences which might otherwise be encountered.

CONFERENCE ON FOREIGN EXCHANGE AND SHIPPING.

The demoralization of foreign exchanges and credits and the disorganization of ocean transportation produced a situation of exasperating gravity. Grain and foodstuffs for export were congested at the leading Gulf and Atlantic ports to such an extent that a temporary embargo was placed by the railroads on shipments of grain to Baltimore, New Orleans, and Galveston.

There was also impending another grave problem, as an inevitable consequence of the war, viz, the cotton situation in the South.

While no responsibility for dealing with these problems rested, by law, upon the Treasury Department, it was believed that the powers of the department could be exerted for the benefit of the situa-

It was recognized that the resources of the country should be organized so that, by intelligent cooperation, the best results could be obtained. A series of conferences was determined upon as the most effective means of coordinating the vital factors and forces in the country. On August 7, 1914, the following statement was issued:

of vital importance to the country that two things be done as quickly as possible:

1. Provide sufficient ships to move our grain and cotton crops to European markets; and

2. Restore through the bankers the market for foreign bills of exchange. For the purpose of concerting measures to this end, I have to-day called a conference of representatives of leading shipping interests and foreign exchange banks to meet at the Treasury Department in Washington on August 14, at 10 o'clock a. m.

Shipping is a very pressing problem at the moment, because the crops have been harvested and the movement is already well under way. The cotton movement is not so advanced and will not be for a few weeks. It is my purpose to have a conference on the subject of cotton to be held at an early date, of which announcement will be made later. These are important questions for the American people, and every possible effort will be made by the administration to cooperate in the movement of these great crops.

The names of those who will attend the conference on the 14th instant will be announced in a few days.

As a result, a conference was held at the Treasury Department on the 14th of August, 1914, between leading bankers, business men, shipping and railroad managers. The following is quoted from the proceedings of the meeting:

A conference called by Secretary McAdoo to consider the grain export and exchange and shipping situation met in the Treasury Department with 62 representatives of business, trade, shipping, and banking interests.

Secretary McAdoo presided, and the conference was also attended by Secretaries Johnston, Secretary Redfield, Assistant Secretaries Newton and Malburn, Treasury Department, Comptroller Williams, Messrs. Hamlin, Delano, Miller, and Warburg, of the Federal Reserve Board; Senator Owen, Chairman of the Senate Committee on Banking and Currency; Representative Glass, chairman of the House Banking and Currency Committee; and Representative Adamson, chairman of the House Interstate and Foreign Commerce Committee.

The conference was received in the afternoon by the President.

Secretary McAdoo announced to the representatives of the business world that the Government was willing and anxious to cooperate in the solution of the pressing problems of exportation, shipping, and exchange, and the representatives present heartily assured the Secretary that the business interests were equally as willing and ready to cooperate with the Government. The Secretary said that he hoped the representatives of the conference would remain in Washington until results were obtained. He expressed the opinion that, if the problems were serious and pressing, they could be easily solved by prompt action, intelligent action, and cooperation.

As the consensus of opinion that the three pressing questions were the restoration of the market for foreign bills of exchange, the provision of means

or transporting grain, cotton, and other merchandise abroad, and war-risk insurance. Several of the representatives expressed the opinion that in connection with the passage of the pending bill for the registry of ships under the American flag the Government should undertake to insure ships flying the American flag against war risk. Such an undertaking of war-risk insurance should be temporary, it was said, and purely to meet the pending emergency, and should be conducted upon a business basis, the Government to receive premiums for the insurance issued. It was stated that with the enlarged registry of American ships and action by the Government supplementing what private companies might be able to do in connection with insurance, the question of exports of grain and cotton and of foreign exchange would rapidly solve themselves. Foreign exchange, it was declared, will find its equilibrium when the United States gets the ships and moves the grain.

To illustrate the pressing needs, representatives at the conference called attention to the congestion of American grain and other staples at the seaports and in the interior awaiting transportation. It was pointed out that Great Britain, France, and Belgium are now insuring the vessels and cargoes flying their respective flags against war risks. In order to provide workable means of cooperating with the Government the conference resolved itself into a committee, with Hon. Seth Low as chairman, and adopted the following resolutions: *Resolved*, That this conference, representing the business interests of all sections of the country, expresses its high appreciation of the prompt and effective action of the President and Congress and the Secretary of the Treasury in affording a prompt solution of the currency difficulties created by the sudden outbreak of war in Europe on a colossal scale, and that this conference urges upon the Government, the Secretary of the Treasury, and the Federal Reserve Board to continue its cooperation by adopting such measures and rendering such prompt assistance as may be necessary to enable the country to cope with the difficulties created by the unprecedented disarrangement of foreign trade now existing, and recommends especially that immediate assistance be provided to permit the negotiation of bills of exchange against the payment of products to foreign markets, so that the congestion already prevailing may be at once relieved and that the financial balance of trade may come in our favor.

Resolved, That this conference urge the United States Government to establish a bureau of war-risk insurance, to be administered under the direction of a suitable Government department by a board of three or five members, which shall assume the risks of war on American vessels and American cargoes shipped or to be shipped thereon whenever in the judgment of the board it shall appear that American vessels or shippers on American vessels are unable, on any particular trade, to compete on equal terms with the vessels or shippers of other nationalities by reason of the protection offered such other carriers by arrangements for war indemnity through their Governments, and that such board have power to fix rates of premium, subject to change, to be paid by a country or for each class of cargo.

Resolved, That the present opportunity to extend American foreign trade and the opportunity now to begin the creation of a mercantile marine under the United States flag is so great that this conference appeals to Congress, by prompt and effective legislation and by necessary changes in our navigation laws, to make it possible for our citizens, without discrimination, to buy and operate ships under American registry in foreign trade on equal competitive terms with all other maritime nations.

attended. That this conference deeply appreciates and earnestly and sympathetically responds to the suggestion of the Secretary of the Treasury in his opening address that the cooperation of the business interests of the country with the Government and its various departments should prevail, and in order that such may be effectively and most promptly accomplished, be it

Resolved, That it is the sense of this conference that a standing committee should be appointed, composed of recognized experts in foreign exchange, marine and insurance problems, and in ocean transportation problems, in order that if desired, in cooperation with the appropriate committee of Congress, it may be immediately framed for consideration designed to promote the accomplishment of these greatly to be desired ends."

In accordance with the above resolutions the conference appointed the following committees, composed of experts on war-risk insurance, transportation, and foreign exchange, with Mr. Low as chairman, to remain in Washington and confer with representatives of the Government as to the best means of solving the problems:

War-risk insurance: Messrs. Hendon Chubb, of New York; J. Parker Kirlin, of New York; E. H. Outerbridge, of New York; F. G. Crowell, of Kansas City, Mo.

Transportation: Messrs. J. A. Farrell, of New York; P. A. S. Franklin, of New York; Robert Dollar, of San Francisco; Bernard N. Baker, of Baltimore.

Foreign exchange: Messrs. A. J. Hemphill, of New York; Festus J. Wade, of St. Louis; Henry R. Ickelheimer, of New York; John J. Arnold, of Chicago.

Secretary McAdoo appointed Mr. A. C. Miller, of the Federal Reserve Board, the representative of the Treasury Department to confer with the members of the conference committee dealing with the subject of war-risk insurance; Mr. V. A. Delano, of the Federal Reserve Board, to confer with the members of the conference committee dealing with the subject of transportation; and Mr. Rufus M. Warburg, of the Federal Reserve Board, to confer with the members of the conference committee dealing with the subject of foreign exchange.

Secretary McAdoo announced to the conference that he expected to call a meeting on cotton next week.

The following gentlemen attended the conference, which adjourned subject to the call of the chairman:

New York Clearing House Association representatives: J. S. Alexander, William Woodward.

Chicago Clearing House Association representatives: John J. Arnold, H. G. P. Jones, Joseph McCurrach.

St. Louis Clearing House Association representatives: David R. Francis, Leckridge Jones, Festus J. Wade.

Kansas City Clearing House Association representative: F. G. Crowell.

National Foreign Trade Council representatives: Samuel D. Capen, of St. Louis; J. A. G. Carson, of Savannah; E. A. S. Clarke, of New York; Robert Dollar, of San Francisco; James A. Farrell, of New York; P. A. S. Franklin, of New York; James J. Hill, of St. Paul; Edwin N. Hurley, of Chicago; Barton Worsley, of Norfolk; Welding Ring, of New York; John D. Ryan, of New York; D. Simmons, of Philadelphia; E. P. Thomas, of New York.

Chamber of Commerce of the United States representatives: Frederick McLean, of Chicago; James G. Cutler, of Rochester; John Joy Edson, of Washington, D. C.; John H. Fahy, of Boston; H. L. Ferguson, of Newport News; A. H. Wilken, of Chicago; R. G. Rhett, of Charleston, S. C.

New York Chamber of Commerce representatives: Hendon Chubb, H. R. Outerbridge, J. Parker Kirlin, Seth Low, E. H. Outerbridge, W. B. Pollock.

New York Produce Exchange representative: Charles A. Robinson.

Chicago Board of Trade representatives: Julius Barnes, John Bassett Moore, H. E. Rycroft.

West and Northwest milling interests' representatives: James G. Andrews, of Minneapolis; W. L. Harvey, of New Prague, Minn.; L. E. Moses, of Kansas City, Mo.; F. R. Eaton, Washburn-Crosby Co., Minneapolis.

Baltimore banking, grain, and shipping interests' representatives: Bernard N. Baker, William Ingle, Blanchard Randall, J. C. Whitney.

New York foreign exchange, banking, and steamship interests' representatives: William L. Benedict, of Kidder, Peabody & Co.; James Brown, of Brown Bros. & Co.; F. Q. Brown, of Richmond & Co.; H. R. Ickelheimer, of Ickelheimer & Co.; J. P. Morgan, of J. P. Morgan & Co.; James Speyer, of Speyer & Co.; Benjamin Strong, Jr., of Bankers' Trust Co.; August Ulrich, of Ludenb. Thalman & Co.; A. J. Hemphill; Pliny Fisk; John A. Donald; Wilbur C. Fisk.

Boston banking interests' representative: Josiah Quincy.

Southern Cotton Congress's representatives: C. W. Priddy, of Norfolk; J. C. Mayfield, of Barnwell, S. C.

Much good resulted from this conference. Congress promptly enacted the war-risk insurance measure and made it a bureau of the Treasury Department. Reference will be made to the work of this bureau in another part of this report.

COTTON CONFERENCE.

On August 18 the following announcement was made:

I have called a conference to consider the cotton situation, to be held at the Treasury Department on Monday, the 24th of August, at 11 a. m., to which representative men in the different sections of the country interested in the production, financing, and manufacturing of cotton will be invited. The names of those who will be asked to attend are now under advisement, and a list will be furnished in a few days. The Secretary of Agriculture and the Postmaster General will join the Secretary of the Treasury in the conference, and the Federal Reserve Board will be invited to attend as a body. The purpose of the conference will be to consider the general problem with a view to securing the largest possible degree of cooperation between the producers and manufacturers of cotton and the banking interests of the country.

This conference was held at the Pan American Building and was attended by the following:

The Secretary of the Treasury (presiding).
 The Postmaster General.
 The Secretary of Agriculture.
 Assistant Secretary of the Treasury Newton.
 Assistant Secretary of the Treasury Malburn.
 The Comptroller of the Currency.
 Federal Reserve Board: C. B. Hamlin, F. A. Delano, Paul M. Warburg, W. P. G. Harding, A. C. Miller.
 Senator Owen.
 Senator J. S. Williams.
 Senator Hansdell.
 Senator Thornton.
 Senator James.
 Senator Hoke Smith.

EXHIBIT I.

WAR RISK INSURANCE.

[Public—No. 193, 63d Congress—S. 6357.]

AN ACT To authorize the establishment of a Bureau of War Risk Insurance in the Treasury Department.

Whereas the foreign commerce of the United States is now greatly impeded and endangered through the absence of adequate facilities for the insurance of American vessels and their cargoes against the risks of war; and

Whereas it is deemed necessary and expedient that the United States shall temporarily provide for the export shipping trade of the United States adequate facilities for the insurance of its commerce against the risks of war: Therefore

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is established in the Treasury Department a bureau to be known as the Bureau of War Risk Insurance, the director of which shall be entitled to a salary at the rate of \$5,000 per annum,

Sec. 2. That the said Bureau of War Risk Insurance, subject to the general direction of the Secretary of the Treasury, shall, as soon as practicable, make provisions for the insurance by the United States of American vessels, their freight and passage moneys, and cargoes shipped or to be shipped therein, against loss or damage by the risks of war, whenever it shall appear to the Secretary that American vessels, shippers, or importers in American vessels are unable in any trade to secure adequate war risk insurance on reasonable terms.

Sec. 3. That the Bureau of War Risk Insurance, with the approval of the Secretary of the Treasury, is hereby authorized to adopt and publish a form of war risk policy, and to fix reasonable rates of premium for the insurance of American vessels, their freight and passage moneys and cargoes against war risks, which rates shall be subject to such change, to each port and for each class, as the Secretary shall find may be required by the circumstances. The proceeds of the aforesaid premiums when received shall be covered into the Treasury of the United States.

Sec. 4. That the Bureau of War Risk Insurance, with the approval of the Secretary of the Treasury, shall have power to make any and all rules and regulations necessary for carrying out the purposes of this act.

Sec. 5. That the Secretary of the Treasury is authorized to establish an advisory board, to consist of three members skilled in the practices of war risk insurance, for the purpose of assisting the Bureau of War Risk Insurance in fixing rates of premium and in adjustment of claims for losses, and generally in carrying out the purposes of this act; the compensation of the members of said board to be determined by the Secretary of the Treasury, but not to exceed \$25 a day each, while actually employed. In the event of disagreement as to the claim for losses, or amount thereof, between the Bureau and the parties to such contract of insurance, an action on the claim may be brought against the United States in the District Court of the United States, sitting in the district in which the claimant or his agent may reside.

Sec. 6. That the Director of the Bureau of War Risk Insurance, upon the adjustment of any claims for losses in respect of which no action shall have been begun, and, on approval of the Secretary of the Treasury, promptly pay such claim for losses to the party in interest; and the Secretary of the Treasury is directed to make

provision for the speedy adjustment of claims for losses and also for the prompt notification of parties in interest of the decisions of the bureau on their claims.

SEC. 7. That for the purpose of paying losses accruing under the provisions of this act there is hereby appropriated, out of any money in the Treasury of the United States not otherwise appropriated, the sum of \$5,000,000.

SEC. 8. That there is hereby appropriated, for the purpose of defraying the expenses of the establishment and maintenance of the Bureau of War Risk Insurance, including the payment of salaries herein authorized and other personal services in the District of Columbia, out of any money in the Treasury of the United States not otherwise appropriated, the sum of \$100,000.

SEC. 9. That the President is authorized whenever, in his judgment, the necessity of further war insurance by the United States shall have ceased to exist, to suspend the operations of this act in so far as it authorizes insurance by the United States against loss or damage by risks of war, which suspension shall be made, at any event, within two years after the passage of this act, but shall not affect any insurance outstanding at the time or any claims pending adjustment. For the purpose of the final adjustment of any such outstanding insurance or claims, the Bureau of War Risk Insurance may, in the discretion of the President, be continued in existence a further period not exceeding one year.

SEC. 10. That a detailed statement of all expenditures under this act and of all receipts hereunder shall be submitted to Congress at the beginning of each regular session.

SEC. 11. That this act shall take effect from and after its passage.

Approved, September 2, 1914.

(W. R. I. I.)

INSTRUCTIONS TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED RELATING TO
APPLICATIONS FOR GOVERNMENT WAR RISK INSURANCE.

TREASURY DEPARTMENT, September 4, 1914.

VESSELS.

1. Applications for insurance on vessels under the American flag will be accepted for periods of 90 days or for voyages commencing on and after the date hereof.
2. The only risks that will be covered are those included in the form of policy to be issued by the Bureau of War Risk Insurance, as per copy sent to collectors of customs and others.
3. Applications for vessel policies must be made direct to the Bureau of War Risk Insurance, Treasury Department, Washington, D. C. Policies will be issued in Washington only, and no agent or representative of the Government may bind or otherwise accept insurance unless specially authorized by the bureau at Washington.
4. The rates of premium charged may be had upon application to the Bureau of War Risk Insurance.
5. The Bureau of War Risk Insurance is not bound by any errors made in the calculating of the premium or in filling in the form. Should error be subsequently discovered a readjustment must be made.
6. All applications for insurance must be made personally by the insured or his representative.
7. Collectors of customs and others should familiarize themselves with the conditions appearing on the forms of applications and sample policies sent to them.

W. G. McADOO,
Secretary of the Treasury.

31
77
SECRETARY OF THE TREASURY.

(W. R. I. 2.)

INSTRUCTIONS TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED RELATING TO
APPLICATIONS FOR GOVERNMENT WAR RISK INSURANCE.

TREASURY DEPARTMENT, September 4, 1914.

CARGO.

1. Applications for insurance may be made to the collector of customs or his duly authorized deputy or to the deputy collector in charge of any port of entry.
2. Applications for insurance will be accepted only in respect to cargoes shipped or voyages commencing on and after the date hereof.
3. The only risks that will be covered are those included in the form of policy to be issued by the Bureau of War Risk Insurance, as per copy sent to collectors of customs and others.
4. A policy will be issued for each risk, but only upon confirmed acceptance from the Bureau of War Risk Insurance, Washington, D. C.
5. Each request for insurance must be submitted by the collector or deputy collector to the Bureau of War Risk Insurance by wire, and must state the name of the vessel, the nature of the cargo, amount of insurance required, the destination, and approximate date of sailing. A rate for acceptance will be wired to the collector by the bureau. If the rate quoted is accepted by the applicant, an application shall be made in duplicate upon the form prescribed, the original to be signed by the applicant or his duly authorized representative and the duplicate application to be signed by the collector or his authorized deputy and given to the applicant. The original is to be sent by the first mail to the Bureau of War Risk Insurance at Washington, where a policy will be issued with all possible dispatch and mailed to the collector of customs, who will in turn deliver it to the assured upon his surrender of the duplicate application.
6. No signed application shall be delivered to the assured until the rate quoted by the bureau is accepted; and in no case shall any signed application be delivered until the premium is paid. Checks shall be made payable to the Treasurer of the United States and forwarded with the application. All checks must be certified.
7. The collector of customs shall fully satisfy himself before submitting any war risk that the applicant has marine insurance in an insurance company or companies on the cargo on which he wishes war risk insurance.
8. The amount insured against war risk can not, in any circumstances, exceed the amount insured against marine risks. If the applicant is unable to state definitely the amount to be insured, he shall declare a provisional amount, which may not be increased, but which may be reduced, upon receipt of definite advice, to an amount not less than the total amount insured under marine policies. Premiums shall be paid on this provisional amount, and if the amount is reduced, when final particulars are known, the excess of such premium will be returned to the assured by the Treasury Department.
9. The rate of premium charged will be made from day to day by the Bureau of War Risk Insurance and may be had upon application to the bureau. The rate will vary for the different voyages and the cargoes insured.
10. The Bureau of War Risk Insurance will not be bound by any errors made in the calculation of the premium or in filling in the form. Should error be subsequently discovered, a readjustment must be made.

11. All applications for insurance must be made personally by the insurer or his duly authorized representatives.
12. Customs officials should familiarize themselves with the conditions appearing on the forms of applications and sample policies sent to collectors of customs and others.

W. G. McADOO,
Secretary of the Treasury.

April 17, 1939.

Memorandum for the Secretary's Diary

At the meeting in the Secretary's office at 3 p.m. on Saturday, April 15, 1939, the Secretary gave to Mr. Jesse Jones the original memorandum signed by Mr. Foley in regard to the application of the Neutrality and Johnson Acts to proposed loans against foreign-held American securities. Mr. Jones promised to look over the memorandum and let the Secretary know within 24 hours if he agreed that the RFC could make such loans. Mr. Jones telephoned the Secretary at the Secretary's house on Sunday, April 16, and informed him that he was satisfied that the RFC had the power to make loans to a corporation organized in this country and acting on behalf of the British Government against British-owned American securities requisitioned from British residents.

PAP

GRAY

LONDON

Dated April 17, 1939

Rec'd 4:40 p.m.

Secretary of State

Washington

501, April 17, 7 p.m. (SECTION ONE)

FOR TREASURY FROM BUTTERWORTH

One. As instructed I conveyed the substance of your 263, April 16, 8 p.m. to the British Treasury.

The British Treasury expressed satisfaction that any subsequent exchanges arising out of the American memorandum would be bilaterally conducted and stated that they were prepared to deal with any which we might care to raise.

The information regarding the informal opinion of the Treasury Counsel was obviously gratifying to them and the British Treasury stated that naturally they would be very pleased to have confirmation in due course that the Attorney General concurred in this view.

Two. Pinsent who has just arrived back from Berlin prior to sailing for the United States to assume his new duties was present with Philips and Waley. In commenting upon the German position he expressed the opinion that Germany's exchange resources were meager and their stocks of most raw materials would not last

more

PAP -2- 501, April 17, 7 p.m. (SECTION ONE) From London

more than six months in the event of war. Germany was particularly vulnerable in the matter of oil, iron ore, fats, and fodder. However, the theory of the knockout blow was firmly believed in Germany. Although Pinsent did not believe that the German Army was ready he did believe that the present Nazi group could not and would not back down and that war sooner or later was inevitable.

(END SECTION ONE)

KENNEDY

MPL:EMB

PAP

PLAIN

LONDON

Dated April 17, 1939

Rec'd 4:40 p.m.

Secretary of State

Washington

501, April 17, 7 p.m. (SECTION TWO)

Three. The German and Italian press reaction to the President's message depressed the financial markets this morning but the tone was slightly better after the announcement of the calling of the Reichstag meeting. Stock prices show little change; war loan is still $93\frac{3}{4}$. Vol.

The foreign exchange market was quiet with the British fund operating but under only slight pressure. 205 bars of gold were dealt in at the fixing 125 of which were married, the remainder was market gold except for about 5 bars supplied by the British fund. The price was fixed at 148S $6\frac{1}{2}$ D giving A $\frac{1}{2}$ D premium and all the gold bought was taken by one broker-dealer buyer. Small amounts of dishoarded gold were sold after fixing. The forward dollar was at 2 15/16 for the three months but small dealings by the British fund brought it to 2 11/16.

The Bank of France bought small amounts of sterling as 176.75 and .73.

The

PAP -2- 501, April 17, 7 p.m. (SECTION TWOO from London

The forward belga which went to one belga for the three months closed about 90 centimes, the Belgium authorities operating in this as well as the spot market. (END MESSAGE)

KENNEDY

KLP

RECEIVED

APR 18 1950

THE TREASURY DEPARTMENT
Office of the Secretary
Technical Section of the Treasury

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 17, 1939, 5 p.m.

NO.: 756

FROM COCHRAN.

This afternoon I visited the Paris exchange market. The President's message was the subject of much conversation, and there was much speculation as to what Hitler's reply on the 28th would be, and whether he might before then accomplish some new feat. Pending some clarification of the situation, there has been little trading. The slightly more optimistic but still nervous atmosphere caused some gain in French rentes and shares. In Brussels, money was particularly tight. Today the official discount rate in Brussels was advanced from 2 1/2 percent to 4 percent. Pressure still felt on Dutch market. Today some sterling was gained by the French stabilization fund, mostly this morning during a brief weak spell of the pound.

The French stabilization fund contained 21-3/4 billion francs gold as of last night. The fund has had an adverse balance on only one day since the recent crisis broke, and special operations caused that. This afternoon Minister Reynaud is visiting the vaults of the Bank of France for the first time since he became Finance Minister.

This afternoon I had a visit from the Paris rep-

resentative

- 2 -

representative of the Swiss Bank Corporation. The preliminary contract, he said, had actually been signed some weeks ago between the French authorities and the Swiss and the bankers for the six-year loan to convert short term French railway loans on those two markets - reference my telegram No. 472 of March 14 - ^{but} -/advantage has been taken of the suspense clause in the contract, in view of the present circumstances, to delay the issuing of the loan. Speeding up of the granting of the loan is nevertheless desired now by some Swiss investors and insurance companies. It is their belief that the terms of the loan are better than they could otherwise obtain, whether conditions improve or get worse. The issue is to be at 98, with interest at 3 3/4 percent. It offers a choice of payments in florins, Swiss francs, or dollars - that is, the dollar parity of (emission) is offered, but not the opportunity to be paid in the United States in dollars. This is an exceptionally good investment if peace continues. Should war come, France would presumably depend upon her own market for patriotic loans in her own currency. Emphasis was placed by my friend on the demand for American bank-notes in Switzerland, which cannot be met except with delay; French visitors to Switzerland are responsible for part of the demand. In Switzerland he said there was such nervousness that his manager, Staysay, had asked whether he

- 3 -

he could not get some information additional to the message of the President.

END OF MESSAGE.

BULLITT.

RECEIVED

NOV 18 1955

THE WHITE HOUSE
WASHINGTON
RECEIVED NOV 18 1955

EA:LWW

41
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 17, 1939, 7 p.m.

NO.: 761

FROM COCHRAN.

I refer to my telegram of April 13, No. 722.

At six o'clock this evening Governor Janssen of the Belgian National Bank telephoned me to confirm that the Belgian Finance Minister was officially in accord with the preliminary answer given in the above telegram, that is, the Belgian Government is in full agreement on the idea of consultation, provided consideration is given to the special position of their country. The Governor told me that before making this answer he had not sounded out any other central banks. The Belgian people, he said, are most positively opposed to any publicity for the matter or to any (omission). They expressed a preference for a group meeting rather than separate talks, and preferred that some memoranda be prepared therefor in advance. The Belgians would be willing to meet at Basel next month, or if necessary, earlier, thinking that the safest place for such consultations would be Basel.

Governor Janssen explained that his raising the discount rate from 3 1/2 to 4 percent was taken in the same spirit as similar action in May of last year. The situation is not serious, he said, but he wants it to be seen that in order to maintain the present monetary

status

Regraded Unclassified

- 3 -

status the bank is prepared to put up a fight. They thought it better to give this impression at once because of the rumors current this past weekend about the Belgian currency, and because the Belgian political situation has not quite cleared up as yet.

END OF MESSAGE.

BULLITT.

EA:LWW

03V13338

0001 21 000

RECEIVED
JAN 21 1951
U.S. DEPARTMENT OF STATE

43 Chorus

Knight
8 wizards

Madison Dinner - Apr 17-1939 -

BUSINESS APPEASEMENT

Cast of Characters: King Arthur - - - - - Young
Dragon - - - - - Canham
Knights:
Sir Henry Le Morgue - - - - Brandt
Sir John of Hanes - - - - Adams
Sir Galahopkins - - - - Kilgore
Wizards:
Eccles the Echo - - - - Talburt
Tommy the Cork - - - - Henle
Benny the Cone - - - - R.L. Wilson
Jesse the Moneylender - - - Brahany
Other knights and wizards.

- - - -

Announcer: Mr. President.

Clapper: Mr. Faust

Announcer: The Gridiron Club presents King Arthur and his knights and wizards of the round table, who are confronted with a grave emergency. Their pet dragon, named Business, after providing them with six years of rare sport is about to expire.

(Dragon is slumped on stage at opening. He is covered with bandages. Enter Henry Le Morgue and John of Hanes)

John of Hanes: Sir Henry Le Morgue, I fear we have beaten this old dragon, Business, until he's all in. It looks like he's going to die on us.

Morgue: Yes, Sir John of Hanes. That's what I've been telling King Arthur. But it doesn't seem to bother him a bit. He just smiles.

Hanes: He's spent six years trying to kill that dragon. Just between ourselves, even the common people are getting fed up with this abuse of poor old Business. (He pats dragon who emits wheeze.)

Morgue: See! All he needs to make him healthy is--APPEASEMENT! Even if he is a vicious beast, and not to be trusted, we'll certainly need him in 1940. If he dies, we won't have anything to save the common people from.

Hanes: King Arthur listens to those crackpot wizards--Eccles the Echo, Tommy the Cork and Benny the Cone. And how they hate the old dragon!

Morgue: How did they ever get to be wizards?

Hanes: Well, to be an ordinary wizard you must have a degree from Harvard. But to be a wizard of the round table you have to be the son of a witch.

Appeasement --2

(Trumpets off stage, Knights salute approaching procession. Enter King Arthur and court)

Arthur (inspecting dragon) What a sorry specimen! Eccles the Echo, is this old wreck the same ruthless dragon that used to ravage the country, living off widows and orphans, and collecting bonuses for robbing the common people?

Eccles: The very same ungrateful old beast. In spite of all the breathing spells we have given him, it looks like he is going to die.

East: Little Sir Eccles, you'd better stop, look and listen!

(Orchestra strikes up "Little Sir Echo" and East sings:)

East Solo: Little Sir Eccles, we spend too much -

Chorus: Too much -

Eccles: Too much?

Chorus: Too much.

Eccles: Too much?

East Solo: All of this spending gets us in Dutch,

Chorus: In Dutch,

Eccles: In Dutch?

Chorus: In Dutch.

Eccles: In Dutch?

East solo: Who'll pay?

Eccles: Who'll pay?

East solo: Who'll pay?

Eccles: Who'll pay?

East solo: What of the reckoning day?

Eccles: The day?

East solo: We've a nice little budget that's all in the red,

Chorus: Won't you fix it some other way?

Eccles: NOT ME!

Appeasement —5

Arthur: (inspecting arrow) Yes, he met his master that time. (Laughs heartily)

John of Hanes: Your majesty, we've got to get this dragon in shape by 1940. If we don't, we can't show him off to the common people. And they won't stand for a dead dragon. They would revolt against us.

Morgue: Please, O King, pull the rest of those arrows out of his hide. Turn him out to pasture and let him get fat.

Soloist: Yes; this dragon, business, cannot live in a perpetual state of fear.

(Orchestra strikes up, "I can't give you anything but love", and soloist sings:)

Solo: You don't give us anything but fear, ~~that's~~ *Franklin*
That's the only thing there's plenty here, ~~that's~~ *Franklin*
Little fears, great big fears,

Chorus: Wah wah wah wahl

Solo: Goodness sakes, where's the brakes?
Let's go slow, we've always wanted
Just to take a quiet little ride, ~~that's~~ *Franklin*
Not go flying high and far and wide, ~~that's~~ *Franklin*
Let's stay home and quietly abide, ~~that's~~ *Franklin*
You don't give us anything but fear!

(Chorus repeats.)

King: You may be right. He's been a useful dragon, old business has. Maybe we can use him again. He needs a rest. (He pats dragon which begins to revive.) All right, you knights look after him and you wizards let him alone. (Knights show elation, wizards dejection, dragon perks up.) Good old business, have fun! Goodbye now!

But just so you won't forget me -

with sword
(He hits dragon a terrific wallop. Crash from orchestra. King strides out over dragon, who rises and limps out as entire cast hustles from stage to fast playing of "I can't give you anything but love.")

Appseament —3

Tommy: Hurry. Let's finish him right now. (Lifts staff to sock dragon)

Arthur: (stopping Tommy with a gesture) Just a minute, Tommy the Cork. You may be right. But remember we've got to have something to chase. That's the only fun the common people have, watching us hunt dragons.

Benny: Your majesty, why not let him die? Then he can't bite us. We'll stuff him and fumigate him occasionally, and next year we can tour the provinces and exhibit him to the common people.

Arthur: Benny the Cone, you may be right. But I'm not sure. Even I can't fool some of the people all the time. If this dragon isn't in shape to run in 1940, it won't make much difference whether I run or not.

Morgue: Your majesty, let's give this dragon an appeasement.

Arthur: Oh-ww, how I hate that word. What does it mean, anyway?

Banes: In your case, it means giving the condemned man a hearty breakfast.

Arthur: Marvelous ideal! Now I have a perfectly grand staff of wizards and they tell me that all we need is confidence.

Tommy: Wizards, front and slightly to the left.

(Orchestra strikes up "Wizards' Waltz" and chorus sings:)

Chorus of Wizards: 1. What we want is harmony,

That we want is peace; (crash)

Help the timid businessman,

Put his mind at ease. (cymbal crashes on final measure)

That we want is confidence,

Breathing spells and such; (crash)

Swing our program to the right a (Wizards step right)

Little—not too much. (crash) (Wizards step back)

Down with ev'ry nasty taxi!

Up with reverence! (crash)

All the drastic laws relax!

Tighten up the screws. (Arms open, palms up)
(Business of tightening)
(Crash)

That we want is harmony,

Can't you understand? (crash)

We will all co-operate and

Keep the upper hand. (crash)

(The wizards waltz through 16 measures, grotesquely)

2. What we want is harmony,
What we want is peace; (crash)
See that all the squeaking wheels're
Well supplied with grease. (crash)

What we want is confidence,
Breathing spells and such; (crash)
Let the corporations grow a
Little— Not too much. (crash)

Aid to the Utilities,
On with T.V.A.! (crash)
Tell the railroads we will try to
Fix them up some day. (crash)

What we want is harmony,
Can't you understand? (crash)
Everything is working out
Just the way we planned. (crash)

(Third verse and more waltzing if wanted.)

Arthur: Fine, fine. That certainly revived the dragon. Suppose you find out how he feels, Jesse the moneylender. You used to speak his language.

Jesse: Yes, I used to be a dragon myself. (Addressing the dragon) How do you feel, old Lizard?

Dragon: Just let me die. When you were a dragon Jesse they didn't torture you with big sharp taxes. They didn't chain you and let labor sit down on you. You didn't have all these regulatory lice that infest me. (Mournfully) Oh Jesse did you ever hear of the labor relations board?

Arthur: Here's our new veterinary, Sir Galahopkins. He got his training in Iowa. By the way Sir Galahopkins, if you lived in Iowa today, what would you do?

Hopkins: If I lived in Iowa today I'd hate it.

Arthur: Now what about this old dragon? Shall we save him or stuff him?

Hopkins: A year ago I would have nailed his hide right on the White House wall. But now a great change has come over me. I love dragons. I'm going to cover every battered scale with appeasement salve. (Business of playing up to dragon - pulls arrow shaft from hide) Look at this big arrow he was stuck with. This undistributed profits tax has completely punctured his surplus.

Tommy: King, that's the very tax you fired into that dragon a couple of years ago to keep him on the run forever.

April 17, 1939
12:24 p.m.

Lawrence
Seltzer: Good morning.

HMJr: Hello, Lawrence.

S: This is Seltzer.

HMJr: Yes.

S: You want to know about the automobile industry?

HMJr: Yes, I do.

S: All right, I'll give you first the industry as a whole.

HMJr: Yes.

S: April, May and June will be about 59 per cent ^{ahead} of last year in production.

HMJr: Yeah.

S: But April is the peak month and production is going to decline from now until -- that is from May and April until September.....

HMJr: Yeah.

S:with August as the low month. General Motors is a good deal less confident than Chrysler. The foreign situation and the stock market are given a great deal of influence by General Motors and they have already knocked their production schedules down. I have their schedules, but I don't think you want to -- the detail figures.

HMJr: No.

S: Chrysler -- I talked with -- with Knutson at General Motors and -- Knutson and Wilson, he's the operating Vice President; Knutson is President. I talked with Keller this morning at Chrysler. Keller is a good deal more optimistic.

HMJr: Yes.

S: Are you following me?

HMJr: I hear you very well.

- 2 -

S: O. K. Keller is a good deal more complacent about the foreign situation and is more optimistic about business in general. He -- he thinks the General Motors crowd is still fraidy-cat. He doesn't mind the stock market. He says it has been his experience that if the stock market goes down, orders fall off right away, but as soon as the stock market stops going down.....

HMJr: Yes.

S:orders come back even though the stock market stays down.

HMJr: Yeah.

S: The General Motors people have out production schedules for three reasons. In the first place, their last quarter of '38 sales were way above their expectations.

HMJr: Yeah.

S: In the second place, February sales were way below, so that leads them to think that they borrowed some business last year. Then the first ten days of April sales disappointed them. Then the European outlook and the stock market makes them a little bearish. However, Knutson is a good deal more bullish than some of the other people.

HMJr: Yeah.

S: The schedule that he gave me, he thinks, will not be cut much.

HMJr: I see.

S: You can tell what their schedule is if I give you it in these terms. In January, February and March, General Motors output was 77 per cent ahead of last year. For the rest of the model run it's going to be about 26 per cent ahead of last year.

HMJr: I see.

S: But the industry as a whole, as I said, will do better than -- that is, is figuring a little better than G.M. is.

HMJr: Well.....

S: Ford doesn't have to commit himself away ahead and takes on men as sales increase; lays them off as sales decrease, so he doesn't have to do such advance figuring.

HMJr: I see.

S: He figures on about ninety-five thousand in April, ninety thousand in May and about seventy-five thousand in June, output.

I ran into a man who has just come back from a trip to all the railroad equipment makers.

HMJr: Yeah.

S: And he tells me they all have this story, that if the Government, or Jesse Jones, or anybody in authority, would announce some decision that -- say the railroads are not going to be helped, or that they are, either way, it would be a lot better than it is right now.

HMJr: I see.

S: Right now there's a lot of equipment business that nobody wants to place because they think that maybe the Government will decide to give a free down payment, or maybe a very low interest rate, so they don't want to take a chance.

HMJr: Yeah.

S: And the same thing goes for private money that would finance railroad equipment purchases. The railroads don't know whether to deal with them because they don't know what kind of a deal they might get in June. Well, that's the story, you can -- for whatever it's worth.

HMJr: That's right.

S: Anything else you want to know?

HMJr: No. You say the first eight -- ten days of April were -- were not up to expectations?

S: That was true of General Motors, but Chrysler has a different story.

HMJr: I see.

S: Chrysler gets its reports for five-day periods.

HMJr: Yeah.

S: And Chrysler showed me -- the statisticians showed me there -- Keller -- Keller told him to....

HMJr: Yeah.

S: That every year they have a down-turn in the second week of April.

HMJr: Yeah.

S: And that wasn't bothering him a bit.

HMJr: I see.

S: But is bothering the General Motors people.

HMJr: I see. Well, then it's really right now -- it's sort of

S: Between hay and grass.

HMJr: The critical period.

S: That's right. That's right. They -- on Saturday they made definite commitments to Buick for the rest of the model run.

HMJr: Yes.

S: And this week they'll^{do}/it with Cadillac.

HMJr: I see.

S: They're holding up Chevrolet until the middle of May just because things are so undecided.

HMJr: I see. All right, Larry, thank you very much.

S: Okey-doke.

HMJr: Good bye.

S: Bye-bye.

52 *HH*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 17, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Review of the Government Market
Week ending April 15, 1939

The government market showed substantial recovery during the past week. There was a moderate demand for bonds during most of the week and, because of limited offerings, prices of Treasury bonds moved up 13 to 19/32nds on issues maturing 5 years and over. This recovery more than neutralized the losses of the previous week and left Treasury bond average just slightly under its previous all-time high. Banks, both in New York and out-of-town, appeared to be increasing their Treasury bond holdings. Treasury notes were practically unchanged on the week. Guaranteed issues were unchanged to 7/32nds better.

Dealers' Portfolios

Principal change in dealer holdings was a reduction of about \$12 million in Treasury bonds. However, small increases in the other classifications neutralized this reduction and total holdings were unchanged.

Dealers' Portfolios
(in millions)

	<u>Week ended</u> <u>April 8</u>	<u>Week ended</u> <u>April 15</u>	<u>Net Change</u>
Treasury bonds	32.4	20.1	- 12.3
Treasury notes (1 year)	28.6	26.7	- 1.9
Treasury notes (1-5 yrs.)	14.0	20.1	+ 6.1
Treasury bills	5.1	9.9	+ 4.8
H. O. L. C. bonds	12.2*	13.4	+ 1.2
F. F. M. C. bonds	<u>5.3*</u>	<u>6.8</u>	<u>+ 1.5</u>
	97.6	97.0	- 0.6

* Revised

Dealers' volume was somewhat larger than last week, averaging about \$150 million daily for the first four days, but dropped off sharply at the end of the week. Treasury bond volume was about \$115 million daily.

New Security Issues

The \$40 million 3½ issue of 1959 by Texas Corporation was the principal item in corporate financing. This issue, which was offered at 101, was for new cash and was readily taken in the market. The only other offerings were two small bond issues totaling \$5,300,000.

Corporate Bond Market

Following the sizeable declines of the two previous weeks, the corporate bond market was rather irregular during the past week. However, small net gains were recorded as a result of substantial recoveries on Saturday, April 15. Second grade rail bonds, which had shown the greatest losses of any group in the previous week, showed the greatest recovery. Volume of trading was moderate throughout the week.

Treasury Investment Accounts

There were no transactions for Treasury investment account either in the market or for special Treasury issues. However, today (Monday, April 17) there was a redemption of \$14 million special 2's for account of F. D. I. C. This leaves a balance of \$101 million special 2's in this account.

Federal Reserve System Account

The Federal Reserve System portfolio had no bill maturity last week. The only transactions were shifts of \$15 million Treasury bills from shorter maturities into the new offering.

TREASURY DEPARTMENT

55

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 17, 1939

TO Secretary Morgenthau
FROM Mr. Haas *EAH*
Subject: The Business Situation,
Week ending April 15, 1939.

Summary

- (1) Downturns in current business indices, though affected by the bituminous coal strike, appear to reflect a general tendency among industrial buyers to protect themselves against possible war contingencies by holding their new commitments to a minimum.
- (2) Business in the United States appears to be going through a period of readjustment to a prospective war economy, similar in a minor way to that which followed the outbreak of the World War. It seems a debatable question whether actual hostilities in Europe would occasion any further shock to business in this country. In view of present depleted inventories, a war might conceivably bring on a general buying movement through fear of price increases.
- (3) A further moderate decline in business activity seems indicated by a continued low level of steel orders as compared with the current rate of operations, and by a less favorable cotton mill situation. Further weakness in stock and commodity prices, and effects of the bituminous coal strike, may also contribute to a declining business trend.
- (4) On the other hand, no serious setback is anticipated, since by virtue of the conservative policies followed by businessmen in recent months, production currently is probably not far above the minimum level consistent with the current rate of consumer offtake. The failure of commodity and stock prices to improve during the past six months or more has provided effective insurance against any important speculative maladjustments.

Secretary Morgenthau - 2

Developments suggest a war economy

With the situation in Europe closely approximating one of actual war, an opinion is held in some quarters that this country may now be going through a period of business readjustment similar in a minor way to that which followed the outbreak of the World War. Stock prices, first to respond to war pressure in 1914, have already declined severely. In view of the series of war crises through which the market has passed, there is a question whether stock prices have not already discounted developments much more unfavorable than any which have occurred to date. The President's appeal to Europe Saturday, Government conferences for preparation against possible war contingencies, as well as press comments on the stock market action, emphasize to businessmen the imminence of war prospects.

The economic setup in this country and abroad varies in many important respects from that in 1914, but a study of economic developments after the beginning of the World War is nevertheless of interest.

In Chart 1 we compare the trends of various economic indices in the United States during the years 1914 through 1921. It will be noted that industrial production declined for three months after the July 1914 war declaration, the combined index falling 20 per cent from August to November, then abruptly reversed its trend under the stimulus of demand for war materials. The index of industrial production nearly doubled during the following year.

The stock market, which had been closed after July 30, 1914, remained depressed for two months after its reopening for limited trading on December 12, 1914. Industrial stocks lagged behind business improvement throughout the following year. Liquidation of foreign-owned stocks during this period apparently retarded the market advance.

Certain basic war commodities, including wheat, sugar, and wool, began to rise immediately after war was declared, but commodity prices in general (as shown in Chart 1) did not begin to rise until the fall of 1915. Indices for both raw materials and finished products followed approximately the same trend. The blockade of Germany and Austria, which shut off an important section of our cotton export market, was seriously depressing to cotton prices, and cotton ever since has been sensitive to war scares.

Secretary Morgenthau - 3

A comparison of price indices in Great Britain, France, and the United States, including approximately the same group of commodities, (See Chart 2) shows that the rise began in Great Britain immediately on the outbreak of war, in France a few months later, and in the United States not until the middle of the following year. This was to be expected, since with most of her raw materials imported, Great Britain was most quickly affected by increased shipping costs resulting from the war.

It may be of some significance that basic commodity prices in Great Britain, as measured by Reuter's index, have recently been firmer than prices in the United States, and during the past week have turned upward while prices in this country were declining. (See Chart "A" attached.) The tripling of British war risk insurance rates on marine shipments this week, making the rates particularly high on Mediterranean shipments, may to some extent have been a factor in the British price trend.

The entry of the United States in the World War in April 1917, as shown in Chart 1, was soon followed by a downward trend in industrial production, a flattening of the commodity price trend, a severe break in industrial stock prices, a rise in interest rates, and a marked decline in prices of high grade bonds.

Business index turns down

Evidence of a current decline in the business trend appears in a downturn in all components of the New York Times adjusted index except lumber production during the week ended April 8, lowering the combined index 2.5 points to 86.9. Part of the decline was due to a sharp reduction in loadings of coal, resulting from the bituminous coal strike. If coal loadings were assumed to have remained unchanged, the combined index would have been down 1.4 points.

For the following week, preliminary data show a further marked downturn in the adjusted index of steel production, and a fractional reduction in the automobile index. Continuation of the coal strike may bring a further decline in carloadings, and may affect other components of the index. The Endicott-Johnson Shoe Company of Binghamton, New York, for example, which employs 20,000, has shut down because of a shortage of coal. If the stoppage of work in the Appalachian coal fields continues for another week, loss of employment due to strikes this month will probably exceed the recent record loss established in June 1937.

Secretary Morgenthau - 4

Indications of a decline in business confidence, which may be reflected to a greater or less extent in the prospective business trend, appears in our confidence index derived from a comparison of bond yields (See Chart 3). It will be noted, however, that despite the severe break in stock prices over the past several weeks, the confidence index has not declined appreciably below the January low. That the decline in business confidence so far has been rather moderate, in comparison with the stock market break, is confirmed by recent personal interviews with corporation executives.

Moderate further decline indicated

With no change in the European situation, some further moderate business decline, exclusive of the effect of the coal strike, seems indicated by the following data:

- (1) The volume of new steel orders in recent weeks has not been sufficient to support the current rate of operations in the industry. According to U. S. Steel Corporation data, new orders for the past seven weeks have averaged around 45 per cent of capacity. Steel operations, which had been held up by unfilled orders, dropped 2.6 points this week to 52.1 per cent of capacity.
- (2) A marked decline in new orders for textiles in recent weeks seems likely to be followed by some curtailment in cotton mill activity, since mills are reported to have accumulated substantial stocks of finished goods. Cotton mills ran at a high rate during March, using more cotton than in any other month since June 1937. During the week ended April 8, the New York Times adjusted index of cotton mill activity dropped 3.1 points to 119.6.
- (3) Further declines in security and commodity prices this week, with no easing of war fears, will tend toward a contraction rather than an expansion in general business activity.

No severe setback in prospect

Even in the event of actual hostilities in Europe, we see little prospect of a severe business setback in this country. The failure of commodity and stock prices to rise during the past six months has provided an effective insurance against speculative maladjustments that might otherwise have contributed to a serious business decline.

Secretary Morgenthau - 5

The ultra-conservative policies generally adopted by business in recent months suggest that industrial production currently may be not far above the minimum level consistent with the current rate of consumer offtake. In the steel industry, for example, there is no disposition to accept the current slump as the beginning of a protracted decline. The volume of incoming steel business has not fallen off drastically, but a spirit of caution and hesitation is apparent among buyers, who are protecting themselves against possible contingencies by keeping their inventories very low through hand-to-mouth buying policies. The opinion is expressed that a normal volume of steel buying would be resumed immediately if the European situation improved.

Our weekly index of new orders, while failing to show a satisfactory seasonal increase, has held at a sustained level during the recent European crisis despite the decline in textile orders, and has shown no decline during the most recent week. (See Chart 4.) In view of the marked improvement in retail automobile sales during the last period of March, we have revised upward our preliminary new orders index for that period.

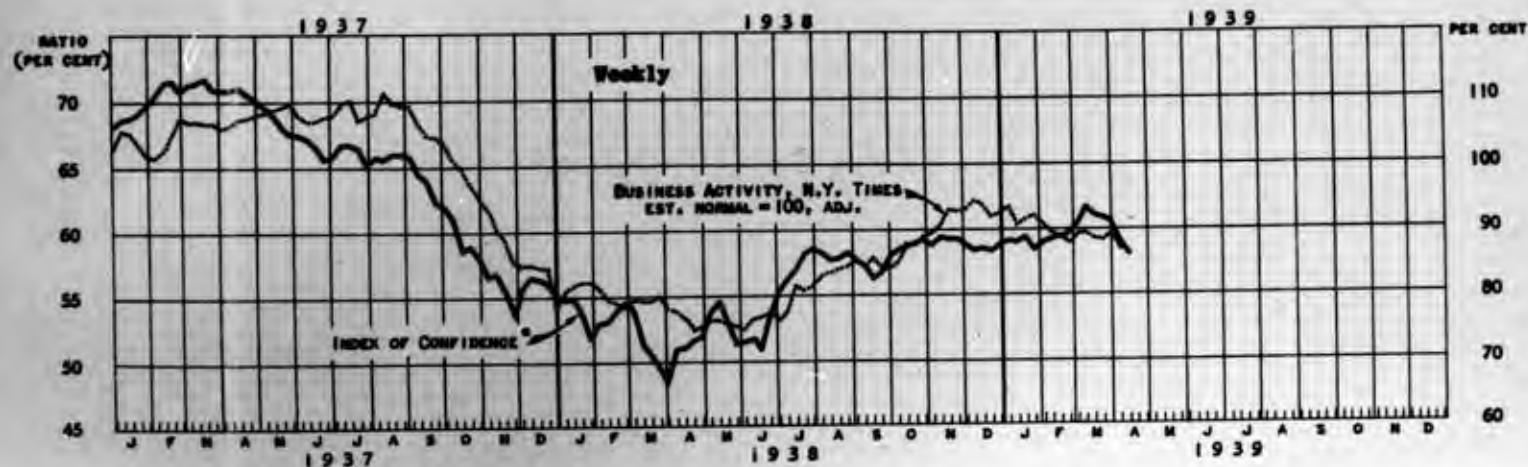
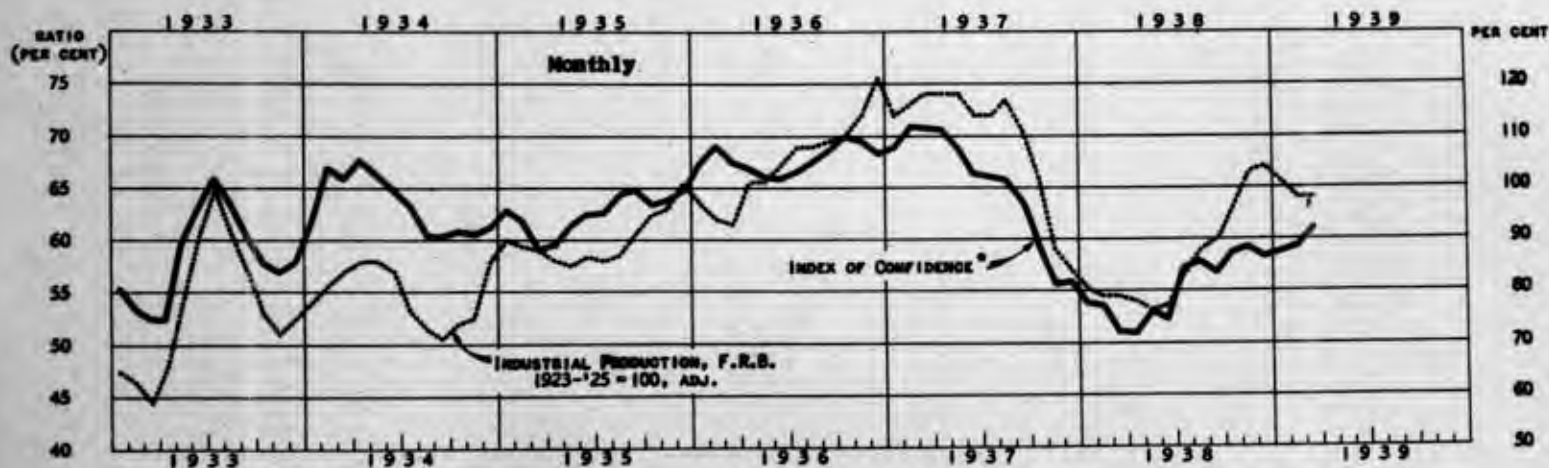
It seems to us not a foregone conclusion that actual hostilities would cause a further shock to business. The present state of uncertainty over European affairs may, in fact, be more depressing than the certainty of war. We see some possibility that, in view of the present state of depleted inventories, an outbreak of war might result in a general buying movement through fear of price increases arising from war demands.

Foreign stock prices lower

Stock prices on the London and Paris exchanges, which had recently held steady despite severe declines at New York, took a turn for the worse this week and declined below recent support levels. (See Chart "B" attached.) Foreign currencies have been under increased pressure, with weakening evident in forward exchange rates.

A further improvement in British iron and steel output occurred during March, reflecting war preparations. (See Chart 5.) With British industry already on almost a war-time economy, there seems less reason than in 1914 to fear that actual hostilities might cause a reduction in demand for various American products entering into industrial uses.

INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY



* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

COMMODITY PRICE TRENDS DURING THE WORLD WAR

PRICE INDICES IN U.S., U.K. AND FRANCE, MONTHLY

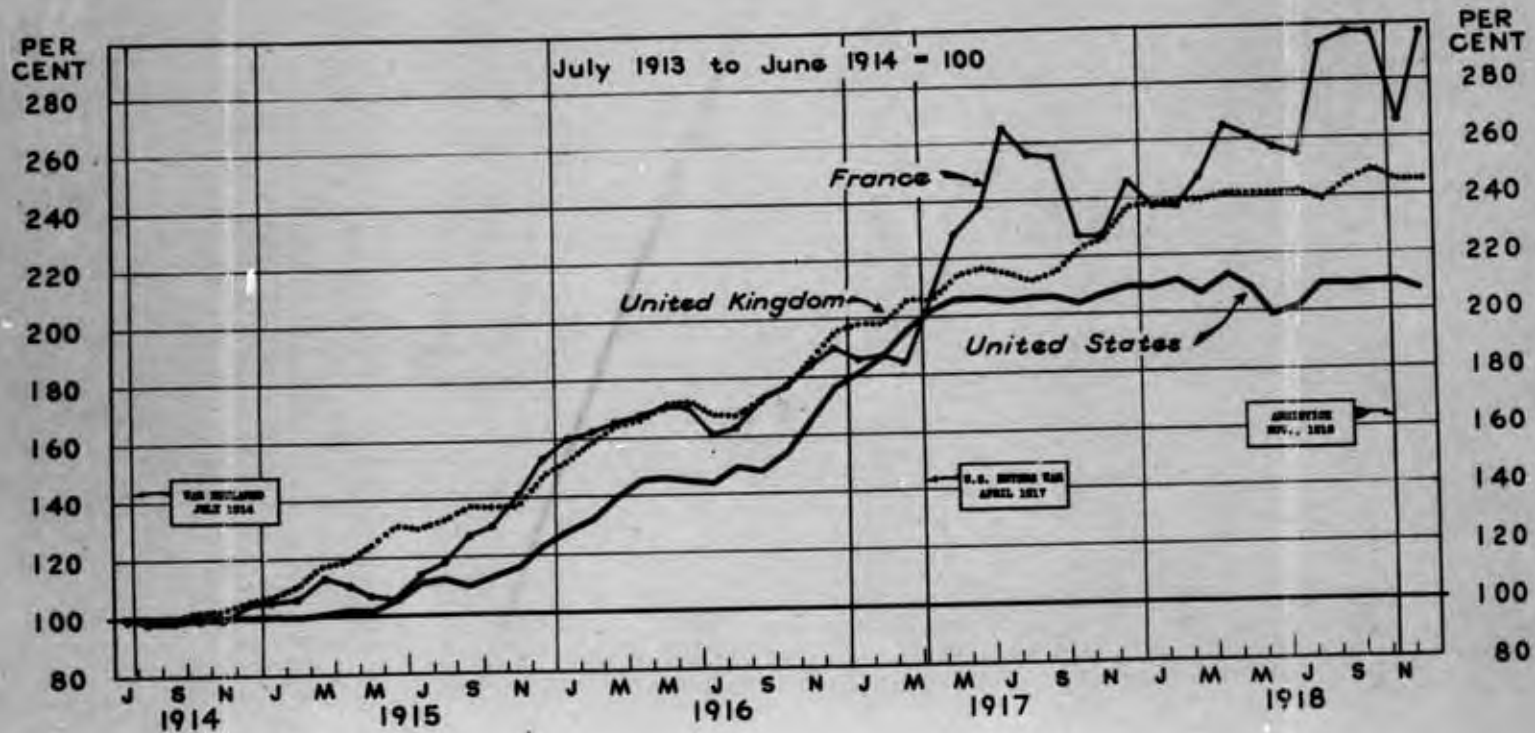
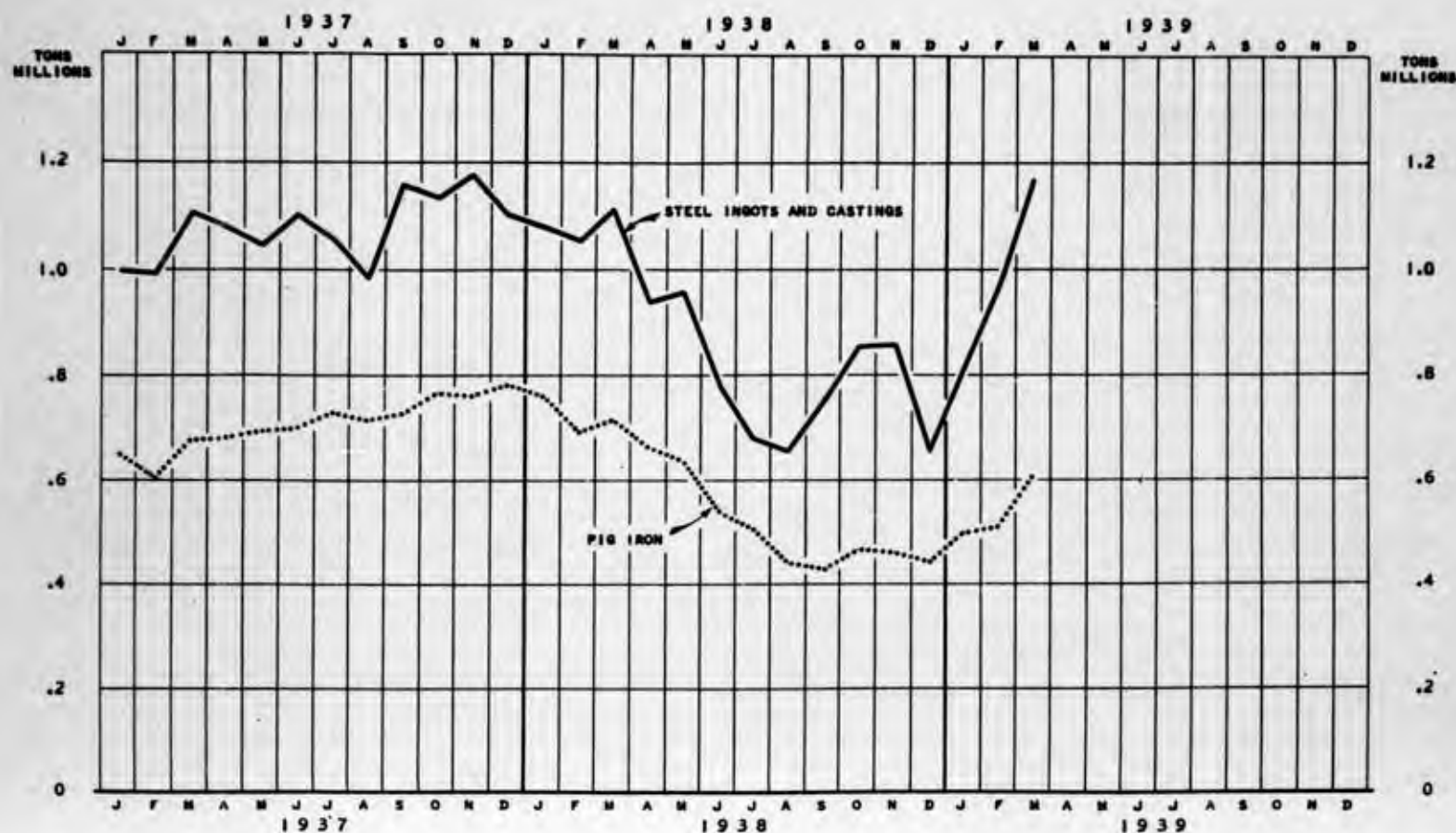


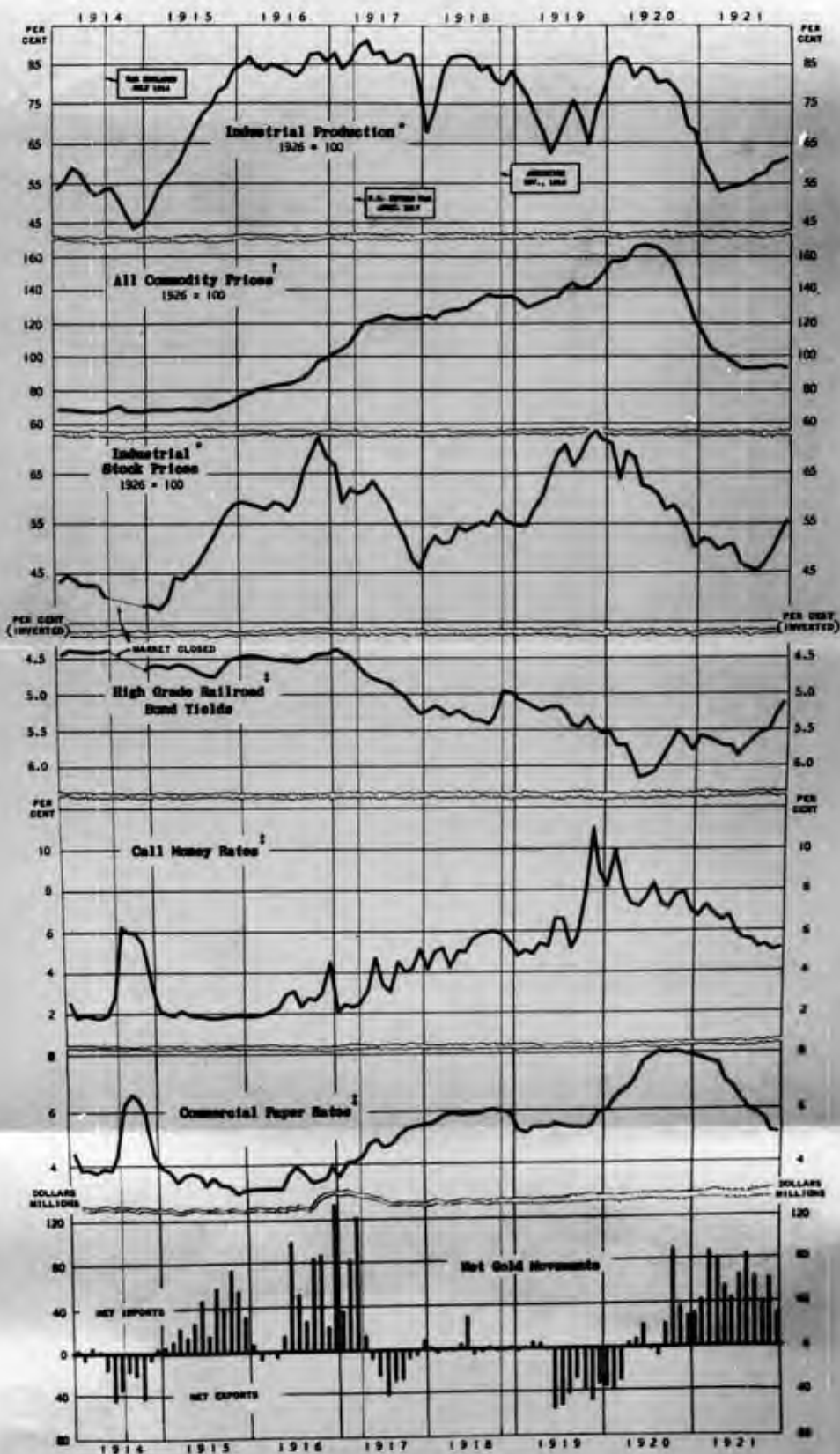
Chart 2

BRITISH STEEL AND PIG IRON PRODUCTION



SOURCE: BRITISH IRON AND STEEL FEDERATION

SELECTED ECONOMIC INDICES IN U. S. 1914 - 1921



* STAND. STAT. † S. L. S. ‡ BAKER, NAT'L. BUR. ECON. RES.

INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components

64

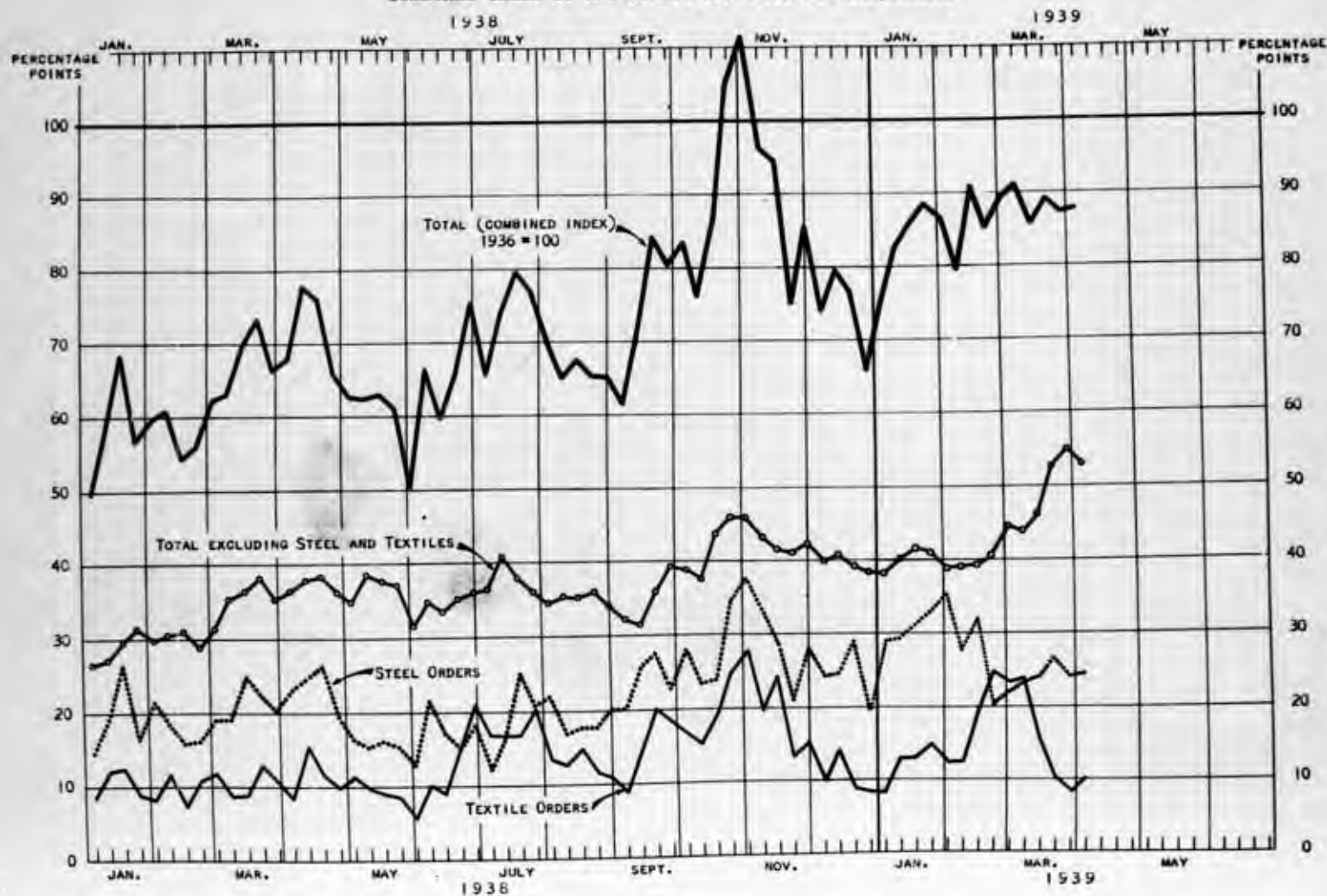


Chart 4
CONFIDENTIAL

All of this Bulletin
Correspondence
should be filed
together under date
of 4/17/39

APR 17 1939

PERSONAL AND CONFIDENTIAL

My dear Bill:

In reply to your letter concerning Beverly Robinson, I am very sorry that I have to say "No" to your request because nothing would please me more than to extend to you any courtesy possible. We have no positions available in the Customs Service that would be appropriate for Mr. Robinson. Informers, who turn in information, are entitled to receive twenty-five percent of any fines imposed as the result of the information they have furnished, but we do not employ nor do we have authority to employ informers on regular Civil Service payrolls.

In regard to your request for information from the Treasury files concerning dispatches between former Secretary of the Treasury Carter Glass and former President Woodrow Wilson, I have turned this matter over to my Administrative Assistant who will have an appropriate search made of the old files where this material may be located.

Sincerely,

(Signed) H. Morgenthau, Sr.

Hon. William G. Bullitt,
United States Ambassador,
American Embassy,
Paris, France.

WLM:gae

RECEIVED

Paris, February 11, 1939.

PERSONAL AND STRICTLY CONFIDENTIAL.

Dear Henry:

The recent drippings of that aged snot, Carter Glass, have reminded me that, concealed in the files of the Treasury, there are, or should be, a couple of telegrams dealing with a performance of his which, so nearly as I can discover, broke Woodrow Wilson's back and made certain his collapse--and the Treaty of Versailles. I tried to get these documents out of Glass some years ago; but he refused either to give them to me or to affirm or deny that he possessed them. He may, of course, have removed them from the Treasury files, but I wish you would have one of your file clerks do a little sleuthing for me.

The

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

- 2 -

The incident I refer to is the following--I am writing you from memory and my dates may be one or two days off:

On or about the 7th of April 1919 Woodrow Wilson, in the evening, called together a number of his close associates in Paris and told them that he had decided at his meeting with Lloyd George and Clemenceau at 11 o'clock the next morning, to tell them that the treaty they were preparing was not a treaty of peace but merely a preparation for new wars; that he had come to Europe to sign a treaty genuinely based on the Fourteen Points and that he would sign no other. Unless Clemenceau and Lloyd George were prepared to make a genuine peace of reconciliation, he would take the GEORGE WASHINGTON immediately for the United States and denounce Lloyd George and Clemenceau to their peoples as the enemies of peace. At the same time he said that he had telegraphed to have the GEORGE WASHINGTON come to Brest as soon as possible, and added that he had also telegraphed to Carter Glass ordering him to stop all loans, credits or advances of any nature to the Allies--who at that time were living on food and cash from the U. S. A. Wilson

said

- 3 -

said he was determined to fight against the treaty as drafted to the bitter end.

No new factor--but one--intervened between that evening and the next morning at 11 o'clock. Cary Grayson looked up the matter for me with the utmost care in his diary and consulted all his papers as well as his own memory, and assured me that no one saw the President except Mrs. Wilson. He said, however, that the President had received a telegram from Carter Glass saying that he regretted to say he had promised that day to give the French and British everything that they should want in the way of loans and credits for the next four months, and did not wish to go back on his word. It was Cary's belief, as it is mine, that this telegram of Glass' broke whatever backbone Wilson still had. It took away from him his one club. The next morning at 11 a.m., instead of going and talking to Lloyd George and Clemenceau as he had said he would, he spinelessly agreed to the reparations settlement. It was the beginning of his end.

For years I have wanted to get the text of this telegram, if it exists, and, in fact, I think I once

asked

- 4 -

asked you in a casual conversation to get it for me. I should not be surprised if Glass had taken it out of the files and if no trace of it should exist in the Treasury. But I should be greatly obliged to you if you would have someone look up the documents for the period from April 1st to April 15th 1919. As I said before, I may be a day or two off in my dates, as my papers dealing with this matter are in a bank vault in America, but my impression is very strong that Wilson made the statements I have recounted on the evening of April 7th, and that he had already sent the telegram to Glass before calling in his associates.

It would be an agreeable thing, some day when that old Virginia stinkerino is smelling loudly, to announce to the public that he was the man that broke Wilson's neck. I should like to do it.

At the moment I am feeling optimistic about prospects in Europe. The little "Stop, Look and Listen" sign which the President put up has apparently got brothers Hitler and Mussolini waiting for the train to pass, and unless there should be some most unfavorable turn in the situation arising from Spain, I believe that neither bandit will dare to turn loose

this

- 5 -

this spring.

Incidentally, from Daladier down and all the way across the map to Poland, the turn in the situation is attributed to exactly one thing, and that is, the attitude of the Government of the U. S. A. toward the sale of airplanes to France. So give yourself a quiet pat on the back, my boy, and take a large drink of your Fundador Spanish brandy in honor of peace.

Good luck and every good wish.

Yours very sincerely,

Bill

William C. Bullitt.

FROM: MR. McREYNOLDS' OFFICE

72

TO:

Mrs Klotz

Can be hired as
informed at maximum
\$250⁰⁰ a month for
3 mos. Then will
have to be submitted
to Civil Service Commission
for approval of extension
which they may or
may not grant
mkr

Paris, March 18, 1939.

PERSONAL AND CONFIDENTIAL.

Dear Henry:

Johnson

Where is my job for Beverley Robinson?

Where is my information from the files of
the Treasury April 1-15, 1919? *See glass 2*

My best wishes to Eleanor.

Yours in the bonds of Hitler-inspired rage.

B:11.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.



DEPARTMENT OF STATE
WASHINGTON

74
wink
e - 6 x
January 20, 1939.

Personal

Dear Henry:

I am enclosing herewith a brief outline of Mr. Beverly Robinson's career. As I told you over the telephone this morning, I should be profoundly grateful for anything you may be able to do for him.

Every good wish to you and Mrs. Morgenthau, and many thanks for your kindnesses to me during my stay here.

Yours, always,

Bill

William C. Bullitt

Enclosure.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

P.S. My idea is narcotics or
Customs in Paris.

Good luck

Bill.

1939 JAN 22 PM 3 04

RECEIVED
JAN 22 1939

Hotel Getham,
5th Ave. & 55th St.,
New York, N. Y.
April 30, 1938.

To:

His Excellency William C. Bullitt,
Embassy of the United States of America,
Paris, France.

Dear Bill:

First of all, let me tell you that your visit to my darling Adele the other evening did her endless good and filled her with hopes of better days.

The poor child is still weak but day by day her unbreakable pluck is picking her up. D. V. she will be herself again 'ere long. It was a joy and an uplift to see you and though your flights to see us are all too brief, we're a hopin' and a prayin' that we may fly in your direction!

And now for your information, here is my "criminal record", which I promised to send you.

After my admission to the Bar in 1896, I became a member of the law firm of Emmet and Robinson at 52 Wall St., N. Y., counsel for the New York Life Insurance & Trust Co. (now the New York Bank & Trust Company). After the death of my father, I was appointed special counsel for the above-named company and became a Senior member of said firm (of E & R), my Junior partners being Granville T. Emmet and Edward C. Parish (son of the then President of said trust company).

Said partnership was dissolved in 1906 and in the year 1909 I temporarily gave up the practice of law to become associated with the banking and brokerage firm of J. S. Bache & Company.

In 1915 and 1916 I interested myself in the Plattsburg training camps, where I held the rank of Lieutenant and in the Spring of 1917 was occupied in training and recruiting men to attend the Officers Training Camps.

In September 1917 I was commissioned Captain of Cavalry (later changed to Infantry) and was assigned to the command of Company D, 305th Machine Gun (Divisional) Battalion, 77th Division.

Early in March 1918 with division headquarters and my machine gun battalion I sailed for France. Arriving the first week in April, we were the first combat unit of the National army to set foot on French soil and I the first officer thereof to land in France.

* On May 1st, 1918 temporarily attached to machine guns of second Canadian Division at Arras.

* June 14th to July 20th, Commanding Officer of Co. G. 305th Machine Gun Bn. in Lorraine Sector, Bacarat, Rehery, Montigny.

* July 20th to August 28th Co. Co. D, 305th Machine Gun Bn. in advance from Ferre en Tardenois, La Vesle, Chamin des Dames, to the Aisne - (Soisson - Fismes front).

* Sept. 15th Co. D. 305th M. G. Bn. La Chalade
Sept. 28th, Argonne offensive, La Fille Morte
Foret Argonne, Foret Apremont, etc. etc. until the latter part of October when retired to hospital two weeks before Armistice (wounded and gassed).

*N. B. All of above being front line assignments.
Holder Victory medal with clasp for 4 major operations.
Wounded Chevrons authorized - one
War Service Chevrons authorized - two

Returned to U. S. A. and honorably discharged at Camp Upton, N. Y. February 22, 1919.

American Legion - After war was member of Freeport Post of the American Legion until leaving for France in the Spring of 1926.

September 1919 resumed practicing law in New York until moving to Paris, France in Spring of 1926, where I continued the practice of Law and in addition was Managing Director of the American Investment Office of George H. Burr & Co. 41 Rue Cambon, Paris.

1927 - Reunion of American Legion in France: During American Legion week in Paris sat as American officer representative with French Commissaire of Police at Special Court established for Legion cases at Petit Palais. As aide to Colonel Phillip Lydig, I allotted to the members of various states their places in the line of march of the American Legion parade of which there were 20,000 in line, and with Colonel Lydig led said parade from Arch de Triomphe to Notre Dame.

- 3 -

There is the whole sad story. I hope you have had a lovely trip across and Adele and I also hope and pray that W. will get busy very soon.

God bless you, old boy, and with all of our love,

Affectionately yours,

Box 20-1418

10/10/18

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

78 *Mark Freund*
Bell *discuss*
with
Wm
DATE April 17, 1939

Mr. Bell
Rm 376
TO Secretary Morgenthau
FROM Mr. Haas *HA*

This memorandum was prepared by Sidney Tickton, of this Division, prior to the recent consideration which has been given to these agencies in connection with the Government reorganization. The memorandum contains some interesting factual information.

TREASURY DEPARTMENT

79

INTER OFFICE COMMUNICATION

DATE April 17, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Government corporations and credit agencies --
their past, their present, and their future

On January 22, 1932, the Reconstruction Finance Corporation, the first of a long line of depression-fighting Government corporations and credit agencies, was born. Seven years later -- February 28, 1939 (the latest date for which complete data are available) -- these Government corporations and credit agencies were still growing. Their total assets (excluding inter-agency receivables and proprietary interest) had just reached a new peak of \$12.4 billions*. Their bonded debt had reached a new high of \$7.5 billions. The Government's proprietary interest of \$3.7 billions in these corporations and credit agencies had reached its lowest level in five years, however, mainly as a result of the transfer of part of the Treasury's formal interest in the RFC to private investors.

In these seven years, the Government has become a great investor. Through its corporations and credit agencies, it has come to own one-sixth of the capital stock of the banks of the country, two-fifths of the long-term farm mortgage debt, one-seventh of the urban home mortgage debt, and one twenty-fifth of the railroad debt. It has become a great insurer -- its corporations and agencies protect some 50 million depositors in 14,000 banks in the country; some 2 million members of 2,000 savings and loan associations; and nearly 350,000 urban dwelling mortgages made in the last four years. It has become a great landlord -- its corporations and agencies own more than 100,000 homes and about 30,000 farms -- nearly \$700 millions of foreclosed farm and home property.

*This figure and the two that follow include the remainders of the amounts existing prior to the establishment of the RFC (mainly items relating to the farm loan agencies and the war-time corporations). These remainders, on June 30, 1931, included assets of \$1.9 billions, bonded debt of \$1.3 billions, and proprietary interest of \$0.5 billions.

Secretary Morgenthau - 2

At this juncture in the existence of these Government corporations and credit agencies, it is advisable to stop and take note of the place of these loan and insurance organizations in our economy. In broad outline, who are they and what do they do? What is their present status and what have they done in the last year?

I. Who they are

The attached chart presents a comprehensive picture of the administrative structure and the principal lending functions of the 90 Government corporations and agencies engaging in lending activities. The principal merit of this chart is that it constitutes a sort of topographical map of the Federal credit activity, so as to permit a bird's eye view of the whole Federal credit structure. The two most striking characteristics of this credit structure are the dissimilarity of the various parts which compose it and the complexity of the relationships which tie the various parts together. With all these complexities, however, and with all the various interrelationships, the chart shows how the major administrative controls are still very closely and directly held in the hands of the President.

II. Their present status

The present status of the Governmental corporations and credit agencies can best be appreciated by looking at the whole structure from afar -- in broad outline, as it were. With a few exceptions, the Government corporations and credit agencies can, for purposes of analysis, be classified by activity into three broad groups: (1) the business loan and insurance agencies; (2) the home loan and insurance agencies; and (3) the farm credit and insurance agencies. The table below shows, for February 28, 1939, certain significant asset and liability items summarized by these three groups:

Secretary Morgenthau - 3

	: Business : : loan and : : insurance :	Home : : loan and : : insurance :	Farm : : credit and : : insurance :	Other : : : : :	Total
	(In Millions of Dollars)				
Receivables	2,259	2,631	3,866	17	8,773
Cash and Governments*	453	484	1,286	24	2,247
Property held for sale ...	35	556	117	-	708
Indebted debt:					
Guaranteed	819	3,004	1,587	-	5,410
Not guaranteed	91	91	1,945	3	2,130
S. Proprietary interest	1,488	516	1,360	314	3,678

includes non-guaranteed issues of Government corporations and credit agencies.

1. Business loan and insurance agencies

The business loan and insurance agencies consist mainly of the REA, the Maritime Commission, the FDIC, the PWA, and the RFC and its affiliated agencies. The Treasury has provided directly a very large proportion of the funds expended by these agencies, the only major exceptions having been the funds obtained through the sale of stock by the FDIC to the Federal Reserve banks (\$139 millions), and the sale of obligations on the market by the RFC (\$819 millions -- guaranteed) and its affiliate, the Federal National Mortgage Association (\$85 millions -- not guaranteed). Hence, the proprietary interest of the United States in this group of agencies is larger than in the other two main groups of agencies.

With respect to the proprietary interest in these agencies, it might be pointed out that within recent months a substantial part of the Government's formal interest in the RFC has been transferred to private investors, though, by the guarantee of RFC debentures, the Government's credit still provides the RFC with funds. A further transfer of about \$400 millions is probable as soon as the RFC retires the remainder of its notes held by the Treasury with the proceeds of the sale of its own obligations.

Secretary Morgenthau - 4

In the last year, the business loan agencies have continued to make loans aggregating more than their repayments, and have thus required further increases in capital funds.

2. Home loan and insurance agencies

The home loan and insurance agencies consist of the FHA, the USHA, and the Federal Home Loan Bank Board and its affiliated agencies. The major portion of the necessary funds expended by these agencies has been obtained through the issuance of their obligations which are guaranteed by the United States.

An important, but not altogether unexpected, development of the last few years with respect to the home loan agencies has been the property accumulations of the HOLC, following foreclosures on a large number of defaulted mortgages on private homes, about 15 percent of the total number of mortgage loans extended. The HOLC has become probably the largest home landlord in the world. Since the beginning of 1936, when foreclosures began on a large scale, real property held for sale by the HOLC has accumulated to the extent of more than half a billion dollars. In the year ended February 28, 1939, however, the net increase in the property account amounted to only \$81 millions, considerably below the \$250 millions acquired in the preceding year, and the \$200 millions acquired in the year ended February 28, 1937.

3. Farm loan and insurance agencies

The farm loan and insurance agencies consist mainly of the Commodity Credit Corporation, the Farm Security Administration, the Federal Crop Insurance Corporation, and the FCA and its affiliated agencies. The Federal Government has put up directly about one-fourth of the funds expended by these agencies. Other funds have been obtained from private investors: a considerable portion by the issuance of non-guaranteed obligations -- mainly farm loan bonds -- mostly issued in the Twenties, practically all refunded in the last five years; a smaller proportion by the issuance of guaranteed bonds in exchange for mortgages.

The major problem of the farm credit agencies is also that of property acquisitions. The Federal Land banks alone held more than \$100 millions of farm property on February 28, 1939, although these banks have been offering particularly

Secretary Morgenthau - 5

liberal loan extension and interest reduction privileges in recent years. Property acquisitions are expected to grow in the immediate future, moreover, as soon as the heavy volume of currently defaulted mortgages is foreclosed. Recent reports from the FCA classify nearly one-fourth of the borrowers from both the Land Bank Commissioner and the Federal Land banks as currently delinquent.

III. Their future

What of the future of these Government corporations and credit agencies? Many of them were created as emergency measures. Many were given extraordinarily broad powers -- were organized so as to eliminate as much of the administrative red tape as possible. What are we to expect of them now?

From this point, the agencies fall into two main classes -- the permanent agencies and the liquidating agencies. The former include both the pre-depression and the more recently established farm credit agencies; also the home building assistance agencies, the insurance agencies, the USHA and others. The latter include the HOLC, whose mortgage lending powers have expired, the FPMC, and the RFC and some of its affiliates. These agencies may be expected to close their remaining lending operations in the near future.

With respect to the permanent agencies, some of them have just begun their expansion programs -- particularly the USHA. Such agencies will likely expand considerably in the future. Some, by their very character and history -- the Federal National Mortgage Association and the Commodity Credit Corporation, for example --, may also be expected to engage in greater activity in the future than in past years.

Whatever may be the case with particular agencies, Federal corporations and credit agencies have become a permanent part of our economy. They may be consolidated and their administrative controls simplified; but they are here to stay. Even the liquidation of some of the emergency ones -- the HOLC and the RFC, for example -- will extend over many years.

Attachment



THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

17 April, 1939

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

The Bill HR-4246, authorizing 3 cutters, 15 planes and a base at Alaska for the Coast Guard, was reported favorably by the House Committee on March 7, 1939 and is now on the House calendar.

Hearings were held before the Senate Committee on Commerce Saturday, April the 15th, on the companion bill, S-1369, and the Subcommittee voted unanimously to make a favorable report.

R. R. WAESCHE
Rear Admiral, U. S. Coast Guard
Commandant

TREASURY DEPARTMENT

86

INTER OFFICE COMMUNICATION

DATE April 17, 1939

TO Secretary Morgenthau
FROM Mr. White

Subject: Comment on article by H. J. G. Bab on "Outline of a Sound Economic Program for American Democracy"

1. Summary of article

a. Full employment can be achieved by great expansion of building construction

Mr. Bab contends that in the absence of the rise of new industries and expansion in existing industries opportunities for new capital investment are restricted, in large part, to the field of building construction. However, the potential opportunities for increased activity in that field are tremendous and if fully realized will "secure thirty years of full employment".

b. Property taxes discourage new construction

Building construction, however, will not materialize in any substantial manner, according to Mr. Bab, so long as the present high level of property taxes is permitted to deter new undertakings. It is claimed that the inequitable and disproportionate burdens imposed by property taxes have made any large amount of new construction impossible and have resulted in creating a considerable differential between yields on real property and on industrial enterprise.

c. Property tax exemption for new construction is the solution to recovery problem

Mr. Bab's program for stimulating building construction follows from the foregoing analysis. New construction is to be encouraged by being permitted exemption from existing property taxes. The Federal Government should compensate the State and local governments for the taxes which new construction is freed from paying. This additional burden on the Federal Government would be more than covered by the increase in revenue which would accompany improved economic conditions.

Secretary Morgenthau - 2

2. Evaluation of Mr. Bab's article.

Mr. Bab's examination of the difficulties standing in the way of a great expansion in the building construction industry is very inadequate. He offers little factual basis for his claims, his analysis is superficial, and his proposal omits important considerations. Nevertheless, it is true that property taxation constitutes a discouraging factor to the prospective homebuilder. It is worth while, therefore, to consider the merits of the idea despite the poor quality of Mr. Bab's article.

a. Any substantial reduction in the carrying cost of homes would stimulate building activity and property tax exemption would mean a substantial reduction in such costs.

Property taxes amount to about 15 to 25 percent of monthly carrying costs -- second only to interest and amortization charges, which amount to roughly 40 percent of all monthly costs.

Not all of this saving would be passed on to the new homeowner or occupier. Some of it would be absorbed through the increased cost of land consequent upon tax exemption on the land and the increased demand for land. But the bulk of the property tax saving would doubtless accrue to the new homeowner and would prove a substantial inducement to additional construction activity.

b. Tax exemptions would reduce values of existing properties.

Mr. Bab's proposal for life-long property tax exemption would penalize the owners of older properties. The lower rentals on the new construction made possible by the tax exemption would force, in time, reductions in the sales or rental value of older properties. It is difficult to say how long a period will be necessary for this influence to be exerted; it is probable that this new factor would become operative in many communities inside of a very few years of active building construction.

However, existing residential properties would be adversely affected if any effective measures were taken to cut the cost of construction of homes. Except that

Secretary Morgenthau - 3

c. The cost of the program to the Federal Government would be very high.

The cost to the Federal Government for reimbursing the States and localities for granting the tax exemption privilege is difficult to estimate. It is dependent entirely upon the new level of construction which will be forthcoming. Using the most optimistic of assumptions (and calculating on the basis of existing rate of property taxation) a level of construction activity comparable to that experienced in the middle 1920's would cost in the neighborhood from \$100 to \$150 million a year the first year, and, assuming a continuation of this level, double that amount the second year, triple the third, and so on, of the original sum for the subsequent years.

This high level of construction activity is not likely to last more than five years. At the end of that period the tax exemption program would be costing the Federal Government roughly \$600 million annually. On less optimistic assumptions of building activity, say \$2.6 billion annually, (compared to \$1.3 billion in 1938 and \$4.5 billion annually for the period 1924-1927) the cost of the tax exemption program to the Federal Government would be about \$70 million the first year and by the fifth year, assuming continued activity at this level, some \$350 million each year from then on. The Federal Government would be subsidizing, under this proposal, all building which would have been undertaken without the tax exemption privilege at a cost which would continue indefinitely after the construction had taken place.

The use of the tax exemption device is a crude and expensive method of stimulating building activity. It does not take into consideration the wide variations in ability to meet the property taxes or the differences existing between various areas as to need and possible stimulating effect of exemptions. Nor would the inducement for new building be as great as would be the case were the subsidy granted in some other form. If, for example, construction of homes during the five year period would amount to \$15 billion, the Federal Government would be spending over the ensuing twenty year period an amount equal to the total cost of the new homes built. In view of the fact that

Secretary Morgenthau - 4

without such a subsidy it is reasonable to assume that probably half that amount of homes would be built, the Government would have paid out some \$2 for every dollar spent.

With an expenditure by the Federal Government of sums for the subsidization of low-cost housing equivalent to the cost of the tax exemption program much more satisfactory results could be obtained - both from the view of satisfying the most urgent housing requirements and from the viewpoint of maximizing the amount of new construction.

d. Homestead tax exemption, or reduction, laws have been passed by 14 States.

Homestead tax exemption laws of from \$1500 to \$2000 have been adopted because of the desire on the part of States to subsidize home ownership. The experience of the state of Oklahoma, where tax exemptions have been granted for several years, has been that they have served to moderately increase the number of new homes. The greatest increase in residential construction has taken place in the more prosperous areas whose relative housing needs are much less than in the less prosperous areas where no noticeable increase has been evident.

3. Much stronger stimulus to increased building activity can be achieved through:

a. The extension of the amortization period on home mortgaged by five years would decrease the monthly payment on a home by about 15 percent; extending the period by ten years would decrease the monthly payments about 24 percent.

b. Lowering mortgage interest rate by 2 percent would, it is estimated, decrease the monthly payments on the home approximately 12 percent.

c. Decreasing the initial payment on the home by increasing the size of the first mortgage rate from 75 percent to 90 percent or so would also serve to widen the potential market for home purchase.

Secretary Morgenthau - 5

d. Still further extension of housing demand could be achieved by decreasing the original cost of the home, including land. A reduction of from 15 to 20 percent can be achieved by the institution of an annual wage for building employees, and the economies consequent to mass production methods in house construction.

If all four of the above steps were taken, the construction of new homes would be much more than doubled for many years to come; whereas both the original and continuing cost to the Government would be slight.

If to these incentives there were added a direct subsidy to homebuilders of \$200 to \$300 million a year (the minimum amount that would be involved in the tax exemption proposal) the inducement to new construction would be still greater. Construction of new homes would be easily doubled.

Memorandum prepared chiefly by Mr. S. Fine

R. MORGENTHAU'S OFFICE TO--

Hanes	Mr. Oliphant
Gibbons	Mr. Gaston
Taylor	Mr. McReynolds

=====

91

Alexander	Mr. Harper
Allen	Mr. Helvering
Bartelt	Mr. Ireby
Batchelder	Mr. Julian
Bell	Mr. Kilby
Berkshire	Mr. Lochhead
Bernard	Miss Lonigan
Birgfeld	Mr. Maxwell
Blough	Adm. Peoples
Broughton	Miss Reynolds
Bryan	Mr. Rose
Cannon	Mrs. Ross
Davis	Mr. Sloan
Delano	Mr. Spangler
s Diamond	Miss Switzer
s Flanagan	Mr. Tarleau
Graves	Mr. Thompson
Haas	Mr. Upham
Hall	<u>Mr. White</u> ✓
Hanna	Mr. Wilson

*For Harry W. White
for comment after
April 10th
Wuh*

92

OUTLINE OF A
SOUND ECONOMIC PROGRAM FOR AMERICAN DEMOCRACY
securing
30 YEARS OF FULL EMPLOYMENT

by
Dr. Herbert J.G. Bab
King's College
Cambridge, Eng.

Sound..... because it is entirely based on private initiative.
because it will secure full employment for a generation at least
because it will balance Federal, State, and local budgets.

Economic.....because it is entirely based on the competitive system
because it will work down the level of rents
because it will relieve Federal, State, and local Governments from the relief burden

Program.....because it leads up to concrete proposals

American Democracy...because it shows how idle man power and idle resources can be brought together without endangering economic freedom.

1.

SUMMARY1. Introduction

Profits are the mainspring of every capitalistic system. Ninety percent of the citizens of this country believe in the profit and loss system and are confident that it can be made workable. Yet at present many economists have lost faith in profit economy. They believe that the existing system will not be able to solve the greatest and most important problem which we are facing today, the problem of bringing idle man power and idle capital together in order to wipe out unemployment and increase the national income to the 80 billion mark reached in 1929.

This view is mainly based on the fact that in the past the rapid growth of national income has been brought about by new inventions and by new production processes which made large scale capital expenditure profitable. It is therefore concluded that the profit and loss system based on private initiative must fail if no inventions requiring large scale capital expenditure should be made in the future. Some Economists consequently hope that inventors and engineers will again save the profit and loss system, while other, who see more clearly the dangers of a policy of *laissez faire* advocate a permanent policy of spending in order to replace private initiative, which is not forth coming.

Must we really face this dilemma?

The volume of employment and of national income depends in the view of many distinguished economists mainly on new capital formation. Capital is partly invested in inventories, partly in consumers' or producers' durable goods, and partly in new construction. (1)

(1) Compare "Nat. Income and Capital Formation" by S. S. Kuznets Table 10, p 40.

2.

Yet investments in inventories and in movable durable goods depend mainly on the industrial activity in general, while on the other hand the rate of construction forthcoming is to a considerable extent a function of expanding industries. Since every considerable expansion of an important industry is bound to lead to a higher level of activity, the rate of construction has a key position in the whole economic system.

In the field of construction residential building is of paramount importance, for it is by far the largest single item. Residential construction was in 1928 sixty percent, and in 1937 still fifty percent of total construction. (2) Yet these figures do not tell the full story, for they do not show the enormous potentialities of house building. These potentialities were recently revealed by different surveys on housing conditions in this country. (3)

The conclusion is that in absence of inventions leading to vast capital expenditure the economic and also the political future of American democracy will greatly depend, whether or not large scale house building will be made attractive and therefore possible for private enterprise.

2. Economics of Housing

Costs of construction and hourly wage rates are often blamed for the lack of profits in the field of residential construction. Yet although low costs and low wage rates may have some stimulating effect on building activity, it will be difficult to maintain costs and wages at a depression level when the demand for new construction is greatly increased. Thus low costs and low wage rates if caused by depression cannot secure a long period of active construction, for they are of self-reverting character.

(2) In 37 Eastern States. Source F. W. Dodge Corp.

(3) Compare "Urban Housing" by the W.P.A.

3.

Sometimes it is believed that mass-production of houses could greatly diminish costs of production and that the building industry could by the application of modern methods of production haul itself out of its difficulties by its own boot straps. Yet it has to be seen, whether the economies, which could be achieved in this way are considerable. Sometimes economies due to lowering the quality are praised as genuine economies. Moreover, housing standards regarded as adequate today will have to be improved to satisfy future requirements. It is, therefore, at least imprudent to expect everything from economies, which may become possible by the application of modern methods of production.

The demand for new construction does not entirely depend on costs of production. In the case of single family dwellings occupied by the owner the demand depends also on the financial burden which, costs of construction given, the purchase of a house implies. The financial burden is determined by running expenses and costs of maintenance, by property taxes, and by the terms at which building and loan associations are willing to make mortgage loans. The amount which has to be paid down, the value-loan proportion, the time for which the loan is made and the rate of interest charged are all factors determining the monthly repayments which have to be made. The prospective owner occupier compares the financial burden, to which he has to commit himself, with the rent he has to pay as a tenant taking account of imponderable factors which may make the purchase of a house more or less desirable. Thus the demand for owner occupied houses will be greatly influenced by the terms at which mortgage loans are available.

In the case of rental property the rate of construction is determined by the profit margin between costs of construction and the

price of existing property with similar location, structure, design and use. Yet rental property is a form of investment. Its value is therefore determined by the expected return, the risks involved and the marketability and liquidity of such investments. The expected return depends on many circumstances, especially on the general trend of rents and on property taxes. The risks involved in rental property are regarded as great and the marketability and liquidity of such investments is as a rule poor. Thus rental property is valued comparatively low, in order to give the investor a high yield in compensation for these defects. That again diminishes the rate of new construction forthcoming.

3. The curse of property taxation

No writer of reputation has for some reason failed to recommend the abolition of property taxation. E.R.A.Seligman wrote in his "Essays on Taxation" (1) that "the general property taxes actually administered is beyond doubt one of the worst taxes known in the civilized world. Because of its attempts to tax intangibles as well as tangibles things it sins against the cardinal rule of uniformity, of equality and of universality of taxation. It puts a premium on dishonesty and debauches the public conscience; it reduces deception to a system and makes a science of knavery; it presses hardest on those least able to pay; it imposes double taxation on one man and grants entire immunity to the next. In short the general property tax is so flagrantly inequitable that its retention can be explained only through ignorance and inertia. It is the cause of such crying injustice that its alteration or its abolition must become the battle cry of every statesman and reformer."

The persistence of property taxation may be partly due to its fiscal importance and to the difficulty to find other sources of revenue. Yet it is likely that the public has never understood the full

(1) p. 61.

5.

implication of property taxes.

The criticism against property taxation has been made exclusively on the ground that these taxes do not conform to the basic principle for a just and equitable apportionment of the tax burden; to the principle of "ability to pay" and to the "benefit" principle. Yet in all these arguments the problem, how property taxes affect construction, employment, and national income has been entirely neglected. The public therefore has regarded property taxation solely as a problem of local finance and not also as a problem of employment and national income.

It has been overlooked that property taxes add in the case of single family dwellings to the burden of the owner, reduce the return and depress the value of rental property (1) And in both cases the rate of residential construction will be diminished.

However, the consequences of property taxation are still more far reaching. The 19th Century has been a period of corporate development of business. Individual management and individual ownership were more and more replaced by big corporations engaged in all kinds of activities. Investment markets have been organized and have greatly increased the marketability and liquidity of investments owned by individuals. This development made it possible to reduce and diversify the risks inherent in every form of investment. In the last years of the 19th Century a rapid growth took place of credit institutions, insurance companies, and recently of investment trusts.

In the field of residential construction building and loan associations began to grow at a spectacular rate in the post war period. Yet rental property was excluded from all this development in spite of the fact that property companies would have greatly reduced the costs of house

(1) Professor Seligman emphasizes that property taxation is capitalized and has to be regarded as a mortgage. See "The Shifting and Incidents of Taxation".

building and the risks of property ownership by well planned and well designed large scale construction, and by expert management. Yet large scale construction can only be financed if the prospective yield is attractive enough and if the rents can be afforded by a great number of tenants. As long as investors believe that real property is a risky investment the yield offered must take account of this fact. Only when property companies would have shown an attractive and stable return investors would revise their views and only then it would be possible to attract new funds at a lower rate of interest.

Moreover, property companies would have diversified the risks of house ownership. They would have greatly increased the marketability and liquidity of investments in rental property. Finally the small investor would have been put in a position to invest its savings in this way.

7.

Thus property taxation by making large scale construction and the reduction of risks impossible, has resulted in a considerable margin between yields on real property and on industrial enterprise. The high yield required, has further depressed the value of rental property; it has reduced the profit margin between costs of construction and the value of the existing property. Property taxation has therefore cumulative effects.

4. Recent developments.

Prior to the world depression of 1933 mortgage loans were handled in the traditional way. The terms at which such loans were available varied widely and the loans were made for a few years only.

Building and loan associations specializing in the field of mortgages for owner-occupier embarked on a more liberal loan policy. They increased the value loan proportion, lengthened the term and granted as a rule only fully amortized loans.

The mortgage crisis of 1932-33 made the refinancing of a vast amount of mortgage-loans necessary. For this purpose the Home Owners Loan Corporation was created, which by its liberal loan policy has greatly contributed to the new development.

Yet in the years after the crisis individual and institutional lenders were frightened to make new mortgage-loans, in view of the fact that mortgages had been found a very risky and entirely illiquid form of investment. That led to the creation of a mortgage insurance system, which has been set up in 1934. The new agency, the Federal Housing Authority, has proved to be of great value especially in the field of single family dwellings. It has reduced and diversified the risks of mortgage loans, and in this way created a ready market for insured mortgages. Moreover, the terms at which funds could be raised were improved

and finally new sources for such funds were tapped.

However, it should not be overlooked that the F.H.A. by its nature is restricted to encourage the construction of owner-occupied dwellings. The reason is that improved credit facilities will go a long way to stimulate the construction of single family houses occupied by owners who regard the purchase of a house not as investors but from the point of view of a tenant. Thus every reduction of the monthly installments which have to be paid will greatly increase the demand for such houses; yet construction of rental property will be only forthcoming if entrepreneurs can be found willing to risk their capital in house ownership. That will mainly depend on the attractiveness of rental property compared with other forms of investment taking account of the risks involved. Improved credit facilities will in this case have only little influence, even if the value-loan ratio should be greatly increased, for entrepreneurs, whether they borrow or not, must always take the risk of their whole venture. Therefore, the insurance of mortgage loans will not stimulate the construction of rental property. That will only be achieved by making property ownership more attractive. Moreover, large property companies which then would come into existence could, by reducing and diversifying risks, perform the same function as the F.H.A. in the field of single family dwellings.

Finally, the U.S.H.A. was set up for the construction of low rent housing schemes and for slum clearance. Up to ninety percent of the costs of such schemes are financed by loans made at three percent to Public Housing Authorities acting as dummy-entrepreneurs. In addition to that subsidies are given annually and tax-exemption is granted by local governments. Yet, as Mr. Nathan Strauss has declared, the U.S.H.A. will only be in a position to do one third of the job, leaving two-thirds

to private initiative. (1)

5. The Program.

Two great difficulties have to be overcome to abolish property taxation. Firstly, the States and local governments have a constitutional right to levy property taxes and secondly, property taxation is the main source of revenue for local governments. For these reasons it is vain to hope that the States or the local governments will one day abolish these taxes. The initiative and the responsibility must therefore rest with the Federal Government, which must compensate in one way or the other the States and the local Governments for the loss of revenue. That implies a complete new deal in taxation, which must be thoroughly studied before carried out. In order to avoid the postponement of the tax reform ad calendas graecas and in order to get immediate results, the Federal Government should for a transitional period refund to the individuals the property taxes paid. Since the abolition of property taxes is only intended to encourage the construction of new dwellings and also non residential construction and not to allow windfall profits to owners of old property, those payments should be only made in the case of new construction. In this way the burden for the Federal Government would be small and the effect on construction would not be impaired. The impact would be so tremendous that it may be more expedient to embark on such a policy in two steps in order to give building industry time to adapt itself to the new conditions and to prepare well planned and well designed projects. That would imply that the Federal Government should at first only refund half of the taxes paid. The second step could be done after a certain time has elapsed, when the building industry has digested the first rush of orders.

(1) Address to the National Association of Real Estate Boards in Milwaukee, November 10, 1938.

10.

All the payments of the Federal Government should be made under the following conditions:

1. That the assessing and collecting authorities will not increase property taxes by raising the rates, by higher assessments, or by failing to take account of the yearly depreciation of the property assessed;
2. that the States declare themselves willing to negotiate with the Federal Government for a complete reshuffle of taxation;
3. that the States promise, after having reached an agreement with the Federal Government to introduce legislation abolishing property taxation, and repealing all laws which make investment in residential property for institutions and trust funds illegal and which restrict the free flow of capital within the country.

These conditions are in no way intended to infringe the right of States and of local governments to levy taxes. Yet it should be the duty of the Federal Government to protect its citizens from a type of tax which makes the right of property ownership almost an illusion.

The Federal Government should immediately set up a Committee for studying and working out the principles of the new deal in fiscal policy. The proposals for the reshuffle of taxation should be strictly based on the "ability to pay" and on the "benefit" principle. It would be the task of this Committee to interpret and apply these principles in its recommendations.

A rising level of activity would lead to a rise in the long term rate of interest, which would have an adverse affect on the rate of new construction forthcoming. The Federal Government, therefore, should make a public statement that easy money has to be regarded as its permanent policy. It should be made clear, that the Federal Reserve Board will operate in the open market, if and when necessary, in order to keep the new established rate on long term government bonds stable.

Such a declaration would also have a very healthy psychological affect. It would remove one important element of uncertainty

11.

and by doing so help to restore confidence and further encourage investments.

The Building industry should in her own interest provide machinery to control prices and encourage production when and where necessary for avoiding bottle necks.

Tax exemption for new construction would have an enormous effect on building activity. Residential construction which in 1938 was only around 1 billion would soon pass the peak reached in 1925 of 5.2 billions and would rise as fast as plans for new construction are ready and as the supply of skilled labor and of building materials would allow. It is difficult to prophecy the exact amount of residential construction forthcoming in the first and in the following years after the abolition of property taxes. A yearly rate of 6 billions might be easily reached and by the operations of large property companies maintained and even increased for a long period of years. Such a rate would cover all the replacement needs and would improve housing standards at a rate of not more than four percent per year, without taking account of the growth of population and of families. (1)

Such a development in the field of residential building would necessarily result in a large increase of non-residential construction, for the building industry itself will have to expand its production capacity. There would be also a considerable expansion of electric power and light companies. The durable movable goods industry would be greatly stimulated for the building industry would need much additional equipment and railroads would have to buy a great amount of rolling stocks for the transport of steel and other building materials. Moreover, the consumers durable goods industry would greatly benefit by the rise of

(1) Replacement needs are assumed to be 2 billions per year and the value of all dwellings in existence 100 billions.

12.

employment and consumers purchasing power. There would be a heavy demand for furniture and all kinds of household equipments, but also for automobiles and other durable goods. Finally, inventories would have to be increased in order to make a higher level of production possible.

If residential construction is assumed to be six billions per year, and non-residential including public works 4 billions, full employment will be secured, and national income will have reached or even surpassed the 80 billion mark. Under such circumstances the fiscal problem will not be too difficult to be solved.

The exact amount of yearly payments, which will have to be made by the Federal Governments depends mainly on the rate of new construction forthcoming. Under the assumption that the average property tax levied now is three percent compensation payments would increase yearly between 100 and 300 millions, if construction which has been around 3.3 billions in 1938 would rise to about 10 billions. However, this additional burden could easily be met by the existing taxes since the yield of federal revenue is now about ten percent of national income. A rise in the compensation payments of between 100 and 300 millions would require a rise in the national income of 1-3 billions per year. Moreover, revenue raises more than proportional to national income. Finally the Federal budget would be relieved from its relief burden and public works could be reduced to a normal level. This is the way by which the Federal budget would come automatically in balance.

The program outlined is a program of economic security which always must supplement social security. It is in first line a labor program, for it will go a long way to wipe out unemployment and make relief unnecessary. Millions of unskilled workers will be needed and

many thousands will have to be skilled and will enjoy the higher wages of skilled labor. And building labor, even if it should receive the same hourly wage rates, will greatly benefit by a rise in the annual wage, due to more working days.

Farmers would find better markets and could take advantage of higher prices; moreover, the supply of agricultural labor will be reduced by a large demand for building labor.

The difficulties of American Trade policy are to a considerable extent due to the unwillingness of American industry to allow increased imports of industrial products and to the impossibility to enlarge agricultural imports under existing conditions. Full employment would greatly diminish the resistance against lowering tariffs and against additional imports of agricultural products. Larger imports would pave the way for larger exports.

6. Conclusions.

It is unfortunate that the experience of the last years has led to the widespread conviction that "private enterprise left to its own devices is no longer capable of achieving anything approaching full employment of our human or material resources". (1)

Quite the contrary is true. Private enterprise has struggled along for many years and even given us spells of prosperity. But it had never had a fair chance for an entirely obsolete tax system has made large scale investment in the nations largest industry unattractive and impossible. And for seventy years we put our foot on the brake and wondered what was wrong with the motor!

The abolition of property taxation will be a landmark in American history, a new epoch of home civilization will begin, economic

(1) "An Economic Program for American Democracy" by 7 Harvard and Tuft Economists, p. 88.

14.

liberalism will be freed from its chains, the problem of bringing together idle man-power and idle capital will be solved in the American way,

And this generation will nobly have saved Democracy.



GROUP MEETING

April 17, 1939.
9:30 A. M.

Present: Mr. Hanes
Mr. Gibbons
Mr. Graves
Mr. Gaston
Mr. Lochhead
Mr. Duffield
Mr. Haas
Mr. White
Mr. McReynolds
Mr. Foley
Miss Chauncey

H.M.Jr: Good morning.

Hanes: Good morning.

H.M.Jr: What have you got?

Hanes: Are you counting on Hogate at 11:30? Is that what you told him?

H.M.Jr: Yes.

Hanes: Is that what you want?

H.M.Jr: Yes. I'd forgotten about it. Who is C. O. Hardy?

McR: The one who was in here at 10:30 last Saturday.

H.M.Jr: Oh, I'm looking at Saturday. Yes, Hogate is 11:30. Yes, that's right.

Hanes: I don't think that will be - I don't think that will take long.

H.M.Jr: That's all right.

Hanes: Just wanted to say a word to you.

H.M.Jr: I'll tell him about Gene.

Hanes: About what?

H.M.Jr: About Gene.

Hanes: He's Dewey's campaign manager. Want to watch out.

H.M.Jr: Is he?

- 2 -

Duffield: That's the fiction that has grown up.

H.M.Jr: I see. What else?

Hanes: I haven't anything.

H.M.Jr: We got off that cable Sunday night, which I'd like you to see - pretty important. The boys worked hard on it - must have - Saturday, and they were at the house at 4:00 Sunday. Think you'll like it.

Hanes: Good.

H.M.Jr: And you're going to let Bewley read - just between England and ourselves.

Lochhead: That's right.

That's the.....

H.M.Jr: Is that all you've got?

Hanes: That's all.

Duffield: The only thing I have is the A.B.A.; sometime between 11:00 and 1:00 they would like.....

H.M.Jr: What do they want?

Duffield: They're worried, as I understand it, about the position they should take on the Brown bill and similar proposals, and they want particularly to talk to you because they feel it is something that affects this Department.

H.M.Jr: Who's here from the A.B.A.?

Duffield: Mr. Robert Hanes and Mr. Cook, the head of the National Bank Division, and Mr. Fleming.

H.M.Jr: Will Hogate take more than 15 minutes?

Hanes: I wouldn't think so.

H.M.Jr: Why don't we say A.B.A. at quarter of twelve then?

- 3 -

Duffield: All right.

H.M.Jr: Will you be here, John?

Hanes: Yes.

H.M.Jr: And would you (Duffield) ask Delano to be here, please?

Duffield: Quarter of twelve.

H.M.Jr: Yes.

Duffield: That's all.

H.M.Jr: Herbert?

Gaston: I think I haven't anything. There was one story in the Wall Street Journal Friday or Saturday, about then, suggesting that the United States start war risk insurance. There was a letter that came in, which is up in Mr. Bartelt's shop, from Senator Sheppard, enclosing a letter from the Dallas Chamber of Commerce asking us to reinstate war risk insurance; and I spoke to Dan about it.

H.M.Jr: Well, Mr. Bell has returned from the wilderness and - didn't get anything - he's returned after four years to the Treasury.

Bell: I'll have a memorandum on that whole thing today.

H.M.Jr: All right.

Bell: I could give you a summary of it if you wanted it, as to what was done.

H.M.Jr: You mean now?

Bell: Yes, if you want it.

H.M.Jr: Sure.

Bell: Well, the situation apparently developed before the declaration of war just about like it's

- 4 -

developing now, and shortly after the declaration of war on July 31, Secretary McAdoo called a conference of business men, bankers, foreign exchange dealers, transportation people, shipping people, and so forth, and - on August 14 - and they recommended that a Bureau of War Risk Insurance be set up in the Treasury to insure cargoes and hulls. The Act was passed on September 2, 1914, the Bureau was set up and regulations were issued by the Secretary and the whole thing operated through Collectors of Customs.

Later they amended the Act to include seamen and sailors, and then when we entered the war they amended it to include sailors and soldiers of the United States. And then that part of the Act concerning insurance on cargoes and hulls and seamen and sailors of the United States marine was repealed right after the war, about six months after the declaration of peace, and then it was converted into the Veterans' Administration in the Harding Administration.

H.M.Jr: Well, you two men who are so close to Brownlow and Merriam - would that go today to the Maritime Commission?

Bell: Well, I don't know. It would be questionable. If you're going to include the sailors and seamen, which you probably would if we got into the war and you might want to if we didn't get into it, I don't think it would hurt to be in the Veterans' Administration. They have the files and the history and have some of the men over there operating at that time.

H.M.Jr: If you don't mind, I don't see why it should be in the Veterans' Administration.

Bell: Not from a functional standpoint.

H.M.Jr: I don't say it should be in the Treasury, but I don't see why it should be any more there.

- 5 -

Bell: I really think it should operate through the Collectors of Customs, because they have to clear all the vessels and they might as well issue the insurance policy and issue the clearance. And it costs very little money to operate it.

H.M.Jr: Well, are you so situated that you can sort of

Bell: I'll have you a memorandum on it today. And General Hines - I just talked to him and he got up a whole history of it about a year or so ago.

H.M.Jr: Why don't you talk to Admiral Land, too?

Bell: I'll be glad to. General Hines suggested that if you recreate it you might want to put it in the Maritime Commission.

H.M.Jr: It's like all these things. I just want the thing where you can give the people the best service. But I think that for a ship owner to have to go to the Veterans' Bureau just doesn't make sense.

Hanes: I think Danny's suggestion would be wonderful from the shippers' standpoint, if you could clear it with Customs.

Bell: Whoever handles it, I guess you'd operate through them.

H.M.Jr: When Mr. Harrison is down here - there isn't a better man to talk to than Harrison when he comes down. But I'd also talk to Emory Land.

Bell: Would like to have me carry it?

H.M.Jr: Yes, definitely, and - definitely, yes. What?

Bell: All right.

H.M.Jr: That's your personal assignment.

Bell: All right.

- 6 -

Gaston: These cotton people who seem to be agitating the thing right now are not talking about war conditions. They think War Risk Insurance rates are now so high on shipments and the rates are so uncertain, that they'd like to see the thing instituted right now on American cargoes.

Bell: As I say, the situation developing right now is just about like it was in June or July, 1914.

H.M.Jr: Well, if you'll move with your usual speed.....

Bell: Next July.

H.M.Jr: No, I happen to be sincere. No, I mean we'll get another report tomorrow.

Bell: O. K.

H.M.Jr: I think that's the kind of service that we can render the American business man.

Bell: The Treasury took the initiative in that situation and admitted at the outset that it wasn't a problem for the Treasury, but in view of the situation developing and the national interests involved, they took the initiative.

H.M.Jr: I am not, unfortunately, sufficiently familiar with it. I really don't know the functions of the Maritime Commission. I just don't know how they function. But I should think if you sit down with them..... Instinctively I would keep away from the Veterans because I think in peoples' minds it's soldiers, and so forth. I just don't see - when I say F.D.I.C, F.H.A. - they insure also.

Bell: The only reason it would go in Veterans is because of past history, the records.

H.M.Jr: Well, we can move the files over here. I don't say it should be here.

Bell: And you could also detail some of the people that were familiar with its operation to whatever agency is going to operate it.

- 7 -

H.M.Jr: Well, will you look it over and give us a progress report tomorrow.

Lochhead: Dan, would this be brought in at all? Would this Government insurance apply to losses we have on shipments?

Bell: Well, only to the extent that you have securities and gold.

Lochhead: No. Well, I was just wondering whether there was anything - whether we'd leave that on one side or it ought to be all brought in together.

H.M.Jr: No, this is.....

Lochhead: This is for private. The other is government.

H.M.Jr: No, this is private.

Now, what the English have done - they have gone ahead and done it, indemnifying everybody, then they get the legislation through afterwards. But they're telling everybody, "We'll insure you and we'll take the full risk, and we'll try to get it through Parliament."

But it must be holding back commerce right now, with this high insurance.

Bell: Eliminating administrative expenses, which were very small, we made about 17 million dollars on that transaction.

H.M.Jr: Did we? Well, would you have a lawyer sort of travel with you on it, in case we wanted some legislation.

(Foley comes in)

H.M.Jr: This is War Risk Insurance.

White: Isn't there an additional reason for doing that if England is doing that? It gives them a slight advantage in their trade, so that.....

H.M.Jr: Distinctly so.

- 8 -

White:there is an additional factor.

H.M.Jr: Distinctly so.

Bell: I understand England has taken over.....

H.M.Jr: The Government has.

Bell: Yes.

Gaston: Made an announcement in Commons one day last week on the subject.

Lochhead: I can't find that they are distinguishing between cargoes carried on British vessels and on other vessels, as long as the shipments are to and from Great Britain. I don't think they have limited it to insurance on British boats.

Gaston: British cargoes.

White: But the advantage remains just the same.

H.M.Jr: Will you carry that?

Bell: Yes.

H.M.Jr: Ed, this question which we raised in the cable and which we say has not been referred to the Attorney General - will you please fix it up that it is referred today to him?

Foley: Yes sir.

H.M.Jr: Will you?

Foley: Yes.

H.M.Jr: And then I think you might jog the Attorney General again today on the Munitions Board business.

Foley: I've got photostats of that memorandum. You want to distribute them?

H.M.Jr: What memorandum?

Foley: The memorandum on the legal phases.

- 9 -

H.M.Jr: Of.....

Foley: The question.

H.M.Jr: Oh no. Just jog the Attorney General and let's see what happens. But on the thing in last night's cable which the President cleared - I think we'll put that up to the Attorney General.

Are you all right otherwise?

Foley: Yes sir.

H.M.Jr: Where is my Stabilization Bill in the House?

Foley: It's supposed to come up on the floor tomorrow.

H.M.Jr: Oh, really?

Foley: Uh-huh. It's reported favorably and I understand they have two days, Tuesday and Thursday, this week for consideration of the bill on the floor.

H.M.Jr: Well, I'd say this is a good atmosphere to get it passed.

Foley: Yes.

H.M.Jr: All right.

Herbert, do you want to tell Haas who called up about his spies out in Detroit?

Gaston: I told George over the phone that General Motors has a man named Pike Johnson here who is their political scout, and he called up Harry Eaton Saturday morning, said there was some agitation, that Knudsen had just called him on the phone and wanted to know about this man Seltzer who was seeking an interview with him, and he recalled that Seltzer had some connection with labor activities as an NRA adviser and he was a little bit suspicious of him, and he wanted some endorsement from the Treasury Department before he saw Seltzer.

H.M.Jr: (On White House phone). Hello. - - How are you? - - If you make out the President's schedule for

- 10 -

tomorrow, we are able to report - we being SEC, Federal Reserve, Agriculture, and Treasury - on how to handle our various markets if something should happen in Europe. And I would say that it would take 15 minutes to a half hour. - - Yes, and what I would like to have if I stand in well with you, would be the first appointment tomorrow. - - Well, Wallace and Eccles and Jerome Frank and..... - - No, Henderson isn't on it. - - No, no. Wallace and I don't know whether you will want to announce it as a regular appointment or not. That's up to him. I saw him at 6:00 yesterday and he said I was lunching with him today. Is that..... - - Oh, really? I see. I wonder what that means. - - O. K., all right.

He's having Hull for lunch today at 2:00, so maybe you had better give me that memorandum on the Munitions Board; maybe I'm going to be spanked. So I might as well be spanked.....

McR: Is the memorandum thick enough?

Bell: Put it in your pants.

Gibbons: You can take that several ways.

Bell: Mac is thinking of his school days.

H.M.Jr: All right.

Well, Herbert, was Seltzer there - was Seltzer there Saturday?

Haas: No, it was this morning.

H.M.Jr: Well, what were they calling up about yesterday?

Haas: Trying to make an appointment.

Gaston: It was Saturday morning that Knudsen called Johnson and Johnson called Harry Eaton and Harry Eaton called me; and I tried to give Larry Seltzer a clean bill of health. He had asked for an appointment for today, I believe.

H.M.Jr: Oh, I see. Did he get the appointment?

- 11 -

Gaston: I think so, because they didn't come back to ask for any telegram.

H.M.Jr: All right. Anything else, Herbert?

Gaston: I think not.

H.M.Jr: George? I see you were the first person to tell me about this spurt in automobile sales. I wondered whether it was continuing.

Haas: Well, I'm going to get - I think before noon I'll have the first ten days of April. They are compiled this morning, the New York office tells me. They are going to telephone them. And Seltzer will call you at noon.

H.M.Jr: I get the distinct feeling that business is pretty good all over.

Haas: Well, it's got - the war scare is settling into it.

H.M.Jr: I know.

Haas: But it continues on - the only effect this has had so far is to make people hold back on orders. But our orders index still looks pretty good.

H.M.Jr: Anything else?

Haas: I have nothing.

H.M.Jr: Harry?

White: Nothing. The weekly figures show 103 million dollars capital inflow for the week ending April 5. Almost all of it was private short-term balances moved in here; 96 million of that 103 consisted of short-term balances.

H.M.Jr: Now, I don't owe any other country any cables, or do I owe Cochran anything?

White: Well, those other cables should have an answer.

H.M.Jr: Well, if you boys will draft one, I'll take a look at it.

Archie?

- 12 -

Lochhead: The foreign exchanges, which had improved on Saturday afternoon, fell away again this morning. They are down just about to last week's levels. And Belgium jumped their rediscount rate up from one and a half to four. They're starting to show the strain. Of course, being a country on the gold standard, they're following the old approved lines of raising their discount rates to protect the exchange.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Am I not expecting a visit from Mr. Helvering and a report?

Graves: Mr. Helvering?

H.M.Jr: Yes.

Graves: You mean with respect to that gambling thing at Lansing?

H.M.Jr: Yes.

Graves: I think that would be due tomorrow. That is, you told him you'd meet at your conference on Tuesday.

H.M.Jr: All right.

Gibbons: You got my memorandum on Harris?

H.M.Jr: No, Mac told me about it. I want to say here just what Mac told me verbally, for everybody's benefit. McReynolds gave me a verbal report on Mr. Harris, and there is absolutely nothing of any kind. I mean he shipped in a couple hundred dollars worth of merchandise by freight, didn't know what the cost was and made a guess as to what it was and put down, say, two hundred thirty-five dollars, or something like that. Then the fellow valued it and found it was worth, after the bills came in - am I right, Mac - do I remember rightly - found it was four hundred dollars, and they slapped on a fine of fifty dollars. I mean that's the whole story - is that about right, Mac - the way you told it to me?

- 13 -

McR: Mrs. Harris purchased certain wearing apparel in London amounting to about four hundred sixty dollars, articles packed in two packages without any accompanying document. Upon arrival, Harris, having no information concerning the correct value of the merchandise, instructed his customs broker to make entry of the estimated value at two hundred thirty-five dollars.

H.M.Jr: I said two hundred thirty-five dollars.

Gibbons: Yes.

H.M.Jr: You told it to me. I haven't read a thing.

McR: I just told it to you by my own recollection.

H.M.Jr: But my recollection of what you recollected.

McR: They're both good.

H.M.Jr: They're both good.

Gibbons: There's nothing to it except when he was going out on the dock - thought it was rather indiscreet trying to interfere with somebody he didn't know anything about. Tempest in a teapot, though.

H.M.Jr: Well, he's a two-fisted guy. That's why I'm asking him down here. If we get into trouble, and I hope to God we don't, I'm going to surround myself with two-fisted guys. And if they get into a little trouble because they assert themselves - that's why I'm asking them down here. I can't find out that he did anything that I might not have done myself. There is certainly nothing in the slightest way - I'm saying this for the record - there isn't anything in the slightest way, other than his bawling out a couple of Customs Inspectors. If I had the time, I'd bawl a lot of them out. But as far as his record is concerned - I mean it's just - I hope I never do anything worse, that's all. I wanted the group to have the benefit of that. I mean to sit down and bawl out a couple of Customs Inspectors - why - I mean after all he's got red blood in his veins, and that's why I'm asking him down here - only, as I say, in case we have trouble.

- 14 -

He moves fast; he's a fast operator. That's what I want.

Incidentally, Harold, I'd like to give you this. If you would get together, have it by Wednesday morning, the various rules and regulations - you can get it from the lawyers, but I wish you'd have it - as to what Customs does do in case of a war. You see, they're all drawn up. I mean what are the things we have to do, see? And have those things Wednesday morning.

Graves: Yes sir.

H.M.Jr: Bell?

Bell: I have one matter left over from Budget days that I'd like to settle with you, which I didn't get an appointment for last week.

H.M.Jr: In what capacity does the gentleman speak?

Bell: What's that?

H.M.Jr: In what capacity do you address me?

Bell: Treasury employee.

H.M.Jr: O. K., pass.

Bell: But I'd like to clean up one remaining budget item we've had for a week.

H.M.Jr: How much do you want to cut us?

Bell: It may save you money if you sign the memorandum; I don't know.

H.M.Jr: As your last act, you want to sign it. Have you got it there?

Bell: No, I haven't got it. You ought to read it. Take about five minutes.

H.M.Jr: Oh, must I read it?

Bell: Yes.

- 15 -

H.M.Jr: All right.

Miss Chauncey, Mr. Bell wants me to read something before I sign it. Must be very important.

Chauncey: Yes sir.

Bell: I just want you to know what you're signing.

Foley: You work for him now, Dan.

Bell: Yes, I'm working for him now.

H.M.Jr: All right. What else?

Bell: That's all.

H.M.Jr: McReynolds?

McR: Do you have any idea whether you can get to me today on signing two or three things?

H.M.Jr: Oh yes. Yes. Mr. McReynolds, Miss Chauncey - not this morning.

Chauncey: 2:30?

H.M.Jr: No, we'll see.

McR: Nothing here that needs your attention, providing that you have time.....

H.M.Jr: We'll get around to it.

McR: Ten minutes will do.

H.M.Jr: All right.

McR: That's Peoples' memorandum about the Rhinebeck Post Office. I thought the President might ask you about it.

122

see Mr. ask 4-20
or Atty Gen's
opinion
dated
4-19

APR 18 1939

My dear Mr. Attorney General:

As you know, with the full knowledge and approval of the President, I am conducting negotiations with certain foreign governments as to courses of action which may be adopted for the protection of our government bond, security and commodity markets and our entire economic structure from the impact and consequences of war breaking out in Europe.

One course of action which is under consideration involves the Reconstruction Finance Corporation making loans to Great Britain or one of its agencies, or a corporation acting on behalf of Great Britain, in the event of a war in Europe and in which Great Britain is one of the belligerents; such loans to be secured by British-owned American securities to be requisitioned by the British government, and such collateral to have a value in excess of any such loan. The purpose of such a loan would be to prevent such liquidation or threat of liquidation of British-owned American securities as would adversely affect our markets and our economy.

The President has asked that I obtain your opinion as to the legality of such a loan.

- 2 -

I have been advised informally by Mr. Jesse Jones, Chairman of the Reconstruction Finance Corporation, that it is his view that the Reconstruction Finance Corporation would have authority to make such loans to corporations organized in this country and acting on behalf of the British government. I am enclosing a copy of a memorandum on the problem which has been prepared by the Acting General Counsel of the Treasury. I should also be glad to make available to such representatives of your Department as you may designate additional memoranda and other material in our files which may be of assistance in considering the question.

Of course this whole problem should be handled with the utmost secrecy.

Very truly yours,

Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

Enclosure. Copy of E. H. Foley, Jr.'s memo of 4/15/39
to the Secretary re: The Proposal to Lend
Against or Purchase American Securities
"Nationalized" by A Foreign Country.

BB:BJ 4/17/39

PAP

GRAY

LONDON

Dated April 18, 1939

Rec'd 7:20 a.m.

Secretary of State

Washington

510, April 18, noon

FOR THE SECRETARY OF THE TREASURY FROM BUTTER-
WORTH.

One. Philips asks that if and when you pass on one copy of the documents referred to in my 483, April 14, 7 p.m., to the chairman of the Federal Reserve Board you be so good as to let him know.

Two. Apropos of the last paragraph of your 263, April 16, 8 p.m., I learn from a thoroughly reliable unofficial source that Osborne of the Bank of England, who until recently was Deputy Governor of the Bank of Canada, sailed for Canada the end of last week to arrange with the Canadian monetary authorities concerted measures in the event of war.

RR

RECEIVED
KENNEDY

APR 18 1939

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

This should be
filed as of date 125
could be 4/18
not Whites memo
which is 4/21.

126

Treasury Department
Division of Monetary Research

Date April 21, 1939. 1938

Secretary Morgenthau

I think you will be interested in

It is a request by the Spanish
Government, via Cochran, for a cotton
loan from the Export-Import Bank.

MR. WHITE
Branch 2058 - Room 208

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 18, 1939, 6 p.m.

NO.: 769

FROM COCHRAN.

A private Paris banker on March 31 introduced me to Manuel Arburua, who is the sub manager of the Exchange Committee of the Spanish Ministry of Finance. For several years Arburua has been an official of the Bank of Spain. He told me that he had wanted to come to see me since he knew that in 1935 I visited the Bank of Spain at Madrid. He spoke of the general Spanish situation, and particularly the need for raw materials. He had just been in Italy, where he had been a member of the Spanish commission to get support from the Italians and to consider adjusting obligations toward that country.

Arburua said that 3 or 4 months before the civil war started in 1936, the Bank of Spain adopted the policy of assembling practically all the gold and silver reserves of the Bank in the vaults of the head bank in Madrid. Therefore, when the civil war broke out, most of the metallic reserves came into the hands of the Madrid Government. The Madrid Government used these reserves to pay for military supplies, and so on. My visitor stated that now the Franco Government finds that there are practically no metallic resources in the vaults of the Bank of Spain.

During

- 2 -

During the entire civil war, he said, the Nationalist authorities had continued to export to Italy and Germany mineral and other products. They had thereby compensated to a large extent for the armament materials provided by these two friendly countries. There are still debts to these two countries. Germany, he said, has not brought up the question of debt liquidation as yet; he expects this problem will be solved without difficulty by exporting to Germany over a period of years, as in the past Germany has always purchased from Spain more than she has sold and is looked upon to continue to be a good customer of Spain's.

As for liquidation of the Spanish accounts with Italy, no definite arrangement has yet been made. My visitor does not expect Italy to press for payment in any way to embarrass his country. There would be no trade agreement with either Italy or Germany, he insisted, which would keep Spain from being free and independent in making trade agreements with other countries. His country's broad important reciprocal trade agreement with Italy, he emphasized, ensues since there is such a similarity of products in the two countries.

The Nationalists manufactured in Spain a very important part of the goods and munitions they needed during the war. They paid cash acquired through exporting

Spanish

- 3 -

Spanish products from the territory their forces controlled, for the articles which they had to buy abroad. They have run significant accounts only with Germany, and with Italy to a lesser extent.

The Franco Government will now have to go slowly in its tremendous task of reconstruction, since they lack foreign exchange and gold, and do not have credit facilities. It is planned to increase Spanish exports as much as possible and to use the foreign exchange therefrom in importing only necessities such as coal, cotton, oil and wheat. The Spanish have made an arrangement to import a large amount of Argentine wheat because last year's wheat crop was insufficient. They are giving Argentina in turn a trade treaty guaranteeing an excess in trade in favor of Argentina which over a few years would permit the liquidation of the debt incurred for present wheat importations.

I reminded my visitor that the Franco Government had not been recognized by my Government at the time we had our conversation. Arburua replied that we had met through a mutual friend, and he said that particularly because he then had no authority to approach any American officials, he wanted the visit considered entirely unofficial.

I was visited again today by Arburua, who brought
with

- 4 -

with him Vicente Taberna Latasa. The latter was formerly the Spanish Commercial Attaché in Paris and is now in the Ministry of Industry and Commerce at Bilbao. Also with him was José Maria Sagarra Montoliuán, who is an engineer in the Ministry of Industry and Commerce, and who also serves as Secretary of the Spanish Cotton Committee.

My friend told me that after he had been in Paris the last time he went to Burges. After he had consulted with the appropriate officials there, he was sent back to Paris together with the two officials mentioned above for the purpose of seeing me and trying to find out whether there is any possibility of getting credit facilities from the Export-Import Bank for the purchase of American cotton, and if so, how the Spanish officials should proceed with such negotiations. I said that since they requested it I would pose the question, and then pass on to them such information and advice as my Government might give me. These officials will stay in Paris until a reply is received, and are anxious to have it as soon as it can be given. They informed me that they could be reached through their Paris Embassy.

The following informal memorandum was given to me by the group:

"Basis of a ~~proposal~~ for credit with the view to
purchasing

- 5 -

purchasing raw cotton for the Spanish market".

The memorandum reads in translation:

"One. Spain needs to purchase minimum of 300,000 bales of American cotton for its normal annual consumption.

"Two. Payment for the said bales would be made on credit for a minimum duration of three years and at a low rate of interest.

"Three. Payment would be effected by scaled maturities of a minimum of three years counting from the date of arrival of the bales in Spanish ports.

"Four. The operation would be concluded with the rapidity necessary for the first shipment of 60,000 bales to arrive in Spanish ports the month of May 1939.

"Five. Considering the importance of the stock which the Government of the United States actually has it is desired to know quickly whether it would be disposed to effect these operations and in what general conditions".

END SECTIONS ONE TO FIVE INCLUSIVE.

BULLITT.

RECEIVED

APR 13 1939

THEATRE DEPARTMENT
Office of the Secretary
Department of the Interior

PARAPHRASE OF SECTION SIX. TELEGRAM NO. 769 OF April 18, 1939, FROM Paris.

According to my visitors, the requirements for each month would be 30,000 bales. The initial amount of 60,000 bales would take care of one month's requirements, and would leave 30,000 bales on hand for a constant reserve. I asked my friends whether there were any American firms which had cotton in Spain now, and was told that the firm of Anderson Clayton had shipped 13,500 bales to Barcelona, a free port. 2,000 of such bales were purchased by the Franco Government for cash, which leaves 11,500 bales. However, there is no disposition on the part of cotton merchants to grant such credit facilities as are required by the conditions.

I told the group that credits to foreign governments directly were not given by the Export-Import Bank. They asked if the credit could be given to the Cotton Textile Committee, in which all of the industry is represented, and to which the Government gives support and guarantee. If this is recommended, they are ready to take the matter up through Paris branches of American banks. They prefer to start their negotiations here, as they have no facilities for such negotiations in Burgos and Bilbao.

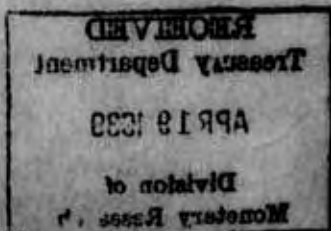
I asked about the political outlook. These three men insisted that in the reconstruction of Spain, their people have a real problem. It is their intention to rebuild Spain for themselves, and not for foreigners, they said.

- 2 -

said. They added that foreigners will have to leave Spain, and that Spain will not get entangled in international difficulties.

END MESSAGE.

BULLITT.



RECEIVED

APR 19 1939

RECEIVED
Office of the Secretary
Treasury Department
U.S. Department of the Treasury

WILLIAM

134

Received from Dr. Feis' Office, May 5/39

Paris, April 13, 1939.

No. 4168

SUBJECT: Financial Aid to China.

CONFIDENTIAL.

Confidential

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to refer to my telegram No. 786 of April 12th, 2 p.m., and to enclose herewith a copy of the Aide-Memoire mentioned therein which the Chinese Ambassador in Paris, Dr. Wellington Koo, handed to the Secretary General of the French Ministry for Foreign Affairs on April 13, 1939.

Respectfully yours,

(Signed): WILLIAM C. BULLITT.

William C. Bullitt.

Enclosure:

1. Aide-Memoire dated April 13, 1939.

WCB/jca
221

In quintuplicate.

C O P Y

Enclosure 1 to Despatch No.
of April 18, 1939, from the Embassy
at Paris.

4168

136

Confidential

AIDE-MEMOIRE

Inspired by the spirit of the Resolutions of the Assembly and the Council of the League of Nations on the appeal of the Chinese Government in connection with the situation in the Far East and, more particularly, by the Council Resolution of May 14th, 1938, which urges the members of the League, among other things, "to take into serious and sympathetic consideration requests they may receive from the Chinese Government in conformity with the said Resolutions," the Chinese Embassy, under instructions of its Government, has the honor to propose certain measures of financial aid to China, and to express its earnest hope that the French Government will see its way to take a favorable decision upon them. These measures may be classified under the following three headings.

I. Contribution to a Chinese currency stabilization fund;

II. Grant of guarantee credits to facilitate the financing of certain railway and industrial enterprises in South-Western China; and

III. Reduction of the transit duty upon supplies of material destined to the Chinese Government through Indo-China.

It may be pointed out here that for the purpose of helping China to stabilize the Chinese currency and exchange, the United States Government has purchased, and

continues . . .

- 2 -

continues to purchase, silver from the Chinese Government. These purchases have greatly helped to strengthen the Chinese exchange reserve fund abroad. The British Government on its part agreed last month to guarantee an advance of five million pounds by British banks to the Chinese currency stabilization fund, to which Chinese banks contributed an equal share. It is earnestly hoped that the French Government will make a similar contribution for the purpose.

As regards credits to facilitate the financing of purchases abroad, the American Government accorded to China last December a credit of 25 million dollars gold to pay for the purchase of supplies in the United States. The British Government likewise extended to China, shortly after the announcement of the American credit, a credit of £500,000 to facilitate the purchase of certain material in the United Kingdom, and has given the Chinese Government to understand that another credit of about three million pounds would be available for similar purposes.

Being desirous of carrying out a program of railway construction in South-Western Provinces to connect Yunnanfu in Yunnan Province and Chengtu in Szechwan Province with the Indo-Chinese Railway on one hand and with the Burmese border on the other, and also anxious to establish certain industrial plants for the manufacture of chemical and other products for the purpose of hastening the economic development of South-Western China, the Chinese Government hopes that it will be possible for the French Government to arrange for the grant of credit under the

system . . .

system of "assurance credit" to facilitate the realization of the Chinese projects.

It may be added that in contemplating the economic development of the South-Western Provinces of China, the Chinese Government has in view also the advantages which will accrue to the commerce and industry of Indo-China. In fact, one of the principal considerations which have led the Chinese Government to devise a rapid economic development of the southwestern region of China is the community of interests between Indo-China and the adjoining Chinese Provinces. The plans of development have been formulated with due regard also to the interests of Indo-China, and their early materialization with French financial assistance will pave the way for even closer collaboration between China and France with a view to promoting the joint security and common welfare of Indo-China and the adjoining Chinese Provinces.

With reference to item III stated above, a reduction of the transit duty upon Chinese supplies shipped through Indo-China will be much appreciated. In the first 15 months of the Sino-Japanese conflict most Chinese supplies were sent to China through Hongkong, a free port, and were not therefore subjected to the payment of any transit dues. The change of circumstances in October made Hongkong no longer a practical center of trans-shipment for Chinese supplies. These have since been, and are still being, carried to China through Indo-China and Burma at much greater expense, not only on account of the added cost of transportation, but also due to the fact that these shipments

have . . .

have been subjected to the payment of high transit dues.

In the case of Indo-China, Article 6 of the Sino-French Treaty of May 16th, 1930, relating to Indo-China and the adjoining Chinese Provinces provides for the transit of war material as well as of arms and munitions belonging to the Chinese Government free from all duties. The Chinese Government hopes that the French Government will see its way to take such action as will enable other Chinese supplies to enjoy similar exemption from all duties for transit through Indo-China. Such a measure will also help to further strengthen the financial resources of the Chinese Government in facing its difficult external situation.

Paris,

April 13, 1939.

RECEIVED

APR 21 1939

RECEIVED
APR 21 1939
U.S. DEPT. OF STATE

Chungking, March 7, 1939.

No. 149

Subject: Chinese Government Announcement of
January 15, 1939 in Relation to
Servicing of Chinese Government Debts.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to refer to this Embassy's telegram No. 30, January 16, 1 p.m. quoting the announcement of the Chinese Government of January 15, 1939, in connection with the servicing of Chinese Government loans, and to enclose
1/ herewith, as a matter of record, a copy in translation of a note dated January 15, 1939, received from the Ministry of Foreign Affairs. The translation was prepared by the Ministry of Foreign Affairs.

Respectfully yours,

Willys R. Peck,
Chargé d'Affaires ad interim.

Enclosure:

1/ Translation of Note and enclosure.

Original and four copies to Department
Copy to Peiping

SS1

EPD:MCL

Regraded Unclassified

(TRANSLATION)

WAICHIAOFU

Chungking.

January 15, 1939.

Monsieur le Chargé d'Affaires,

I have the honour to transmit herewith the text of an announcement issued by the Chinese Government on January 15th concerning the service of Chinese Government debts.

The Chinese Government deeply regrets that the action now taken has been found necessary, but believes that those friendly foreign Governments concerned, who have endorsed the justice of China's cause, which is so clearly identified with their own interests, will appreciate that it has been caused by events for which China is not responsible.

The Chinese Government greatly appreciates the sympathetic interest shown by the American Government during the present difficult period, and hopes that it will continue its efforts to rectify the situation referred to in the announcement on a basis consistent with existing treaties and agreements and the mutual interests of China and friendly foreign nations.

I avail myself of this opportunity to renew to you, Monsieur le Chargé d'Affaires, the assurance of my high consideration.

Mr. Willys R. Peck,

American Chargé d'Affaires,

American Embassy,

Chungking.

Original text and one copy (yellow) to Peiping;
Copy to Shanghai;
Five copies to the Department.

copy 2
RECEIVED
reference not to be made
without authority

Chungking, January 15, 1939.

For over a year the Japanese authorities, despite their assurances, have been detaining all the revenues pledged for debt service that have been collected in the areas under their military occupation, except for a single remittance from the Shanghai Customs last June. In order to make up the amounts that should have been remitted from these areas the Chinese Government has advanced about \$175,000,000. The Central Bank of China moreover has provided all the foreign exchange required although the Japanese have been interfering with the Chinese currency and forcing the acceptance of several forms of yen, military and puppet notes which has reduced the collections in legally valid currency on which obligations of the Government are secured.

Notwithstanding all difficulties the Chinese Government has provided for service of China's debts thereby demonstrating the utmost consideration for the holders of its obligations.

Under existing conditions the Chinese Government very reluctantly has been forced to the conclusion that this situation has become too anomalous to be continued. The Government therefore has been obliged to reject the Inspector-General of Customs request for a further advance. As from this date, however, the Government is prepared to set aside in special accounts in the Central Bank of China a share of the long-term debt service, proportionate to the collections in the areas not subject to Japanese interference, of the revenues pledged to all such debts outstanding before the hostilities. It is hoped that remittances of the share attributable to the pledge revenues from the areas under Japanese military occupation may similarly be forthcoming, and that interference with Chinese currency will cease, so that service of these debts may be duly effected. This measure is a temporary arrangement in view of present abnormal conditions.

Should be ans.

HARVARD UNIVERSITY

143

GRADUATE SCHOOL OF PUBLIC ADMINISTRATION

*ask him to drop in and
see me next time he is here
and we will discuss it.*

251 LITTAUER CENTER

CAMBRIDGE, MASSACHUSETTS

18 April 1939

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Secretary Morgenthau:

There were certain personal matters about which I wanted to confer with you last Saturday. However, after the four of us had talked it all over and had decided to make the modified proposal suggested by Walter Stewart in our afternoon conference with you, it seemed to me that the plan was sufficiently flexible so that I could go along, despite a number of complications.

After returning here, however, I feel that I ought to let you know that I have made certain prior commitments aside from my university obligations which I feel a responsibility for carrying out to the fullest extent possible. One has to do with the monopoly inquiry, in which connection I am working with the Securities and Exchange Commission, and another has to do with a conference arranged by the Social Science Research Council, for which John Williams and I have engaged to prepare a memorandum. Another has to do with the President's Committee on Civil Service Improvement, of which Mr. Justice Stanley Reed is chairman, and for which I am serving on an Economists' Advisory Committee.

Under the more flexible plan suggested by Stewart, I felt that it might probably work out all right, but I did want you to know of these prior commitments. Under the circumstances, however, it is possible that you may feel that my situation is too uncertain, and you may therefore wish to add someone else to your advisory group.

So far as the University is concerned, Dean Williams has assured me that it would cooperate in every way. Under the circumstances I see no need of consulting President Conant

HARVARD UNIVERSITY
GRADUATE SCHOOL OF PUBLIC ADMINISTRATION

144

FISCAL POLICY SEMINAR

231 LITTAUER CENTER
CAMBRIDGE, MASSACHUSETTS

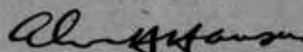
- 2 -

at this time.

I am sending a copy of this letter to Viner so that he will understand my situation more clearly.

With kindest regards,

Very sincerely yours,



Alvin H. Hansen

AHH:C

231 Littauer Center
~~100 MITTS HALL~~
Harvard University,
CAMBRIDGE, MASSACHUSETTS.

145



Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.



May 4, 1950.

Dear Professor Hansen:

Absence from the city has made it impossible for me to acknowledge your letter of April 18th before this. I read it with much interest and appreciate the spirit in which it was written.

I shall be glad to have you drop in to see me the next time you are in Washington, and we can then discuss the matter.

With all good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Professor Alvin H. Hansen,
Harvard University,
Graduate School of Public Administration,
251 Littman Center,
Cambridge, Massachusetts.

GWF/dbs

GROUP MEETING

April 18, 1939.
9:30 a. m.

Present: Mr. Hanes
Mr. Bell
Mr. White
Mr. Foley
Mr. McReynolds
Mr. Duffield
Mr. Gibbons
Mr. Graves
Mr. Lochhead
Miss Chauncey
Miss Michener (for short period)

H.M.Jr: When are we going to pass the peak of expenditures this calendar year? That's what I'm asking Miss Michener.

Bell: This calendar year?

H.M.Jr: Yes.

Well, you (Miss Michener) see Mr. Bell. Can she see you?

Bell: My mind operates on a fiscal year basis.

H.M.Jr: I mean I'm trying to.....

Bell: You're talking about.....

H.M.Jr: For the rest of this calendar year.

Bell: You're talking about monthly peak or accumulative peak? Of course the accumulative peak will be the end of the year.

H.M.Jr: I'm talking about.....

Bell: Talking about monthly peak.

H.M.Jr: Monthly or weekly.

Bell: Monthly peak of expenditures would fall on those months when your payment of interest comes.

H.M.Jr: I'm thinking of public works.

Bell: March is a big month.

- 2 -

H.M.Jr: You talk with Mr. Bell. I mean on a monthly basis. I've been saying right along that in June and July we pass the peak of expenditures.

Bell: Let's see, you're thinking of this present Emergency Spending Program, when it begins to taper off. That's about right - June or July.

H.M.Jr: I think Mr. Bell might see those and could let you know how much they are still backed up. Will you?

Michener: Yes.

H.M.Jr: And these start with it.

Bell: Is that the bubble chart?

H.M.Jr: Yes.

Bell: I have that.

H.M.Jr: Would you take a look at it?

Bell: I'll take a look at it.

H.M.Jr: Well then, are you going to give me the answer?

Bell: Well, I'll talk to Miss Michener about it.

H.M.Jr: Yes, and see whether.....

Bell: See whether you want to put it on the chart.

H.M.Jr: I've been saying myself that the peak of expenditures would be past in June and July. I wonder how - I'm thinking in terms of emergency expenditures.

Bell: I think that's about right.

H.M.Jr: We're not selfish.

Bell: Well, your W.P.A. ought to begin to go up now and your P.W.A. ought to begin to go up - your good roads.

H.M.Jr: Well, take a look at it.

Duffield: Mr. Currie said yesterday in a group meeting that he was pushing all his figures back.

Bell: Back? Forward.

Duffield: Well, past the center of the year or to the center of the year.

H.M.Jr: Well now, are you talking fiscal or calendar?

Duffield: Calendar.

H.M.Jr: He is putting it over in August and September.

Duffield: That's right - in that direction.

H.M.Jr: That's what I was doing. That's why I called Miss Michener. I don't think these figures are up to date. I mean they are accurate, but I don't think - I think you've got to push them two or three months forward. And it's very important. I mean I was doing it by sense of touch.

Bell: That's a good way. That's probably better than that.

H.M.Jr: And Currie backed me up as to statistics.

All right, Miss Michener, thanks. Give me twenty-four-hour service on that, will you, Miss Michener?

Michener: Yes.

(Miss Michener leaves)

H.M.Jr: Has Currie got something too on that?

Duffield: He's just running his own figures, and he has revised them.

H.M.Jr: I was revising them, pushing mine forward two or three months. I wondered how near the old elbow was to actuality.

White: I can get you the latest. They push them up pretty far.

H.M.Jr: But we ought to be on that, too, you know.

White: Just for comparison with what you've got.

H.M.Jr: Well, Bell.....

Bell: We are on it as far as our financing is concerned.

H.M.Jr: Well, take a look at it. My feeling - I've been saying to the President and myself right along I thought we'd reach the peak right around June.

Bell: That won't be far off. That's what we said a year ago and I think it's still pretty close.

H.M.Jr: My guess is we won't reach it until maybe September.

Bell: All depends on what W.P.A. does.

H.M.Jr. Well, let's take a look at it, because in terms of recovery and everything else - and if you people haven't seen that chart that George Haas's people did on various important - well, I'll circulate it and if you'll get it back to me - just identify it - because I think it very interesting. Just circulate it. Anybody that wants one - they could..... I think you (Hanes) get those, don't you?

Hanes: Yes.

H.M.Jr: Now, Dan, on this war risk insurance thing, this is very nice historically, but where do we go from here?

Bell: Well, I had a talk with Admiral Land and he has a division down there called Marine Insurance, has a director at the head of it; and Commissioner Moran is a man who spent his life in marine insurance, and they are apparently on top of this whole question. They've been studying it for sometime, they're in touch with the State Department, and they are getting a complete picture as to what England is doing. And they're having a meeting this morning and the commission is going to be brought up to date, and he is coming to see me sometime today and give me the complete story as to what they have done and what they can do and what they contemplate. And I think after we get through with it, we can about forget it. They are on top of it.

H.M.Jr: They're going to handle it?

Bell: Yes.

H.M.Jr: Well, that's all right.

Bell: And in view of the people they've got, with their experience and back-ground, I should think that would be a pretty good place to leave it. But we still can offer our services - that is, of the Collector of Customs, if you want to.

McReynolds: I can't imagine that they wouldn't use the Collector of Customs. But I think they can handle it.

H.M.Jr: I should think so.

Bell: I just gave you that memorandum for your file. I gave you the summary of it yesterday.

H.M.Jr: Will you do one other thing for me? Give me a little historical sketch as to the kind of set-up the Treasury had during the war, the various people, so forth and so on - the extra people they brought in.

McReynolds: War loan staff.

Bell: Want a memorandum on it?

H.M.Jr: Yes, and maybe a little chart if there is one in existence.

Bell: Well, I'll see if there was one. I doubt it.

H.M.Jr: Well, a little memorandum on just what they did. You see?

Bell: You see, we had a war loan staff composed of both paid people and dollar-a-year people doing volunteer service.

H.M.Jr: That's what I want to know.

Bell: Then we had Liberty Loan Campaign Committees headed by men in various communities, also dollar-a-year men.

H.M.Jr: I'm.....

Bell: Payne, Rathbone, Davis, Franklin, Straus - all those people were dollar-a-year men.

H.M.Jr: That group - what they did and how they set it up and how they handled it. That group.

Bell: All right.

H.M.Jr: What? Mac?

McReynolds: I have nothing. But I notice that the President is going to lay the corner stone at Rhinebeck the first of May, when he has visitors for it. They haven't got the building finished.

H.M.Jr: Well now.....

McReynolds: You got the memorandum that Peoples gave me, but that was written before he got a telephone call.....

H.M.Jr: He is going to do it now?

McReynolds: Oh yes, the President has notified him over the telephone that he is going to do it. So he's setting it up so that - the building isn't completed, but he is still going to do it.

H.M.Jr: Well, this one Mrs. Morgenthau and I would like to go to.

Chauncey: Yes.

McReynolds: He just sent that up to me yesterday evening after the White House telephoned what he was going to do.

H.M.Jr: (to Miss Chauncey) Tell Mrs. Morgenthau. She is very much interested in Rhinebeck.

Gibbons: Did he finally get his post office up there?

H.M.Jr: Rhinebeck.

McReynolds: It's on the way. He is going to dedicate it the first of May, although it isn't completed.

H.M.Jr: Beacon too. He's got every one, but he hasn't been able to get one in Hyde Park. Hasn't got any influence. He talked of having some of the Departments mail their mail in Hyde Park in order to raise - he's got to raise the status of it.

Gibbons: Ten thousand dollars a year gross.

H.M.Jr: Tried every way to get one in Hyde Park.

Mac?

McReynolds: No, I haven't anything else.

H.M.Jr: Dan?

Bell: No, that's all I've got.

H.M.Jr: Dan, if the bond market is kind of strongish, I'd like to sell some more of those '41s.

Bell: All right.

H.M.Jr: What?

Bell: How would you like to do it, by some swapping?

H.M.Jr: No.

Bell: Like the Federal Reserve is?

H.M.Jr: No, no.

Bell: Wouldn't like that.

H.M.Jr: You just cashed in twelve or fourteen million twos on the.....

Bell: Well, that was to meet a special situation.

H.M.Jr: I know.

Bell: If we have to do some swapping, we wouldn't disturb the market.

H.M.Jr: No, I've got something else. If you'd talk - you're going to stay behind, aren't you?

Bell: Yes.

H.M.Jr: I've got something in mind.

Gibbons: Nothing in particular. I'm going up to see Bob Wagner today about Mrs. Lynch, see if we can't get that settled.

H.M.Jr: Dan is going to stay behind to talk on finances. I'd like you (Hanes) to listen.

Hanes: All right.

Gibbons: Mrs. Lynch says nothing has been done on it.

H.M.Jr: I thought you said she was dead.

Gibbons: I say the appointment.....

H.M.Jr: You're going to see Bob Wagner?

Gibbons: Going to see Bob.

H.M.Jr: Well, if you're going to see Bob, you say to him, if it sort of comes up in a very kind of - don't make too much of it, you see - that Henry was very much surprised to read in the paper about this resolution for twenty-five thousand dollars;

"In the first place, he is Secretary of the Treasury, and in the second place, he feels very close to you and he just doesn't understand how you would do a thing like this without calling him up and saying, 'Well, Henry, is this all right?'" and I'm hurt, and if he wants something for Shwartz or something like that he can always find me, but when he wants to put something through like this, why, he - see?

Gibbons: Yes.

H.M.Jr: I mean just kind of - you know?

Gibbons: Just represent gently in a nice way.

H.M.Jr: I mean how come that when he wants me to give a man a job he can use the telephone, he knows where it is, and he can always find me - if he wants him promoted - and everything else.

Gibbons: And the fact that we come from New York and we've given him our.....

H.M.Jr: Here I am, coming from New York, Secretary of the Treasury, and he introduces a resolution like that and doesn't even call me up and say, "Well, Henry, is this all right?" This is something that Mr. Eccles wanted, see? Remember Eccles sent that letter up that he wants Congress to define what the powers of the Treasury are?

Gibbons: Differentiate between them.

H.M.Jr: See? And here he introduces this thing late last night. Does anybody know anything about it? No, I'm hurt, see?

Gibbons: Yes.

H.M.Jr: I'm hurt.

Gibbons: Hasn't any sense.

H.M.Jr: When he wants something, a little job, he knows where the telephone is. And he's got everything he's asked for.

Gibbons: Oh, we've gone out of our way, you know.

H.M.Jr: So when you go up there - you see?

Gibbons: Yes.

H.M.Jr: Especially when Mr. Hanes and I yesterday saw this committee of the American Bankers' and we told them as far as we were concerned we were leaning toward not doing anything this year.

Hanes: I haven't seen this. I don't know what it is.

H.M.Jr: Well, late last night Wagner introduced a resolution asking for twenty five thousand dollars to carry out what Eccles asked for, and the first I read about it is in the paper.

You (Gibbons) can have that (newspaper clipping).

Gibbons: I just wanted Johnny to see it.

H.M.Jr: I just don't think it's cricket.

Gibbons: It isn't. I can't imagine him doing such a thing.

H.M.Jr: What's the matter with him? I mean inasmuch as it affects the Treasury vitally, I should think he could say, "Is this all right with you, Henry?"

Gibbons: Sure.

H.M.Jr: And try to find out where the pressure was from to get him to do it.

Gibbons: I think he'll tell me just what happened.

H.M.Jr: I mean where did it come from?

Gibbons: He'll probably say, "Well, I'm sorry, I just did it....."

H.M.Jr: I mean did anybody across the street ask him to do it?

Gibbons: Yes.

H.M.Jr: See? What?

Foley: Don't think so.

H.M.Jr: No?

Foley: I don't think so.

Gibbons: I imagine not, but.....

H.M.Jr: As a matter of fact, under this reorganization thing, Mac, could we under an executive order wipe out this special board on processing taxes.

McReynolds: I guess we could at that, couldn't we? Yes.

Foley: We'd have to transfer the function some place.

McReynolds: Have to transfer the function some place.

H.M.Jr: Well, I'm economy-minded, and it kind of looks to me like maybe it's a waste of a lot of money.

Gibbons: You're not far wrong.

H.M.Jr: Well, I mean - I don't know - see, this fellow Shwartz is the boy he asked me to take. He's getting what, seven thousand dollars?

Gibbons: Seven thousand.

McReynolds: He gets seventy five hundred now.

H.M.Jr: Seventy five hundred. Chairman?

McReynolds: Yes.

H. M. Jr: And wagner just called me and called me and called me, see?

Gibbons: Well, he's always crying about - you know, that he never gets anything.

H.M.Jr: O. K. Well, I'm economy-minded, see, and.....

Gibbons: Well, it's a dirty piece of work.

H. M.Jr: I tell you, that board would just about - if we wiped that board out, it would pay for the twenty five thousand dollars, see? How many fellows sit on it? Five?

Foley: Five:

McReynolds: Maximum of nine. Got seven thousand.

Bell: Still economize and pay for the twenty-five thousand.

H.M. Jr: If he wants to know where he can raise the money, we've just wiped that board out.

McReynolds: We opposed its establishment. The Treasury tried to keep it from being established.

H.M.Jr: Just kind of

Gibbons: Yes.

Hanes: You want to play ball.

H.M.Jr: Well, if we are going to play ball and there's a catcher and a pitcher, I just don't want to be on the catching end.....

Hanes:all the time.

Gibbons: When you run out on your friends, you know, it's just.....

H.M.Jr: Well, I don't - you see we could go - Monday the Wall Street Journal ran this story that when this thing came up from Eccles he first presented an annual report, which is their business; then they've got to write a letter on top of that, which is rubbing it in. Then the Wall Street Journal Monday a week ago said that this thing was in agreement - they had an agreement with Senator Wagner. Isn't that right?

Duffield: (nods yes)

H.M.Jr: They had an agreement, and we were all kind of surprised. Then I called up there and Eccles wasn't there; I talked to the other man. But evidently the Wall Street Journal knew about this, that there's an agreement, so forth and so on. And where does it leave us? Kind of foolish, I think. But we could get that twenty-five thousand dollars and save it .

White: No, I think it's better to forget that. He's Chairman of an important committee. I think your first thought is a better one.

H.M.Jr: Harry, in politics an eye for an eye, a tooth for a tooth - that's what these boys understand.

White: Well, he's got a few fast ones.

H.M.Jr: Who?

White: He can have.

H.M.Jr: Sure.

White: I mean your bill is coming up before his committee.

- H.M.Jr: I've known Bob Wagner all my life. My father started Bob Wagner in the first social reform that he ever started by putting him on the committee to investigate that terrible Triangle Fire, of which Miss Perkins was made secretary. And my father put Wagner on that first committee and got him interested in social matters, and before that he wasn't interested in anything except ward politics. That was the first time he got interested - he and Al Smith. I'm not saying anything, but I'm just giving you a couple ideas.
- Gibbons: You don't have to say anything more.
- H.M.Jr: I went through all these things with Al Smith and everything else.
- Gibbons: They don't remember very much.
- H.M.Jr: No. The only way is to remind them.
- Gibbons: Yes.
- H.M.Jr: Well, just go kind of gently, but remember you've got a couple aces up your sleeve and a joker in your pocket. O. K.?
- Gibbons: O. K.
- H.M.Jr: You see, this man may think he's paying the President off through me because he wasn't consulted on the United States District Attorney in New York. You see? Let's just find out what it is. You see, he wasn't consulted about Cahill. So he thinks maybe he's striking at the President through me. This is deeper than you think it is, Harry.
- Gibbons: Well, it won't do any harm, Harry. I know him well enough to find out. He'll tell me, sit down and cry on my shoulder and tell me all his difficulties.
- White: I'm all in favor of chiding, not of threats. But you know more about it than I do.
- H.M.Jr: This is just good clean fun where you wear hobnails and use a jack-knife.
- Gibbons: But he shouldn't take out on you any other thing he has.

H.M.Jr: No. I'm just hurt. See? I'm hurt, that's all, after everything that I did. Will you?

Gibbons: Sure.

H.M.Jr: You get that?

Gibbons: Oh yes.

H.M.Jr: I mean I wouldn't send you up particularly, but

Gibbons: Oh no, but that other thing has been laying there and it doesn't.....

H.M.Jr: Use your old bean.

Harold?

Graves: Nothing.

H.M.Jr: Wonderful.

(to Lochhead) Here's something you've got to handle gently. Talk to Foley about it.

McReynolds: Elmer would like to talk about that reorganization thing if you have time. We've got to dispose of it - Graves and Elmer and myself - either duck it or.....

H.M.Jr: All right. 3:15.

McReynolds: Swell.

I hope the cops haven't been bothering you.

H.M.Jr: Cops?

McReynolds: These policemen.

H.M.Jr: Well, I'm more convinced than ever that the more bureaus, the more departments, the more checks and balances, the better. I'm against all consolidation.

Bell: For economy purposes.

H.M.Jr: What?

Bell: For economy purposes.

H.M.Jr: No, if they are really economy, yes, but for administrative purposes, no.

Bell: It is economy.

H.M.Jr: If you could give me some real economy, yes, but for administrative purposes I am opposed to all consolidation.

Lochhead: (Nods nothing)

White: I talked with Somers last night.

H.M.Jr: I can't hear you, Harry.

White: I talked with Congressman Somers for three hours, getting him ready for today's floor hearing. Now, several of the questions that he asked were answered in the Wagner letter. Apparently he wasn't aware of its existence. And this morning Congressman Fish called up and wanted some answers which were likewise in that letter. I was just wondering whether there is some appropriate way in which the letter could be sent to each one of the Congressmen before this matter comes to a vote. I think it may help to.....

H.M.Jr: Well, what is Larry Bernard doing? Isn't he up there on this thing?

White: I mean to each one of the Congressmen.

Foley: You can't make them read it, Harry.

White: I wondered whether they had gotten it.

Bell: It was put in the Record, wasn't it?

Foley: Sure, it was put in the Record.

White: Put in the hearing record.

Foley: And it was put in the Congressional Record too.

H.M.Jr: Have Larry Bernard put a copy of the Wagner letter on the desk of every member of the Somers committee. Just let him get somebody to take them on the floor, go right out and stick it on their desk today. We've done that before.

Gaston: I think the whole committee has had copies.

H.M.Jr: Well, they are no better than the rest of us. He can just go on the floor, take the release - get the clerk or somebody and put a copy right on everybody's desk today.

White: There is no appropriate way of doing that to the other members, is there?

Foley: What other members?

White: Members of the Congress.

Foley: Four hundred thirty-five?

White: Yes.

H.M.Jr: No, just the committee.

Lochhead: Excuse me - about trying to get them to do it - I just want to apologize for wishing Fish on you. He called yesterday afternoon, called on my wire, and referred to the Stabilization Fund, and said in connection with the Stabilization Fund he wanted to know whether we were buying large amounts of francs and doing things like that. I said, "Well, I refer you to the testimony. There is a statement, December 31 statement, that was given, showing just what was in the Fund, what it was used for, and the Secretary has testified and that testimony is available." Apparently from the way he spoke he never heard of this statement on the Stabilization Fund.

H.M.Jr: Well, Ham Fish wouldn't.

Lochhead: Well, he wouldn't. But he asked questions about gold and what should be done and I suggested he speak to you (White).

White: I sent him up a copy by special messenger.

Lochhead: I was just going to say that not only he hadn't read the Wagner letter but hadn't looked at the Stabilization Fund testimony.

Gaston: Will you do that, Harry - send him a copy of the testimony and the Wagner letter?

White: I'm afraid the messenger has already gone up with just the letter. He didn't mention the Stabilization Fund testimony. I didn't know he was interested.

Gaston: I'll send the other up to him.

H.M.Jr: While we are on it, do you think I ought to call up the Speaker this morning and say, "Is everything in order, anything we can do to help?" What do you think?

Foley: Yes, I think that would be a good idea.

H.M.Jr: Is it coming up today?

White: Yes, they're speaking on it this afternoon, and Somers is more concerned than he was.

H.M.Jr: (on phone) Congressman Somers of New York, please. Somers of New York.

We'll talk to him first. I'll ask him what we can do to be helpful.

Foley: Might call Rayburn, too.

H.M.Jr: I've got it down - Bankhead, Somers, and Rayburn.

Foley: Yes.

Duffield: The economists working for the Fiscal and Monetary Advisory Committee are going to have two or three answers, I guess, by tomorrow.

White: With respect to that, if that could be postponed until next week, we'll have many more, because we want to exchange them and get joint comments and criticisms before it comes to you.

H.M.Jr: Well, I was ready for Thursday night, but if you fellows aren't ready.....

White: Thursday night. That's all right.

Duffield: That's all right.

White: Be better if it could be next week.

H.M.Jr: Well, it would be better for me, but.....

White: Better next week? O. K.

Bell: Next month.

White: No, I wouldn't let you get away with that. Next week is all right.

H.M.Jr: All right. Just tell the boys I was ready Thursday night.

White: I told them.

H.M.Jr: (on phone) Hello. - please.

Can't locate Somers.

What else?

Duffield: That's all.

H.M.Jr: Say, listen, young fellow, you're not going temperamental on me, are you? Take this back and talk to me sometime.

Duffield: No, this wasn't intended to be temperamental.

H.M.Jr: On the bulletin. No?

Duffield: Uh-uh.

H.M.Jr: Well, you talk to me about it.

Duffield: Yes. That's all.

H.M.Jr: Well then, I've got to wait for these economists, is that it?

Duffield: As a matter of fact, by Thursday night we would have the answer, I think, to the first question.

White: Oh yes, and more.

Duffield: That is the trend, the outlook, the business outlook, and one or two more; it seems to me the number one question is perhaps the most interesting and important of all of them.

White: Yes, I think that you could devote Thursday night - be all right to take up two or three questions. Those would be ready.

H.M.Jr: Do you (Hanes) know whether you are busy Thursday night?

Hanes: I'll get un-busy if I am. That's all right.

H.M.Jr: Well, the point that I'm getting at is, I think everybody - I have anyway been working day and night to get ourselves ready in case of eventualities in Europe; that's finished now, and what's going on in the United States?

White: O. K., let's make it Thursday night; I think it will be all right.

H.M.Jr: Well, I can have them for supper or I can have them afterwards, either way.

White: I think if you have them after you might devote the evening exclusively to the discussion and you won't have to stand it so long. If you have supper with them, it might make it into five or six hours.

H.M.Jr: Well, I'm available 8:30 Thursday night, and you fellows get together. Make a note.

Duffield: You want the full Fiscal and Monetary Committee there plus the visitors, Mr. Hopkins and Mr. Henderson, or.....

H.M.Jr: Well, is what's his name - is Hopkins' office doing anything?

Duffield: Yes.

White: Yes.

Hanes: He's out of town.

H.M.Jr: But Thorp is.....

Duffield: Thorp is quite active.

Hanes: Noble is, I understand, in command over there while Hopkins is away. Want to get Noble?

H.M.Jr: What do you think?

Hanes: I think it would be a good idea myself.

H.M.Jr: You do?

Hanes: Yes.

H.M.Jr: Well, let's ask Mr. Noble and Mr. Thorp and Henderson.

Duffield: Henderson.

McReynolds: Committee going noble?

H.M.Jr: What did you say?

McReynolds: Committee was going noble.

H.M.Jr: Whew!

All right.

- 19 -

Foley: Here's a letter to the Attorney General - Johnson an neutrality thing. Might want to read that to Jones before it goes over.

H.M.Jr: Well, I want to talk to you. Now, these gentlemen will be here, I think, in fifteen minutes. Why don't you come at, say, 10:15?

Foley: Yes.

H.M.Jr: Be about 10:15. I'll say that when Bell and Hanes leave I'll give you a ring. Be around 10:15?

Foley: The Supreme Court put down for rehearing, re-argument, the multiple currency case yesterday. I had advance word that they were going to do that, that they were deadlocked and they wanted something from the Government. The Government didn't submit a brief before. So Bernie is over - I talked to Bob Jackson last night and Bernie is over at Paul Freund's office this morning, getting something together. The hearing is next Tuesday.

H.M.Jr: That's one thing I've got down here - meeting with Fiscal and Monetary Committee.

White: You mean that's Thursday night.

H.M.Jr: Yes, I had it; I had it down here on my calendar.

White: For Thursday night. Well, it's on.

H.M.Jr: I mean I had it down. I wondered why you fellows weren't coming through.

Duffield: May I ask a question? Is Mr. Bell on that committee, or is the Director of Budget on the committee?

Bell: No, Mr. Bell is not on the committee. Is the Director of the Budget?

H.M.Jr: Director of the Budget, yes.

Duffield: Then you want Mr. Smith there.

H. M.Jr: Yes. And then we'll have Mr. Bell come in his regular capacity.

Hanes: Make that plural - "capacities."

Gibbons: I was just going to say "plural."

- 20 -

H.M.Jr: Now he's back in the Treasury and can coast.

Bell: I certainly did yesterday.

H.M.Jr: What else?

Foley: That's all I have.

H.M.Jr: Herbert?

Gaston: I have nothing. I think there are a few little matters on my desk that if you had about two or three minutes I could clear with you.

H.M.Jr: All right.

Bell: Mr. Secretary, in connection with that Bulletin, I'm wondering if you couldn't get Congressional authorization for that Bulletin.

H.M.Jr: Would you feel happier?

Bell: Yes.

Duffield: Legal Division said we didn't need it.

Gaston: Well, we have this up there.

Duffield: That is merely authorization to charge for it; presumes authorization to issue it.

Gaston: I should think so. That's a sanction. If we get authorization to charge for it, that implies authorization to get it out.

Bell: You've got that up?

Duffield: Yes.

H.M.Jr: Is that all right?

Bell: I think so.

H.M.Jr: Sure?

Bell: I was thinking about getting some direction to issue statistics.....

Duffield: There is no such.....

Bell: on financial matters.

- 21 -

Duffield: There is no such direction set out in this bill that's up there. It just says we are authorized to charge for it.

Bell: There is an old statute that directs the Secretary to issue not less than once a week a statement of receipts and expenditures. Might tie it into that.

H.M.Jr: Who's handling that?

Foley: Bernard.

H.M.Jr: Well, will you keep what Bell says in mind?

Foley: Yes.

H.M.Jr: What else?

Foley: I have nothing else.

Hanes: (nods nothing).

RE INTERNAL REVENUE MATTERS

April 18, 1939.
10:30 A. M.

Present: Mr. Hanes
Mr. McReynolds
Mr. Foley
Mr. Irey
Mr. Helvering

Helvering: Now, at your suggestion as to Lansing and perhaps Harrisburg - I added.....

H.M.Jr: Or Atlantic City.

Helvering: Yes. I added to that Nashville, Tennessee.

H.M.Jr: Yes.

Helvering: So that we.....

H.M.Jr: I know about Nashville. These are all cities with very corrupt governments, you see - very corrupt local governments.

Irey: We didn't make the inquiry about Atlantic City.

H.M.Jr: I'm adding Atlantic City. These are the bad cities with very, very corrupt governments. I know Atlantic City is bad. I know about Nashville.

Helvering: Well, Nashville has twenty subscribers in that place.

H.M.Jr: I see.

Helvering: Now, at Lansing and Harrisburg we'll have to get the Detroit area and the Philadelphia area in order to get the number in those towns, because they are relayed from those cities.

H.M.Jr: Well, can you start on Nashville?

Helvering: Yes. They've got 21 there. We can get right after that.

H.M.Jr: Why don't you start on that?

- 2 -

Helvering: Now, we've got other representative cities like San Antonio and Syracuse, New York. San Antonio has got 56 and Syracuse, New York, 27.

H.M.Jr: Well, have you got enough men that you could start all three?

Irey: Well, we have to take from this group of revenue agents - about thirty-five hundred revenue agents - take as many as we may find necessary.

H.M.Jr: I'd like to just start in one town at a time, see?

Helvering: Well, I was going to suggest, Mr. Secretary, that - to tell them to get busy right now on Nashville and then find out the number of subscribers out of the Detroit area.

H.M.Jr: I don't care. I mean I'm just - I mean that's all right. But I'd like to go after Atlantic City.

Helvering: Well, we can.

Irey: Be a whole lot at Atlantic City. We can go at that very easily.

H.M.Jr: I'd rather do Atlantic City. I mean I'd like to put that as number one if I could. What?

Irey: Fine. We haven't checked up on that. It would be out of the Philadelphia area. We'd have to make a preliminary examination of Philadelphia to establish it at that city.

H.M.Jr: Well, let's agree as of today we go after Nashville. Now, in going after Nashville, you fellows who coordinated - can't you send some of Anslinger's boys down there and see how it is on narcotics, too?

Irey: We can very well do that.

Helvering: I don't know very much about the narcotics.

H.M.Jr: Who can give Anslinger an order?

Irey: I presume I can do that all right.

- 3 -

H.M.Jr: Why not go down there? They've got this boss in Nashville.....

Foley: Hillory House.

H.M.Jr: That's his name.

Foley: And Crump. Hillory House has been the mayor down there for twenty years.

H.M.Jr: And a responsible citizen came to see me two years ago, said it was just like it was in Atlantic City. "We just can't do business. The rackets overrun the legitimate fellow and he can't do business. Can't you do something to help us business men conduct an honest business? We have to pay tribute."

Same thing in Atlantic City. A fellow came in here, said, "No one has ever come in here. Can't we do business in Atlantic City like honest people and not have to pay all this tribute?"

Nashville I know about.

McR: Aren't you thinking about Memphis? That's where Crump is. The worst place is in Memphis.

Irey: Memphis is the place. That's a terribly rotten city. It's rotten from the narcotics standpoint.

McR: Just wondering why he picked on Nashville and left out Memphis. Memphis is a larger town.

Irey: We've got the plans all made. Just a question of determining where.

H.M.Jr: Let's say Memphis and Atlantic City, because those are the places where the people want to do business in an honest way and these bosses won't let them.

Irey: Bob Johnson, the Atlantic City boss we've got enough to indict him on income tax.

H.M.Jr: I think where you find all this rottenness, you also find narcotics. That's the way you found it in Kansas City.

- 4 -

Irey: Nashville and Atlantic City.

McR: Memphis.

H.M.Jr: Memphis and Atlantic City.

Helvering: I mentioned Nashville here because we absolutely know the number. I suppose we can get that same number for Memphis from the same records.

H.M.Jr: Shall we say Memphis and Atlantic City?

Helvering: Do you want this memorandum about it?

H.M.Jr: Yes.

Helvering: They've done some of this work in Chicago and Mr. Irey is going to put a man from Chicago in charge of these places. Irey knows about how to do it.

H.M.Jr: What I want to do is just explore a couple of places, and then if we find it is fruitful and we can turn up a lot of revenue, we'll go after it, see?

Irey: Yes.

H.M.Jr: But, I mean, here is a source, you see. As I understand it, we just tried a few places in Chicago and we turned up several hundred thousand dollars.

Irey: Yes, two hundred eighty-seven thousand dollars, I think.

Helvering: Well, that was a good many, that was several.

Irey: It did take a lot of agents a lot of time.

H.M.Jr: Well, take one place in Tennessee and take Atlantic City.

And when are we going in on the pool rooms? We can take narcotics.....

Irey: Very good. We can cover liquor, too, if you care to.

- 5 -

H.M.Jr: Why not take your coordinating committee, make a coordinated drive, see what you can pick up?

Irey: Just like Harold did in New England at the beginning of your coordination.

H.M.Jr: Try it in two cities and see how much there is.

Helvering: Memphis and Atlantic City.

H.M.Jr: Let's try it. Is that all right with you (Helvering)? Get the various Treasury agencies in the very bad boss-ridden cities. Let's just see what we can do. But we ought to keep it very secret as to what the cities are. We ought to keep it secret.

Helvering: Well, it will be secret until the fellows light in there; of course, then it won't be secret.

H.M.Jr: We'll have Senator - what's the senior Senator from Tennessee?

Hanes: McKellar.

Foley: He'll be in.

Syracuse would be a good city to think about, too. You've had Rolland Marvin up there as mayor for maybe twelve years and he's got a virtual monopoly on everything up there.

Helvering: Mr. Secretary, you ought to try out two cities to see what the results are, and then we can go ahead.

Foley: Certainly get no political come-back up in Syracuse.

H.M.Jr: What I was trying to do was take the places I knew were boss-ridden and try it out, see what we learn, see what we find out, see how bad they are, see what kind of technique it needs; then come back and then have another meeting, see? I don't want to get it spread too far. And if you want to try Syracuse, why, it's all right.

But I'd like to try this thing out. We haven't done this in a long time and I just think that -

- 6 -

well, that people are getting away with a lot of dirty stuff and they are not paying their taxes. And as I say, the principal thing is that the business man can't conduct his business in a legitimate way, he's got all these people sucking his blood - leeches.

Helvering: Well, of course, in that connection, there are a lot of these people around in these cities who are looking at these fellows as being big idols. We're going to scatter their ideas about it.

Now, this isn't what I came over for, but I wanted to report to you on the Skidmore case.

H.M.Jr: Right.

Helvering: We have been pressing that. Mr. Irely has been calling the men in Chicago to get that report down. The latest report is that we'll have that in tomorrow.

Irely: Fully expect to have it in tomorrow morning.

H.M.Jr: Well, please walk it over, because every time I see the Attorney General and ask him to do something for me, he comes back and says, "What about the Skidmore case?"

Hanes: Asked me about it on Saturday night at the dinner.

Irely: You see, Mr. Secretary, the same people that are handling the Skidmore case are the ones that handled Annenberg. Ed had his lawyers in Chicago last week putting in 20 out of 24 hours on the Annenberg case.

H.M.Jr: Now, the Attorney General wants us to hurry up with those four moving picture magnates on the coast.

Helvering: Two men are coming to my office, having a conference on that.

H.M.Jr: What day.....

- 7 -

- Irey: Going to be some time on that. Going to be two or three months before we commence on that.
- Hanes: While Guy is here I'd like to say that also the Attorney General asked me if there wasn't some way that the Department of Internal Revenue could settle the case with the Fisher brothers in Detroit. I don't know what that case is or what those cases are, but he asked me especially to ask you and Guy if we wouldn't do something to settle those cases out there.
- Helvering: Fred and Charlie Fisher - I think that's their names - two of the Fisher brothers, are to be in here Wednesday. Now I gave them an offer of settlement that they can't help but accept.
- Hanes: Good. That's all right.
- Helvering: If they don't, they don't know what's good for them.
- H.M.Jr: I wouldn't worry about it.
- Helvering: I told them if they gave me four hundred eighty-seven thousand dollars, I'd settle the case. Now, our boys have set up an immense tax on them - eighty-two millions of securities - which can't be justified or backed up at all; and I've gone into the case.
- Hanes: I don't want to get into it. I know the Secretary doesn't. I'm just reporting to you what he said to me.
- Helvering: He's called me too. We've offered them a settlement. If they accept our basis on their valuations.....
- Hanes: Can't have any argument.
- Helvering: Their attorneys are kicking on the valuations on account of additional taxes in succeeding years. But the valuations are fair.
- H.M.Jr: Now, what else?
- Now wait a minute, there's this thing that has to do with the Annenberg case. ✓

- 8 -

Foley: The closing agreement - request for closing agreement.

H.M.Jr: On the Annenberg?

Foley: Well, it involves the.....

Helvering: That other thing.

Foley:the Cecelia Corporation and Nation-Wide News.

Helvering: I told Mr. Gayton not to give them any decision on that for the time being.

H.M.Jr: I want to go further. I think now that we've handed the thing over to the Attorney General, anything that affects the Annenberg case, like a closing agreement, or a piece of it - that we shouldn't do it unless we first ask him whether it is agreeable to him.

Foley: Well, that's understood, Mr. Secretary.

H.M.Jr: Well, I want to say that anything to do with the Cecelia Corporation - withholding corporation, - before we settle any piece of it, I should think I'd want it in writing from the Attorney General that it's agreeable, before I'd do anything. Wouldn't you?

Foley: Right.

H.M.Jr: I certainly don't want a letter to come back and say, "You settled a piece of it. That's why I couldn't win my case."

Foley: He couldn't do anything else. This has a bearing on it from the anti-trust angle.

H.M.Jr: Having once given it to him, having formally asked him to prosecute, I don't want to accept something unless he tells me in writing it is all right.

Helvering: They've made application for a closing agreement, but.....

- 9 -

H.M.Jr: But will you - anything that affects Annenberg from now on, on his taxes, I don't want to settle unless the Attorney General, in writing, says that it is O. K.

Helvering: Well, Mr. Gayton, the man who handles those things, was advised the latter part of last week not to give them any written-up closing agreement on that, not to submit it to.....

Foley: And Phil and I understand each other. He won't do anything without formal clearance.

H.M.Jr: "He" being who?

Foley: Wenchel - with the Attorney General.

Hanes: May I report one more thing while Guy is here. The Department of Internal Revenue apparently has been for a long time trying to make up its mind about recommending refunds in all the cases involving J. P. Morgan and Company since 1933; and Guy and his staff down there have got up to the point now where they can't hold it off any longer and they've got to go to the joint committee with a recommendation that certain refunds be made to J. P. Morgan and Company. I want to report that to you so you know. It might have some political repercussions. I don't know anything about the case.

H.M.Jr: It's just case number X.

Foley: It's eight hundred thousand dollars in interest. Comes up to about a million two.

H.M.Jr: Ought to be handled just like Mr. X.

Foley: But they are going very slow on it, because naturally anything to do with J. P. Morgan is going to hit the headlines, especially a refund.

H.M.Jr: I still say I don't see why it shouldn't be treated just like Mr. X.

Hanes: Just reporting to you so you'll know what we're doing.

- 10 -

H.M.Jr: Well, I'm glad, because I.....

Hanes: Guy tells me that they fought it every step of the way and we're losing a hundred seventy-five dollars a day in interest by not paying it, and Guy says it's time to come in, we can't hold off any longer.

H.M.Jr: Got to do what's right.
Now, what else have we got?

Helvering: Mr. Annenberg's attorneys, we are advised - they haven't contacted me; I'm advised through Carr's office.....

Foley: They're in town.

H.M.Jr: Are they?

Foley: I think so. Been trying to get in touch with me, trying to call me all day yesterday. I wouldn't take the call. I got this telegram. I happened to know Bill Nance of the Kirkland, Fleming, Green, Martin and Ellis firm.

H.M.Jr: Who are their attorneys?

Foley: Kirkland, Green, Fleming and Martin.

H.M.Jr: That's the Chicago Tribune.

Foley: Sure, they're attorneys for the Chicago Tribune.

Irey: Kirkland and Fleming are in town this morning.

Helvering: Mr. Secretary, they're going to insist that they want to sit down with us and adjust this matter and also if we will not hold off the indictment or Grand Jury proceedings. Mr. Irey and myself in an ordinary case would just tell them that this had been referred to the Department of Justice. I don't see how we can tell them anything else but that now.

H.M.Jr: Why should we? It's out of our hands.

- 11 -

McR: You couldn't possibly confer with them now.

H.M.Jr: No, it's out of our hands.

McR: If your people come in, it would have to be because they are brought in by Justice.

Hanes: Seems to me the negotiations are with the Department of Justice, not with us.

Irey: We just didn't want the Department of Justice to say we embarrassed them by saying the case had been sent over.

Foley: It's in the paper, common knowledge.

McR: The Attorney General has boasted about it.

H.M.Jr: I think the Attorney General would say, "Thank you."

Irey: Fine.

Helvering: Well, here's the thing. Here's some men who come in and the papers will write up that the Bureau of Internal Revenue in a tax case wouldn't even see the taxpayer on it, and all that.

H.M.Jr: Well, we're all - it's all the same. You're the collecting agency and Justice is the.....

Foley: Enforcement.

H.M.Jr:enforcement or prosecuting agency. It's in the hands of the prosecuting agency.

Irey: Well, they're due at my office at 11:00 o'clock this morning. What I want to do is tell them the matter is with the Department of Justice and that's where they should go.

H.M.Jr: That's all right.

Just a minute. They sent me in something that looks awfully important. Let me read this thing.

- 12 -

I've heard a lot - awful lot of argument about this.

McR: I don't think there is any argument on anybody's part. Guy and the lawyers - they wrote it.

H.M.Jr: I don't know, it makes me suspicious.

McR: Needn't be suspicious. I've been trying to get him to sign it since last December.

H.M.Jr: His initials don't impress me at all. Nobody but the first fellow read it. Let me read it. What do you mean, trying to get me to sign this? It was only brought in today.

McR: Well then, Johnny's had it ever since December.

H.M.Jr: It was only brought in today and I was suspicious because you didn't bring it in yourself. You gave it to Nell Chauncey.

McR: I gave it to Johnny, got his initials on it. I guess he gave it back to Nell.

Hanes: I sent it back to Miss Chauncey.

H.M.Jr: And you (McReynolds) probably told her to get me to sign it. We ought to have a factory time sheet showing when these things were passed around. This thing was brought in to me this morning.

Helvering: I'm going to correct you, Mr. Secretary. I know there are two people who know what it is, because one fellow wrote it and I read it.

McR: I read it. I went in and talked to Johnny about it.

H.M.Jr: It came in this morning. When McReynolds gives it to somebody else to bring in, that's time I run up a red light.

Hanes: This one is not dangerous. It's not dangerous. It keeps the authority right home here, where you wanted it.

- 13 -

McR: In spite of the length of time it's been in process. Guy is entirely familiar with what's in here.

H.M.Jr: I still say when McReynolds wouldn't bring it in himself.....

Hanes: I don't blame him.

H.M.Jr: When he wants me to sign something, he just walks in.

McR: After all, I took it in to Johnny and he said he'd bring it to you. That's a matter of recollection, Johnny.

Hanes: You're right, and I did, I brought it to you (H.M.Jr.) through the regular channels.

H.M.Jr: All right.

"The memorandums establishing the several field divisions of the Technical Staff of the Bureau of Internal Revenue give exclusive jurisdiction to the heads of these divisions, under the Commissioner's supervision, over cases, with the exception of certain cases involving fraud, in which the taxpayers have finally protested the preliminary determination of tax liability made by the Internal Revenue Agent in Charge; and they give exclusive authority also to the heads of these divisions, under the Commissioner's direction, to settle cases docketed by the Board of Tax Appeals, subject, however, to the concurrence of counsel.

"Although it is believed that virtually all cases can satisfactorily be disposed of in the field under the arrangements contemplated by the memorandums referred to in accordance with such general or special instructions as may be issued from time to time by the Commissioner and the Chief Counsel of the Bureau, it is recognized that rare instances will arise in which, for reasons of policy, it will be desirable to except

- 14 -

cases from these arrangements and dispose of them under the direct supervision of the Commissioner, or, if petitions have been filed, under the direct supervision of the Commissioner and the Chief Counsel jointly. Until the decentralization program has been made completely effective in all sections of the country, I should like to have such cases brought to my attention before action is taken to withdraw them from the regular procedure."

Now, what does that mean? When would I want to see them?

Helvering: Well, Mr. Secretary, I can give you an illustration that occurred yesterday. Senator Herring came down to me with a taxpayer. He wants me to hear the case. It's one of those cases we sent to the field as a regular established place for him to go, right out home. But he thought, I suppose, that if Senator Herring brought him down he would get better adjustment here. There would be an inclination to accommodate him, of course, here if the case was here, but the case isn't here.

H.M.Jr: So what do you do?

Helvering: Well, we tell them they have to go to the field, have a hearing out there. Now, if that was a case, however, involving several jurisdictions - I mean the interests in several jurisdictions - we might feel justified in writing you a memorandum asking you to except that from the regular procedure, bring it in here, because we could coordinate it.

H.M.Jr: This puts me right on the spot, doesn't it? You can say, "I'd love to do this, Senator, but Morgenthau won't give me this special exception."

Foley: He'd say, "I have no authority to call a case from the field; the Secretary of the Treasury is the only one."

Hanes: Say that unless there are some extraordinary circumstances, like in the case of the Hopsons where there are a hundred cases scattered all over the country.....

- 15 -

H.M.Jr: Well, that's an exception. That's the only one.

Graves: Only exception..

McR: Only exception that's been formally made. Nobody kicks on that. It makes it much easier for both the Counsel and the Commissioner to keep these fellows in line if they can't do it without coming to you and asking for permission. And I think that ought to be done.

Graves: I think this should be said, that the instructions that Mr. Helvering has issued and which you have approved now make no provision whatever for any case being settled in Washington. This lays down the procedure whereby under certain circumstances an exception can be made.

Hanes: Like in the Hopson cases.

H.M.Jr: That's all there is to it?

McR: Yes.

H.M.Jr: Everybody forgive me. I haven't got a chance in the world.

Helvering: Well, you've got to accept some responsibility. This decentralization - you told us to do it; we've done it.

McR: Made a pretty good record, too, haven't you, Guy?

H.M.Jr: Well, you take credit for it now, don't you?

Helvering: I think it's going along pretty good.

(H.M.Jr. signs above referred to memorandum)

McR: There's one addressed to Helvering and the other is addressed to the General Counsel. They are identical.

I talked this out with Johnny one day.

- 16 -

H.M.Jr: Poor old Herman Oliphant - when we started this thing, he thought we were putting something over on him, originally.

That's all? All right, gentlemen.

April 18, 1939
11:47 a.m.

HMJr: Hello.

Operator: Congressman Hunter. Go ahead.

HMJr: Hello.

John F.

Hunter: Hello.

HMJr: Mr. Morgenthau talking.

H: I see. I've been in contact with the Procurement Division relative to -- oh, difficulties on the contract.

HMJr: Pardon me?

H: Rather to the difficulties on the contract for repairs to a postoffice.

HMJr: Yes.

H: Now, here is the situation. I have no personal interest in it other than I have had letters written to me as to the people that are involved. There were three bidders on the repair contract for the Toledo postoffice. One of these bids arrived in the Procurement Division -- that is, it was delivered by special delivery at one minute after ten on the day that they were to be received.

HMJr: Yeah.

H: The Procurement Division shows it received at two minutes after ten. The bid was returned to the man bidding unopened although his bid was a thousand dollars below the lowest bid and four thousand dollars below the third lowest -- the second lowest bid. And.....

HMJr: Well now, Congressman, if you could send me down whatever material you have, I'll be very glad to look into it.

H: Uh-huh. But in the meantime, I understand/that today they consider the bids. This bid having been returned unopened -- I believe, under the circumstances, the bids should be held up until the matter could be checked into.

HMJr: What postoffice is it?
H: Toledo, Ohio.
HMJr: Toledo, Ohio?
H: Yes.
HMJr: I'll take care of it, and if you would send this down to me, I'll be glad to look into it.
H: Well, thank you very, very much, Mr. Secretary.
HMJr: I'll ask them to hold it.
H: Yes.
HMJr: Toledo, Ohio.
H: Postoffice.
HMJr: The repairs on Toledo, Ohio.
H: Yes, that's right.
HMJr: Depending on hearing from you, I'll hold it up.
H: Thank you, sir.
HMJr: Thank you for bringing it to my attention.
H: Yes, sir.

April 18, 1939
11:49 a.m.

HMJr: Congressman Hunter of Ohio called up and says he's -- there's something that he wants to bring to my attention about repairs to a Toledo, Ohio postoffice.

McReynolds: Um-hm.

HMJr: And pending hearing from him, will you tell Peoples to hold it up; they were going to award it today.

M: Toledo, Ohio postoffice.

HMJr: Yeah.

M: Yes, sir. I'll call him right away.

HMJr: There's something -- he says this fellow sent his bid down and because it got there one minute after ten they didn't even open it and he's the low bidder.

M: Well, I'll -- I'll call Peoples and tell -- and tell him to hold it until -- hold the award until he hears from us.

HMJr: Thanks, Mac. Now, Mrs. Klotz was asking me was I taking care of you -- is your -- are your -- is your slate clear?

M: Well, the only thing I've got is -- whenever you are in the frame of mind to do it, I'd like to bring in this other -- new reporter.

HMJr: The what?

M: This new reporter, for you to see him.

HMJr: Oh, I don't know him. Well, when you come in -- haven't you got a meeting this afternoon.

M: Three-fifteen.

HMJr: Well, bring him in then.

M: You bet. Swell.

HMJr: All right.

M: Thank you.

April 15, 1939

187

To: The Secretary
From: Mr. Hanes

I have just had a call from Glenn Martin in Baltimore, and he advised me that a distressing situation has arisen which is going to delay delivery of the French planes and also will delay his getting ready to take care of necessary American production, for the following reason:

The Baltimore Building Trades Council voted last night to walk out subject to the approval of the national body, which is the American Federation of Labor, because of a labor dispute with the Arundell Brooks Company, cement mixers, for firing four truck drivers, and refusing to reinstate them.

Glenn Martin does not wish to become embroiled in this labor dispute and believes that the American Federation of Labor would, if requested by the Secretary of the Treasury, isolate the Glenn L. Martin Company cement job from the dispute on the grounds:

- (1) That this strike will interfere with a necessary government program in the interest of national defense;
- (2) That the Glenn L. Martin Company is not located in Baltimore, but is in the County. He thinks that because the strike is confined to the City there is ample justification for acting that the Glenn L. Martin Company job be isolated.

He also advised me that the union is now isolating a job being completed for the Coast Guard, so that this request would not be unusual.

Will you think this over and let me know your reaction tomorrow?

JWH

April 18, 1939

For: Secretary Morgenthau
Prepared by: Mr. Seltzer *L.H.S.*
Subject: The Automobile Situation

I. The Industry as a Whole

Second-quarter tentative production plans of General Motors and Chrysler call for a reduction of about 18 percent and 7 percent, respectively, from their first-quarter outputs. The Ford production rate is expected to remain substantially unchanged.

The contribution of the automobile industry to general business activity may not be correspondingly reduced because a number of producers, including General Motors, substantially reduced their banks of parts and materials during February and March, and will be giving new orders to suppliers to provide for the rest of the year's model run.

President Knudsen of General Motors and President Keller of Chrysler both emphasized the fact that the used car situation is the healthiest in years. The supply of used cars is going down and the turnover is very active. The importance of this situation to the automobile producers is easily appreciated when it is realized that nearly two used cars must be sold for each new car.

II. General Motors

President Knudsen was more optimistic than other General Motors officials whom I saw. He believed that the following tentative production schedule would be little changed. (This schedule represents the corporation's revised expectations in the light of the European situation, the bad stock market, and the disappointing early April retail sales.)

Secretary Morgenthau - 2

	1939	1938
January	147,000	82,000
February	147,000	82,000
March	166,000	95,000
April	151,000	95,000
May	121,000	85,000
June	104,000	85,000
July	60,000+	80,000

The members of a policy subcommittee, meeting Saturday morning to determine Buick's final production schedule for the rest of the 1939 model-run year, were very much concerned lest they take too pessimistic a view of the outlook and run short of cars during the summer; but they were greatly impressed by a sober memorandum on the European situation that had been prepared by one of their number.

Retail sales of 38,400 in the first ten days of April for General Motors were considered disappointing by the latter's officials. Cadillac sales have fallen off by 30 percent during the past two weeks of declining stock markets, whereas Chevrolet sales have not been noticeably affected.

The production schedule shown above represents a reduction of about 7 percent from the output previously planned for May, June, and July.

General Motors officials were greatly concerned over information that Chrysler would come out with a new Plymouth in the middle of August, about six weeks before the new Chevrolet.

Final production schedules for each of the General Motors makes of cars for the rest of the 1939 models must be made within the next few weeks. Decision on Chevrolets, however, will be delayed until the middle of May.

The low production scheduled for July reflects the earlier introduction this year of new models. The low production month will be August. The employment turnover in General Motors plants during the change-over season will be in excess of 45 percent.

Secretary Morgenthau - 3

III. Chrysler

President Keller and other Chrysler officials with whom I talked were optimistic about the year's prospects. Their sales in recent months have been running fully as large as had been anticipated and their sales had greatly exceeded expectations in November and December.

Although the new Plymouth will go into production early in August, it will not be publicly announced until the dealers are well stocked, a month later.

The Chrysler production schedule is as follows:

	1939	1938
January	96,000	27,000
February	77,000	33,000
March	95,000	61,000
	- - - - -	
April	90,000	56,000
May	90,000	47,000
June	70,000	32,000
July	50,000	17,000

President Keller does not believe the declining stock market will have any lasting effect upon automobile sales. He said that Chrysler, like other producers, is spending a great deal of money this year on tools and dies for the new models -- \$12 millions in the case of Chrysler.

IV

A friend of mine who has just returned from a tour of the railroad equipment companies reported that railroad equipment buying was being delayed by the railroads pending clarification of the prospects of RFC or Government aid. The equipment makers contend that even an adverse decision, if it were only definite and were made immediately, would bring them a lot of new business. The mere talk that there is some chance of the Government advancing the down payment on railroad equipment, or offering credit upon exceptionally low terms, holds up orders by the railroads on the chance that something favorable will materialize.

April 18, 1939

FOR THE SECRETARY'S FILES:

The Secretary, Mr. Hanes, Mr. Delano, and Mr. Duffield met this morning with the following group from the American Bankers Association: (April 17, 1939)

Mr. A. T. M. Wiggins, Chairman, ABA Committee on Federal Legislation, Hartsville, S. C.

Mr. Robert M. Hanes, First Vice President, American Bankers Association; President, Wachovia Bank and Trust Company, Winston-Salem, N. C.

Mr. Robert V. Fleming, President, Riggs National Bank, Washington, D. C.

Mr. Montjoy, Secretary of the American Bankers Association National Bank Division.

Mr. Robert Hanes said that the Association had sought the meeting in order to lay before the Secretary its ideas on banking legislation. Both he and Mr. Fleming expressed the opinion that a general banking investigation or banking legislation would be disturbing at this time. They added further that they feared hearings on the Brown Bill would develop into a general unsettling discussion. Therefore, they opposed both the Federal Reserve proposals and the Brown Bill.

As to the Comptroller's Office itself, Mr. Robert Hanes and Mr. Fleming said that abolition of the Office or its consolidation with some other agency would jeopardize the dual banking system and leave the national banks with no headquarters in Washington. Mr. Wiggins said that State banks were disturbed over proposals to eliminate the Comptroller because they believe such a step would endanger their standing and the dual banking system.

Mr. Delano said that no economy would be achieved by transferring the Comptroller to some other Department because the same personnel would have to be maintained.

Secretary Morgenthau told the meeting that he did not see the need for any general banking investigation. He said, however, that he wanted the group to know that he still wanted bank holding company legislation but was uncertain whether he would do anything to further it at this time, having already mentioned it to Congress twice. As to the Comptroller's Office, the Secretary said he thought it is all right as it is. In reply to an inquiry by the Secretary, Mr. John Hanes said that he agreed with the Secretary's position which also was concurred in by the American Bankers Association representatives.

April 18, 1939
10:21 a.m.

HMJr: Hello.

Operator: Postmaster General.

HMJr: Right.

James Farley: Hello. Secretary Ickes calling. How are you?
I wonder if I could buy your lunch today.

HMJr: Well, I.....

F: Or are you tied up? If you're tied up maybe.....

HMJr: Well, I've got Jones and I told him some.....

F: Well, you go ahead, I won't -- could I buy it tomorrow?

HMJr: I can -- are you going to be here Thursday?

F: Yes, you know we go to Cabinet -- I understand the Cabinet meeting is Thursday. I'd be delighted to do it Thursday and then go to the Cabinet meeting.

HMJr: Let's -- will you come here?

F: I'd -- I'd be glad to go there, but I'd like some day to buy your lunch.

HMJr: Oh well, you can buy that after I'm retired when I'm a farmer.

F: After I'm retired too.

HMJr: Maybe then I'll need people to buy my lunch.

F: O. K. Well, I'll -- I'll be glad to come over there, Henry, I -- but I didn't want to impose.

HMJr: You've never -- I've been asking you.

F: All right, sir. Well, I'll come over Thursday.

HMJr: Thursday at one o'clock.

F: All right. Fine.

HMJr: Is there Cabinet on Thursday?

- 2 -

F: Yeah, Bray just told me he had a telephone call.
The President is evidently going to Virginia Friday.

HMJr: Good.

F: Bill just called me. He just -- evidently got word
so you'll probably get it in a few minutes.

HMJr: That's Thursday at one o'clock.

F: Thursday one o'clock.

HMJr: Right.

F: Thanks, Henry. Good bye.

April 18, 1939
11:29 a.m.

HMJr: Hello.
Samuel
Rayburn: Yes, Mr. Secretary.
HMJr: Henry to you, please. Sam.....
R: Yes.
HMJr: You know this afternoon I think my Stabilization Bill is coming up.
R: Yes.
HMJr: And I wondered how we were setting on it.
R: Well, we might go into debate all day today and part of Thursday. We'll have to skip tomorrow.
HMJr: Do you look for any trouble?
R: The stabilization end of it is all right but we're going to have the devil on that devaluation in silver.
HMJr: You are?
R: Yeah.
HMJr: Do you look for trouble?
R: Yeah.
HMJr: Well, is the -- are the Democrats together?
R: Not all of them.
HMJr: Not all of them?
R: No, they're not.
HMJr: Uh-huh.
R: And we're going to have some trouble on that. We discussed that with the President yesterday morning.
HMJr: Did you?

- 2 -

R: And told him that he was going to have some trouble about this stabilization -- this devaluation end of it.

HMJr: Yeah.

R: I think it's tremendously important and I'm going to try to convince the fellows of it, but it's -- it's -- there's lots of opposition. I think practically all the Republicans are going to vote against it.

HMJr: Well, you didn't get there's any doubt in his mind as -- as to his wanting it, did you?

R: Oh, no. Oh, no. He said he's got to have it.

HMJr: Oh!

R: He'd be terribly crippled.

HMJr: Oh, I thought the way you were saying it -- I sort of got maybe that he wasn't sure.

R: Oh, no. No, no. The President?

HMJr: Yeah.

R: Oh, no. He says he's got to have that stabilization thing.

HMJr: Oh, I felt weak! I felt sick!

R: No, no. Oh, no. I told him -- we told him we were going to have trouble.

HMJr: Oh, oh -- I see.

R: And -- but -- yes, he said that that stabilization thing was tremendously important as far as our.....

HMJr: Oh, I got.....

R:trade was concerned.

HMJr: Oh, I misunderstood you.

R: No. No, he came through like a general.

HMJr: Well, I just.....

R: And -- but we're going to have some -- we're going to have trouble. It may get by. We've got fellows like Dies, you know, that know a lot about money.

HMJr: Well, what's his trouble?

R: Well, I understood he gave evidence in the Rules Committee yesterday morning that he was opposed to it.

HMJr: Yeah, they told me. I didn't understand it. Somebody sent word to me.

R: Yes. That's what -- I got the report from the Rules Committee. But we won't start to reading it for amendments before Thursday -- the middle of Thursday afternoon.

HMJr: Yeah.

R: And we hope to get it through either that night or during Friday. We've got three days for it so we've got lots of time.

HMJr: Well, if you need me, let me know.

R: All right. All right, I sure will, Mr. Secretary. Thank you, sir.

HMJr: Good bye.

April 18, 1939
11:42 a.m.

HMJr: Hello.

Bankhead's
Operator: Hello, Mr. Morgenthau?

HMJr: Yeah.

O: Just a minute.

HMJr: Hello.

HMJr's
Operator: He'll be right on.

Hello.

HMJr: Hello, Mr. Speaker.

Bankhead's
Operator: Is this the Secretary?

HMJr: Henry Morgenthau.

O: Just a minute, Mr. Secretary.

Speaker
Bankhead: Hello, Henry.

HMJr: How are you?

B: Very well, thank you.

HMJr: I just want to let you know if I can be of any help as the stabilization legislation goes through, I'm here.

B: Well, I don't know what's going to develop. I've had some intimations that there's going to be very strong opposition.....

HMJr: Uh-huh.

B:to the provision authorizing an extension of the power to devalue the dollar.

HMJr: I see.

B: I understand that the Republicans are all going to oppose it and I fear that some Democrats may join in on it.

HMJr: I see.

B: I haven't heard that there's any serious danger to the continuance of the Stabilization Fund. So we are just going to have to wait developments and see what -- we have got seven hours of general debate on it.

HMJr: Yeah.

B: And probably won't get to any amendments to the bill, certainly, until rather late tomorrow afternoon.

HMJr: Uh-huh. Well.....

B: I -- I assume, of course, that the Committee has been furnished with all of the essential data and arguments in favor of the bill that they reported, and I don't know anything to suggest to you further now.

HMJr: Well, I think that we've given Summers everything that he wants and he's been very serious and very earnest about it.

B: Yes.

HMJr: And -- but I just wanted to let you know I'm here.....

B: Yes.

HMJr: And if I can help, please call on me.

B: All right, that's fine. We'll do it if we think we can -- get in a tight spot where you can help us on it.

HMJr: Well, and otherwise.....

B: I'm afraid we're going to have some trouble on that feature that I mentioned.

HMJr: I -- I -- well, I wouldn't be surprised.

B: I -- I regard the other as of more importance, really.

HMJr: Yeah.

B: But, of course, we want to put both through.

HMJr: That's right.

- 3 -

B: All right, Henry.

HMJr: Thank you.

B: Good bye.

April 18, 1939
4:02 p.m.

HMJr: Hello.
Allan Sproul: Hello, Mr. Secretary.
HMJr: How are you?
S: Fine, how are you?
HMJr: Oh, so-so.
S: We got your message today about further sales.
HMJr: Yeah.
S: And about being a little more aggressive in making them.
HMJr: That's right.
S: We've been laying off that order during the period of greater uncertainty.
HMJr: Yeah.
S: Because we didn't want to mess around with the market.
HMJr: Yeah.
S: But the market has been -- whenever it's had a chance has been strong.
HMJr: Yeah.
S: And tended to move up.
HMJr: Yeah.
S: Well, we -- we sold a million today at a hundred and six thirty and a million at a hundred and six twenty-nine.
HMJr: Yeah.
S: But there's a very thin market there and the demand immediately was that something less than the *bid* side when we got into it.

- 2 -

HMJr: Well, you sold two million, didn't you?

S: We sold two million.

HMJr: That's all right.

S: Well now, that's what I wanted to clear with you on. We didn't want to be so aggressive as to knock that -- price of that one particular issue down.

HMJr: No.

S: And get it out of line with the rest of the market, but we will be working on it as we can without being too severe with it.

HMJr: That's entirely satisfactory.

S: All right. Well, we'll go ahead on that basis then trying to work them off but not smashing it down when the market isn't strong.

HMJr: That's all right.

S: The market turned a little weak -- not really weak, but turned less firm as we sold.

HMJr: I see. O. K.

S: Yeah, we'll keep you and Dan Bell informed as we go along on it.

HMJr: That's right.

S: All right.

HMJr: Thank you.

S: You're welcome.

April 18, 1939
5:25 p.m.

HMJr: Hello.
Frank
Murphy: Hello, Henry.
HMJr: Frank.....
M: Yeah.
HMJr: How are you?
M: Fine, thanks.
HMJr: Frank, just to keep our record straight, Ed Foley just came back and he's here now and he said that the conversation came up about the question of report as to my legal responsibilities and duties on this Munitions Board and also as to selling munitions to Germany, and he said that you asked Goldenbell whether you've been asked for an opinion. Hello?
M: Yeah.
HMJr: And I think I sent a request over there about three weeks ago. I haven't got my files before me. I think that Bell is mistaken, you see, when he told you that you had no such request.
M: Um-hm. Did you send it in writing, Henry?
HMJr: Well, I've just sent for the files, but I'm quite sure -- and what I'll do.....
M: I remember you called me about it and maybe you did the other too.
HMJr: Well, I've sent for the file and if I'm correct I'll have a photostat made and send it over to you.
M: Well, don't have a photostat - send me a copy.
HMJr: I'll send you a copy.
M: Yeah.
HMJr: But I'm 90 per cent sure.

- 2 -

M: Well, he told me just the other day again that -- that there wasn't any request in this office at all for an opinion.

HMJr: Goldenbell?

M: Yes. He told me the other day and then repeated it here today.

HMJr: Yeah, that's what bothered me.

M: Yeah.

HMJr: Well, I haven't got my file before me; I was just going on my memory.

M: Yeah.

HMJr: But I'll get my file and if I'm correct I'll send you a copy and if I'm incorrect I'll drop you a line and tell you so.

M: All right, Henry.

HMJr: O. K.

M: Good bye.

April 16, 1939

205

To: The Files

From: Mr. Hanes

At twelve o'clock today the following met with the President at the White House: Secretary Morgenthau, Secretary Wallace, Jesse Jones, Jerome Frank, Marriner Eccles, and Under Secretary Hanes.

The President opened the discussion by saying, "In the event of war being declared two days from now, Thursday morning, I assume that you gentlemen have a program for handling the securities and commodity markets." Secretary Morgenthau said that we had a program and that he would ask each agency to speak for itself and outline to the President such plans as had been agreed upon. Accordingly, Jerome Frank, speaking for the SEC, outlined the plan recommended by that Commission, and agreed upon at conference with the Secretary of the Treasury, as follows: that in the opinion of the SEC the stock exchanges should be kept open as long as was physically possible and that the Commission would not recommend the closing of the exchanges until a wave of liquidation had become so heavy that the exchanges could not handle the liquidation in an orderly manner and prices would be slaughtered and much damage done to investors. If such should occur it would be their recommendation that with the consent of the President they would ask the stock exchanges to close. Mr. Frank reported to the President that they had such an order drawn, the form and substance of which had been approved by the Attorney General and was now ready in case of emergency to be signed by the President. Mr. Frank did not go into the details of the other suggestions which had been made concerning a program of minimum prices which might be tried in order to keep the liquidation from being too destructive.

Mr. Eccles then reported for the Federal Reserve Board that they had held executive committee meetings and had agreed that in the event of war being declared, it might become necessary to protect the government bond market, in which event the Board was prepared to go along with the Treasury to the extent of \$500,000,000 of purchases in the bond market. He further reported that he was in agreement with the Secretary of the Treasury that to this \$500,000,000 the Treasury would add purchasing power in the amount of \$100,000,000 from various trust funds, making a total of \$600,000,000 purchasing power for the protection of the government bond market. Eccles also reported that the Board recommended that a statement be given out to the public at the proper time stating that government bonds could be used at their face amount or 100 cents on the dollar as collateral for cash loans. He further said that the Stock Exchange and John Hanes had recommended the lowering of margin requirements on securities by the Federal Reserve, but that he was opposed to doing this. Mr. Frank said that the SEC was also opposed to it. Under Secretary Hanes stated that he was still in favor of it and Jesse Jones said that it should be done by all means in the event of an emergency.

- 2 -

Secretary Wallace reported that he was prepared with a letter, which he would ask the President to sign, requesting him to get the cooperation of the various commodity exchanges in putting a maximum fluctuation on values of 5 percent. He reported that the Secretary of Agriculture did not have the power to close commodity exchanges nor did he think it would be necessary to have such power, as in his opinion the cooperation of the exchanges could be gotten by use of a letter from the President asking for such cooperation.

Jesse Jones reported that he was awaiting word from his lawyers concerning his ability to lend money to foreign governments through the agency of American corporations in order to relieve the markets from shock produced by the sudden dumping of American securities by foreigners in our markets.

The Secretary of the Treasury told the President that he was willing to raise his ante from \$100,000,000 to match any sum put up by the Federal Reserve Board. In other words, he told the President that he was willing to play "table stakes" with the Federal Reserve, matching any sum that they were willing to spend in the protection of the government bond market. This reference to a poker game seemed to please the President very much.

When the conference was over the President expressed approval of the general plans outlined to him and seemed to be pleased with the progress made.

J. W. H.